Second Quarter 2022 Earnings Call

July 29, 2022 – 10:00 AM CT

Kim Callahan – Camden Property Trust

Good morning, and welcome to Camden Property Trust's Second 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 e-mail 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 and that could cause actual results to differ materially from expectations. Further information about these risks can be found in our filings with the SEC, and we encourage you to review them. Any forward-looking statements made on today's call represent management's current opinions, and the company assumes no obligation to update or supplement these statements because of subsequent events.

As a reminder, Camden's complete second quarter 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

The theme for today's on-hold music was "Together", which will resonate with Team Camden. After two years of virtual meetings, this year Camden was able to be together for most of our important cultural events. In May, we held our annual Leadership Conference, which brings together 400-plus Camden leaders for three days of learning, reconnecting, and fun. A lot has changed in the world since May, which serves as a good reminder that real estate and financial markets will rise and fall, but companies with a great culture will thrive in all conditions. The following highlight reel from our Leadership Conference is an "inside baseball" view of a culture that has earned a place on Fortune's 100 Best Companies list for 15 consecutive years.

[Presentation]

Thanks to Team Camden and the great culture that you've created and continue to build, Camden will always thrive. The last year and a half has been the best NOI growth and FFO growth that we have had in our almost 30-year history with NOI growing 19.6% and FFO growing a whopping 47%. These gains are built into our run rate and are likely to remain in place driven by strong consumer demand for housing in our markets. Consumer strength is driven by strong employment growth, large wage increases and high savings levels. Our apartments are affordable despite the double-digit rental increases. Our residents spend roughly 20% of their incomes for their rent. Domestic migration has led to more than 700,000 Americans moving to our markets in the last year. They are not moving back. Apartment supply has not caught up with demand. We expect growth to moderate over the next couple of years but believe that we'll exceed our long-term growth rate. With a strong balance sheet, a great team, with an amazing culture, we are ready for more success.

Up next is Keith Oden.

Keith Oden – Camden Property Trust

Thanks, Ric. Now for a few details on our second quarter 2022 operating results and July 2022 trends. Same-property revenue growth was 12.1% for the quarter, once again exceeding our expectations with 12 of our 14 markets posting double-digit revenue growth. Given this outperformance and an improved outlook for the remainder of the year, we have increased our 2022 full year revenue growth projection from 10.25% to 11.25% at the midpoint of our guidance range.

Rental rates for the second quarter had signed new leases up 16.3%, renewals up 14.4%, for a blended rate of 15.3%. Our preliminary July results are trending at 13.1% for blended growth with new leases at 13.5% and renewals at 12.7%. Occupancy averaged 96.9% during the second quarter, which matched our performance during the second quarter of 2021 and compared to 97.1% last quarter. July 2022 occupancy is currently trending at 96.7%.

Net turnover for the second quarter of 2022 was 46% versus 45% last year and move-outs to purchase homes were 15.1% for the quarter versus 17.7% during the second quarter of 2021. The year-over-year decline in move-outs to purchase homes is not surprising. Since last year, home mortgage rates have nearly doubled, and the median existing home sales price is now above $400,000. So, despite the recent increases in rental rates, many would-be homebuyers will likely remain renters.

Next up is 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 and finance activities. During the second quarter of 2022 we completed construction on Camden Buckhead, a 366-unit $162 million new development in Atlanta; we began leasing at Camden Tempe II, a 397-unit $115 million new development in Tempe, Arizona; we began construction on Camden Village District, a 369-unit $138 million new development in Raleigh; and we acquired for future development 43 acres of land comprised of two undeveloped parcels in Charlotte and 4 acres of undeveloped land in Nashville. As previously reported, at the beginning of the 2nd quarter 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 included 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. In conjunction with this acquisition, we recognized a non-cash, non-FFO gain of $474 million which represented a step up to fair value on our previously held 31.3% equity interests in the Funds. Also as previously reported, early in the quarter we issued 2.9 million common shares and received $490.3 million of net proceeds

As of today, we have approximately $80 million outstanding under our $900 million line of credit. At quarter end, we had $248 million left to spend over the next three years under our existing development pipeline. Our Balance Sheet remains strong with Net Debt to EBITDA for the second quarter at 4.4 times.

Last night we reported Funds from Operations for the 2nd quarter of $179.9 million, or $1.64 per share, $0.02 above the mid-point of our prior guidance range of $1.60 to $1.64. This $0.02 per share variance resulted primarily from approximately:

- $0.03 in lower bad debt and higher rental rates and occupancy for our same store and non-same store portfolio,
- partially offset by $0.01 in higher property tax expense resulting from higher initial valuations in Atlanta and higher than expected final valuations after appeals in Austin and Houston.

Last night, based upon our year-to-date operating performance, our July 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 10.25% to 11.25%. Our revised revenue growth midpoint of 11.25% is based upon an anticipated 12.5% average increase in new leases and an 8.5% average increase in renewals for the remainder of the year. We are anticipating that our occupancy for the remainder of the year will average 96.6%.

Additionally, we have increased the midpoint of our same store expense growth from 4.2% to 5.0%. This increase results from inflationary pressures on repair and maintenance costs and the previously mentioned higher than anticipated tax valuations in Houston, Austin, and Atlanta, partially offset by lower than anticipated insurance expense tied to our successful May policy renewal. Property taxes make up approximately 35% of our total expenses and are now anticipated to increase by 5.6% year over year, an approximate 200-basis point increase from our prior estimates. Repair and maintenance makes up approximately 13% of our total expenses and is now anticipated to increase by 7% year over year. Insurance makes up approximately 5% of our total expenses and is now anticipated to increase by 13% year over year. As a result of our revenue and expense adjustments, the midpoint of our 2022 same store NOI guidance has been increased from 13.75% to 14.75%.

Last night we also increased the midpoint of our full-year 2022 FFO guidance by $0.07 per share for a new midpoint of $6.58 per share. This $0.07 per share increase resulted primarily from an approximate:

- $0.06 increase from our revised same store NOI guidance, and
- a $0.01 increase from additional NOI from our non-same store and development portfolio.

We also provided earnings guidance for the 3rd quarter of 2022. We expect FFO per share for the 3rd quarter to be within the range of $1.68 to $1.72. The midpoint of $1.70 represents a $0.06 per share increase from the $1.64 recorded in the 2nd quarter. This increase is primarily the result of an approximate:

- $0.06 sequential increase in same store NOI resulting from higher expected revenues during our peak leasing periods, partially offset by the seasonality of utility expenses and leasing incentives, and
- a $0.01 sequential increase related to additional NOI from our non-same store and development portfolio

These increases are partially offset by a combined $0.01 decrease in FFO related to higher variable rate interest expense and the incremental impact of the additional shares outstanding from our early 2nd quarter equity offering.

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

Austin Wurschmidt - KeyBanc

I was curious if you could give us an update on the dispositions that you had previously planned in the second half of the year, and some general color on what you're seeing in the transaction market.

Ric Campo – Camden Property Trust

Well, the transaction market has slowed down substantially, obviously, with an increase in the ten-year and the dislocation the markets have experienced given everything that's going on with the Fed. What we've decided to do with our dispositions - rather than being the early price discovery folks, we've basically taken them off the table and are waiting for more market clarity. When you think about what's happened here, the cost of capital has gone up for pretty much everyone, and for the leveraged buyers that were using 60% to 80% leverage. The game has changed and their return on equity has gone down. We think that values have probably gone down anywhere from 10% to 15%. It really depends on the market and also the product type, but probably the most impacted properties are in the value-add space (10- to 20-year-old assets that really need a lot of work). With that said, we will continue to monitor the market. For a long time, we have been buying and selling at the margins to be able to improve the quality of our portfolio and improve the geographic diversity of that portfolio, and we'll continue to do that. But right now, we're on a pause to figure out where the market is. We think that after Labor Day there'll be a lot more clarity with the wall of capital that still exists. Ultimately, I think buyers and sellers will come together probably starting after Labor Day and through the end of the year.

Austin Wurschmidt - KeyBanc

And the second question, you mentioned in your prepared remarks that you expect growth to slow and supply to catch up in the years ahead, but growth should still exceed the long-term historical average. First, could you give us a sense of what that average is (presumably 3% to 4%) but if you could put a point on that. And then what gives you the confidence that you can continue to exceed that long-term average, given the level of projects that are under construction today?

Keith Oden – Camden Property Trust

If you look at the deliveries that are planned for 2023 relative to this year, Ron Witten's got completions going up from about 130,000 across Camden's markets to about 190,000, so it's meaningful. But if you look at it as a percentage of stock, it's not really out of line with where we've been for the last couple of years. And then in years beyond that, the starts stay fairly flat. The easy part at this point is thinking about 2023 and where we start out as we come out of this really, really strong 2022, where we continue to get really strong renewals as well as new leases. We'll start somewhere in the 5% range on embedded growth in 2023. The long-term average NOI growth across Camden's portfolio over the last 30 years is in the 3.1% range, so you think about 2023 being higher than normal. As long as we continue to have the affordability issues that consumers are dealing with right now in terms of their alternative to renting, which is buying a home, I think we're likely to see a pretty dramatic

decline in the number of single-family home starts. So, you're just going to continue to have a shortage in housing of virtually all types. I think that it will continue to benefit the multifamily space.

Nick Joseph - Citibank

Maybe following up on that, but more focused on the demand side? Obviously, the July numbers remain strong, but a more challenging comp there. Are you seeing any signs of consumer demand changing as you look out 30 or 60 days, or any pushback on pricing?

Keith Oden – Camden Property Trust

No, we're really not. We continue to be nearly 97% occupied -- I think we're 96.7% currently. As you look out on our preleased numbers, we're still in really good shape 60 and 90 days out. So, turnover continues to be low, renewal rates and new lease rates are definitely going to come down, and we've been talking about that for the last couple of quarters. But in our case, it's just because we're running into a period of time where last year we were rolling out 18% - 20% renewal and new lease increases across most of our portfolio. As you run into those comps, it's just not sustainable to stay at the levels that we've been at for the last couple of quarters. We know it's going to come down, but if we maintain the kind of occupancy that we have, the model will continue to push rents up to the market clearing price. In our markets and in our submarkets, people are continuing to see great strength and continuing to increase rents. As long as that happens, I think we'll be fine. But the reality is that those numbers are going to come down in the fourth quarter for sure.

Ric Campo – Camden Property Trust

One of the things I think is important to think about is that our consumers are doing really well. They all have jobs. When you look at the year-over-year increases in income for Camden residents, it's gone up almost 10%. On Wall Street the financial folks worry about interest rates and inflation, and that's important. I think consumers are worried about that too, but they also are doing pretty darn well when it comes to income growth and savings rates. I think the folks who are probably going to be the most impacted are at the lower end. Our customers on average make 6 figures, so they're not the low end and not as pressured on the inflation side, especially when you think about 20% of their income going to rent. It's the folks who are paying 30% to 50% of their income for rent, they're getting really pressured. So, our residents are doing well. They're stressed, and we can feel that in the marketplace, but they're not financially stressed. They're more worried about what's going to happen in the future than they are about making ends meet with their incomes.

Nick Joseph - Citibank

That's helpful. And then you touched on the broad strength really across all the markets, but the two that lag on a relative basis are D.C. and Houston. How are you thinking about those markets in the back half of this year and probably more importantly into 2023?

Keith Oden – Camden Property Trust

Just to put it into perspective, you said on a relative basis. I think it's important to think about that. Houston and Washington, D.C. in the second quarter were roughly 7% up in revenues, and if it weren't for the fact that the rest of our portfolio was up 13% to 14%, you'd be turning back flips about those numbers in Houston and D.C. But obviously, on a relative basis, they have lagged the other 13 markets in our portfolio. I think one of the implications for that is that as we roll into these periods into the renewal stack for the previous year, in these markets where we had 20% increases last year, obviously it gets much more difficult to push rents to anything close to those levels on this renewal. Yet the comparable numbers for D.C. and Houston would probably be in the 2% to 3% range for a year-over-year comp. So, I think we are probably going to have more opportunity to be a little bit more aggressive in raising rents in D.C. and Houston just because of what happened to our consumers in those two markets last year. They didn't get outsized rental increases, and there's probably one coming in 2023 in the renewal period. I think those two markets have pretty decent upside on a relative basis in 2023. We'll be able to give you a lot clearer picture of that hopefully by the next call, but I think there's really pretty good upside in those two markets just because of the comp set.

Ric Campo – Camden Property Trust

Also, when you think about the economy, D.C. was probably more like California in terms of COVID opening and being able to evict people who were not paying because they didn't want to. Then in Houston, you have a whole different animal. Houston didn't add jobs back as fast as Dallas and Austin. But when Exxon and Chevron make a combined $30 billion like they just reported in the last week, the job picture looks better in Houston because of that. It's interesting because people are complaining about high gas prices and yet the companies are not expanding big time because of the nature of ESG issues and investors wanting dividends from them rather than putting those dollars back into exploration. And ultimately, if energy continues to do what it's doing now, they need to add jobs. They're running very thin and last month I think they added 2,000 jobs in the Houston region for energy-related folks. There is a tailwind, I think, on the Houston market because of that. So, they're very different markets in D.C. and Houston, but I look at them - no pun intended maybe or maybe intended - with gas in the tank for 2023.

Derek Johnston - Deutsche Bank

Can you provide an update on your portfolio’s loss to lease and thus the opportunities for further rent growth next year?

Alex Jessett – Camden Property Trust

Yes, absolutely. Loss to lease for us right now is about 8.5%.

Derek Johnston - Deutsche Bank

Excellent. And then on new development, supply seems benign in some of your markets and rent growth has actually really been strong, seemingly outpacing cost increases. How would you view development starts given this backdrop? You own a construction company. What really do you need to see to ramp new projects?

Ric Campo – Camden Property Trust

Well, you saw in our earnings release that we added land positions this quarter and we're continuing to work on development. So, you have good news and bad news, right? The good news is that revenues are up, and the bad news is that costs are up, but we think costs are starting to moderate. I don't think costs are going to go down, but I think that the increase in cost is starting to slow. Ultimately, development has been a great business for us, and we'll continue to do that and continue to build. I think right now we're focusing on the existing portfolio that has legacy land cost, and we'll be ramping that up next year. I think that once the market settles down in terms of the cost of capital, long-term and not just the up and down scenario that we've had for the last couple of months, I think that we'll still be able to make reasonable spreads on our weighted average long-term cost of capital in the development business. We will probably wait and see between now and the middle of the fourth quarter to see where things settle out, but I think it's still a really good business. If you look at our pipeline, we have average yields with big cost contingencies in those construction numbers that are anywhere from the low 5% to low 6% range. That's still pretty good business even in this environment.

Neil Malkin - Capital One

Following up on the development side. I wanted to see if you're seeing delays. It seems like you probably won't make the development start numbers you initially forecasted. We were hoping you could talk about that and if it's a function of cost or a function of regulatory delays, etc. Can you talk about where you see the starts shaping up over the next several quarters? That would be great.

Ric Campo – Camden Property Trust

Sure. I would say that regulatory issues are definitely a big issue. It’s interesting that people are worried about recession and job losses, yet the cities and municipalities who issue permits and inspect buildings and things like that are absolutely understaffed beyond belief. Even in markets that used to be very friendly to permits and building, like Houston, everyone is talking about how it just takes forever to get this stuff done. We're experiencing that just like everybody else is. Several of the starts this year are going to fold into next year. Next year should be a pretty buoyant start year. Alex, you might want to go through those numbers.

Alex Jessett – Camden Property Trust

Yes, absolutely. Neil, what I'd tell you is that we still think that we're going to make the low end of our total starts number. We were anticipating starting $400 million to $600 million and we're anticipating starting

Woodmill Creek, Long Meadow Farms and Camden Nations, which are on Page 18 of the supplement. We always put that in order of our starts. So, we anticipate starting those three this year. Keep in mind that we just started Village District last quarter, so we should make the low end of our range.

Neil Malkin -Capital One

Okay. Great. My other question is on Houston. I know that several quarters ago you talked about Houston and D.C. Metro being the two markets that you would focus on trimming exposure to given the elevated contribution to your portfolio. It's actually gone up with the JV takedown and the two SFRs that you're doing right now. There's been some speculation that the Biden administration is going to do some sort of climate executive order in his administration's endless assault on energy and fossil fuels. What is the likelihood of these sorts of things having an impact? Or is it already having an impact on Houston because the idea that somehow these unknown green jobs are going to replace the numbers of jobs that could be lost is almost laughable. You guys are like the kings of Houston, so if you could give your 30-foot view on that, that would be helpful.

Ric Campo – Camden Property Trust

Sure. I think you hit the nail on the head, which is that people talk about green and replacing fossil fuels, but there's just no way that happens anytime soon, right? Sure, we need to move in that direction, and ESG is important and climate change I think is critical for us to focus on and think about. But the challenge is, it's not so much the energy companies that are being forced to do things. It's really the federal government and their issues. If you think about what has to happen in an energy transition from fossil fuels to clean energy, you have to have major infrastructure investments made in the grid and in the system of how we provide energy to the world. Just take electric cars as an example. In our ESG committee, we had a robust debate a couple of weeks ago about how many charging stations we have in our apartments. In our new developments we're wiring and making sure that we're positioned to have EVs in our garages, but there are challenges. I'll give you a small example. If we wanted to have an EV station for every car that we think might be in our garages in the future, we can't put that infrastructure in today. We can't get the power companies to agree to give us more power to utilize those. So, there are so many issues that have to be developed to really get us to climate change and get us to transition.

I think you have seen a negative effect in Houston, and it's really the job growth that we didn't have that we should have had. And that has been driven really by investors and the ESG push on energy companies, but also investors that say they are not giving the industry capital unless they give cash flow back. Over the last 10 or 15 years, there've been a lot of investments in energy, and the energy industry hasn't given back capital, so the market is pushing energy companies to invest less in infrastructure and less in exploration, which has driven up the cost of oil and limited supply. I think long term Houston is going to be the clean energy capital of the world. Ultimately, you have a bunch of big projects. There's a $100 billion project, for example, that Exxon is doing in Houston, and it's going to be subsidized by the federal government. It’s a carbon capture in the Houston Ship

Channel. I think the energy companies will ultimately have to transition. I don't think it's going to happen in one year, two years or five years. More like 10 to 20. I think they're smart enough to know that they have to be in a position where they're not dinosaurs, and Houston doesn't become a Detroit. I think that there's a long enough transition period where that pivot is being made and will be made, so Houston will do well long term. But it's definitely a complicated issue for sure.

John Kim - BMO

I was wondering if you could provide an update on your yields on the development pipeline overall and on the project you started this quarter in Raleigh.

Ric Campo – Camden Property Trust

Sure. For the pipeline that is under construction or in lease-up, it's in the low 5% range to one in Phoenix that is actually almost a 7.5% cash on cash. Those are classic development deals underwritten at a lot lower rates. You've had a 30% increase in rents there, so our yields are better. By and large, our existing and under construction and lease-up yields are better than we originally underwrote because of the rental increases. And then the pipeline behind that, which hasn't started, is anywhere from low 5% to low 6%.

John Kim - BMO

Okay. Great. And then you talked about a 5% earn-in for next year and 8.5% loss to lease. I just wanted to confirm that these are separate items. You're starting up with the 5% same-store revenue for next year and then 8.5%, which can move based on market rents, but that's all additive to the 5%?

Alex Jessett – Camden Property Trust

Yes. The way to think about it, and the way we calculate earn-in, is we look at what we anticipate the rent roll is going to look like at the end of 2022. Then if you just froze everything right then for 2023, that's how you get to the 5% number. Obviously there is a component of that associated with loss to lease because you have some of those leases that are in place that you're freezing that are below market.

John Kim - BMO

So, the loss to lease is what the effective rent growth you could achieve is next year assuming the market rents don't move?

Alex Jessett = Camden Property Trust

Yes, assuming you could take everybody up to market. As you know, we don't necessarily take our renewals up to market, but if you took everybody up to market, you would have an 8.5% increase right there.

Rich Anderson - SMBC

When you talk about the earn-in and looking at the July signed versus July effective, it's a difference of about 200 basis points. Is it fair to assume that when you think of this roll-forward situation and to your point, Alex, freezing at the end of 2022, that the inflection point is assumed to be now at the start of August or end of July? Or is it possible that your leasing season can still extend and hence the earn-in would get bigger as we go?

Alex Jessett – Camden Property Trust

What we're assuming is that the earn-in of 5%+ is based upon at the end of 2022. So that takes into consideration everything that we expect from now until then. If you're looking at inflection points, I think the really important thing to look at is if you go back to last year in Q2, our blended lease growth was 4.7%; in Q3, it was 12.3%; and in Q4, it was 15.7%. So, we are starting to have some really tough comps in the third and fourth quarter of this year as compared to what we saw last year.

Rich Anderson - SMBC

Fair enough. The second related question is - this is a weird year because you have these strange year-over-year comps because of how things moved last year, and that's normally not the case. But when you think about absolute rents, I get it that you're going to have lower percentage increases in the back half of the year. But what happens to the actual rent from today? I asked this question on someone else's call. Say today's rent, to make it easy, is $1,000. Is the rent something below $1,000 at the end of the year? Or is the rent just growing at a slower pace, but maybe at or above $1,000 by the end of the year?

Alex Jessett – Camden Property Trust

It's going to be above $1,000. When we look at our math, we continue to have asking rents that are going to be increasing throughout the rest of the year. It's just the comp that you're looking at. You're looking at a much tougher comp period in the fourth quarter of this year because rents escalated so quickly in the latter part of 2021.

Ric Campo = Camden Property Trust

You still have positive rent growth but a negative second derivative, right?

Rich Anderson - SMBC

Got it. Yes. That's interesting because you're saying positive rent growth, but your peers in gateway markets are saying the opposite that rent growth is actually in absolute terms negative. Would you hazard a guess why that would be the case, or why that would be different?

Ric Campo – Camden Property Trust

Given the strength of this market right now, I don't understand how anywhere in America you could have absolute rents be less at the end of the year than they are today.

Rich Anderson - SMBC

That's what I understood, but maybe I have to revisit that.

Ric Campo = Camden Property Trust

That math does not work in my head even in New York or San Francisco.

Keith Oden – Camden Property Trust

I'd be shocked if that were true, but it's hard to imagine a set of conditions right now that would have absolute rents falling, but those markets have a different cadence to them as well.

Rich Anderson - SMBC

Okay. right. I'll check my notes on that.

Alex Goldfarb - Piper Sandler

Two questions for me. The first is, you guys obviously talked about the slowdown in the mortgage market and transaction market. It sounds like on developments, you're going to start fewer. You're not signing as many acquisitions or dispositions based on what's happening. Is there anything that's on the merchant development side? Are you guys seeing any merchant deals that got started that suddenly are in a pickle, and maybe that's an opportunity for you guys to acquire on that front? Just curious.

Ric Campo – Camden Property Trust

I would say that there's definitely not a lot of stress in the market today. Merchant builders were making 3x on their equity. With price adjustments today, maybe it's 2x or 1.5x now, which is still really good. But there really is no distress now. I will say we have seen opportunities, and I think the example would be our Nashville Nations project. It was a property that was zoned and ready to go, but the developer couldn't figure the cost out and they had a little bit more complicated building design. What happened was that their profit in the land was enough to incent them to not build it and to sell it to us. I think there are definitely opportunities like that where the merchant builder’s cost of capital has gone up or their equity partners are a little nervous. They have profits in their land, so they're willing to sell a shovel-ready deal at a profit to them and at market value to us. I think that's the kind of transaction that's out there for sure. I do think that there's probably a fair amount of mezzanine type of business that's out there that people are working on. That's not a space that we trade in, but I've had a number of calls from people who want us to help recap them and things like that, but we're leaving that to some

of our competitors.

Alex Goldfarb - Piper Sandler

Okay. And then the second question. Obviously, the Sunbelt has been garnering headlines in the past few years for the influx of folks coming from coastal or other areas and moving down south. As you look in your portfolio, how much of a benefit have "out-of-regioners" been to Camden versus to the market overall? I asked the same question on Mid-America's call, they said they it went from 9% outside of the Sunbelt to now 15% out of Sunbelt, but they opine that was more people coming into the market buying homes etc. Given you're a bit higher income, a little bit more upscale, I'm curious if you're seeing similar dynamics or if you see a much bigger impact from people coming down south?

Ric Campo – Camden Property Trust

Well, it's interesting, because when you think about it, the migration from the north or coasts to the south has been going out for a long time. It's not new. What happened during the pandemic was the nuance of being able to work from anywhere and the difficulty that people have living on the coasts given COVID and the restrictions you had. You accelerated what's been going on for a long time, and that acceleration has definitely helped us. Alex Jessett has some numbers on that.

Alex Jessett – Camden Property Trust

Absolutely. If you look at the second quarter, 20.3% of all of our move-ins to our Sunbelt markets came from non-Sunbelt markets. That's a 100 basis point sequential increase, and if you compare this to the second quarter of 2020, it's up 440 basis points. So, we are absolutely the net beneficiary of folks moving out of New York, Illinois, Pennsylvania, New Jersey, etc. down to our markets.

Keith Oden – Camden Property Trust

And just to get some aggregate numbers around that, Witten's data has total domestic in-migration net to Camden's markets of about 140,000 this year and that number goes to 130,000 in 2023. So, to Ric's point, we got this turbocharged effect as a result of all the complications from COVID, but this trend has been in place for a long time, and it looks like it's going to continue at a very elevated level in 2023 as well.

Alex Goldfarb - Piper Sandler

Which then sounds like it plays into Rich Anderson's point on why you are looking at positive rent growth in the back half of this year versus perhaps a slowdown elsewhere. You're getting this continued inward migration.

Keith Oden – Camden Property Trust

I think that's clearly part of the story.

Josh Dennerlein – BofA

Could you talk about the differences across markets on the July rate growth front? Where are you seeing the strongest and then weakest lease growth? I think you alluded to D.C. and Houston already, so maybe the other markets would be pretty interesting?

Keith Oden – Camden Property Trust

Looking at our same property second quarter comparisons over the prior year, we've already discussed D.C. Metro and Houston. Those are basically in the 7% range. And then beyond that, you've got Phoenix that's still at almost 18%; you've got Southeast Florida at 16.5%; you've got Orlando at 16%; Tampa at 18%. We have 12 of our 14 markets in double digits. For this business, those are pretty crazy numbers.

Josh Dennerlein - BofA

One more for me. On the tax side, you bumped up the expense part that was, I think, driven by the same-store property taxes going up. Are there any specific markets where you're seeing higher-than-expected tax assessments? Or is it across the board? And then is it driven by just valuation or municipalities increasing rate?

Alex Jessett = Camden Property Trust

Yes. For the three markets that I called out, the first one is Atlanta. Atlanta in the aggregate is actually not that much of an increase, but we originally expected Atlanta taxes to be down in 2022 based upon some successful protests that we had in 2021. We got some initial values there that were different than we had expected, and we'll go and contest those. The other two markets I pointed out were Houston and Austin, and we're looking at Austin having close to a 20% increase in property taxes. We got initial valuations that were in that vicinity. We challenge almost every valuation. We're usually incredibly successful, but we had absolutely no success in Austin this year on valuation. So that got us to this 20% number. Houston was a similar story, not quite to the same level, but we had expected Houston to be in the 2% to 3% range and it ended up being in the 5% range once we got through all of our final protests. So, that's where we're seeing it. I'll also add that Southeast Florida, Orlando, and Tampa in general, continue to give us some pressure in the 8% to 9% ranges.

Barry Wu - Mizuho

I was wondering if you could discuss the expense pressures you're facing in more detail. Maybe first off, if you could discuss the drivers and key pieces on the 80 basis point upward revision in your expense guidance?

Alex Jessett – Camden Property Trust

Yes, absolutely. The major driver that you're really seeing there once again is property taxes. If you think about it, we're up to 5.6% for what we're anticipating for property taxes, and that's about a 200 basis point movement. Property taxes represent 35% of our total expenses, so 200 basis points on 35% gets you 70 basis points, which

is almost the entire delta between the 4.2% that we originally had for total expenses and the 5% we have now. It's almost entirely driven by property taxes. We do have a couple of other ins and outs. We are seeing some inflationary pressures on R&M, and that's causing us to have some increases over what we originally had anticipated to the tune of about 300 basis points. But the offset to that is we actually had a really good insurance renewal. We originally thought that our total insurance for the year was going to be up about 22%. Now it looks like it's up 13%, so we've got a 900 basis point positive there that offsets the R&M inflationary issues. That leads you really to property taxes being the main driver.

Barry Wu - Mizuho

Okay. It sounds like it's mostly noncontrollable. Looking at your supplemental and the 33% G&A increase - can you talk a little bit about that?

Alex Jessett – Camden Property Trust

Yes, absolutely. I talked about this last quarter when we rolled out our "Work Reimagined" initiative. If you recall, this is where we took a look at all of our on-site positions, and we effectively came up with nests where up to three communities are managed together. As part of that, we took our existing Assistant Manager position and we centralized that into Shared Services. So, Shared Services is now part of property G&A, and then you have more than an offset in lower salaries as we removed the Assistant Manager position.

Robin Luu - Green Street

Keith, has your team seen a notable pickup in concessions from developers in heavier supply markets?

Keith Oden – Camden Property Trust

In markets where we've seen the kind of strength that we've had for the last year, concessions have been less. We always include roughly one month of free rent or concessions for lease-ups. We don't do concessions in any of our stabilized portfolio, but the game played among developers has always included some provision for concessions. In our world, for the most part they've been less than what we would have expected them to be. The same strength for demand in new construction across our markets is typical that we have in our stabilized portfolio. So probably less overall in the last year in terms of concessions, but it's still a part of the overall pricing structure for all new developments.

Robin Luu - Green Street

I guess the question was around what you're seeing your peers or competitors doing, not just your own book?

Keith Oden – Camden Property Trust

Yes, they have less concessions as well. In an environment where market rents are going up 16% to 17% from

whatever their pro forma was, they're all far exceeding what the scheduled rents were. So, there would be no real incentive to continue to push top line rents and then concess back down to the point where their pro forma was. So yes, my guess is they're all doing better on total scheduled rents, but that doesn't mean that they would have eliminated concessions. It just means they are probably sticking to the one month free rent that was in their pro forma, and then adjusting market rents to whatever the clearing price is for non-concession rent structure.

Robin Luu - Green Street

Got it. And so my second question is, when looking to the D.C. market, obviously you've done really well in the second quarter and July still holds pretty stable at 7%. Do you expect any supply pressure impacting your pricing power for the second half of the year?

Keith Oden – Camden Property Trust

The supply pressure in D.C. has really not been a huge issue for us. Most of our assets are in the D.C. Metro area. Total delivered units this year are in the 13,000 range, which is not a huge number for that entire metropolitan area. If you roll forward to 2023, Witten has total scheduled deliveries in the D.C. Metro area of about 12,000 apartments. I don't expect it to change much next year. The difference, as Ric pointed out, is that a lot of our challenges have been that we're in markets where there are governmental restrictions on what you could do with either rent control, the inability to collect, or to get your real estate back through the eviction process. It's still not completely over in the District, but in D.C. Metro, almost all of those restrictions have been lifted. I think 2023 is probably going to look more normal. And just with regard to how we manage and the ability to push through market clearing rents, which we really couldn't in a lot of D.C. last year.

Ric Campo – Camden Property Trust

Thanks for being with us today, and we will see you at the beginning of the conference season after Labor Day. Take care and have a great summer. Thanks a lot.

[Edited for readability]