Second Quarter 2020 Earnings Call

July 31, 2020 - 10:00 AM CT

Kim Callahan – Camden Property Trust

Good morning and thank you for joining Camden's Second Quarter 2020 Earnings Conference Call. Before we begin our prepared remarks, I would like to advise everyone that we will be making forward-looking statements based on our current expectations and beliefs. These statements are not guarantees of future performance and involve risks and uncertainties that could cause actual results to differ materially from expectations. Further information about these risks can be found in our filings with the SEC, and we encourage you to review them. Any forward-looking statements made on today's call represent management's current opinions, and the company assumes no obligation to update or supplement these statements because of subsequent events.

As a reminder, Camden's complete second quarter 2020 earnings release is available in the Investors section of our website at camdenliving.com, and it includes reconciliations to non-GAAP financial measures, which will be discussed on this call.

Joining me today are Ric Campo, Camden's Chairman and Chief Executive Officer; Keith Oden, Executive Vice Chairman; and Alex Jessett, Chief Financial Officer. We will attempt to complete our call within one hour, so we ask that you limit your questions to two, then re-join the queue if you have additional items to discuss. If we are unable to speak with everyone in the queue today, we'd be happy to respond to additional questions by phone or e-mail after the call concludes.

At this time, I'll turn the call over to Ric Campo.

Ric Campo – Camden Property Trust

Thanks, Kim. The theme for our on-hold music today was *Strange Days*. It's one of the most common ways I've heard people describe life during this pandemic - strange days indeed. It's common for some to refer to the current state of affairs as unprecedented. I've concluded that while almost all agree that these are strange days, whether or not people believe these strange days are unprecedented is definitely age-related. Younger people are more likely to view our current situation as unprecedented. People my age or older are far less likely to see these current strange days as unprecedented.

In 1967, when I was 13 years old, a rock band named *The Doors* released a song titled *Strange Days* -- clearly, I have a background from that. This is the first verse of the song, "Strange days have found us. Strange days have tracked us down. They're going to destroy our casual joy. We shall go on playing or find a new town." The Doors were way ahead of their time, both musically and culturally, and indeed the next few years after 1967 would bring an extended period of strange days and civil unrest that were in orders of magnitude stranger than we've seen thus far during the COVID storm. I'm naturally optimistic, and I promise you this too shall pass. Since we're all in this together, we will continue to encourage our Camden team to stay true to Camden's *Why*, our purpose for being, that is to improve the lives of our team members, residents and shareholders one experience at a time.

Apartment demand is stronger in our markets than we expected given the nearly 40 million Americans that have filed for unemployment benefits, with an official unemployment rate of 11.1%. Camden's geographic and product diversification has continued to lower the volatility of our rents and occupancy. Camden's Sunbelt markets have fewer job losses than coastal markets and the U.S. overall. Our product mix that offers varying price points in urban and suburban locations continues to work for us.

Camden was prepared for the pandemic. We have a great culture, a flexible workplace and amazing employees who have adapted very, very well to the current work environment. Our investments in technology, moving to a cloud-based operating system, and our Chirp Access systems have allowed us to not miss a beat when it comes to leasing or operating our portfolio, making payroll, and basic things like that. We have the best balance sheet in the sector and one of the best in REIT-land overall. We were prepared and continue to be prepared to do as well as we can in this environment, and I think we'll do well long term. I want to give a shout out to our amazing Camden teammates for all that they do for our residents and taking care of each other every single day.

I'll turn the call over to Keith Oden now for a couple of comments from him. Thanks.

Keith Oden – Camden Property Trust

Thanks, Ric. Strange days indeed. My prepared remarks today will be brief as we want to allow as much time as possible for Q&A. We want to make sure that we're providing you with the information that you find most useful to your ability to understand the current state of affairs in Camden's markets.

At the outset of the COVID storm, we held an all-Camden conference call during which we told our Camden team that our highest priorities were (1) taking care of our Camden family and (2) taking care of our residents. During the second quarter, we made good on that promise. We undertook various initiatives, including a frontline bonus paid to our 1,400 on-site team members, and we provided grants to almost 400 Camden associates from our long-established Camden Employee Emergency Relief Fund. We also established a Camden Resident Relief Fund from which we were able to provide grants to 8,200 residents at a time of maximum financial

uncertainty in their lives. We were pleased to be able to provide this level of assistance to the people who were financially impacted during the early stages of the COVID crisis.

On our first quarter conference call, we were asked when we thought we could reintroduce guidance and we said that when we felt like we had reasonable visibility into the next quarter, we would do so. At that time, based on the confidence level that we had from our Operations and Finance teams regarding our projected May and June results, on a scale of 1 to 10, it was probably a 2. Not good. As we sit here today, while our confidence level is less than it would be in normal times, we do feel it is sufficiently high to provide guidance for the third quarter, and we've done so. I want to acknowledge the amazing job that team Camden has done in continuing to provide *Living Excellence* to our residents despite the radical changes we have made to our policies, procedures and protocols. It's been incredible to behold. Keep up the great work and with a little good fortune, for which we are long overdue, we'll see you soon.

I'll now turn the call over to Alex Jessett, Camden's CFO.

Alex Jessett – Camden Property Trust

Thanks, Keith. For the second quarter of 2020, effective new leases were down 2.1% and effective renewals were up 2.3%, for a blended growth rate of 0.3%. Our July effective lease results indicate a 2.0% decline for new leases and 0.2% growth for renewals, for a blended decrease of 0.9%. Occupancy averaged 95.2% during the second quarter of 2020 compared to 96.1% in the second quarter of 2019. Today, our occupancy has improved to 95.5%.

We continue to have great success in conducting alternative-method property tours for prospective residents and retaining many of our existing residents, with only a slight deceleration in total leasing activity year-over-year. In the second quarter we averaged 3,855 signed leases monthly in our same property portfolio, as compared to the second quarter of 2019 when we averaged 4,016 signed leases. July 2020 total signed leasing activity is in line with July of 2019.

For the second quarter of 2020, we collected 97.7% of our scheduled rents, with 1.1% of our rents in a current deferred rent arrangement and 1.2% delinquent. This compares to the second quarter of 2019 when we collected 98.6% of our scheduled rents, but with a slightly higher 1.4% delinquency. The third quarter is off to a strong start with 98.7% of our July 2020 scheduled rents collected, ahead of our collections of 98.4% in July of 2019.

Last night, we reported funds from operations for the second quarter of 2020 of $110.4 million or $1.09 per share, representing a $0.26 per share sequential decrease in FFO from the first quarter of 2020. As outlined in last night's release, included in this $0.26 sequential quarterly decrease is $0.142 of direct COVID-19-related charges incurred during the quarter. After excluding the impact of this aggregate $0.142 per share, sequential FFO decreased $0.12

in the second quarter, resulting primarily from:

- approximately $0.05 per share in lower same-store net operating income resulting from a $0.02 per share decrease in revenue from our 90 basis point sequential occupancy decline, a $0.025 per share decrease in revenue resulting from an increase in bad debt reserves from approximately 45 basis points in the first quarter to approximately 180 basis points in the second quarter, and an approximate $0.005 per share sequential increase in expenses;
- approximately $0.025 in lower non-same-store development and retail NOI also resulting from a combination of lower occupancy and higher bad debt reserves; and
- approximately $0.04 per share in higher interest expense resulting from our April $750 million bond issuance.

Turning to bad debt. In accordance with GAAP, certain uncollected rent is recognized by us as income in the current month. We then evaluate this uncollected rent and establish what we believe to be an appropriate bad debt reserve, which serves as a corresponding offset to property revenues in the same period. As previously mentioned, for same-store, our bad debt as a percentage of rental income increased from approximately 45 basis points in the first quarter to approximately 180 basis points in the second quarter.

During the second quarter, we reserved effectively all of the 1.2% of delinquent rents as bad debt. Also in the second quarter, we reserved effectively half of the 1.1% of deferred rent arrangements as bad debt. When a resident moves out owing us money, we have already reserved 100% of the amounts owed as bad debt, and there will be no future impact to the income statement. We re-evaluate our bad debt reserves monthly for collectability. In the second quarter for retail, which is not part of same-store, we reserved 100% of all amounts uncollected and not deferred, which totaled approximately $800,000.

Last night, based upon our recent trends, we issued FFO and same-store guidance for the third quarter. However, given the continued uncertainty surrounding the social and economic impacts from COVID-19, at this time we will not provide an update to our financial outlook for the full year. For the third quarter of 2020 as compared to the third quarter of 2019, at the midpoint we expect same-store revenues to decline by 1.6%, driven primarily by lower occupancy, higher bad debt and lower miscellaneous fee income. We expect expenses to increase by 4.5%, driven primarily by higher property insurance, higher property tax assessments and large property tax refunds received in Atlanta and Houston in the third quarter of 2019. As a result, we expect NOI at the midpoint to decline by 5%.

We expect FFO per share for the third quarter to be within the range of $1.14 to $1.20. The midpoint of $1.17 is $0.08 per share better than the $1.09 we reported in the second quarter. However, after adjusting our second quarter results for the previously discussed $0.14 of COVID-related charges, our $1.17 midpoint for the third quarter is a

$0.06 per share sequential decrease, resulting primarily from:

- a $0.045 per share sequential decline in same-store NOI as a result of a $0.005 per share decrease in revenue, resulting primarily from lower net market rents and a $0.04 per share increase in sequential expenses, resulting primarily from the typical seasonality of our operating expenses, the timing of certain R&M costs, and the timing of certain property tax refunds and assessments;
- an approximate $0.005 per share decline in non same-store NOI, resulting primarily from the same reasons;
- and an approximate $0.005 per share increase in sequential interest expense resulting from our April 20th bond issuance.

As of today, we have approximately $1.4 billion of liquidity comprised of just over $500 million in cash and cash equivalents and no amounts outstanding on our $900 million unsecured credit facility. At quarter end, we had $185 million left to spend over the next 2.5 years under our existing development pipeline, and we have no scheduled debt maturities until 2022. Our current excess cash is invested with various banks earning approximately 30 basis points.

And finally, a quick update on technology. As I discussed, our on-site teams are having great success with virtual leasing and we just completed our second virtual quarterly close, a task that would have been so much harder, if not nearly impossible, without our investment in a cloud-based financial system. As mentioned yesterday in the Wall Street Journal, we are continuing our pilot of Chirp, our smart access solution, with great success, and we are finding even more ways to utilize the Chirp technology. At our pilot communities for self-guided tours, our leasing teams can use the Chirp Access application to grant a prospect limited access to tour both the community and specific available apartment homes in a completely touchless exchange. There is no need for the prospect to pick up physical keys or fobs or ever even enter the leasing office. Our leasing teams create a Chirp account for the prospect, grant them access to the best apartments chosen per their unique wants and needs, and then determine when the prospect's access will expire.

Additionally, we can utilize Chirp to quickly and automatically control the number of residents who have access to an amenity space, such as a fitness center, at any given time. Amenity spaces deemed as reservation-only will require residents to use the Chirp access application to reserve a specific time slot. Only those residents with confirmed reservations will have access to open the door of the amenity space for the allotted time. When the reservation expires, so does access to the amenity. Clearly, in this COVID-19 environment, our Chirp initiative takes on even more importance.

At this time, we will open the call up to questions.

Jeff Spector – BofA Global Research

Good morning. Thanks for the initial comments. I thought it might be most helpful to talk about the markets and in particular your 3Q guidance. Alex, I think you've talked about lower occupancy and higher bad debt. Can you talk a little bit more specifically on Houston and maybe even Phoenix? We were surprised to see the 2% occupancy drop in Phoenix.

Keith Oden – Camden Property Trust

Houston continues to be one of our weaker markets. We have two challenges or headwinds separate from COVID in Houston. The energy business obviously still continues to be under pressure. Also, we were scheduled and continue to be scheduled to deliver roughly 19,000 apartments in 2020 according to Witten's numbers. Those are in the process of being brought online. The place where we see the most impact of that is in the Downtown/Midtown area, where a lot of the new deliveries are coming online. That would have been an issue irrespective of trying to absorb 19,000 - 20,000 apartments in an environment where the job growth was already going to be a little bit under pressure from the energy business. Then you add on top of that the job losses that are not related to the energy business at all. Yes, it's more of a challenging environment. We think that in terms of renewal leases, our renewal offers in Houston that went out in July were basically flat. Our overall renewal offer increase across our markets for July renewals went out around 1.8% across the platform. It's as high as 4% for renewals in Austin, and the low end of that would be Houston at basically flat.

So, from a renewal standpoint it certainly feels like we're getting back closer to regular order in every market that we're operating in, and we are sending out renewals with increases. In Phoenix, that's a seasonal weakness that we always have in the middle of the summer. The 2% occupancy drop is a little bit more than what we would normally see, but it's not unusual to have that kind of weakness. We still have pretty decent rental growth in Phoenix, and on a projection going forward, it continues to be one of the bright spot markets for us. It's been incredibly strong for the last 2 years, and we think that market is going to continue to perform well for us.

Alex Jessett – Camden Property Trust

And Jeff, when we talk about lower occupancy and higher bad debt, we're comparing the third quarter of 2019 to the third quarter of 2020. We actually expect third quarter 2020 occupancy to be relatively flat to the second quarter 2020 in the aggregate.

Jeff Spector – BofA Global Research

Okay. That's good to know. Thank you. Your peers talked about an exodus to single-family rentals this past quarter. Are you seeing the same thing in your markets?

Ric Campo – Camden Property Trust

No, we aren't. Move outs to buy single family homes went up slightly at the beginning of the quarter, but it flattened out and it's still in the 14% - 15% range. Obviously, with low interest rates the marginal folks that were going to go buy houses are buying houses right now. But generally speaking, when you look at our demographic profile with a lot of single folks that are living in our apartments, even with low interest rates they're just not buying houses. So, we haven't really seen any increase in moving out to rent houses or buy houses.

Jeff Spector – BofA Global Research

Thank you. I wish everyone well.

Nick Yulico – Scotiabank

My first question is on your new lease and renewal pricing. It did actually get a little bit better in July versus the second quarter. I just want to be clear here on the renewals, because it sounds like some of the renewals that you're doing now are also improving versus the second quarter. I'm trying to understand how we should think about rental pricing dynamics in the third quarter and the rest of the year. Are things getting better or worse?

Keith Oden – Camden Property Trust

On the renewal side, there's no question they're getting better. Part of that was as you recall, for the first 90 days after the COVID storm hit, we went into shutdown mode. From a policy perspective, we said we would not make any renewal increases for the next 60 to 90 days. And as it turned out, it was for 90 days that we offered everybody a renewal with no increase. As it turns out in 20/20 hindsight, could we have gotten 1% or 2% increases? Probably. But I have two thoughts on that. One was that we had no idea how to measure the collapse in demand from 30 - 40 million jobs evaporating. There was a great concern on our part to keep every resident in place that was possible. The second part was about residents who had been shut into their apartments, with most of them working from home. At the time, we had been mandated in almost every case to close all amenity spaces. So, you had people who were in the midst of a pandemic, 40 million job losses, and then they couldn't even use the amenities. It seemed like a terrible idea to push through rental increases to our residents at a time where they couldn't even get full value of the proposition that they felt they bargained for.

So, part of it was to protect the relationship that we have with our residents and not create the kind of tension that would have come from leasing consultants trying to get a $20 or $30 rental increase from residents in that timeframe. The net of all that is that our renewal growth was probably under what could have been achieved in the first half of the year. It's back to regular order now, and we're in a really different place. Our residents are in a different place. For the most part our amenity spaces are all open - some with restrictions - but they're open again. So yes, we expect much better results on renewals.

The new leases in July were just a tiny bit better than where we were in the first half of the year. I think more importantly for us is that we were able to maintain above 95% occupancy between the new lease activity and the renewals. So to me, it was more important to see the stability there, and it gives us something to grow on going forward.

Ric Campo – Camden Property Trust

Let me just add that early on in the pandemic, we along with the leadership of NMHC - Doug Bibby and his team - hosted an industry conference call. As a team, we came up with best practices for how the industry ought to face the pandemic. Even before late fees or evictions and things like that were banned by governments, we came out with a set of principles that were designed to help residents in a very uncertain time. One of the principles was to have flat renewals, no late fees, and work with people in terms of payment plans and things like that. I think the industry did a great job of showing that they really care about their customers. To Keith's point, we could have renewed leases during the first part of the pandemic at decent rates, but we chose not to.

There are some people in our industry that didn't do that, and they did raise rents. That's just not our culture. I think most of the industry followed those principles of trying to help their customers in a very, very uncertain and complicated time. The thing that's really interesting about this is that we're four months into it, which is nothing compared to the financial crisis and all that. It's still so uncertain. When you think about how you treat your customers, it's all about building your brand long-term and making sure that customers understand that you actually care about them.

Nick Yulico – Scotiabank

Okay. That's helpful. My second question would be if you have any stats you can provide on the nature of your total portfolio in terms of which buildings you think are high-rise product versus not? You definitely have some in Hollywood, Washington, D.C., and at least one in Houston. Are you seeing any difference in leasing demand for what would be more high-rise, concrete, steel-type product versus low-rise, stick-and-brick product?

Ric Campo – Camden Property Trust

I don't know if it's good news or bad news, but we don't have as many high-rises as we have mid- and low-rises. We've balanced the portfolio pretty well. Let's take Houston as an example. We have two high-rises in Houston that are 20 to 30 stories. We have seen no change in demand for high-rises in those markets. Same with D.C. D.C. is actually a standout market for us right now, which is great. But when you think about our portfolio in Houston, we have mid-rises where you might have a 6- to 8-story building, and then we go down as low as 2- or 3-story walk-ups. We have some older properties we built 20 years ago that are 2-story. So, we tend to be more suburban and more low density, but we really haven't seen a lot of differentiation between high-rise or low-rise given that we don't have as many high-rises.

I think the other part of that equation is the geographic mix and product mix that we have. Generally speaking, we're skewed towards suburban and more B than A. But right now, we don't really see a lot of variation in collections or in demand for any of that product. It's all about the same.

Nick Yulico – Scotiabank

Thanks. Appreciate it.

Austin Wurschmidt – KeyBanc Capital Markets

Good morning. As it relates to the bad debt, how much of an impact did that have on your same-store revenue growth in the second quarter? And what did you assume for bad debt in your 3Q same-store revenue guidance? From the July collections data, it looks like they were actually better than both 1Q and 2Q of last year.

Alex Jessett – Camden Property Trust

Absolutely. Our bad debt went from approximately 45 basis points in the first quarter to approximately 180 basis points in the second quarter. You can look at that 140 basis points and that's a direct reduction in revenue on a sequential same-store basis, so you can do the math on that. When we look at what we've got in our model on a go-forward basis, we are anticipating that third quarter bad debt drops down to somewhere right around 125 basis points, so it goes from 180 to 125. Hopefully we'll get some pickup on that, but that pickup is going to be offset by slightly lower net market rents and will also be offset by slightly lower reletting income. We did get a fair amount of reletting income in the second quarter as we did have folks break their leases.

Austin Wurschmidt – KeyBanc Capital Markets

Understood. As it relates to Chirp, I'm curious what the timeline is for rolling that out across the portfolio. Can you remind us how we should think about the return there and how you are measuring that?

Alex Jessett – Camden Property Trust

Yes. Absolutely. You have to think about Chirp in two components. The first one is the gateway, and that's the Chirp that controls the access gates, the amenity space, etc. We've rolled out around 12,000 units, and we expect to have the gateway rolled out across our entire portfolio by the end of the year. The second component is what we call the true curb-to-couch solution, which includes gateway but also goes to the individual locks of the units. We've rolled out about 1,500 doors with that solution, and we expect that by this point next year we will have total access, so think gateway plus locks rolled out across our entire portfolio.

It's really interesting because when we originally looked at what the value proposition was for this, we looked at things like not having to re-key locks, the time people spend letting vendors and others in, and then we also knew that there was some embedded value proposition to a resident to be able to push a button and let the pizza

delivery guy in the gate to go straight to their front door rather than having to get out of their jammies and walk down to the front gate and open it up. We never would have thought of COVID-19 and all of the additional benefits that we've now gotten from this. We're still trying to quantify all of the benefits, but I will tell you when we look at ordinances that say gyms must be at 25% or 50% capacity, this is nearly impossible for a typical apartment operator to enforce. However, with our Chirp Access application, we can do that and we can do it very easily. When we think about virtual leasing, which is undoubtedly the future of our industry, you can't have virtual leasing unless you have an access application that opens gates plus doors. So, there are a lot of additional benefits that we're still in the process of quantifying. Ultimately we think this is a huge differentiator for Camden and ultimately will be a huge differentiator for the industry.

Austin Wurschmidt – KeyBanc Capital Markets

Are you attempting to measure what you think the returns are? Is it just an additional offering across the entire portfolio that you think will generate value just over time from a demand and resident satisfaction perspective?

Alex Jessett – Camden Property Trust

That's exactly right. I think ultimately that for a resident of Camden who has Chirp, when they go look at another community and they realize that they will have to take time off of work to let their dog walker into their apartment, when they realize that they will have to meet all of their guests at the front gate, I think they will ultimately pay us to have the flexibility and convenience of the Chirp application that we'll provide.

Ric Campo – Camden Property Trust

I think the other issue is cost savings, because when you think about the number of keys we have, lost keys and the motion that goes on with having to help people open their doors and things like that, it ought to relieve us of cost and allow our on-site people to in fact, serve the customer better.

Austin Wurschmidt – KeyBanc Capital Markets

Thanks.

Alex Goldfarb – Piper Sandler & Co.

Good morning. The Chirp feature sounds pretty interesting, given all the different uses that can be. Two questions here. In California, what percent of your residents are basically freeloading there and not paying rent? And of those who aren't paying rent, how many do you think will not pay rent versus are just saving the money and once the eviction moratoriums go over, they'll pay you the back rent? Hopefully there's interest that accrues, but I'm not sure.

Alex Jessett – Camden Property Trust

When you look at July delinquency, California has improved tremendously. It's still our highest delinquent market,

but it's at about 3.6% today. Obviously time will tell, as we are able to start enforcing contracts, what percentage of those folks actually pay. But as I said, it is a significant improvement from where it was four months ago.

Alex Goldfarb – Piper Sandler & Co.

And where was it four months ago?

Ric Campo – Camden Property Trust

I think we're not going to be able to charge interest because there are no late fees. They're banned by the government. I think it's really instructive, though, when you look at Houston, for example, our Houston numbers are not even single digits. They're in the 0.3% or 0.4% range. In California it's over 3%. It shows you the mentality. That gets to the whole government issue. If you're a resident in California and you listen to the Mayor of L.A. and the Governor, their messaging is "don't worry, you don't have to pay." The limitation of late fees and being able to evict somebody creates what we call "ghosting", which is they don't show up and they know they don't have any negative recourse. You're not charging them interest or late fees, and they know they can't be evicted. So, you have this ghosting scenario that happens. I think it's a serious moral hazard issue. In most of our Sunbelt markets, people think they should pay their rent on time if they have the money. In California, it's just a different animal.

Alex Goldfarb – Piper Sandler & Co.

Ric, your view is that both will pay when they have to? Or are these all the people, Alex, that you said you wrote off as delinquents and you wrote them all off and you're not expecting any of them to pay?

Ric Campo – Camden Property Trust

We're writing them off based on our policy. I think the folks that care about their credit are going to pay. A lot of the people who aren't paying today actually have the ability to pay, they're just not paying. We have clearly modified our bad debt policy and increased the accrual for bad debts, but we might be surprised that people actually do pay when the government tells them they should pay. I think one of the things that is really interesting system-wide, but is probably more important in California, is that the apartment associations are trying to educate people. When the governors and mayors say that there will be no evictions, a lot of folks think that means they get free rent. We're not going to evict or foreclose on anybody, and they think that during that period it's free. We're educating people by saying it's not free, and if you do run up a debt and you don't pay the debt, you're going to ruin your credit and the next apartment you try to lease is going to be a real problem. You're not going to be able to lease an apartment or get credit. I think that education process is really important for the industry because people don't get that it's actually a debt and you do have to pay it.

Alex Goldfarb – Piper Sandler & Co.

Okay. And then the second question is to your comment that it sounds like everything has stabilized. While

you're expecting lower occupancy, that's year-over-year. So basically, you're flat from the second quarter, and the impact in third quarter is really from continued bad debt and some lower fees. Why do you think that your markets and your portfolio is holding up better than the coastal urban guys who are continuing to unfortunately experience accelerating weakness? You have had increased COVID recently, but that doesn't seem to have played a factor. So, what do you think it is? Is it just less social unrest, less protests? What is going on in your markets that you seem to have stabilized, whereas in the coastal areas it seems to be accelerating?

Ric Campo – Camden Property Trust

I think it's exactly that. As I said in my earlier comments, there have been fewer job losses. When you look at job losses, they're significantly higher on the coasts and the Sunbelt markets have not lost as many jobs. The social unrest is an issue too. There are some markets where you can't even get to your properties because of the urban nature and the takeover of blocks in certain cities. So, I think it's all about the things that were driving our markets before. When you think about recoveries, the Sunbelt recovers quicker and has more jobs generally. I think it's really a jobs issue more than anything.

Alex Goldfarb – Piper Sandler & Co.

Ok. Thanks.

Nick Joseph – Citigroup

You mentioned we're only 4 months into this. Given the continued macroeconomic uncertainty and elevated unemployment, do you currently expect any more tenant or employee relief or frontline bonuses to occur?

Keith Oden – Camden Property Trust

We don't have any plans currently, Nick, to do anything along the lines of what we did in the second quarter. I've laid out some of the rationale earlier in my comments. But in addition to that, it was just the timeliness of it. It was such a jolt to so many people in the way it happened. Unlike in previous downturns, where there was a rolling layoff scenario, people had time to adjust and make preparations. With COVID, you might think you were good on Friday and on Monday your job was gone. So, there was an urgency to getting some financial relief to both residents and Camden employees who got affected. The impact of that was really always to bridge a gap in time to get to a scenario where there was a more permanent relief available to both residents and Camden employees. That's happened. It happened through the stimulus, it happened through the plus-up unemployment benefits. There's a lot of wrangling now about whether they are going to extend that and to what extent, but even in the scenarios where they talk about not including the plus-up, the most conservative provision that I've seen is 70% of your previous income and unemployment payments. Honestly, for most Camden residents who have an average household income of about $105,000, the average rental payment is about 18% of that. So, if you're paying 18% for your rent, you're getting 70% in unemployment, most people can

figure out a way to make that work. It's a long answer to saying we don't anticipate it.

Nick Joseph – Citigroup

That's helpful. And then I recognize it's only been probably 2- or 3-months max, but have you seen any differences in terms of delinquency or turnover for those residents who received any of the relief?

Keith Oden – Camden Property Trust

No, we haven't. I think the thing that's very encouraging for us is the collections number that we've seen month-to-date in July at over 98%. We have collections higher in July at this point in the month than we had in 2019, which is fairly remarkable. My guess is that there's some component ofassociated goodwill, but it's hard to know what people's motivations are.

Nick Joseph – Citigroup

Thanks.

Neil Malkin – Capital One Securities

Good morning. First question is if you are seeing an increase in migration into your beautiful Sunbelt markets from the coast, which like Alex was alluding to, are getting pretty dicey or more dangerous? I'm curious if that trend has exacerbated or any comments you're hearing anecdotally on the ground from your managers?

Ric Campo – Camden Property Trust

Sure. Clearly the migration out of coastal markets has continued. It's been going on for a long time. I think if you start looking at U-Haul rates, it's cheap to go to California or Seattle, but it's very expensive to move out of those markets. I think it's 4x or 5x more expensive to lease a U-Haul to go out of California to Texas or Arizona than it is to go into California, because there are too many of them coming out and not going in. The other thing that we've been watching is postal forwarding, where you forward your mail, and there's been an uptick in mail being forwarded. It's hard to tell whether people are just sheltering in place or moving out of their markets. But I think it's just a continuation of a long-term trend. If you take immigration out of the equation, there's been out-migration from California and New York for the last 10 years. The only thing that is increasing and I guess is positive is immigration. So, I think that's going to continue. Is the issue whether the coastal markets rebound as New York City rebounded? I think we have to think about it like after 9/11. After 9/11 people talked about how Downtown New York would never come back, right? Well, it did. I think that Americans have short memories. I think the fundamental challenges in highly regulated, very expensive markets, where people are paying 40% to 50% of their income for rent or housing, that is just unsustainable. I think that's why the out-migration has happened for a long time. I don't think that's going to change. Will people put up with it and deal with it in the future? Yes. I don't think big cities are going to empty out. I just think the pressure on people wanting to have a decent place to live without

having to pay half their income is going to continue to drive out-migration into these more affordable markets. I think that's going to continue.

Neil Malkin – Capital One Securities

Okay. Great. I appreciate that. I agree. Second one is in terms of the development. It seems like on the acquisition side, it's going to be less fruitful given the availability of low-cost debt right now. So, it seems that development deals or land deals are probably going to be your best bet, particularly with your balance sheet. I'm wondering if you can talk about how you see that. What are the opportunities in front of you? Are you seeing land deals falling through or coming to market? Also, would you ever do preferred or mezz lending with some sort of equity at the end of participation?

Ric Campo – Camden Property Trust

We have started to see some shovel-ready development deals where the merchant builder couldn't get their financing, or the equity pulled out. It's hard to underwrite anything today given the uncertainty about where the market is going to be in two years. Longer term, I think people feel that development is definitely going to be a good option. We've already started to see some price softness in the construction market, which is good. We were seeing 3% to 5% increases, now we're seeing flat to 2% to 3% down, which is really good. So, we are starting to see some of those opportunities. I think it's still a little early because we haven't had a shakeout yet. I think we're going to, but it will take maybe through the end of the year to have that happen.

In terms of getting involved in mezz or pre-sales and things like that, we have stayed out of those kinds of products over the years. If you think about it in the financial crisis, we had about $3 billion of joint ventures and other types of structures, and we thought it lowered our risk. What it really did is increase our risk because our partners, in having to work through the issues that the financial crisis created, took a lot of time and effort. We decided after that, we would not do things that wouldn't move the needle for Camden. I'm sure you could do $0.5 billion worth of mezz and move the needle a little, but at the end of the day, what moves our business long-term is the cash flow that we grow from our properties. We want to have the cleanest balance sheet and the simplest structure and not have any distractions, having to deal with small equity or mezz positions and then having to go deal with people in that. That's just not our forte. We might do a presale or something like that, but we're definitely not going to do mezz or anything like that. It just doesn't move the needle enough, and it's too much of a distraction for our teams. We want to focus on the big picture where shareholders have 100% of the exposure in the property.

Neil Malkin – Capital One Securities

Ok. Makes a lot of sense. Thanks for the time.

John Pawlowski – Green Street Advisors

Thanks very much. Curious as some of the Sunbelt economies have had to walk back re-opening plans in recent weeks and months, if you've noticed in July any meaningful inflection point in terms of leasing velocity or notices of move out in any of your larger markets, maybe excluding Houston?

Keith Oden – Camden Property Trust

I would even include Houston and say that we have not seen any meaningful pullback. If you think about what we went through in terms of converting our approach to be basically 100% virtual leasing for a period of time, we've got that trade craft down to an art. Prior to the most recent spiking in cases in Texas in particular, but also in Florida, we had gone back to a hybrid model where we would allow access to our leasing offices for someone that wanted to do an in-person tour as long as both our folks and the prospect wore masks and socially distanced. We did that. The feedback we got from our team was that they were not as comfortable with that approach. So, we went back to basically an appointment-only virtual tour. Most of what you see in July activity, which is really good for us, was activity of that variety. I think it was in the first week of July that we went back to a virtual-only model, and we're fine with that. Our folks are proficient at it. They're comfortable with it. Interestingly enough, when we ask our prospects what their preference is, about 30% to 40% of our prospects tell us that they would prefer this permanently as a way to lease apartments. So, I think it's going to be a part of the mix for the future, and we're really good at it. I think we're good.

John Pawlowski – Green Street Advisors

Okay. But on the move-out side, were there any interesting shifts across markets or on your 60-day exposure coming up here?

Keith Oden – Camden Property Trust

No, we're in good shape. Our pre-lease numbers are really healthy, which is why we got the comfort level to give guidance for the third quarter. July is basically over, so you're looking at August and September. We have pretty good visibility into the pre-lease numbers. Traffic is good. Our closing percentages are where they need to be. And like I said earlier, John, the key for us was being able to maintain over 95% occupancy while we re-initiated renewal increases, and we're getting back to something closer to flat on new leases.

John Pawlowski – Green Street Advisors

Okay. Last one for me. In some of your harder hit economies, like in Orlando or Houston, if you were a buyer in those markets today on a stabilized deal, what kind of discount on an asset value basis would you be looking for versus pre-COVID levels?

Ric Campo – Camden Property Trust

That's a complicated question because there are really no trades going on. For the trades that are going on, I think people are buying by the pound and not by the cap rate or the discount. I think fundamentally pricing hasn't changed in the private market and cap rates have declined and compressed in the market. If you look at cash flows, people are underwriting them going down over the next 6 - 8 months or however long the pandemic lasts. If you look at Witten's numbers, there's a pretty big snapback at the end of 2021, or in 2022 - 2023. If you're underwriting a project in Houston or anywhere else today, there is no discount and you have to take a lower cap rate. I think the belief is that the cash flow will grow faster than before the pandemic, and you'll get back to a total return that is a rational total return with that increase in cash flow. The real question is going to be how fast investors will get to that level. There's a wall of capital out there and with the Treasury at 0.5%, financing on existing assets is incredibly cheap. When you look at leveraged buyers who are going to look at their equity returns with an incredibly low cost of debt, I think there's going to be a lot of activity and interest in multifamily. The question will be how long it takes to get those investors to a point where they feel like they can do some underwriting for the next couple of years.

The development side is a little more complicated because construction loans are really hard to get today and lenders have lots of other issues in real estate, be it retail and office and others. Increasing exposure for them on the construction side in multifamily is hard for them to do today, and I think that's where the opportunity might be from an acquisition perspective. We'll just have to see.

John Pawlowski – Green Street Advisors

Thanks so much for the thoughts.

Rich Anderson – SMBC Nikko Securities

Thanks. Good morning everyone. So, I guess you chose Chirp because Tweet was taken?

Alex Jessett – Camden Property Trust

It's an homage to our Hummingbird.

Rich Anderson – SMBC Nikko Securities

Okay. To anybody in the field here, how would you characterize the amount of what you call "ghosting" or people taking advantage of regulation in states like California? How much did that surprise you in terms of the number of people? Was it less or more than you thought? The reason I ask is, do you think that there's a longer-term impact in your underwriting criteria in terms of looking at the individual credits of your tenants before signing a lease?

Keith Oden – Camden Property Trust

In terms of the impact in our California portfolio, total collections in L.A./Orange County, which had our lowest collection rate for 2Q20, we have collected 92.6% of our scheduled rents. That's the lowest in our portfolio, and it's really not even close beyond that. Southeast Florida is 94%, and then everything else is above 95%. Most are in the 98% range. It's clearly an outlier, but if you take the 92.6% collected, and you break it out between deferred payment plans and truly delinquent, 2.3% is deferred payment and 5.1% is delinquent. So for the 2.3%, we have had conversations with them. The people have said they have financial distress and need a path forward. That means we have a written agreement with them on how they're going to get whole on their rent from the standpoint of their delinquency. The 5.1% for the most part don't communicate. Maybe they can't pay and choose not to communicate, but our guess is that a pretty large percentage of those folks have just gone dark because they think they can not pay their rent for some period of time and get away with it. The challenge is that the policy prescriptions of no evictions, no late fees, and a wink and a nod among political leaders that they can't give you direct rent relief, but they're creating conditions on the ground that prevent you from being evicted from your apartment, in some way that's rent relief. It's truly not from a liability standpoint, but from the standpoint of if one has to pay, it does create that. I think this is a unique circumstance relative to this pandemic. Even in the great financial crisis, we didn't have policy prescriptions of that variety anywhere, including in California. Maybe the politics have changed that much in the last 10 years, but I think it probably ultimately ends up being pretty unique to this particular pandemic and not some greater incidence of policy prescriptions where you can't evict people who don't pay their rent. That's just my personal view.

Rich Anderson – SMBC Nikko Securities

All right. Ric, you mentioned you think there might be some permanency to this move to the suburbs and B versus A and so on. I'm not sure I agree with it being a permanent condition, and maybe I'm putting words in your mouth. But nonetheless, to what degree could this alter your strategy? I know it fits into your wheelhouse a bit already, but if you believe in some systemic change to that conversation, do you see a systemic change in how you're going to pursue the business longer term?

Ric Campo – Camden Property Trust

Well, I think that if you heard that I thought there was a permanent shift from urban to suburban or high rise or major cities to smaller cities, I don't believe that. I really don't. Like I said earlier, people have short-term memories. At the end of the day, once the pandemic is over and everybody gets back to work and they're focusing on their lives, they're going to do what they want to do. I think people do love urban environments, they love restaurants, and they love going to the ballpark. When that comes back, they will engage that again. I do think that there will be some continued out-migration from coastal markets to Sunbelt markets. Those markets are still going to be fine markets long term, they're just going to have the issues that they have today that are pre-pandemic. From our perspective, when we start thinking about where we want to be, it continues to be the same drivers longer term,

which is high job growth, pro-business governments, good weather, young people, great workforce, that kind of stuff. I think that from a product mix perspective, we definitely are going to continue to invest in urban and suburban properties. I think that from a development perspective, we are thinking really hard about our spaces and how we utilize the space inside the common areas. We are thinking a lot that work-from-home is going to be a bigger piece of the equation than it was pre-pandemic. If you think about Camden, we have roughly 450 people working from home, and they're doing really well. The people who had one-hour commutes each way are thinking they got two hours of their life back, plus don't have wear and tear on their car and all those expenses. So, we can give people their time back and raises, in essence, by letting them work from home. From our perspective, we're going to spend a lot more time looking at our properties and creating a more user-friendly work-from-home environment.

Once the pandemic hit, one of the things we did is amp up the bandwidth in all of our properties. If you had low bandwidth, people were going nuts because they couldn't do Zoom calls and things like that. So, we amped our bandwidth up. When we think about modifying our existing buildings and building new buildings, we have to think about that work-from-home component. I think that's going to be a big, big shift.

Rich Anderson – SMBC Nikko Securities

Ok, great. Thanks for the color. I appreciate it.

Rich Hightower – Evercore ISI

Good afternoon everybody. I'll be quick. I just want to make sure I understand something here. As far as the collections rate in 2Q, where did the Resident Relief funds fit into that? Was that part of that calculation or separate? How do we understand that relationship?

Alex Jessett – Camden Property Trust

It was separated.

Rich Hightower – Evercore ISI

So, it's not included in the 97% plus amount collected in 2Q?

Alex Jessett – Camden Property Trust

That is correct.

Rich Hightower – Evercore ISI

Okay. Just to pile on the anti-California sentiment, how do you think about the Southern California footprint longer term? It's a tough market to build in. Ric, I think you described the nature of the workforce and people want to be

there and this and that. But how do you think about political risk and the impact to cap rates and values over the long term? How do you think about that?

Ric Campo – Camden Property Trust

I think California will always be a market that people want to be in. It would be one of the biggest economies in the world if it was its own country. It's always going to have challenges, just like New York City has challenges, but people love to live in New York City. I think they love California, and California will continue to struggle with its issues. I think that long term, California is a good market. When we start talking about our portfolio and you think about our Sunbelt mix, California right now is dragging our performance down. Had we not had California, we would definitely have better same-store numbers, better collections and all that. Ultimately, the way I think about our portfolio is that it's a geographically diverse and product-mix diverse portfolio. Over a long period of time, the volatility balances out and we lower our volatility. Prior to the pandemic, Southern California was one of our better markets. We were growing 3.5% - 4.0% there, which is good, and that was offsetting our slower growth in Houston. I know that there are a lot of people piling on to California, New York, Seattle and some of these other markets. They're not going away. They will be good long-term markets. Hopefully the pandemic moves through fast, and we'll get back to good growth. They will continue to have pressure from government trying to cap rents through rent control and other issues, but generally speaking, even if you put a rent control law in, it generally is better for the incumbents and harder to build means that you don't have competition. Maybe the offset to tough government and out-migration is you're not going to overbuild those markets very often, and they'll still be good.

Rich Hightower – Evercore ISI

Thanks for the comments.

John Kim – BMO Capital Markets

Good morning. You guys are too popular for a one-hour call. Had a couple of questions on guidance. You mentioned the lower occupancy, which is clear on a year-over-year basis, but I was wondering how you see it trending during the quarter? You already had a 30-basis point sequential increase in July. And the second part is on your same-store expense guidance of 4.5%, how much of that was already contemplated when you provided your original guidance of 3% for the year? I know that guidance has been pulled, but just wanted to see how much of that was new versus already known.

Alex Jessett – Camden Property Trust

2Q20 occupancy was 95.2%, and for July it is 95.3%. I told you that it was 95.5% this morning, so obviously we're getting some uptick. But effectively, in our guidance we are assuming that occupancy is flat in the third quarter as compared to the second quarter. When you look at expenses, almost all of that was known. Really, the largest driver

that we typically have in expenses is the timing of property tax refunds. That's just the way the timing works that the third quarter was going to have a higher sequential property tax number. In fact, if you looked at it on the third quarter '20 to the third quarter '19, as I mentioned in my prepared remarks, you also had the same impact where we got some very favorable refunds in Atlanta and in Houston in the third quarter of '19. So that's really the driver. The drivers are by and large property tax driven.

John Kim – BMO Capital Markets

Okay. That's helpful. You talked about some of your changes in potential long-term strategy, but I had a question on shorter-term strategy. It seems like a lot of people up here in the Northeast are contemplating becoming snowbirds this winter. I was wondering if you anticipate that happening, if you see potentially higher demand. And if you are willing to potentially provide some shorter-term leases to meet that demand?

Ric Campo – Camden Property Trust

We definitely will provide short-term leases to meet that demand at a premium rate for sure. We're open to all comers when and if that happens. We're ready. Even though our occupancy levels are really high right now, we still have room to move those occupancy levels up.

John Kim – BMO Capital Markets

Great. Thank you.

Zachary D. Silverberg – Mizuho Securities

Thanks for taking my question. Some of your peers spoke about migration of college students from city to city. Just curious if you see any potential headwinds as universities are more reluctant to open and international students are hesitant to travel? And are there any markets that are disproportionately impacted by this trend?

Keith Oden – Camden Property Trust

We haven't seen any impact of that nature. I think there's still so much conversation around who's going to open and how and when. Until we probably get into the month of September, we're just not going to know where all of that shook out at the college level. Austin would probably be a market where it's always been a big university town. Within the context of how much Austin has grown over the years, that's become less and less important. Outside of that, I think it just remains to be seen on how many of the students actually are going to get called back to the university to an in-person experience. Around the margins, I guess it could matter, but our portfolio doesn't tend to have a lot of student participation.

Ric Campo – Camden Property Trust

Just anecdotally, one of our Board members is the Chancellor and President of University of Houston. Her name is

Renu Khator, and in our Board meeting on Wednesday she told us that their enrollment is actually up at the University of Houston. The only part of the equation that they're having trouble with is international students because of travel issues. She was surprised that their enrollment was actually up, and they're going to do a combination of in-person and virtual. I think that people are still continuing to enroll in college at pretty record numbers.

Zachary D. Silverberg – Mizuho Securities

Gotcha. That's helpful. And just a final one here. I understand that a few transactions on the market closed lately. Most were likely done or negotiated pre-COVID. I'm curious if you're seeing anything in the shadow market and what buyers may be underwriting right now and what IRRs they're targeting.

Ric Campo – Camden Property Trust

There have been some transactions done. Some were definitely under contract with hard, earnest money and closed in pre-COVID time frames. But there have been a few transactions that have happened in this environment. As I said before, cap rates have compressed and we're hearing numbers like 3% cap rates in Dallas and Houston. I think that most investors have a wait-and-see attitude in terms of what they think underwriting is going to be like. When you think about the 10-year treasury being where it is today and interest rates lower for longer, even more now than before the pandemic, I would think that underwriting IRRs has to come down some, and I think that's probably going to happen.

Zachary D. Silverberg – Mizuho Securities

Gotcha. I appreciate all the color.

Alex Kalmus – Zelman & Associates

Hi. Thank you for taking my question. Looking into Southeast Florida's performance, outside of expected pressure in L.A., it seems to lag the rest of your portfolio on some key metrics. I was curious if you could give us some more color on what caused the challenging leasing environment there.

Keith Oden – Camden Property Trust

There are two challenges in Southeast Florida right now, and one is traffic in general. There's less of a propensity for people to want to engage in a virtual scenario in Southeast Florida. So, we have a little bit less traffic there than what we would normally expect this time of year. The second part is on the operations side with collections. In Southeast Florida for the second quarter of '20, our collections were 94%, and that would make it the second most challenged market behind L.A./Orange County. Those dual challenges are definitely something that we're dealing with in Southeast Florida.

Alex Kalmus – Zelman & Associates

Got it. Thank you. I'm curious about the non-Chirp-enabled properties. How are the leasing dynamics there and how are you approaching those? Are those just typical in-person showings or are you still using virtual to your advantage?

Alex Jessett – Camden Property Trust

We're still using virtual but if you think about it, it's a little bit old-school, and it involves a lockbox with a key where you can pick up the key and the FOB and then you have a map. It certainly is an effective way of doing it, but clearly nowhere near as effective as using an application that has a definitive start and a definitive end, that can also open not just the access gates but the door units. I think that's the big benefit that we're getting from Chirp from the communities that have Chirp rolled out.

Alex Kalmus – Zelman & Associates

Sounds good. Thank you.

Ric Campo – Camden Property Trust

Thank you. We appreciate you participating in the conference today, and we look forward to speaking to you in the future. Take care. Have a great rest of the summer.

Edited for Readability