

# **Camden Property Trust (CPT) Q2 2024 Earnings Call Transcript**

Seeking Alpha - Earnings Call Transcripts

August 2, 2024 Friday

Copyright 2024 Seeking Alpha Provided by Syndigate Media Inc. All Rights Reserved

**Length:** 7304 words

**Byline:** SA Transcripts

**Body**

Camden Property Trust (CPT)

Q2 2024 Earnings Conference Call

August 02, 2022, 11:00 ET

Company Participants

Kim Callahan - SVP, IR

Ric Campo - Chairman & CEO

Keith Oden - Executive Vice Chairman & President

Alex Jessett - CFO

Conference Call Participants

Brad Heffern - RBC Capital Markets

Austin Wurschmidt - KeyBanc Capital Markets

Jamie Feldman - Wells Fargo

John Kim - BMO Capital Markets

Connor Mitchell - Piper Sandler

Rob Stevenson - Janney

Steve Sakwa - Evercore ISI

Eric Wolfe - Citi

Adam Kramer - Morgan Stanley

Ami Probandt - UBS

Rich Anderson - Wedbush

David Segall - Green Street

Presentation

Kim Callahan

Good morning, and welcome to Camden Property Trust Second Quarter 2024 Earnings Conference Call. I'm Kim Callahan, Senior Vice President of Investor Relations. Joining me today are Ric Campo, Camden's Chairman and Chief Executive Officer; Keith Oden, Executive Vice Chairman; and Alex Jessett, President and Chief Financial Officer.

Today's event is being webcast through the Investors section of our website at camdenliving.com, and a replay will be available this afternoon. We will have a slide presentation in conjunction with our prepared remarks, and those slides will also be available on our website later today or by e-mail upon request. [Operator Instructions] And please note, this event is being recorded.

Before we begin our prepared remarks, I would like to advise everyone that we will be making forward-looking statements based on our current expectations and beliefs. These statements are not guarantees of future performance and involve risks and uncertainties that could cause actual results to differ materially from expectations. Further information about these risks can be found in our filings with the SEC, and we encourage you to review them. Any forward-looking statements made on today's call represent management's current opinions, and the company assumes no obligation to update or supplement these statements because of subsequent events. As a reminder, Camden's complete second quarter 2024 earnings release is available in the Investors section of our website at camdenliving.com, and it includes reconciliations to non-GAAP financial measures, which will be discussed on this call. We would like to respect everyone's time and complete our call within 1 hour, so please limit your initial question to 1 then rejoin the queue if you have additional items to discuss. If we are able to speak with everyone in the queue today, we'd be happy to respond to additional questions by phone or e-mail after the call concludes.

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

Ric Campo

Thanks, Kim. The theme of on-hold music today is waiting. During our meetings with multifamily stakeholders in recent months, the consensus view seems to be that everyone in multifamily is waiting for something. Operations teams are waiting for the pace of multifamily completions to reach a peak and begin to come down and for bad debts to return to pre-pandemic levels. CFR are waiting for the long anticipated first interest rate cut by the Fed as well as a relief in property insurance and property tax expenses. Transaction teams are waiting for the standoff between buyers and sellers to end. Sellers are waiting for buyers to throw in the towel and start buying while buyers are waiting for the towers to go on sale. While we are certain that the waiting will end eventually, the timing is the debate. In the meantime, as a late great Tom Petty reminds us, the waiting is the hardest part.

With the second quarter behind us, I'm going to reprise most of my comments from last quarter since the markets are playing out as we have expected. We spent most of our time talking about supply in our markets. Yes, we are at a 30-year high for apartment deliveries. And yes, this is limiting rent growth in most of our markets now. The good news is that our markets are adjusting quickly to the post-pandemic low interest rate development frenzy. Starts are still projected to fall to just over 200,000 apartments in 2025.

New deliveries should peak in 2024, falling 21% in 2025 and another 54% in 2026, which would be a 13-year supply low point. Apartment demand continues to be strong during the first half of the year, net apartment demand was over 200,000 apartments matching 2018 and 2019. With advisers projects 20 apartment demand to be in the 400,000 range. The main driver of apartment demand is household formation driven by population and employment growth, apartment affordability and positive demographic trends. The most recent 2022-2023 census data reported that the top 10 cities increased our population by 710,000.

Nine Camden markets are in the top 10. The bottom 10 cities reported a loss of 200,000 people. These were major cities on the West and East Coast where Camden has limited exposure. Employment growth has been robust in all of our markets except Los Angeles, which continues to struggle. Ten of our markets have had job growth greater than 10% compared to the pre-pandemic levels. Apartment affordability continues to improve as resident wage growth has been over 5%, while rents have been relatively flat. Consumers are spending less of the take on pay for apartments. New Camden residents paying 19% of their income towards rent.

Mortgage rates and rising home prices have kept move-outs to buy homes near historic lows, 10.3% of Camden residents moved out to buy a home in the second quarter. The monthly cost of owning a home today is about 60% more than leasing an apartment. This is not going to change anytime soon. Demographic trends continue to be a tailwind, supporting demand for high propensity to rent groups, including young adults age 35 and under. Apartments should take a larger share of household formations given these demand drivers. 2024 demand should be sufficient despite supply concerns to set up accelerating rent growth in 2025 and 2026, assuming that the overall economy continues the current trajectory. To take advantage of what we believe will be a robust multifamily leasing environment beginning in 2025 and beyond. We are starting construction on Camden South Charlotte and Camden Blake Me 769 suburban apartment homes located in the Ballantyne submarket of Charlotte, North Carolina.

I want to give a big shout-out to our Camden team members for their hard work and their commitment to providing living excellence to our residents, which they never wait to do.

Keith Oden up next. Thanks.

Keith Oden

Thanks, Ric. Operating conditions across our portfolio are generally playing out as we expected. Our second quarter 2024 same-property performance exceeded our forecast primarily due to continued lower insurance costs and property taxes, which we discussed a bit on last quarter's call. Our top markets for same property revenue growth were San Diego, Inland Empire, Washington, D.C. Metro, L.A., Orange County, Southeast Florida, Houston and Denver, all posting revenue growth above our portfolio average of 1.4% and ranging from 1.7% to 6.1% for the quarter.

Subscribe to Seeking Alpha for more content like this

Austin and Nashville remain our most challenged markets with revenue declines of approximately 2% and 4%, respectively, for the quarter. Rental rates for the second quarter showed signed leases down 1.8% and renewals up 3.7% for a blended rate of positive 0.8% with an average occupancy of 95.3%. Preliminary results for July indicate slightly better levels of rate growth with occupancy averaging 95.6%.

Renewal offers for August and September were sent out with an average increase of 4.6%. And finally, turnover rates across our portfolio remained very low driven by fewer residents moving out to buy homes. Net turnover for the second quarter of 24% was 42% compared to 45% in the second quarter of 2023.

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

Alex Jessett

Thanks, Keith. Before I move on to our financial results and guidance, a brief update on our recent real estate activity. During the second quarter of 2024, we completed construction on Camden Wood Mill Creek, a 189 unit, $71 million single-family rental community located in the Woodlands, Texas, and we began construction on Camden South Charlotte, a 420-unit, $163 million, 4-storey garden-style new development and Camden Blakeney, a 349 unit, $154 million, 3-storey garden style new development, both located in the Ballantyne submarket of Charlotte.

Turning to our financial results. For the second quarter, we reported core FFO of $1.71 per share, $0.04 ahead of the midpoint of our prior quarterly guidance. This outperformance was driven in large part by $0.02 per share and lower-than-anticipated operating expenses resulting from lower core insurance expense and lower property taxes. Approximately half of this expense outperformance was timing related as property tax refunds we expected in the third quarter were actually received in the second quarter. Additionally, during the second quarter, we had $0.02 per share in higher fee and asset management and interest and other income driven by the combination of cost savings and additional fee income from our third-party construction business and higher interest income from our cash balances. Property revenues for the quarter, including bad debt expense were in line with our expectations.

Last night, we maintained the midpoint of our full year revenue guidance at 1.5%. We also lowered our full year expense guidance from 3.25% to 2.85%, driven primarily by the assumption of continued lower-than-anticipated insurance and property taxes. Insurance represents 7.5% of our operating expenses and was previously anticipated to be flat year-over-year. We now anticipate it to be down approximately 3% or $0.01 per share favorable to our prior guidance, with the entire amount of the savings occurring in the second quarter. Although, we hope the second quarter trend of lower core insurance claims continues, we are not assuming it will in our forecast.

Property taxes, which represent approximately 36% of our total operating expenses, were previously projected to increase 1.5% year-over-year. Based on lower Texas property assessments and higher refunds, we are now anticipating that property taxes will be up approximately 1% and a favorability of approximately $0.01 per share.

After taking into effect the decreases in expenses, we have increased the midpoint of our 2024 same-store NOI growth guidance from 50 basis points to 75 basis points. We are also increasing the midpoint of our full year core FFO from $6.74 to $6.79, a $0.05 per share increase. $0.02 is from the increase to our same-store NOI, of which $0.01 was non-time related in the second quarter from lower core insurance costs and $0.01 is spread throughout the latter part of the year from anticipated lower taxes. $0.02 is from the higher fee in asset management and interest and other income in the second quarter, which is not anticipated to be repeated and $0.01 is from the lower anticipated property taxes on our development and non-same-store communities. At the midpoint of our guidance range, we are still assuming $250 million of acquisitions, offset by an additional $250 million of dispositions with no net accretion or dilution from these matching transactions.

Our development starts for the year totaled $317 million, in line with the top end of our initial full year guidance, and we are not anticipating any further 2024 starts. We have approximately $55 million of remaining 2024 development spend. We also provided earnings guidance for the third quarter of 2024. We expect core FFO per share for the third quarter to be within the range of $1.66 to $1.70, representing a $0.03 per share sequential decline at the midpoint primarily resulting from an approximate $0.03 sequential increase in same-store operating expenses resulting from the second quarter lower interest expenses and the seasonality of utility and repair and maintenance expenses, partially offset by a sequential reduction in property taxes due to additional property tax refunds in the third quarter and a $0.02 decrease in fee and asset management and interest and other income due to the nonrecurring components of the second quarter outperformance. This $0.05 per share cumulative decrease in sequential core FFO per share is partially offset by a $0.01 per share increase in same-store revenue as we continue through our peak leasing season, and a $0.01 decline in net overhead expenses primarily associated with the timing of certain public company and compensation costs.

As of today, approximately 85% of our debt is fixed rate. We have no amounts outstanding on our $1.2 billion credit facility, only $300 million of maturities over the next 24 months and less than $300 million left to fund under our existing development pipeline.

Subscribe to Seeking Alpha for more content like this

Our balance sheet remains incredibly strong with net debt to EBITDA at 3.9x. At this time, we'll open the call up to questions.

Question-and-Answer Session

Operator

[Operator Instructions] And our first question today comes from Brad Heffern from RBC Capital Markets.

Brad Heffern

It seems like July was a really strong month for you in a way that it wasn't for your peers. Can you talk about what you would attribute that to? Did you get more aggressive just based on the demand that you were seeing? Was there some sort of comp impact or anything else that you'd like to call out?

Keith Oden

Yes, July was a good month. And the only thing that we have done just from the -- sort of the 10,000-foot level, is that we have increased our marketing support to make sure that our traffic counts remain kind of where we need them to be. So we had a little bit of additional spend in marketing. But overall, if you think about where the our strength in our portfolio has been really impactful for us has been Washington, D.C. Metro in Houston and that they are our 2 largest markets and although in the last year or so, they've lagged the portfolio. Right now, they're leading the portfolio. So the strength in those 2 markets, some of which we anticipated a good year, we certainly didn't anticipate as good a year as what we're having in D.C. Metro this year and it's enough to move the needle on our portfolio.

Ric Campo

I mean the other part of the equation is that July, if you think about last year, July and August, we saw seasonality earlier in the year last year. It was -- and the seasonality, I think, was caused by sort of consumers running out of their pandemic money, and they moved out quicker. And so we had more partners to fill in July and August. And if you think about sort of that setup for the third and fourth quarter of the prior year, it was probably one of the weakest that we've had in a long time, and it was primarily driven by that. This year, the COVID money has been gone for a while, probably, and and people are not just moving out because they don't have their COVID money anymore. So -- and with strong job growth, even though the weak print today was expected, but continues to be really robust in our markets. And we continue to take market share from single-family home market because of the costs associated with interest rates and home prices going up. So it just sets up for a pretty good high demand market. And I think our team did a great job building occupancy through the peak leasing season. It just gave us a little bit more pricing power.

Operator

Our next question comes from Austin Wurschmidt from KeyBanc Capital Markets.

Austin Wurschmidt

So Ric, you touched on employment growth as a driver of household formation in your prepared remarks, and we've seen some slowdown in the employment reports of late. And just curious what your thoughts are on that slowdown versus the strong gains we saw last year, early this year and how that's coincided with near-record absorption. And just curious, if we do see a continued slowdown in the employment market, how that kind of impacts the acceleration in pricing power and getting back to maybe a more historic market rent growth environment?

Ric Campo

Sure. I think the slowdown is clearly a good thing and a good thing because if you think about the dynamics that affect our business, high interest rates and one part of the equation. So I think the Fed sort of sticking the landing with maybe an Olympic comment. They seem to be going for the gold. And I'm good with a slower economy or slower job growth market. You saw the unemployment rate went up from up to 4.3% with the print this morning. And the good news about -- from our perspective is that our markets are where the jobs are.

And even when they're slowing, there's still enough job growth and low enough in migration to continue to take market share from the household formation from single family. And so with that said, the key is having reasonable job growth and not a cracking the economy. Obviously, if you have if the Fed doesn't stick the landing and we end up with a recession in 2025, then all bets are off on what happens then. We think what's going to happen is strict landing. You're going to have moderate employment growth and that employment growth is going to be in the markets where employment growth happens the best, which is in our market. So I feel pretty good about where we are, and I like the idea that the slower employment growth gives us set on headroom to be able to start cutting rates, which is -- which would be really good for our long-term business.

Operator

Our next question comes from Jamie Feldman from Wells Fargo.

Jamie Feldman

Great. So your comment about not starting any more new developments for the rest of the year. Can you just talk more about that? I mean, it seems like there's going to be a really good window in '26, '27 to be delivering. So how are you thinking about -- talk more about that comment? And then maybe as we think ahead to '25, that you think could be a bigger development year.

Ric Campo

Sure. So our development starts. We were prepared. These are really shovel readies and we had delayed them. And so we went ahead and started the 2 in Charlotte that we announced. And we have a decent pipeline that we can start. It's just hard to get positioned and to start those other properties that we have between now and the end of the year. There'll likely be 2025 starts. And I also think we'll be able to expand the pipeline by helping other developers out who can't get financing who have several ready land deals that they're willing to part with. And if you look at our history in cycles like this, we've always been able to ramp up our development pipeline. Even though the 2026, 2027 looks pretty amazing from an apartment perspective, you still -- private developers still can't get capital. I mean we were chatting with the largest provider of debt and equity capital to the multifamily industry and their business for new development, equity and debt is down 85% this year, and it's not moving up. At the same time, the same group said that their interest in acquisitions or in the sellers out there who are merchant [indiscernible] who really need to recapitalize their BOBs and listings are up 60% year-over-year, and it looks like it will be a pretty robust transaction market coming up in the fall and early next year. So when the sort of clouds clear a little bit more, we will be more active in development for sure.

Subscribe to Seeking Alpha for more content like this

Operator

Our next question comes from John Kim from BMO Capital Markets.

John Kim

I wanted to ask about your views on blended lease growth in the second half of the year. Keith, I know you mentioned that you're sending out renewals at 4.6%. If you could just remind us where you think you typically would sign those at and also for the new leases where you think new lease rates go.

Keith Oden

Yes. So our renewals are generally within 50 basis points of the average of what we send out. So the 4.6% probably turns into something a little -- just above 4. Alex, on the new lease numbers.

Alex Jessett

Yes, absolutely. Yes, John. So for the third quarter, we're assuming blended about 1.6%, and the fourth quarter blended about 1.3%. And by the way, that's exactly what we thought last quarter as well.

Operator

Our next question comes from Connor Mitchell from Piper Sandler.

Connor Mitchell

You guys saw a pretty nice improvement in bad debt in the second quarter year-over-year. Just wondering if you could provide some insights to how this might be trending in July and what you guys are thinking about for the rest of the year. And then maybe what markets are causing the improvements, and if you're seeing anything on the other side with any slipping in bad debt in certain markets?

Alex Jessett

Yes, absolutely. So bad debt is really getting under control now. What we had in the second quarter was about 80 basis points just closed out July. So it's a little bit early for us to have our July numbers, but we think that they're going to be in line with our expectations for the rest of the year, which is right at 75 basis points. And where we're seeing the biggest improvement is where we needed to see them. So for instance, California in the second quarter was 2.1% bad debt in the first quarter, it was 2.6% bad debt. So those -- that market was obviously one that we're focused on quite a bit as with Atlanta, which in the first quarter was 1.8% and is now 1.4%. So the markets that were being a little bit problematic for us are starting to get under control. And we do think that we're getting pretty close to getting back to a normal level, which for us is about 50 basis points.

Operator

Next question comes from Josh Dennerlein from Bank of America Merrill Lynch.

Unidentified Analyst

This is Steven Su [ph] on for Josh. So my question is on the turnover. So if I look at the number correctly, it looks like there's a little bit pickup from July -- from 2Q to July. So I wonder if you have any color on that, on the turnover?

Alex Jessett

So we'll always see an increase in turnover in the third quarter. So that's very typical. I think the thing that I'd be focusing on more is that our July 2023 turnover number was 53%. And our July 2024 turnover number is 47%. That's a 600 basis point improvement year-over-year. So although we typically do see higher turnover in the third quarter, it's trending a lot better than typical right now.

Operator

Our next question comes from Rob Stevenson from Janney.

Rob Stevenson

What's the current expected stabilized yield on the development pipeline? And what have you been seeing in terms of material labor costs as you start those 2 shale projects?

Ric Campo

Sure. So the Charlotte projects are in the 6 going in yields with IRRs in the [indiscernible] and the development pipeline, our general development pipeline, if you work at the last couple of years have been suburban deals in the 6%, maybe and actually the [indiscernible] like in the 7% range. And then the more urban deals in the mid-5s to high 5s. And in terms of costs, costs are coming down in some areas but very, very slowly. Lumber costs have come down, for example. But -- the good news is we're not having 1% a month inflation like we were 1.5 years ago. But I don't think that we've seen much cost compression it will be really interesting to see as starts fall, and we will peak in construction this year.

And next year falls substantially in the year after that. And generally, when you see construction starts fall like that, what happens is that the subcontractor margins compress. And if you go back to the financial crisis, people were [indiscernible] drop dramatically because people were just working for food at time. There was no margin. I don't know that that's going to happen this time because there is a lot of other development going on. And when you think about commodity prices, those are driven by the global market, not just multifamily, and so with the bipartisan infrastructure bill and the the government spend that's going on in infrastructure, concrete and steel some of those other products likely aren't going to come down.

Subscribe to Seeking Alpha for more content like this

So as the labor market tightens, I think you will see labor prices come down and margins come down and how much that is really -- it's hard to say today. It's not going to crater the way it did during the financial crisis because that was a whole different animal compared to what we have today. And if we have a -- if the Fed does hit the landing, it will be a decent economy still for builders and labor.

Rob Stevenson

What about land costs? Are you starting to see any relief there in terms of being able to buy at a cheaper rate or any of these office sites that are going to get bulldozed and converted?

Ric Campo

Land is an interesting thing because it doesn't move as fast as you would think because sellers -- just like the sellers of existing multifamily are unwilling to drop their prices land people tend to be the same. What I think the -- where the opportunity can be, and we've generally seen this in past cycles is that you have developers who own land who have been positioning to to start the development and they can't start the development because the debt and equity markets won't allow it today. And so they end up taking they write off their sort of soft costs and then they sell the land for what it was worth beginning perhaps and that's generally where the opportunity is. But I think sellers are definitely understanding that the market is different today because of the cost of capital rise and construction costs not coming down. So land prices tend to be stickier than you would think. But I do think there will be opportunities and make these deals both on the land side and the buying from developers that can't get their deals financed.

Operator

Our next question comes from Steve Sakwa from Evercore ISI.

Steve Sakwa

Ric, I guess I just wanted to get a little bit more color around the 2 development starts. What kind of yields are you penciling? I assume, on un-trended rents, and then to the extent that you do trend or you look out on a stabilized basis, where do you see those heading?

Ric Campo

We do both. We look at un-trended yields, and then we also look at trend yields, and we are generally pretty conservative in our trended. And when you -- when we look at the un-trended yields, they're in the sort of mid- to high 5s and then when you look at trended during the 6s. I think that the -- and that's -- those are going in yields or stabilized yields, and we look mainly at IRRs. I guess the long term, we're in this business for the long term, you want accretion as you go, but you also want long-term capital placement that has a positive spread your weighted average long-term cost of capital. Some with that said, we're in high or mid low 8s and one of them is low 8, and the other one is higher 8 from an IRR perspective. So that's the way we look at it. But I think there is substantial upside in those yields just because of what the market looks like in 2026 and 2027. If you have a reasonable economy and no new supply coming to the market, you should get better than normal rent growth. If you look at long-term rent growth for our business, it's roughly a little over 3%. And if you -- but the site during the cycles, today, we're -- what is our revenue growth today is like 0.7 and to get to a long-term average from today, you have to have a whole lot better than 3 in those uptick market years, which would be in '26 and '27. So I think there's a fair amount of upside in this development that you start today.

Operator

Our next question comes from Eric Wolfe from Citi.

Eric Wolfe

You mentioned where you're sending renewals out today. So I was curious based on what you're seeing with YieldStar and the other 4 indicators, do you think occupancy will stay at this high level? Because it looks like it came up in in both June and July, or would you expect it to start coming down seasonally?

Keith Oden

Yes. So we're at 95.5% now. And I think in the back half of the year, I think we're we have that basically flat. Maybe it comes down a little bit in the fourth quarter, but probably the trade-off between rate and occupancy, and it's something that our professionals that in our revenue management department deal with literally daily making adjustments to make sure that we're maximizing revenues. But the key to being able to push rents and to have any pricing power at all is to maintain occupancy at or above 95%. So we started the year at 95.3%. We've actually ticked up a little bit during peak leasing season. Seasonality will probably cause it to drift a little bit below 95.5%. I'm pretty comfortable with our forecast between now and the end of the year with regard to our guidance.

Operator

Our next question comes from Adam Kramer from Morgan Stanley.

Adam Kramer

Great. Just wanted to know across the portfolio today, where does kind of the loss lease or gain to lease stand? And if you can even give maybe a few of the markets, in particular, be interested to hear.

Alex Jessett

Yes. So right now, we are in a loss lease position. And so it's right around 1%. And obviously, that is spread across the markets, as you would imagine, they would be based upon the revenue growth that we've had year-to-date. And so think about a D.C. or San Diego has got a much larger loss to lease, and obviously, we've got gains to leases in markets like Nashville and Austin.

Operator

Our next question comes from Michael Goldsmith from UBS.

Ami Probandt

This is Ami Probandt. Some of the higher supply market seemed like they might be reaching a bottom and maybe Phoenix is in this category. So are you seeing any signs of this happening? Or are we potentially reaching the bottom in some of these markets?

Subscribe to Seeking Alpha for more content like this

Keith Oden

Yes. So the markets that jump off the page to me still are Nashville and Austin, in terms of oversupply. And that -- I still think we're in the middle of the I don't know whether it's the 4th inning or 5th inning of the baseball game, but I don't think we're anywhere near the end in either of those markets. It's probably going to drift over into mid-2025 just based on if you look at the forward the completions that are still -- that we still kind of grind through. The good news is, is that despite these historic levels of new supply, there's also been a pretty historic level of new absorption. City like Austin where if you kind of do the math around jobs created and net absorption the numbers don't seem to make a whole lot of sense. But when you look at it in the broader context of not just employment growth, but in migration -- in domestic migration into markets like Nashville and Austin, that's been the game changer.

And because -- I mean, by historical standards, the amount of supply versus kind of printed job growth would bode much worse for rental rate performance in both of those markets, and it just hasn't happened. But in terms of Being at the bottom, I don't know, we're probably kicking around the bottom because we're kicking around the peak monthly deliveries in those markets. But clearly, we're going to continue to to fight the supply challenge into 2025. The good news is our markets have remained robust, and we're still growing jobs and people are still moving here, and we're still leasing lots of apartments.

Operator

And our next question comes from Rich Anderson from Wedbush.

Rich Anderson

So -- can you hear me?

Ric Campo

Yes.

Rich Anderson

Okay, sorry. So you bought back stock during the quarter in $96 range. Your stock is now $119 or something like that. And consensus NAV is I don't know if you believe it, 120-ish. What -- I wonder what -- under what scenario could you start thinking about reversing course from an equity standpoint, not that your balance sheet needs it. But would you -- are you at all having sort of a thought about raising equity at some point, particularly if something of significance comes along and you get to below the capital and protect your balance set at the same time? Just curious what your thoughts are there.

Ric Campo

Well, we clearly are focused on where we can make the best returns and how do we fund that. And so I will tell you just the -- of course, the stocks $119 today, but in the last -- it was $110 just a little while ago and below that. And so we don't think of it that way. But I would say that the way I think about capital allocation, if we could acquire a portfolio that improves the quality of our portfolio is part of our strategic plan and it can be done on an accretive basis than -- and using equity and our debt to fund that and keeping our balance sheet strong. I'm sure that would be a interesting thing to do. We haven't found portfolios like that. I think that today, I think that the transaction market is going to be very robust over the next 18 months. And that should give us an opportunity to to play in the acquisition game significantly. And if it works out where the math works, then I'm sure you use all sources of capital leading equity.

Rich Anderson

What do you think about the $120 as an NAV estimate. Any thoughts on that or the consensus number?

Ric Campo

Well, at $120, I think that's an implied cap rate at Camden of about 65.7, and let's be the [indiscernible] transaction, the CFO for KKR came out and said it was a low 4. So winter cap rates today and most of the transactions that are going off today are in the low 5s. So I think that that the public markets are slow to bring cap rates down to where the real market is today. And ultimately, maybe the public markets are right and there's going to be a flood of properties that have to come to the market between now and the end of 2025. And so there you could argue that cap rates could stay higher or go higher because of that. But on the other hand, there's a massive wall of capital out there as evidenced by Blackstone taking out Aimco and KKR acquiring a couple of billion dollars of the Cutera portfolio. So we'll see, right? It's -- the Street tends to at least Wall Street tends -- the pendulum moves way -- one way versus the other. And if you're going to get back to the middle, if you come back to the middle of where cap rates are trading today, $120 would be low.

Operator

[Operator Instructions] Our next question comes from [indiscernible] from Baird.

Unidentified Analyst

Can you provide some insight on how you expect D.C. in Houston to perform in the second half of the year.

Keith Oden

Yes. I think D.C. and Houston are going to continue to be in the top. I think clearly, D.C. is going to end up the year either 1 or 2 in our portfolio just from where we are today, Houston is -- continues to be really robust in terms of growth. This morning, I think I saw an announcement that Chevron was finally going to move their real live corporate headquarters from California to Houston. They've been saying they weren't going to do it for 15 years and yet their chairman and vice chairman are expected to move -- actually moved to Houston by the end of this year. So I think that's 2,000 jobs that probably is not a huge thing in the scheme of Houston's overall employment view, but it sends a really important message about Houston is the energy capital of the world. And it's not going away anytime soon. I think it's only going to continue to be -- to get stronger in the near term. So I'm really very constructive on Houston with what's going on here. And clearly, D.C. Metro having a year that is better than what we would have thought it would be. And they've got great occupancy right now and really good momentum, and our teams are doing a great job of taking advantage of the opportunity. So I think both those markets, I'm very positive on between now and the end of the year.

Ric Campo

I would add to Houston that Keith mentioned the energy capital of the world, but it's also the energy transition capital of the world. If you look at the government spend on energy, I mean, there was a roughly a $2 billion hydrogen hub that was granted to Houston. And a lot -- and these energy companies are all investing major dollars in clean technology and into the transition. And ultimately, the thing that's really interesting about the whole debate about energy transition and global warming and going green. You have to have a transition plan that works for people. And a transition plan that includes -- it has to include oil and gas, traditional oil and gas but the oil and gas companies are the ones who understand how to change how to get transition into hydrogen and other fuels that -- so I think long term, Houston is going to continue to do well as a result of both traditional energy and transition.

Subscribe to Seeking Alpha for more content like this

Operator

Our next question comes from David Segall from Green Street.

David Segall

I was curious if you could talk about how comfortable you feel about the development spread on the recent Charlotte starts, considering that citing assets trading in the low 5 range and the un-treaded yields for those starts, if I heard correctly, we're below 6 un-trended basis.

Ric Campo

Sure. So we look at it from a long-term cost of capital perspective, and we won 150 basis points spread from our long-term cost of capital for development on acquisitions. We want 50 to 75 and we can get that with development. The going in yields, if you use going in yields as your benchmark, then that always is dangerous in my opinion, because where you start is important, but where you finish is the key.

And so long term, value creation to development, and we created billions of dollars of value at Camden through our development program over the years. And this part of the cycle is that when they're when there's going to be limited competition coming in at '26 and '27, billing today, those developments will be -- create value long term for Camden. When you look at -- if we were -- if we only had $1 to invest, that would be one thing, right? But we have one of the best balance sheets in the sector.

We have unfunded line of credit if we could invest without doing any equity offerings and keeping our debt in the right level to keep our A rating, we can invest $1.3 billion. And so the $300 million development. If great acquisitions come along, we'll play in that game as well. But it's a long-term bet for a long-term business, and we think it makes sense to allocate that amount of capital to those transactions are great suburban really simple and no offense to my construction folks, but they're stick construction in the suburbs, and that's where we've made the most created the most value in our development business over a long time, a long period of time. So that's the way we think about it.

Operator

Our next question is a follow-up from Steve Sakwa from Evercore ISI.

Steve Sakwa

Yes. Great. Just thinking about the expense growth this year, it's obviously come in a lot better than you guys expected. Taxes are only up 0.2%. I know the Houston or the Texas refunds and property tax changes have helped. I'm just trying to think through maybe some of the onetime benefits that you're getting this year as we think about expense growth into '25.

Alex Jessett

Yes. So I'll hit the items that seem to have the most variability first. So if you think about property taxes, obviously, we're having a fantastic year in 2024. My gut is, as we move on, we returned to a more normal level, which is about 3%. If you think about insurance, insurance was really a case of a pendulum that long. If you remember last year, our insurance was up 40%. And when we started this year, we thought insurance was going to be up 18%, and now we think it's going to be down 3%. Right now, this is still a great business for the insurance providers. And every insurance provider that we spoke to when we did our last renewal was trying to find out how they can have more of this business. And the simple way that they can get more of this business is to keep the rate low.

And so what I would anticipate is that Insurance follows the normal cycle, rates are low for a couple of years. And then all of a sudden, you have some accumulation of global losses that causes rates to rise and then it's a rent and repeat cycle. When I think about the rest of our line items, salaries is obviously something that is very closely tied to inflation, and we think that's going to be typical. The same thing for utilities or repair and maintenance. Probably the one line item that I think there's some variability. The good news is that it's our smallest line item is marketing. And marketing really is a function of how much we want to spend to create the traffic that we want. And as we have more supply we'll spend more on the marketing dollars. But all that being said, I think if you look at where we are today at 2.85%, when you think about the long-term average for our business, it's 3%. So I think we're in pretty good shape.

Operator

Our next question comes from Michael Goldsmith from UBS.

Ami Probandt

Another quick one from me, Ami on the line. How is the hurricane impact factored into the guide? And how should we think about that as we are modeling out the third quarter?

Alex Jessett

Yes. So it's a noncore expense for us. And you'll notice that we increased our core FFO by $0.05 per share, but a noncore FFO by $0.03 per share. The delta is the $0.02 that we are anticipating for the impact of barrel. And obviously, that's a net expense line after taking into effect insurance proceeds and additional dollars that may be capitalized.

Operator

And our next question comes from John Kim from BMO Capital Markets.

John Kim

I wanted to follow up on the planned lease assumptions for the back half of the year. So in July, you signed blended at 90 basis points, yet you're expecting that to, I guess, accelerate or improve in the second half of the year. Is that based on easier year-over-year comps? Or are there other factors?

Subscribe to Seeking Alpha for more content like this

Alex Jessett

No, absolutely. So a component of that is easier comps, but you have to think about our effective. So our effective for July is up 1.2%. And so what I'm saying is that our effective for the third quarter is up 1.6% -- 1.2%, 1.6% is not that much of a jump. And then when you look at what was signed ignore the blend because in July, we sort of had a little bit of a unusual were a larger percentage of -- with the new leases versus renewals. If you look at that renewal number, which is up 4%, that's a really good renewal number for us. And if you think about turnover that's dropping, with renewal numbers staying that high, that should be a really good driver for us to get to the 1.6%.

John Kim

Can you confirm what you signed in June, I think May was at 1%.

Alex Jessett

I do not have the June number right in front of me, but yes, we'll get back to you on that.

Operator

And ladies and gentlemen, I'm showing no additional questions, I'd like to turn the floor back over to Ric Campo for any closing remarks.

Ric Campo

Very well. Thank you for being on the call today. And this is probably one of the -- given remember the last -- to report and call and what people probably have their questions answered. I want to make sure everybody recognize that we had the red, white and blue shirts going to support the U.S. the U.S., and I want to give a great shout out to Simone Biles, a Houston native who made history yesterday by being the most decorated gymnast in history. So with that, we'll let you enjoy the rest of your day and the rest of the Olympics. So take care and thanks. Bye-bye.

Operator

And ladies and gentlemen, with that, we'll conclude today's conference call and presentation. We do thank you for joining. You may now disconnect your lines.

**Load-Date:** August 2, 2024

**End of Document**