Fourth Quarter 2020 Earnings Call

February 5, 2021 - 10:00 AM CT

Kim Callahan – Camden Property Trust

Good morning and thank you for joining Camden's Fourth 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 fourth 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 the 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 1 hour, seriously, as we know that another multifamily company is holding their call right after us. We ask that you limit your questions to two then rejoin 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. Good morning and thank you for joining our call today. The theme for our on-hold music this morning was change. The COVID pandemic has brought with its sweeping changes in the lives of every American, including how they work, where they work and whether they can even work. Every business has had to change and adapt to this unprecedented pandemic. In thinking about the scope of these changes, I recall the quote from Jack Welch that I heard years ago, which is "change before you have to". With only five words, Jack perfectly captured what has separated many companies' abilities to successfully navigate through the past year.

Throughout our history, we have grown and maintained a culture that encourages and rewards efforts by Team Camden to change before we have to. Examples include migrating to cloud-based financial systems over 18 months ago, making work from home seamless for most of our employees; creating a technology package for Camden communities that provides discounted, high-speed Internet creating a more robust work from home experience for our residents; implementing a resident package delivery program that requires packages to be delivered directly to each resident's front door, creating the same flexibility and convenience enjoyed by most single-family homeowners; and developing Chirp, a mobile access solution, which we sold to RealPage last fall. When fully rolled out in 2021, this product will enhance our on-demand virtual leasing and self-guided tours, while enabling unassisted tours and leasing outside of our normal office hours. Residents will also be able to schedule package and grocery deliveries directly to their apartments when they're away from home.

We will continue to find ways to change before we have to in everything we do. For the past year, we have utilized virtual meeting platforms like Zoom and Microsoft Teams for investor and analyst meetings, industry conferences, and internal Camden meetings. Beginning next quarter, we hope to offer our quarterly earnings calls on a more interactive virtual platform as well, so stay tuned.

As we start 2021, our outlook is optimistic. Our assumptions are based on the first half of the year enduring a continued battle against the COVID virus, with ongoing difficulties for many businesses and workers until the country's vaccination rates accelerate. We hope that the second half of the year will show improvement as more businesses reopen and more people ultimately get back to work. Fortunately many of the Sunbelt markets in which we operate have already reopened businesses and added back many of the jobs that were lost early in the pandemic, setting the stage for recovery in the second half of 2021 and beyond.

I want to thank Team Camden for a great 2020. While the operating environment we faced was one of the toughest ever, you made sure that we improved the lives of our teammates, customers and stakeholders, one experience at a time. Well done and thank you.

Keith, your chance for change.

Keith Oden – Camden Property Trust

Thanks, Ric. And on the idea of change before you have to, I think Henry Ford was on to something when he said, “if I had asked my customers what they wanted, they would have said faster horses”. So, consistent with prior years, I'm going to use my time on today's call to review the market conditions that we expect to encounter in Camden's markets during 2021. I'll address the markets in the order of best to worst by assigning a letter grade to each one as well as our view on whether we believe that market is likely to be improving, stable or

declining in the year ahead. Following the market overview, I'll provide additional details on our fourth quarter operations and 2021 same property guidance.

We anticipate overall same property revenue growth this year in the range of down 0.25% to up 1.75% for our portfolio, with the majority of our markets falling within that range. The outliers on the positive side would be Phoenix, San Diego, Inland Empire and Tampa, which should produce revenue growth in the 3% to 4% range. At the low end of that range would be Houston, which will likely remain in the down 2% range. Expected same property revenue growth for 2021 is 0.75% at the midpoint of our guidance range, and all markets received a grade of C or higher with an average rating of B for the overall portfolio.

Our outlook for supply and demand in 2021 is based on multiple third-party economic forecasts, and in general, most firms project a recovery in job growth in Camden's markets, along with a steady amount of new supply. We typically mention estimates provided by Witten Advisors on this call, and they anticipate over 1 million new jobs for our 14 major markets in 2021, along with roughly 150,000 new completions. Other economists have projected up to 1.9 million jobs and 175,000 completions, so the outlook seems to be manageable regardless of which estimates prove to be correct.

For 2021, our top ranking once again goes to Phoenix, with an average of 5% revenue growth over the past three years and expected revenue growth of 3% to 4% this year. We give this market an A rating with a stable outlook. Supply and demand metrics for 2021 look strong in Phoenix with estimates calling for over 90,000 new jobs and roughly 9,000 new units coming online this year.

Up next are San Diego/Inland Empire and Tampa, both earning A minus ratings and improving outlooks with 2021 revenue growth also projected in the 3% to 4% range. Both markets produced 1% to 2% revenue growth last year but are budgeted to accelerate in 2021 given recent trends. Similar to Phoenix, the San Diego/Inland Empire market projects nearly 100,000 new jobs in 2021 with new supply of only around 7,000 apartments. Tampa should deliver around 7,000 new units with roughly 50,000 new jobs being created, providing a good balance of supply and demand in both of those markets.

Atlanta and Raleigh round out our top five with budgeted revenue growth of around 2% for 2021 and ratings of A minus and stable. In Atlanta, job growth is expected to rebound to over 100,000 with only 7,000 new apartment completions. In Raleigh, projections call for 40,000 additional jobs with completions in the 4,000 to 5,000-unit range.

Denver, DC Metro and Austin all received a B plus rating, but with declining outlooks. All of these markets have been strong performers for us over the past several years, averaging nearly 3% annual property revenue

growth over the last three years and 2% last year, but we do expect market conditions to moderate over the course of 2021, given steady levels of new supply and increasing competition for new renters. Supply/demand ratios in Denver and DC Metro remained steady with 65,000 and 90,000 new jobs anticipated respectively during 2021, with new supply coming in at roughly 8,000 and 12,000 new units respectively scheduled for delivery this year. In Austin, new supply has been coming online steadily for several years with over 15,000 new units expected this year, offset by roughly 60,000 new jobs.

In Southeast Florida, market conditions rate a B and improving outlook. After ranking at a B minus or C plus for the past two years, we're starting to see some improvement on the horizon and prospects for positive growth in 2021. New supply remained steady over the past few years at roughly 10,000 new units, but 2021 estimates call for 70,000 new jobs in that market this year. Competition from for-sale and rental condominiums is still an issue in that market, but we expect slightly better operating conditions in 2021 and an improvement from the negative 0.4% same property revenue growth achieved last year.

Orlando earns a B rating with a stable outlook. Job growth has moderated in Orlando, given their exposure to travel and hospitality industries, and that trend should continue in 2021. New development activity remains strong so the level of supply should be steady this year with roughly 8,000 to 10,000 completions with 25,000 to 30,000 new jobs.

Charlotte and Dallas both received B minus grades with a stable outlook. Our 2020 performance in Charlotte was slightly better than average for our portfolio, but the ongoing high levels of supply, particularly in the downtown and in-town submarkets will challenge our pricing power in 2021. Approximately 7,500 new units are anticipated this year versus roughly 8,000 that came online last year, and the city should add over 50,000 new jobs. Conditions in Dallas are similar with 17,000 new deliveries expected this year, but job growth estimates are much stronger with over 110,000 new jobs expected. A healthy economy in 2021 should help Dallas absorb the over 20,000 units it's delivered in each of the past few years, but once again competition will be strong and pricing power is likely to be limited.

We gave Los Angeles/Orange County a C plus rating with an improving outlook. Our portfolio in LA County saw higher delinquencies and bad debt in 2020 than most of our other markets, but we're hopeful that conditions will begin to improve, particularly in the back half of 2021. Orange County should perform slightly better, but still not as well as our other Southern California markets including San Diego and Inland Empire. Los Angeles/Orange County faces healthy operating conditions with balanced supply and demand metrics. Job growth should be around 130,000 new jobs with completions of roughly 18,000 apartments expected this year.

Houston received a C rating this year with a stable outlook as we expect to see negative rent growth again this

year. Estimates for new supply are once again over 20,000 apartments coming online this year, so we do expect Houston will continue to struggle with many new lease-ups giving high levels of concessions. However, Houston's job growth may post decent recovery this year with nearly 100,000 new jobs expected, which would certainly help absorb some of the inventory in that market.

Overall, our portfolio rating this year is a B, with most of our markets expected to moderate slightly in revenue growth for 2021 compared to 2020. As I mentioned earlier, all of our markets should achieve between a negative 2% and a positive 4% revenue growth this year, and we expect our 2021 total portfolio same property revenue growth to be 0.75% at the midpoint of our guidance range.

Now a few details on our 2020 operating results. Same property revenue growth was 0.1% for the fourth quarter and 1.1% for the full year of 2020. Our top performers for the quarter were Phoenix at 5.7%, Tampa at 2.9%, Raleigh at 1.5% and Atlanta at 1.3% growth. Rental rate trends for the fourth quarter were as expected, with both signed and effective leases down around 4%, renewals in the mid-to-high 2% range for a blended rate of roughly down 1%. Our preliminary January results indicate a slight improvement across the board for new leases, renewals and blended growth. February and March renewal offerings are being sent out with an average 3% increase.

Occupancy averaged 95.5% during the fourth quarter compared to 95.6% last quarter and 96.2% in the fourth quarter of 2019. January 2021 occupancy has averaged 95.7% compared to 96.2% last January and is slightly up from 4Q20 levels. Annual net turnover for 2020 was 200 basis points lower than 2019 at 41% versus 43%. And as expected, moveouts to purchase homes rose seasonally for the quarter to about 19%. We're still at about 15% for full-year 2020, which compares to an average full-year moveout rate of about 15% over the last four years.

At this point, I'll turn the call over to Alex Jessett, Camden's Chief Financial Officer.

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 fourth quarter of 2020, we completed construction on both Camden RiNo, a 233-unit, $79 million new development in Denver, and Camden Cypress Creek II, a 234-unit, $32 million joint venture new development in Houston. Also, during the quarter, we began leasing at Camden North End II, a 343-unit, $90 million new development in Phoenix, and we acquired four acres of land in downtown Durham, North Carolina, for the future development of approximately 354 apartment homes.

In the quarter, we collected 98.6% of our scheduled rents, with only 1.4% delinquent. Once again, this compares favorably to the fourth quarter of 2019, when we collected 97.9% of our scheduled rents with an actually higher

2.1% delinquency. We do typically see a slight seasonal uptick in delinquency.

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 amounts owed as bad debt, and there will be no future impact to the income statement. We reevaluate our bad debt reserves monthly for collectability.

Last night, we reported funds from operations for the fourth quarter of 2020 of $122.4 million or $1.21 per share, $0.03 below the midpoint of our prior guidance range of $1.21 to $1.27. This $0.03 per share variance to the midpoint resulted entirely from an approximate $0.035 or $3.5 million non-cash adjustment to retail straight-line rent receivables during the fourth quarter. This adjustment represents retail revenue, which under straight-line accounting, we had previously recognized but not yet received, and whose ultimate collectability is now uncertain. Over 95% of this amount is from one retail tenant we have been in negotiations with since the summer. As the fourth quarter progressed, it became apparent that significant lease restructuring might be necessary and we made the appropriate accounting adjustments.

Same store net operating income was in line with expectations for the fourth quarter as a slight outperformance in occupancy was offset by the timing of repair and maintenance expenses, higher property tax rates in Houston, and the timing of certain property tax refunds in Washington, DC. For 2020, we delivered full-year same store revenue growth of 1.1%, expense growth of 3.8% and an NOI decline of 0.4%.

The midpoint of our 2021 FFO and same store guidance is predicated upon a return to a more normal operating environment by mid-2021. You can refer to page 28 of our fourth quarter supplemental package for details on the key assumptions driving our financial outlook.

We expect our 2021 FFO per diluted share to be in the range of $4.80 to $5.20, with a midpoint of $5.00 representing a $0.10 per share increase from our 2020 results. After adjusting for the fourth quarter 2020, $0.035 write-off of retail straight-line rent receivables, and the 2020 full-year $0.15 to COVID-19 Related Impact, which included approximately $0.095 of resident relief funds, $0.03 of frontline bonuses, and $0.02 of other directly-related COVID expenses, the midpoint of our 2021 guidance represents an $0.08 per share core year-over-year FFO decrease, which results primarily from:

- An approximate $0.08 per share decrease in FFO due to higher net interest expense, which results primarily from the full year impact of our April 2020 bond offering, and actual and projected 2020 and 2021 net acquisition and development activity.
- An approximate $0.06 per share decrease in FFO, resulting primarily from the combination of higher general and administrative, property management, and fee and asset management expenses, combined with lower interest income resulting from lower cash balances and rates.
- An approximate $0.055 per share decrease in FFO related to the performance of our same store portfolio. At the midpoint, we are expecting a same store net operating income decline of 0.85%, driven by revenue growth of 0.75% and expense growth of 3.5%. Each 1% change in same store NOI is approximately $0.06 per share in FFO.
- An approximate $0.04 per share decrease in FFO from an assumed $450 million of pro forma dispositions towards the end of 2021.
- An approximate $0.02 per share decrease in FFO from our retail portfolio.
- An approximate $0.015 decrease in FFO due to the non-recurrence of our third quarter 2020 gain on sale of our Chirp technology investment.
- An approximate $0.01 per share decrease in FFO from lower fee and asset management income.

This $0.28 cumulative decrease in anticipated FFO per share is partially offset by an approximate $0.11 per share net increase in FFO related to operating income from our non-same store properties, resulting primarily from the incremental contribution of our six development communities in lease-up during either 2020 and/or 2021. And finally, an approximate $0.09 per share increase in FFO due to an assumed $450 million of pro forma acquisitions mid-year.

Our 3.5% budgeted expense growth at the midpoint assumes insurance expense will increase by approximately 30% due to the continued unfavorable insurance market. Property insurance comprises approximately 4% of our total operating expenses. The remainder of our property level expense categories are anticipated to grow at approximately 2.5% in the aggregate.

Page 28 of our supplemental package also details other assumptions, including the plan for $120 million to $320 million of on-balance sheet development starts spread throughout the year.

We expect FFO per share for the first quarter of 2021 to be within the range of $1.20 to $1.26. After excluding the $0.035 per share fourth quarter 2020 write-off of retail straight-line receivables, the midpoint of $1.23 for the first quarter represents a $0.015 per share decrease from the fourth quarter of 2020, which is primarily the result of a combination of lower fee and asset management income, and higher overhead expenses, attributable

in part to the timing of our annual salary increases. We anticipate sequential quarterly same store NOI growth will be flat as the reset of our annual property tax accrual on January 1 of each year and the typical seasonal trends of other expenses, including the timing of on-site salary increases will be offset by anticipated property tax refunds in Washington, DC and Atlanta.

As of today, we have just over $1.2 billion of liquidity, comprised of approximately $320 million in cash and cash equivalents and no amounts outstanding on our $900 million unsecured credit facility. At quarter-end, we had $325 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.

And finally, as I have discussed on prior calls, in 2019 and 2020, we set in play important technological advancements. 2021 will be the transition year that will lead to realized efficiencies in 2022, 2023 and beyond. From cloud-based financial systems, to virtual leasing, to mobile access, to AI technologies that allow us to meet residents on their schedule, we are poised very well for the recovery.

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

Alua Askarbek – BofA

I just want to start off quickly talking about your guidance for acquisitions and dispositions for this year. I was just wondering what are the chances that you're actually able to get to that acquisition amount and what markets are you guys looking at? There's a lot of activity in 4Q I guess, so a little bit more about pricing?

Ric Campo – Camden Property Trust

The acquisition/disposition program is balanced. We have a midpoint of $450 million of acquisitions and $450 million of dispositions. We feel pretty confident we'll be able to execute on those transactions.

The private market is very buoyant in spite of a new protocol for how you underwrite properties today given the COVID environment. But the strategy this year is going to be very similar to what we did in the last cycle. As you think about the last cycle, we disposed of roughly $3 billion of properties that had an average age of over 20 years, and we acquired properties that were on average at the time, 5 or 6 years old. The thing that was really interesting about those transactions was that the negative spread on old properties versus new properties was like 21 basis points in terms of AFFO. We think the same thing is going on right now. We'll be able to sell older non-core properties with higher CapEx, and then buy newer properties with lower CapEx and better growth scenarios.

We'll be buying in markets where we're underweight. If you look at some of the markets that we are underweight in, it would be Tampa, Raleigh, potentially Dallas, as well as Denver. The dispositions will come from our more concentrated markets, and those would be Washington, D.C. and Houston.

Alua Askarbek – BofA

Got it. Great. And then just a quick question on collections for 4Q. What were collections like in L.A. and Orange County this past quarter? Any other markets that were at the top range for collections?

Alex Jessett – Camden Property Trust

L.A. County and California in general had higher amounts of delinquency. If you look at the fourth quarter, L.A./Orange County was 7.2% delinquent and San Diego was 5.4% delinquent. That got us to a 6.4% delinquency for California. On the other side of that equation, Houston was 0.4% delinquent, Denver 0.5%, Orlando 0.6%, Phoenix 0.5% and Tampa 0.4%.

Ric Campo – Camden Property Trust

Yes. I would add to that. California is just a classic example of where people can pay but they won't. It's not a function of the California markets being more negatively impacted, it's a function of both the state and local governments having put in the brains of folks that they just don't have to pay. With all the various legislation and moratoriums, you just have a group of people who look at it like getting a free loan from Camden. Ultimately, they will have to pay, or their credit will be destroyed. It will be interesting to see how that all plays out and how the government responds to that going forward.

Alua Askarbek – BofA

Got it. Thank you.

Neil Malkin – Capital One Securities

Can you talk about what you've seen, or the progression or change that's apt to your music, with regard to in-migration from coastal markets? MAA talked about the highest, I think, in history for new leases from people out of state. Just curious what kind of action you're seeing there. That would be great.

Alex Jessett – Camden Property Trust

As you know, migratory patterns have long since favored the Sunbelt and we're certainly seeing an acceleration of that trend in this current environment. There are a couple of things that we look at. For instance, our markets score very well when we look at one-way U-Haul data, which is certainly an indicator of which markets are attracting and retaining residents. In fact, 6 out of the top 10 states for one-way U-Haul traffic are where we operate, while traditional outflow states like New York, New Jersey and Massachusetts are ranking towards the

bottom.

Although most of our new residents, in fact, do move within the Sunbelt markets, New York is actually our #1 non-Sunbelt provider of new Camden residents. And then finally, when we look at Google search patterns, there is a clear uptick in New York residents looking to move south into certain of our markets. For instance, from February 2020 through December 2020, there was an approximate 60% uptick in New York residents searching for Atlanta apartments, and the search volume of New York residents looking for Miami apartments almost doubled over that same period.

So, we certainly are seeing some very favorable trends. Keep in mind, as I said at the very beginning, these migratory patterns are a direct funnel out of the East Coast, West Coast and Middle America into the Sunbelt. It has been going on for quite some time, but it certainly does look like it is accelerating even more currently.

Ric Campo – Camden Property Trust

If you look at announcements, for example, of moves of major companies, not only is Austin picking up a ton, including a $10 billion Samsung chip plant that just got announced recently, but 85% of all the office space in Austin is being leased by the FANGs, which is pretty amazing when you think about that. Especially when you start thinking about West Coast migration to Austin and even Houston. Hewlett Packard Enterprises, their software and enterprise group, just announced a move to Houston as well. So, like Alex says, it's been going on for a long time, but it's definitely accelerating now.

Neil Malkin – Capital One Securities

Yes. That's what I thought. Tech guys only live in California, but I guess not anymore.

Ric Campo – Camden Property Trust

No, not anymore.

Neil Malkin – Capital One Securities

Last one, going back to the first line of questioning. It's surprising that acquisitions are in your guidance given the sub-4% cap rate environment. I know that last cycle your balance sheet wasn't in as good of a position as you wanted to be aggressive. Is that going into the calculus of why you're being aggressive here? Could you talk about it from an FFO standpoint, or what kind of EBITDA yields you think you're going to be selling at? Not AFFO, but EBITDA yields and then versus what you think you can buy at?

Ric Campo – Camden Property Trust

Well, as I said before, the negative spread on the last cycle was 21 basis points. We look at real cash flows, and trading from one property to another. AFFO is a better way to look at it. Generally speaking, probably the widest spread we had in the last cycle was 60 to 70 basis points. Our budgets are conservative in that they're showing probably the higher end of that negative spread. But ultimately, I think when we start selling older properties, the biggest bid in the market today is for value-add and older properties as opposed to newer developments recently leased up, so we think that the spread is going to be similar in terms of negative spread. But the bottom line is, if you look at what we did last time, we had $3 billion of dispositions, $2 billion of acquisitions, then over $1 billion of development. When you bring the development alongside the disposition and acquisition programs, you end up with a positive FFO and AFFO contribution in spite of the negative spread.

In the acquisition/disposition market today, pricing is definitely very, very robust. There's a huge private capital bid. As long as we're taking advantage of that huge bid on our older properties, then we're being a top bidder on the newer properties as well. So, you're selling low cap rate, older properties and buying low cap rate, newer properties. That's exactly what we did in the last cycle. To the extent we can keep that spread pretty narrow on the negative spread between the cash flow we're selling versus, we're going to do as much of that as we can to improve the quality of our portfolio long term.

Alex Jessett – Camden Property Trust

And keep in mind, there is a timing differential in our model. So once again, we're assuming the acquisitions will be midyear with the dispositions towards the latter part of the year.

Neil Malkin – Capital One Securities

Thank you.

Derek Johnston – Deustche Bank

I'm looking for a little more granular update on private markets. Has your team seen elevated levels of distressed asset deals? We were surprised not to see any opportunistic acquisitions in 4Q outside of the land parcel. So, I guess the question, is this environment one where these potential opportunistic deals are still too risky until the labor market stabilizes? Or do you believe private markets still need to adjust lower?

Ric Campo – Camden Property Trust

Well, when you look at the public markets cap rates relative to private market cap rates, there's a massive disconnect. I guess if you believe that the private markets are right and the public markets are wrong, then there will be an adjustment in the private market, right? But when you look at what's going on in the private markets,

with the 10-year at 1% with a reasonable spread, fundamentally negative interest rates and the ability for people to finance what is going to be a growing cash flow going forward. Even if you're worried about inflation, this is a great asset class to own.

I think at the end of the day, there are no distressed assets out there. When you talk about distress, for example, we did pick up a development. We knew there was going to be shovel-ready developments that we could pick up, and we did one of those. The Durham project is a good example of that. We have some decent land purchases that we've been able to do, but as far as distressed multifamily assets in America, they don't exist. If you think about the last cycle, anybody buying properties on the private side had a ton of equity in their capital stacks. There's not a lot of high leverage, complicated structural deals out there that you can get. Maybe now and then, but nothing of any significance.

Derek Johnston – Deustche Bank

Okay. Thank you. That's helpful. Switching gears. How impactful has the new administration's energy policy been on market fundamentals in Houston, which historically has well absorbed excess supply, especially for your best-in-class Houston portfolio and given the migration trends you highlighted. Are current energy policies creating a possibly longer-term headwind in the Houston market? It's especially surprising given that crude is in the high $50s right now.

Ric Campo – Camden Property Trust

Yes. I spend a fair amount of time with my energy friends debating this issue. Most of them believe that the Biden administration's short-term executive orders and view is going to drive energy prices up, not down and improve their businesses sooner rather than later. When you think about the ban on new leases for drilling, in Texas, for example, I think we have less than 10% of the entire drilling community on Federal land. If you go to New Mexico, it's a different animal. In New Mexico, it's nearly 50% I believe, or maybe even higher than that. And so, the shale goes into New Mexico from the Permian Basin. What people are thinking in Texas is that people are going to abandon Federal land in New Mexico and move over to Texas. When you think about the Biden administration and climate change issues, it's definitely going to have a positive effect on the price of oil, which will have a positive effect on Houston's recovery.

I think the other thing that's happening is the energy transition, and the idea that these energy companies know they have to transition to clean energy at some point. We all know that you're not going to get rid of fossil fuels for the next 20 years, because there's no way you can flip a switch and get electrification of the entire highway system and all that. That's going to take decades to get done - maybe a decade or two. So, the Biden administration actually is a positive, not a headwind for a Houston and energy recovery, in my view.

Derek Johnston – Deustche Bank

Thank you.

Sumit Sharma – Scotiabank

I'll keep a question to just one because we're running up against the hour and I want to have everyone ask questions. Could you walk us through what drove the sequential declining rents in occupancy Q over Q, particularly in Houston and D.C.? I'm trying to understand whether the competition is offering more concessions than you, or is there something more seasonal about the decline? It doesn't seem to be reflected when you compare it to last year. I'm inquisitive about that. And then for the dispositions that are focused on Houston or D.C., which you mentioned earlier at the start of the call, is that improvement contemplated in your SS revenue growth range for the year?

Keith Oden – Camden Property Trust

So technically, that's 2 questions. On the decline sequentially in Houston, we had 20,000 apartments delivered last year. We're in the process of delivering another 20,000 apartments this year, and that's into an already pretty weak environment given what's going on. I think Ric is right and I agree with the fact that incrementally what's going on right now is probably going to be a positive for Houston.

The damage was already done in the last two years with the decline in the rig count from almost 900 rigs working to about 200 working. So, the job losses that were associated with that fall off have already worked their way through the system. The bottom line is that 40,000 apartments being delivered in Houston at any normal absorption rate would require 200,000 jobs to be able to take up that slack. Obviously, it hasn't happened. It looks like our data providers are expecting a much better result this year, maybe as many as 100,000 jobs. That would be great and would take up the 20,000 apartments that are being delivered this year, but we still have supply working its way through the system and completions from 2020 that we've got to work through. I think it's just as simple as that. We have got way too much supply. It's hand-to-hand combat on the supply that's either downtown or close-in, which makes up a decent part of Camden's portfolio. So, it's just a lot of competition we've got to work through.

Alex Jessett – Camden Property Trust

The other thing I'd add is that we typically see a sequential decrease from the third to the fourth quarter. 2019 was unusual because we actually had higher occupancy than typical, but a lot of this is also seasonality. What was the second part of your question?

Sumit Sharma – Scotiabank

You mentioned that your dispositions would be focused on Houston and D.C. It's related, so it's not a second question, I'm just saying. Is there any improvement in your SS statistics contemplated in your range towards perhaps the more optimistic side from the dispositions or no?

Ric Campo – Camden Property Trust

Yes. We believe that both D.C. and Houston will be better in the second half of the year, and that's why we're going to be selling in the second half and not in the first half, and our strategy is based on that thought.

Alex Jessett – Camden Property Trust

If you look at what's actually in our model, we are assuming a 150 basis point negative spread, and we absolutely anticipate that we're going to be able to do better than that.

Sumit Sharma – Scotiabank

Thank you.

Alex Goldfarb – Piper Sandler

I'm not going to use the term “capital allocation” because it gets overused, but as you guys underwrite both new deals and developments, in speaking to every private buyer, next to industrial, Sunbelt apartments are the hottest asset class, and unfortunately, construction costs seem to be unabated. So labor, materials, all that fun stuff just continue to go up. As you guys think about trying to invest where people are paying 3% cap rates or develop where lumber is through the roof, a constant part of your prior investment attempts have been an inability to find deals to pencil. So, do you anticipate anything changing this time? Previously you commented that Southern California was a discount to the Sunbelt, hence you were hesitant to sell Southern California. Is that now changing, where maybe there is a positive arbitrage to sell Southern California, and maybe that's one of the boosts that will help you make some of the numbers work? Just trying to think about how you're viewing the investment world, because it definitely seems to get harder and harder.

Ric Campo – Camden Property Trust

Well, I think you're exactly right. It gets harder and harder, but I don't think there's an arbitrage between Southern California and any other market. I think there's still a very robust bid for Southern California in terms of pricing. I can't sell Southern California for a higher cap rate and then buy somewhere else. From our perspective, it is hard, and our people have done a really great job. Our development team has manufactured transactions that work. But again, it's $150 million to $300 million of starts, and that's pretty much all we have been able to figure out at this point. In terms of when we start talking about the buy and the sell, that's a whole

lot easier, because as long as we're selling at what we think is a really good cap rate, we can always buy. You just have to be the highest bidder, right?

Alex Goldfarb – Piper Sandler

Okay. So, Ric, if you're saying that Southern California is a good bid, does that mean you'd finally start to prune there and recycle out of the drudgery of dealing with Southern California?

Ric Campo – Camden Property Trust

We're in the best parts of California. Maybe ex-L.A., but when you look at a recovery scenario, I think those markets are going to do pretty darn well. When we start thinking about longer term, and how we want to position ourselves from a geographic diversification, I'm still good with California recovering in the next 2 or 3 years. The question of longer-term, do you want to put up with the people who don't think they have to pay their rent and the government issues, that's a longer debate. But when I'm looking at future cash flow growth, I think Southern California, especially where we are, is going to recover and do really well.

Keith Oden – Camden Property Trust

I think Ric mentioned earlier, we're looking for the dispositions to come from Houston and Washington, D.C. Assets are dear in every one of our markets, including Houston, but we're overweight in both of those markets, so at the margins, that's where the dispositions are going to come from.

Alex Goldfarb – Piper Sandler

Okay. That's fine. Alex, in your comments you mentioned that the guidance is predicated on a return to normalcy by midyear. Looking at the economic data in the Sunbelt, you have a much better situation to start from then us and the Coast. How much change are you really expecting? I assume that's for Atlanta or Houston not San Francisco or New York, where everyone is still at home. So, can you just give a sense of relative to this, what you mean by "return to normal" versus what we're experiencing here on the Coast?

Alex Jessett – Camden Property Trust

Yes, absolutely. A lot of it circles around bad debt. Our belief is that bad debt will start to curtail in the latter part of 2021 to be more in line with what we see in a typical year and using 2019 as our guide. So, that's one item. And then the second item is our ability to really push new leases. If you think about it, on renewals we've started pushing those again, but we have not been pushing new leases. Our hope and what's in our models is that we're going to be able to start really pushing there in the latter part of the year. Obviously not to huge numbers, but that's the perspective.

Alex Goldfarb – Piper Sandler

Thank you.

Austin Wurschmidt – Keybanc Capital Markets

Just a little more on the investment side. I'm curious on the assets in Houston and D.C. that you're targeting to sell, is it more of an age focus or are you considering selling any of your infill assets that may be exposed to new supply? What's the thinking around the product type that you're looking to dispose of in those markets where you mentioned that you're already overweight?

Ric Campo – Camden Property Trust

Definitely it's more age driven. We force rank all of our portfolio every year, and we look at it every quarter. We look at total return on invested capital and what the growth rate on that return on invested capital will be for the next 2 or 3 years, then try to pick properties that are high CapEx with slower growth profiles. If you have to put in CapEx, and it doesn't give you a return, then that obviously lowers the return on invested capital in the future. Generally speaking, properties that are older with higher CapEx fall into that category. When you think about recovery, even in Houston, generally speaking, when you have a recovery, the higher-end urban assets recover at a much faster rate from that perspective. We don't look at it as there's going to be a lot of pressure on lease-ups in the urban core, so let's sell those assets and keep our higher CapEx assets. It's more about what we believe the next 3 years trajectory is on return on invested capital after CapEx.

Austin Wurschmidt – Keybanc Capital Markets

Makes sense. And then on the flip side, are there any smaller secondary markets you're not in today that have good demand and in-migration trends to the Sunbelt where maybe you could be more competitive from a pricing standpoint or earn a premium yield and even tuck it into the portfolio without much added overhead? Have you considered that at all?

Keith Oden – Camden Property Trust

Yes. There's one market that we've talked about in the past, a Sunbelt market that we have spent a lot of time in trying to make sure that we understand the lay of the land. We've done all the due diligence that we need to do to know where things trade and have the right relationships in Nashville. It's right down the fairway of Camden's markets. It's high growth with a highly educated population. There's been a ton of new construction in Nashville, but so far that hasn't really shown up in pricing. It's as expensive as most of our other cities are. So, that market would be one that is going to get a lot of attention as we look for an opportunity to expand and whether we want to make a bet in Nashville as part of this rollout. Other than that, we're really happy with our footprint, as you might well know from the geography and how it's performed through this part of the pandemic. We'd love to

add some assets in Nashville over time and make that one of Camden's core markets, because it's got all the other characteristics that we look for.

Austin Wurschmidt – Keybanc Capital Markets

And then just a quick follow-up. Is development as well as acquisitions on the table? Are you thinking one-offs and building over time? Or maybe something like a portfolio for scaling up a little quicker?

Keith Oden – Camden Property Trust

It will be acquisitions first. Obviously, if we could find a multiple asset, small portfolio, that would be the ideal situation, but those are like chasing the unicorn these days in markets like Nashville.

Austin Wurschmidt – Keybanc Capital Markets

Understood. Thank you.

Nick Joseph – Citigroup

Thanks. I appreciate the comments on migration trends. I'm wondering about the new residents that you've seen move from New York or California or any of the other higher tax states. Number one, are they working remotely, or are they typically relocating for a job? And then number two, are you seeing any differences in income levels? I ask if there's an opportunity that ultimately you may be able to get higher rent if there's a difference on the income side.

Alex Jessett – Camden Property Trust

Absolutely. We do not pull data specific to where they're from and their income level. What I do know from all my friends in New York City is that every single time they come to our markets, they realize what they can rent and the price of it. My gut is that they are probably used to paying a whole lot more in rent, and that gives them the capacity to lease with us, and also gives them the capacity to absorb rental rate increases over time.

Ric Campo – Camden Property Trust

I think there is some anecdotal evidence that people are more mobile and working from home and are renting apartments here and not coming for jobs per se. They already have jobs in other markets, and they're just continuing to work at those jobs.

Alex Jessett – Camden Property Trust

I'll add to that. We have a banker of ours who has permanently relocated from New York to Houston. When I spoke with him, he went through his daily expenses and as he put it, he has no expenses in Houston compared to

what it was costing him in New York City. It is a dramatic uptick in the quality of life, and that's the reason why people have been attracted to Sunbelt markets for so long.

Ric Campo – Camden Property Trust

Yes. I think the issue of whether people are making more money, can they pay more rent? I think the answer is yes. But right now, the market is soft enough where you can't push rents today, no matter what people make. Ultimately, as the markets firm up, then the resident bases are higher income and can then take rental increases once we have pricing power to be able to do that. Right now, we just don't given the pandemic and supply.

Michael Bilerman – Citigroup

One banker doesn't make a trend of everybody. There's still a lot of us here that love New York City for all the things it provides.

Ric Campo – Camden Property Trust

I think New York City is going to be fine long term. I just think it's going to take longer to get back and it's the same with San Francisco. You can never write off those urban markets, because people want what the urban markets give. One of the things I think is really fascinating is the urban in the Sunbelt compared to urban in San Francisco, New York and L.A. For example, we leased 20 units in our downtown Houston project last month, and that was the highest we've leased in a long time. Even though only 16% of the workers are working in downtown Houston right now, people are leasing apartments in downtown Houston. So, I wouldn't write New York off or San Francisco, for sure.

Nick Joseph – Citigroup

Thank you.

Rich Hightower – Evercore ISI

I hope everybody is doing well. I'll try to keep it quick. I know that there was some new lease-up pressure on rents in the fourth quarter as we roll forward to '21 here. Can you give us a sense of whether the supply pressure is first half weighted, back-half weighted, as far as you can peg those precisely?

Keith Oden – Camden Property Trust

I don't think it will have any meaningful distinction. I say that because whatever has been forecast or put in people's models as far as the actual month of delivery, they've been wrong for the last 3 years, and that's going to continue. It takes longer. There's still a lot of pressure on skilled labor. The process of going through inspections and getting the city officials to sign off is slower.

So, everything that can go against a schedule is going against the schedule right now. My guess is that even if you had a month-by-month roll, I wouldn't put much stock in it as far as accuracy is concerned. When you get in a market like Houston where you're going to get 20,000 apartments, it doesn't matter if 2,000 of them move from February to November, the answer is no.

Rich Hightower – Evercore ISI

Ok. Thank you.

Haendel St. Juste – Mizuho Securities

Quick one from me here. What's the thinking on Dallas here? Your #4 market has been fairly soft the last couple of years. It sounds like more of the same this year. Maybe can you pair that with some comments on Atlanta? Would you leave Houston as your #2 market, or are you going to continue to add more there? Are you pretty happy with your exposure?

Ric Campo – Camden Property Trust

We like Dallas long term, and we definitely can move some of our exposure up there. When you look at their growth profile, it looks really good over the next 2 or 3 years, so we think that Dallas is going to be a top quartile revenue growth market here in the next few years. As far as Atlanta goes, yes, Atlanta is a large market for us right now. We've acquired properties there, but we've been more of a developer in Atlanta, and we'll probably stay that way for a bit. For our acquisitions, if you look at our markets like Austin, we have 3% or 4% of our portfolio there. In Tampa it's 4.5% and Raleigh it's 5%. Those are the markets we're going to try to spend more time in from an acquisition perspective so we can get that balance a little bit more. When you start looking at the growth profiles of Tampa and Orlando and Raleigh and Austin, those are all really good, strong growth markets long term.

Haendel St. Juste – Mizuho Securities

Got it. And forgive me if I missed this, but where are the $320 million development starts you've outlined for this year? And what type of yields are you underwriting?

Alex Jessett – Camden Property Trust

If you look in our supplemental package under the Development Pipeline, we always put them in order. So, the first one we have is Camden Durham, which is the site that we just purchased in the fourth quarter and it was shovel-ready. That's $120 million and then following that is Arts District or Camden Village, so some subset of that. Camden Durham is the one that we expect to get started pretty soon.

Ric Campo – Camden Property Trust

Yes, and Camden Durham is classic. It's an urban project, but urban in Durham is not urban in L.A. Those yields are going to be are going to be in the low 5% range for California and the middle of the country will push 6%.

Haendel St. Juste – Mizuho Securities

Got it. Thank you.

John Kim – BMO Capital Markets

On the 30% increase in insurance cost you expect, can you provide any more color on why it's such a big increase, and if there's any particular market that's impacted more?

Alex Jessett – Camden Property Trust

What I will tell you is a couple of facts before we start that discussion. In 2020, the U.S. set a record for 20 billion plus natural disasters. Globally, there were 69 billion natural disasters in 2020. That is causing a global insurance challenge. So, to give you an idea on our property insurance, we do our renewals on May 1, but we are being told that property insurance for us will be up on the premium side about 40%, and that GL will be up almost 100%. This is not a Camden-specific issue, this is 100% an issue of the global insurance market. So therein lies the challenge. It's interesting, because I talked to all my peers. We all have the same problems. As I said, it's not a Camden issue. In fact, what I will tell you is that Camden is going to do better than most, because #1, we actually develop the vast majority of our real estate. So, on the property side, we know exactly what's behind the walls and that's very helpful if you're trying to insure. On the GL side, we have fantastic loss claims. So that's going to be very helpful for us, too. But that's the real issue and that's what we're all facing.

John Kim – BMO Capital Markets

But is it fair to say Miami, Houston, California - those markets are impacted more than some of the others?

Alex Jessett – Camden Property Trust

No. Once again, I said this is a global issue. When they underwrite us, we do not go out and get property-specific insurance, they're looking at our entire book of business. And by the way, for habitational, which is one of the least favorite for insurance providers, we score very, very well, because of the quality of our real estate and the fact that we've had very limited losses and we've survived natural disasters exceptionally well. So, we score very well. This is not market-specific issues, this is across the board, habitational, in addition to all people, who are seeking either property or general liability insurance.

John Kim – BMO Capital Markets

Okay. And my second question is on your ability to push renewal rates. You mentioned pushing new rates in the second half of this year, we think normalized. But what's your ability to push or increase renewal rates given you typically don't provide concessions?

Keith Oden – Camden Property Trust

We're running about from 2% to 3% right now on renewals, and we've got renewals that have gone out for February and March, that we think we're going to realize somewhere in the 3% range. We've been in that range now since we re-instated raising rates on renewals. I think we've proven that's what the market will allow right now in terms of renewal rates without giving up occupancy. Our retention rates are still at historic highs in terms of the ability to maintain residents. So, it's clear that we're not forcing any vacancy by where we are on renewal rates right now, which is going to be in the 2% to 3% range.

Alex Jessett – Camden Property Trust

If you look at what's in our budget for the full year, we are anticipating renewals to increase by 3% and new leases to be down about 2%. This all comes back to the original question that our guidance is predicated upon a recovery in the second part of the year. So, if we get a strong recovery, then obviously we can push those renewals further. But to Keith's point, what we're currently doing is 3%.

John Kim – BMO Capital Markets

Great. Thank you.

John Pawlowski – Greenstreet

Just one final question for me. Alex, in terms of other revenue - like fee revenue hitting same-store revenue, parking, late fees, common areas - when you put it all together, what's the year-over-year lift or a drag on same store revenue versus 2020?

Alex Jessett – Camden Property Trust

Here's how I would break out the difference between 2020 and 2021 when it comes to revenue. The first thing is that we are anticipating lower bad debt in 2021, and that was the other component that our guidance is predicated upon recovery. So, we think we'll pick up about $2 million for lower bad debt. We think we'll pick up about another $2 million for lower fee concessions, and then what we think is higher utility income should be about $1.5 million to us. Chirp on the revenue side should be about $1.2 million for us. And then we've got a new renters' insurance program that we're rolling out, which should be about $0.5 million. That pretty much makes up the delta between our 2020 actual revenue and our 2021 budgeted revenue.

John Pawlowski – Greenstreet

Great. Thanks so much.

Alex Kalmus – Zelman & Associates

Given that we're shifting from the late-stage of last cycle into this recovery, have you given thought about the balance sheet and potentially expanding the leverage profile to expand in those A quality markets, especially given the wall of capital supporting multifamily in the transaction market these days?

Ric Campo – Camden Property Trust

The answer is no. Well, the answer is yes, we think about our balance sheet all the time. But the answer to if we are going to increase our leverage profile beyond the metrics that we have been talking about for a long time, which is keeping our debt-to-EBITDA between 4x or 5x, that's where we're going to stay. We are at the start of a new cycle, I think. But on the other hand, I remember at my last conference during the first week of March 2020, that question came up multiple times. People were criticizing us for our low debt profile and kept asking what's going to be the problem? What do you think is going to happen? Why do you need a strong balance sheet? And then 2 weeks later, we had the pandemic and then suddenly, the stock price went to $62 from $120. The capital markets shut down dramatically, including the unsecured debt market. And all of a sudden, people started talking about Camden's amazing strong balance sheet, the best in the sector. We're going to be defensive and not have too much debt. We're going to continue to keep it one of the strongest balance sheets in the sector. There's a potential of a recovery, which I think is going to happen, but we're going to keep our strong balance sheet with us for a long time. That's a fundamental Camden thing you can take to the bank, I think.

Alex Kalmus – Zelman & Associates

For sure. Yes, I guess it was predicated on the limited distress we're seeing and potentially, maybe there's some more room, but understood and very prudent. And then this could be a yes or no question, given how late we are. Looking at the land purchases from last year at the beginning of the year, you're in the same market of Raleigh, but the land price tag was a little higher in November. Is that something that is happening throughout the market? Or is this because the deal was more urban and shovel-ready, as you mentioned earlier?

Alex Jessett – Camden Property Trust

If you look at our land acquisition in the fourth quarter, this was a shovel-ready site. So, we effectively bought permits and plans. We bought all the other things that go along with getting a deal that's ready to go. So, it's really an apple and orange.

Alex Kalmus – Zelman & Associates

Got it. Thank you very much.

Ric Campo – Camden Property Trust

Okay. I don't think we have any other questions. We appreciate your time today, and we will visit with you on our new interactive virtual platform next quarter. Thank you.

Edited for readability.