CAMDEN
Living Excellence

First Quarter 2021 Earnings Call
April 30, 2021 - 10:00 AM CT

Kim Callahan – Camden Property Trust

Good morning and thank you for joining Camden's First Quarter 2021 Earnings conference call. We hope you will enjoy our new, more interactive call format today, which includes a brief video presentation as well as slides detailing some of the prepared remarks from our Executive Team. Today's webcast will be available for replay this afternoon, and we are happy to share copies of our slides upon request. If you haven't logged in yet, you can do so now through the Investors Section of our website at Camdenliving.com.

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 2021 Earnings Release is available in the Investors section of our website at camdenliving.com, and it includes reconciliations to non-GAAP financial measures which will be discussed on this call.

Joining me today are: Ric Campo, Camden's Chairman and Chief Executive Officer; Keith Oden, Executive Vice Chairman; and Alex Jessett, Chief Financial Officer.

We will attempt to complete our call within one hour, as we know that another multifamily company is holding their call right after us. 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 earnings call music was 'Have Fun". We have always believed that our Camden teammates do their best work when they are having fun. That's why 25 years ago we chose "Have Fun" as one of our nine core values. Having fun is an essential ingredient of maintaining a great workplace. When your team is having fun, they have smiles on their faces, which puts smiles on our resident's faces, which ultimately makes our shareholders smile. It's a formula that has allowed us to earn a place on Fortune Magazine's 100 Best Places to Work list for 14 consecutive years, with seven top ten finishes. Just recently we were pleased to announce that Camden placed #8 on this year's list.

Creating a culture that encourages folks to have fun requires consistent, intentional focus, especially during the pandemic. Over the years we have created traditions that support having fun, from skits and lip sync contests to fun videos that deliver important messages to our teams. The pandemic allowed us to come up with new ways to maintain our culture in the new work environment. Camden's culture is our superpower that allows us to consistently perform at the highest level. And as Peter Drucker famously said, "Culture eats strategy for breakfast."

Our earnings platform allows us to share video to enhance our messaging. Here's an inside view of one of the many cultural messages that we shared with all Camden teammates and now with you.

Culture is really key to Camden. Culture is who we are. Culture is about how we treat each other, how we feel about each other. And without the culture, we would not have been able to do the great things we did in 2020 during the pandemic. And hopefully, that culture will take us forward through 2021 when we get past the pandemic and then throughout the next few years once we're done with the pandemic. There was one last culture video that's called *Pass the Culture*, and I got a call from Keith who said, "You know, what we need to do is we need to make a big ending." I happened to be in Lake Tahoe, and it was 45 degrees outside. He said, "The big deal is at the end of the video, you've got to jump in the lake and spike a football." And I was like, "What? Are you kidding me? Why do I always have to jump in the lake or do something like that?"

And so, I did it because it's all about culture, it's all about having fun, it's all about taking care of each other, providing peak experiences, making sure that we know that it's not just a job. We're taking care of each other and our customers every single day. So, here's the *[Pass the Culture]* video, and it was 45 degrees in the water. It was very cold.

Wow! Wasn't that an interesting video and a nice spike right into the cold water? But it's all about culture. It's all about making sure we're having fun at the same time as we're doing what we need to do every single day, taking care of each other first, taking care of our customers, and ultimately having fun while we do it.

During the first quarter we saw operating strength building in most of our markets. Clearly the opening of the economy, driven by the speed at which COVID-19 vaccinations have been distributed, has improved our results for the first quarter and our outlook for the rest of the year. This has led us to increase our Net Operating Income and FFO guidance.

As tough and strange as the pandemic made last year, we have used the time to advance many initiatives that will drive revenues, lower expenses and improve performance in key areas. To list few:

- Our investments in Chirp, Funnel and other AI opportunities will accelerate self-guided tours, virtual leasing, in-apartment package deliveries and keyless communities – all driving better customer experiences while increasing revenues and lowering expenses.
- Investments in our cloud-based ERP systems have made remote working seamless. It streamlines data mining moving us closer to the Internet of Things.
- It creates for a more robust ESG analysis and reporting on our ultimate carbon footprint reductions that we'll publish later in the year. We will be publishing a more expanded ESG report in the Fall.

I began the call with a discussion and video on culture. We continue to do the right thing at Camden moving forward on the journey toward a more diverse, equitable and inclusive workplace. Last summer when there was great uncertainty, we advised our teams to focus on the things that they could control, get in the best health of their lives, embrace their friends and family as true partners (with masks, proper social distancing and vaccinations of course), and we also asked team members to take care of our residents and each other and not listen to the noise around them. We told them that the pandemic would pass and the years after would be great for our teams, their families and our business.

We see the light ahead and it is not a train. I want to thank Team Camden and your families for helping us get from there to here.

Keith Oden – Camden Property Trust

We're really very proud of the fact at Camden that we have been included on Fortune Magazine's list of the 100 Best Companies to Work For for 14 years. It's an incredible accomplishment that reflects the fact that each team member takes pride in the workplace and continues to work hard to make Camden a great place to work.

So, a lot of people think about the Fortune list and the Camden's culture and all the things that we do to support being a great workplace. A lot of people look at that and say what they see is expense and cost. What we see is investment. We're investing in our brand, we're investing in our people, we're investing in our culture. Ultimately, we think those things are more important than the small amount of expenses we had around maintaining Camden as a great workplace.

One of the ways to look at that is tracking Camden's 20-year investment return against the S&P 500, and it's proof positive that creating a great workplace also creates great results for your shareholders. Over the last 20 years, Camden Property Trust has produced an annual return for our shareholders of over 11%, and the S&P 500 was about 7.5%, so almost 4% per year better than the S&P 500 for a 20-year period. That's pretty incredible, and we think it's directly attributable to the investment that we make in our culture, in our people and making Camden a great place to work.

So, thank you for all you do, and thank you big for being a part of this great company for all this period of time.

Now a few details on our first quarter 2021 operating results. Same property revenue growth was down (0.4)% for the quarter and as expected our top performers were located in our Sunbelt markets, with Phoenix at 5.8%, Tampa at 4.0%, Atlanta at 2.2%, and Raleigh at 1.9%, with Denver rounding out the top 5 list at 1.3%.

Rental rate trends for the first quarter were slightly ahead of plan with signed new leases down (0.8%), renewals up 3.4%, for a blended rate of 1.2%. For effective leases (which were generally signed in 4Q20 or early in 1Q21) the blended rate was 100BP lower at 0.2%. Our preliminary April results indicate improvements across the board for signed new leases, renewals and blended growth – averaging 4.5%, 4.7% and 4.6% respectively. Future renewal offers are being sent out on average at over 5%.

So, our blended rental rates moved up from 1.2% in the first quarter to 4.6% in the month of April. This 340 basis point improvement exceeded our budget and was the primary reason for raising our full year revenue guidance. It’s worth noting that Houston showed the 5th best improvement in revenue reforecast among all of Camden’s markets and we now expect Houston revenues to be only (0.5)% down from last year.

Occupancy averaged 96.0% during the first quarter of 2021, which matched our performance in 1Q20 and was the highest quarterly level achieved since the pandemic began. April 2021 occupancy has accelerated to 96.6%, exceeding our original budget and expectations, and setting us up well for our peak leasing season which has begun and generally runs through early September.

Net turnover for the first quarter of 2021 was 200BP lower than 2020 at 35% vs. 37% last year, marking yet another quarter of high resident retention and fewer residents choosing to move. Moveouts to purchase homes dropped to 16.9% for the quarter versus 19.0% last quarter, which is in line with seasonal patterns we usually see from 4Q to 1Q of each year.

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 activities: During the first quarter of 2021 we commenced construction on Camden Durham, a 354-unit, $120 million new development in Durham, North Carolina and we began leasing at both Camden Lake Eola, a 360-unit $125 million new development in Orlando, and Camden Buckhead, a 366-unit $160 million new development in Atlanta. Subsequent to quarter end, we began leasing at Camden Hillcrest, a 132-unit, $95 million new development in San Diego.

In the quarter we collected 98.4% of our scheduled rents, with only 1.6% delinquent. This compares favorably to the first quarter of 2020 when we collected 97.9% of our scheduled rents with a higher 2.1% delinquency. Turning to bad debt, in accordance with GAAP, certain uncollected revenue is recognized by us as income in the current month. We then evaluate this uncollectable revenue and establish what we believe to be an appropriate reserve, and this reserve serves as a corresponding offset to property revenues in the same period. When a resident moves out owing us money, we typically have previously reserved all past due amounts and there will be no future impact to the income statement. We reevaluate our reserves monthly for collectability. For multifamily residents, we have currently reserved $9.2 million as uncollectable revenue against a receivable of $10.2 million. For retail, we are fully reserved against our $2.3 million receivable.

In mid-February, Texas experienced a significant winter storm resulting in widespread power outages which lead to, among other issues, corresponding water damage from broken water pipes. Less than 5% of our Texas units experienced any type of damage with only a quarter of 1% requiring the resident to temporarily vacate their home. Today, the vast majority of the damage has been fully repaired and operations have returned to normal. We are extremely proud of the efforts of team Camden in responding to this unprecedented event.

Last night we reported Funds from Operations for the 1st quarter of 2021 of $125.8 million, or $1.24 per share, $0.01 above the mid-point of our prior guidance range of $1.20 to $1.26. The $0.01 per share variance to the midpoint of our prior quarterly FFO guidance resulted primarily from higher occupancy and higher rental rates at our same store and non-same store portfolio, partially offset by the timing of certain property tax refunds in Washington DC and Los Angeles, which we expected in the 1st quarter and will now likely not receive until the second half of the year.

Contained within our 1st quarter results is approximately $900K of expenses directly associated with the Texas winter storm. 2/3rds of this amount is property level insurance, overtime and repair and maintenance expense.

The remainder is corporate level and tied to relief efforts including meals provided to our residents. The additional property level expenses were entirely offset by greater than anticipated amounts of unrelated insurance subrogation proceeds.

Last night, based upon our year to date operating performance, our April 2021 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 0.75% to 1.6%. Additionally, we have increased the midpoint of our same store expense growth from 3.5% to 3.9%. This increase is entirely to account for additional property level salary expenses now anticipated to result from our forecasted full-year revenue outperformance. As a result, we have increased the midpoint of our 2021 same store NOI guidance from (0.85%) to 0.25%.

Our 3.9% revised expense growth at the midpoint assumes insurance expense will increase by approximately 22% due to the continued unfavorable insurance market. Property insurance comprises approximately 4% of our total operating expenses. Additionally, our revised expense growth assumes that salaries and benefits will increase by 3.5% as a result of additional compensation tied directly to the now forecasted revenue outperformance. The remainder of our property level expense categories are anticipated to grow at approximately 3% in the aggregate.

Last night we also increased the midpoint of our full-year 2021 FFO guidance by $0.09 per share. $0.07 of this increase results from our revised same store NOI guidance with the remaining $0.02 per share increase expected to be generated by our non-same store portfolio. Our new 2021 FFO guidance is $4.94 to $5.24 with a midpoint of $5.09 per share.

Last night we also provided earnings guidance for the 2nd quarter of 2021. We expect FFO per share for the 2nd quarter to be within the range of $1.22 to $1.28. The midpoint of $1.25 represents a $0.01 per share increase from our $1.24 in the 1st quarter of 2021. This increase is primarily the result of an approximate $0.01 per share expected sequential increase in same store NOI resulting from higher expected revenues during our peak leasing periods, partially offset by related compensation expenses, the seasonality of certain repair and maintenance expenses, and increases from our May insurance renewal.

As of today, we have just over $1.1 billion of liquidity comprised of approximately $260 million in cash and cash equivalents and no amounts outstanding under our $900 million unsecured credit facility. At quarter end, we had $358 million left to spend over the next three years under our existing development pipeline, and we have no scheduled debt maturities until 2022. Our current excess cash is invested with various banks earning approximately 25 basis points.

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

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

Alua Askarbek – BofA

Congratulations on a great quarter. I just wanted to start off big picture, asking more about the transactions market. I know you were guiding to about $400 million to $500 million. How are you thinking about that now that we are about 4-5 months into the year? What opportunities are you seeing out there in the market?

Ric Campo – Camden Property Trust

We are definitely seeing opportunities. The challenge, however, is that the pricing is way beyond what we expected. The good news is that we have a balanced disposition and acquisition program. We expect to get higher prices for the properties we're going to sell, so we're going to try to make that trade. If you go back to our last big acquisition/disposition programs in the last cycle, we sold a lot of properties, bought a lot of properties, and we were able to upgrade the quality of the portfolio over time.

But I will tell you, I've never seen cap rates this low in my business career. I'll give you a real-time example of a property we were working on last week in Tampa. I just got an email yesterday. This is a reasonable property in Tampa, a middle-of-the-road new development and decent property that we'd call class A-. The price talk at the beginning of the process was $77 million, which would have been in the low 4% cap rate range. The price the property sold for was a little over $90 million, which is a going-in cap rate of 3.2%. With 3% growth in revenue over a 7-year period, the only way you get to a 6% IRR is to have a 3.75% exit cap rate.

That's what properties are trading for in every major market in America today. So, I think we'll be able to sell properties and buy properties, but the spread, between older and newer is definitely going to be really tight. It's a good trade for us, and we'll continue to do that. But pure acquisitions are pretty tough if you don't have a disposition behind it to try to capture that newer property and capture the lower CapEx part of the equation. That's why we would be doing it in the first place.

Alua Askarbek – BofA

Got it. And then I think you commented a lot on how you wanted to enter Nashville. So, what are you seeing there in terms of cap rates in the transaction market?

Ric Campo – Camden Property Trust

Same. The cap rates are pretty tight in Nashville, too. Nashville is an interesting market because when you look at its supply side, it probably has the second most supply coming into the market of any other city in the country. We're looking really hard in Nashville. Our teams are going to be out there next week, and we're going out to look at a few properties next week as well. We think we'll be able to move into Nashville this year. Again, you can acquire properties, you just have to pay up today. As long as we're selling properties at really high prices and buying properties at really high prices, I'm okay with that and I think we'll be able to execute in Nashville.

Neil Malkin – Capital One Securities

First question, can you talk about what you're seeing in terms of in-migration? In some of your markets, your larger Sunbelt markets, obviously, COVID has kind of been the great accelerator for that. I'm just wondering if your people on the ground are telling you that they continue to see that in earnest, if it's accelerating, or if it's steady. Any commentary on where that's coming from and what markets are the biggest beneficiaries?

Keith Oden – Camden Property Trust

Yes. Neil, we continue to see elevated levels across our platform, but it's not new. We've had in-migration going on, and its been exiting the Northeast and mainly Northern California, for the last decade. But clearly, it's accelerated. I would say the markets that we have with the most impact and most visible, currently are in Atlanta, and everywhere in Florida. And again, that's mostly a northeastern phenomenon.

In Austin, Texas, I would say that's the place where anecdotal evidence of out-of-state license plates, in particularly California, is pretty incredible. The trends in some of our markets around home prices exhibit characteristics of people coming in and willing to pay up. In Austin, Texas, as an example, it has the highest spread between asking price for a single-family home and selling price. In the last 12 months, the average sales price in Austin, Texas for a single-family home was 7% above what the asking price was.

These are crazy numbers historically that we've never seen before. But I think it continues to be indicative of people finding incredible housing value in our markets relative to the markets that they're exiting. I think it's just a continuation of what's been going on. Clearly, it's accelerated. Some people think this is strictly a COVID-related increase. I'm not so sure that's true. I think the trend that's been in place for a long time is going to continue and probably at elevated levels.

Ric Campo – Camden Property Trust

If you look at the census numbers that came out, Texas gained two congressional seats. California lost one, New York lost one, you go up into the Rust Belt and a lot of those states lost, and Florida gained. I think we have seen an uptick in Phoenix and in Florida for sure. I think this is just a continuation and I agree with you totally that the pandemic is a great accelerator. I think what will really be interesting is once these states are open. California talked about being open, but it's really not. When we get the pandemic in the rearview mirror, then the question will be what happens over the next couple of years when people actually do have the ability to work from home and just use their laptop as their office, right?

I think we're in a good position, and we've always wanted to be in these markets because they are pro-growth markets with great weather and low housing prices that drives migration.

Alex Jessett – Camden Property Trust

Yes, so I would add to that. Most of our new residents come from Sunbelt markets. But if you think about non-Sunbelt markets, New York is our #1 non-Sunbelt provider of new Camden residents.

Neil Malkin – Capital One Securities

Okay. The other one for me is maybe bigger picture, with cap rates coming down. We've talked to brokers pretty much in all of your markets and sub-4% is the name of the game. When you think about your portfolio, it's a great aggregated, diversified portfolio, with ridiculously low leverage compared to anything private, and a lot of growth avenues there. Do you think that there should be a re-rating? Or is it fair to say that cap rates on the public side need to come down or they're justified being lower? And if nothing else, the spread between Coastal and Sunbelt should be compressed at least over the next several years cycle?

Ric Campo – Camden Property Trust

Well, if you calculated Camden's NAV based on the current cap rate environment, we have a spreadsheet that shows various cap rates and what we think our NAV is. If you use the Tampa number, we don't even have that on our spreadsheet. We go to 3.5% cap rates and we stop.

And so clearly, the question will ultimately be who's right? Is it the private market that's right, or the public market that's right? We've had this debate forever that the public markets sometimes act as real estate and sometimes act as stocks, so when stocks get hammered, it's not because somebody is thinking about their NAV relationship to the private market. They're just selling the stock because they have an ability to buy other stock that's going to go up faster or whatever their reason for that trade is. I think we're trading more like stocks today and less like real estate.

When you think about why somebody is paying a low 3% cap rate in Tampa, I think it's pretty basic. Number one, the 10-year is at a very, very low rate. You still have positive leverage when you finance using a 10-year mortgage at 2.5% compared to a 3.25% cap rate. You have 90-100 basis points of positive leverage on that trade.

Then you think about the worry that people have with the current trajectory of $1 trillion here, $1 trillion there, Fed and government stimulus and everything else going on out there, and when you hear the word inflation, what happens long-term inflation wise? In multifamily, we price our leases every single night and our leases roll over, and we're the fastest roller of leases other than hotels. Over 8% of our leases roll over every month., so it's a great inflation hedge if you're worried about that. When you think about private capital looking for a yield, multifamily is a pretty good place to be, and the supply and demand side of the equation is pretty much balanced.

You have great job growth going on in most of these markets, and once the markets are opened up, I think the Coastal markets will do fine. It'll just take more time for them to get better than it does the markets that have opened up. I think that's why cap rates are really low and I wouldn't say that the private side is crazy right now. But clearly, the gap between real cap rates in the private sector versus the public sector is the biggest spread I've probably ever seen in my business career at this point. So, who's right?

Neil Malkin – Capital One Securities

Yes. Could you just humor us and say what a 3.5% cap rate translates into?

Ric Campo – Camden Property Trust

You can look at consensus NAV right now. It's $119/share, and it's a 4.75% cap rate or something like that. For every 10 basis points in cap rate it is like $2/share. So, you do the math. I'm not going to put a number out there, but it's about $2/share for every 10 basis points.

Alex Goldfarb – Piper Sandler

So, two questions. First, obviously, there are a lot of articles about the impact of the unemployment, the extended enhanced unemployment benefits. I was talking to a guy who does business across a lot of different states, and there's feedback that people won't take a job because they're getting paid more to sit at home.

In your portfolio - I don't know how much of that was a driver of your need to increase the property level payroll - but are you seeing across your markets that the economy is being held back because people aren't taking jobs? Or we should read into it that the 4.5% rent increases that you got in April is an indication that it's two different groups and the impact of the extended unemployment benefits has no real impact on your ability to perform? Basically, as these benefits expire, would we see an acceleration of your portfolio, or are the two things not related?

Ric Campo – Camden Property Trust

I think the two are related, but not directly. If you think about people who are unemployed today and are receiving government benefits, I think the vast majority of them make under $50,000 per year. Those are folks working in hospitality areas and things like that and they're making 30% more by staying home than they are going back to work. I was out driving yesterday afternoon, and I saw a restaurant that had help needed in every position, $500 signing bonus if you come in. So that is holding back some of the economy from that perspective. But our average income is over $100,000, most of our folks are working, they're continuing to work and doing well.

The biggest issue holding us back from higher revenue growth are restrictions on increasing rent in certain markets like in California and in Washington, D.C. Our top line number would be higher by at least 50 basis points if we didn't have those restrictions in place, in my opinion. I think that once the economy opens more in these other markets and we get past CDC restrictions and the cap on renewals and things like that, then the multifamily business should be really good in the next 6-10 months once we get past that piece.

In terms of people, our increase in cost for salaries today are not so much driven by the fact we can't find employees, but it's by outperforming the original budget, so we have to increase our bonus accruals for them.

Alex Goldfarb – Piper Sandler

We definitely like hearing about bonus accruals going up. That's a good thing. The second thing is on the development side. Obviously, you have pared back your program tremendously over the years. As you look at new markets like Nashville or just try to deal with rising construction costs, are you seeing more opportunity to put Camden capital to work by funding other developers, third-party and then do it as a takeout? Does that mitigate risk or allow you to broaden your net? Or your view is that you really want to do development on your own because from start to finish, you feel that holistically it's a better risk proposition?

Ric Campo – Camden Property Trust

I think that doing anything that isn't 100% Camden owned with Camden control adds more risk, not less risk to the process. You can't move the needle on driving revenue and driving new development deals, really, by doing JVs or equity programs or whatever you want to call them. We still have the sting from a $3 billion joint venture program during 2008 and 2009 where our partners wanted us to default on debt so we could buy the debt back cheaper. When we did those joint ventures, the $3 billion didn't really move the needle for Camden. What it did is it created more risk when the market turned down and we had challenges with dealing with our partners. Even though they're all deep pocketed, they didn't want to bring any cash out of their pocket. So, we're going to keep our balance sheet pristine. We're not going to do deals like that. Other companies have different views of that, I get it, but that's not Camden.

Keith Oden – Camden Property Trust

And Alex, just on your point about the size of the development pipeline, if you take what's in lease-up currently, plus what's under construction, we're close to $1.2 billion in new development. We think we've been very opportunistic about delivering these yields into a declining cap rate environment that's going to create a ton of value. I think $1.2 billion is about equivalent to our all-time high in terms of a development pipeline. We definitely see opportunities. Everything that we're working on right now, based on the kind of cap rates that are in play for acquisition assets, look like they're going to be really accretive.

Nick Joseph – Citi Group

Maybe just sticking with construction. What are you seeing on the cost side, both for the inflation development pipeline and also as you price out future starts?

Ric Campo – Camden Property Trust

Prices are up big time. Let's take two periods of time. Take April of this year. For April of 2019 versus April of 2020, costs were up 2% or 3% maybe, and in some markets actually flat. In the last 12 months, since April of 2020 versus 2021, multifamily costs in total are up about 12.5%.

There are three big drivers. One is commodity prices. If you look at soft lumber prices in the last 12 months, soft lumber is up 83%, plywood is up 53%, OSB board is up 65%. Even fuel, diesel and gasoline, is up 50%-60%. Labor issues are there. Supply chain backups are making products more difficult to get. So, the speed at which you can develop is slower. It's a tough environment out there when it comes to cost. The good news for us is we did lock in lumber packages on several jobs that we had. So, we don't have a lot of exposure on lumber at this point. We did lock in about 70% of the package. I really give kudos to our construction folks and our commodity consultants for helping us navigate this tough water here.

Camden doesn't have a big exposure to this big price increase, but it does affect the way we underwrite new transactions and it becomes more and more difficult. On the one hand, with cap rates compressing as much as they are, the spread on what you can buy an asset for versus what you can build it for a day, even with the cost increase, is still pretty wide. That's why you're going to continue to see new developments. Even though the going-in yields are going to be down, the spread between what you can sell and buy for is still pretty robust.

Nick Joseph – Citi Group

That's very helpful. And then just on the rental assistance plans, how do you think that impacts Los Angeles and Orange County specific to you?

Keith Oden – Camden Property Trust

It hasn't affected us in a positive way at all. And part of it is all of the various qualifying elements that you have to go through. Some experience has been that our resident base does not qualify or has not qualified for any meaningful amount of rental assistance in particular in California, but it's a little bit different market to market.

We do have some markets where we've gotten a couple of hundred thousand dollars in rental assistance. But overall, you take the effect of delinquency, the effect of not being able to get people moved out who are not paying the rent, overall, the whole event has been a pretty significant negative for us around the margins. We're now at about $9 million in receivables, and that's about $8 million more than what we would normally carry in our receivables. We hope that over time, a couple of different things will happen. We hope that the CDC mandate is not extended, which it's currently out to June 30, and it's anybody's guess as to whether it will be or not. But if that is not extended, then we should be in a position to start getting back control of our real estate. And we think that's going to be very helpful in whittling away at that $9 million in receivables.

Overall, in our portfolio the ERAP has not been particularly helpful because of the average income of our resident base. We'll see if in this next tranche, there are fewer restrictions on how that gets used, but I'm not terribly optimistic about that.

Ric Campo – Camden Property Trust

Yes, one of the challenges that you have with all this is that the federal government puts this money out. In the last two stimuluses, the one in December and the one in February, $46 billion was allocated to rent assistance, which is a huge number, obviously. And to date, there's been just a minute fraction of that money going out. Part of it is the government requirements to check the box. We were having a meeting with our California folks, and I think the last number I heard was that we've had to send out 10,000 pages of documents to our residents in California. It's all of these government requirements to say, you got these certain rights, and here's what you can do. When you start talking about 10,000 documents, what do you think those people are doing in their apartments? They're picking that document up, looking at the first paragraph, then throwing it in the garbage.

The challenge you have is that government requirements are tough. In Houston, for example, we were involved in designing the first set of programs for apartment rent relief here. We streamlined it. We gave about $70 million in Houston, Texas, and did it really fast. We ended up with $10 million more by the end of the year. We couldn't give the $10 million out so we had to give it to the food bank. Otherwise, based on government regulations, you'd have to give it back to the federal government if you didn't spend it.

The challenge you have with all this stimulus and these things is that it's really hard to get the money out to people. The people that are hurting are not the $100,000 households. The people that are hurting are the

$30,000-$50,000 players that are in C and D properties that aren't back to work and/or not getting stimulus money. Those are the ones that are the hardest to get. Once they go through a website and you don't have all their information, they just leave and you're losing them. So it's a challenge and I think our industry has done a great job of trying to help the most vulnerable people in the multifamily space, but they just don't live at Camden and then they don't live at most of the public companies' apartments.

__**John Kim – BMO Capital Markets**__

I had a question on the occupancy pickup you had in April to 96.6%. Were there any particular markets that drove that figure higher? And do you expect it to remain at this level for the remainder of the year? Or do you expect it to trend back down to 96%, which is where you operated back in 2019?

__**Keith Oden – Camden Property Trust**__

Yes. I think if you look at our pre-lease numbers and go out 30, 60 days, the indications are pretty good that we'll stay above 96% for the next couple of months. Obviously, we're coming into the best part of our leasing season. The strength was across the board. So, just to put some perspective around it, we did a complete reforecast to support our change in increasing guidance. And of our 14 markets, if you look across our portfolio, the bottom-up reforecasted revenue projections went up in 12 of the 14. The only 2 markets where revenue did not increase was San Diego and Orange County/LA. The reason for that has nothing to do with the underlying strength of the markets, which are both really good right now. It has to do with bad debt. We continue to have a challenge in California with regard to elevated levels of bad debt because of the CDC eviction mandate and all the rent strikers that we have in our portfolio in Southern California.

So, absent those two, which by the way, were only slightly negative on the reforecast because of bad debt, we would have been up in all 14 markets. I don't think I've ever seen a reforecast done where all 14 markets had a positive revenue impact in a reforecast. I think it’s strength across the board. If you go to the top level of revenues in the new reforecast, out of 14 markets, we have 13 with positive revenue growth for the year. The exception of that, as we mentioned in the opening comments, is Houston which is down 0.5% in total revenues for the year. I can tell you that our Houston folks are working their tails off to get off that list. They're the only one with a negative number for the revenue reforecast. All the other 13 markets are really well positioned for our peak leasing season.

__**Alex Jessett – Camden Property Trust**__

John, we've got seasonality in there, but our reforecast assumes that we're going to have 96% occupancy for the full year. Obviously, it's higher occupancy in the second quarter and third quarter, coming back down in the fourth quarter. But to compare that to our original budget, that's a 70 basis point improvement.

John Kim – BMO Capital Markets

That's helpful. And then on the cap rate discussion, we thought some of that cap rate compression was offsetting income, but it sounds like that's not the case. On the exit cap rate that you quoted as an example in Tampa at 3.75%, is the view that cap rate is going to remain low because of rising construction costs? Or is it the potential that the rental growth assumption that you quoted at 3% was a bit conservative?

Ric Campo – Camden Property Trust

I think cap rates are not a function not of construction costs going up. That project, by the way, at a $90 million price was 18% above replacement cost. So, replacement cost is not a bogey today that investors are looking at. What they're looking at is what cash-on-cash return they are going to get from this real estate. A 3.2% cap rate is the competitive market today. When you think about how you get an IRR, the unlevered IRR has three components. What you buy in at, what your cash flow grows at, and what your exit cap rate is. So, for years the question of what is your exit cap rate 7 years out has been like the argument about what's real CapEx, right?
On new development you put in $250/unit. You know it's not that long-term, but that's what people use.

Ultimately what will drive the exit cap rate will be the environment at the time. We know what drives the price of any asset is how much liquidity is in the market. We know today that there's massive liquidity in the market, beyond belief. The second thing that drives cap rates and prices in the most important order is supply and demand. What's the business look like? What is the excess supply long-term, and how you feel about supply/demand dynamics relative to being able to drive net operating income or cash flow growth.
In the market today, supply and demand are pretty much imbalanced. You look at imbalance from that perspective in most markets. When you look at supply and demand, it's good. Then the next thing is inflation. You worry that you could have inflation. And then the last driver is interest rates. A lot of people think interest rates are the #1 driver, but it's actually liquidity, supply and demand, inflation and then interest rates.

So, with that backdrop, cap rates are where they are because of the first two issues, and then maybe a little bit of an inflation issue. Who knows whether a 3.75% cap rate is the right number in 7 years? But I guarantee you that's the only way the math works if you want a 6% unlevered IRR in 7 years,.

John Kim – BMO Capital Markets

So, Ric, are you concerned that people are underwriting 3.75%, or do you think it's rational at this point?

Ric Campo – Camden Property Trust

I think if you want to compete in the market today and you have capital to place, multifamily is a coveted asset class for lots of reasons we've talked about before. So, if you have capital that has to go out, where is the alternative investment? If I don't like a 3.2% in Tampa with the growth profile and everything that we talked about, then where are you going to put your money? You're going to go in.

We're earning 25 basis points on $300 million right now in cash. The government is penalizing us because of the Fed and everything else going on, they're penalizing anybody with cash. When you think about a cash flow stream that can grow, can be inflation protected, it's a cash flow stream that is hard to disrupt, right? Because everyone needs a place to live. You can't live on the Internet or you can't disintermediate it by technology or whatever. You can improve it, improve its production with technology, but everybody has to put their head down and go to sleep at night in some place. They may not need a kitchen, but they definitely need a bathroom.

With all that said, it's the whole argument about why asset prices are where they are and what's your alternative from an investment perspective? Right now, multifamily looks good and people are willing to pay a 3.2% cap rate. And as long as your weighted average cost of capital long-term is good and you're making a positive spread on your weighted average cap cost of capital long-term, that's why people are doing it. So, I don't think it's wrong. I just think it is.

Amanda Sweitzer – Robert W. Baird

On guidance, can you provide an update on the blended lease rates and bad debt assumptions that underlie your increased ranges?

Alex Jessett – Camden Property Trust

Yes, absolutely. I think probably the best way to think about it is if you compare to what we originally thought for blended rates. Compared to our original budget, we are increasing that by 50 basis points. The math works like this. Our occupancy is up 70 basis points. Our blended rental rates are up 50 basis points. So that gets you to about 120 basis points. The offset to that is we are assuming that we're going to have slightly higher bad debt. That's entirely driven by California and the fact that when we did our original budget, we thought AB 3088 was going to expire in beginning of March. Now it looks like that's the beginning of July at the earliest. And so, you've got an offset from that. So, we think that our bad debt is going to be about 150 basis points for 2021, which, by the way, is in line with what we had in 2020. But if you compare it to 2019, which was a normal year, that number would have been about 50 basis points.

Amanda Sweitzer – Robert W. Baird

That's very helpful. And then on dispositions, are you still targeting sales in Houston and DC today? Given some of your cap rate comments, have you changed the assumed cap rate spread between acquisitions and dispositions in your guidance at all? I think you were previously assuming a 150 negative basis point spread?

Ric Campo – Camden Property Trust

Right. We are still targeting those two markets in terms of dispositions. In our guidance, we're continuing to use that same spread. Hopefully, we'll do better than that. Based on what we're seeing and hearing today, we likely will do better than that spread, but we kept that 150 basis points negative spread in the model. I'm pretty sure we did.

Alex Jessett – Camden Property Trust

That's correct. Absolutely correct.

Ric Campo – Camden Property Trust

I think the real variation in the model between the buy and the sell will be timing, right? And that will be interesting. There may be some timing differences, given where things are, and hopefully we'll do better than that negative spread. Right now, it looks like we will, but that's what we used in the model.

Brad Heffern – RBC Capital Markets

I know we're at the top of the hour, so I'll keep it to one. I was wondering if you could talk through Houston. I was a little surprised to see the sequential rent growth down almost 4%. I know obviously COVID didn't necessarily break that market and COVID leaving isn't going to fix it. But is there anything that you're seeing there that gives you optimism as we go forward, whether it's the energy recovery or supply or anything else?

Keith Oden – Camden Property Trust

Yes. So, the big challenge that we have in Houston right now is not employment related. Jobs have come back more quickly than most people thought. The energy business is definitely getting better. It takes a while, but there's a pretty big lag between improvement in the price of crude versus improvement in employment prospects in Houston and the energy business. The issue in Houston is just supply. We talked about last year, we dealt with about 20,000 new apartments that got delivered in Houston. This year, we're going to get another 20,000 apartments delivered. And unfortunately, a lot of those are not distributed geographically very well. So, they end up in the same places, and we definitely are catching a fair amount of shrapnel from the lease-ups of the merchant builders in the Downtown area as well as Uptown and Midtown. It's more of a supply issue for Houston. We do get some relief next year, thankfully, in terms of new supply.

Overall, I would tell you that the general vibe of recovery in Houston is open. People are out, restaurants are busier than I've ever seen them. The feeling right now in Houston is pretty robust. I think we'll do better as the year ensues. I think I shared with you that our reforecast for revenue growth in Houston is only down 0.5% from last year. I certainly wouldn't have made that bet six months ago, and we didn't when we were putting together guidance. But that sounds extremely encouraging for our Houston portfolio relative to original expectations.

Ric Campo – Camden Property Trust

Just to add on to the Houston story, the winter storm had a bigger effect on Houston than it did on the rest of the state, primarily because of what it did to petrochemicals and the plants in and around the ship channel. There are primary chemical plants that are still off-line that are just getting geared up from the winter storm. The winter storm definitely held Houston back. It could have been a whole lot better in Houston, I think, without the winter storm. We're just starting to get that back.

I think the other thing that's really interesting about Houston is the discussion of energy transition and what's going to happen with big energy and how big energy is going to make the transition from old school energy to more renewables. We've seen a major acceleration of discussions by the large energy companies and part of that is driven by investor activism. If you look at ExxonMobil as an example, I own Exxon stocks, so I'm a shareholder. The proposals that activists have put in their votes and what have you. And finally, the U.S majors are making a major move into this energy transition. Exxon, for example, just announced a $100 billion carbon capture program that could go in and around the ship channel. And it's $100 billion to build it. It needs to be part of the government -- maybe it's part of the government stimulus for infrastructure, whatever, in addition to Exxon putting their capital in.

I think there's going to be continued huge investments in these alternatives and in wind and solar and carbon capture, and Houston is going to lead that. We're going to be in a position where it's not old school energy that drives this market, it's transition energy. Texas already has the largest wind power source of electricity than any state in the country and we're investing massive amounts of solar. You saw Tesla has a big battery plant, a battery program that they're doing just south of Houston. It's going to be a really interesting thing. To me, the winter storm held us back. But once we get through the supply, Houston should move up to the top quartile of our revenue growth in '20 -- middle until the end of 2022 and into 2023 and '24, in my view.

Alex Jessett – Camden Property Trust

And I'll also point out that if you look at our sequential occupancy increase, the largest sequential occupancy increase we had was Houston. From fourth quarter to first quarter, it increased 110 basis points.

Austin Wurschmidt – KeyBanc Capital Markets

Great. Just sticking with the theme there on Houston. I was curious if the positive guidance revision there was more just around that sequential uptick that you just alluded to in occupancy? Or are you also seeing a little bit better traction on lease rates as well? And then maybe, Ric, to your comment on when you think Houston starts to get better, is it probably mid '22 by the time we've absorbed some of this peak supply?

Ric Campo – Camden Property Trust

I think that's the peak supply side, plus you'll start getting better job growth and a more normalized environment. Because what happened in Houston is you have the COVID job losses, but you also have the oil and gas pounding. Last year, at this time, I think we're within a few weeks of where it went negative. That was a huge issue here and I think that's over, obviously. Once we get a more normal environment in Houston, a more normal business environment where people are actually traveling for business, then Houston will improve.

When you look at visitors to Houston and conventions and things like that, it's more of a business destination than it is a tourism destination. I had lunch with the head of the convention group that markets Houston's convention business last week. He said that starting in June, there will be 18 citywide events. You have the World Petroleum Conference coming in December, which is an international event. That was supposed to be last December, but it's going to be in December 2021. And so once we get more momentum from the business side and the business travel side, I think Houston will move more quickly to that recovery, but I think that's a mid- to end of 2022 event because of the supply.

Alex Jessett – Camden Property Trust

Yes. If you look at blended rates for signed leases from the first quarter of '21 to April of '21, Houston improved by 420 basis points. Still not an incredibly strong number, but an incredibly strong improvement.

Austin Wurschmidt – KeyBanc Capital Markets

Yes. That's really helpful. And then, Alex, just to clarify, on the 50 basis points increase in lease rate assumption in your same-store revenue guidance, does that reflect simply leases signed at this point? Or does it also assume higher lease rates through the balance of the year?

Alex Jessett – Camden Property Trust

Yes. It looks at what's effective for the first quarter, signed today, and that’s obviously going to take you through the second quarter and a component of the third quarter, then our expectations for the rest of the year.

Austin Wurschmidt – KeyBanc Capital Markets

So the lease rates in the back half of the year on both renewals and new leases are also higher than your original expectation?

Alex Jessett – Camden Property Trust

Correct.

John Pawlowski – Green Street Advisors

Just hoping to understand how the internal dialogue around share repurchases has evolved. In the second half of 2020 and even early this year, you entered the downturn with a really well-positioned balance sheet. And then suddenly, all but the only real dislocation comes, it's showing in your share price and the private market has remained rock solid. Do you still believe you're trading at a substantial discount to NAV, and you've got a bit better clarity, since the summer on operating fundamentals? Just curious why you haven't taken advantage of the well-positioned balance sheet heading into the downturn on the share repurchases side?

Ric Campo – Camden Property Trust

Well, the challenge that we have with share repurchases is that the windows where we can buy back shares is fairly narrow. And what happens oftentimes, is that we bottomed at $62/share or something like that? Of course we started talking about backing up the truck, right? But on the other hand, all of a sudden the shares started moving up. When I think about share buybacks, I want to be able to buy a lot of shares. I don't want to tickle around the edges and do $5 million, $10 million, $20 million or something like that. So to me, it has to be persistent, down and we have to have the ability to acquire enough to make a difference.

Fundamentally, when you think about REIT balance sheets and how we manage our balance sheet, we're a leaky bucket in the sense that all of our cash flow, or most of it, has to be paid out from dividends. So, when you're buying stock back in, unless you can make and get a big enough chunk to make a difference, I think it's a waste of time. If you look back at every time that we've gotten to a point where we looked at the numbers and it looked like a really good price, it's gone up dramatically and away from us in the windows that we can acquire the stock.

It's not that we don't think about it a lot. We do. But on the other hand, the constraints on doing it are oftentimes not worth the effort, in my view. If investors would buy the stock back and people think it's cheap, then that's one thing. But you can make your own decision whether you think it's cheap or not and buy or sell it. To me, it's a real capital allocation issue.

If you think about when we did buy back stock big, it was when we had long-term periods and big open windows. At one point I think we bought back 16% of the stock at the peak when the stock was low for months and even years. Today, we just do not have that opportunity.

John Pawlowski – Green Street Advisors

I mean more from the relative decision, right? You put $1 into a kitchen and bath or $1 into your stock. It's just a relative decision. In the second half of 2020, if you believed your NAV was $130 or above, you had that visibility on the private market side. There was a good 6-7 months where you could be selling assets and repurchasing shares. So, it's just more that the dollar is fungible and there's an opportunity cost to not acting, I guess is my question.

Ric Campo – Camden Property Trust

Yes. You can always do that, but I just think at the end of the day, we're long-term owners of multifamily properties. There's a lot of friction that goes between selling assets. If you wave a magic wand and sell assets immediately and then have no risk of the execution, then buy stock and make a spread, yes. But the world doesn't work that way. There's a lot of execution risk involved and when we start talking about doing it, then I don't want to borrow money or use the current strength of the balance sheet to buy stock and then go sell assets after it. So, I hear you, though, it's an asset allocation issue. We think investing in our existing assets is creating returns that are pretty attractive. That's what we've been doing

Alex Kalmus – Zelman & Associates

Over the pandemic, we've seen the renewal and new lease spreads pretty wide and your April signings, they seem to reach some parity there. Can you talk about the dynamics on the leasing side and how you're approaching that? Obviously, the occupancy has pulled through. So, it's been a good decision.

Keith Oden – Camden Property Trust

Yes. So, we use our revenue management system, YieldStar, to price both new leases and renewals.
So, the inputs to the model are similar on both sides. Obviously, they got a little bit of a timing issue in our portfolio because we actually voluntarily froze renewal increases early on in the pandemic, and we kept them frozen through mid-summer. So, some of the natural renewal increases that would have happened are going to happen maybe in a little bit more robust way as we work our way through mid-summer. But I think on both sides, it tells you that the model is foreseeing and foreshadowing a lot of strength on both the new lease side and the renewal side throughout the balance of our reforecast period.

Alex Kalmus – Zelman & Associates

Got it. And just touching on the supply side for a sec. You've talked about Houston. Do you have some updates on some of your other markets and how that's progressing? The start of the year has been pretty strong on the activity front. So, has that changed how you're thinking about certain markets?

Keith Oden – Camden Property Trust

If you take Witten's numbers for total deliveries in 2020 across Camden's platform, we were about 154,000 delivered apartments and his forecast for this year is about 151,000. So, there's some movement around, some shifting among our markets, but in the kind of 10,000 foot supply picture for this year, it’s not going to be much different than it was last year.

And with the exception of Houston, which obviously took the brunt of the 20,000 apartments last year and then backed up with another 20,000 this year, most of our markets are in really pretty good shape fundamentally. If you go back to Witten's numbers, he's got job growth this year at 1.2 million. He's got new supply being delivered of about 150,000 apartments. And again, at 10,000 feet, that's 8x new employment growth to delivered supply, and 5x is a long-term equilibrium. So, in the aggregate, it looks like they are going to be supportive for raising rents and renewals throughout the year.

Ric Campo – Camden Property Trust

Great. Well, thanks for being with us today. I understand that the "Have Fun" video was a little choppy for the group. In the replay, you'll be able to see it without being choppy. Let us know how you like this new format. I think it's interesting and makes it a little more interactive and helps when you're going through a slug of numbers like we are - it helps you follow that. So, we look forward to hearing from you on this format, and then we'll see and talk to most of you in virtual form at NAREIT in the next couple of months.

Take care and thank you.

Edited for readability.