Third Quarter 2020 Earnings Call

October 30, 2020 - 10:00 AM CT

Kim Callahan – Camden Property Trust

Good morning and thank you for joining Camden's Third 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 third 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 as we know another multifamily company is holding their call right after us. We already have 15 analysts in the queue right now so please limit your questions to two. 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. Our on-hold music today was a tribute to Team Camden. We wanted to celebrate the incredible results of our on-site team, supported by our regional and corporate staffs, that they have achieved throughout the COVID storm. Despite all the turmoil, Team Camden never stopped “Taking Care of Business”. That's what you can expect from a team of “All Stars”. Instead of the 1,000-yard stare, Team Camden showed up every day with the “Eye of the Tiger”, reminding us of what we know is true, “You're Simply the Best”. So, this evening, we will join you in spirit as you all “Raise Your Glass” to celebrate your remarkable performance. Cheers.

Our performance for the third quarter was driven by our team but was also aided by our Camden brand equity and our capital allocation and market selection. We've always believed that geographic and product diversification would lower the volatility of our earnings. We are in markets that are pro-business, have an educated workforce, low cost of housing and high quality of life scores. These attributes drive population and employment growth, which drives housing demand. The only exception to this market generalization for us is Southern California. Compared to most other parts of California, however, our properties are in the most business-friendly cities and areas in the state. Our markets have lost fewer high-paying jobs than other markets in the U.S. As a matter of fact, with 5% losses for Camden markets versus 15% for the U.S. Overall, year-over-year employment losses through September have been less in our markets. Job losses in most of our markets have been in the range of down 2.5% to down 5%, the best being Austin, Dallas, Phoenix, Tampa, Atlanta and Houston. The toughest markets have been Orlando, Los Angeles and Orange County, with job losses between 9.5% and 9.7%.

Other key employment trends are supporting our residents' ability to stay in their apartments and pay rent. When you think about the jobs we lost at the beginning of the pandemic, there were 22 million jobs lost and 11 million have been added back. Of the jobs that have not been added back, 5.8 million are low-income workers making less than $46,000 per year and 4.1 million of folks who have not been added back that make between $46,000 and $71,000 per year. So, the lion's share of the 11 million jobs that have not been added back are really not our residents. They're lower-income workers who do not live at Camden. Most of our residents have higher incomes. It's unfortunate that we have that many job losses, and we obviously need to add those jobs back as soon as possible, but they aren't negatively impacting Camden's resident base.

Again, I want to thank Team Camden for delivering *Living Excellence* to all of our residents. I'll turn the call over to Keith Oden, our Executive Vice Chairman.

Keith Oden – Camden Property Trust

Thanks, Ric. I'll keep my remarks brief today so that we can get to as many of your questions as possible. Obviously, we're more than pleased with our results for the quarter. This is certainly the kind of performance that is worthy of celebration by Team Camden. Overall, things seem like they're getting back to something closer to normal, and that's quite a contrast to where we were in April and May of this year.

A few signs that conditions have stabilized in our markets: occupancy for the third quarter was 95.6%, up from 95.2% in the second quarter, and several of our communities are exceeding their original budget for occupancy. Turnover continues to be a tailwind at 48% for the third quarter and only 42% year-to-date. There continues to be a lot of anecdotal evidence that home sales are spiking. In our portfolio, we had 13.8% move-

outs to purchase homes in the first quarter of this year. That moved up to 14.7% in the second quarter. And in the third quarter, it moved up again to 15.8%. But if you take the average year-to-date move-outs to purchase homes, it was 14.8% versus a full year 2019 of 14.6%. So really very little change year-over-year. We did see a little uptick in October to 18%, but Q4 is always a little bit elevated. Clearly this is a stat that bears some watching to see if the anecdotal evidence starts showing up in the stats.

Thanks to all of Camden for a remarkable year so far. Everybody keep your rally caps on for the rest of the year, and I'll turn the call over to Alex Jessett.

Alex Jessett – Camden Property Trust

Thanks, Keith. Before I move on to our financial results and guidance, a brief update on our recent real estate activities: During the third quarter of 2020, we stabilized Camden North End I, a 441-unit, $99 million new development in Phoenix, Arizona, generating over a 7% stabilized yield. We completed construction on Camden Downtown, a 271-unit, $131 million new development in Houston, Texas. We recommenced construction on Camden Atlantic, a 269-unit, $100 million new development in Plantation, Florida, and we began construction on both Camden Tempe II, a 397-unit, $115 million new development in Tempe, Arizona, and Camden NoDa, a 387-unit, $105 million new development in Charlotte, North Carolina.

For the third quarter of 2020, effective new leases were down (2.4%) and effective renewals were up 0.6%, for a blended decline of (0.9%). Our October effective lease results indicate a (3.5%) decline for new leases and a 2.1% growth for renewals, for a blended decrease of (1.0%).

Occupancy averaged 95.6% during the third quarter of 2020, up from the 95.2% we both experienced in the second quarter of 2020 and anticipated for the third quarter of 2020, leading in part to our third quarter operating outperformance which I will discuss later.

We continue to have great success in conducting alternative-method property tours for prospective residents and retaining many of our existing residents with a slight acceleration in total leasing activity year-over-year. In the third quarter we averaged 3,227 signed leases monthly in our same property portfolio, slightly ahead of the third quarter of 2019 when we averaged 3,104 signed leases. To date, October 2020 total signed leasing activity is on pace with October 2019.

Our third quarter collections far exceeded our expectations as we collected 99.4% of our scheduled rents with only 0.6% delinquent. This compares favorably to both the third quarter of 2019 when we collected 98.3% of our scheduled rents with a higher 1.7% delinquency, and the second quarter of 2020 when we collected 97.7% of our scheduled rents with 1.1% of our residents in a deferred rent arrangement and 1.2% delinquent. The

fourth quarter is off to a good start with 98.1% of our October 2020 scheduled rents collected.

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. When a resident moves out owing us money, we typically have previously reserved 100% of the amount owed as bad debt and there will be no future impact to the income statement. We reevaluate our bad debt reserves monthly for collectability.

Turning to financial results, last night we reported funds from operations for the third quarter of 2020 of $126.6 million or $1.25 per share, exceeding the midpoint of our prior guidance range by $0.08. This $0.08 per share outperformance for the third quarter resulted primarily from:

- approximately 5½ cents in higher same store revenue comprised of 2½ cents from lower than anticipated net bad debt due to the previously mentioned higher than anticipated collection levels and higher net reletting income, $0.01 from the higher than anticipated levels of occupancy and $0.02 from higher than anticipated other income driven primarily from our higher than anticipated levels of leasing activity.
- approximately ½ a cent in better than anticipated revenue results from our non-same store and development communities,
- approximately ½ a cent in lower overhead due to general cost control measures, and,
- an approximate 1½ cent gain related to the sale of our Chirp technology investment to a third party. This gain is recorded in other income.

We have updated our 2020 full-year same store revenue, expense, and net operating income guidance based upon our year-to-date operating performance and our expectations for the fourth quarter. At the midpoint, we now anticipate full year 2020 same store revenue to increase 1% and expenses to increase 3.4% resulting in an anticipated 2020 same store net operating income decline of (0.3%). The difference between our anticipated 3.4% full-year total expense growth and our year-to-date total expense growth of 2.4% is primarily driven by the timing of current and prior year tax refunds and accruals. The increase to our original full-year expense growth assumption of 3% is almost entirely driven by higher than anticipated property tax valuations in Houston. We now anticipate total same store property taxes will increase by 4.7% in 2020 as compared to our original budget of 3%.

Last night we also provided earnings guidance for the fourth quarter of 2020. We expect FFO per share for the fourth quarter to be within the range of $1.21 to $1.27. The midpoint of $1.24 is in-line with our third quarter

results after excluding the previously mentioned third quarter gain on sale of technology. Our normal third to fourth quarter seasonal declines in utility, repair and maintenance, unit turnover and personnel expenses are anticipated to be entirely offset by the timing of property tax refunds, lower net market rents, and our normal seasonal reduction in occupancy and corresponding other income.

As of today, we have just under $1.4 billion of liquidity comprised of approximately $450 million in cash and cash equivalents, and no amounts outstanding under our $900 million unsecured credit facility. At quarter-end, we had $384 million left to spend over the next three 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.

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

Sumit Sharma – Scotiabank

Hi, good morning. This is Sumit Sharma here for Nick. Thank you for taking my question. Last quarter you played the Doors and two quarters go it was a Led Zeppelin cover. Today's hold music, as you mentioned earlier, was the Eye of the Tiger. I'm thinking you guys are feeling better, so it's my obligation to ask you what factors or risks could change your optimism looking ahead in terms of collections and market dynamics?

Ric Campo – Camden Property Trust

I think it's all about reopening the economy. And obviously, what would worry us today is 33 states spiking with coronavirus, and we heard this morning on the news that El Paso was thinking about a shutdown. Ultimately, I don't think anything works in the economy, whether it's apartments or any other business, if you don't have employment and you don't have the economy working going forward. And so what would concern me would clearly be if we go back to a middle of March shutdown. If that happens in America, then all bets are off again on everything, I think.

Keith Oden – Camden Property Trust

Yes. I would just add to that. Policy-driven mandates regarding the ability of landlords to control the destiny of their real estate similar to the CDC mandate. If you start seeing those types of mandates at the national level that continue to push out the ability for landlords to get control of their real estate through the eviction process, that needs to come to a positive ending in terms of allowing landlords to get control of their destiny and their real estate. So, I would add that to Ric's point about getting the economy open again. Those two things would be at the top of my list.

Sumit Sharma – Scotiabank

Great. Could you comment on Camden Downtown I in Houston? I know it's 39% leased, but it's in the market where you saw the largest year-over-year and sequential occupancy drop. I'm trying to understand whether newer apartments are easier to lease as we've heard from other markets? Or are there some other factors that could drive optimism for the project? I think you have Downtown II in the pipeline, so I know it's probably for a prospective start. I'm wondering what could change the equation on that particular asset.

Ric Campo – Camden Property Trust

Sure. I'm not going to talk about Houston, but I think our markets and most markets in America (maybe ex California) are experiencing supply and demand fundamentals the way they were pre-pandemic. Now there's definitely a pandemic kind of overlay, but Houston was a soft market going into the pandemic. If you think about the energy business, in 2019 the energy business was not that great. At the beginning of the third quarter of 2018, oil went from $70 per barrel to under $40 per barrel at the beginning of 2019, so energy wasn't really recovering. And then Houston was the only market in America in 2017 that actually had a decline in supply. So of course, what productive merchant builders do is they build their pipelines up, and Houston now has a lot of new development that's coming online. So, what's driving the Houston market today is definitely some weakness because of coronavirus, but generally speaking, Houston has actually fared pretty well. We're down year-over-year 5% in terms of job growth. We've lost 300,000 jobs and added about half of those back, which is pretty amazing. So, we're at about 150,000 jobs lost. I'm actually very encouraged by the Downtown lease-up because we're leasing about 7 to 10 units per month there. In a normal lease-up, you'd lease 30 units per month, but given that downtown office occupancy is about 15% right now, it's actually doing really well.

I think there are a couple of pieces to that equation. I think a lot of people forget that urban properties or downtown properties in Houston, Atlanta, Dallas or Charlotte are not the same as downtown New York or San Francisco. Most of the Southern cities are less dense, and some of the challenges that are happening in San Francisco and New York are just not the same here. Our urban is very different than urban in some of the other markets that people think about.

Ultimately, our second phase is there, but we're not going to start it anytime soon given the supply and demand. I think Downtown will continue to be really good over a long period of time. We're definitely going to be challenged in terms of achieving our original pro-forma on this project during the pandemic, as we would be with any property today that's in lease-up. With that said, I think the fact that it's 39% leased is really good. We did have a WhyHotel in there to start with but given the pandemic, the WhyHotel didn't make sense in the equation today.

Sumit Sharma – Scotiabank

Thank you so much.

Alua Askarbek – BofA

Hi everyone. Thanks for taking the questions. Congrats on a great quarter. To start off, I'm thinking more about the leasing activity as well. Big picture, are you starting to see a slowdown in any particular markets, or across the board in your Sunbelt markets as we head into the quieter months? Or do you still see a lot of demand, especially a lot more demand of movements from out of state and out of the area like the Northeast and West Coast?

Keith Oden – Camden Property Trust

Yes. We definitely are seeing in-migration, but that's been going on for the last decade from Northern markets and from California to some of our markets. It's ramped up during the pandemic, but that's a trend that's been in place for a long time.

In terms of overall traffic, our traffic numbers are down year-over-year around 12% in total traffic, but the interesting thing is that the traffic that we do get is much more motivated. Our closing rates are higher. We've intentionally dialed back on some of our Internet spend because we're almost 96% occupied now, and the traffic that we do get is very motivated. So, while traffic is down overall, we still see more than enough traffic to maintain our occupancy where it is right now. It's always going to slow down in the fourth quarter. We'll start seeing that particularly into the holiday season when traffic falls off. But that's okay with the way our portfolio is structured with our lack of leases that roll over during that period of time. We don't need that much traffic. So overall, I would say that the traffic feels pretty normal across our entire portfolio. Where we do have challenges, as Ric mentioned, are where we have a ton of new supply that's coming on. I would say that outside of Houston and maybe South Florida, all of the places where we experienced some weakness are related to supply that's coming on. In most of the last cycle the heaviest dose of supply was in the urban markets, in urban infill, and where we have communities that are directly affected by other merchant builder lease ups, that's where our challenge is.

Alua Askarbek – BofA

Got it. And then thinking about renewal rates, I see that rates are going up in October. Do you expect them to keep going up? What are you thinking out in November and December for the renewals?

Keith Oden – Camden Property Trust

Yes. When we voluntarily put renewal increases on hold for about 3 months, we felt that at some point, when we got back to normal traffic levels and normal operating conditions in terms of being able to take care of our

residents and take care of our new customers, that we would trend back to where we were pre-COVID. Pre-COVID across the portfolio we were in the 3.5% to 4.5% range on renewals. We think we're headed back there. Maybe it's in the first quarter of next year, but we think that we're headed back to more normal-looking level of renewals. We're at a little better than 2% now. I would expect to see that continue to tick up as we just started sending out renewals in all of our markets. I think we had everyone back to normal order in September, so I think that will continue to tick up and we should get back to roughly where we were pre-COVID.

Alua Askarbek – BofA

Got it. Thank you.

Nick Joseph – Citigroup

I appreciate all the operating comments and it being close to normal. But for those markets that do remain a little weak, what are you seeing in terms of concessions, either in your portfolio or the market on stabilized properties? Not on development but on stabilized properties?

Keith Oden – Camden Property Trust

Nick, we don't really offer concessions other than in our development communities, which is more of a historical norm where you offer a month free rent as a concession. We don't really do concessions in our portfolio. We're on net pricing, and we're driven completely by our YieldStar revenue management system. We have very few overrides to the recommendations within the YieldStar system. I know the term "effective rent" has become much more prevalent because we do see our competitors going back to the use of concessions. I suspect even the competitors that are using YieldStar as their primary pricing mechanism, if you're in a panic mode and YieldStar is telling you to gradually toggle back rents, but you're at 85% occupancy, a lot of people just don't have the tolerance and the patience to let YieldStar or any other revenue management system make those decisions. So, you end up with people who take the YieldStar recommendation and then do a month free rent. We definitely see that. There's no question about it, but it's just not something that we do, and it's not something that we intend to do. You're not going to see us start talking about "effective rents". What we show you as pricing is what our leases are being signed at.

Nick Joseph – Citigroup

And there is no disadvantage from a marketing perspective if the property next door, even if on a net effective basis you're at the same point, if someone sees a month free rent or 2 months free rent, you don't see any difference from a marketing perspective?

Ric Campo – Camden Property Trust

We don't. The reason we don't is that our marketing teams are trained to sell features and benefits, and

customers know what the net rent is, right? So, if the market is down 2 months free, that's a huge discount in the rent. And at the end of the day, you're just creating a financing mechanism for the resident. They know what their effective rent is during their lease term, and you're just creating a mechanism for them to get upfront free rent. So, if the overall market is 2 months free, then our effective rents are going to come down. We don't think of it as a negative competitive situation for us at all, and our people know how to sell through it.

Keith Oden – Camden Property Trust

It's just a fundamentally bad business practice in a world where people can move in and then sort of file a CDC declaration and then get their rent deferred. If you start off with 2 months free and offering them that incentive to move into your community, you may end up with 2 months free and then a CDC declaration beyond that. It's just a bad business practice. And honestly, it's mostly merchant builders who open a community, they're 30% occupied, and they're trying to get to the finish line. They do what they have to do.

Nick Joseph – Citigroup

Thank you.

Alex Goldfarb – Piper Sandler & Co.

Just following up on Nick's question, a lot of your peers talked about at the extreme 2 months free and then sort of going from there. So across all your markets, including Southern Cal and D.C., it sounds like either you're not seeing much free rent competition or whatever free rent is in the market just really isn't material or impactful to you. Is that the takeaway?

Keith Oden – Camden Property Trust

Yes. I wouldn't say it's not impactful, I would just say that it's factored into our YieldStar net pricing. Like Ric said, if you have 6 communities in lease-up that are directly competitive, and they're all giving 2 months free rent, the market clearing price for our community and our rents are going down. That's reflected in the Southern California market. We've had to reduce our rental rates, or YieldStar has recommended reducing rental rates across the board. I would say it's not meaningful in terms of the overall experience in our portfolio. Alex, if you think about the third quarter, of our 14 markets, 10 of those markets that actually had higher revenues than the third quarter of last year. Orlando was basically flat, and we had 2 that were down. So, the overall picture in our portfolio is one that’s not back to where it would have been had we not had COVID, but you have 11 of our 14 markets that actually had positive revenue year-over-year. That's pretty good.

Alex Goldfarb – Piper Sandler & Co.

Okay. The second question is for Ric. We'll make you the Chairman of the Sunbelt, Chairman of Texas, and certainly Port of Houston Chairman. This morning CBRE announced that they're going to move from L.A. to

Dallas, where their CEO is from. Given the discrepancy in employment rebound between your markets versus the continued lockdowns and restrictions on the economies in the coastal blue states, are you hearing more business leaders talk increased chatter about relocating their companies to the Sunbelt, or are the trends that were already in place that were driving the businesses to move down there the same? Have they accelerated because of what's happened with COVID fallout?

Ric Campo – Camden Property Trust

I think it's definitely accelerated. The trends have been in place for a long time. But there's definitely more chatter and discussion about these pro-business markets. When you look at a market like Houston, we lost a lot of jobs, but we've added half of them back. In L.A., they've added none back. If you look at Houston, even with energy, we're down 5% year-over-year in September in employment in Houston, which is big. But L.A. is down 9.7% and has added back no jobs. I think that the migration from some of these markets will continue. The long-term trends are in place, but I think people call COVID the great accelerator, right? What it's done is accelerated the notions of work from home, less commutes, and virtual leasing. We were talking about that, and then suddenly, we had to put it in place in a week. I think that migration trends are going to continue and the great COVID acceleration is probably going to accelerate it.

Alex Goldfarb – Piper Sandler & Co.

Thank you.

Austin Wurschmidt – KeyBanc Capital Markets

It sounds fair to say that even though you mentioned occupancy is at 96%, you feel comfortable continuing to trend higher on renewals over time. You expect new lease pricing could remain under pressure, because in order to remain competitive versus some of these lease-ups and stimulate traffic, you need to continue to offer that negative roll down on the new leases? Is that fair? Or could we actually see it improve as well with the renewal rates?

Keith Oden – Camden Property Trust

That's fair in the markets where we have the most new construction that's being delivered this year and then bleeding over into 2021. Fundamentals are good, employment is coming back, there's plenty of traffic, and lots of demand for the type of communities that we operate in the locations that we operate. However, in some of the markets – Houston, Dallas, and Charlotte are examples - our communities are located in places that are the most desirable places for merchant builders to build new product. So, they get impacted directly by all the new construction that's going on. Unfortunately, in those 3 markets I just mentioned, deliveries of multifamily apartments in 2021 are roughly the same as they were this year. We're going to get another 20,000 apartments in Houston, we're going to get another 20,000 apartments in Dallas and another 13,000 apartments in Charlotte. So,

the places that are impacted by new supply are going to continue to be under pressure. However, when you go to Phoenix, Raleigh, Denver or Tampa, these are not markets that have been the subject of a lot of new supply, and they're going to continue to outperform for that reason. They've got good job growth, good fundamentals, they're great places to do business, and they've got good in-migration patterns. They just don't have a lot of new supply. I think that's going to continue to be the bifurcation in our portfolio and that's probably going to continue into 2021. I think it's likely that we'll get a decent amount of relief in 2022, but we've got to get from here to there first.

Austin Wurschmidt – KeyBanc Capital Markets

That's helpful detail. I wanted to hit on the development starts. Can you provide some of the economics underlying the deals on the new starts and what you're assuming in terms of trended rents, etc.?

Ric Campo – Camden Property Trust

Sure. For our new starts, if they're urban the projected stabilized yields are between 5.0% and 5.5%, and suburban is 6.0% to 6.5%. Generally, what we do is untrended rents as a hurdle to start with, then we put in what we think the rents might do over a period of time. Our stabilized year uses a trended rent. Today, it's interesting. Depending on the market, we have rents going down and then going back up. Depending on the market, and this gets to Keith's point on where the supply side of the equation is, some markets we think are going to be back to 2019 rent levels by first to second quarter of 2022, and other markets are going to take longer. We have been more conservative in how we think rents are going to grow over the future, but those are the yields and the way we model these developments.

Austin Wurschmidt – KeyBanc Capital Markets

Thank you very much.

Rich Hightower – Evercore ISI

I guess to follow up on the idea that COVID is accelerating trends that were underway already. Just to dig into this uptick in move-outs for home purchase statistic. I know that you said the year-to-date average is pretty stable year-over-year, but maybe more recently you're seeing an uptick there? As best you can tell, what would you attribute it to? Is it COVID per se causing those moves? Or is it the demographic tailwind that should help home ownership over the next 5-10 years and COVID's just accelerating that? It's been a long time since we've seen home sales this strong in this country. You'd have to go back to the early to mid-2000s. The template that we're operating from probably doesn't help much, so what do you think about that? And what should we expect?

Ric Campo – Camden Property Trust

I do think it's COVID accelerating, absolutely. If you think about the oldest of the Millennials, the oldest

Millennials are in their mid-30s. What they're doing now is they're starting to form households. My two daughters are 36 and 38, and they're each having their third child right now, so they're classic Millennials. If they were living in apartments, they would be buying houses. I think we always expected the oldest of the Millennials to buy houses at some point. It's a really good thing for America because when you have good housing demand, moving out to buy a house doesn't ultimately hurt apartments. What happens is you have a better economy, people are building houses, and there are lots of products being put in those houses, which is good for the economy overall. A lot of the workers that build the houses live in apartments. With that said, I think it's definitely accelerated by COVID, and I think the historically low interest rates are part of the equation as well. One of the things I think is fascinating is looking at the savings rate between the start of COVID and today. People aren't spending money on "stuff" - they're saving their money. You have people who didn't have enough money for down payments, but now actually do because of COVID and because they've saved a lot of money by not going out to restaurants, going to football games, taking vacations and things like that. I don't think you're going to go to a 25% move-out rate like we had during the "if you could fog a mirror you'd get a loan" days, but it is a rational thing to happen at this point.

Since Labor Day, we've had lots of calls with current and potential shareholders. A lot of the discussion is if we are going to have massive move-outs from the urban core to the suburbs, and from Millennials buying houses. The answer is no, because there's no place for them to go. If you look at housing inventory in Houston, one of the softest markets we have because of energy and overbuilding, we have a 2-month supply of housing in Houston. Even if we expected a 20% move-out rate for apartments, you can't because there's no place for them to go. There's no inventory, and there's no place for an urban dweller to go to the suburbs because the suburbs are all full too. So, if this is a long-term trend, maybe over the next 15 years it could happen, but I don't think so. I think that once COVID is over, people will still want to go to bars. That's one of the challenges we have right now in the spikes, right? People are getting tired of COVID, and they're going out and doing things socially, and I think that will continue in the future. I'm not too worried about the homeownership rate ticking up. I actually think it's a good thing overall.

Rich Hightower – Evercore ISI

Ok. Thanks for the comments.

Neil Malkin – Capital One Securities

I know Los Angeles and Orange County are some of your tougher markets, but don't worry. I'm sure miraculously they will all open up on November 4th. First question, with technology that you have employed with the mobile apps and leaned on more heavily because of COVID in terms of how people are leasing and viewing your apartment homes, are there things that you can talk about today that you think that you can bring forward with you when COVID is behind us to gain more efficiency? Maybe increase a long-term

margin that isn't one-time in nature?

Alex Jessett – Camden Property Trust

Absolutely. As we talked about, COVID really has been the great accelerator. And ultimately, when we look at our ability to open up locks now on a remote basis, when we look at the mobile applications we're using for maintenance-type work, when we're looking at virtual leases, I think all of these things are going to ultimately end up making us so much more efficient than we ever would have been if it wasn't for COVID. To the point that was made earlier, a lot of these things we had talked about for a year or two, and we probably thought it was three years on the horizon. And miraculously, all of a sudden, it became one month on the horizon. So, I think we've had some really, really great efficiencies, and I will tell you that I do think the mobile application to open door locks in common area spaces is going to be an absolute game changer for not just Camden, but for the industry.

Neil Malkin – Capital One Securities

I appreciate that. Maybe just going back to one of Austin's question on development or transaction markets in that context. You obviously started three projects. What's your comfort in accelerating development, given what looks like to be a favorable 2022 for deliveries? And then what does the transaction market look like from a disposition standpoint given very favorable pricing with high demand and low interest rates?

Ric Campo – Camden Property Trust

We think the development market can be very good in 2022 and 2023, and we're going to try to do as much as we can. It's not easy to get the right numbers, when you have construction costs continuing to rise, maybe at a lower rate because of COVID, but construction costs have not come down. It's still difficult to get the numbers to work well, but we definitely have a pipeline, and we'll continue to try to add to that pipeline because I think if you're going to deploy capital, development is definitely the #1 place for us at this point. In terms of the acquisition and disposition market, transactions are about 1/3 of what they were last year through the end of October. Transaction volumes are down, but what is trading is trading at all-time high prices and low cap rates, so cap rates have come in dramatically since COVID. I will tell you that we have not seen an acquisition opportunity that is a 4% cap rate. They're all 3% and some change, and we're talking Houston, Dallas, Austin, Denver, Tampa, Orlando, and everywhere. Acquisitions are really tough when you start with a 3% cap rate. People have obviously lowered their IRR hurdles and then with interest rates as low as they are, most leveraged buyers are still able to get positive leverage even with a 3.75% cap rate to get very nice cash-on-cash returns relative to alternatives out there.

From a disposition perspective, it's an interesting environment. I still think that we need a little more market clearing to happen between now and first quarter. If you look at what Camden did in the last big cycle, we

sold $3 billion worth of assets that were 23 years old or more, and then we bought assets that were 4 years old. A unique situation then was that we sold at cap rates that were very close to the cap rates that we bought. If that opportunity continues, we may do some of that in the future as well. It's definitely a tough acquisition market, probably a very positive disposition market, but development is where we're focused right now.

Neil Malkin – Capital One Securities

I appreciate the color. Thank you.

Rob Stevenson – Janney Montgomery Scott

Ric, can you expand on your comments about construction costs? There's been a spike in lumber costs. What are you seeing in labor and other materials cost? And how much higher was your construction cost on the projects you started in the quarter relative to if you had started them pre-pandemic, if at all?

Ric Campo – Camden Property Trust

I think that clearly COVID has increased cost because of time and general conditions. For example, we have a property we're building in downtown Orlando. The challenge you have with COVID is you have to do all the proper PPE and distancing. We have one-way stairwells, and we have to keep our employees and our construction workers safe. We're all about that, but it makes the project go slower. The challenge is the manufacturing process. As you slow it down, your general conditions go up, but we haven't had big cost spikes. Mostly it's been delays and increases in general conditions and those kinds of things. I think that labor is a little more difficult today for the timing of projects getting completed, and costs are definitely not going down. One of the challenges that everyone is having today is supplies and getting the right equipment and supplies to the properties is starting to be an issue and primarily because inventories are way down, and suppliers are having to restock inventories today. That has been a challenge. I would say that prices today are 2% to 3% higher than we saw on our last starts, but that's actually good because it used to be 7% to 8% higher. The good news is that the rate of growth has come down, but it hasn't come down enough to improve your yields. That's why numbers are still hard to make.

Keith Oden – Camden Property Trust

And Rob, I think you mentioned it in your question. The one area where we have had definite challenges, and everything we look at indicates it's going to continue to be a problem, is lumber. We've definitely had a spike in lumber costs. The single-family home construction market is ramping up right now in response to demand for new housing. As that ramps up, it's a wood product and there's going to be a lot more pressure on lumber costs as we go forward. So, that's the one area as opposed to Ric's overall commentary on costs that we are really looking at hard for trying to figure out ways to manage our lumber package costs.

Rob Stevenson – Janney Montgomery Scott

Okay. Keith, any markets that you see showing incremental weakness in September or October that's more than just seasonally? And then also, how many residents would be on your eviction list today that you can't do given the pandemic restrictions?

Keith Oden – Camden Property Trust

It's not a big number. For the CDC mandate, we think we have about 110 residents throughout our entire 60,000 apartments that have given us a CDC mandate. For evictions pending, it's less than 200 to 300 systemwide. Some of those actually predated COVID, and we're working through those because most jurisdictions have not allowed us to go back to the people who were already in default status prior to COVID and work that through the process. So, in most of our markets except for California, which has its own set of rules and restrictions, most of our other markets are back to regular order in terms of processing evictions. It's not a huge deal in our world outside of California. Obviously in California you've got a different set of factors there that frustrate our ability to work through the process. It's been a rolling extension of all those protections for the residents, and who knows when we're going to see the end of that. But big picture, it's a very small component of our overall challenges.

Ric Campo – Camden Property Trust

We probably have 50 to 70 evictions system-wide monthly in a non-COVID environment. So, if you do an average for the year, it's maybe 600 or 700 people being evicted out of 56,000 apartments. It's a really miniscule number. The biggest issue are these high-balance delinquencies in California. It's not that they can't pay us, they won't pay, and that's the moral hazard you have there. It's fascinating to me to see that today we have an 8.6% delinquency rate in L.A., and we have a 0.4% delinquency rate in Houston. The difference between the two is moral hazard. Period.

Rob Stevenson – Janney Montgomery Scott

Okay. Any markets showing incremental weakness in September or October more than just seasonal?

Ric Campo – Camden Property Trust

No.

Amanda Sweitzer – Robert W. Baird & Co.

Good morning. Can you talk about what you're seeing today in terms of construction financing? Have you seen any other lenders or debt funds come in and fill the gap from national lenders pulling back? And how have development loan terms changed from pre-COVID both in terms of interest rate spreads and LTVs?

Ric Campo – Camden Property Trust

There definitely have been pullbacks from money center banks on development, and the debt funds are not coming in to fill the gap. What's happened is smaller regional banks are definitely coming in to fill some of the gap. I think Ron Witten had construction starts falling by 50% in his original projections, and that was driven by the debt markets being under pressure because of COVID. Now I think he's projecting starts will be down by 30% instead of 50%, and it is definitely driven by debt. The biggest challenge that merchant builders are having is that banks do not want to syndicate, so getting loans over $50 million is troublesome and getting a loan over $100 million is very difficult. Properties in California and other big urban developments are definitely having a hard time getting financing. I think that spreads have stayed reasonably tight. With interest rates falling the way they have, I think there's been talk about floors in construction loans just because rates are at all-time lows. The lenders need a reasonable minimum interest rate or minimum spread, I guess, so there are those getting put in place. But the biggest issue is the loan amount, and I think that's where the challenge is because it's requiring a whole lot more equity. There are some debt funds coming in and bridging equity with mezz financing, but that's generally the construction market as I see it.

Amanda Sweitzer – Robert W. Baird & Co.

That's helpful. Thanks.

John Kim – BMO Capital Markets

I was wondering if you could provide some more color on cap rates you're seeing in the 3% range. Are these more stabilized assets and the true cap rates, or are they assets with potentially some lease-up potential and the stabilized yields would be higher?

Ric Campo – Camden Property Trust

They are stabilized cap rates. The challenge we have when we start underwriting those is that they're stabilized and 93%-94% occupied, but there are a tremendous number of new developments around them leasing up. When we look at a 3.75% cap rate, 94% occupied project, with 2,000 units leasing up around it, how can you actually hold that cap rate? It's likely to go down before it goes up, given the competition. Cap rates are very sticky today because of the wall of capital and the very, very, very cheap financing. You can get a Freddie or Fannie loan with very decent leverage at 2% and some change for 7 to 10 years. You can get floating rate debt for under 2%, so that's going to keep the private market very, very buoyant. When you think about fundamentals post-COVID, the multifamily market is going to come back, and most people believe that we'll be back to 2019 or early 2020 rents by 2022.

John Kim – BMO Capital Markets

Okay. Alex, you mentioned that you sold the Chirp technology to a third party. Just wondering why you

chose to sell this platform. I'm assuming it doesn't impact the rollout across your portfolio, but just wanted to make sure that was the case.

Alex Jessett – Camden Property Trust

It does not impact our rollout across the portfolio at all, and we anticipate being fully rolled out by the end of 2021. We came up with Chirp because there was a need that we needed to solve, and nobody else in the industry was solving that. We always knew that ultimately it needed to belong to somebody else who could run with it and market it to third parties, so we found a very natural buyer that we think is a great fit with us. We consummated the transaction, but we are still very, very much involved. As I said, right now probably 50% of our communities have the gateway aspect rolled out. That's what opens the exterior doors, and then we've got about 5,000 units signed up with the locks.

John Kim – BMO Capital Markets

May I ask who the buyer was?

Alex Jessett – Camden Property Trust

Yes, it was Real Page.

John Kim – BMO Capital Markets

Great. Thank you.

Zachary D. Silverberg – Mizuho Securities

As you've discussed, migration trends have certainly been in your favor for the past couple of years, and COVID will certainly provide an easier comp in 2021. But with occupancy and retention at all-time highs, home sales and supply picking up in some corners of your market, putting it all together - which cities or markets do you feel best or most worried about into 2021?

Keith Oden – Camden Property Trust

We're just starting the process of putting together our property level budgets for 2021. My guess is that the markets right now where we have the most momentum on new lease rates and renewal rates will probably continue. I think that some of our markets will continue to have supply challenges in 2021 and be under pressure. I mentioned those earlier - Houston, Dallas, Charlotte - will continue to have supply pressure. We're having great success in Phoenix, Denver, Raleigh, and Tampa, and my guess is that those will probably at the top of the deck in 2021.

Ric Campo – Camden Property Trust

One of the things I think is going to be really interesting is to see the unwinding of the 18- to 29-year olds that have moved home with their parents. That should be a tailwind post-COVID. Prior to COVID it was a big number, and it always hurt my head to think about it because I have kids moving home. Pre-COVID, we had 39% of 18- to 29-year-olds who lived at home. It spiked to 30% to 46% in the middle of COVID, and now it's about down to 42% by the end of the third quarter. So, one of the positives for us is that we've had some of that demand released. There are still over one million missing Millennials who are doubled up or at home. Once COVID breaks and job gains come back, those high propensity renters will come back into the market, and I think more than offset people moving out to buy houses.

Zachary D. Silverberg – Mizuho Securities

Got it. Appreciate the color. As a follow-up to an earlier comment or question, I was wondering if you could provide any more color as to the product type or geography where bad debt has run a little bit higher? And has your average credit profile tenants changed throughout the pandemic?

Ric Campo – Camden Property Trust

Bad debts or delinquencies, if you want to call them that, are highest in California for sure, and that's primarily, as Keith mentioned, driven by policy there. The other market would be South Florida. South Florida is very tourist-driven and obviously South American-travel driven. We've seen maybe 100 to 200 basis points higher delinquencies there than the rest of the markets. Most of the markets are pretty much in a normal state, including Orlando even with 9% job losses there.

In terms of credit quality, absolutely not. Credit quality is one of the most important things that we keep high. We could easily increase our occupancy by 150 basis points if we dropped our credit quality, but what would happen is that you would end up with more bad debts, more evictions and more skips. There's just no upside ever in lowering your credit quality.

Alex Jessett – Camden Property Trust

And we are seeing no difference in delinquency from Class A's to Class B's or Urban to Suburban. Delinquency is the same across the board.

Zachary D. Silverberg – Mizuho Securities

Awesome. Thank you.

Alex Kalmus – Zelman & Associates

Just circling back on the point regarding demographics. When you think about your portfolio today in the

mix of 1, 2, 3 bedrooms that you have, do you think you're accounting for the growing cohort? Are you properly positioned for those growing families? Would you like to see more 3 bedrooms in the future?

Ric Campo – Camden Property Trust

If you look at our 3-bedroom component, about 6% of our portfolio is 3 bedrooms. I bet if you took our 3 bedrooms compared to our 1 bedrooms, our move-out rate to buy houses would be substantially higher in our 3 bedrooms than our 1 bedrooms. So, we have generally catered to single people or 1-2 person households in the apartment and not to families, because they have a higher propensity to move out to buy or to rent houses. In addition, families generally require more amenities and things like that. We have a property, for example, in Denver, that is all 2 and 3 bedrooms with not many 1 bedrooms. It's a great family property, but it has a higher turnover rate and higher move-out rate to buy or rent a house than any of our other properties in Denver. So, it's not a market that we are catering to or will cater to in the future.

Alex Kalmus – Zelman & Associates

Got it. Makes sense. Looking at utility expenses, they weren't that inflationary from last year. Do you have a sense on going back to work in your markets? How many of your tenants are working from home versus going back? Some of your peers had much higher utility increases given the usage on their apartments.

Alex Jessett – Camden Property Trust

If you look at utility expense, there was not a significant increase. If you look at utility rebilling, which is probably a better way of thinking of it, there was a large increase. We do believe that we've got a lot of our residents at home utilizing more water and generating more trash than they typically would. So, we think we've got a great deal of our residents working from home.

Alex Kalmus – Zelman & Associates

Thank you for the color.

Ric Campo – Camden Property Trust

Thank you, and thanks for being on the call today. I'm sure we'll talk to a lot of you at NAREIT here coming up soon. So, thank you, and we'll see you later. Have a great weekend and stay safe.

Edited for Readability