

CAMDEN PROPERTY TRUST  
Form 10-Q  
November 04, 2011  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2011

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-12110

**CAMDEN PROPERTY TRUST**

(Exact Name of Registrant as Specified in Its Charter)

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**Texas**  
(State or other jurisdiction of  
incorporation or organization)  
**3 Greenway Plaza, Suite 1300**  
**Houston, Texas**  
(Address of principal executive offices)

**76-6088377**  
(I.R.S. Employer  
Identification No.)

**77046**  
(Zip Code)

**(713) 354-2500**  
(Registrant's Telephone Number, Including Area Code)

N/A

(Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller Reporting Company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

On October 28, 2011, 71,357,674 common shares of the registrant were outstanding, net of treasury shares and shares held in our deferred compensation arrangements.

**Table of Contents**

**CAMDEN PROPERTY TRUST**

**Table of Contents**

|   | <b>Page</b> |
|---|-------------|
| <b>PART I <u>FINANCIAL INFORMATION</u></b>  | <b>3</b>    |
| Item 1 <u>Financial Statements</u>  | 3           |
| <u>Condensed Consolidated Balance Sheets (Unaudited) as of September 30, 2011 and December 31, 2010</u>   | 3           |
| <u>Condensed Consolidated Statements of Income and Comprehensive Income (Unaudited) for the three and nine months ended September 30, 2011 and 2010</u> | 4           |
| <u>Condensed Consolidated Statements of Equity (Unaudited) for the nine months ended September 30, 2011 and 2010</u>                                    | 6           |
| <u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the nine months ended September 30, 2011 and 2010</u>                                | 8           |
| <u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>   | 10          |
| Item 2 <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>   | 26          |
| Item 3 <u>Quantitative and Qualitative Disclosures About Market Risk</u>  | 39          |
| Item 4 <u>Controls and Procedures</u>   | 39          |
| <b>Part II <u>OTHER INFORMATION</u></b>   | <b>40</b>   |
| Item 1 <u>Legal Proceedings</u>   | 40          |
| Item 1A <u>Risk Factors</u>   | 40          |
| Item 2 <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>   | 40          |
| Item 3 <u>Defaults Upon Senior Securities</u>   | 40          |
| Item 4 <u>Reserved</u>  | 40          |
| Item 5 <u>Other Information</u>   | 40          |
| Item 6 <u>Exhibits</u>  | 41          |
| <b><u>SIGNATURES</u></b>  | <b>42</b>   |
| Exhibit 31.1  |             |
| Exhibit 31.2  |             |
| Exhibit 32.1  |             |
| Exhibit 101.INS   |             |
| Exhibit 101.SCH   |             |
| Exhibit 101.CAL   |             |
| Exhibit 101.DEF   |             |
| Exhibit 101.LAB   |             |
| Exhibit 101.PRE   |             |

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

**CAMDEN PROPERTY TRUST**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(Unaudited)**

| <i>(in thousands, except per share amounts)</i>  | <b>September 30,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|--|-------------------------------|------------------------------|
| <b>Assets</b>  |                               |                              |
| Real estate assets, at cost  |                               |                              |
| Land   | \$ 766,302                    | \$ 760,397                   |
| Buildings and improvements   | 4,758,397                     | 4,680,361                    |
|  | 5,524,699                     | 5,440,758                    |
| Accumulated depreciation   | (1,421,867)                   | (1,292,924)                  |
| Net operating real estate assets   | 4,102,832                     | 4,147,834                    |
| Properties under development, including land   | 274,201                       | 206,919                      |
| Investments in joint ventures  | 37,033                        | 27,632                       |
| Total real estate assets   | 4,414,066                     | 4,382,385                    |
| Accounts receivable affiliates   | 31,395                        | 31,895                       |
| Notes receivable affiliates  |                               | 3,194                        |
| Other assets, net  | 87,657                        | 106,175                      |
| Cash and cash equivalents  | 56,099                        | 170,575                      |
| Restricted cash  | 5,357                         | 5,513                        |
| Total assets   | \$ 4,594,574                  | \$ 4,699,737                 |
| <b>Liabilities and equity</b>  |                               |                              |
| <b>Liabilities</b>   |                               |                              |
| <b>Notes payable</b>   |                               |                              |
| Unsecured  | \$ 1,380,560                  | \$ 1,507,757                 |
| Secured  | 1,052,544                     | 1,055,997                    |
| Accounts payable and accrued expenses  | 97,613                        | 81,556                       |
| Accrued real estate taxes  | 37,721                        | 22,338                       |
| Distributions payable  | 39,319                        | 35,295                       |
| Other liabilities  | 111,043                       | 141,496                      |
| Total liabilities  | 2,718,800                     | 2,844,439                    |
| <b>Commitments and contingencies</b>   |                               |                              |
| Perpetual preferred units  | 97,925                        | 97,925                       |
| <b>Equity</b>  |                               |                              |
| Common shares of beneficial interest; \$0.01 par value per share; 100,000 shares authorized; 86,763 and 85,130 issued; 83,874 and 82,386 outstanding at September 30, 2011 and December 31, 2010, respectively | 839                           | 824                          |
| Additional paid-in capital   | 2,861,139                     | 2,775,625                    |

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|  |                  |                  |
|--|------------------|------------------|
| Distributions in excess of net income attributable to common shareholders  | (700,897)        | (595,317)        |
| Treasury shares, at cost (12,516 and 12,766 common shares at September 30, 2011 and December 31, 2010, respectively) | (452,244)        | (461,255)        |
| Accumulated other comprehensive income (loss)  | 201              | (33,458)         |
| <b>Total common equity</b>   | <b>1,709,038</b> | <b>1,686,419</b> |
| Noncontrolling interests   | 68,811           | 70,954           |
| <b>Total equity</b>  | <b>1,777,849</b> | <b>1,757,373</b> |
| <br>   |                  |                  |
| Total liabilities and equity   | \$ 4,594,574     | \$ 4,699,737     |

See Notes to Condensed Consolidated Financial Statements.

**Table of Contents****CAMDEN PROPERTY TRUST****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****AND COMPREHENSIVE INCOME****(Unaudited)**

| <i>(in thousands, except per share amounts)</i>              | <b>Three Months</b>        |              | <b>Nine Months</b>         |               |
|--|----------------------------|--------------|----------------------------|---------------|
|  | <b>Ended September 30,</b> |              | <b>Ended September 30,</b> |               |
|  | <b>2011</b>                | <b>2010</b>  | <b>2011</b>                | <b>2010</b>   |
| <b>Property revenues</b>                                     |                            |              |                            |               |
| Rental revenues  | \$ 144,211                 | \$ 131,911   | \$ 424,210                 | \$ 390,376    |
| Other property revenues                                      | 24,723                     | 22,363       | 70,977                     | 64,641        |
| Total property revenues                                      | 168,934                    | 154,274      | 495,187                    | 455,017       |
| <b>Property expenses</b>                                     |                            |              |                            |               |
| Property operating and maintenance                           | 50,715                     | 46,999       | 144,666                    | 134,655       |
| Real estate taxes  | 17,329                     | 16,652       | 52,932                     | 52,767        |
| Total property expenses                                      | 68,044                     | 63,651       | 197,598                    | 187,422       |
| <b>Non-property income (loss)</b>                            |                            |              |                            |               |
| Fee and asset management                                     | 2,646                      | 2,145        | 6,955                      | 6,028         |
| Interest and other income (loss)                             | (108)                      | 451          | 4,749                      | 3,988         |
| Income (loss) on deferred compensation plans                 | (6,096)                    | 6,918        | 1,233                      | 6,818         |
| Total non-property income (loss)                             | (3,558)                    | 9,514        | 12,937                     | 16,834        |
| <b>Other expenses</b>  |                            |              |                            |               |
| Property management  | 5,050                      | 4,789        | 15,478                     | 14,994        |
| Fee and asset management                                     | 1,330                      | 1,155        | 4,220                      | 3,611         |
| General and administrative                                   | 8,572                      | 7,568        | 26,392                     | 22,339        |
| Interest   | 27,354                     | 31,781       | 85,472                     | 95,078        |
| Depreciation and amortization                                | 44,558                     | 43,034       | 137,111                    | 128,012       |
| Amortization of deferred financing costs                     | 1,344                      | 1,185        | 4,761                      | 2,624         |
| Expense (benefit) on deferred compensation plans             | (6,096)                    | 6,918        | 1,233                      | 6,818         |
| Total other expenses   | 82,112                     | 96,430       | 274,667                    | 273,476       |
| Loss on discontinuation of hedging relationship              |                            |              | (29,791)                   |               |
| Gain on sale of properties, including land                   |                            |              | 4,748                      | 236           |
| Gain on sale of unconsolidated joint venture interests       |                            |              | 1,136                      |               |
| Equity in loss of joint ventures                             | (556)                      | (244)        | (166)                      | (785)         |
| <b>Income from continuing operations before income taxes</b> | <b>14,664</b>              | <b>3,463</b> | <b>11,786</b>              | <b>10,404</b> |
| Income tax expense current                                   | (313)                      | (712)        | (1,889)                    | (1,286)       |
| <b>Income from continuing operations</b>                     | <b>14,351</b>              | <b>2,751</b> | <b>9,897</b>               | <b>9,118</b>  |
| Income from discontinued operations                          |                            | 1,081        |                            | 2,743         |

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|  |                  |                 |                 |                 |
|--|------------------|-----------------|-----------------|-----------------|
| <b>Net income</b>  | 14,351           | 3,832           | 9,897           | 11,861          |
| Less income allocated to noncontrolling interests from continuing operations | (761)            | (432)           | (2,118)         | (542)           |
| Less income allocated to perpetual preferred units                           | (1,750)          | (1,750)         | (5,250)         | (5,250)         |
| <b>Net income attributable to common shareholders</b>                        | <b>\$ 11,840</b> | <b>\$ 1,650</b> | <b>\$ 2,529</b> | <b>\$ 6,069</b> |

See Notes to Condensed Consolidated Financial Statements.

**Table of Contents****CAMDEN PROPERTY TRUST****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****AND COMPREHENSIVE INCOME (continued)****(Unaudited)**

| <i>(in thousands, except per share amounts)</i>                                   | <b>Three Months</b>        |             | <b>Nine Months</b>         |             |
|---|----------------------------|-------------|----------------------------|-------------|
|   | <b>Ended September 30,</b> |             | <b>Ended September 30,</b> |             |
|   | <b>2011</b>                | <b>2010</b> | <b>2011</b>                | <b>2010</b> |
| <b>Earnings per share basic</b>   |                            |             |                            |             |
| Income from continuing operations attributable to common shareholders             | \$ 0.16                    | \$ 0.01     | \$ 0.03                    | \$ 0.05     |
| Income from discontinued operations attributable to common shareholders           |                            | 0.01        |                            | 0.04        |
| Net income attributable to common shareholders                                    | \$ 0.16                    | \$ 0.02     | \$ 0.03                    | \$ 0.09     |
| <b>Earnings per share diluted</b>   |                            |             |                            |             |
| Income from continuing operations attributable to common shareholders             | \$ 0.16                    | \$ 0.01     | \$ 0.03                    | \$ 0.05     |
| Income from discontinued operations attributable to common shareholders           |                            | 0.01        |                            | 0.04        |
| Net income attributable to common shareholders                                    | \$ 0.16                    | \$ 0.02     | \$ 0.03                    | \$ 0.09     |
| <b>Distributions declared per common share</b>                                    |                            |             |                            |             |
|   | \$ 0.49                    | \$ 0.45     | \$ 1.47                    | \$ 1.35     |
| <b>Weighted average number of common shares outstanding basic</b>                 | 73,242                     | 69,100      | 72,502                     | 67,898      |
| <b>Weighted average number of common shares outstanding diluted</b>               | 74,274                     | 69,441      | 73,217                     | 68,169      |
| <b>Net income attributable to common shareholders</b>                             |                            |             |                            |             |
| Income from continuing operations   | \$ 14,351                  | \$ 2,751    | \$ 9,897                   | \$ 9,118    |
| Less income allocated to noncontrolling interests from continuing operations      | (761)                      | (432)       | (2,118)                    | (542)       |
| Less income allocated to perpetual preferred units                                | (1,750)                    | (1,750)     | (5,250)                    | (5,250)     |
| Income from continuing operations attributable to common shareholders             | 11,840                     | 569         | 2,529                      | 3,326       |
| Income from discontinued operations attributable to common shareholders           |                            | 1,081       |                            | 2,743       |
| Net income attributable to common shareholders                                    | \$ 11,840                  | \$ 1,650    | \$ 2,529                   | \$ 6,069    |
| <b>Condensed Consolidated Statements of Comprehensive Income:</b>                 |                            |             |                            |             |
| <b>Net income</b>   | \$ 14,351                  | \$ 3,832    | \$ 9,897                   | \$ 11,861   |
| <b>Other comprehensive income</b>   |                            |             |                            |             |
| Unrealized loss on cash flow hedging activities                                   |                            | (5,323)     | (2,692)                    | (19,549)    |
| Reclassification of net losses on cash flow hedging activities                    | 108                        | 5,825       | 39,660                     | 17,488      |
| Unrealized gain on available-for-sale securities, net of tax                      |                            | 1,914       |                            | 1,914       |
| Reclassification of gain on available-for-sale investment to earnings, net of tax |                            |             | (3,309)                    |             |
| <b>Comprehensive income</b>   | 14,459                     | 6,248       | 43,556                     | 11,714      |
| Less income allocated to noncontrolling interests from continuing operations      | (761)                      | (432)       | (2,118)                    | (542)       |
| Less income allocated to perpetual preferred units                                | (1,750)                    | (1,750)     | (5,250)                    | (5,250)     |
| <b>Comprehensive income attributable to common shareholders</b>                   | \$ 11,948                  | \$ 4,066    | \$ 36,188                  | \$ 5,922    |

See Notes to Condensed Consolidated Financial Statements.





**Table of Contents****CAMDEN PROPERTY TRUST****CONDENSED CONSOLIDATED STATEMENTS OF EQUITY AND PERPETUAL PREFERRED UNITS****(Unaudited)**

| <i>(in thousands, except per share amounts)</i>          | Common Shareholders                  |                            |                                       |                          |   |                          | Total equity | Perpetual preferred units |
|--|--------------------------------------|----------------------------|---------------------------------------|--------------------------|---|--------------------------|--------------|---------------------------|
|  | Common shares of beneficial interest | Additional paid-in capital | Distributions in excess of net income | Treasury shares, at cost | Accumulated other comprehensive income (loss) | Noncontrolling interests |              |                           |
| <b>December 31, 2010</b>                                 | \$ 824                               | \$ 2,775,625               | \$ (595,317)                          | \$ (461,255)             | \$ (33,458)                                   | \$ 70,954                | \$ 1,757,373 | \$ 97,925                 |
| Net income   |                                      |                            | 2,529                                 |                          |   | 2,118                    | 4,647        | 5,250                     |
| Other comprehensive income                               |                                      |                            |                                       |                          | 33,659  |                          | 33,659       |                           |
| Common shares issued                                     | 11                                   | 69,852                     |                                       |                          |   |                          | 69,863       |                           |
| Net share awards   | 4                                    | 9,597                      |                                       | 703                      |   |                          | 10,304       |                           |
| Employee stock purchase plan                             |                                      | 482                        |                                       | 1,335                    |   |                          | 1,817        |                           |
| Common share options exercised                           | 1                                    | 4,990                      |                                       | 6,973                    |   |                          | 11,964       |                           |
| Conversions of operating partnership units               | 1                                    | 591                        |                                       |                          |   | (592)                    |              |                           |
| Cash distributions declared to perpetual preferred units |                                      |                            |                                       |                          |   |                          |              | (5,250)                   |
| Cash distributions declared to equity holders            |                                      |                            | (108,109)                             |                          |   | (3,669)                  | (111,778)    |                           |
| Other  | (2)                                  | 2                          |                                       |                          |   |                          |              |                           |
| <b>September 30, 2011</b>                                | \$ 839                               | \$ 2,861,139               | \$ (700,897)                          | \$ (452,244)             | \$ 201  | \$ 68,811                | \$ 1,777,849 | \$ 97,925                 |

See Notes to Condensed Consolidated Financial Statements.

**Table of Contents****CAMDEN PROPERTY TRUST****CONDENSED CONSOLIDATED STATEMENTS OF EQUITY AND PERPETUAL PREFERRED UNITS (continued)****(Unaudited)**

| <i>(in thousands, except per share amounts)</i>          | <b>Common Shareholders</b>           |                            |                                       |   |                          |                                      |                          | Total equity | Perpetual preferred units |
|--|--------------------------------------|----------------------------|---------------------------------------|---|--------------------------|--------------------------------------|--------------------------|--------------|---------------------------|
|  | Common shares of beneficial interest | Additional paid-in capital | Distributions in excess of net income | Notes receivable secured by common shares | Treasury shares, at cost | Accumulated other comprehensive loss | Noncontrolling interests |              |                           |
| <b>December 31, 2009</b>                                 | \$ 770                               | \$ 2,525,656               | \$ (492,571)                          | \$ (101)                                  | \$ (462,188)             | \$ (41,155)                          | \$ 78,602                | \$ 1,609,013 | \$ 97,925                 |
| Net income   |                                      |                            | 6,069                                 |   |                          |                                      | 542                      | 6,611        | 5,250                     |
| Other comprehensive loss                                 |                                      |                            |                                       |   |                          | (147)                                |                          | (147)        |                           |
| Common shares issued                                     | 29                                   | 134,588                    |                                       |   |                          |                                      |                          | 134,617      |                           |
| Net share awards   | 4                                    | 8,919                      |                                       |   |                          |                                      |                          | 8,923        |                           |
| Employee stock purchase plan                             |                                      | (150)                      |                                       |   | 933                      |                                      |                          | 783          |                           |
| Common share options exercised                           | 1                                    | 2,459                      |                                       |   |                          |                                      |                          | 2,460        |                           |
| Conversions of operating partnership units               | 2                                    | 2,130                      |                                       |   |                          |                                      | (2,132)                  |              |                           |
| Cash distributions declared to perpetual preferred units |                                      |                            |                                       |   |                          |                                      |                          |              | (5,250)                   |
| Cash distributions declared to equity holders            |                                      |                            | (93,544)                              |   |                          |                                      | (3,863)                  | (97,407)     |                           |
| Other  | (2)                                  | 4                          |                                       | 101                                       |                          |                                      | 10                       | 113          |                           |
| <b>September 30, 2010</b>                                | \$ 804                               | \$ 2,673,606               | \$ (580,046)                          | \$  | \$ (461,255)             | \$ (41,302)                          | \$ 73,159                | \$ 1,664,966 | \$ 97,925                 |

See Notes to Condensed Consolidated Financial Statements.

**Table of Contents****CAMDEN PROPERTY TRUST****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

| <i>(in thousands)</i>  | <b>Nine Months<br/>Ended September 30,</b> |                  |
|--|--|------------------|
|  | <b>2011</b>                                | <b>2010</b>      |
| <b>Cash flows from operating activities</b>  |  |                  |
| Net income   | \$ 9,897                                   | \$ 11,861        |
| Adjustments to reconcile net income to net cash from operating activities:                   |  |                  |
| Depreciation and amortization, including discontinued operations                             | 136,733                                    | 129,419          |
| Gain on sale of properties, including land   | (4,748)                                    | (236)            |
| Gain on sale of unconsolidated joint venture interests                                       | (1,136)                                    |                  |
| Gain on sale of available-for sale investment  | (4,301)                                    |                  |
| Loss on discontinuation of hedging relationship  | 29,791                                     |                  |
| Distributions of income from joint ventures  | 3,673                                      | 3,870            |
| Equity in (income) loss of joint ventures  | 166  | 785              |
| Share-based compensation   | 9,254                                      | 8,502            |
| Amortization of deferred financing costs   | 4,761                                      | 2,624            |
| Net change in operating accounts and other   | 16,707                                     | 21,636           |
| <br>Net cash from operating activities   | <br>\$ 200,797                             | <br>\$ 178,461   |
| <b>Cash flows from investing activities</b>  |  |                  |
| Development and capital improvements   | \$ (155,077)                               | \$ (43,927)      |
| Proceeds from sale of joint venture interests  | 19,310                                     |                  |
| Proceeds from sale of properties, including land   | 19,095                                     | 937              |
| Proceeds from sale of available-for-sale investment  | 4,510                                      |                  |
| Decrease in notes receivable affiliates  | 3,279                                      | 537              |
| Investments in joint ventures  | (35,280)                                   | (5,094)          |
| Distributions of investments from joint ventures   | 2,453                                      | 28               |
| Other  | (4,464)                                    | (2,540)          |
| <br>Net cash from investing activities   | <br>\$ (146,174)                           | <br>\$ (50,059)  |
| <b>Cash flows from financing activities</b>  |  |                  |
| Borrowings on unsecured line of credit   | \$   | \$ 37,000        |
| Repayments on unsecured line of credit   |  | (37,000)         |
| Repayment of notes payable   | (626,432)                                  | (192,247)        |
| Proceeds from notes payable  | 495,705                                    | 57,601           |
| Proceeds from issuance of common shares  | 69,863                                     | 134,617          |
| Distributions to common shareholders, perpetual preferred units and noncontrolling interests | (112,932)                                  | (101,052)        |
| Payment of deferred financing costs  | (8,776)                                    | (6,528)          |
| Common share options exercised   | 11,267                                     | 1,132            |
| Net decrease in accounts receivable affiliates   | 500  | 3,843            |
| Other  | 1,706                                      | 1,147            |
| <br>Net cash from financing activities   | <br>\$ (169,099)                           | <br>\$ (101,487) |
| <br>Net increase (decrease) in cash and cash equivalents                                     | <br>(114,476)                              | <br>26,915       |
| <b>Cash and cash equivalents, beginning of period</b>  | <b>170,575</b>                             | <b>64,156</b>    |

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|   |           |           |
|---|-----------|-----------|
| <b>Cash and cash equivalents, end of period</b>     | \$ 56,099 | \$ 91,071 |
| <b>Supplemental information</b>                     |           |           |
| Cash paid for interest, net of interest capitalized | \$ 69,043 | \$ 87,116 |
| Cash paid for income taxes                          | 1,903     | 1,280     |

See Notes to Condensed Consolidated Financial Statements.

**Table of Contents****CAMDEN PROPERTY TRUST****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)****(Unaudited)**

| <i>(in thousands)</i>  | <b>Nine months<br/>Ended September 30,</b> |             |
|--|--|-------------|
|  | <b>2011</b>                                | <b>2010</b> |
| <b>Supplemental schedule of noncash investing and financing activities</b> |  |             |
| Distributions declared but not paid  | \$ 39,319                                  | \$ 34,548   |
| Value of shares issued under benefit plans, net of cancellations           | 18,912                                     | 14,465      |
| Conversion of operating partnership units to common shares                 | 592  | 2,132       |
| Accrual associated with construction and capital expenditures              | 12,557                                     | 4,140       |
| Conversion of mezzanine note to joint venture equity                       |  | 28,944      |
| Change in fair value of available-for-sale investments, net of tax         |  | 1,914       |
| Consolidation of joint venture at fair value, net of cash:                 |  |             |
| Real estate assets, net  |  | 92,726      |
| In-place leases  |  | 1,193       |
| Other assets   |  | 289         |
| Mortgage debt assumed  |  | 52,144      |
| Other liabilities  |  | 561         |

See Notes to Condensed Consolidated Financial Statements.

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**Table of Contents**

**CAMDEN PROPERTY TRUST**

**Notes to Condensed Consolidated Financial Statements**

**(Unaudited)**

**1. Description of Business**

*Business.* Formed on May 25, 1993, Camden Property Trust, a Texas real estate investment trust ( REIT ), is engaged in the ownership, management, development, acquisition, and construction of multifamily apartment communities. Our multifamily apartment communities are referred to as communities, multifamily communities, properties, or multifamily properties in the following discussion. As of September 30, 2011, we owned interests in, operated, or were developing 205 multifamily properties comprising 69,700 apartment homes across the United States. Of the 205 properties, eight properties were under development, and when completed will consist of a total of 2,209 apartment homes. In addition, we own land parcels we may develop into multifamily apartment communities.

**2. Summary of Significant Accounting Policies and Recent Accounting Pronouncements**

*Principles of Consolidation.* Our condensed consolidated financial statements include our accounts and the accounts of other subsidiaries and joint ventures (including partnerships and limited liability companies) over which we have control. All intercompany transactions, balances, and profits have been eliminated in consolidation. Investments acquired or created are continuously evaluated based on the accounting guidance relating to variable interest entities ( VIEs ), which requires the consolidation of VIEs in which we are considered to be the primary beneficiary. If the investment is determined not to be a VIE, then the investment is evaluated for consolidation (primarily using a voting interest model) under the remaining consolidation guidance relating to real estate entities. If we are the general partner of a limited partnership, or manager of a limited liability company, we also consider the consolidation guidance relating to the rights of limited partners (non-managing members) to assess whether any rights held by the limited partners overcome the presumption of control by us.

*Interim Financial Reporting.* We have prepared these financial statements in accordance with accounting principles generally accepted in the United States of America ( GAAP ) for interim financial statements and the applicable rules and regulations of the Securities and Exchange Commission ( SEC ). Accordingly, these statements do not include all information and footnote disclosures required for annual statements. While we believe the disclosures presented are adequate for interim reporting, these interim financial statements should be read in conjunction with the audited financial statements and notes included in our 2010 Annual Report on Form 10-K. In the opinion of management, all adjustments and eliminations, consisting of normal recurring adjustments, necessary for a fair representation of our financial statements for the interim period reported have been included. Operating results for the three and nine months ended September 30, 2011 are not necessarily indicative of the results which may be expected for the full year.

*Asset Impairment.* Long-lived assets are reviewed for impairment annually or whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Impairment exists if estimated future undiscounted cash flows associated with long-lived assets are not sufficient to recover the carrying value of such assets. We consider projected future discounted and undiscounted cash flows, trends, strategic decisions regarding future development plans, and other factors in our assessment of whether impairment conditions exist. When impairment exists, the long-lived asset is adjusted to its fair value. While we believe our estimates of future cash flows are reasonable, different assumptions regarding a number of factors, including market rents, economic conditions, and occupancies, could significantly affect these estimates. In estimating fair value, management uses appraisals, management estimates, and discounted cash flow calculations which maximize inputs from a marketplace participant s perspective. In addition, we evaluate our equity investments in joint ventures and if we believe there is an other than temporary decline in market value of our investment, we will record an impairment charge.

The value of our properties under development depends on market conditions, including estimates of the project start date as well as estimates of demand for multifamily communities. We have reviewed market trends and other marketplace information and have incorporated this information as well as our current outlook into the assumptions we use in our impairment analyses. Due to the judgment and assumptions applied in the impairment analyses, it is possible actual results could differ substantially from those estimated.

**Table of Contents**

We believe the carrying value of our operating real estate assets, properties under development, and land is currently recoverable. However, if market conditions deteriorate or if changes in our development strategy significantly affect any key assumptions used in our fair value calculations, we may need to take material charges in future periods for impairments related to existing assets. Any such material non-cash charges could have an adverse effect on our consolidated financial position and results of operations.

*Cash and Cash Equivalents.* All cash and investments in money market accounts and other highly liquid securities with a maturity of three months or less at the date of purchase are considered to be cash and cash equivalents. We maintain the majority of our cash and cash equivalents at major financial institutions in the United States and deposits with these financial institutions may exceed the amount of insurance provided on such deposits; however, we regularly monitor the financial stability of these financial institutions and believe we are not currently exposed to any significant default risk with respect to these deposits.

*Cost Capitalization.* Real estate assets are carried at cost plus capitalized carrying charges. Carrying charges are primarily interest and real estate taxes which are capitalized as part of properties under development. Capitalized interest is generally based on the weighted average interest rate of our unsecured debt. Transaction costs associated with the acquisition of operating real estate assets are expensed. Expenditures directly related to the development and improvement of real estate assets are capitalized at cost as land and buildings and improvements. Indirect development costs, including salaries and benefits and other related costs directly attributable to the development of properties, are also capitalized. All construction and carrying costs are capitalized and reported in the balance sheet as properties under development until the apartment homes are substantially completed. Upon substantial completion of the apartment homes, the total capitalized development cost for the apartment homes and the associated land is transferred to buildings and improvements and land, respectively.

As discussed above, carrying charges are principally interest and real estate taxes capitalized as part of properties under development. Capitalized interest was approximately \$2.5 million and \$6.1 million for the three and nine months ended September 30, 2011, respectively, and approximately \$1.3 million and \$4.0 million for the three and nine months ended September 30, 2010, respectively. Capitalized real estate taxes were approximately \$0.4 million and \$1.0 million for the three and nine months ended September 30, 2011, respectively, and approximately \$0.1 million and \$0.6 million for the three and nine months ended September 30, 2010, respectively.

Where possible, we stage our construction to allow leasing and occupancy during the construction period, which we believe minimizes the duration of the lease-up period following completion of construction. Our accounting policy related to properties in the development and leasing phase is to expense all operating expenses associated with completed apartment homes. We capitalize renovation and improvement costs we believe extend the economic lives of depreciable property. Capital expenditures subsequent to initial construction are capitalized and depreciated over their estimated useful lives.

Depreciation and amortization is computed over the expected useful lives of depreciable property on a straight-line basis with lives generally as follows:

|   | Estimated<br>Useful Life |
|---|--------------------------|
| Buildings and improvements  | 5-35 years               |
| Furniture, fixtures, equipment, and other                             | 3-20 years               |
| Intangible assets (in-place leases and above and below market leases) | underlying lease term    |

*Derivative Financial Instruments.* Derivative financial instruments are recorded in the condensed consolidated balance sheets at fair value and we do not apply master netting for financial reporting purposes. Accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether we have elected to designate a derivative in a hedging relationship and apply hedge accounting, and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows or other types of forecasted transactions are cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes attributable to the earnings effect of the hedged transactions. We may enter into derivative contracts which are intended to economically hedge certain of our risks, for which hedge accounting does not apply or we elect not to apply hedge accounting.

*Income Recognition.* Our rental and other property revenue is recorded when due from residents and is recognized monthly as it is earned. Other property revenue consists primarily of utility rebillings and administrative, application, and other transactional fees charged to our residents. Our apartment homes are rented to residents on lease terms generally ranging from six to fifteen months, with monthly payments due in advance. All





## **Table of Contents**

other sources of income, including interest and fee and asset management income, are recognized as earned. Eight of our properties are subject to rent control. Operations of multifamily properties acquired are recorded from the date of acquisition in accordance with the acquisition method of accounting. In management's opinion, due to the number of residents, the types and diversity of submarkets in which our properties operate, and the collection terms, there is no significant concentration of credit risk.

*Reportable Segments.* Our multifamily communities are geographically diversified throughout the United States, and management evaluates operating performance on an individual property level. As each of our apartment communities has similar economic characteristics, residents, and products and services, our apartment communities have been aggregated into one reportable segment. Our multifamily communities generate rental revenue and other income through the leasing of apartment homes, which comprised approximately 98% of our total property revenues and total non-property income, excluding income on deferred compensation plans, for all periods presented.

*Use of Estimates.* In the application of GAAP, management is required to make estimates and assumptions which affect the reported amounts of assets and liabilities at the date of the financial statements, results of operations during the reporting periods, and related disclosures. Our more significant estimates include estimates supporting our impairment analysis related to the carrying values of our real estate assets and estimates related to the valuation of our investments in joint ventures. These estimates are based on historical experience and other assumptions believed to be reasonable under the circumstances. Future events rarely develop exactly as forecasted, and the best estimates routinely require adjustment.

*Recent Accounting Pronouncements.* In June 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update 2011-05 ( ASU 2011-05 ), *Presentation of Comprehensive Income*. ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity and requires all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, ASU 2011-05 requires an entity to present reclassification adjustments on the face of the financial statements from other comprehensive income to net income. ASU 2011-05 is effective for us beginning January 1, 2012 and is not expected to have a material effect on our financial statements as we currently present other comprehensive income components in two separate but consecutive statements.

### **3. Per Share Data**

Basic earnings per share are computed using net income attributable to common shareholders and the weighted average number of common shares outstanding. Diluted earnings per share reflect common shares issuable from the assumed conversion of common share options and share awards granted and units convertible into common shares. Only those items having a dilutive impact on our basic earnings per share are included in diluted earnings per share. Our unvested share-based awards are considered participating securities and are reflected in the calculation of basic and diluted earnings per share using the two-class method. The number of common share equivalent securities excluded from the diluted earnings per share calculation was approximately 3.7 million and 4.7 million for the three months ended September 30, 2011 and 2010, respectively, and was approximately 4.1 million and 5.0 million for the nine months ended September 30, 2011 and 2010, respectively. These securities, which include common share options and share awards granted and units convertible into common shares, were excluded from the diluted earnings per share calculation as they are anti-dilutive.

**Table of Contents**

The following table presents information necessary to calculate basic and diluted earnings per share for the three and nine months ended September 30, 2011 and 2010:

| <i>(in thousands, except per share amounts)</i>  | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|---|-------------|--|-------------|
|  | <b>2011</b>                                 | <b>2010</b> | <b>2011</b>                                | <b>2010</b> |
| <b>Earnings per share calculation basic</b>  |   |             |  |             |
| Income from continuing operations attributable to common shareholders  | \$ 11,840                                   | \$ 569      | \$ 2,529                                   | \$ 3,326    |
| Amount allocated to participating securities   | (154)                                       | (24)        | (118)                                      | (94)        |
| Income from continuing operations attributable to common shareholders, net of amount allocated to participating securities | 11,686                                      | 545         | 2,411                                      | 3,232       |
| Income from discontinued operations attributable to common shareholders  |   | 1,081       |  | 2,743       |
| Net income attributable to common shareholders, as adjusted  | \$ 11,686                                   | \$ 1,626    | \$ 2,411                                   | \$ 5,975    |
| Income from continuing operations attributable to common shareholders, as adjusted per share                               | \$ 0.16                                     | \$ 0.01     | \$ 0.03                                    | \$ 0.05     |
| Income from discontinued operations attributable to common shareholders per share  |   | 0.01        |  | 0.04        |
| Net income attributable to common shareholders, as adjusted per share  | \$ 0.16                                     | \$ 0.02     | \$ 0.03                                    | \$ 0.09     |
| Weighted average number of common shares outstanding basic   | 73,242                                      | 69,100      | 72,502                                     | 67,898      |
| <b>Earnings per share calculation diluted</b>  |   |             |  |             |
| Income from continuing operations attributable to common shareholders, net of amount allocated to participating securities | \$ 11,686                                   | \$ 545      | \$ 2,411                                   | \$ 3,232    |
| Income allocated to common units   | 8   |             |  |             |
| Income from continuing operations attributable to common shareholders, as adjusted   | 11,694                                      | 545         | 2,411                                      | 3,232       |
| Income from discontinued operations attributable to common shareholders  |   | 1,081       |  | 2,743       |
| Net income attributable to common shareholders, as adjusted  | \$ 11,694                                   | \$ 1,626    | \$ 2,411                                   | \$ 5,975    |
| Income from continuing operations attributable to common shareholders, as adjusted per share                               | \$ 0.16                                     | \$ 0.01     | \$ 0.03                                    | \$ 0.05     |
| Income from discontinued operations attributable to common shareholders per share  |   | 0.01        |  | 0.04        |
| Net income attributable to common shareholders, as adjusted per share  | \$ 0.16                                     | \$ 0.02     | \$ 0.03                                    | \$ 0.09     |
| Weighted average number of common shares outstanding basic   | 73,242                                      | 69,100      | 72,502                                     | 67,898      |
| <b>Incremental shares issuable from assumed conversion of:</b>   |   |             |  |             |
| Common share options and share awards granted  | 793   | 341         | 715  | 271         |
| Common units   | 239   |             |  |             |
| Weighted average number of common shares outstanding diluted   | 74,274                                      | 69,441      | 73,217                                     | 68,169      |

**Table of Contents****4. Common Shares**

We currently have an automatic shelf registration statement on file with the SEC which allows us to offer, from time to time, an unlimited amount of common shares, preferred shares, debt securities, or warrants. Our declaration of trust provides we may issue up to 110.0 million shares of beneficial interest, consisting of 100.0 million common shares and 10.0 million preferred shares. As of September 30, 2011, we had approximately 71.4 million common shares outstanding, net of treasury shares and shares held in our deferred compensation arrangements, and no preferred shares outstanding.

In March 2010, we originated an at-the-market ( ATM ) share offering program through which we could, but had no obligation to, sell common shares having an aggregate offering price of up to \$250 million ( 2010 ATM program ), in amounts and at times as we determined, into the existing trading market at current market prices as well as through negotiated transactions. The 2010 ATM program has been terminated and no further common shares are available for sale under the 2010 ATM program.

The following table presents activity under our 2010 ATM share offering program for the periods presented (in thousands, except per share amounts):

|                         | <b>Three Months Ended<br/>September 30,<br/>2011</b> | <b>Nine Months Ended<br/>September 30,<br/>2011</b> |
|-------------------------|--|---|
| Total net consideration | \$   | \$ 13,847.0   |
| Common shares sold      |  | 252.5   |
| Average price per share | \$   | \$ 55.81  |

In May 2011, we originated an ATM share offering program through which we can sell common shares having an aggregate offering price of up to \$300 million ( 2011 ATM program ) from time to time into the existing trading market at current market prices as well as through negotiated transactions. We may, but have no obligation to, sell common shares through the 2011 ATM share offering program in amounts and at times as we determine. Actual sales from time to time may depend on a variety of factors, including, among others, market conditions, the trading price of our common shares, and determination of the appropriate sources of funding for us.

The following table presents activity under our 2011 ATM program for the periods presented (in thousands, except per share amounts):

|                         | <b>Three Months Ended<br/>September 30,<br/>2011</b> | <b>Nine Months Ended<br/>September 30,<br/>2011</b> |
|-------------------------|--|---|
| Total net consideration | \$ 32,736.8  | \$ 56,015.9   |
| Common shares sold      | 506.2  | 875.4   |
| Average price per share | \$ 65.76   | \$ 65.24  |

As of September 30, 2011, we had common shares having an aggregate offering price of up to \$242.9 million remaining available for sale under the 2011 ATM program. No additional shares were sold through the date of this filing.

**5. Investments in Joint Ventures**

As of September 30, 2011, our equity investments in unconsolidated joint ventures, which we account for utilizing the equity method of accounting, consisted of 17 joint ventures, with our ownership percentages ranging from 15% to 50%. We currently provide property management services to each of these joint ventures which own operating properties, and we may provide construction and development services to the joint ventures which own properties under development. The following table summarizes aggregate balance sheet and statement of income data for the unconsolidated joint ventures as of and for the periods presented:

| <i>(in millions)</i> | <b>September 30,<br/>2011 (1)</b> | <b>December 31,<br/>2010</b> |
|----------------------|-----------------------------------|------------------------------|
| Total assets         | \$ 1,322.5                        | \$ 935.3                     |

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|                        |         |       |
|------------------------|---------|-------|
| Total third-party debt | 1,066.9 | 810.1 |
| Total equity           | 223.3   | 105.3 |

**Table of Contents**

|                    | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |          |
|--------------------|-------------------------------------|---------|------------------------------------|----------|
|                    | 2011                                | 2010    | 2011                               | 2010     |
| Total revenues     | \$ 46.1                             | \$ 35.3 | \$ 115.5                           | \$ 103.6 |
| Net loss           | (7.4)                               | (5.0)   | (13.8)                             | (15.2)   |
| Equity in loss (2) | (0.6)                               | (0.2)   | (0.2)                              | (0.8)    |

(1) During the nine months ended September 30, 2011, we sold our ownership interest in three unconsolidated joint ventures and our discretionary funds (the Funds) acquired thirteen multifamily properties.

(2) Equity in loss excludes our ownership interest of fee income from various property management services with our joint ventures.

The joint ventures in which we have an interest have been funded in part with secured third-party debt. As of September 30, 2011, we had no outstanding guarantees related to loans of our unconsolidated joint ventures.

We may earn fees for property management, construction, development, and other services related to joint ventures in which we own an interest. Fees earned for these services amounted to approximately \$2.4 million and \$1.6 million for the three months ended September 30, 2011 and 2010, respectively, and approximately \$6.4 million and \$4.7 million for the nine months ended September 30, 2011 and 2010, respectively. We eliminate fee income for these services provided to these joint ventures to the extent of our ownership.

In April 2011, we sold one of our development properties in Washington, D.C. to one of the Funds, in which we have a 20% interest, for approximately \$9.4 million and we were reimbursed for previously written-off third-party development costs, resulting in a gain of approximately \$4.7 million. Additionally, in June 2011, we sold one of our development properties located in Austin, Texas to this Fund for approximately \$3.1 million, resulting in a gain of approximately \$0.1 million.

During the nine months ended September 30, 2011, the Funds also acquired thirteen multifamily properties comprised of 1,358 units located in Houston, Texas, 1,250 units located in Dallas, Texas, 768 units located in Austin, Texas, 450 units located in Tampa, Florida, 528 units located in San Antonio, Texas, and 234 units located in Atlanta, Georgia. Subsequent to quarter end, the Funds acquired five multifamily properties comprised of 1,488 units located in Houston, Texas.

During March 2011, we sold our ownership interests in three unconsolidated joint ventures for total proceeds of approximately \$19.3 million and recognized a gain of approximately \$1.1 million.

**Table of Contents****6. Notes Payable**

The following is a summary of our indebtedness:

| <i>(in millions)</i>  | Balance at            |                      |
|---|-----------------------|----------------------|
|   | September 30,<br>2011 | December 31,<br>2010 |
| <b>Commercial Banks</b>   |                       |                      |
| Unsecured line of credit and short-term borrowings              | \$                    | \$                   |
| Term loan, due 2012   |                       | 500.0                |
|   | \$                    | \$ 500.0             |
| <b>Senior unsecured notes</b>                                   |                       |                      |
| 7.69% Notes, due 2011   |                       | 88.0                 |
| 5.93% Notes, due 2012   | 189.5                 | 189.5                |
| 5.45% Notes, due 2013   | 199.7                 | 199.6                |
| 5.08% Notes, due 2015   | 249.3                 | 249.2                |
| 5.75% Notes, due 2017   | 246.2                 | 246.1                |
| 4.70% Notes, due 2021   | 248.6                 |                      |
| 5.00% Notes, due 2023   | 247.3                 |                      |
|   | \$ 1,380.6            | \$ 972.4             |
| <b>Medium-term notes</b>  |                       |                      |
| 4.99% Notes, due 2011   |                       | 35.4                 |
| <b>Total unsecured notes payable</b>                            | \$ 1,380.6            | \$ 1,507.8           |
| <b>Secured notes</b>  |                       |                      |
| 0.95% 6.00% Conventional Mortgage Notes, due 2012 2045          | \$ 1,013.1            | \$ 1,015.7           |
| 1.58% Tax-exempt Mortgage Note due 2028                         | 39.4                  | 40.3                 |
|   | \$ 1,052.5            | \$ 1,056.0           |
| <b>Total notes payable</b>                                      | \$ 2,433.1            | \$ 2,563.8           |
| Floating rate tax-exempt debt included in secured notes (1.58%) | \$ 39.4               | \$ 40.3              |
| Floating rate debt included in secured notes (0.95% 1.68%)      | 206.5                 | 189.9                |

In September 2011, we amended our \$500 million unsecured credit facility to extend the maturity date from August 2012 to September 2015 with an option to extend to September 2016. Additionally, we now have the option to increase this credit facility to \$750 million at our election. The interest rate is based upon LIBOR plus a margin which is subject to change as our credit ratings change. Advances under the line of credit may be priced at the scheduled rates, or we may enter into bid rate loans with participating banks at rates below the scheduled rates. These bid rate loans have terms of 180 days or less and may not exceed the lesser of \$250 million or the remaining amount available under the line of credit. The line of credit is subject to customary financial covenants and limitations, all of which we are in compliance.

Our line of credit provides us with the ability to issue up to \$100 million in letters of credit. While our issuance of letters of credit does not increase our borrowings outstanding under our line of credit, it does reduce the amount available. At September 30, 2011, we had outstanding letters of credit totaling approximately \$11.6 million, leaving approximately \$488.4 million available under our unsecured line of credit.

In June 2011, we issued from our existing shelf registration statement \$250 million aggregate principal amount of 4.625% senior unsecured notes due June 2021 (the 2021 Notes ) and \$250 million aggregate principal amount of 4.875% senior unsecured notes due June 2023 (the 2023 Notes and, together with the 2021 Notes, the Notes ). The 2021 Notes were offered to the public at 99.404% of their face amount with a yield to maturity of 4.70% and the 2023 Notes were offered to the public at 98.878% of their face amount with a yield to maturity of 5.00%. We received net proceeds of approximately \$491.8 million, net of underwriter discounts and other offering expenses. Interest on the Notes is payable

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semi-annually on June 15 and December 15, beginning December 15, 2011. We may redeem each series of Notes, in whole or in part, at any time at a redemption price equal to the principal amount and accrued interest of the notes being redeemed, plus a make-whole provision. If, however, we redeem Notes of either series 90 days or fewer prior to their maturity date, the redemption price will equal 100% of



**Table of Contents**

the principal amount of the Notes to be redeemed plus accrued and unpaid interest on the amount being redeemed to the redemption date. Each series of Notes is a direct, senior unsecured obligation and ranks equally with each other and with all of our other unsecured and unsubordinated indebtedness. We used the proceeds from this offering, together with cash on hand, to repay our outstanding \$500 million term loan. In conjunction with the repayment of the \$500 million term loan, we expensed approximately \$0.5 million of unamortized loan costs.

At September 30, 2011 and 2010, the weighted average interest rate on our floating rate debt, which includes our unsecured line of credit, was approximately 1.1% and 1.3%, respectively.

During the three months ended March 31, 2011, we repaid the remaining principal amount of our 7.69% senior unsecured notes, which matured on February 15, 2011, for a total of approximately \$88.0 million. During the three months ended June 30, 2011, we repaid the remaining principal amount of our 4.99% medium-term senior unsecured notes, which matured on May 9, 2011, for a total of \$35.0 million.

In July 2011, a \$31.5 million secured third-party note payable made by one of our fully-consolidated joint ventures, in which we hold a 25% ownership, originally scheduled to mature in August 2011, was contractually extended to August 2012.

Our indebtedness, including our unsecured line of credit, had a weighted average maturity of 7.0 years at September 30, 2011. Scheduled repayments on outstanding debt including all contractual extensions which have been exercised, including our line of credit and scheduled principal amortizations, and the weighted average interest rate on maturing debt at September 30, 2011, were as follows:

| <i>(in millions)</i> | <b>Amount</b>     | <b>Weighted<br/>Average Interest<br/>Rate</b> |
|----------------------|-------------------|---|
| 2011                 | \$ 1.0            | N/A   |
| 2012                 | 294.2             | 5.2%  |
| 2013                 | 228.0             | 5.4   |
| 2014                 | 11.0              | 6.0   |
| 2015                 | 252.4             | 5.1   |
| 2016 and thereafter  | 1,646.5           | 4.6   |
| <b>Total</b>         | <b>\$ 2,433.1</b> | <b>4.8%</b>                                   |

**7. Derivative Instruments and Hedging Activities**

*Risk Management Objective of Using Derivatives.* We are exposed to certain risks arising from both our business operations and economic conditions. We principally manage our exposures to a wide variety of business and operational risks through management of our core business activities. We manage economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of our debt funding and the use of derivative financial instruments. Specifically, we may enter into derivative financial instruments to manage exposures arising from business activities resulting in differences in the amount, timing, and duration of our known or expected cash payments principally related to our borrowings.

*Cash Flow Hedges of Interest Rate Risk.* Our objectives in using interest rate derivatives are to add stability to interest expense and to manage our exposure to interest rate movements. To accomplish these objectives, we primarily use interest rate swaps and caps as part of our interest rate risk management strategy. Interest rate swaps involve the receipt of variable rate amounts from a counterparty in exchange for us making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Interest rate caps involve the receipt of variable rate amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an upfront premium.

*Designated Hedges.* In August 2011, our interest rate swap, with a notional amount of \$16.6 million, matured and settled. As a result of the settlement, we did not have any designated hedges as of September 30, 2011. The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges is recorded in accumulated other comprehensive income or loss and is subsequently reclassified into earnings in the period the hedged forecasted transaction affects earnings. During the three and nine months ended September 30, 2011 and 2010, such derivatives were used to hedge the variable cash flows associated with existing variable rate debt. The ineffective portion of the change in fair value of the derivatives, if any, is recognized directly in earnings. No portion of designated hedges was ineffective during the three or nine months ended September 30, 2011 and 2010.



**Table of Contents**

*Non-designated Hedges.* Derivatives not designated as hedges are not entered into for speculative purposes and are used to manage our exposure to interest rate movements and other identified risks. Non-designated hedges are either specifically non-designated by management or do not meet strict hedge accounting requirements. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in earnings in other income or other expense.

In connection with the repayment of the \$500 million term loan on June 6, 2011, we discontinued the hedging relationship on a \$500 million interest rate swap used as a cash flow hedge as of May 31, 2011. Upon repayment of the loan, which eliminated the probable future variable monthly interest payments that were being hedged, we recognized a non-cash charge of approximately \$29.8 million which included the accelerated reclassification of amounts previously recorded in accumulated other comprehensive loss related to this swap. Subsequent changes in the market value of the interest rate swap, which matures in October 2012, will be recorded directly in earnings over the remaining life of the swap in interest and other income (loss). Due to, among other matters, the relatively short remaining life of the swap (which matures in October 2012) and the low expectation of the swap becoming a significantly larger liability, management elected to leave this interest rate swap in place through its original maturity rather than cash settle the swap.

As of September 30, 2011, we had the following outstanding interest rate derivatives which were not designated as hedges of interest rate risk:

| Interest Rate Derivative | Number of Instruments | Notional Amount  |
|--------------------------|-----------------------|------------------|
| Interest Rate Cap        | 1                     | \$ 175.0 million |
| Interest Rate Swap       | 1                     | \$ 500.0 million |

The table below presents the fair value of our derivative financial instruments as well as their classification in the condensed consolidated balance sheets at September 30, 2011 and December 31, 2010 (in millions):

**Fair Values of Derivative Instruments**

|  | Asset Derivatives      |            |                        |            | Liability Derivatives  |            |                        |            |
|--|------------------------|------------|------------------------|------------|------------------------|------------|------------------------|------------|
|  | September 30, 2011     |            | December 31, 2010      |            | September 30, 2011     |            | December 31, 2010      |            |
|  | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| <b>Derivatives designated as hedging instruments</b>     |                        |            |                        |            |                        |            |                        |            |
| Interest Rate Swaps                                      |                        |            |                        |            | Other Liabilities      | \$         | Other Liabilities      | \$ 36.9    |
| <b>Derivatives not designated as hedging instruments</b> |                        |            |                        |            |                        |            |                        |            |
| Interest Rate Swap                                       |                        |            |                        |            | Other Liabilities      | \$ 22.2    | Other Liabilities      | N/A        |
| Interest Rate Cap  | Other Assets           | \$ 0.1     | Other Assets           | \$         |                        |            |                        |            |

The tables below present the effect of our derivative financial instruments on the condensed consolidated statements of income and comprehensive income for the three and nine months ended September 30, 2011 and 2010 (in millions):

**Effect of Derivative Instruments**

|   | Three Months Ended September 30,  |      |  |  |   |   |
|---|---|------|--|--|---|---|
|   | Amount of (Loss) Recognized in Other Comprehensive Income (OCI) on Derivative (Effective Portion) |      | Location of Loss Reclassified from Accumulated OCI into Income (Effective Portion) | Amount of Loss Reclassified from Accumulated OCI into Income (Effective Portion) | Location of Loss Recognized in Income on Derivative (Discontinuation, Ineffective Portion and Amount Excluded from Effectiveness Testing) | Amount of (Loss) Recognized in Income on Derivative (Discontinuation, Ineffective Portion and Amount Excluded from Effectiveness Testing) |
|   | 2011  | 2010 |  |  |   |   |
| <b>Derivatives in Cash Flow Hedging Relationships</b> |   |      |  |  |   |   |

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|                     |    |          |                  |        |        |  |    |     |
|---------------------|----|----------|------------------|--------|--------|--|----|-----|
| Interest Rate Swaps | \$ | \$ (5.3) | Interest expense | \$ 0.1 | \$ 5.8 | Loss on discontinuation<br>of hedging relationship | \$ | N/A |
|---------------------|----|----------|------------------|--------|--------|--|----|-----|

**Table of Contents**

| Derivatives not designated as hedging instruments | Location of Gain/(Loss)<br>Recognized in Income on<br>Derivative | Amount of (Loss) Recognized<br>in Income on<br>Derivative |      |
|---|--|---|------|
|   |  | 2011  | 2010 |
| Interest Rate Cap                                 | Other income/(loss)  | \$ (0.1)  | \$   |
| Interest Rate Swap                                | Other income/(loss)  | (0.1)   | N/A  |

## Nine Months Ended September 30,

| Derivatives in Cash<br>Flow Hedging Relationships | Amount of (Loss)<br>Recognized in Other<br>Comprehensive<br>Income<br>( OCI ) on Derivative<br>(Effective<br>Portion) |           | Location of Loss<br>Reclassified from<br>Accumulated OCI<br>into Income<br>(Effective Portion) | Amount of Loss<br>Reclassified from<br>Accumulated OCI<br>into Income<br>(Effective Portion) |         | Location of Loss<br>Recognized in Income on<br>Derivative<br>(Discontinuation,<br>Ineffective Portion and<br>Amount Excluded from<br>Effectiveness Testing) | Amount of (Loss) Recognized in<br>Income on<br>Derivative<br>(Discontinuation, Ineffective<br>Portion and Amount Excluded<br>from Effectiveness Testing) |      |
|---|---|-----------|--|--|---------|---|--|------|
|   | 2011  | 2010      |  | 2011   | 2010    |   | 2011   | 2010 |
| Interest Rate Swaps (1)                           | \$ (2.7)  | \$ (19.5) | Interest expense   | \$ 9.9   | \$ 17.5 | Loss on discontinuation<br>of hedging relationship  | \$ (29.8)  | N/A  |

| Derivatives not designated as hedging instruments | Location of Gain/(Loss)<br>Recognized in Income on<br>Derivative | Amount of (Loss) Recognized<br>in Income on<br>Derivative |      |
|---|--|---|------|
|   |  | 2011  | 2010 |
| Interest Rate Cap                                 | Other income/(loss)  | \$ (0.1)  | \$   |
| Interest Rate Swap                                | Other income/(loss)  | (0.1)   | N/A  |

(1) The results include the interest rate swap gain (loss) prior to discontinuation in May 2011.

**Credit-risk-related Contingent Features.** Derivative financial investments expose us to credit risk in the event of non-performance by the counterparties under the terms of the interest rate hedge agreements. We believe we minimize our credit risk on these transactions by transacting with major creditworthy financial institutions. As part of our on-going control procedures, we monitor the credit ratings of counterparties and our exposure to any single entity, which we believe minimizes credit risk concentration.

Our agreements with each of our derivative counterparties contain provisions which provide the counterparty the right to declare a default on our derivative obligations if we are in default on any of our indebtedness, subject to certain thresholds. For all instances, these provisions include a default even if there is no acceleration of the indebtedness. Our agreements with each of our derivative counterparties also provide if we consolidate with, merge with or into, or transfer all or substantially all our assets to another entity and the creditworthiness of the resulting, surviving, or transferee entity is materially weaker than ours, the counterparty has the right to terminate the derivative obligations.

At September 30, 2011, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk (the termination value), related to these agreements was approximately \$23.8 million. As of September 30, 2011, we had not posted any collateral related to these agreements. If we were in breach of any of these provisions at September 30, 2011, or terminated these agreements, we would have been required to settle our obligations at their aggregate termination value of approximately \$23.8 million.

## 8. Share-based Compensation

**Incentive Compensation.** During the second quarter of 2011, our Board of Trust Managers adopted, and on May 11, 2011 our shareholders approved, the 2011 Share Incentive Plan of Camden Property Trust (the 2011 Share Plan). Under the 2011 Share Plan, we may issue up to a total of approximately 9.1 million fungible units (the Fungible Pool Limit), which is comprised of approximately 5.8 million new fungible units plus approximately 3.3 million fungible units previously available for issuance under our 2002 share incentive plan based on a 3.45 to 1.0 fungible unit-to full value award conversion ratio. Fungible units represent the baseline for the number of shares available for issuance under the 2011 Share Plan. Different types of awards are counted differently against the Fungible Pool Limit, as follows:

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Each share issued or to be issued in connection with an award, other than an option, right or other award which does not deliver the full value at grant of the underlying shares, will be counted against the Fungible Pool Limit as 3.45 fungible pool units;

**Table of Contents**

Options and other awards which do not deliver the full value at grant of the underlying shares and which expire more than five years from date of grant will be counted against the Fungible Pool Limit as one fungible pool unit; and

Options, rights and other awards which do not deliver the full value at date of grant and expire five years or less from the date of grant will be counted against the Fungible Pool Limit as 0.83 of a fungible pool unit.

The fungible units represent approximately 2.6 million common shares which could be granted pursuant to full value awards based on the 3.45 to 1.0 fungible unit-to-full value award conversion ratio.

Awards which may be granted under the 2011 Share Plan include incentive share options, non-qualified share options (which may be granted separately or in connection with an option), share awards, dividends and dividend equivalents and other equity based awards. Persons eligible to receive awards under the 2011 Share Plan are trust managers, directors of our affiliates, executive and other officers, key employees and consultants, as determined by the Compensation Committee of our Board of Trust Managers. The 2011 Share Plan will expire on May 11, 2021.

*Options.* During the nine months ended September 30, 2011, approximately 0.5 million options were exercised at prices ranging from \$30.06 to \$62.32 per option. The total intrinsic value of options exercised during the nine months ended September 30, 2011 was approximately \$9.5 million. There were 0.1 million options exercised, with intrinsic value of \$1.4 million during the nine months ended September 30, 2010. As of September 30, 2011, there was approximately \$1.6 million of total unrecognized compensation cost related to unvested options, which is expected to be amortized over the next three years. At September 30, 2011, outstanding options and exercisable options had a weighted average remaining life of approximately 4.9 years and 3.7 years respectively.

The following table summarizes outstanding share options and exercisable options at September 30, 2011:

| Range of Exercise Prices | Outstanding Options (1) |                        | Exercisable Options (1) |                        |
|--------------------------|-------------------------|------------------------|-------------------------|------------------------|
|                          | Number                  | Weighted Average Price | Number                  | Weighted Average Price |
| \$30.06-\$41.16          | 473,684                 | \$ 32.08               | 179,979                 | \$ 35.38               |
| \$42.90-\$45.53          | 466,060                 | 44.32                  | 428,797                 | 44.36                  |
| \$48.02-\$73.32          | 406,219                 | 51.77                  | 253,068                 | 54.03                  |
| Total options            | 1,345,963               | \$ 42.26               | 861,844                 | \$ 45.32               |

(1) The aggregate intrinsic values of outstanding options and exercisable options at September 30, 2011 were \$18.3 million and \$9.3 million, respectively. The aggregate intrinsic values were calculated as the excess, if any, between our closing share price of \$55.26 per share on September 30, 2011 and the strike price of the underlying award.

*Valuation Assumptions.* Options generally have a vesting period of three to five years. We estimate the fair values of each option award on the date of grant using the Black-Scholes option pricing model. No new options have been granted in 2011.

*Share Awards and Vesting.* Share awards generally have a vesting period of five years. The compensation cost for share awards is based on the market value of the shares on the date of grant and is amortized over the vesting period. To estimate forfeitures, we use actual forfeiture history. At September 30, 2011, the unamortized value of previously issued unvested share awards was approximately \$30.7 million which is expected to be amortized over the next five years. The total fair value of shares vested during the nine months ended September 30, 2011 and 2010 was approximately \$11.0 million and \$10.1 million, respectively.

Total compensation cost for option and share awards charged against income was approximately \$3.3 million and \$2.9 million for the three months ended September 30, 2011 and 2010, respectively, and approximately \$9.5 million and \$9.1 million for the nine months ended September 30, 2011 and 2010, respectively. Total capitalized compensation cost for option and share awards was approximately \$0.3 million and \$0.2 million for the three months ended September 30, 2011 and 2010, respectively, and approximately \$0.9 million and \$0.7 million for the nine months ended September 30, 2011 and 2010, respectively.





**Table of Contents**

The following table summarizes activity under our share incentive plans for the nine months ended September 30, 2011:

|  | Options<br>Outstanding | Weighted<br>Average<br>Exercise /<br>Grant Price | Nonvested<br>Share<br>Awards<br>Outstanding | Weighted<br>Average<br>Exercise /<br>Grant Price |
|--|------------------------|--|---|--|
| Total options and nonvested share awards outstanding at December 31, 2010  | 1,847,136              | \$ 42.39   | 741,505                                     | \$ 42.16   |
| Granted  |                        |  | 344,159                                     | 57.00  |
| Exercised/vested   | (501,173)              | 42.64  | (235,093)                                   | 46.74  |
| Forfeited  |                        |  | (16,024)                                    | 43.89  |
| Net activity   | (501,173)              |  | 93,042                                      |  |
| Total options and nonvested share awards outstanding at September 30, 2011 | 1,345,963              | \$ 42.26   | 834,547                                     | \$ 46.96   |

**9. Net Change in Operating Accounts**

The effect of changes in the operating accounts on cash flows from operating activities is as follows:

| (in thousands)                        | Nine Months Ended<br>September 30, |            |
|---------------------------------------|------------------------------------|------------|
|                                       | 2011                               | 2010       |
| Change in assets:                     |                                    |            |
| Other assets, net                     | \$ 3,046                           | \$ (6,262) |
| Change in liabilities:                |                                    |            |
| Accounts payable and accrued expenses | 11,343                             | 8,116      |
| Accrued real estate taxes             | 15,048                             | 16,938     |
| Other liabilities                     | (13,131)                           | 2,691      |
| Other                                 | 401                                | 153        |
| Change in operating accounts          | \$ 16,707                          | \$ 21,636  |

**10. Commitments and Contingencies**

**Construction Contracts.** As of September 30, 2011, we had approximately \$102.1 million of additional anticipated expenditures on our construction projects currently under development. We expect to fund these amounts through a combination of available cash balances, cash flows generated from operations, draws on our unsecured credit facility, proceeds from property dispositions, and the use of debt and equity offerings under our automatic shelf registration statement.

**Litigation.** One of our wholly-owned subsidiaries previously acted as a general contractor for the construction of three apartment projects in Florida which were subsequently sold and converted to condominium units by unrelated third-parties. Each condominium association of those projects has asserted claims against our subsidiary alleging, in general, defective construction as a result of alleged negligence and an alleged failure to comply with building codes. On May 25, 2011, we mediated a pre-suit settlement agreement with one of the associations to resolve its alleged claims. Pursuant to this settlement agreement, we agreed to make a one-time payment to the association which was not material.

The other two associations have filed suit against our subsidiary and other unrelated third parties in Florida claiming damages, in unspecified amounts, for the costs of repair arising out of the alleged defective construction as well as the recovery of incidental and consequential damages resulting from such alleged negligence. The remaining two lawsuits are in a very early stage and no significant discovery has been conducted.

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While we have denied liability to the remaining associations, it is not possible to determine the potential outcome nor is it possible to estimate a range of the amount of loss, if any, that would be associated with any potential adverse decision as these matters are in a very early stage and the pre-suit settlement mentioned above does not provide any basis for estimating losses, if any, in these two lawsuits.

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**Table of Contents**

We are also subject to various legal proceedings and claims which arise in the ordinary course of business. Matters which arise out of allegations of bodily injury, property damage, and employment practices are generally covered by insurance. While the resolution of these legal proceedings and claims cannot be predicted with certainty, management believes the final outcome of such matters will not have a material adverse effect on our condensed consolidated financial statements.

*Other Contingencies.* In the ordinary course of our business, we issue letters of intent indicating a willingness to negotiate for acquisitions, dispositions, or joint ventures and also enter into arrangements contemplating various transactions. Such letters of intent and other arrangements are non-binding as to either party unless and until a definitive contract is entered into by the parties. Even if definitive contracts relating to the purchase or sale of real property are entered into, these contracts generally provide the purchaser with time to evaluate the property and conduct due diligence, during which periods the purchaser will have the ability to terminate the contracts without penalty or forfeiture of any deposit or earnest money. There can be no assurance definitive contracts will be entered into with respect to any matter covered by letters of intent or we will consummate any transaction contemplated by any definitive contract. Furthermore, due diligence periods for real property are frequently extended as needed. An acquisition or sale of real property becomes probable at the time the due diligence period expires and the definitive contract has not been terminated. We are then at risk under a real property acquisition contract, but generally only to the extent of any earnest money deposits associated with the contract, and are obligated to sell under a real property sales contract.

*Lease Commitments.* At September 30, 2011, we had long-term leases covering certain land, office facilities, and equipment. Rental expense totaled approximately \$0.7 million for each of the three months ended September 30, 2011 and 2010, and approximately \$2.1 million and \$2.2 million for the nine months ended September 30, 2011 and 2010, respectively. Minimum annual rental commitments for the remainder of 2011 are \$0.6 million, and for the years ending December 31, 2012 through 2015 are approximately \$2.3 million, \$2.2 million, \$2.1 million, and \$1.2 million, respectively, and \$0.7 million in the aggregate thereafter.

*Investments in Joint Ventures.* We have entered into, and may continue in the future to enter into, joint ventures or partnerships (including limited liability companies) through which we own an indirect economic interest in less than 100% of the community or land owned directly by the joint venture or partnership. Our decision whether to hold the entire interest in an apartment community or land ourselves, or to have an indirect interest in the community or land through a joint venture or partnership, is based on a variety of factors and considerations, including: (i) our projection, in some circumstances, that we will achieve higher returns on our invested capital or reduce our risk if a joint venture or partnership vehicle is used; (ii) our desire to diversify our portfolio of communities by market; (iii) our desire at times to preserve our capital resources to maintain liquidity or balance sheet strength; and (iv) the economic and tax terms required by a seller of land or of a community, who may prefer or who may require less payment if the land or community is contributed to a joint venture or partnership. Investments in joint ventures or partnerships are not limited to a specified percentage of our assets. Each joint venture or partnership agreement is individually negotiated, and our ability to operate and/or dispose of a community in our sole discretion is limited to varying degrees in our existing joint venture agreements and may be limited to varying degrees depending on the terms of future joint venture agreements.

**11. Income Taxes**

We have maintained and intend to maintain our election as a REIT under the Internal Revenue Code of 1986, as amended. In order for us to continue to qualify as a REIT we must meet a number of organizational and operational requirements, including a requirement to distribute annual dividends to our shareholders equal to a minimum of 90% of our REIT taxable income, computed without regard to the dividends paid deduction and our net capital gains. As a REIT, we generally will not be subject to federal income tax on our taxable income at the corporate level to the extent such income is distributed to our shareholders annually. If our taxable income exceeds our dividends in a tax year, REIT tax rules allow us to designate dividends from the subsequent tax year in order to avoid current taxation on undistributed income. If we fail to qualify as a REIT in any taxable year, we will be subject to federal and state income taxes at regular corporate rates, including any applicable alternative minimum tax. In addition, we may not be able to requalify as a REIT for the four subsequent taxable years. Historically, we have incurred only state and local income, franchise, and excise taxes. Taxable income from non-REIT activities managed through taxable REIT subsidiaries is subject to applicable federal, state, and local income taxes. Our operating partnerships are flow-through entities and are not subject to federal income taxes at the entity level.

**Table of Contents**

We have provided for income, franchise, and state income taxes in the condensed consolidated statements of income and comprehensive income for the three and nine months ended September 30, 2011 and 2010. Income taxes for the nine months ended September 30, 2011 includes approximately \$1.0 million associated with the gain recognized on the sale of our available-for-sale investment discussed in Footnote 12, Fair Value Disclosures, below. Other income tax expense is related to entity level taxes on certain ventures, state taxes, and federal taxes on certain of our taxable REIT subsidiaries. We have no significant temporary differences or tax credits associated with our taxable REIT subsidiaries.

We believe we have no uncertain tax positions or unrecognized tax benefits requiring disclosure as of and for the nine months ended September 30, 2011.

**12. Fair Value Disclosures**

For financial assets and liabilities fair valued on a recurring basis, fair value is the price we would receive to sell an asset, or pay to transfer a liability, in an orderly transaction with a market participant at the measurement date. In the absence of such data, fair value is estimated using internal information consistent with what market participants would use in a hypothetical transaction which occurs at the transaction date.

Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions; preference is given to observable inputs. These two types of inputs create the following fair value hierarchy:

Level 1: Quoted prices for identical instruments in active markets.

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3: Significant inputs to the valuation model are unobservable.

The following table presents information about our financial assets and liabilities measured at fair value as of September 30, 2011 and December 31, 2010 under the fair value hierarchy discussed above.

| (in millions)                          | September 30, 2011 |         |         |         | December 31, 2010 |         |         |         |
|--|--------------------|---------|---------|---------|-------------------|---------|---------|---------|
|  | Level 1            | Level 2 | Level 3 | Total   | Level 1           | Level 2 | Level 3 | Total   |
| <b>Assets</b>                          |                    |         |         |         |                   |         |         |         |
| Deferred compensation plan investments | \$ 37.4            | \$      | \$      | \$ 37.4 | \$ 46.7           | \$      | \$      | \$ 46.7 |
| Available-for-sale investment          |                    |         |         |         | 5.0               |         |         | 5.0     |
| Derivative financial instruments       |                    | 0.1     |         | 0.1     |                   |         |         |         |
| <b>Liabilities</b>                     |                    |         |         |         |                   |         |         |         |
| Derivative financial instruments       | \$                 | \$ 22.2 | \$      | \$ 22.2 | \$                | \$ 36.9 | \$      | \$ 36.9 |

*Deferred Compensation Plan Investments.* The estimated fair values of investment securities classified as deferred compensation plan investments are included in Level 1 and are based on quoted market prices utilizing public information for the same transactions. Our deferred compensation plan investments are recorded in other assets in our condensed consolidated balance sheets. The balance at September 30, 2011 also reflects approximately \$12.0 million of participant withdrawals from our deferred compensation plan investments during 2011.

*Available-for-sale Investment.* During February 2011, we received proceeds from the sale of our available-for-sale investment of approximately \$4.5 million, resulting in a gross realized gain of approximately \$4.3 million. This available-for-sale investment was included in Level 1 in the preceding table as of December 31, 2010 and was valued using quoted market prices.

**Table of Contents**

*Derivative Financial Instruments.* The estimated fair values of derivative financial instruments are included in Level 2 and are valued using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and volatility. The fair values of interest rate swaps and caps are estimated using the market standard methodology of netting the discounted fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of interest rates (forward curves) derived from observable market interest rate curves. In addition, credit valuation adjustments, which consider the impact of any credit enhancements to the contracts, are incorporated in the fair values to account for potential nonperformance risk, including our own nonperformance risk and the respective counterparty's nonperformance risk. The fair value of interest rate caps is determined using the market standard methodology of discounting the future expected cash receipts which would occur if variable interest rates rise above the strike rate of the caps. The variable interest rates used in the calculation of projected receipts on the cap are based on an expectation of future interest rates derived from observed market interest rate curves and volatilities.

Although we have determined the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default. However, as of September 30, 2011, we have assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions and have determined the credit valuation adjustments are not significant to the overall valuation of our derivatives. As a result, we have determined our derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

*Other Fair Value Disclosures.* As of September 30, 2011 and December 31, 2010, the carrying value of cash and cash equivalents, restricted cash, accounts receivable, accounts payable, accrued expenses and other liabilities, and distributions payable approximated fair value based on the short-term nature of these instruments.

In calculating the fair value of our notes receivable and notes payable, interest rates and spreads reflect current creditworthiness and market conditions available for the issuance of notes receivable and notes payable with similar terms and remaining maturities. The following table presents the carrying and estimated fair value of our notes receivable and notes payable at September 30, 2011 and December 31, 2010:

|                              | September 30, 2011 |                      | December 31, 2010 |                      |
|------------------------------|--------------------|----------------------|-------------------|----------------------|
|                              | Carrying Value     | Estimated Fair Value | Carrying Value    | Estimated Fair Value |
| <i>(in millions)</i>         |                    |                      |                   |                      |
| Notes receivable affiliates  | \$                 | \$                   | \$ 3.2            | \$ 3.2               |
| Fixed rate notes payable (1) | 2,187.2            | 2,276.4              | 2,333.5           | 2,386.0              |
| Floating rate notes payable  | 245.9              | 234.3                | 230.3             | 212.7                |

(1) December 31, 2010 includes a \$500 million term loan entered into in 2007, and a \$16.6 million construction loan entered into in 2008 which are effectively fixed by the use of interest rate swaps but evaluated for estimated fair value at the floating rate. The \$500 million term loan was repaid in June 2011 from the net proceeds received from our \$500 million debt offerings also completed in June 2011 and with cash on hand. The \$16.6 million construction loan interest rate swap matured and was not extended in conjunction with the one-year extension of the loan in July 2011.

*Nonrecurring Fair Value Disclosures.* Nonfinancial assets and nonfinancial liabilities measured on a nonrecurring basis primarily relate to impairment of long-lived assets or investments. There were no events during the nine months ended September 30, 2011 which required fair value adjustments of our nonfinancial assets and nonfinancial liabilities.

**13. Property Acquisitions, Discontinued Operations, and Assets Held for Sale**

*Acquisitions.* In August 2011, we acquired 30.1 acres of land located in Atlanta, Georgia for approximately \$40.1 million. We intend to utilize this land for development of multiple multifamily apartment communities.

*Discontinued Operations and Assets Held for Sale.* For the three and nine months ended September 30, 2010, income from discontinued operations included the results of operations of two operating properties comprised of an aggregate of 1,066 apartment homes sold during the fourth quarter 2010. We had no assets classified as held for sale as of and for the three or nine months ended September 30, 2011.



**Table of Contents**

The following is a summary of income from discontinued operations for the three and nine months ended September 30, 2010:

| <i>(in thousands)</i>                      | <b>Three<br/>Months<br/>Ended<br/>September 30,<br/>2010</b> | <b>Nine Months<br/>Ended<br/>September 30,<br/>2010</b> |
|--|--|---|
| Property revenues                          | \$ 2,954   | \$ 8,534  |
| Property expenses                          | 1,222  | 3,515   |
|  | 1,732  | 5,019   |
| Depreciation and amortization              | 651  | 2,276   |
| <b>Income from discontinued operations</b> | <b>\$ 1,081</b>  | <b>\$ 2,743</b>   |

**14. Noncontrolling Interests**

The following table summarizes the effect of changes in our ownership interest in subsidiaries on the equity attributable to common shareholders for the nine months ended September 30:

| <i>(in thousands)</i>   | <b>2011</b> | <b>2010</b> |
|---|-------------|-------------|
| Net income attributable to common shareholders                          | \$ 2,529    | \$ 6,069    |
| Transfers from the noncontrolling interests:                            |             |             |
| Increase in equity for conversion of operating partnership units        | 592         | 2,132       |
| Change in common equity and net transfers from noncontrolling interests | \$ 3,121    | \$ 8,201    |

**Table of Contents**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion should be read in conjunction with the condensed consolidated financial statements and notes appearing elsewhere in this report, as well as Part I, Item 1A, "Risk Factors" within our Annual Report on Form 10-K for the year ended December 31, 2010. Historical results and trends which might appear in the condensed consolidated financial statements should not be interpreted as being indicative of future operations.

We consider portions of this report to be "forward-looking" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, both as amended, with respect to our expectations for future periods. Forward-looking statements do not discuss historical fact, but instead include statements related to expectations, projections, intentions, or other items relating to the future; forward-looking statements are not guarantees of future performances, results, or events. Although we believe the expectations reflected in our forward-looking statements are based upon reasonable assumptions, we can give no assurance our expectations will be achieved. Any statements contained herein which are not statements of historical fact should be deemed forward-looking statements. Reliance should not be placed on these forward-looking statements as they are subject to known and unknown risks, uncertainties, and other factors beyond our control and could differ materially from our actual results and performance.

Factors which may cause our actual results or performance to differ materially from those contemplated by forward-looking statements include, but are not limited to, the following:

volatility in capital and credit markets, or other unfavorable changes in economic conditions could adversely impact us;

short-term leases expose us to the effects of declining market rents;

we face risks associated with land holdings and related activities;

difficulties of selling real estate could limit our flexibility;

we could be negatively impacted by the condition of Fannie Mae or Freddie Mac;

compliance or failure to comply with laws requiring access to our properties by disabled persons could result in substantial cost;

competition could limit our ability to lease apartments or increase or maintain rental income;

development and construction risks could impact our profitability;

our acquisition strategy may not produce the cash flows expected;

competition could adversely affect our ability to acquire properties;

losses from catastrophes may exceed our insurance coverage;



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investments through joint ventures involve risks not present in investments in which we are the sole investor;

we face risks associated with investments in and management of discretionary funds;

we depend on our key personnel;

changes in litigation risks could affect our business;

tax matters, including failure to qualify as a REIT, could have adverse consequences;

insufficient cash flows could limit our ability to make required payments for debt obligations or pay distributions to shareholders;

we have significant debt, which could have important adverse consequences;

we may be unable to renew, repay, or refinance our outstanding debt;

variable rate debt is subject to interest rate risk;

we may incur losses on interest rate hedging arrangements;

issuances of additional debt may adversely impact our financial condition;

failure to maintain our current credit ratings could adversely affect our cost of funds, related margins, liquidity, and access to capital markets;

share ownership limits and our ability to issue additional equity securities may prevent takeovers beneficial to shareholders;

our share price will fluctuate; and

the form, timing and/or amount of dividend distributions in future periods may vary and be impacted by economic or other considerations.

These forward-looking statements represent our estimates and assumptions as of the date of this report, and we assume no obligation to update or supplement forward-looking statements because of subsequent events.

## **Table of Contents**

### **Executive Summary**

We are primarily engaged in the ownership, management, development, acquisition, and construction of multifamily apartment communities. As of September 30, 2011, we owned interests in, operated, or were developing 205 multifamily properties comprising 69,700 apartment homes across the United States as detailed in the following Property Portfolio table. In addition, we own other land parcels we may develop into multifamily apartment communities.

### *Property Operations*

Our results for the nine months ended September 30, 2011, reflect an increase in rental revenue as compared to the same period in 2010, which we believe was primarily due to a gradually improving economy, a modest supply of new multifamily housing, and a decrease in home ownership rates, which have resulted in an increase in rental rates and average occupancy levels. Same store revenues increased 5.1% for the first three quarters of 2011, as compared to the same period in 2010. We believe economic and employment conditions will improve slightly for the remainder of 2011 and the supply of new multifamily homes will continue to be modest. However, we believe significant risks to the economy remain prevalent, and while there has been a slight increase in employment levels in the majority of our markets, the unemployment rate remains at higher levels than normal. If economic conditions in the United States were to worsen, our operating results could be adversely affected.

### *Development Activity*

During the nine months ended September 30, 2011, we began construction on six development projects including two development projects in our discretionary funds, in which we own a 20% ownership interest (the Funds). These projects contain 1,602 units, with initial occupancy expected between 2011 and 2013. At September 30, 2011, we had a total of eight development projects under construction containing 2,209 units with initial occupancy expected between 2011 and 2013. Excluding the two Fund development projects containing 520 units, we have remaining anticipated construction expenditures of approximately \$102.1 million on the six consolidated projects as of September 30, 2011. In October 2011, we began construction on two development projects comprised of 588 units, with initial occupancy expected between 2012 and 2013.

### *Acquisitions and Dispositions*

In August 2011, we acquired 30.1 acres of land located in Atlanta, Georgia for approximately \$40.1 million. We intend to utilize this land for development of multiple multifamily apartment communities.

In April 2011, we sold one of our land parcels to one of the Funds for approximately \$9.4 million and we were reimbursed for previously written-off third-party development costs, resulting in a gain of approximately \$4.7 million. In June 2011, we sold another land parcel to this Fund for approximately \$3.1 million, resulting in a gain of approximately \$0.1 million.

During the nine months ended September 30, 2011, the Funds acquired thirteen multifamily properties totaling 4,588 units located in the Houston, Dallas, Austin, San Antonio, Tampa, and Atlanta metropolitan areas. Subsequent to quarter end, the Funds acquired five multifamily properties comprised of 1,488 units located in Houston.

In March 2011, we sold our ownership interests in three unconsolidated joint ventures for total proceeds of approximately \$19.3 million and recognized a gain of approximately \$1.1 million. Two of these joint ventures owned multifamily properties in Houston comprised of 459 units, and the remaining joint venture owned 6.1 acres of land in Houston.

### *Future Outlook*

Subject to market conditions, we intend to continue to look for opportunities to expand our development pipeline, acquire existing communities, and complete selective dispositions. We also intend to continue to strengthen our capital and liquidity positions by continuing to focus on our core fundamentals, generating positive cash flows from operations, maintaining appropriate debt levels and leverage ratios, and controlling overhead costs. We intend to meet our liquidity requirements through available cash balances, cash flows generated from operations, draws on our unsecured credit facility, proceeds from property dispositions, and the use of debt and equity offerings under our automatic shelf registration statement.

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As of September 30, 2011, we had approximately \$56.1 million in cash and cash equivalents and no balances outstanding on our \$500 million unsecured line of credit; we recently extended the maturity date of our

**Table of Contents**

unsecured line of credit to September 2015, with options to extend the maturity to September 2016 and to increase this credit facility to \$750 million. Excluding scheduled principal amortizations, we have no scheduled debt maturities for the remainder of 2011, and our 2012 repayments on outstanding debt are manageable at \$294.2 million, which represents approximately 12% of our total outstanding debt. We believe we are well-positioned with a strong balance sheet and sufficient liquidity to cover near-term debt maturities and new development funding requirements. We will, however, continue to assess and take further actions where we believe prudent to meet our objectives and capital requirements.

**Property Portfolio**

Our multifamily property portfolio is summarized as follows:

|  | September 30, 2011 |            | December 31, 2010 |            |
|--|--------------------|------------|-------------------|------------|
|  | Apartment Homes    | Properties | Apartment Homes   | Properties |
| <b>Operating Properties</b>                              |                    |            |                   |            |
| Las Vegas, Nevada  | 8,016              | 29         | 8,016             | 29         |
| Houston, Texas (1)                                       | 7,866              | 21         | 6,967             | 19         |
| Dallas, Texas  | 6,767              | 17         | 5,517             | 14         |
| Washington, D.C. Metro                                   | 5,604              | 16         | 5,604             | 16         |
| Tampa, Florida   | 5,953              | 13         | 5,503             | 12         |
| Charlotte, North Carolina                                | 3,574              | 15         | 3,574             | 15         |
| Orlando, Florida   | 3,564              | 9          | 3,557             | 9          |
| Atlanta, Georgia   | 3,546              | 12         | 3,312             | 11         |
| Austin, Texas  | 3,222              | 10         | 2,454             | 8          |
| Raleigh, North Carolina                                  | 2,704              | 7          | 2,704             | 7          |
| Southeast Florida  | 2,520              | 7          | 2,520             | 7          |
| Los Angeles/Orange County, California                    | 2,481              | 6          | 2,481             | 6          |
| Phoenix, Arizona   | 2,433              | 8          | 2,433             | 8          |
| Denver, Colorado   | 2,171              | 7          | 2,171             | 7          |
| San Diego/Inland Empire, California                      | 1,196              | 4          | 1,196             | 4          |
| Other  | 5,874              | 16         | 5,307             | 14         |
| <b>Total Operating Properties</b>                        | <b>67,491</b>      | <b>197</b> | <b>63,316</b>     | <b>186</b> |
| <b>Properties Under Development</b>                      |                    |            |                   |            |
| Orlando, Florida   | 858                | 2          | 420               | 1          |
| Tampa, Florida   | 540                | 2          |                   |            |
| Washington, D. C. Metro                                  | 463                | 2          | 187               | 1          |
| Austin, Texas  | 244                | 1          |                   |            |
| Houston, Texas   | 104                | 1          |                   |            |
| <b>Total Properties Under Development</b>                | <b>2,209</b>       | <b>8</b>   | <b>607</b>        | <b>2</b>   |
| <b>Total Properties</b>                                  | <b>69,700</b>      | <b>205</b> | <b>63,923</b>     | <b>188</b> |
| <b>Less: Unconsolidated Joint Venture Properties (2)</b> |                    |            |                   |            |
| Las Vegas, Nevada  | 4,047              | 17         | 4,047             | 17         |
| Houston, Texas   | 2,880              | 8          | 1,981             | 6          |
| Dallas, Texas  | 1,706              | 4          | 456               | 1          |
| Austin, Texas  | 1,613              | 5          | 601               | 2          |
| Phoenix, Arizona   | 992                | 4          | 992               | 4          |
| Tampa, Florida   | 450                | 1          |                   |            |
| Los Angeles/Orange County, California                    | 421                | 1          | 421               | 1          |
| Atlanta, Georgia   | 344                | 2          | 110               | 1          |

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|  |               |            |               |            |
|--|---------------|------------|---------------|------------|
| Denver, Colorado                           | 320           | 1          | 320           | 1          |
| Washington, D. C. Metro                    | 276           | 1          |               |            |
| Other                                      | 4,035         | 12         | 3,507         | 10         |
| <b>Total Joint Venture Properties</b>      | <b>17,084</b> | <b>56</b>  | <b>12,435</b> | <b>43</b>  |
| <b>Total Properties Fully Consolidated</b> | <b>52,616</b> | <b>149</b> | <b>51,488</b> | <b>145</b> |

- (1) *Includes a fully consolidated joint venture: Camden Travis Street, of which we hold a 25% ownership.*
- (2) *Refer to Note 5, Investments in Joint Ventures in the notes to condensed consolidated financial statements for further discussion of our joint venture investments.*

**Table of Contents**Stabilized Communities

We generally consider a property stabilized once it reaches 90% occupancy at the beginning of a period. During the three months ended September 30, 2011, stabilization was achieved at one of our joint venture properties as follows:

| Property and Location                        | Number of Apartment Homes | Date of Completion | Date of Stabilization |
|--|---------------------------|--------------------|-----------------------|
| Camden Ivy Hall joint venture<br>Atlanta, GA | 110                       | 3Q10               | 3Q11                  |

Acquisitions and Dispositions

In August 2011, we acquired 30.1 acres of land located in Atlanta, Georgia for approximately \$40.1 million. We intend to utilize this land for the development of multiple multifamily apartment communities.

In April 2011, we sold one of our land parcels in Washington, D.C. to one of the Funds, in which we have a 20% interest, for approximately \$9.4 million and we were reimbursed for previously written-off third-party development costs, resulting in a gain of approximately \$4.7 million. In June 2011, we sold one of our development properties in Austin, Texas, to this Fund for approximately \$3.1 million, resulting in a gain of approximately \$0.1 million.

During the nine months ended September 30, 2011, the Funds also acquired thirteen multifamily properties comprised of 1,358 units located in Houston, Texas, 1,250 units located in Dallas, Texas, 768 units located in Austin, Texas, 450 units located in Tampa, Florida, 528 units located in San Antonio, Texas, and 234 units located in Atlanta, Georgia. Subsequent to quarter end, the Funds acquired five multifamily properties comprised of 1,488 units located in Houston, Texas.

During March 2011, we sold our ownership interests in three unconsolidated joint ventures for total proceeds of approximately \$19.3 million and recognized a gain of approximately \$1.1 million. Two of these joint ventures own multifamily properties in Houston, Texas with 459 units, and one joint venture owns 6.1 acres of land in Houston, Texas.

Development and Lease-Up Properties

At September 30, 2011, we had six consolidated properties in various stages of construction as follows:

| (\$ in millions)                          | Number of Apartment Homes | Estimated Cost | Cost Incurred | Included in Properties Under Development | Estimated Date of Construction Completion | Estimated Date of Stabilization |
|---|---------------------------|----------------|---------------|--|---|---------------------------------|
| Camden LaVina (I)<br>Orlando, FL          | 420                       | \$ 60.0        | \$ 49.9       | \$ 27.4                                  | 2Q12                                      | 1Q13                            |
| Camden Summerfield II (I)<br>Landover, MD | 187                       | 30.0           | 23.6          | 17.8                                     | 1Q12                                      | 4Q12                            |
| Camden Royal Oaks II<br>Houston, TX       | 104                       | 14.0           | 8.0           | 8.0                                      | 2Q12                                      | 3Q13                            |
| Camden Montague<br>Tampa, FL              | 192                       | 23.0           | 9.0           | 9.0                                      | 4Q12                                      | 2Q13                            |
| Camden Town Square<br>Orlando, FL         | 438                       | 66.0           | 23.1          | 23.1                                     | 3Q13                                      | 4Q14                            |
| Camden Westchase Park<br>Tampa, FL        | 348                       | 52.0           | 24.6          | 24.6                                     | 1Q13                                      | 4Q13                            |
| Total                                     | 1,689                     | \$ 245.0       | \$ 138.2      | \$ 109.9                                 |   |                                 |

(1) *Property in lease-up as of September 30, 2011.*

**Table of Contents**

Our condensed consolidated balance sheet at September 30, 2011 included approximately \$274.2 million related to properties under development and land. Of this amount, approximately \$109.9 million related to our projects currently under development. In addition, we had approximately \$164.3 million primarily invested in land held for future development, which included approximately \$98.0 million related to projects we expect to begin constructing during the next two years, and approximately \$66.3 million related to land tracts which we may develop in the future.

During October 2011, we began construction on two consolidated properties located in Houston, Texas and Washington, DC comprised of 588 units.

At September 30, 2011, we had investments in unconsolidated joint ventures which were developing the following communities:

| <i>(\$ in millions)</i>                              | Ownership % | Number<br>of<br>Apartment<br>Homes | Total<br>Cost<br>Incurred |
|--|-------------|------------------------------------|---------------------------|
| <b>Property and Location<br/>Under Construction:</b> |             |                                    |                           |
| Camden South Capitol<br><i>Washington, DC</i>        | 20%         | 276                                | \$ 23.5                   |
| Camden Amber Oaks II<br><i>Austin, TX</i>            | 20%         | 244                                | \$ 4.0                    |

Refer to Note 5, Investments in Joint Ventures in the notes to condensed consolidated financial statements for further discussion of our joint venture investments.

**Results of Operations**

Changes in revenues and expenses related to our operating properties from period to period are due primarily to the performance of stabilized properties in the portfolio, the lease-up of newly constructed properties, acquisitions, and dispositions. Where appropriate, comparisons of income and expense on communities included in continuing operations are made on a dollars-per-weighted average apartment home basis in order to adjust for such changes in the number of apartment homes owned during each period. Selected weighted averages for the three and nine months ended September 30, 2011 and 2010 are as follows:

| <i>(\$ in thousands)</i>   | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |          |
|--|-------------------------------------|----------|------------------------------------|----------|
|  | 2011                                | 2010     | 2011                               | 2010     |
| Average monthly property revenue per apartment home                  | \$ 1,106                            | \$ 1,031 | \$ 1,081                           | \$ 1,018 |
| Annualized total property expenses per apartment home                | \$ 5,345                            | \$ 5,104 | \$ 5,177                           | \$ 5,031 |
| Weighted average number of operating apartment homes owned 100%      | 50,921                              | 49,884   | 50,895                             | 49,670   |
| Weighted average occupancy of operating apartment homes owned 100% * | 95.0%                               | 94.8%    | 94.6%                              | 94.4%    |

\*The student housing community is excluded from this calculation.



**Table of Contents**Property-level operating results

The following tables present the property-level revenues and property-level expenses, excluding discontinued operations, for the three and nine months ended September 30, 2011 as compared to the same periods in 2010:

| (\$ in thousands)                       | Apartment<br>Homes<br>At<br>9/30/11 | Three Months<br>Ended September 30, |                   | Change           |             | Nine Months<br>Ended September 30, |                   | Change           |             |
|---|-------------------------------------|-------------------------------------|-------------------|------------------|-------------|------------------------------------|-------------------|------------------|-------------|
|   |                                     | 2011                                | 2010              | \$               | %           | 2011                               | 2010              | \$               | %           |
| <b>Property revenues:</b>               |                                     |                                     |                   |                  |             |                                    |                   |                  |             |
| Same store communities                  | 47,309                              | \$ 153,740                          | \$ 144,688        | \$ 9,052         | 6.3%        | \$ 450,739                         | \$ 428,919        | \$ 21,820        | 5.1%        |
| Non-same store communities              | 3,618                               | 13,762                              | 8,514             | 5,248            | 61.6        | 40,549                             | 22,672            | 17,877           | 78.9        |
| Development and lease-up<br>communities | 1,689                               | 110                                 |                   | 110              |             | 110                                |                   | 110              |             |
| Other                                   |                                     | 1,322                               | 1,072             | 250              | 23.3        | 3,789                              | 3,426             | 363              | 10.6        |
| <b>Total property revenues</b>          | <b>52,616</b>                       | <b>\$ 168,934</b>                   | <b>\$ 154,274</b> | <b>\$ 14,660</b> | <b>9.5%</b> | <b>\$ 495,187</b>                  | <b>\$ 455,017</b> | <b>\$ 40,170</b> | <b>8.8%</b> |
| <b>Property expenses:</b>               |                                     |                                     |                   |                  |             |                                    |                   |                  |             |
| Same store communities                  | 47,309                              | \$ 61,586                           | \$ 58,892         | \$ 2,694         | 4.6%        | \$ 178,836                         | \$ 174,333        | \$ 4,503         | 2.6%        |
| Non-same store communities              | 3,618                               | 5,464                               | 3,448             | 2,016            | 58.5        | 15,585                             | 9,316             | 6,269            | 67.3        |
| Development and lease-up<br>communities | 1,689                               | 27                                  |                   | 27               |             | 27                                 |                   | 27               |             |
| Other                                   |                                     | 967                                 | 1,311             | (344)            | (26.2)      | 3,150                              | 3,773             | (623)            | (16.5)      |
| <b>Total property expenses</b>          | <b>52,616</b>                       | <b>\$ 68,044</b>                    | <b>\$ 63,651</b>  | <b>\$ 4,393</b>  | <b>6.9%</b> | <b>\$ 197,598</b>                  | <b>\$ 187,422</b> | <b>\$ 10,176</b> | <b>5.4%</b> |

*Same store communities are communities we owned and were stabilized as of January 1, 2010. Non-same store communities are stabilized communities we have acquired, developed or re-developed after January 1, 2010. Development and lease-up communities are non-stabilized communities we have acquired or developed after January 1, 2010. Other includes results from non-multifamily rental properties and expenses primarily relating to land holdings not under active development.*

*Same store analysis*

Same store rental revenues increased approximately \$7.4 million during the three months ended September 30, 2011 as compared to the same period in 2010 due to a 5.3% increase in average rental rates and a 0.7% increase in average occupancy for our same store portfolio. Same store rental revenues for the nine months ended September 30, 2011 increased approximately \$17.5 million from the same period in 2010 due to a 4.2% increase in average rental rates and a 0.6% increase in average occupancy for our same store portfolio. We believe the increases to rental revenue were due in part to the continued decline in home ownership rates and the limited supply of new rental housing. Additionally, there was a \$1.7 million and \$4.3 million increase in other property revenue during the three and nine months ended September 30, 2011, respectively, as compared to the same periods in 2010 primarily due to increases in revenues from ancillary income from cable television and valet waste, our utility rebilling programs and miscellaneous fees and charges.

Property expenses from our same store communities increased approximately \$2.7 million, or 4.6%, for the three months ended September 30, 2011 and increased approximately \$4.5 million, or 2.6%, for the nine months ended September 30, 2011 as compared to the same periods in 2010. The increases in same store property expenses were primarily due to increases in utility expenses relating to costs associated with ancillary income from cable television and valet waste, our utility rebilling programs, and higher water costs, increased salaries and benefits due to increases in annual compensation and higher medical benefit costs, and higher repairs and maintenance expenses. The increase for the nine months ended September 30, 2011 was partially offset by lower real estate taxes as a result of declining property valuations and property tax rates at a number of our communities. Excluding the expenses associated with our utility rebilling programs, same store property expenses for the three months ended September 30, 2011 increased approximately \$2.3 million, or 4.3%, and increased approximately \$3.4 million, or 2.1%, for the nine months ended September 30, 2011 as compared to the same periods in 2010.

*Non-same store analysis*

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Property revenues from non-same store communities increased approximately \$5.2 million and \$17.9 million for the three and nine months ended September 30, 2011, respectively, as compared to the same periods in 2010. Property expenses from non-same store communities increased approximately \$2.0 million and \$6.3 million for the three and nine months ended September 30, 2011, respectively, as compared to the same periods in 2010. The increases during the periods were primarily due to \$4.5 million and \$14.6 million of revenues, and \$1.8 million and \$5.8 million of expenses, during the three and nine months ended September 30, 2011, respectively, relating to three joint venture communities we consolidated during the second half of 2010, which were previously accounted for in accordance with the equity method of accounting. The increases in revenues were also related to two

**Table of Contents**

properties in our re-development and development pipelines reaching stabilization during the second and third quarters of 2010. One of these properties is owned by a fully consolidated joint venture, of which we hold a 25% ownership interest.

*Other property analysis*

Other property revenues increased approximately \$0.3 million and \$0.4 million for the three and nine months ended September 30, 2011, respectively, as compared to the same periods in 2010. These increases were primarily related to increases in rental income from our non-multifamily rental properties.

Other property expenses decreased approximately \$0.3 million and \$0.6 million for the three and nine months ended September 30, 2011, respectively, as compared to the same periods in 2010. The decreases were primarily related to decreases in property taxes expensed on land holdings for projects which were approved in 2011 and during the second half of 2010 for development activities. As a result, we started capitalizing expenses, including property taxes, on these development properties.

Non-property income (loss)

| (\$ in thousands)                            | Three Months Ended |                 | Change             |                 | Nine Months Ended  |                  | Change         |                |
|--|--------------------|-----------------|--------------------|-----------------|--------------------|------------------|----------------|----------------|
|  | September 30, 2011 | 2010            | \$                 | %               | September 30, 2011 | 2010             | \$             | %              |
| Fee and asset management                     | \$ 2,646           | \$ 2,145        | \$ 501             | 23.4%           | \$ 6,955           | \$ 6,028         | 927            | 15.4%          |
| Interest and other income (loss)             | (108)              | 451             | (559)              | (123.9)         | 4,749              | 3,988            | 761            | 19.1           |
| Income (loss) on deferred compensation plans | (6,096)            | 6,918           | (13,014)           | (188.1)         | 1,233              | 6,818            | (5,585)        | (81.9)         |
| <b>Total non-property income (loss)</b>      | <b>\$ (3,558)</b>  | <b>\$ 9,514</b> | <b>\$ (13,072)</b> | <b>(137.4)%</b> | <b>\$ 12,937</b>   | <b>\$ 16,834</b> | <b>(3,897)</b> | <b>(23.1)%</b> |

Fee and asset management income increased approximately \$0.5 million and approximately \$0.9 million for the three and nine month periods ended September 30, 2011, respectively, as compared to the same periods in 2010. These increases were primarily due to an increase in property management, development and construction fees due to acquisitions by our Funds during the first three quarters of 2011 and the fourth quarter of 2010. These increases were partially offset by a decrease due to our consolidation of one joint venture community in August 2010 and two joint venture communities in December 2010, which were previously accounted for in accordance with the equity method of accounting. The increases were further offset by a decreased level of third-party construction activities for the three and nine months ended 2011 as compared to the same periods in 2010.

Interest and other income (loss) decreased approximately \$0.6 million and increased approximately \$0.8 million for the three and nine months ended September 30, 2011, respectively, as compared to the same periods in 2010. The decrease for the three months ended September 30, 2011 as compared to the same period in 2010 was primarily due to a decrease in interest income earned on our mezzanine loan portfolio in 2011 resulting from the conversion of mezzanine loans into additional equity interests in certain of our joint ventures in 2010 resulting in no balances being outstanding in our mezzanine loan portfolio. The decrease was also due to mark to market net losses on our interest rate swap related to the discontinuation of the \$500 million term loan during the second quarter of 2011.

The increase in interest and other income during the nine months ended September 30, 2011 as compared to the same period in 2010 was primarily due to recognition of approximately \$4.3 million in other income from the sale of our available-for-sale investment during the first quarter 2011. The increase was partially offset by a decrease in interest income earned on our mezzanine loan portfolio in 2011 primarily due to the conversion of mezzanine loans into additional equity interests in certain of our joint ventures in 2010 resulting in no balances being outstanding in our mezzanine loan portfolio. The increase was also offset by mark to market net losses on our interest rate swap related to the discontinuation of the \$500 million term loan during the second quarter of 2011. Additionally, during the nine months ended September 30, 2010, we recognized approximately \$2.7 million of other income relating to the expiration of an indemnification provision related to one of our operating joint ventures.

Income (loss) on deferred compensation plans decreased approximately \$13.0 million and approximately \$5.6 million for the three and nine months ended September 30, 2011, respectively, as compared to the same periods in 2010. The decreases primarily related to the performance of the investments held in deferred compensation plans for participants, and were directly offset by the expense (benefit) related to these plans, as discussed below.



**Table of Contents**Other expenses

| (\$ in thousands)                                | Three Months Ended<br>September 30, |                  |                    |                | Nine Months Ended<br>September 30, |                   |                 |             |
|--|-------------------------------------|------------------|--------------------|----------------|------------------------------------|-------------------|-----------------|-------------|
|  | 2011                                | 2010             | Change             |                | 2011                               | 2010              | Change          |             |
|  |                                     |                  | \$                 | %              |                                    |                   | \$              | %           |
| Property management                              | \$ 5,050                            | \$ 4,789         | \$ 261             | 5.4%           | \$ 15,478                          | \$ 14,994         | \$ 484          | 3.2%        |
| Fee and asset management                         | 1,330                               | 1,155            | 175                | 15.2           | 4,220                              | 3,611             | 609             | 16.9        |
| General and administrative                       | 8,572                               | 7,568            | 1,004              | 13.3           | 26,392                             | 22,339            | 4,053           | 18.1        |
| Interest   | 27,354                              | 31,781           | (4,427)            | (13.9)         | 85,472                             | 95,078            | (9,606)         | (10.2)      |
| Depreciation and amortization                    | 44,558                              | 43,034           | 1,524              | 3.5            | 137,111                            | 128,012           | 9,099           | 7.1         |
| Amortization of deferred financing costs         | 1,344                               | 1,185            | 159                | 13.4           | 4,761                              | 2,624             | 2,137           | 81.4        |
| Expense (benefit) on deferred compensation plans | (6,096)                             | 6,918            | (13,014)           | (188.1)        | 1,233                              | 6,818             | (5,585)         | (81.9)      |
| <b>Total other expenses</b>                      | <b>\$ 82,112</b>                    | <b>\$ 96,430</b> | <b>\$ (14,318)</b> | <b>(14.8)%</b> | <b>\$ 274,667</b>                  | <b>\$ 273,476</b> | <b>\$ 1,191</b> | <b>0.4%</b> |

Property management expense, which represents regional supervision and accounting costs related to property operations, increased approximately \$0.3 million and \$0.5 million for the three and nine months ended September 30, 2011, respectively, as compared to the same periods in 2010. Property management expenses were approximately 3.0% and 3.1% of total property revenues for the three and nine months ended September 30, 2011, respectively, and approximately 3.1% and 3.3% for the three and nine months ended September 30, 2010, respectively. The increase in costs during the three and nine months ended September 30, 2011 as compared to the same periods in 2010 was primarily due to an increase in salaries, benefits, and training costs for our property management personnel.

Fee and asset management expense, which represents expenses related to third-party construction projects and property management of our joint venture communities, increased approximately \$0.2 million and \$0.6 million for the three and nine months ended September 30, 2011, respectively, as compared to the same periods in 2010. These increases were primarily due to an increase in expenses related to the management of acquisitions completed by our Funds during the first three quarters of 2011 and the fourth quarter of 2010. These increases were partially offset by lower legal expenses during the three and nine months ended September 30, 2011 as compared to the same periods in 2010. These increases were further offset by a decrease in expenses resulting from our consolidation of one joint venture community in August 2010 and two joint venture communities in December 2010, which were previously accounted for in accordance with the equity method of accounting.

General and administrative expense increased approximately \$1.0 million and \$4.1 million for the three and nine months ended September 30, 2011, respectively, as compared to the same periods in 2010. The increase during the three months ended September 30, 2011 as compared to the same period in 2010 was primarily due to increases in salaries, benefits and incentive compensation of approximately \$0.7 million. The increase during the nine months ended September 30, 2011 as compared to the same period in 2010 was primarily due to a \$2.1 million in one-time bonuses awarded to all non-executive employees in the first quarter of 2011, and increases in salaries, benefits and incentive compensation of approximately \$1.4 million. Excluding the \$2.1 million one-time bonus awards, general and administrative expenses were 5.0% and 4.8% of total property revenues and non-property income (loss), excluding income (loss) on deferred compensation plans, for the three and nine months ended September 30, 2011, respectively. General and administrative expenses were approximately 4.8% of total property revenues and non-property income (loss), excluding income (loss) on deferred compensation plans, for each of the three and nine months ended September 30, 2010.

Interest expense for the three and nine months ended September 30, 2011 decreased approximately \$4.4 million and \$9.6 million, respectively, as compared to the same periods in 2010. These decreases were primarily due to the retirement of unsecured notes payable during 2010 and 2011, including the repayment of our \$500 million term loan in June 2011. Additionally, the decreases were due to higher capitalized interest of approximately \$1.2 million and \$2.1 million during the three and nine months ended September 30, 2011, respectively, as compared to the same periods in 2010 primarily due to higher average balances in our development pipeline. These decreases were partially offset by an increase in secured notes payable relating to debt assumed in connection with the consolidation of two joint venture communities in August 2010 and December 2010, which were previously accounted for using the equity method of accounting. These decreases were also offset by an increase in interest expense related to our offering of \$500 million senior unsecured notes completed in June 2011.

Depreciation and amortization increased approximately \$1.5 million and \$9.1 million for the three and nine months ended September 30, 2011, respectively, as compared to the same periods in 2010 primarily due to an



**Table of Contents**

increase in capital improvements placed in service during the first three quarters of 2011 and during the fourth quarter of 2010. The increase was also due to the consolidation of one joint venture community in August 2010 and two joint venture communities in December 2010, which were previously accounted for using the equity method of accounting.

Amortization of deferred financing costs increased approximately \$0.2 million and \$2.1 million for the three and nine months ended September 30, 2011, respectively, as compared to the same periods in 2010. The increase for the three months ended September 30, 2011 as compared to the same period in 2010 was due to amortization of financing costs related to the \$500 million unsecured credit facility we entered into in August 2010 and the amortization of financing costs related to our offering of \$500 million senior unsecured notes completed in June 2011. The increase was partially offset by lower amortization associated with the loan costs associated with the \$500 million term loan repaid in June 2011 and the retirement of maturing unsecured notes payable during 2010 and 2011.

The increase of amortization of deferred financing costs during the nine months ended September 30, 2011 as compared to the same period in 2010 was due to the amortization of financing costs related to the \$500 million unsecured credit facility we entered into in August 2010 and the amortization of financing costs related to our offering of \$500 million senior unsecured notes completed in June 2011. The increase was also due to the write-off of approximately \$0.5 million of unamortized loan costs associated with the \$500 million term loan repaid in June 2011. The increase was partially offset by lower amortization associated with the retirement of maturing unsecured notes payable during 2010 and 2011.

Expense (benefit) on deferred compensation plans decreased approximately \$13.0 million and \$5.6 million for the three and nine months ended September 30, 2011, respectively, as compared to the same periods in 2010. These decreases primarily related to the performance of the investments held in deferred compensation plans for participants, and were directly offset by the income (loss) related to these plans, as discussed in non-property income (loss), above.

**Other**

| (\$ in thousands)                                      | Three Months Ended |                    | Change |         | Nine Months Ended  |                    | Change     |      |
|--|--------------------|--------------------|--------|---------|--------------------|--------------------|------------|------|
|  | September 30, 2011 | September 30, 2010 | \$     | %       | September 30, 2011 | September 30, 2010 | \$         | %    |
| (Loss) on discontinuation of hedging relationship      | \$                 | \$                 | \$     | %       | \$(29,791)         | \$                 | \$(29,791) | ***  |
| Gain on sale of properties, including land             |                    |                    |        |         | 4,748              | 236                | 4,512      | *    |
| Gain on sale of unconsolidated joint venture interests |                    |                    |        |         | 1,136              |                    | 1,136      | *    |
| Equity in loss of joint ventures                       | (556)              | (244)              | (312)  | (127.9) | (166)              | (785)              | 619        | 78.9 |
| Income tax expense current                             | 313                | 712                | (399)  | (56.0)  | 1,889              | 1,286              | 603        | 46.9 |

\* Not a meaningful percentage.

The loss on discontinuation of hedging relationship was due to the discontinuation of a cash flow hedge associated with the repayment of our \$500 million term loan in June 2011. Refer to Note 7, Derivative Instruments and Hedging Activities in the notes to condensed consolidated financial statements for further discussion.

Gain on sale of properties, including land, totaled approximately \$4.7 million and \$0.2 million for the nine months ended September 30, 2011 and 2010, respectively. The gain in 2011 was due to a sale of one of our land development properties located in Washington, D.C in April 2011 to one of the Funds and the sale of one of our development properties located in Austin, Texas to this Fund in June 2011. The gain recognized in 2010 was due to a gain on the sale of a land parcel in Houston, Texas to an unaffiliated third-party.

Gain on sale of unconsolidated joint venture interests totaled approximately \$1.1 million for the nine months ended September 30, 2011 due to the sale of our ownership interests in three unconsolidated joint ventures in March 2011.

Equity in loss of joint ventures increased approximately \$0.3 million for the three months ended September 30, 2011 and decreased approximately \$0.6 million for the nine months ended September 30, 2011, as compared to the same periods in 2010. The increase in losses for the three months ended September 30, 2011 was primarily due to overall losses recognized by the Funds of approximately \$0.7 million due to increased amortization of in-place leases over the underlying lease term. The increase in losses was partially offset by an increase in earnings by our





**Table of Contents**

stabilized operating joint ventures of approximately \$0.1 million primarily due to increases in rental income. The increase in losses was also offset by two development properties held by our joint ventures which were sold in March 2011. These two development properties reached stabilization in late 2010 and early 2011 and during the three months ended September 30, 2010, we recognized equity in losses of approximately \$0.3 million related to these joint ventures.

The decrease in equity in losses during the nine months ended September 30, 2011 as compared to the same period in 2010 was primarily due to two development properties held by our joint ventures which were sold in March 2011. These two development properties reached stabilization in late 2010 and early 2011. During the nine months ended September 30, 2010, we recognized equity in losses of approximately \$1.2 million related to these joint ventures, as compared to \$0.2 million of income recognized in 2011 through the date of sale. The decrease in losses was also due to an increase in earnings by our stabilized operating joint ventures of approximately \$0.2 million for the nine months ended September 30, 2011, primarily due to increases in rental income. These decreases in losses were partially offset by overall losses recognized by the Funds of approximately \$1.1 million during the nine months ended September 30, 2011, as compared to the same period in 2010, primarily due to acquisition expenses relating to the purchase of real estate investments during 2011 and the fourth quarter of 2010 and increased amortization of in-place leases over the underlying lease term.

Income tax expense decreased approximately \$0.4 million for the three months ended September 30, 2011 and increased approximately \$0.6 million for the nine months ended September 30, 2011 as compared to the same periods in 2010. The decrease during the three months ended September 30, 2011 as compared to the same period in 2010 was due to decreases in taxable income related to our third-party construction activities conducted in a taxable REIT subsidiary.

The increase in income tax during the nine months ended September 30, 2011 as compared to the same period in 2010 was due to approximately \$1.0 million associated with income taxes from the gain recognized on the sale of our available-for-sale investment during the first quarter of 2011. The increase was partially offset by a decrease in taxable income related to our third-party construction activities conducted in a taxable REIT subsidiary.

**Noncontrolling interests**

| (\$ in thousands)   | Three Months Ended |                    | Change |       | Nine Months Ended  |                    | Change   |        |
|---|--------------------|--------------------|--------|-------|--------------------|--------------------|----------|--------|
|   | September 30, 2011 | September 30, 2010 | \$     | %     | September 30, 2011 | September 30, 2010 | \$       | %      |
| Income allocated to noncontrolling interests from continuing operations | \$ 761             | \$ 432             | \$ 329 | 76.2% | \$ 2,118           | \$ 542             | \$ 1,576 | 290.8% |
| Income allocated to perpetual preferred units                           | 1,750              | 1,750              |        |       | 5,250              | 5,250              |          |        |

Income allocated to noncontrolling interests from continuing operations increased approximately \$0.3 million and \$1.6 million for the three and nine months ended September 30, 2011, respectively, as compared to the same periods in 2010. These increases were primarily due to an increase in earnings within a fully-consolidated joint venture which reached stabilization during the third quarter 2010, of which we hold a 25% ownership. The increases were also due to increased earnings associated with properties held by operating partnerships during 2011 as compared to 2010.

**Funds from Operations ( FFO )**

Management considers FFO to be an appropriate measure of the financial performance of an equity REIT. The National Association of Real Estate Investment Trusts ( NAREIT ) currently defines FFO as net income (computed in accordance with GAAP), excluding gains (or losses) associated with the sale of previously depreciated operating properties, real estate depreciation and amortization, and adjustments for unconsolidated joint ventures. Our calculation of diluted FFO also assumes conversion of all potentially dilutive securities, including certain noncontrolling interests, which are convertible into common shares. We consider FFO to be an appropriate supplemental measure of operating performance because, by excluding gains or losses on dispositions of operating properties and depreciation, FFO can help in the comparison of the operating performance of a company's real estate investments between periods or as compared to different companies.

To facilitate a clear understanding of our consolidated historical operating results, we believe FFO should be examined in conjunction with net income attributable to common shareholders as presented in the condensed consolidated statements of income and comprehensive income and data included elsewhere in this report. FFO is



**Table of Contents**

not defined by GAAP and should not be considered as an alternative to net income attributable to common shareholders as an indication of our operating performance. Additionally, FFO as disclosed by other REITs may not be comparable to our calculation.

Reconciliations of net income attributable to common shareholders to diluted FFO for the three and nine months ended September 30, 2011 and 2010 are as follows:

| (\$ in thousands)  | Three Months             |                  | Nine Months              |                   |
|--|--------------------------|------------------|--------------------------|-------------------|
|  | Ended September 30, 2011 | 2010             | Ended September 30, 2011 | 2010              |
| <b>Funds from operations</b>   |                          |                  |                          |                   |
| Net income attributable to common shareholders (1)                           | \$ 11,840                | \$ 1,650         | \$ 2,529                 | \$ 6,069          |
| Real estate depreciation and amortization, including discontinued operations | 43,286                   | 42,457           | 133,342                  | 126,675           |
| Adjustments for unconsolidated joint ventures                                | 3,223                    | 2,292            | 7,042                    | 6,753             |
| (Gain) on sale of unconsolidated joint venture interests                     |                          |                  | (1,136)                  |                   |
| Income allocated to noncontrolling interests                                 | 458                      | 281              | 1,494                    | 864               |
| <b>Funds from operations diluted</b>   | <b>\$ 58,807</b>         | <b>\$ 46,680</b> | <b>\$ 143,271</b>        | <b>\$ 140,361</b> |
| <b>Weighted average shares basic</b>   | <b>73,242</b>            | <b>69,100</b>    | <b>72,502</b>            | <b>67,898</b>     |
| Incremental shares issuable from assumed conversion of:                      |                          |                  |                          |                   |
| Common share options and awards granted                                      | 793                      | 341              | 715                      | 271               |
| Common units   | 2,459                    | 2,584            | 2,468                    | 2,610             |
| <b>Weighted average shares diluted</b>                                       | <b>76,494</b>            | <b>72,025</b>    | <b>75,685</b>            | <b>70,779</b>     |

(1) Includes a \$29.8 million charge related to a loss on the discontinuation of a hedging relationship for the nine months ended September 30, 2011.

**Liquidity and Capital Resources****Financial Condition and Sources of Liquidity**

We intend to maintain a strong balance sheet and preserve our financial flexibility, which we believe should enhance our ability to identify and capitalize on investment opportunities as they become available. We intend to maintain what management believes is a conservative capital structure by:

extending and sequencing the maturity dates of our debt where practicable;

managing interest rate exposure using what management believes to be prudent levels of fixed and floating rate debt;

maintaining what management believes to be conservative coverage ratios; and

using what management believes to be a prudent combination of debt and common and preferred equity.

Our interest expense coverage ratio, net of capitalized interest, was approximately 3.2 times and 3.1 times for the three and nine months ended September 30, 2011, respectively, and approximately 2.6 times and 2.5 times for the three and nine months ended September 30, 2010, respectively. This ratio is a method for calculating the amount of operating cash flows available to cover interest expense and is calculated by

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dividing interest expense for the period into the sum of property revenues and expenses, non-property income, other expenses, income from discontinued operations after adding back depreciation, amortization, and interest expense from both continuing and discontinued operations. Approximately 71.6% of our properties (based on invested capital) were unencumbered as of the periods ending September 30, 2011 and 2010. Our weighted average maturity of debt, including our line of credit, was approximately 7.0 years at September 30, 2011.

For the longer term, we intend to continue to focus on strengthening our capital and liquidity position by generating positive cash flows from operations, maintaining appropriate debt levels and leverage ratios, and controlling overhead costs.

Our primary source of liquidity is cash flow generated from operations. Other sources include available cash balances, the availability under our unsecured credit facility and other short-term borrowings, proceeds from dispositions of properties and other investments, and the use of debt and equity offerings under our automatic shelf registration statement. We believe our liquidity and financial condition are sufficient to meet all of our reasonably anticipated cash flow needs for the remainder of 2011 and through 2012 including:

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**Table of Contents**

normal recurring operating expenses;

current debt service requirements;

recurring capital expenditures;

initial funding of property developments, acquisitions, joint venture investments; and

the minimum dividend payments required to maintain our REIT qualification under the Code.

Factors which could increase or decrease our future liquidity include but are not limited to volatility in capital and credit markets, the availability of financing, our ability to complete asset sales, the effect our debt level and decreases in credit ratings could have on our costs of funds and our ability to access capital markets.

**Cash Flows**

Certain sources and uses of cash, such as the level of discretionary capital expenditures and repurchases of debt and common shares, are within our control and are adjusted as necessary based upon, among other factors, market conditions. The following is a discussion of our cash flows for the nine months ended September 30, 2011 and 2010.

Net cash from operating activities was approximately \$200.8 million during the nine months ended September 30, 2011 as compared to approximately \$178.5 million for the same period in 2010. The increase was primarily due to growth in property revenues directly attributable to increased rental and occupancy rates from our stabilized communities and the growth in non-stabilized communities as we consolidated three joint ventures during the second half of 2010. This increase in revenues was partially offset by the increase in property expenses from our stabilized and non-stabilized communities which include the property expenses of these three joint ventures. See further discussions of our 2011 operations as compared to 2010 in our Results of Operations. The increase was further offset by a decrease in net cash from operating activities due to the timing of payments in operating accounts, primarily relating to the \$2.1 million payment of a one-time special bonus awarded to all non-executive employees during the nine months ended September 30, 2011 and timing of payments relating to third-party construction activities. These decreases from operating activities were partially offset by the timing of interest payments and the timing of accounts receivable receipts relating to third-party construction activities.

Net cash used in investing activities during the nine months ended September 30, 2011 totaled \$146.2 million as compared to \$50.1 million during the nine months ended September 30, 2010. Cash outflows for property development and capital improvements were approximately \$155.1 million during the nine months ended September 30, 2011 as compared to approximately \$43.9 million for the same period in 2010 due primarily to an increase in construction and development activity in 2011 as compared to 2010 and the acquisition of 30.1 acres of land for approximately \$40.1 million in August 2011. Additionally, cash outflows for investments in joint ventures were approximately \$35.3 million during the nine months ended September 30, 2011 primarily relating to thirteen acquisitions completed during the nine months ended September 30, 2011 by our Funds, in which we own a 20% interest. During the nine months ended September 30, 2010, cash outflows for investments in joint ventures were approximately \$5.1 million due to two acquisitions completed by one of our Funds. These outflows were partially offset by proceeds of \$19.3 million from the sale of our interests in three unconsolidated joint ventures in March 2011 and proceeds of \$19.1 million received from the sales of two land development properties to one of our joint ventures during the nine months ended September 30, 2011. These outflows were further offset by proceeds received from the sale of our available-for-sale investment of \$4.5 million during February 2011, payments received on notes receivable from affiliates of approximately \$3.3 million and distributions of investments from our joint ventures of approximately \$2.5 million.

Net cash used in financing activities totaled approximately \$169.1 million for the nine months ended September 30, 2011 as compared to \$101.5 million during the same period in 2010. During the nine months ended September 30, 2011, a total of approximately \$626.4 million was used to repay our outstanding \$500 million term loan in June 2011 and approximately \$126.4 million of maturing secured and unsecured notes. Also during 2011, \$112.9 million was used for distributions paid to common shareholders, perpetual preferred unit holders, and noncontrolling interest holders. During this same period, net proceeds of approximately \$495.7 million was provided from the issuance of two series of unsecured notes completed in June 2011, and net proceeds of approximately \$69.9 million from the issuance of 1.1 million common shares under our at-the-market ( ATM ) share offering programs which offset these cash outflows. These cash outflows were further offset by proceeds from common share options exercised during the period of approximately \$11.3 million. Net cash used in financing activities during the nine

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months ended September 30, 2010 was related primarily to the repayment of maturing unsecured notes payable of approximately \$140.1 million, repayment of approximately \$52.1 million for an unsecured note assumed in connection with obtaining a controlling interest in a joint venture, and distributions paid to common shareholders, perpetual preferred unit holders, and noncontrolling interest holders of approximately \$101.1 million. These cash outflows were partially offset by net proceeds of approximately \$134.6 million from the

## Table of Contents

sale of approximately 2.9 million common shares under one of our ATM share offering programs entered into in March 2010. Cash outflows for the nine months ended September 30, 2010 were further offset by decreases in accounts receivable from affiliates of approximately \$3.8 million due primarily to participant withdrawals from our deferred compensation plans and cash inflows of approximately \$57.6 million from proceeds received from secured notes payable relating primarily to a secured credit agreement for a newly consolidated joint venture and advances under a construction loan for a consolidated joint venture.

### Financial Flexibility

In September 2011, we amended our \$500 million unsecured credit facility to extend the maturity date from August 2012 to September 2015 with an option to extend to September 2016. Additionally, we now have the option to increase this credit facility to \$750 million at our election. The interest rate is based upon LIBOR plus a margin which is subject to change as our credit ratings change. Advances under the line of credit may be priced at the scheduled rates, or we may enter into bid rate loans with participating banks at rates below the scheduled rates. These bid rate loans have terms of 180 days or less and may not exceed the lesser of \$250 million or the remaining amount available under the line of credit. The line of credit is subject to customary financial covenants and limitations, all of which we are in compliance.

Our line of credit provides us with the ability to issue up to \$100 million in letters of credit. While our issuance of letters of credit does not increase our borrowings outstanding under our line of credit, it does reduce the amount available. At September 30, 2011, we had outstanding letters of credit totaling approximately \$11.6 million, leaving approximately \$488.4 million available under our unsecured line of credit.

We currently have an automatic shelf registration statement on file with the SEC which allows us to offer, from time to time, an unlimited amount of common shares, preferred shares, debt securities, or warrants. Our declaration of trust provides we may issue up to 110.0 million shares of beneficial interest, consisting of 100.0 million common shares and 10.0 million preferred shares. As of September 30, 2011, we had approximately 71.4 million common shares outstanding, net of treasury shares and shares held in our deferred compensation arrangements, and no preferred shares outstanding.

In March 2010, we originated an ATM share offering program through which we could, but had no obligation to, sell common shares having an aggregate offering price of up to \$250 million ( 2010 ATM program ), in amounts and at times as we determined, into the existing trading market at current market prices as well as through negotiated transactions. The 2010 ATM program has been terminated and no further common shares are available for sale under the 2010 ATM program.

In May 2011, we originated an ATM share offering program through which we can sell common shares having an aggregate offering price of up to \$300 million ( 2011 ATM program ) from time to time into the existing trading market at current market prices as well as through negotiated transactions. We may, but have no obligation to, sell common shares through the 2011 ATM share offering program in amounts and at times as we determine. Actual sales from time to time may depend on a variety of factors, including, among others, market conditions, the trading price of our common shares, and determinations of the appropriate sources of funding for us. As of September 30, 2011, we had common shares having an aggregate offering price of up to \$242.9 million remaining available for sale under the 2011 ATM program. No additional shares were sold through the date of this filing.

We believe our ability to access capital markets is enhanced by our senior unsecured debt ratings by Moody's and Standard and Poor's, which are currently Baa1 and BBB, respectively, with stable outlooks, as well as by our ability to borrow on a secured basis from various institutions including banks, Fannie Mae, Freddie Mac, and other sources. However, we may not be able to maintain our current credit ratings and may not be able to borrow on a secured or unsecured basis in the future.

## **Table of Contents**

### **Future Cash Requirements and Contractual Obligations**

One of our principal long-term liquidity requirements includes the repayment of maturing debt, including any future borrowings under our unsecured line of credit. Excluding scheduled principal amortizations, we have no scheduled debt maturities for the remainder of 2011. We also have additional anticipated construction expenditures of approximately \$102.1 million on our current development projects and we expect to fund these amounts through available cash balances and draws on our unsecured line of credit. We intend to meet our long-term liquidity requirements through available cash balances, cash flows generated from operations, draws on our unsecured credit facility, proceeds from property dispositions, and the use of debt and equity offerings under our automatic shelf registration statement.

In order for us to continue to qualify as a REIT we are required to distribute annual dividends to our shareholders equal to a minimum of 90% of our REIT taxable income, computed without regard to the dividends paid deduction and our net capital gains. In September 2011, we announced our Board of Trust Managers had declared a quarterly dividend of \$0.49 per share to common shareholders of record as of September 30, 2011. The dividend was subsequently paid on October 17, 2011, and we paid equivalent amounts per unit to holders of the common operating partnership units. Assuming similar dividend distributions for the remainder of 2011, our annualized dividend rate for 2011 would be \$1.96 per share or unit.

### **Off-Balance Sheet Arrangements**

The joint ventures in which we have an interest have been funded in part with secured, third-party debt. As of September 30, 2011, we have no outstanding guarantees related to loans of our unconsolidated joint ventures.

### **Inflation**

Substantially all of our apartment leases are for an initial term generally ranging from six to fifteen months. In an inflationary environment, we may realize increased rents at the commencement of new leases or upon the renewal of existing leases. We believe the short-term nature of our leases generally minimizes our risk from the adverse effects of inflation.

### **Critical Accounting Policies**

Our critical accounting policies have not changed materially from information reported in our Annual Report on Form 10-K for the year ended December 31, 2010.

*Recent Accounting Pronouncements.* In June 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update 2011-05 ( ASU 2011-05 ), *Presentation of Comprehensive Income*. ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity and requires all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, ASU 2011-05 requires an entity to present reclassification adjustments on the face of the financial statements from other comprehensive income to net income. ASU 2011-05 is effective for us beginning January 1, 2012 and is not expected to have a material effect on our financial statements as we currently present other comprehensive income components in two separate but consecutive statements.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

No material changes to our exposures to market risk have occurred since our Annual Report on Form 10-K for the year ended December 31, 2010.

### **Item 4. Controls and Procedures**

*Evaluation of disclosure controls and procedures.* We carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Securities Exchange Act ( Exchange Act ) Rules 13a-15(e) and 15d-15(e). Based on the evaluation, the Chief Executive Officer and Chief Financial Officer concluded the disclosure controls and procedures as of the end of the period covered by this report are effective to ensure information required to be disclosed by us in our Exchange Act filings is recorded, processed, summarized, and reported within the periods specified in the Securities and Exchange Commission's rules and forms.



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*Changes in internal controls.* There were no changes in our internal control over financial reporting (identified in connection with the evaluation required by paragraph (d) in Rules 13a-15 and 15d-15 under the

**Table of Contents**

Exchange Act) during our most recent fiscal quarter which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

**Item 1. Legal Proceedings**

For discussion regarding legal proceedings, see Note 10, Commitments and Contingencies, to the condensed consolidated financial statements.

**Item 1A. Risk Factors**

There have been no material changes to the Risk Factors previously disclosed in Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2010.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Reserved**

**Item 5. Other Information**

None

**Table of Contents**

**Item 6. Exhibits**

(a) Exhibits

- 4.1 Second Supplement Indenture dated as of June 3, 2011 between the Company and U.S. Bank National Association, as successor to Sun Trust Bank, as trustee (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed on June 3, 2011 (File No. 1-12110)).
- 4.2 Form of Camden Property Trust 4.625% Notes due 2021 (incorporated by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K filed on May 31, 2011 (File No. 1-12110)).
- 4.3 Form of Camden Property Trust 4.875% Notes due 2021 (incorporated by reference to Exhibit 4.5 to the Company's Current Report on Form 8-K filed on May 31, 2011 (File No. 1-12110)).
- \*\*10.1 Camden Property Trust 2011 Share Incentive Plan (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on May 12, 2011 (File No. 1-12110)).
- 10.2 Form of Distribution Agency Agreement, dated May 26, 2011, between Camden Property Trust and Merrill Lynch Pierce Fenner & Smith Incorporated (incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed on May 27, 2011 (File No. 1-12110)).
- 10.3 Form of Distribution Agency Agreement, dated May 26, 2011, between Camden Property Trust and J.P. Morgan Securities LLC (incorporated by reference to Exhibit 1.2 to the Company's Current Report on Form 8-K filed on May 27, 2011 (File No. 1-12110)).
- 10.4 Form of Distribution Agency Agreement, dated May 26, 2011, between Camden Property Trust and UBS Securities LLC (incorporated by reference to Exhibit 1.3 to the Company's Current Report on Form 8-K filed on May 27, 2011 (File No. 1-12110)).
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- 10.6 Form of Distribution Agency Agreement, dated May 26, 2011, between Camden Property Trust and Piper Jaffray & Co. (incorporated by reference to Exhibit 1.5 to the Company's Current Report on Form 8-K filed on May 27, 2011 (File No. 1-12110)).
- 10.7 Amended and Restated Credit Agreement dated as of September 22, 2011 among Camden Property Trust, each lender from time to time party thereto, Bank of America, N.A., as Administrative Agent, Swing Line Lender and Letter of Credit Issuer, and JP Morgan Chase Bank, N.A., as Syndication Agent (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on September 26, 2011 (File No. 1-12110)).
- \*31.1 Certification pursuant to Rule 13a-14(a) of Chief Executive Officer dated November 4, 2011.
- \*31.2 Certification pursuant to Rule 13a-14(a) of Chief Financial Officer dated November 4, 2011.
- \*32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- \*101.INS XBRL Instance Document
- \*101.SCH XBRL Taxonomy Extension Schema Document
- \*101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- \*101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- \*101.LAB XBRL Taxonomy Extension Label Linkbase Document
- \*101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herewith.

\*\* Management contract or compensatory plan, contract or arrangement.



**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on our behalf by the undersigned thereunto duly authorized.

**CAMDEN PROPERTY TRUST**

/s/Michael P. Gallagher  
Michael P. Gallagher  
Vice President Chief Accounting Officer

November 4, 2011  
Date

**Table of Contents**

**Exhibit Index**

| Exhibit  | Description of Exhibits  |
|----------|--|
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| 10.5     | Form of Distribution Agency Agreement, dated May 26, 2011, between Camden Property Trust and Morgan Keegan & Company, Inc. (incorporated by reference to Exhibit 1.4 to the Company's Current Report on Form 8-K filed on May 27, 2011 (File No. 1-12110)).  |
| 10.6     | Form of Distribution Agency Agreement, dated May 26, 2011, between Camden Property Trust and Piper Jaffray & Co. (incorporated by reference to Exhibit 1.5 to the Company's Current Report on Form 8-K filed on May 27, 2011 (File No. 1-12110)).  |
| 10.7     | Amended and Restated Credit Agreement dated as of September 22, 2011 among Camden Property Trust, each lender from time to time party thereto, Bank of America, N.A., as Administrative Agent, Swing Line Lender and Letter of Credit Issuer, and JP Morgan Chase Bank, N.A., as Syndication Agent (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on September 26, 2011 (File No. 1-12110)). |
| *31.1    | Certification pursuant to Rule 13a-14(a) of Chief Executive Officer dated November 4, 2011.  |
| *31.2    | Certification pursuant to Rule 13a-14(a) of Chief Financial Officer dated November 4, 2011.  |
| *32.1    | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| *101.INS | XBRL Instance Document   |
| *101.SCH | XBRL Taxonomy Extension Schema Document  |
| *101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document  |
| *101.DEF | XBRL Taxonomy Extension Definition Linkbase Document   |
| *101.LAB | XBRL Taxonomy Extension Label Linkbase Document  |
| *101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document   |
| *        | Filed herewith.  |
| **       | Management contract or compensatory plan, contract or arrangement.   |