Living Excellence

Second Quarter 2021 Earnings Call

July 30, 2021 – 10:00 AM CT

Kim Callahan – Camden Property Trust

Good morning, and welcome to the Camden Property Trust Second Quarter 2021 Earnings Conference Call. I'm Kim Callahan, Senior Vice President of Investor Relations, and joining me today are Ric Campo, Camden's Chairman and Chief Executive Officer; Keith Oden, Executive Vice Chairman; and Alex Jessett, Chief Financial Officer.

If you haven't logged in yet, you can do so now through the Investors section of our website at camdenliving.com. All participants will be in listen-only mode. Should you need assistance, please signal a Conference Specialist by pressing the star key followed by Zero. After today's presentation, there will be an opportunity to ask questions. And please note this event is being recorded. Today's webcast will be available for replay this afternoon, and we are happy to share copies of our slides upon request.

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 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 the call. We hope to complete our call within one hour, as we know that today is another very busy day for earnings calls and other multifamily companies are holding their calls 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

Good morning. The theme for our earnings call music today was "Coping with the Chaos." Last year when the pandemic began, we held a company-wide conference call to share some of the lessons learned from the Great Financial Crisis. I started the call with the famous Rudyard Kipling poem "If", which begins "If you can keep your head when all about you are losing theirs and blaming it on you . . ." We went on to lay out a list of suggestions for coping with the chaos that we knew was headed our way.

A few suggestions were included in our music today. We knew that our teams were going to find themselves "Under Pressure" as we heard from Queen and David Bowie and when that happened, we told them to take some advice from the Eagles and just "Take it Easy". We encouraged them to embrace innovation, fail fast, and as Boston reminds us, "Don't Look Back". We would rely on Camden's values and culture and do things our way because like Bon Jovi, "We Weren't Born to Follow." Finally, we encouraged them to get on board with REO Speedwagon and "Roll with the Changes". At the end of the call, we showed a video that was produced by our Dallas, Texas operations group during the Great Financial Crisis. It seems just as appropriate for what we faced at the beginning of the pandemic so we thought you might find it interesting today. Roll the video.

(Video Presentation)

When we held our first quarter earnings call, we were beginning to see an acceleration in both occupancy and pricing power across our markets. The actual rate of acceleration that has occurred since then has far exceeded our estimates and resulted in the improved earnings guidance we released last night. Across the board, we are seeing very strong performance and continued improvements in our operating fundamentals. And in almost all cases our current rental rates exceed the pandemic levels.

The outlook from our third-party economists and data providers is also quite positive. They expect the apartment business will continue to thrive as we move into the second half of 2021 and into 2022. Despite the ongoing levels of high supply in many markets, demand has been greater than anticipated allowing positive absorption of newly delivered apartment homes. Our occupancy is currently 97%, leasing activity is strong, and turnover remains low. So overall, I would say our outlook for Camden and the multifamily industry is very good.

We are excited to have entered the Nashville market with the acquisition of two high-quality apartment properties. Our acquisition and development teams continue to work hard and smart to find opportunities in a very competitive environment. I want to give a shout out to our amazing Camden team members for doing a great job in taking advantage of this strong market. Great customer service and sales acumen is very important in a market like this. We must deliver great customer service to support the Camden value proposition when asking for and getting double-digit rental increases from our customers. Thank you Team Camden for everything you do every day to improve the lives of our teammates, our customers, and our stakeholders, one experience at a time.

Next up is our co-founder, Keith Oden.

Keith Oden – Camden Property Trust

Thanks, Ric. Now for a few details on our second quarter operating results. Same-property revenue growth was 4.1% for the quarter and was positive in all markets both year-over-year and sequentially. We had remarkable growth in Phoenix and Tampa both at 9.1%, Southeast Florida at 8.6%, Atlanta at 5.7% and Raleigh at 4.6%. We thought the April new lease and renewal numbers we reported on last quarter's call were pretty good at nearly 5% but as Ric mentioned, pricing power continues to accelerate. For the second quarter of 2021, signed new leases were 9.3% and renewals were 6.7%, for a blended rate of 8%. For leases which were signed earlier and became effective during the second quarter, new lease growth was 5.4% with renewals at 4% for a blended rate of 4.7%.

July 2021 looks to be one of the best months we've ever had with signed new leases trending at 18.7%, renewals at 10.5% and a blended rate of 14.6%. Renewal offers for August and September were sent out with an average increase of around 11%. Occupancy has also continued to improve, going from 96% in the first quarter this year to 96.9% in the second quarter and it's currently at 97.1% for July. Net turnover ticked up slightly in the second quarter to 45% versus 41% last year due to the aggressive pricing increases we instituted, but it remains well below long-term historical levels.

Move-outs due to home purchases also ticked up slightly from 16.9% in the first quarter this year to 17.7% in the second quarter, which reflects the normal seasonal patterns in our markets. So, despite the constant headlines regarding the increased number of single-family home sales, it really has not had an effect on our portfolio performance, as move-outs due to home purchases are still slightly below our long-term average of about 18%.

Ric mentioned Camden's "why" in his opening remarks. It's something we discuss internally often. Our purpose or "why" is to improve the lives of our teammates, customers, and shareholders, one experience at a time. In our company-wide meeting at the beginning of the pandemic, we shared the Star Wars video, and we emphasized that the chaotic months ahead would provide an extraordinary number of opportunities to improve lives one experience at a time. We focused our efforts on improving our teammates' lives who likewise focused their attention on improving our residents' lives, and the results have been truly amazing. We could not be more proud of how Team Camden has performed throughout the COVID months. Improving the lives of our team members and customers has in turn improved the lives of shareholders, including the approximately 500 Camden employees who participated in the Employee Share Purchase Plan this year.

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

Alex Jessett – Camden Property Trust

Thanks Keith. Before I move on to our financial results and guidance, I'll give a brief update on our recent real estate activities. During the second quarter of 2021, as previously mentioned, we entered the Nashville market with the $186 million purchase of Camden Music Row, a recently constructed 430-unit 18-story community, and the $105 million purchase of Camden Franklin Park, a recently constructed 328-unit 5-story community. Both assets were purchased at just under a 4% yield. During the quarter we also stabilized both Camden RiNo, a 233-unit $79 million new development in Denver generating an approximate 6% yield, and Camden Cypress Creek II, a 234-unit joint venture in Houston, generating an approximate 7.75% yield. Clearly our development program continues to create significant value for our shareholders. Additionally, during the quarter we began leasing at Camden Hillcrest, a 132-unit, $95 million new development in San Diego.

On the financing side, during the quarter we issued approximately $360 million of common shares under our existing ATM program. We used the proceeds of the issuance to fund our entrance into Nashville. Our existing ATM program is now fully utilized, and in line with best corporate practices, we will file a new ATM program next week.

In the quarter we collected 98.7% of our scheduled rents, with only 1.3% delinquent. 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 uncollected revenue and establish what we believe to be an appropriate reserve, which serves as a corresponding offset to property revenues in the same period. When a resident moves out owing us money, we typically have previously reserved all past due amounts so there will be no future impact to the income statement. We reevaluate our reserves monthly for collectability. For multifamily residents, we have currently reserved $11 million as uncollectable revenue against a receivable of $12 million.

Turning to financial results, what a difference a year or a quarter can make! Last night we reported Funds from Operations for the 2nd quarter of 2021 of $131.2 million, or $1.28 per share, exceeding the mid-point of our guidance range by $0.03 per share.

This $0.03 per share outperformance for the 2nd quarter resulted primarily from:

- approximately $0.03 in higher same store NOI resulting from $0.025 of higher revenue driven by higher rental rates, higher occupancy, and lower bad debt; and $0.005 of lower operating expenses driven by a combination of lower water expense and lower salaries due to open positions on site; and
- approximately $0.02 in better than anticipated results from our non-same store and development communities. This $0.05 aggregate outperformance was partially offset by $0.01 of higher overhead costs primarily associated with our Employee Stock Purchase Plan combined with a $0.01 impact from our higher share count, resulting from our recent ATM activity.

Last night, based upon our year-to-date operating performance and our expectations for the remainder of the year, we also updated and revised our 2021 full year same-store guidance. Taking into consideration the previously mentioned significant improvements in new leases, renewals and occupancy, and our resulting expectations for the remainder of the year, we have increased the midpoint of our full-year revenue growth from 1.6% to 3.75%. Additionally, as a result of our slightly better than expected second quarter same store expense performance and our anticipation of the trend continuing throughout the year, we decreased the midpoint of our full year expense growth from 3.9% to 3.75%. The result of both of these changes is a 350-basis point increase to the midpoint of our 2021 same store NOI guidance, from 0.25% to 3.75%. Our 3.75% same store revenue growth assumption is based upon occupancy averaging approximately 97% for the remainder of the year with the blend of new lease and renewal growth averaging approximately 11%.

Last night we also increased the midpoint of our full-year 2021 FFO guidance by $0.18 per share. Our new 2021 FFO guidance is $5.17 to $5.37 with a midpoint of $5.27 per share.

This $0.18 per share increase results from:

- Our anticipated 350-basis point, or $0.21 increase in 2021 same store operating results. $0.03 of this increase occurred in the 2nd quarter with the remainder anticipated over the 3rd and 4th quarters; and,
- An approximate $0.06 increase from our non-same store and development communities.

This $0.27 aggregate increase in FFO is partially offset by an approximate $0.09 impact from our 2nd quarter ATM activity.

We have made no changes to our full year guidance of $450 million of acquisitions and $450 million of dispositions.

Last night we also provided earnings guidance for the 3rd quarter of 2021. We expect FFO per share for the 3rd quarter to be within the range of $1.30 to $1.36. The midpoint of $1.33 represents a $0.05 per share improvement from the 2nd quarter which is anticipated to result from:

- A $0.04 per share, or approximate 2.5% expected sequential increase in same store NOI driven primarily by higher rental rates partially offset by our normal 2nd to 3rd quarter seasonal increases in utility, repair and maintenance, unit turnover and personnel expenses;
- A $0.015 per share increase in NOI from our development communities in lease-up, our other non-same store communities and the incremental contributions from our joint venture communities; and
- A $0.02 per share increase in FFO resulting from the full quarter contributions of our recent acquisitions.

This aggregate $0.075 increase is partially offset by a $0.025 incremental impact from our 2nd quarter ATM activity.

Our Balance Sheet remains strong with Net Debt to EBITDA at 4.6 times and a total fixed charge coverage ratio of 5.4 times. As of today, we have approximately $1.2 billion of liquidity comprised of approximately $300 million in cash and cash equivalents and no amounts outstanding under our $900 million unsecured credit facility. At quarter end, we had $302 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.

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

John Kim – BMO Capital Markets

Ric and Keith, I know you mentioned that July is on track to be one of the best months you've ever seen, but I would have thought it would have clearly been the best. I'm wondering what period this is most comparable to and what may concern you, whether it's affordability, rent income ratios, supply or something else?

Ric Campo – Camden Property Trust

We've never seen this kind of demand released into the market in our business careers. You can go back to the Financial Crisis or to the Big Bust in the '80s and still we've never seen this kind of snap back in demand in the history of our business. It's really unprecedented. What could slow it all down is what's going on with the pandemic today. The uncertainty in the market from how the massive fiscal and monetary stimulus is going to unwind is probably my biggest concern. Supply has always been an issue. People worry about supply, but today demand is so high that we're not building enough apartments to take up the demand, if you can imagine that. It's definitely unprecedented. We're going to enjoy it while it’s here, and hopefully it looks like 2021's going to be a really, really strong year. Looking at the backdrop, it looks like next year is going to be the same.

Keith might want to add a little bit to that.

Keith Oden – Camden Property Trust

Yes, the last question that John asked was about concerns, and he mentioned affordability. In our portfolio, we're still running about 19% of household income that goes to rent payments. It's been around 18% for the last couple of years so it maybe ticked up a little bit, but the reality is that our residents (the ones that were not impacted directly by COVID from a jobs standpoint) have their wages increasing. So yes, rents are going to go up, but my guess is that we're going to see some pretty significant increases in household income as well, and we're starting from a place of great affordability.

John Kim – BMO Capital Markets

Okay. My second question is on development. You quoted that the yields are trending higher on some of the projects completed. I was wondering where the development yields stand today on your current $907 million pipeline. And how much bigger do you envision development going forward as far as the overall pipeline?

Ric Campo – Camden Property Trust

Sure. In the $900 million pipeline, our yields are ranging from 5% to 6.75%, on average roughly 5.75% to 6% in total initial yield. IRRs are in the 7.5% to 8.5% range, and that's really instructive when you think about what's been going on in the capital markets. Our weighted average cost of capital has been driven down in the mid-4% range, and we're delivering development yields in the mid-8% range. The spread between our weighted average cost of capital and our developments today is the widest I've ever seen it. After the Financial Crisis we did some transactions where we were making 10%, but our weighted average cost of capital was obviously much higher in 2011 and 2012.

We have roughly $720 million in our pipeline today, and those are not projecting mid-6% or high 6% yields like we have now, but you never know given the current revenue line that we have going up high and to the right. The other challenge to those yields will be cost and getting the right workers. Worker shortages in construction and supply chain disruptions are still big issues. Most of our developments in that $720 million pipeline are in the mid 5% yield range with IRRs that are in the 7.5% to 8% range. We are also adding to the pipeline, as development is a great business right now. Margins have been widened dramatically by the low interest rates and low cost of capital, so we are trying to add to that pipeline as we speak.

Neil Malkin – Capital One Securities

Congratulations on the $150 share price, unbelievable. First question, can you talk about in-migration trends? Clearly, people are voting with their feet. Have you seen any changes or acceleration in terms of the percentage of new leases that are from out of state or from higher cost states? We heard this earnings season that you're seeing an uptick in terms of incremental demand from already elevated levels to new highs from out of state. Any color would be great.

Alex Jessett – Camden Property Trust

A year ago, about 15.6% of our new leases came from folks moving to the Sunbelt from other areas. Today that number is about 19%, that's a 350-basis point increase in folks moving from non-Sunbelt markets to the Sunbelt markets and renting with Camden. It's really a fairly dramatic increase on that side.

Ric Campo – Camden Property Trust

Using Houston as an example, it was our slowest and most difficult market during and after the pandemic because of the oil and gas influence. The number of jobs that have been added back in Houston, relative to Austin, Dallas, or Atlanta, would be at the bottom. In spite of jobs not being added back at the same rate as other markets, Houston is bouncing back - not as strong as some of the other markets, but in an amazing way, and part of it is in-migration. Even if the jobs aren't there today, people fundamentally believe that markets with pro-business governments, decent weather and job growth opportunities are the markets they want to move to. That's one of the things that's really pushed the demand side of the equation in all of our markets, including Houston.

Neil Malkin – Capital One Securities

Yes, that's great. Talking about acquisitions or recycling. Obviously cap rates are very low, sub-4%. But your AFFO cost of equity is also in the mid- to high 3% range. Your leverage is lowest in the industry. I'm just wondering, given the expectations for outsized growth in Sunbelt markets (and I'm sure you have conviction in that thesis as well), would you look to dive a little bit more into the acquisition market using your currency and picking up some leverage, which you have clearly the capacity to do and just increase your growth?

Ric Campo – Camden Property Trust

The answer is yes. We showed that in the second quarter when we issued around $360 million on the ATM and bought $300 million of properties in Nashville, the best match funding we can see with the numbers that you just discussed. We look at the incremental dilution rate if you issue equity or debt towards acquisitions and development, but that's not the ultimate arbitrary. The most important measure from my perspective, and our management team's perspective, is our weighted average cost of capital relative to our terminal unlevered IRRs. When you look at our weighted average cost of capital. those unlevered IRRs have been driven down obviously through rally of the stock price, the 10-year treasury being at 1.24% today, and bond yields. With a mid-4% weighted average cost of capital, we can acquire properties like in Nashville even though they're lower going-in cap rates, with the rent growth that we're seeing today on a 6.5% unlevered IRR over a 7- to 10-year period. One hundred and fifty basis points of positive spread on acquisitions is rare in REIT-land so that is a green light for growth on both on the acquisition and development side as long as we manage our balance sheet appropriately. You've heard me and our management team talk about this, as our targeted range for debt-to-EBITDA is 4x-5x. During good times and strong capital markets, you drive your debt-to-EBITDA down closer to 4x. During tougher times like recessions, pandemics and capital market hiccups, it naturally goes up. When cash flows decline or interest rates rise, that's where it tends to go more toward 5x.

Today we're in good times, obviously, with strong capital markets and very, very strong operating fundamentals. There is a strong spread between our weighted average cost of capital and our unlevered IRRs. We're going to methodically grow our company in this way. We've already done $300 million of acquisitions and have more to come. As I said earlier, hopefully we can get a lot of our $720 million development pipeline starting next year. It's a pretty good time and we're going to make hay while the sun shines.

Neil Malkin – Capital One Securities
Yes, that's great. Congrats on a good quarter and keep up the great work.

Rich Anderson – SMBC Nikko Securities
I guess a 15% increase in rents is improving people’s lives. I am curious, is that market or is that Camden plus market because of all the bells and whistles that you offer, and your competition can't? I'm referring to the July renewal or releasing activity.

Keith Oden – Camden Property Trust
That's total revenue. That includes our technology package and all the other amenities that we provide our residents. So yes, it's all in revenue. As to whether it's improving their lives or not, we have a 3-legged stool. We are going to improve the lives of our residents, our shareholders and our employees. Clearly, we're improving the lives of our shareholders. We've done so much over the last two years to improve the lives of our residents with our resident relief program and all the other things. Some of that growth reflects the fact that early in the pandemic, we were the first company to freeze rents on renewals and new leases across the board. There is some take back of what could have occurred had we not made that conscious decision to allow our residents some slack in the midst of the early days of the pandemic.

So yes, they’re real numbers, and it's strong. All these recommendations are being driven by our revenue management system, YieldStar, which is forward-looking out to 90 to 120 days. So, I think that this trend is likely to continue.

Ric Campo – Camden Property Trust
Yes, and I would just add that when you made the comment about improving lives, we are. There's Camden demand, it's no question. You don't get people to increase their rents that substantially and smile at the same

time without providing a value proposition to that customer. You need to have clean grounds, well-maintained properties, and be well located. All those value propositions support driving rents the way we're driving them today because our customers understand that we're a business, and we need to improve our top and bottom line for them to create value.

If you look at the apartment industry and go down the scale of more affordable housing, meaning less cost, the quality of the housing goes down. Those owners don't understand that you should reinvest in your properties, make sure that they're clean and safe, and that really does improve the lives of those customers. The good news is our customers are all doing really, really well. Their average income is about $100,000, but the challenge with that number is we don't update it when somebody renews their lease. Wages for people making over $100,000 are actually growing pretty substantially and those folks all got stimulus money. They have money in their pockets, and they understand that the price of things goes up. As long as the value proposition is there, we took care of them during the pandemic, and we can take care of them on an ongoing basis. They're willing to pay a higher price. It's like anything else, the brand proposition is about whether the price is worth the brand. You can always buy something cheaper, go to a lower quality apartment, or pay less rent, but you won't get the Camden experience.

Rich Anderson – SMBC Nikko Securities
I didn't mean to put you on the defense, I was half joking.

Ric Campo – Camden Property Trust
That's okay. I was not defensive. I was just selling the brand.

Rich Anderson – SMBC Nikko Securities
Of the 14.6%, how much of that is rent? The reason I ask is Alex mentioned 11% blended expected for the rest of this year. Is that also fully baked in with fees and all and everything else or is that just pure rent? I'm just trying to get a direction from that 14.6% that you started with in July.

Alex Jessett – Camden Property Trust
The 11% is pure rent and the 14.6% blended rate that we're talking about, that is on a rental rate basis. We do pick up other fees and those other fees are growing slightly north of 3%.

Rob Stevenson – Janney Montgomery Scott
Good Morning. Keith, it's hard to have underperformers when you're up 15% in July. If you're forced to rank-order them, what are the markets that are towards the bottom on a relative basis performance-wise? And what differentiates them from the others that are a step-up from them these days?

Keith Oden – Camden Property Trust

Looking at the 14.6% blended rate and going down to the bottom, Houston is probably still at the bottom. Talking about where it was in the first quarter or fourth quarter of last year, it was still basically flat to down maybe 2% from the beginning of 2020. Houston now has substantial positive growth, somewhere around 7% or 8% up. If it weren't for the fact that the rest of the portfolio is producing as high as 20% trade-outs, we would be applauding the fact that Houston is at 7% or 8%. If you force it to be relative, there's always going to be somebody at the bottom, but these are extraordinary growth rates in every single market that we're in.

Ric Campo – Camden Property Trust

The worst market was D.C. Proper, where there's a ban on any rental increase.

Rob Stevenson – Janney Montgomery Scott

Okay. How much of the big jumps are from the removal of concessions on effective rate versus pushing rental rate? Where are the markets that you're pushing the market rate the most, and it's not part of the removal of concessions and/or jump in occupancy that's driving the market performance?

Keith Oden – Camden Property Trust

We don't use concessions. The only time we ever use any concession is on new developments, and it's just part of the marketing process and the expectation of residents. Outside of our development pipeline, we don't have any concessions across Camden's portfolio, so it is pure rental increases.

Rob Stevenson – Janney Montgomery Scott

Okay. Alex, did you push a bunch of operating costs into the first half of the year? Curious as to how you go from 5.8% same store expense growth in the first half to the 3.75% implied at the midpoint of guidance and how the back half folds out for you.

Alex Jessett – Camden Property Trust

It's entirely based upon tax refunds. In 2020, we had about $2.3 million of tax refunds that came entirely in the first half of 2020. In 2021, we are anticipating the exact same number - $2.3 million of tax refunds - but coming entirely in the second half of the year. It is just a timing issue around tax refunds.

Rob Stevenson – Janney Montgomery Scott

Thanks. I appreciate the time.

Nick Joseph – Citigroup

On the acquisition pipeline, how large do you expect Nashville to be in the near term?

Ric Campo – Camden Property Trust

We'd like to get Nashville up to 3% or 4% for economies of scale and efficiencies. We need to have between 1,500 and 2,000 apartments to actually get to that efficiency level. We are definitely going to be aggressive and continue to push in Nashville.

Nick Joseph – Citigroup

Are there any other new markets that you may be entering over the next year or two?

Ric Campo – Camden Property Trust

We like our markets. The interest in Nashville has been good so far, we're good with where we are today, so no.

Amanda Sweitzer – Robert W. Baird

Can you provide an update on your disposition timing? In a market like Houston, where are you seeing buyer interest in pricing relative to your prior expectations?

Alex Jessett – Camden Property Trust

In our model we are assuming that dispositions happen on November 1st. We have two assets in Houston that just hit the market and another two assets in PG County, MD which are going to hit the market next week, so it's a little bit early to give any updates on pricing. We expect to do much better than the original strike prices.

Keith Oden – Camden Property Trust

Our conversations with the brokerage community around Houston in the last 60 to 90 days make it clear that rents are really, really accelerating hard and there is a lot more interest in Houston. As Alex said, we'll have to wait and see how it all plays out but clearly the improvement is going to be a positive for selling assets.

Amanda Sweitzer – Robert W. Baird

That's helpful. Where do you stand in terms of receiving payments under the rent relief programs? Do you expect any payments? And how meaningful could potential evictions be in California for you once you're finally able to process them at this point?

Alex Jessett – Camden Property Trust

I'll hit ERAP, which is just the payments that we're receiving. The total for us is around $4.1 million year-to-date and most of that came in the second quarter. We're finally starting to get some reasonable traction in

California. Although California is making up about 20% of our ERAP payments, they are about 70% of our delinquency. Houston is second around 20% of our collections but interestingly has one of the lowest delinquency levels. We don't have any significant assumptions for ERAP payments coming in throughout the rest of the year and have an $11 million receivable. So, we're going to keep working the process and hope to get some additional payments in.

Ric Campo – Camden Property Trust

We have reserved $10 million of the $11 million, right, Alex?

Alex Jessett – Camden Property Trust

That's correct.

Ric Campo – Camden Property Trust

If we get payments it will be upside not downside. To your question about evictions in California, I was watching CNBC or CNN last night and they were talking about 12 million residents in America that are going to get evicted when the CDC moratorium comes off. I think that there is a risk of mass evictions, but the risk is not in Camden's portfolio or any of the public company's portfolios. Seventy percent of our receivables in California are rent strikers - people who know that there is no penalty for not paying Camden or anybody else rent. Zero penalty. There are no late fees, there's no interest, there's nothing.

I saw Gavin Newsom on the news last night making the statement that if you haven't paid your rent for 12 months and you have a "COVID reason", the state of California is going to pay your rent. When people hear that, there's this confusion that if you owe rent for more than 12 months in California, the government is going to pay it. But the bottom line is that the $45 billion of U.S. government allocation of money for renters has restrictions. It has means testing. It has a lot of restrictions, and those restrictions are why less than 10% of that money has yet to reach a resident in America. People driving Teslas and leasing $4,000 per month apartments in Hollywood who have $100,000 in cash in their bank account aren't going to get ERAP money. The question will be ultimately what happens to them, right? We've reserved against it. Ultimately those people are going to destroy their credit, and when they figure that out, maybe they'll take some of that money out of their bank account and pay their rent. It will be interesting to see. But at least for us, it's not going to move the needle one way or another. Maybe all of a sudden everybody in California will pay the rent. We'd have a $5 million to $7 million benefit, but that’s not enough to move the needle. We don't think ERAP is going to be a big thing for us overall because our residents don't need the money. The money needs to go to people making $50,000 or less who are paying $500 to $900 per month on apartments, not $1,500 to $4,000. So, that's my little soapbox for government support at this point.

Keith Oden – Camden Property Trust

Amanda, I think it's interesting to put these numbers into perspective. We probably get more agitated than we should - it's a moral agitation, not a financial agitation. Certainly, I'm speaking for myself. In our portfolio, out of our total 70,000 apartments, we have 600 high-delinquency residents who are three or more months behind on the rent. It's a little bit less than 1% of our total resident base - big in terms of irritation but not numbers, and as Ric said, we've written it all off anyway. We're going to keep working the process for the residents in our portfolio who are eligible, and we're going to make sure that they get taken care of.

Rich Hightower – Evercore ISI

A lot of your competitors are starting to expand into markets that are new for them, but not so new for Camden. What methods can you employ to maintain Camden's edge in owning, operating, and even developing in those markets?

Ric Campo – Camden Property Trust

Well, the good news is these are fast markets. They're big multibillion-dollar markets. For years we had to go to conferences and talk about how we thought the "flyover" parts of America were really good places, and that the Coasts were not necessarily our cup of tea. From our experience in Southern California, which is the best part of California when it comes to pro-business, it shows that during tough pandemic times it was the right move to stay in the flyover states. It's a big market and we love competition. We'll be able to show just how good Camden's operating edge is against our other public company peers when they start reporting numbers in our markets. We welcome them to the market. It's a great friendly competition, so come on down.

Keith Oden – Camden Property Trust

The public companies all make the market better, as they use revenue management, they're all smart and they raise rents when they should. The lowest common denominator in our business is still third-party managed assets that probably aren't managed very well. The more high-quality competition we have in the marketplace, the better we tend to do. The evidence of that is in the D.C. metro area where we have significant presence and a lot of competition. The other is in California. Steel sharpens steel, so bring it on.

Brad Heffern – RBC Capital Markets

Can you talk through the use of proceeds for the $450 million in dispositions given the Nashville acquisitions were already funded with the ATM?

Alex Jessett – Camden Property Trust

We'll use those proceeds for additional acquisitions. The midpoint for acquisitions is $450 million and we've done $296 million, plus or minus. We're spending a couple hundred million dollars each year to fund developments as well as repositions, which we're funding with another $50 million a year. We've got plenty of accretive uses of the capital.

Brad Heffern – RBC Capital Markets

The 15% rent increases in July, what do you think that looks like in 2022? If we still see the same supply-demand imbalance, are we going to see significantly higher than normal rent increases? Or are people going to say you just raised my rent 15% last year, and I can't do that again.

Ric Campo – Camden Property Trust

We are not going to set 2022 guidance, obviously. Our data providers like Ron Witten show a very strong 2022 with the backdrop of reopening and continuing demand in the multifamily sector. Trees don't grow to the sky but if you look at the long-term history of multifamily, usually coming out of a big downturn, either a recession or pandemic, there are multi-year up legs. In 2010, we told the market that we would have the best next three years of revenue growth and operating fundamentals that we've had in our business history, and that came true. That was 2011-2013 and those were the best operating fundamentals that we've ever seen in our business career. It was a snapback, not as big a snapback as the pandemic has been, but it was definitely a snapback.

I would expect that based on history - unless something dramatic happens like a Black Swan and Delta virus variant or if something like that - that 2022 is going to a pretty good year. And as Keith said earlier, our residents are not rent poor. They are paying 19% of their income for rent on average, versus pre-Financial Crisis levels in the 20% range. We are still in an affordable market. Our average rent is $1,500 to $1,600, so a 15% increase sounds a lot like a lot, but it's not on a relative basis to the income growth that we're seeing. As long as you're giving a value proposition to the resident, they accept it.

Alex Goldfarb – Piper Sandler

First, if we hear you correctly, you didn't have any concessions in the portfolio, so you're not comping rents off a really low base from last year? Yes, there's more population moving down to the Sunbelt or to the free states, whichever terminology that people want to use, but that continues. But still, the mid-teens rent spreads that you are getting in the acceleration, is that coming from a ton of jobs or suddenly everyone who doubled up last year just wants to be back? The magnitude of that demand just seems incredible, so I'm trying to understand because, again, it's not coming off a really weak comp. It's like were going 80 miles per hour and now you are up to 120 miles per hour, which is a pretty strong increase for a rate that was already going at a good rate down the highway.

Ric Campo – Camden Property Trust

Pre-pandemic we were having the best quarter that we had in a long time. We have positive second derivatives in most of our markets, except Houston in terms of revenue growth. and we were looking at 2020 as being a step-up in growth year from 2018-2019. That demand just shut down. It was really good demand coming in the door, and that shutdown. And during that period, according to demographic numbers, there were one million people that should have been in the rental market that were not.

Millennials had either doubled up or were living at home at the beginning of 2020, and all that demand just shut down. Then in 2020, any new demand that would have come from in migration or even people graduating from college or just coming into the marketplace didn't happen. Now in 2021, you have vaccines in play, masking going away and places opening up. You now have 2019 demand coming into the market, 2020 demand coming into the market, and 2021 demand coming to the market all at the same time. People were probably doubled up with people they didn't necessarily want to be with, and now they have plenty of money in their pocket through stimulus and job increases and they're all hitting the entrance at the same time, causing occupancies to spike and therefore rents to spike as well.

Keith Oden – Camden Property Trust

I wouldn't think of it as trying to explain 16% and how that works in the first 6 months of 2021, because if you think about it in 2020, we were on track when COVID hit. We were going to blow our budgets away. We were budgeting 5% or 6% top line revenue growth, and we were going to kill those numbers. Then COVID hit and rent growth went to 0% as we froze rents and renewals. We missed an entire year of rental increases and so did our residents. We probably would have ended at 6% to 7% growth in 2020 ex-COVID. Some of the 16% is just a claw-back of the rental increases that we didn't achieve in 2020, specifically because of COVID. If you lift that away, now you're trying to explain 9% or 10%, which is still a crazy number, but we've seen that before. We've seen 9% to 10% top line rental growth coming out of the Great Financial Crisis and going back to the Tech Wreck. So, that level is not unprecedented in our world, but I think it's probably a better way to look at it.

Alex Goldfarb – Piper Sandler

So, what you were saying earlier about this spilling into next year, that just means it was basically 3 years' worth of demand this year, and it's going to take into next year to at least satisfy that?

Ric Campo – Camden Property Trust

I think that's what our data providers are saying, and that's historically what happens. It's not a one-time shot. Usually it's a methodical process.

Alex Goldfarb – Piper Sandler

Okay. Second question. There is a lot of new competition and new entrants coming down to the Sunbelt and your markets. You said the development spreads are the widest they've been. We do hear that in industrial, but in apartments I'm a little surprised given land costs, shortage of labor, materials, appliances, all the fun stuff - do you believe that going forward you're still going to maintain that really wide-spread to development and the 5.75% yields on new stuff, or were those comments more on existing projects? On a go-forward basis, are those yields likely to temper to 5% or something like that?

Ric Campo – Camden Property Trust

I said on our $720 million pipeline that our development yields are in the low to mid-5%s and I think we're going to maintain those. We might even do better because revenue growth is so strong in these markets that our revenue projections will probably more than offset cost increases. In terms of spreads, the reason the development spread is so high today is not that the yields have gone up, it's that the weighted average cost of capital has gone down and cap rates have gone down. A merchant builder is budgeting a 150-basis point positive spread on development, which was a normal spread on development. But look at today if he's selling out at a 3.5% cap rate or a 3.25% cap rate, the spread has increased. It's primarily been driven down by the compression of cap rates. Our spread is wide, and it's partially because we are doing better on some of our developments from a yield perspective. But mostly it's being driven down by our lower weighted average cost of capital, and that's where the spread has been going down. It is still difficult to buy land today and make the numbers work, but on the supply side there are 350,000 to 400,000 units getting permitted every year, and they are making their numbers work.

Austin Wurschmidt – KeyBanc Capital Markets

You've historically talked about jobs to completions as a barometer of strength and fundamentals. What is your revised outlook for this year is? It sounds like jobs alone aren't really enough to explain some of the strength, but can you give us that figure? And then also what ratio are the third-party forecasts projecting for next year?

Keith Oden – Camden Property Trust

In terms of total supply for deliveries in Camden's markets in 2021, it's going to be about 160,000 apartments over the entire footprint, roughly in-line with last year. If you look at Ron Witten's work in 2022, we still end up with something around 165,000 units in terms of deliveries. If you look at the numbers this year, it makes complete sense in terms of the ratio for job growth, and it looks pretty bullish. You get numbers like 7:1 on the 165,000 deliveries. But it doesn't make a lot of sense to think of it that way just for 2021. You almost have to go back and look at March 2020 where the job losses occurred, and then add to it the recovery.

In many of our markets, we're still not back to the employment levels we had going into the pandemic. And yet, here we are with the kind of demand that we've seen. I think it's all the reasons that Ric talked about earlier in terms of releasing a lot of pent-up demand. If you looked at traditional numbers, you would look at 2021 and 2022 and say the numbers look really bullish overall. I think you have to temper that by the losses in 2020.

Austin Wurschmidt – KeyBanc Capital Markets

That's helpful. And then with everything you are talking about on the development side and the spreads and attractive cost of capital, it seems like developers might be licking their lips a bit. Where are you seeing the most activity from a permitting perspective or shovels in the ground that could move that supply and demand more towards equilibrium as you look maybe 2-3 years out?

Ric Campo – Camden Property Trust

It's complicated looking two to three years out because for the last few years, we looked out a year or two and said supply is peaking because of either cost pressure or banking pressure, and it's never peaked right? It continues to make its way up. The last numbers I saw from Ron had starts coming down in 2023-2024. I think that this is the time in the world where it's really hard to figure out what's going to happen a year from now or two years from now. When the ultimate tapering and great experiment of massive fiscal and monetary policy turns around, I don't know what's going to happen and how it's going to affect everything. I don't think any of us know. That's why we want to be conservative in our business going forward. Right now every market is at peak supply, and it doesn't seem to matter from an occupancy or a revenue growth perspective. It will matter at some point when or if we go into other job slowdown or another recession. Obviously, that's when things would change, and we'll just have to see.

Right now for at least the next 18 to 24 months, it looks like supply is not going to abate. It's going to continue to be high in every market, with some markets higher than others like Nashville and Austin, but when you look at the rent trade-out in Austin and Nashville today, it's some of the highest rent trade-offs we have in the market. I don't know the answer. Ultimately we'll have to wait and see.

Keith Oden – Camden Property Trust

Austin, RealPage is our provider for permit data. The permit data is the least precise or reliable just because it's forecasting behavior into the future. On their numbers, they've got permitting activity of 170,000 apartments in our markets this year and 169,000 next year. So again, elevated activity, but I don't think you these numbers reflect the most recent compression in cap rates, and they probably don't reflect real updated cost numbers. We're still in a race between cap rate compression and cost to build.

John Pawlowski – Green Street Advisors

Just one quick question for me. A few months ago, your cost of capital was a little bit different, how did you think through issuing equity versus selling a building or two?

Ric Campo – Camden Property Trust

The cost of capital has come down. When we think about our capital structure, we think about our debt-to-

EBITDA being between 4x and 5x. It seemed opportune to issue equity when it was at all-time high prices, and it was at the time that we issued. The challenge with issuing equity oftentimes is the blackout periods. We don't have the flexibility that most regular investors do in terms of buying and selling because we're blacked out 42% of the time in order to execute transactions like that. We will continue to recycle capital. It's not one choice to either issue stock or debt or sell assets. It's a combination of those three things that produce capital. Ultimately, over the long term, you have to layer in all three of those activities. We have roughly $100 million in free cash flow. On a $16 billion company, it's hard to grow the company with $100 million per year. The only way you can grow the asset base is either through equity or debt issuance.

The question of whether we sell assets or issue equity relates to what our weighted average cost of capital is and what it looks like on a long-term basis. When your weighted average cost of capital is in the mid-4%s and you can put acquisitions on your books at 6% or better, you should do that. We are going to continue to recycle capital through sales of some properties and acquiring other properties. But when the capital markets are conducive to putting long-term accretive transactions on the books like we have done in Nashville, that's the time that we issue equity.

John Pawlowski – Green Street Advisors

I understand putting assets on the books and developing given the cost of capital. But for the better part of last year, the transaction market color you've been sharing is signaling a pretty sizable NAV discount. Not today, but several months ago, it felt like selling assets was a cheaper source of funds than issuing your common stock.

Ric Campo – Camden Property Trust

Yes. I think with cap rate compression the way it is, that's why we're selling assets. We put a $450 million budget together at the beginning of the year to sell and $450 million to acquire. That was when our stock price was $95/share at the beginning of the year, and our weighted average cost of capital was north of 5%. The world capital markets changed between the first of the year and now, and we made the decision to issue equity along with that existing program. Hindsight is always perfect, right? Last year when the stock was $62, if we could have executed a massive sale of assets at a low cap rate and bought the stock that would have been an opportunity. But unfortunately, it didn't stay there that long, and this complication of not being able to execute 100% of the time, makes it more difficult to do both of those kinds of transactions on the buy and sell.

Joshua Dennerlein – BofA Securities

Hope everyone is doing well. How are you thinking about the leasing season as we head into the Fall? It seems like it's going to go on for longer than expected. Does that influence your decision to push rate a lot harder than you normally would at this time of the year?

Keith Oden – Camden Property Trust

Our revenue management system, YieldStar, is a forward-looking tool and is basing most of its calculations using levers, primarily price and looking out 90 to 120 days. The pricing that is being recommended by YieldStar both on renewals and new leases, and we're very disciplined around our revenue management system. We take 95% of the recommendations, and it's rare that we have an exception to the recommended YieldStar rate. So, what that tells me is YieldStar thinks the market clearing price that will maintain our occupancy rate north of 96% is generating 16% increases looking out 120 days. YieldStar will continue to push as long as the conditions on the ground permit.

Joshua Dennerlein – BofA Securities

Okay. Are there any tweaks you have to make for next year given the change in seasonality, or will the revenue management system automatically adjust for that?

Keith Oden – Camden Property Trust

The tweaks we make are around sustainable occupancy levels. Occasionally we tweak it up or down and then set the price to make that happen over a period of time, using very small adjustments looking out 120 days. So, the good thing about YieldStar is that you don't have to be able to do that calculus or have your property managers do any calculus around what the market clearing price will be 120 days out. That's what YieldStar does.

Haendel St. Juste – Mizuho Securities

I know it's been a very long call but as a follow-up on the last question, I wanted to better understand the lease expiration schedule over the next couple of quarters, and how that's been impacted by all the leasing that's been done. And the COVID disruption and how that's playing into your thinking about the sustained strength of revenue growth near term?

Keith Oden – Camden Property Trust

There's always seasonality in our rent roll, but it's not dramatic. In fourth quarter and first quarter we have fewer vacancies come available because there's less traffic in most of our markets. But it's not dramatic, it's a couple of percentage points that flip-flop between the first and fourth and the second and third quarters. Again, that's within the YieldStar model. It calculates that and maintains those exposure levels at optimized rates.

Haendel St. Juste – Mizuho Securities

I understand that, but I wanted to better understand if there's anything about the number of units coming available that was uniquely different in the next couple of quarters than in prior years during the same period.

Keith Oden – Camden Property Trust

Yes, I think so.

Haendel St. Juste – Mizuho Securities

Okay. And then the other question I had was that you've been pushing rate and incurring a bit more turnover. I'm curious to your sensitivity there on incurring a bit more turnover, and how much would you be willing or comfortable to incur? You're also pushing renewals more and more aggressively. I'm wondering how much more you think you can push renewals in municipalities or regions like D.C. or California. There's a bit more sensitivity to pushing as aggressively in other parts of your portfolio.

Keith Oden – Camden Property Trust

In D.C. proper we can't increase rent, so we are effectively frozen for rental increases. In California, there's some recent legislation around rent control, but when you dig into it, it's CPI plus 6% plus or minus and in most cases out there we're not impacted by that. So again, all of the math around recommended rental increases, it's not like we sit around and do what we think we should be doing for rental increases. It's all driven by the metrics within YieldStar, and we take those recommendations.

Ric Campo – Camden Property Trust

We appreciate you being on the call today. For those of you who are left, we're sorry it went so long but we tried to answer all of the questions. If we didn't get to something on your list, we are available, so please give us a call or e-mail Kim, and we'll get back to you. Thank you very much, and we'll talk to you next quarter or when the conference season starts after Labor Day. Take care, and thanks.

Edited for readability.