First Quarter 2022 Earnings Call
April 29, 2022 – 10:00 AM CT

Kim Callahan – Camden Property Trust

Good morning and welcome to Camden Property Trust's First Quarter 2022 Earnings Conference Call. I'm Kim Callahan, Senior Vice President of Investor Relations. Joining me today are: Ric Campo, Camden's Chairman and Chief Executive Officer; Keith Oden, Executive Vice Chairman and President; and Alex Jessett, Chief Financial Officer. Today's event is being webcast through the Investors Section of our website at Camdenliving.com, and a replay will be available this afternoon. We will have a slide presentation in conjunction with our prepared remarks, and those slides will also be available on our website later today or by email upon request. If you are joining us by phone and need assistance during the call, please signal a Conference Specialist by pressing the star key followed by Zero. All participants will be in listen-only mode during the presentation, with an opportunity to ask questions afterward. And please note, this event is being recorded.

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 First Quarter 2022 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.

We hope to complete our call within one hour, and we ask that you limit your questions to two, then re-join the queue if you have additional items to discuss. If we are unable to speak with everyone in the queue today, we'd be happy to respond to additional questions by phone or email after the call concludes.

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

Ric Campo – Camden Property Trust

Thanks, Kim. The theme for our music today was fools as in April Fool's. Since our IPO 29 years ago, April 1, 2022, was one of the most consequential days in Camden's history. The day began with Kim Callahan telling us that Camden was being included in the S&P 500. At first, we just assumed Kim was attempting one of the lamest April Fools jokes in history, but Kim has never been a big jokester. Later that same day, we closed on our largest acquisition since the Summit merger in 2005 with the purchase of Texas Teachers' partnership interest in 22 Camden communities with a gross valuation of $2.1 billion. And finally, April 1 was the day that Camden completed the implementation of our "Work Reimagined" initiative, a comprehensive restructuring of how we staff, manage, and support our Camden communities. Alex will provide more details on this initiative in his comments.

Any one of these events would have been a big deal for Camden. The fact that all three happened on April Fool's Day was extraordinary, and that's no joke. I want to give a big shout out to our teams in the field. We're continuing to outperform our competitors while improving the lives of our team members and our customers one experience at a time. I'd also like to give a big shout out to our real estate investments, finance, legal and asset management groups, along with our accounting group for their amazing work in completion of the acquisition and the permanent financing for the Texas Teachers transaction, truly a team effort.

Keith is up next. Thanks.

Keith Oden – Camden Property Trust

Thanks Ric. Now a few details on our first quarter 2022 operating results and April 2022 trends. Same property revenue growth exceeded our expectations at 11.1% - the best quarterly growth in our company's history. Twelve of our 14 markets posted double-digit revenue growth in the quarter with Tampa, Phoenix and Southeast Florida showing the strongest results. Given this outperformance and an improved outlook for the remainder of the year, we have increased our 2022 full-year revenue growth projection from 8.75% to 10.25% at the midpoint of our guidance range.

Rental rates for the first quarter had signed new leases up 15.8%, renewals up 13.2%, for a blended rate of 14.4%. Our preliminary April results are also trending at 14.4% for blended growth with new leases at 14.7% and renewals at 14.1%. Renewal offers for May and June were sent out at an average increase of 14.4%.

Occupancy averaged 97.1% during the first quarter of 2022, which matched our performance last quarter and compared to 95.9% in the first quarter of 2021. April 2022 occupancy is trending at 96.9% to date.

Net turnover for the first quarter of 2022 was 36% vs. 35% last year, and moveouts to purchase homes dropped to 14.1% for the quarter versus 15.8% last quarter, in line with normal seasonal patterns we typically see from 4Q to 1Q of each year. Move-outs to purchase homes remain well below normal for our portfolio.

Finally, I want to acknowledge all of Team Camden for recently being named to Fortune's list of 100 Best Companies to Work For. This year marks our 15th consecutive year on this prestigious list. Camden is one of only five companies included in the S&P 500 and also named to Fortune's list for the last 15 years. Rarified air indeed.

Next up is Alex Jessett, Camden's Chief Financial Officer.

Alex Jessett – Camden Property Trust

Thanks Keith, and certainly rarified air. Before I move on to our financial results and guidance, a brief update on our recent real estate and finance activities: During the first quarter of 2022 we stabilized Camden Lake Eola, a 360-unit $125 million new development in Orlando, we disposed of a 245-unit community in Largo, Maryland for $72 million and we acquired a 16-acre land parcel in Richmond, Texas for future development purposes. Subsequent to quarter end, we acquired for future development 43 acres of land comprised of two undeveloped parcels in Charlotte, and we purchased the remaining 68.7% ownership interest in our two joint venture Funds for approximately $1.5 billion inclusive of the assumption of debt. The assets involved in this Fund transaction include 22 multifamily communities with 7,247 apartment homes with an average age of 12 years, primarily located in the Sunbelt markets across Camden's portfolio. We expect this acquisition will provide an initial FFO yield of approximately 4.4%. As a result of this transaction, as detailed on page 10 of the supplemental package, the expected net operating income contribution from markets including Houston, Austin, Dallas and Tampa will increase slightly, while the remainder of Camden's markets will reflect flat to slightly lower concentrations. This transaction allowed us to fully acquire a very attractive portfolio of assets with no execution or integration risks. We initially funded this transaction with cash on hand which included $500 million drawn on our unsecured $900 million line of credit. We are also now consolidating approximately $514 million of existing secured mortgage debt of the Funds.

Subsequent to quarter end, we issued 2.9 million common shares and received $490.3 million of net proceeds which we used to pay down our line of credit. As of today, we have approximately $70 million outstanding under our line. At quarter end, we had $182 million left to spend over the next three years under our existing development pipeline, and we have no scheduled debt maturities until September 30th of this year. Our Balance Sheet remains strong with Net Debt to EBITDA for the second quarter of 2022 anticipated to be at 4.4 times.

Last night we reported Funds from Operations for the 1st quarter of 2022 of $160.5 million, or $1.50 per share, $0.03 above the mid-point of our prior guidance range of $1.45 to $1.49. The $0.03 per share variance to the midpoint of our prior quarterly FFO guidance resulted primarily from approximately:

- $0.025 from higher occupancy, lower bad debt, and higher rental rates for our same store and non-same store portfolio; and,
- $0.01 from an unbudgeted earn-out received from the sale of our Chirp investment completed in 2021.

This $0.035 cumulative outperformance was partially offset by $0.005 in higher property insurance expense resulting from higher-than-expected levels of self-insured losses.

Last night, based upon our year-to-date operating performance, our April 2022 new lease and renewal rates and our expectations for the remainder of the year, we have increased the midpoint of our full year revenue growth from 8.75% to 10.25%

Our revised revenue growth midpoint of 10.25% is based upon an anticipated 12% average increase in new leases and an 8% average increase in renewals. We are also anticipating that our occupancy for the remainder of the year will average 96.6%, up 20 basis points from our original budget for the same period.

Additionally, we have increased the midpoint of our same store expense growth from 3.0% to 4.2%. This increase results from the expectations of higher than anticipated insurance costs, property tax expenses resulting from higher initial valuations in Dallas and Austin, and bonus accruals related to our increased full-year revenue guidance. As a result, the midpoint of our 2022 same store NOI guidance has been adjusted from 12.0% to 13.75%

At the end of the first quarter, we implemented our "Work Reimagined" initiative which redesigned the way we conduct business in our property operations. The primary objective of this initiative is to deliver exceptional customer service, focus on leasing apartments, leverage the strengths of our teams, and create operational efficiencies. To do this, we shifted our operations model to expand from one community serving our prospects and residents to two or more communities being joined or nested together with shared leadership to support our customers. Additionally, we identified processes that could be automated or centralized and created a Shared Services division to streamline the execution of tasks such as invoicing, delinquency management, and renewal initiation (to name a few). This allows Camden team members at each community to better support the leasing process as well as focus on the customer experience. We anticipate that this program, which was previously budgeted for, will save us approximately $1 million in 2022 on a net basis after accounting for severance payments which were budgeted for and made in the first quarter. On a full year stabilized basis, our savings should approximate $4 to $5 million.

Last night we also increased the midpoint of our full-year 2022 FFO guidance by $0.27 per share for a new midpoint of $6.51 per share. This $0.27 per share increase resulted primarily from an approximate:

- $0.18 increase related to our acquisition of the Fund assets comprised of the following components:
    - A $0.67 increase from consolidating the NOI from the two Fund portfolios,
    - A $0.07 increase from the non-cash amortization of net below market leases assumed in the acquisition. Purchase price accounting requires us to identify either below or above market leases in place at the time of the acquisition and amortize the differential over the average remaining lease term which is approximately 7 months. If the leases were above market, the amortization would have resulted in an FFO reduction over the remaining lease term.
    - A $0.21 decrease in equity in income of joint ventures and property and asset management fees.
    - A $0.14 decrease due to the assumption of approximately $514M in existing secured debt which has a current average interest rate of 3.3%. 36% of this debt floats at LIBOR plus 185 bps and the remaining 64% is fixed at 3.9%.
    - A $0.14 decrease related to additional shares issued to fund the transaction, and
    - A $0.07 decrease from the removal of any future acquisitions from our 2022 guidance. Although our revised guidance does not include additional acquisitions this year, we will continue to look for opportunities to make accretive investments. Our revised guidance still includes another $200 million of dispositions by year end.

In addition to the $0.18 anticipated increase in FFO related to the Fund acquisition, we are also anticipating an approximate:

- $0.11 increase from our revised same store NOI guidance, and
- A $0.01 increase from the first quarter unbudgeted earn-out received from the sale of our Chirp investment.

The $0.30 cumulative increase in FFO per share is partially offset by $0.02 of higher overhead expenses related to our anticipated outperformance versus our original budget and $0.01 of additional interest expense due to higher projected interest rates on our variable rate debt.

We also provided earnings guidance for the 2nd quarter of 2022. We expect FFO per share for the 2nd quarter to be within the range of $1.60 to $1.64. The midpoint of $1.62 represents a $0.12 per share increase from the $1.50 recorded in the 1st quarter. This increase is primarily the result of an approximate:

- $0.09 increase related to our acquisition of the Fund assets comprised of:
    - A $0.22 increase from consolidating the NOI from the two Fund portfolios

- A $0.03 increase from the non-cash amortization of net below market leases assumed in the acquisition
- A $0.07 decrease in equity in income of joint ventures and property and asset management fees
- A $0.04 decrease due to the assumption of approximately $514M in existing secured debt, and
- A $0.05 decrease related to additional shares issued to fund the transaction,

We are also anticipating an approximate:

- $0.04 sequential increase in same store NOI resulting from higher expected revenues during our peak leasing periods, partially offset by the seasonality of certain repair and maintenance expenses, expected increases from our May insurance renewal, and a sequential increase in property tax expense due to higher refunds received in the first quarter
- A $0.01 sequential increase related to additional NOI from development communities in lease-up.
  - A $0.01 decrease from the unbudgeted earn-out received from the sale of our Chirp investment in the first quarter.
  - A $0.005 decrease from the sale of Camden Largo at the end of the first quarter, and a
  - $0.005 decrease from higher 2nd quarter G&A as a result of the timing of various public company fees.

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

Nick Joseph – Citigroup

Can you walk through the conversations with your JV partner of how the deal came about? And then also how valuation was calculated?

Ric Campo – Camden Property Trust

Sure. We have ongoing conversations with our JV partner talking about valuations and the ultimate disposition of the pool of assets. The actual finalized date in the pool was to sell assets by 2026, so we had a 4-year window and we thought it made sense to go ahead and buy that portfolio. We had a meeting of the minds and they wanted to exit over the next 4 years. We figured that would be a pretty interesting way to create value for us long-term by doing it immediately. The valuation metric was that we had just completed an appraisal of the portfolio in December, then we took values that were pretty evident in the market and averaged them together, then negotiated a fair price for both parties. So, it was a very positive transaction for them. The fact that they put $300 million in, took out $1.5 billion of cash through the holding period, and had an IRR way above 20% on their capital was a pretty positive transaction for the Texas Teachers. From our perspective, it allows us to be more efficient in our portfolio by acquiring those assets. The other part of the equation that's really interesting

about those assets is that they're primarily suburban, so it helps us with our suburban portfolio. Suburban continues to outperform urban generally, and we think this was a great transaction for both parties.

Nick Joseph – Citigroup

That's very helpful. What are you seeing in the transaction markets today given the rise in interest rates?

Ric Campo – Camden Property Trust

The transaction market is still very buoyant. Clearly the ten-year going up 100-plus basis points in 3 or 4 weeks has definitely got people scratching their heads and thinking about what pricing ought to be. I would say that the acquisition market for leveraged buyers has definitely taken a pause. The value-add space, which we don't really play in, has definitely taken a pause. But when you think about core assets or core plus assets in the multifamily space that are being acquired by long- term holders for cash, that part of the market hasn't changed at all, and there are definitely very aggressive bids continuing for that. So, we'll see. When you think about any asset value, it's driven by 4 things in this order:

1. Liquidity in the marketplace, which there's massive liquidity;
2. Supply and demand fundamentals, and you can't argue about that in the multifamily space today;
3. Inflation expectations, which we all know are going up; and then ultimately
4. Interest rates.

I think at the margin some leveraged buyers are definitely having to rethink their underwriting, but for most institutional buyers like us, the pricing hasn't really changed from that perspective.

Nick Joseph – Citigroup

Thank you.

Derrick Johnston – Deutsche Bank

Let's just stick on that in this rigid cap rate environment. I think you mentioned the tight versus historical levels on the cap rate spread to the 10-year treasury. What's keeping you from accelerating dispos in perhaps D.C. or some other markets?

Ric Campo – Camden Property Trust

Well, nothing really. We have a budget this year of a couple of hundred million of sales. We usually do those at the end of the year, primarily because we like to keep the cash flow as long as we can in the current year. But we have a methodical disposition and acquisition program, and we're going to continue to execute that. If you think about the last 10 years, we have sold $3.4 billion of assets with an average age of 23 years, and we have

acquired $3.5 billion with an average age of 4 years, maybe with the exception of the fund, which was actually 12 years. So, we're going to continue to be involved in the market and it makes sense. If you think about all the dispositions we've done, all of the low hanging fruit from a disposition perspective from Camden has been done, and we love our markets. We like where they're operating. At the margins, we'll sell some assets and reallocate capital, as we talked about in the past, and we will be continuing to lower our exposure in D.C. and Houston primarily through organic growth, but also through some pruning of the portfolio in those markets as well.

Derrick Johnston – Deutsche Bank

Okay. I appreciate that. I think you have $390 million in unsecured debt maturities this year. Clearly, you have one of the best balance sheets amidst all REITs. But when it comes to refinancing, when you talk to your bankers, how does the rate environment look and what might it look like versus previous rates?

Alex Jessett – Camden Property Trust

We've got about $350 million of debt that comes due December 15, and that debt is at 3.15%. The way in our model that we plan on paying for it is with a couple of hundred million dollars of dispositions at the end of the year that Ric mentioned. But if you think about overall rates for us, the indicatives that we have right now are right around 4.1%, and to give you an idea, probably about 6-7 weeks ago that number was sub-3%. So, pretty aggressive acceleration on rates.

Derrick Johnston – Deutsche Bank

Thank you. Very helpful.

Neil Malkin – Capital One Securities

Another great quarter. First one, you touched on it, I think, Alex, about the way that you're staffing and serving the communities. Can you just give some more color on that? It seems like every one of your peers are shifting to the next generation of operations. Again, if you could give some examples. It sounds like you're podding your clusters of assets to reduce your OpEx load. If you can just elaborate on that, and how you see that going forward over the next 24 months, that would be great.

Keith Oden – Camden Property Trust

Sure. I can give you a little bit of detail about what we call nesting. We're hummingbirds, right? Some people call it podding. The geography of our portfolio is pretty unique in that respect, and our approach is very unique to Camden because of our geography. So, within our 170 plus or minus communities after this reformation of reporting responsibilities and duties into nests, we end up with about 46 communities that still have stand-alone single community manager staff, then we end up with about 76 that are nested in a pair of two, and we have 39 communities that are in groups of three. That's really just based on geography and being able to staff those

communities in a way that the on-site staff becomes interchangeable with regard to where the need is - whether it's maintenance personnel or leasing personnel. So that's kind of the geography of it, again, driven a lot by the way our portfolio lays out and the ability to be close enough to a sister community to make that work. There are going to be different permutations of this, and everybody is going to end up with an approach that works for their grouping of assets in their geography. When we started out, we didn't have a stacking in mind. What we were trying to accomplish was really two things regarding our on-site teams. One of the biggest challenges historically for the single asset community manager, assistant manager, leasing and outside staff is that you just don't have the promotion and growth opportunity for those folks because they're in the single line stack. That's one challenge. We're providing additional growth opportunities by having new positions, with the sales leader position and then the operations analyst position that people can migrate to over time as their experience increases. That was a driving influence for us to come up with a better mousetrap to provide growth opportunities.

The second thing was that you always have a single community in this linear community manager, assistant manager, outside staff inside staff, and you end up with a situation where your skill sets are not properly aligned in many cases. You end up with people who are naturally inclined to sales as a leasing consultant. The next logical and really only move in most cases for them to advance is to become an assistant manager. The assistant manager in some cases has sales duties and in a lot of cases, it's very much an administrative support role. Honestly, our best salespeople are generally not our best administrative tasking people.

That was an inherent shortcoming of not being able to leverage people's strengths because of the structure that we were bound to by having the single community linear approach. The second driving influence for us was to get people matched up to where their natural strengths are and then provide more opportunities for growth within that hierarchy. So, I hope that explains a little bit about our philosophy.

Neil Malkin – Capital One Securities

That's great. Other one for me is related to renewals. I think across the board renewals are stronger compared to what management teams and we thought it would look like. Obviously, turnover is historically low. And because you don't push as hard on those versus new leases, you have quite a bit of loss to lease built up. I would like you to discuss how you think about renewals through '22 and even into '23, given the low turnover environment and people willing to take these prices. How do you think that stacks up for pricing power over the next several quarters?

Keith Oden – Camden Property Trust

When you think about renewals and new leases, we manage our rent roll. Our revenue management team is doing this daily, and we're looking at situations where it might be appropriate to put caps in place if you're trying

to manage to a turnover or an occupancy amount, and we've done that in some cases. I think the reality for our portfolio is that we started seeing really significant both new lease and renewal increases in the May-June timeframe last year, and obviously we're lapping up on that.

We're coming into a period where we were already aggressively pushing both new leases and renewals and most of the rest of the market had not started to do that and certainly a lot of our public company peers have not gotten to the point where they had that kind of pricing power. So, we're going to run into that first.
You have to think about the move in rental rates, both new leases and renewals in these markets, as just a complete reset of the market clearing price for multifamily. We are going to reach that first because we started down the trail first in terms of a market clearing price for these assets. There are a lot of conversations and questions around the 16%, 17%, 20% headline increases. That's true. We have seen that. But I think for context you almost have to think of it over a 3-year period for our residents who are getting these big eye-popping increases right now. For the 2 previous years, if you go back 2 years ago, we were actually decreasing rents since beginning of the pandemic. And then the second year, we had some very modest increases. So, for the most part, if the reset of the rents is 15% over a 3-year period, it would be more like 5% per year for 3 years. But since it's all in one year, it's kind of the headline.

We will definitely reach that reset first in our portfolio. I think the two markets where we are not going to reach the reset, probably not even by the end of this year, are Houston and D.C. proper - and maybe L.A. County. In D.C. proper and in LA County that's a regulatory constraint. And then in Houston, we think we don't have regulatory constraints anymore and our growth rates have picked up pretty significantly. But those three of our markets probably will be the three that have not completely reset by the end of the year.

Ric Campo – Camden Property Trust

I'll just add to that. If you take our signed and renewal leases and you take out the 2 biggest markets, Houston and D.C., we had a 14% blended increase with all the markets included. If you take Houston and D.C. out, it's 16.6%. So, to Keith's point, the markets that have not reset to the level with the rest of the country have the ability to do that over the next couple of years. Houston's issue is that energy has not added back all the jobs they lost during the pandemic. Houston overall as an economy has still not added back all the jobs that we lost during the pandemic, so there's gas in the tank for Camden going forward on renewals and new leases. When our two largest markets start over the next couple of years, we're able to do that big reset on them. Don't get us wrong, in Houston we're getting 8% to 9% increases in new leases, but it's nothing like Tampa or Phoenix or some of these other really white-hot markets.

Neil Malkin – Capital One Securities

Thank you.

Rob Stevenson – Janney Montgomery Scott

Keith or Alex, what's the expected stabilized yield on the current five projects under development? And what are you expecting on projects that you'll start over the remainder of the year? The other related question here is, what are you seeing on pricing availability for materials and labor for new starts?

Alex Jessett – Camden Property Trust

If you look at our current pipeline, we're anticipating right around a 6% stabilized yield. If you look at the assets that we haven't started yet, that number is right around 5.25% to 5.5%. If you think about construction costs, probably the easiest way to think about it is to bifurcate it. For high rises, we're seeing escalation right around 0.5% a month. For wood frame construction, that number is right around 1% a month. I will tell you though, we're starting to get some good news. Lumber is down to about $1,000 per board foot, which is off of the $1,400 that we saw about 3 months ago, but certainly well above the $400 that we were seeing in normal times. So, we're still seeing some escalation. It's still fairly significant, but there are some signs that it might be slowing down a little bit.

Ric Campo – Camden Property Trust

The other part of that equation is general condition costs are up because it's taking longer to build. Pretty much every one of our developments has definitely been enhanced by higher rent growth and better yields than we originally anticipated. For the pipeline that we're starting right now, we start out with a fairly low expectation of rental growth over the next couple of years and then flatline at 3%. So, there's definitely upside in the ones that we're starting this year in terms of our yields. The issue is how fast supply can get into the marketplace, so we're adding 60 to 120 days of an additional timeframe on our construction projects for anything we start this year. That's in addition to the 60 to 90 days that we added three years ago. So, the supply chain issue is going to be a problem through 2023-2024. That's good news and bad news. It takes you longer to build, so that's bad news. The good news is, with all this new supply starting in response to the demand push that's happened in the industry, it's going to take a lot longer than most people think to come to the market. That should make us feel pretty good about 2022 through the end of the year and through 2023, and not having major supply pressure on the demand side.

Rob Stevenson – Janney Montgomery Scott

Okay. And how are you guys thinking about the trade-off in terms of redevelopment these days, given how you're able to get 15% rental rate increases versus taking the unit out for some period of time and spending

money? And are there a bunch of units in the JV portfolio you just acquired that you expect to redevelop? Or has that already been going on inside the JV over the last few years?

Keith Oden – Camden Property Trust

We just approved another grouping for our redevelopment program in total of about $125 million. That vintage works and the new construction pricing around our existing assets that are anywhere from 10 to 15 years old, as those rental rates continue to escalate it makes the repositions look much more attractive. Obviously, the yield on that book of business has come down over time, but it's still the best play on the board for Camden with regard to capital allocation between either new development, acquisitions or repositions. So, we'll continue to do that as we can. There are a couple of assets that we acquired in the fund that are already under reposition. There are a couple more that will likely be added to the pool next year, but honestly, we had already done some repositions with our JV partner as they made sense. They were always extremely supportive. They understood the play and the return on invested capital was the best play on the board for the joint venture. We operated the fund as if they were Camden assets, obviously with the consent of our partner. It's not like we were waiting or didn't have approval or capital or the buy-in to do repositions as they were appropriate within the fund. There will be some assets that will be added based on conditions on the ground and what's happening to rental rates in their submarket.

Rob Stevenson – Janney Montgomery Scott

OK. Thanks guys.

Rich Anderson – SMBC Nikko Securities

I'm sure your bankers have done the count for you about the net new demand you'll get from the inclusion, but I'm wondering for the equity offering post-inclusion to what degree it was influenced by that? Was it made larger because of perhaps new indexers needing to own your stock? Any influence at all?

Ric Campo – Camden Property Trust

No. The equity offering was strictly to pay for the joint venture acquisition. We bought it for $1.5 billion. You take off the debt side, then we needed $1.1 billion in cash. We had $600 million on our balance sheet, so we drew down on the line $500 million. It looked to us that given what had happened to interest rates in the bond market, the equity offering made a lot of sense to reload the balance sheet and get our debt-to-EBITDA back down to the 4.4x area. So no, it was all driven by the acquisition.

Rich Anderson – SMBC Nikko Securities

Okay. Fair enough. Second question, you've heard management teams and your peers say we're heading into the heavy leasing season, even MAA said that in the Sunbelt. I'm curious to what degree seasonality really plays a

major role for you guys. I would think even in a market like Phoenix, it's 150 degrees in July so maybe it's a better time to lease in November. There are a lot of markets like that. Do you have a muted seasonality factor when you talk about the second and third quarter, or do you feel like it's just as prevalent for you guys as it might be for an EQR or somebody like that up north?

Keith Oden – Camden Property Trust

You're always going to have some degree of seasonality, Rich. As you mentioned, Phoenix has a reverse seasonality to the rest of our portfolio for the reason that you mentioned. But from these levels of occupancy and the low level of turnover that we've seen and continue to see, the leasing season volumes are just not going to be there as they have been in the past. We've got incredibly low turnover and we're starting from a very high occupancy. But people in our markets tend to move around more in the summer. There's an impetus to get something done before kids go back to school or for whatever reason, they're relocating. It's conducive to doing so and always has been. Seasonality will be there, I just don't think you're going to see it in the leasing numbers if you start comparing year-over-year how many leases that we executed in the next 6 months, call it, between now and going back to pre-pandemic. I just don't think you're going to see anything like that, but it's not because seasonality is not out there, it's just a different set of facts.

Rich Anderson – SMBC Nikko Securities

Fair enough. Thanks.

Joshua Dennerlein – BofA Securities

Sorry if I missed it, but did you guys discuss your earning for 2023 given everything that's already in place?

Ric Campo – Camden Property Trust

We did not and it's probably a number that we talk about, but it's such a speculative number that we're really not going to talk about that. It's hard to predict ultimately. Maybe second or third quarter is a better time to ask it.

Joshua Dennerlein – BofA Securities

Okay. I'll keep it in my question bank for 2Q. One of your peers announced a new structured investment program this quarter, and I know some other REITs have it as well. Is that something you've looked at, whether you would set up a similar program where you could provide mezz or preferred equity to third-party developers in your markets?

Ric Campo – Camden Property Trust

We've actually done that before. At the margins you can make decent money on those types of transactions, and I know our competitors do it, but we would rather keep our balance sheet clean and focus 100% of our attention

on our existing portfolio. And at this point, we have no joint ventures on our portfolio, we have the most simple and cleanest balance sheet in the sector, and we're going to keep it that way.

Haendel St. Juste – Mizuho Securities

I want to talk about SFR development here. It looks like you started two projects in Houston. You've alluded to it in the past that perhaps you're looking at this. I'm curious why now, the approach you're taking here, the type of product, it looks like you're partnering with a local builder. Maybe talk about the returns you're targeting and your appetite for maybe doing more?

Ric Campo – Camden Property Trust

Sure. You're talking about the two properties that we have acquired in Houston, and those are both purpose-built single- family for rent properties. The way we look at them is that they're just horizontal apartments, right? They're all in one subdivision and both projects are a decent scale with 180-plus units. We think it's an interesting thing in the single-family rental market to dip our toe into. If you look at our history, we got involved in student housing and senior housing and those two areas for us were too far-flung for our taste. The single-family rental market is a different animal. If you can have a subdivision and have some scale within that subdivision, then you run it just like an apartment maybe with less staff and what have you. I think it's an interesting and potentially expansion ability for us in the markets we're already in. So, like I said, we put our toe in the water. The yields are pretty much the same on those properties as they are in the multifamily space.

The challenge with purpose-built single-family rentals is that the size of the project is not ideal. Most of our new developments today are over $100 million and most are $150 million, so it's a little inefficient for our senior development people to work on smaller deals like that. The municipalities oftentimes don't understand single-family rental, so it takes longer sometimes to entitle, but ultimately, I think it's an interesting area for us to look at and maybe get some benefits from how they're operated and have that translate into more efficient operations in our apartment projects.

Haendel St. Juste – Mizuho Securities

Got it. That's interesting. Certainly sounds like there is perhaps a mindset to do more, but you're using these two projects as maybe a case study?

Ric Campo – Camden Property Trust

Yes.

Haendel St. Juste – Mizuho Securities

Second question maybe for Alex. A bit more color on the expense guidance, and the 120 basis point increase. It's not a small amount given that you gave out guidance 60 days ago. I guess I'm curious if you could talk a bit more about what's happened in the last 60 days? You touched on some of the pressures in insurance and property taxes, but I guess I'm curious if you can get into some of the detail on each of those pieces? Do you think that the new guide captures what you're seeing out there or the risk of further increase in the same-store guide over the course of the year?

Alex Jessett – Camden Property Trust

Yes, absolutely. So, the first thing I'll talk about is taxes. You have to remember that taxes are about 35% of our total expenses. Initially we thought taxes were going to be up 3.3%. We now think they're going to be up 3.8%. The big driver there is Austin and Dallas. We got our initial valuations in. They were in the 30% up range. We will contest those as we typically do, and we obviously anticipate that there's going to be some rollback in rates to account for the increase in valuations, but that's one component of it.

The second component of it is insurance. Originally, we thought that insurance was going to be up around 11%. We now have it up around 22%. 70% of our insurance cost is associated with rates. We think our rates are going to be up right around 30%. It continues to be a really tough insurance market. We are actually in the market right now trying to do our renewal. We're going to know a little bit more in the next 3 or 4 weeks, but we feel that what we have here is a pretty good number. The other side of it is salaries. As we typically have done whenever we have outperformance on the revenue side, we increase our bonus accruals. As you know, we do reward our on-site teams for their efforts, so you've got a component that's directly tied to what we're anticipating for outperformance on the revenue side for the rest of the year.

Haendel St. Juste – Mizuho Securities

Thanks for the color.

Brad Heffern – RBC Capital Markets

Can you give any updated stats on move-ins from outside the Sunbelt or move-outs to areas outside?

Alex Jessett – Camden Property Trust

Yes, absolutely. In the first quarter of this year, about 19.3% of our move-ins came from non-Sunbelt markets. If you look at that on a year-over-year basis, that's up 160 basis points from the first quarter of '21. And if you compare it to the first quarter of '20, right before COVID got started, that number is actually up about 330 basis points. So, we continue to see really robust demand from folks moving from outside the Sunbelt into our Sunbelt markets and continuing to see acceleration on that front.

Brad Heffern – RBC Capital Markets

Okay. Got it. And then any update on where rent to income stands currently?

Ric Campo – Camden Property Trust

Right now rent to income is around 20%. If you look at our new leases, our average household income is about $116,000 and our rent-to-income ratio is slightly less than 20%. Overall, it's right at 20%. The challenge with that number is that we don't ask our residents to update their income number. So, what's been happening is when we renew somebody, their rent goes up but their income stays the same because we don't we ask them to update their income. So, I think those numbers at 20% are probably overstated. It's probably in the teens if you upgraded everybody's income.

Brad Heffern – RBC Capital Markets

OK. Thank you.

Steve Sakwa – Evercore ISI

I guess first question is on bad debt. Maybe I missed it, but could you talk about the bad debt trends that you saw in 1Q and what you're budgeting within the revenue growth for the full year?

Alex Jessett – Camden Property Trust

Yes, absolutely. Collections for us in the first quarter were right around 98.8%. If you think about bad debt and you go back to the trend, pre-COVID for us bad debt was right around 50 basis points. In 2020, that number was around 120 basis points and stayed that way through all of 2021 as well. What we're anticipating in 2022 is a slight improvement in that number, and we're thinking that will get down to right around 100 basis points.

Steve Sakwa – Evercore ISI

If you just think about '23, do you think that reverts down towards the 50 basis points next year?

Alex Jessett – Camden Property Trust

We certainly anticipate that as we move through '22, we're going to get back to a more normal trend. If you ignore California in our portfolio, our delinquency is right around 50 basis points, which is right in line with historical averages. So as long as we get to the point in California where we can enforce contracts, which we certainly hope by the time we get to '23 we're going to be in that scenario, then we should assume that '23 is going to be a more typical year. And by the way, the 50 basis points that I told you in 2019, that's what we experienced since we went public. So that's very much a normal year.

Steve Sakwa – Evercore ISI

Got it. Second question maybe for Ric or Keith. Big picture we're seeing more discussion about rent control outside of the New York and California markets and some of the Florida markets given how much rents have gone up. I'm just curious what your thoughts are and what kind of discussions you're having with folks in Washington and in some of the states about that.

Ric Campo – Camden Property Trust

We're definitely on it, no question. When you think about the states like Florida and Texas, they may talk a good game in the cities at the local level, but at the state level it seems very counterintuitive to think that deep red states with Republican governors are going to go anywhere near repealing statewide bans on local municipalities doing rent control. I think we're in good shape in most of our markets. We're not really too concerned about rent control. We're very involved with National Multi Housing Council, and Laurie Baker serves on their leadership group. We're talking on an ongoing basis to lawmakers about rent control. It really won't be a national thing. It's really a state-by-state thing. We just had a conference call this week with the California Apartment Association and the industry expects to have another fight in California coming up on repealing the statewide rent control scenarios. But generally speaking, in our markets, I think we're pretty good with the exception of California on rent control issues.

Steve Sakwa – Evercore ISI

Great. That's it for me. Thanks.

Connor Mitchell – Piper Sandler

So, I just have couple items to circle back to, first regarding the single-family rentals. Can you remind us if these are stand-alone products or would it be more of attached townhomes?

Ric Campo – Camden Property Trust

These are standalone products with two-car garages, a front yard, and a backyard. When you think about whether they're townhouses or not, I think that we're starting out with detached. I think ultimately townhouses make sense too. We developed townhouses as part of our development program in certain places, for example, in Atlanta at a Camden property in Buckhead. We have 3-bedroom townhouses, and they get the highest average rent and they're absolutely full all the time. I don't think that townhouses are negative. The two projects we're building right now just having to be detached.

Connor Mitchell – Piper Sandler

Great. And then the second question was, can you just remind us again if there's been any acceleration of move-outs to home purchases given the rising mortgage rates or a decline?

Keith Oden – Camden Property Trust

Yes. We actually declined from last year. We were in the high 15% range and so far this year, we're back down to 14%. The long-term average for our portfolio over 20-plus years is about 18% to 19%. So, we're still well below what the long-term average is. With the recent spike in the ten-year and the corresponding move in mortgage rates, it's hard to see that number getting much traction on the upside anytime soon. I suppose it's possible that you could have the "panic buy"- like I have to buy now before it gets worse in this quarter, but mortgage rates above 5% versus where they were even 6 or 7 months ago in the 3% range is a game changer for most people. I think that lenders are probably placing a lot more scrutiny around borrower requirements because it's better to underwrite them. I think it's pretty likely that we'll stay 300 or 400 basis points below our long-term average on move-outs to buy homes. It just gets tougher and tougher. Not only do you have in many of our markets single-family home prices that have doubled in the last 5 years, now you have a 5% mortgage rate, and the combination of those two things is a killer for affordability for most first-time homebuyers.

Ric Campo – Camden Property Trust

When you look at our numbers from 2021, it was interesting to see in March of 2021 that our move-outs to buy houses was around 16% and 17% in March/April of 2021. If you go back to this March (2022), we were at 16%, which is pretty much the same as it was in the prior March, but then April fell, as Keith pointed out, to 14%. So, we had a 300 basis point decline from April '21 to '22 and a 200 basis point decline from March to April. April is thought of as spring home buying season where people rush into the market before the summer. Having those numbers decline year-over-year and month-over-month tells me that move-outs to buy single-family homes is not going to be a problem for us. There is some tension and stress in the market where people can't afford the high price or the high interest rate at this point.

Connor Mitchell – Piper Sandler

Great. That's it for me.

Chandni Luthra – Goldman Sachs

I believe it hasn't come up and if it has, I apologize. Could you remind us of where loss to lease stands in your portfolio right now? And how much of it do you expect to capture in 2022?

Alex Jessett – Camden Property Trust

Sure. Loss to lease for us is right around 11%. And obviously as we work through 2022, we should capture a large percentage of that. You have to remember that for renewals, we're not generally bringing renewals all the way up to market for a variety of reasons. So, you'll never really capture that full amount, but we should get quite a bit of it for the rest of the year.

Chandni Luthra – Goldman Sachs

Great. And before the end of the hour, if you could give us an update on your thoughts around how you're thinking about supply in 2023 in your markets? Obviously it's no surprise to anybody and it's not news that permitting and construction activity have been really up there. But then at the same time, we continue to see compounding supply chain issues as well, higher interest costs and construction costs. So, how are you thinking about supply in your backyard next year?

Keith Oden – Camden Property Trust

Ron Witten has got completions across Camden's portfolio at about 160,000 apartments this year, and then in 2023, based on his estimates, that goes to 212,000, so about a 50,000 increase across all of our 15 markets. I do believe that Ron has updated his completions numbers to try to capture the impact that Ric talked about earlier, which is that it takes longer to get these jobs built. So, everybody who has been doing completions work for years and years has been using the same kind of estimates and metrics around start dates, how long until first units turn, and how long to deliver completed product. They've all been badly wrong in the last two years, and I think they've finally made some progress on understanding the effects of this elongated construction period that everyone is dealing with. I think he believes his numbers have captured the slippage that is happening above historical rates, and he thinks we're going to be up 50,000 completions across Camden's markets next year. If you look at it market by market, none of them look terribly troubling at this point as long as we continue to get decent job growth.

Ric Campo – Camden Property Trust

Ron also shows above average or above long-term trend revenue growth in 2023 in spite of the new supply coming in.

Chandni Luthra – Goldman Sachs

Thanks.

John Kim – BMO Capital Markets

Alex, in your prepared remarks you mentioned that your same-store revenue guidance includes the assumption of 8% on renewals. I just wanted to clarify, is that 8% for the remainder of the year? Or is that the full year, including 14% in the first quarter?

Alex Jessett – Camden Property Trust

I think the best way to look at that is we're getting towards a blended 10%, so the blended 10% includes the full year.

John Kim – BMO Capital Markets

Okay. So not to focus too much on renewals, but you did mention it's lower than your new lease growth rate. I'm just wondering why that's the case. The new lease growth rate is 12%?

Alex Jessett – Camden Property Trust

Yes. Obviously, over the past 1.5 years we've had a situation where new leases have been higher than renewals. At some point in time that will converge, right? That's what you typically see, but right now we are assuming that they are not converging just yet. If you think about why renewals are less than new leases, it's what I mentioned earlier. When you've got a resident in place, there are frictional costs associated with that resident leaving, and that's typically why, at least in the past 1.5 years, we've had lower rates on renewals.

John Kim – BMO Capital Markets

Okay. My second question is on your 11% loss to lease. Is there any way to break down what that loss to lease is on your leases that were signed in the second and third quarter of last year? I'm assuming that what you just had in the first quarter is a minimal loss to lease that would be higher than 11% on your older leases?

Alex Jessett – Camden Property Trust

Yes. I mean, so when we talk about an 11% loss to lease, what we're doing is we're looking at the signed leases that occurred in March as compared to the in-place leases. You are right that if you have an upward trajectory of rate increases in 2021, then you start to build off of either lower or higher numbers depending upon how you flow throughout the year. Theoretically, that's why the loss to lease starts to minimize as you move forward.

John Kim – BMO Capital Markets

Great. Thank you.

Austin Wurschmidt – KeyBanc Capital Markets

I just wanted to go back to the new lease rate trends. I recognize they've moderated a bit here from the peak. I'm just wondering how much you think is really seasonality related versus the tougher comps and steadily normalizing operating conditions, because up until this point to what you just said, really, turnover remains very low and occupancy really held up quite well in 1Q. So, I guess what's holding you back from trying to drive new leases even higher to the extent that you're still getting traffic and keeping occupancy fairly elevated relative to historic levels?

Keith Oden – Camden Property Trust

I think you have to start with the places where we are constrained from getting market rate increases and that would be D.C. proper, and still certain parts of California. Those are meaningful numbers. In Washington D.C., which includes the D.C. proper assets and Montgomery County, we still are not able to push through what the market rate increases are. Our total rents in Washington D.C. for the quarter were 5.3% against a portfolio-wide average of something north of 11%, and D.C. is 17% plus or minus of our NOI. That's a big part of the story as other places "moderate" from 20% to 16%, you still have Washington and parts of California where we're getting no rental increases or CPI-type rental increases. I think that's the biggest part of the story.

We certainly believe that if we were unconstrained in Washington D.C., we know mathematically that we haven't had anything close to a reset of rental rates in D.C. proper or Montgomery County because we haven't been able to raise rent. I think it will happen, and I think it's likely to happen. I hope that we get out of the constraints of regulatory regimes that don't allow rental increases just by fiat or a local order by the end of this year, and we certainly expect to. I do believe that the way things are trending right now, we will be coming out of the constraints. Even though when you come out of the constraints, there's still going to be a period of time where we have to work through the process of actually getting control of our real estate from the folks who are still choosing not to pay. I think we feel like we're in a really good position given the untapped rental increases that we're going to get to at some point. I certainly hope it's by the end of the year.

Austin Wurschmidt – KeyBanc Capital Markets

Got it. I appreciate that perspective. How much of the loss to lease bucket is from markets where you're constrained? I'm also curious how much across the portfolio, market rents have increased year-to-date?

Alex Jessett – Camden Property Trust

If you think about market rents increasing on a year-to-date basis, on a full year for 2022, we think it's going to be up right around 4%. You can probably extrapolate that back to what we're seeing in the first quarter. On loss to lease, I think the way that Keith laid it out is probably the best way to think about it, which is you've got D.C. and California, which make up 23% plus or minus of our total portfolio. That amount is going to have a much larger loss lease calculation. It's almost hard to understand exactly what it is, right? You don't understand what the true market rate is because there's so much to discover. I think as we move through the legislative challenges that we have and we're able to establish what "real market" is, we're going to have a much better idea of what the true loss to lease is.

Austin Wurschmidt – KeyBanc Capital Markets

Right. So presumably market wages have moved much more than market rents over that 3-year period that you were talking about earlier in the call?

Alex Jessett – Camden Property Trust

Absolutely.

Austin Wurschmidt – KeyBanc Capital Markets

Alex, with respect to guidance and more specifically the assumptions underlying same-store revenue growth, are you guys targeting lower occupancy in the revenue management systems to get you back to at or below the 96.6% you're assuming for the full year? And then I'm also curious what you're implying for lease rates in the back half of the year?

Alex Jessett – Camden Property Trust

It's really interesting because the higher you set your occupancy settings, the higher it drives rental rates. You're trying to get to that sort of sweet point where the occupancy setting is high enough that you ultimately max out on your rental rates. What we've seen is that no matter how high we set, we continue to have really tremendous demand. That's why you're seeing the type of new lease and renewal increases that you're having. It's not a matter that we're sitting here and saying we want to be at 96.6%. We do believe that, and we do perhaps have some conservatism built into our numbers, but the occupancy levels that we've experienced over the past 4-5 quarters can't continue. That's what you've got baked in. If you think about what are we assuming in terms of blended rental rates on a go-forward basis, as I told you, we're assuming that we're averaging 10% for the full year. So, if you look at the first quarter, that's right around 15%. If you look at the second quarter, we're at maybe 14.5% already, so that would imply that we're assuming that we get down to a 7% number for the third quarter and maybe a 4% number for the fourth quarter.

Austin Wurschmidt – KeyBanc Capital Markets

Got it. I missed that 10% number, so thank you for that. For the 30- to 60-day availability when you look out, is that elevated versus prior periods or tracking similarly? For known move-outs plus current vacancy.

Alex Jessett – Camden Property Trust

Yes. We continue to have very low turnover.

Austin Wurschmidt – KeyBanc Capital Markets

Great. Thanks for the time.

John Pawlowski – Greenstreet

Ric, one question on the Texas Teachers trade. You mentioned the valuation was done at the end of the year in December. Was there any impact or any repricing of the portfolio due to higher interest rates?

Ric Campo – Camden Property Trust

Well, we did have the formal appraisal where we mark-to-market at the end of the year. But then in the first quarter, we also adjusted that for what we thought the current market was, and that's where we struck the price. So, there was an adjustment from the appraised number in December and we ended up not having a big discussion about what those prices were since we had two bases that we used – the original December one and then another valuation metric at the end of February or in early March.

Keith Oden – Camden Property Trust

There was no adjustment to the purchase price for interest rates now.

Keith Oden – Camden Property Trust

No, it was struck before the meaningful move in interest rates.

John Pawlowski – Greenstreet

I guess the cap rate above 4% surprised us on the high side. Could you talk about how many other bidders were in the tent and how broadly this was marketed?

Ric Campo – Camden Property Trust

There were no other bidders in the tent. It was a direct negotiation between the partners of the JV, which was Camden and Texas Teachers. At the end of the day, I think it became evident to Texas Teachers, at least from their perspective, that they wanted to trade based on the value calculation that we did after the original appraisal values in December. They were substantially higher than the price values in December.

I think when they looked at everything overall, the efficiency of the transaction from their perspective and our perspective was really good, because had we gone out and bid it into the market, clearly we wouldn't have been able to do the transaction. From start to finish, it was a 4-week transaction. If you try to bid a 7,200-unit portfolio with 22 properties in multiple markets, that's a 120-day gig. I think Texas Teachers was very interested in getting the deal done as soon as possible, as we were. We both looked at it as a moment in time, and we got to what we thought was fair value, even though you never know what values will be clearly when you bid. We were happy about not having to bid it.

John Pawlowski – Greenstreet

OK. Thanks for the color.

Ric Campo – Camden Property Trust

Thanks for being with us today, and we'll see you guys in NAREIT in a few weeks for the first back in-person NAREIT in June. Take care.

Edited for Readability.