

CAMDEN PROPERTY TRUST

Form 10-Q

November 05, 2010

**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, 2010  
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)

**Texas**  
(State or other jurisdiction of  
incorporation or organization)

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

**3 Greenway Plaza, Suite 1300  
Houston, Texas**  
(Address of principle executive offices)

**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 November 1, 2010, 68,677,146 common shares of the registrant were outstanding.



**CAMDEN PROPERTY TRUST**  
**Table of Contents**

|   | <b>Page</b> |
|---|-------------|
| <b><u>PART I FINANCIAL INFORMATION</u></b>  | <b>3</b>    |
| <u>Item 1 Financial Statements</u>  | 3           |
| <u>Condensed Consolidated Balance Sheets (Unaudited) as of September 30, 2010 and December 31, 2009</u>   | 3           |
| <u>Condensed Consolidated Statements of Income and Comprehensive Income (Unaudited) for the three and nine months ended September 30, 2010 and 2009</u> | 4           |
| <u>Condensed Consolidated Statements of Equity (Unaudited) for the nine months ended September 30, 2010 and 2009</u>                                    | 6           |
| <u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the nine months ended September 30, 2010 and 2009</u>                                | 8           |
| <u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>   | 10          |
| <u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>   | 27          |
| <u>Item 3 Quantitative and Qualitative Disclosures About Market Risk</u>  | 40          |
| <u>Item 4 Controls and Procedures</u>   | 41          |
| <b><u>Part II OTHER INFORMATION</u></b>   | <b>41</b>   |
| <u>Item 1 Legal Proceedings</u>   | 41          |
| <u>Item 1A Risk Factors</u>   | 41          |
| <u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>   | 41          |
| <u>Item 3 Defaults Upon Senior Securities</u>   | 41          |
| <u>Item 4 Reserved</u>  | 41          |
| <u>Item 5 Other Information</u>   | 41          |
| <u>Item 6 Exhibits</u>  | 41          |
| <b><u>SIGNATURES</u></b>  | <b>42</b>   |
| <u>Exhibit 31.1</u>   |             |
| <u>Exhibit 31.2</u>   |             |
| <u>Exhibit 32.1</u>   |             |

EX-101 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT

EX-101 CALCULATION LINKBASE DOCUMENT

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

EX-101 DEFINITION LINKBASE DOCUMENT

**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/>2010</b> | <b>December 31,<br/>2009</b> |
|---|-------------------------------|------------------------------|
| <b>Assets</b>                                   |                               |                              |
| Real estate assets, at cost                     |                               |                              |
| Land  | \$ 763,559                    | \$ 747,921                   |
| Buildings and improvements                      | 4,613,036                     | 4,512,124                    |
|   | 5,376,595                     | 5,260,045                    |
| Accumulated depreciation                        | (1,263,173)                   | (1,149,056)                  |
| Net operating real estate assets                | 4,113,422                     | 4,110,989                    |
| Properties under development, including land    | 198,377                       | 201,581                      |
| Investments in joint ventures                   | 33,226                        | 43,542                       |
| Properties held for sale                        | 9,737                         |                              |
| Total real estate assets                        | 4,354,762                     | 4,356,112                    |
| Accounts receivable affiliates                  | 32,269                        | 36,112                       |
| Notes receivable affiliates                     | 17,509                        | 45,847                       |
| Other assets, net                               | 105,950                       | 102,114                      |
| Cash and cash equivalents                       | 91,071                        | 64,156                       |
| Restricted cash                                 | 5,174                         | 3,658                        |
| Total assets                                    | \$ 4,606,735                  | \$ 4,607,999                 |
| <b>Liabilities and equity</b>                   |                               |                              |
| <b>Liabilities</b>                              |                               |                              |
| Notes payable                                   |                               |                              |
| Unsecured                                       | \$ 1,507,858                  | \$ 1,645,926                 |
| Secured   | 1,034,354                     | 979,273                      |
| Accounts payable and accrued expenses           | 82,598                        | 74,420                       |
| Accrued real estate taxes                       | 40,340                        | 23,241                       |
| Distributions payable                           | 34,548                        | 33,025                       |
| Other liabilities                               | 144,146                       | 145,176                      |
| Total liabilities                               | 2,843,844                     | 2,901,061                    |
| Commitments and contingencies                   |                               |                              |
| Perpetual preferred units                       | 97,925                        | 97,925                       |
| Equity  |                               |                              |

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|  |              |              |
|--|--------------|--------------|
| Common shares of beneficial interest; \$0.01 par value per share; 100,000 shares authorized; 83,129 and 79,543 issued; 80,381 and 76,996 outstanding, respectively | 804          | 770          |
| Additional paid-in capital   | 2,673,606    | 2,525,656    |
| Distributions in excess of net income attributable to common shareholders  | (580,046)    | (492,571)    |
| Notes receivable secured by common shares  |              | (101)        |
| Treasury shares, at cost (12,766 and 12,897 shares, respectively)  | (461,255)    | (462,188)    |
| Accumulated other comprehensive loss   | (41,302)     | (41,155)     |
| Total common equity  | 1,591,807    | 1,530,411    |
| Noncontrolling interests   | 73,159       | 78,602       |
| Total equity   | 1,664,966    | 1,609,013    |
| Total liabilities and equity   | \$ 4,606,735 | \$ 4,607,999 |

See Notes to Condensed Consolidated Financial Statements.

**Table of Contents**

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

|  | <b>Three Months</b>        |             | <b>Nine Months</b>         |             |
|--|----------------------------|-------------|----------------------------|-------------|
|  | <b>Ended September 30,</b> |             | <b>Ended September 30,</b> |             |
| <i>(in thousands, except per share amounts)</i>              | <b>2010</b>                | <b>2009</b> | <b>2010</b>                | <b>2009</b> |
| <b>Property revenues</b>                                     |                            |             |                            |             |
| Rental revenues  | \$ 133,601                 | \$ 132,758  | \$ 395,258                 | \$ 403,248  |
| Other property revenues                                      | 22,675                     | 22,467      | 65,519                     | 64,271      |
| Total property revenues                                      | 156,276                    | 155,225     | 460,777                    | 467,519     |
| <b>Property expenses</b>                                     |                            |             |                            |             |
| Property operating and maintenance                           | 47,430                     | 46,266      | 135,844                    | 132,285     |
| Real estate taxes  | 16,817                     | 17,803      | 53,359                     | 54,692      |
| Total property expenses                                      | 64,247                     | 64,069      | 189,203                    | 186,977     |
| <b>Non-property income</b>                                   |                            |             |                            |             |
| Fee and asset management                                     | 2,145                      | 1,818       | 6,028                      | 6,093       |
| Interest and other income                                    | 451                        | 582         | 3,988                      | 2,414       |
| Income on deferred compensation plans                        | 6,918                      | 8,194       | 6,818                      | 11,702      |
| Total non-property income                                    | 9,514                      | 10,594      | 16,834                     | 20,209      |
| <b>Other expenses</b>  |                            |             |                            |             |
| Property management  | 4,789                      | 4,377       | 14,994                     | 13,848      |
| Fee and asset management                                     | 1,155                      | 1,074       | 3,611                      | 3,512       |
| General and administrative                                   | 7,568                      | 7,532       | 22,339                     | 23,010      |
| Interest   | 31,781                     | 31,117      | 95,078                     | 97,364      |
| Depreciation and amortization                                | 43,685                     | 42,697      | 129,963                    | 130,197     |
| Amortization of deferred financing costs                     | 1,185                      | 682         | 2,624                      | 2,356       |
| Expense on deferred compensation plans                       | 6,918                      | 8,194       | 6,818                      | 11,702      |
| Total other expenses   | 97,081                     | 95,673      | 275,427                    | 281,989     |
| Gain on sale of properties, including land                   |                            |             | 236                        |             |
| Loss on early retirement of debt                             |                            |             |                            | (2,550)     |
| Equity in income (loss) of joint ventures                    | (244)                      | (38)        | (785)                      | 592         |
| <b>Income from continuing operations before income taxes</b> | 4,218                      | 6,039       | 12,432                     | 16,804      |
| Income tax expense current                                   | (712)                      | (126)       | (1,286)                    | (772)       |
| <b>Income from continuing operations</b>                     | 3,506                      | 5,913       | 11,146                     | 16,032      |
| Income from discontinued operations                          | 326                        | 279         | 715                        | 2,265       |
| Gain on sale of discontinued operations                      |                            |             |                            | 16,887      |



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|   |          |          |          |           |
|---|----------|----------|----------|-----------|
| <b>Net income</b>   | 3,832    | 6,192    | 11,861   | 35,184    |
| Less income allocated to noncontrolling interests<br>from continuing operations | (432)    | (505)    | (542)    | (1,448)   |
| Less income allocated to perpetual preferred units                              | (1,750)  | (1,750)  | (5,250)  | (5,250)   |
| <b>Net income attributable to common<br/>shareholders</b>                       | \$ 1,650 | \$ 3,937 | \$ 6,069 | \$ 28,486 |

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>2010</b>                | <b>2009</b> | <b>2010</b>                | <b>2009</b> |
| <b>Earnings per share basic</b>   |                            |             |                            |             |
| Income from continuing operations attributable to common shareholders                             | \$ 0.02                    | \$ 0.06     | \$ 0.08                    | \$ 0.15     |
| Income from discontinued operations, including gain on sale, attributable to common shareholders  |                            |             | 0.01                       | 0.31        |
| Net income attributable to common shareholders  | \$ 0.02                    | \$ 0.06     | \$ 0.09                    | \$ 0.46     |
| <b>Earnings per share diluted</b>   |                            |             |                            |             |
| Income from continuing operations attributable to common shareholders                             | \$ 0.02                    | \$ 0.06     | \$ 0.08                    | \$ 0.15     |
| Income from discontinued operations, including gain on sale, attributable to common shareholders  |                            |             | 0.01                       | 0.31        |
| Net income attributable to common shareholders  | \$ 0.02                    | \$ 0.06     | \$ 0.09                    | \$ 0.46     |
| <b>Distributions declared per common share</b>  | \$ 0.45                    | \$ 0.45     | \$ 1.35                    | \$ 1.60     |
| <b>Weighted average number of common shares outstanding</b>                                       | 69,100                     | 66,094      | 67,898                     | 61,087      |
| <b>Weighted average number of common shares and dilutive equivalent common shares outstanding</b> | 69,441                     | 66,602      | 68,169                     | 61,579      |
| <b>Net income attributable to common shareholders</b>   |                            |             |                            |             |
| Income from continuing operations   | \$ 3,506                   | \$ 5,913    | \$ 11,146                  | \$ 16,032   |
| Less income allocated to noncontrolling interests from continuing operations                      | (432)                      | (505)       | (542)                      | (1,448)     |
| Less income allocated to perpetual preferred units  | (1,750)                    | (1,750)     | (5,250)                    | (5,250)     |
| Income from continuing operations attributable to common shareholders                             | 1,324                      | 3,658       | 5,354                      | 9,334       |
| Income from discontinued operations, including gain on sale, attributable to common shareholders  | 326                        | 279         | 715                        | 19,152      |
| Net income attributable to common shareholders  | \$ 1,650                   | \$ 3,937    | \$ 6,069                   | \$ 28,486   |

**Condensed Consolidated Statements of Comprehensive Income:**

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|  |    |         |    |         |    |          |    |          |
|--|----|---------|----|---------|----|----------|----|----------|
| <b>Net income</b>  | \$ | 3,832   | \$ | 6,192   | \$ | 11,861   | \$ | 35,184   |
| <b>Other comprehensive income (loss)</b>                                     |    |         |    |         |    |          |    |          |
| Unrealized loss on cash flow hedging activities                              |    | (5,323) |    | (8,732) |    | (19,549) |    | (10,307) |
| Reclassification of net losses on cash flow hedging activities               |    | 5,825   |    | 5,697   |    | 17,488   |    | 16,442   |
| Unrealized gain on available-for-sale securities, net of tax                 |    | 1,914   |    |         |    | 1,914    |    |          |
| <b>Comprehensive income</b>  |    | 6,248   |    | 3,157   |    | 11,714   |    | 41,319   |
| Less income allocated to noncontrolling interests from continuing operations |    | (432)   |    | (505)   |    | (542)    |    | (1,448)  |
| Less income allocated to perpetual preferred units                           |    | (1,750) |    | (1,750) |    | (5,250)  |    | (5,250)  |
| <b>Comprehensive income attributable to common shareholders</b>              | \$ | 4,066   | \$ | 902     | \$ | 5,922    | \$ | 34,621   |

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

**CAMDEN PROPERTY TRUST**  
**CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**  
**(Unaudited)**

|   | <b>Common Shareholders</b>           |                            |                                       |   |                          |                                      |           | Noncontrolling | Total     | 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 | interests |                |           |                           |
| <b>December 31, 2009</b>  | \$ 770                               | \$ 2,525,656               | \$ (492,571)                          | \$ (101)                                  | \$ (462,188)             | \$ (41,155)                          | \$ 78,602 | \$ 1,609,013   | \$ 97,900 |                           |
| Income  |                                      |                            | 6,069                                 |   |                          |                                      | 542       | 6,611          | 5,200     |                           |
| Other comprehensive loss  |                                      |                            |                                       |   |                          | (147)                                |           | (147)          |           |                           |
| Common shares issued  | 29                                   | 134,588                    |                                       |   |                          |                                      |           | 134,617        |           |                           |
| Share awards  | 4                                    | 8,919                      |                                       |   |                          |                                      |           | 8,923          |           |                           |
| Employee stock purchase plan                                      |                                      | (150)                      |                                       |   | 933                      |                                      |           | 783            |           |                           |
| Common share options exercised                                    | 1                                    | 2,459                      |                                       |   |                          |                                      |           | 2,460          |           |                           |
| Reversions of operating partnership interests                     | 2                                    | 2,130                      |                                       |   |                          |                                      | (2,132)   |                |           |                           |
| Distributions to perpetual preferred units                        |                                      |                            |                                       |   |                          |                                      |           |                | (5,200)   |                           |
| Distributions to common shareholders and noncontrolling interests |                                      |                            | (93,544)                              |   |                          |                                      | (3,863)   | (97,407)       |           |                           |
| Other   | (2)                                  | 4                          |                                       | 101                                       |                          |                                      | 10        | 113            |           |                           |
| <b>December 30, 2010</b>  | \$ 804                               | \$ 2,673,606               | \$ (580,046)                          | \$  | \$ (461,255)             | \$ (41,302)                          | \$ 73,159 | \$ 1,664,966   | \$ 97,900 |                           |

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

**CAMDEN PROPERTY TRUST**  
**CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**  
**(Unaudited)**

|   | <b>Common Shareholders</b>           |                            |                                       |   |                          |                                      |                          |              | 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 | Total equity |                           |
| <b>September 30, 2009</b>   | \$ 770                               | \$ 2,522,525               | \$ (383,265)                          | \$ (101)                                  | \$ (462,188)             | \$ (44,921)                          | \$ 81,851                | \$ 1,714,671 | \$ 97,900                 |
| Net income  |                                      |                            | 28,486                                |   |                          |                                      | 1,448                    | 29,934       | 5,200                     |
| Other comprehensive income  |                                      |                            |                                       |   |                          | 6,135                                |                          | 6,135        |                           |
| Common shares issued  | 104                                  | 272,008                    |                                       |   |                          |                                      |                          | 272,112      |                           |
| Share awards  |                                      | 8,110                      |                                       |   |                          |                                      |                          | 8,110        |                           |
| Employee stock purchase plan                                      |                                      | (215)                      |                                       |   | 1,027                    |                                      |                          | 812          |                           |
| Common share options exercised                                    |                                      | 513                        |                                       |   |                          |                                      |                          | 513          |                           |
| Conversions and redemptions of operating partnership units        | 1                                    | 3,760                      |                                       |   |                          |                                      | (3,777)                  | (16)         |                           |
| Acquisition of noncontrolling interests                           |                                      | 648                        |                                       |   |                          |                                      | (748)                    | (100)        |                           |
| Distributions to perpetual preferred units                        |                                      |                            |                                       |   |                          |                                      |                          |              | (5,200)                   |
| Distributions to common shareholders and noncontrolling interests |                                      |                            | (99,442)                              |   |                          |                                      | (4,934)                  | (104,376)    |                           |
| Other   | 5                                    | (2)                        |                                       | 194                                       | (6)                      |                                      |                          | 191          |                           |
| <b>September 30, 2008</b>   | \$ 660                               | \$ 2,237,703               | \$ (312,309)                          | \$ (295)                                  | \$ (463,209)             | \$ (51,056)                          | \$ 89,862                | \$ 1,501,356 | \$ 97,900                 |

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>2010</b>                                | <b>2009</b>     |
| <b>Cash flows from operating activities</b>  |  |                 |
| Net income   | \$ 11,861                                  | \$ 35,184       |
| Adjustments to reconcile net income to net cash from operating activities:         |  |                 |
| Depreciation and amortization, including discontinued operations                   | 129,419                                    | 128,797         |
| Gain on sale of discontinued operations  |  | (16,887)        |
| Gain on sale of properties, including land   | (236)                                      |                 |
| Distributions of income from joint ventures  | 3,870                                      | 4,431           |
| Equity in (income) loss of joint ventures  | 785  | (592)           |
| Interest from notes receivable affiliates  | (231)                                      | (321)           |
| Share-based compensation   | 8,502                                      | 7,035           |
| Loss on early retirement of debt   |  | 2,550           |
| Amortization of deferred financing costs   | 2,624                                      | 2,356           |
| Accretion of discount on unsecured notes payable                                   | 384  | 502             |
| Net change in operating accounts   | 21,483                                     | 22,340          |
| <br>Net cash from operating activities   | <br>\$ 178,461                             | <br>\$ 185,395  |
| <br><b>Cash flows from investing activities</b>                                    |  |                 |
| Development and capital improvements   | \$ (43,927)                                | \$ (55,068)     |
| Proceeds from sales of properties, including land and discontinued operations, net | 937  | 28,078          |
| Payments received on notes receivable other  |  | 8,710           |
| Increase in notes receivable affiliates  | (511)                                      | (6,219)         |
| Investments in joint ventures  | (5,094)                                    | (22,796)        |
| Other  | (1,464)                                    | (3,135)         |
| <br>Net cash from investing activities   | <br>\$ (50,059)                            | <br>\$ (50,430) |

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>2010</b>                                | <b>2009</b>          |
| <b>Cash flows from financing activities</b>   |  |                      |
| Borrowings on unsecured line of credit  | \$ 37,000                                  | \$                   |
| Repayments on unsecured line of credit  | (37,000)                                   | (145,000)            |
| Repayment of notes payable  | (192,247)                                  | (502,880)            |
| Proceeds from notes payable   | 57,601                                     | 436,797              |
| Proceeds from issuance of common shares, net  | 134,617                                    | 272,112              |
| Distributions to common shareholders, perpetual preferred units, and noncontrolling interests | (101,052)                                  | (119,538)            |
| Payment of deferred financing costs   | (6,528)                                    | (3,960)              |
| Net decrease in accounts receivable affiliates  | 3,843                                      | 1,051                |
| Other   | 2,279                                      | 729                  |
| <br>Net cash from financing activities  | <br>\$ (101,487)                           | <br>\$ (60,689)      |
| <br>Net increase in cash and cash equivalents   | <br>26,915                                 | <br>74,276           |
| <b>Cash and cash equivalents, beginning of period</b>   | <b>64,156</b>                              | <b>7,407</b>         |
| <br><b>Cash and cash equivalents, end of period</b>   | <br><b>\$ 91,071</b>                       | <br><b>\$ 81,683</b> |
| <br><b>Supplemental information</b>   |  |                      |
| Cash paid for interest, net of interest capitalized   | \$ 87,116                                  | \$ 94,443            |
| Cash paid for income taxes  | 1,280                                      | 1,800                |
| <br><b>Supplemental schedule of noncash investing and financing activities</b>                |  |                      |
| Distributions declared but not paid   | \$ 34,548                                  | \$ 33,028            |
| Value of shares issued under benefit plans, net of cancellations                              | 14,465                                     | 8,454                |
| Conversion of operating partnership units to common shares                                    | 2,132                                      | 3,753                |
| Accrual associated with construction and capital expenditures                                 | 4,140                                      | 5,401                |
| Conversion of mezzanine notes to joint venture equity   | 28,944                                     | 9,213                |
| 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.

**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, development, construction, and management 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, 2010, we owned interests in or operated 189 multifamily properties comprising 64,681 apartment homes across the United States. In addition, we own other land parcels we may develop into multifamily apartment communities; one multifamily property comprised of 602 apartment homes was designated as held for sale.

**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. 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 financial 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 2009 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, 2010 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 investments in joint ventures and mezzanine construction financing and if, with respect to investments, we believe there is an other than temporary decline in market value, or if, with respect to mezzanine loans, it is probable we will not collect all amounts due in accordance with the terms, we will record an impairment charge based on these evaluations. In general, we provide mezzanine loans to affiliated joint ventures constructing or operating multifamily assets. While we believe it is currently probable we will collect all amounts due with respect to these mezzanine loans, changes in market conditions related to credit markets and real estate market fundamentals inject a significant amount of uncertainty into the environment. Any adverse economic or market development may



cause us to re-evaluate our conclusions and could result in material impairment charges with respect to our mezzanine loans.

**Table of Contents**

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, among other factors, the judgment and assumptions applied in the impairment analyses and the fact limited market information regarding the value of comparable land exists at this time, it is possible actual results could differ substantially from those estimated.

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 would 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 and restructuring costs associated with the acquisition of 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 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 and buildings and improvements. Capitalized interest was approximately \$1.3 million and \$4.0 million for the three and nine months ended September 30, 2010, respectively, and approximately \$2.7 million and \$7.6 million for the three and nine months ended September 30, 2009, respectively. Capitalized real estate taxes were approximately \$0.1 million and \$0.6 million for the three and nine months ended September 30, 2010, respectively, and approximately \$0.4 million and \$1.4 million for the three and nine months ended September 30, 2009, 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 sheet 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, even though hedge accounting does not apply or we elect not to apply hedge accounting.

**Table of Contents**

*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 sources of income, including from interest and fee and asset management income, are recognized as earned. Nine 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 the properties operate, and the collection terms, there is no significant concentration of credit risk.

*Other Assets, Net.* Other assets in our consolidated financial statements include investments under deferred compensation plans, deferred financing costs, non-real estate leasehold improvements and equipment, prepaid expenses, the value of in-place leases net of related accumulated amortization, available-for-sale investments, and other miscellaneous receivables. Available-for-sale investments are carried at fair value with unrealized gains and losses included in accumulated other comprehensive income (loss), a separate component of shareholders' equity.

*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 comprises 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, estimates related to the valuation of our investments in joint ventures and mezzanine financing, and estimates of expected losses of potential variable interest entities. 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 December 2009, the FASB issued ASU 2009-17, *Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*, which codified the previously issued Statement of Financial Accounting Standards 167, *Amendments to FASB Interpretation No. 46R*. ASU 2009-17 changes the consolidation analysis for VIEs and requires a qualitative analysis to determine the primary beneficiary of the VIE. The determination of the primary beneficiary of a VIE is based on whether the entity has the power to direct matters which most significantly impact the activities of the VIE and has the obligation to absorb losses, or the right to receive benefits, of the VIE which could potentially be significant to the VIE. The ASU requires an ongoing reconsideration of the primary beneficiary and also amends the events triggering a reassessment of whether an entity is a VIE. ASU 2009-17 requires additional disclosures for VIEs, including disclosures about a reporting entity's involvement with VIEs, how a reporting entity's involvement with a VIE affects the reporting entity's financial statements, and significant judgments and assumptions made by the reporting entity to determine whether it must consolidate the VIE. ASU 2009-17 was effective for us beginning January 1, 2010. Our adoption of ASU 2009-17 did not have a material effect on our financial statements, but could potentially have a material impact on future reconsideration events and subsequent reassessment of VIE status.

**Table of Contents****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 4.7 million and 5.0 million for the three and nine months ended September 30, 2010, respectively, and was approximately 4.9 million for both the three and nine months ended September 30, 2009. 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 were determined to be anti-dilutive.

The following table presents information necessary to calculate basic and diluted earnings per share for the three and nine months ended September 30, 2010 and 2009:

| <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>2010</b>                                 | <b>2009</b> | <b>2010</b>                                | <b>2009</b> |
| <b>Basic earnings per share calculation</b>  |   |             |  |             |
| Income from continuing operations attributable to common shareholders  | \$ 1,324                                    | \$ 3,658    | \$ 5,354                                   | \$ 9,334    |
| Amount allocated to participating securities   | (24)  | (3)         | (94)                                       | (226)       |
| Income from continuing operations attributable to common shareholders, net of amount allocated to participating securities | 1,300                                       | 3,655       | 5,260                                      | 9,108       |
| Income from discontinued operations, including gain on sale, attributable to common shareholders                           | 326   | 279         | 715  | 19,152      |
| Net income attributable to common shareholders, as adjusted basic  | \$ 1,626                                    | \$ 3,934    | \$ 5,975                                   | \$ 28,260   |
| Income from continuing operations attributable to common shareholders, as adjusted per share                               | \$ 0.02                                     | \$ 0.06     | \$ 0.08                                    | \$ 0.15     |
| Income from discontinued operations, including gain on sale, attributable to common shareholders per share                 |   |             | 0.01                                       | 0.31        |
| Net income attributable to common shareholders, as adjusted per share  | \$ 0.02                                     | \$ 0.06     | \$ 0.09                                    | \$ 0.46     |
| Weighted average number of common shares outstanding   | 69,100                                      | 66,094      | 67,898                                     | 61,087      |

**Table of Contents**

| <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>2010</b>                                 | <b>2009</b> | <b>2010</b>                                | <b>2009</b> |
| <b>Diluted earnings per share calculation</b>  |   |             |  |             |
| Income from continuing operations attributable to common shareholders, net of amount allocated to participating securities | \$ 1,300                                    | \$ 3,655    | \$ 5,260                                   | \$ 9,108    |
| Income allocated to common units   |   | 9           |  | 29          |
| Income from continuing operations attributable to common shareholders, as adjusted   | 1,300                                       | 3,664       | 5,260                                      | 9,137       |
| Income from discontinued operations, including gain on sale, attributable to common shareholders                           | 326   | 279         | 715  | 19,152      |
| Net income attributable to common shareholders, as adjusted  | \$ 1,626                                    | \$ 3,943    | \$ 5,975                                   | \$ 28,289   |
| Income from continuing operations attributable to common shareholders, as adjusted per share                               | \$ 0.02                                     | \$ 0.06     | \$ 0.08                                    | \$ 0.15     |
| Income from discontinued operations, including gain on sale, attributable to common shareholders per share                 |   |             | 0.01                                       | 0.31        |
| Net income attributable to common shareholders, as adjusted per share  | \$ 0.02                                     | \$ 0.06     | \$ 0.09                                    | \$ 0.46     |
| Weighted average number of common shares outstanding   | 69,100                                      | 66,094      | 67,898                                     | 61,087      |
| Incremental shares issuable from assumed conversion of:  |   |             |  |             |
| Common share options and share awards granted  | 341   | 36          | 271  | 13          |
| Common units   |   | 472         |  | 479         |
| Weighted average number of common shares and dilutive equivalent common shares outstanding                                 | 69,441                                      | 66,602      | 68,169                                     | 61,579      |

**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 million shares of beneficial interest, consisting of 100 million common shares and 10 million preferred shares. As of September 30, 2010, we had approximately 67.6 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 announced the creation of an at-the-market ( ATM ) share offering program through which we may, but have no obligation to, sell common shares having an aggregate offering price of up to \$250 million, in amounts and at times as we determine, into the existing trading market at current market prices as well as through negotiated transactions. Actual sales will depend on a variety of factors we determine from time to time including, among others, market conditions, the trading price of our common shares, and determinations of the appropriate sources of funding for us.

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

|                         | <b>Three Months<br/>Ended<br/>September 30,<br/>2010</b> | <b>Nine Months<br/>Ended<br/>September 30,<br/>2010</b> |
|-------------------------|--|---|
| Common shares sold      | 0.6  | 2.9   |
| Total net consideration | \$ 28.2  | \$ 134.6  |
| Average price per share | \$ 48.05   | \$ 46.91  |

**Table of Contents**

During the fourth quarter of 2010, we issued approximately 1.0 million common shares at an average price of \$49.25 per share for total net consideration of approximately \$50.4 million. As of the date of this filing, we had common shares having an aggregate offering price of up to \$61.9 million remaining available for sale under the ATM program.

**5. Investments in Joint Ventures**

As of September 30, 2010, our equity investments in unconsolidated joint ventures, which we account for utilizing the equity method of accounting, consisted of 23 joint ventures, with our ownership percentages ranging from 15% to 72%. We provide property management services to the majority of these joint ventures which own operating properties and 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/>2010</b> | <b>December 31,<br/>2009</b> |
|------------------------|-------------------------------|------------------------------|
| Total assets           | \$ 1,121.4                    | \$ 1,202.0                   |
| Total third-party debt | 949.9                         | 980.9                        |
| Total equity           | 134.6                         | 151.9                        |

|                             | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|-----------------------------|---|-------------|--|-------------|
|                             | <b>2010</b>                                 | <b>2009</b> | <b>2010</b>                                | <b>2009</b> |
| Total revenues              | \$ 35.3                                     | \$ 35.2     | \$ 103.6                                   | \$ 103.2    |
| Net loss                    | (5.0)                                       | (5.8)       | (15.2)                                     | (12.9)      |
| Equity in income (loss) (1) | (0.2)                                       |             | (0.8)                                      | 0.6         |

*(1) Equity in income (loss) of unconsolidated joint ventures excludes our ownership interest of fee income from various property management services and interest income from mezzanine loans with our joint ventures.*

The joint ventures in which we have an interest have been funded in part with secured, third-party debt. We have guaranteed no more than our proportionate interest, totaling approximately \$47.8 million, of four loans utilized for construction and development activities for our joint ventures.

Mezzanine loans we have made to affiliate joint ventures are recorded as Notes receivable affiliates as discussed in Note 6, Notes Receivable.

We may earn fees for property and asset management, construction, development, and other services related primarily to joint ventures in which we own an interest. Fees earned for these services amounted to approximately \$2.1 million and \$1.8 million for the three months ended September 30, 2010 and 2009, respectively, and approximately \$6.0 million and \$6.1 million for the nine months ended September 30, 2010 and September 30, 2009, respectively. We eliminate fee income from property management services provided to these joint ventures to the extent of our



ownership.

On April 15, 2010, a \$24.5 million secured third-party construction note made by one of our joint ventures which owns a multifamily property located in Houston, Texas, originally scheduled to mature in April 2010, was contractually extended to April 2011. Concurrent with the construction note extension, our \$8.2 million mezzanine loan to this joint venture was converted into an additional common equity interest in the amount of \$7.2 million (with a preference on distribution of cash flows) and the remaining \$1.0 million was converted into an additional equity interest in the joint venture.

In July 2010, we acquired two multifamily properties for approximately \$41 million on behalf of one of our discretionary investment funds (the Funds ) in which we have a 20% ownership interest. One property is comprised of 306 units located in Houston, Texas and the second property is a 110 unit substantially complete development community located in Atlanta, Georgia.

**Table of Contents**

In August 2010, the ownership of one of our joint ventures, which owns a multifamily property located in Irvine, California, was restructured and resulted in our ownership interest increasing from 30% to 99.99%. We previously accounted for this joint venture in accordance with the equity method of accounting. Following this restructuring, we have consolidated this entity for financial reporting purposes. At the time of this restructuring, we recorded the assets and liabilities of the joint venture at fair value, which has resulted in an increase of net real estate assets of approximately \$92.7 million and a reduction to investments in joint ventures and notes receivable-affiliates of approximately \$21.2 million and \$20.7 million, respectively. We did not record a gain or loss on this restructuring as the net consideration approximated the fair market value of the net assets received. Subsequent to this restructuring, we repaid the joint venture's existing \$52.1 million secured note, which accrued interest at LIBOR plus 2.25%, and the joint venture entered into a 35 year secured credit agreement with a third-party lender in the amount of \$53.0 million with an effective annual interest rate of 4.35%.

**6. Notes Receivable**

*Notes Receivable - affiliates.* We provide mezzanine financing with rates ranging from the London Interbank Offered Rate ( LIBOR ) plus 3% to a fixed maximum rate of 12% per year, to certain of our joint ventures. As of September 30, 2010 and December 31, 2009, the balance of Notes receivable - affiliates totaled approximately \$17.5 million and \$45.8 million, respectively, on notes maturing through 2019. We eliminate the interest income to the extent of our percentage ownership in the joint ventures. We have reviewed the terms and conditions underlying these notes receivable and believe these notes are collectible and no impairment existed at September 30, 2010.

At September 30, 2010, our commitment to fund additional amounts under the mezzanine loans was an aggregate of approximately \$6.0 million.

**7. Notes Payable**

The following is a summary of our indebtedness:

| <i>(in millions)</i>                               | <b>Balance at</b>                 |                              |
|--|-----------------------------------|------------------------------|
|  | <b>September<br/>30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
| <b>Commercial Banks</b>                            |                                   |                              |
| Unsecured line of credit and short-term borrowings | \$                                | \$                           |
| \$500 million term loan, due 2012                  | 500.0                             | 500.0                        |
|  | \$ 500.0                          | \$ 500.0                     |
| <b>Senior unsecured notes</b>                      |                                   |                              |
| \$250.0 million 4.39% Notes, due 2010              |                                   | 55.3                         |
| \$100.0 million 6.75% Notes, due 2010              |                                   | 57.8                         |
| \$150.0 million 7.69% Notes, due 2011              | 87.9                              | 87.9                         |
| \$200.0 million 5.93% Notes, due 2012              | 189.4                             | 189.4                        |
| \$200.0 million 5.45% Notes, due 2013              | 199.6                             | 199.4                        |
| \$250.0 million 5.08% Notes, due 2015              | 249.2                             | 249.0                        |
| \$300.0 million 5.75% Notes, due 2017              | 246.1                             | 246.1                        |
|  | \$ 972.2                          | \$ 1,084.9                   |
| <b>Medium-term notes</b>                           |                                   |                              |
| \$10.0 million 4.90% Notes, due 2010               |                                   | 10.2                         |
| \$14.5 million 6.79% Notes, due 2010               |                                   | 14.5                         |
| \$35.0 million 4.99% Notes, due 2011               | 35.6                              | 36.3                         |

|                                      |    |         |    |         |
|--------------------------------------|----|---------|----|---------|
|                                      | \$ | 35.6    | \$ | 61.0    |
| <b>Total unsecured notes payable</b> | \$ | 1,507.8 | \$ | 1,645.9 |

**Table of Contents**

| <i>(in millions)</i>                                   | <b>Balance at</b>                 |                              |
|--|-----------------------------------|------------------------------|
|  | <b>September<br/>30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
| <b>Secured notes</b>                                   |                                   |                              |
| 1.18% 6.00% Conventional Mortgage Notes, due 2011 2045 | \$ 993.8                          | \$ 937.8                     |
| 1.72% Tax-exempt Mortgage Note due 2028                | 40.6                              | 41.5                         |
|  | \$ 1,034.4                        | \$ 979.3                     |
| <b>Total notes payable</b>                             | \$ 2,542.2                        | \$ 2,625.2                   |

Floating rate debt included in secured notes (1.18% 1.71%) \$ 189.8 \$ 186.9

Floating rate tax-exempt debt included in secured notes (1.72%) 40.6 41.5

In August 2010, we entered into a \$500 million unsecured credit facility, with the ability to further increase to \$600 million, which matures in August 2012 and may be extended at our option to August 2013. This facility replaced our \$600 million unsecured credit facility which was scheduled to mature in January 2011. Interest rate spreads float on a margin based on LIBOR and are 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, 2010, we had outstanding letters of credit totaling approximately \$10.2 million, leaving approximately \$489.8 million available under our unsecured line of credit.

Subsequent to the restructuring of one of our unconsolidated joint ventures in August 2010, this now fully consolidated joint venture entered into a 35 year secured credit agreement with a third-party lender in the amount of \$53.0 million with an effective annual interest rate of 4.35%. Refer to Note 5, Investments in Joint Ventures, for further discussion of this transaction.

At September 30, 2010 and 2009, the weighted average interest rate on our floating rate debt, which includes our unsecured line of credit, was approximately 1.3% and 1.2%, respectively.

During the three months ended March 31, 2010, we repaid the remaining principal amount of our \$250 million, 4.39% senior unsecured notes which matured on January 15, 2010 for a total of approximately \$55.3 million. During the three months ended September 30, 2010, we repaid the remaining amounts outstanding on our \$10.0 million, 4.90% and \$14.5 million, 6.79% medium-term notes and our \$100.0 million, 6.75% fixed-rate notes maturing in 2010 for a total of approximately \$82.3 million. We have no scheduled debt maturities for the remainder of 2010.

**Table of Contents**

Our indebtedness, including our unsecured line of credit, had a weighted average maturity of approximately 5.7 years at September 30, 2010. Scheduled repayments on outstanding debt assuming all contractual extensions, including our line of credit and scheduled principal amortizations, and the weighted average interest rate on maturing debt at September 30, 2010 are as follows:

| <i>(in millions)</i> | <b>Amount</b>     | <b>Weighted<br/>Average<br/>Interest Rate</b> |
|----------------------|-------------------|---|
|                      | \$                | %   |
| 2010                 | 1.1*              |   |
| 2011                 | 158.5             | 6.2   |
| 2012                 | 762.7             | 5.4   |
| 2013                 | 228.0             | 5.4   |
| 2014                 | 11.0              | 6.0   |
| 2015 and thereafter  | 1,380.9           | 4.7   |
| <b>Total</b>         | <b>\$ 2,542.2</b> | <b>5.0%</b>                                   |

\* *This balance consists entirely of scheduled principal amortizations.*

**8. 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 up front premium.

*Designated Hedges.* 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. Over the next twelve months, we estimate an additional \$23.0 million will be reclassified to interest expense. During the three and nine months ended September 30, 2010 and 2009, 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 was ineffective during the three or nine months ended September 30, 2010 and 2009.

As of September 30, 2010, we had the following outstanding interest rate derivatives designated as cash flow hedges of interest rate risk:

| Interest Rate Derivative | Number of Instruments | Notional Amount |
|--------------------------|-----------------------|-----------------|
|--------------------------|-----------------------|-----------------|

Interest Rate Swaps 2 \$ 516.6 million  
*Non-designated Hedges.* Derivatives not designated as hedges are not speculative 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.

**Table of Contents**

As of September 30, 2010, we had the following outstanding interest rate derivative which was not designated as a hedge of interest rate risk:

|                          |                       |                  |
|--------------------------|-----------------------|------------------|
| Interest Rate Derivative | Number of Instruments | Notional Amount  |
| Interest Rate Cap        | 1                     | \$ 175.0 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, 2010 and December 31, 2009 (in millions):

**Fair Values of Derivative Instruments**

|  | <b>Asset Derivatives</b>  |            |                          |            | <b>Liability Derivatives</b> |            |                          |            |
|--|---------------------------|------------|--------------------------|------------|------------------------------|------------|--------------------------|------------|
|  | <b>September 30, 2010</b> |            | <b>December 31, 2009</b> |            | <b>September 30, 2010</b>    |            | <b>December 31, 2009</b> |            |
|  | Balance Sheet Location    | Fair Value | Balance Sheet Location   | Fair Value | Balance Sheet Location       | Fair Value | Balance Sheet Location   | Fair Value |
| Derivatives designated as hedging instruments            |                           |            |                          |            |                              |            |                          |            |
| Interest Rate Swaps                                      |                           |            |                          |            | Other Liabilities            | \$ 43.3    | Other Liabilities        | \$ 41.1    |
| Derivatives <b>not</b> designated as hedging instruments |                           |            |                          |            |                              |            |                          |            |
| Interest Rate Cap  |                           |            | Other Assets             | \$ 0.1     |                              |            |                          |            |

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, 2010 and 2009 (in millions):

**Effect of Derivative Instruments**

**Three Months Ended September 30,**

|   | <b>Location of Loss</b>  |  |  |   | <b>Location of Gain (Loss) Recognized in Income on</b>   |
|---|--|--|--|---|--|
|   | <b>Amount of Loss Recognized in Other Comprehensive Income ( OCI ) on Derivative</b> | <b>Reclassified from Accumulated OCI into Income (Effective)</b> | <b>Reclassified from Accumulated OCI into Income (Effective)</b> | <b>Derivative (Ineffective) and Excluded from Effectiveness</b> | <b>Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective) Portion and Amount Excluded from</b> |
| <b>Derivatives in Cash Flow Hedging</b> |  |  |  |   |  |

| Relationships  | (Effective Portion) |          | Portion)  |        |        | Effectiveness Testing)                                   |                |
|--|---------------------|----------|---|--------|--------|--|----------------|
|  | 2010                | 2009     |   | 2010   | 2009   | 2010   | 2009           |
| Interest Rate Swaps                                      | \$ (5.3)            | \$ (8.7) | Interest expense  | \$ 5.8 | \$ 5.7 | Not applicable   | Not applicable |
| <b>Derivatives not designated as hedging instruments</b> |                     |          | <b>Location of Gain/Loss Recognized in Income on Derivative</b> |        |        | <b>Amount of Loss Recognized in Income on Derivative</b> |                |
| Interest Rate Cap  |                     |          | Other income/expense  |        |        | 2010   | 2009           |
|  |                     |          |   |        |        | \$   | \$             |



Table of Contents**Nine Months Ended September 30,**

|  | Amount of Loss  |   | Location of Loss  | Amount of Loss   |  | Location of Gain (Loss) Recognized in Income on                                 | Amount of Gain (Loss) Recognized in Income on            |                |
|--|---|---|---|--|--|---|--|----------------|
|  | Recognized in Other Comprehensive Income ( OCI ) on Derivative (Effective Portion) 2010 | Recognized in Other Comprehensive Income ( OCI ) on Derivative (Effective Portion) 2009 | Reclassified from Accumulated OCI into Income (Effective Portion) | Reclassified from Accumulated OCI into Income (Effective Portion) 2010 | Reclassified from Accumulated OCI into Income (Effective Portion) 2009 | Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) | 2010   | 2009           |
| Derivatives in Cash                                      |   |   |   |  |  |   |  |                |
| Flow Hedging Relationships                               |   |   |   |  |  |   |  |                |
| Interest Rate Swaps                                      | \$ (19.5)   | \$ (10.3)   | Interest expense  | \$ 17.5  | \$ 16.4  | Not applicable  |  | Not applicable |
| <b>Derivatives not designated as hedging instruments</b> |   |   |   | <b>Location of Gain/Loss Recognized in Income on Derivative</b>        |  |   | <b>Amount of Loss Recognized in Income on Derivative</b> |                |
| Interest Rate Cap  |   |   |   | Other income/expense   |  | \$  | \$   | 0.1            |

*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. We believe the likelihood of realized losses from counterparty non-performance is remote.

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, 2010, 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 \$45.0 million. As of September 30, 2010, we had not posted any collateral related to these agreements. If we were in breach of any of these provisions at September 30, 2010, or terminated these agreements, we would have been required to settle our obligations at their aggregate termination value of approximately \$45.0 million.

**9. Share-based Compensation**

*Options.* During the nine months ended September 30, 2010, approximately 0.1 million options were exercised at prices ranging from \$25.88 to \$42.90 per option. The total intrinsic value of options exercised during the nine months ended September 30, 2010 was approximately \$1.4 million. As of September 30, 2010, there was approximately \$2.5 million of total unrecognized compensation cost related to unvested options, which is expected to be amortized over the next four years.

**Table of Contents**

The following table summarizes share options outstanding and exercisable at September 30, 2010:

| Range of Exercise Prices | Outstanding Options (1) |                        | Exercisable Options (1) |                        | Remaining Contractual Life (Years) |
|--------------------------|-------------------------|------------------------|-------------------------|------------------------|------------------------------------|
|                          | Number                  | Weighted Average Price | Number                  | Weighted Average Price |                                    |
| \$30.06 \$41.91          | 609,076                 | \$ 33.03               | 217,469                 | \$ 38.39               | 6.7                                |
| \$42.90 \$44.00          | 508,835                 | 43.32                  | 452,940                 | 43.25                  | 3.6                                |
| \$45.53 \$73.32          | 728,124                 | 49.57                  | 498,412                 | 50.29                  | 5.5                                |
| Total options            | 1,846,035               | \$ 42.39               | 1,168,821               | \$ 45.34               | 5.4                                |

(1) *The aggregate intrinsic value of outstanding options and exercisable options at September 30, 2010 was approximately \$11.9 million and \$4.7 million, respectively. The aggregate intrinsic values were calculated as the excess, if any, between our closing share price of \$47.97 per share on September 30, 2010 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. The following assumptions were used for options granted during the three months ended March 31, 2010 (no additional options have been granted as of September 30, 2010):

|  |             |
|--|-------------|
| Weighted average fair value of options granted | \$11.69     |
| Expected volatility                            | 35.6% 39.2% |
| Risk-free interest rate                        | 3.6% 3.7%   |
| Expected dividend yield                        | 4.1% 4.4%   |

Expected life (in years)

7.0 9.0

Our computation of expected volatility for 2010 is based on the historical volatility of our common shares over a time period equal to the expected life of the option and ending on the grant date. The interest rate for periods within the contractual life of the award is based on the U.S. Treasury yield curve in effect at the time of grant. The expected dividend yield on our common shares is estimated using the annual dividends paid in the prior year and the market price on the date of grant. Our computation of expected life for 2010 is estimated based on historical experience of similar awards, giving consideration to the contractual terms of the share-based awards.

*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, 2010, the unamortized value of previously issued unvested share awards was approximately \$24.9 million. The total fair value of shares vested during the nine months ended September 30, 2010 and 2009 was approximately \$10.1 million and \$9.4 million, respectively.

**Table of Contents**

The following table summarizes activity under our 1993 and 2002 Share Incentive Plans for the nine months ended September 30, 2010:

|  | <b>Options<br/>Outstanding</b> | <b>Weighted<br/>Average<br/>Exercise /<br/>Grant Price</b> | <b>Share<br/>Awards<br/>Outstanding</b> | <b>Weighted<br/>Average<br/>Exercise /<br/>Grant Price</b> |
|--|--------------------------------|--|---|--|
| Balance at December 31, 2009   | 1,974,212                      | \$ 41.40   | 2,852,545                               | \$ 39.66   |
| Vested share awards at December 31, 2009 (1)                               |                                |  | (2,257,392)                             | 34.63  |
| Options and nonvested share awards outstanding at December 31, 2009        | 1,974,212                      | \$ 41.40   | 595,153                                 | \$ 46.20   |
| Granted  | 55,895                         | 43.94  | 371,436                                 | 40.01  |
| Exercised/Vested   | (134,201)                      | 31.98  | (206,593)                               | 49.01  |
| Forfeited  | (49,871)                       | 46.85  | (8,214)                                 | 39.41  |
| Net activity   | (128,177)                      |  | 156,629                                 |  |
| Total options and nonvested share awards outstanding at September 30, 2010 | 1,846,035                      | \$ 42.39   | 751,782                                 | \$ 42.23   |

(1) *Balance includes 76,563 shares which do not impact compensation expense.*

**10. Net Change in Operating Accounts**

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

| <i>(in thousands)</i>                 | <b>Nine Months Ended<br/>September 30,<br/>2010      2009</b> |           |
|---------------------------------------|---|-----------|
| Change in assets:                     |   |           |
| Other assets, net                     | \$ (6,262)  | \$ 5,470  |
| Change in liabilities:                |   |           |
| Accounts payable and accrued expenses | 8,116   | (2,278)   |
| Accrued real estate taxes             | 16,938  | 19,081    |
| Other liabilities                     | 2,691   | 67        |
| Change in operating accounts          | \$ 21,483   | \$ 22,340 |

**11. Commitments and Contingencies**

*Construction Contracts.* As of September 30, 2010, we were obligated for approximately \$62.7 million of additional expenditures on our construction projects currently under development. We expect to fund these amounts through available cash balances and draws on our unsecured line of credit.

*Litigation.* We are 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.

**Table of Contents**

*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, 2010, we had long-term leases covering certain land, office facilities, and equipment. Rental expense totaled approximately \$0.7 million for both the three months ended September 30, 2010 and 2009 and approximately \$2.2 million and \$2.3 million for the nine months ended September 30, 2010 and 2009, respectively. Minimum annual rental commitments for the remainder of 2010 are approximately \$0.7 million, and for the years ending December 31, 2011 through 2014 are approximately \$2.5 million, \$2.1 million, \$1.9 million, and \$1.8 million, respectively, and approximately \$1.7 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 communities owned directly by the joint venture or partnership. Our decision whether to hold the entire interest in an apartment community ourselves, or to have an indirect interest in the community 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.

**12. 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. 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, 2010 and 2009. These taxes are primarily for 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, 2010.



**Table of Contents****13. Discontinued Operations and Assets Held for Sale**

For the three and nine months ended September 30, 2010 and 2009, income from discontinued operations included the results of operations of one operating property, placed in service in 1986 and comprised of 602 apartment homes, classified as held for sale. As of September 30, 2010, this property had an approximate net book value of \$9.7 million. For the three and nine months ended September 30, 2009, income from discontinued operations also included the results of operations of one operating property sold in 2009 through its sale date in the second quarter of 2009. We received net proceeds of approximately \$28.0 million and recognized a gain of approximately \$16.9 million from the sale of the property to an unaffiliated third party. There were no sales of operating properties during the nine months ended September 30, 2010.

The following is a summary of income from discontinued operations, excluding gain on sale of discontinued operations, for the three and nine months ended September 30, 2010 and 2009:

| <i>(in thousands)</i>               | <b>Three Months</b>        |             | <b>Nine Months</b>         |             |
|-------------------------------------|----------------------------|-------------|----------------------------|-------------|
|                                     | <b>Ended September 30,</b> |             | <b>Ended September 30,</b> |             |
|                                     | <b>2010</b>                | <b>2009</b> | <b>2010</b>                | <b>2009</b> |
| Property revenues                   | \$ 952                     | \$ 1,149    | \$ 2,774                   | \$ 5,752    |
| Property expenses                   | 626                        | 672         | 1,734                      | 2,921       |
|                                     | 326                        | 477         | 1,040                      | 2,831       |
| Depreciation and amortization       |                            | 198         | 325                        | 566         |
| Income from discontinued operations | \$ 326                     | \$ 279      | \$ 715                     | \$ 2,265    |

**14. 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, 2010 and December 31, 2009 under the fair value hierarchy discussed above (there was no Level 3 activity during the periods presented).

| <i>(in millions)</i> | <b>September 30, 2010</b> |                |                |              | <b>December 31, 2009</b> |                |                |              |
|----------------------|---------------------------|----------------|----------------|--------------|--------------------------|----------------|----------------|--------------|
|                      | <b>Level 1</b>            | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> | <b>Level 1</b>           | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
| <b>Assets</b>        | \$ 41.8                   | \$             | \$             | \$ 41.8      | \$ 49.7                  | \$             | \$             | \$ 49.7      |

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Deferred compensation plan  
investments

|                                  |     |         |     |         |     |         |         |
|----------------------------------|-----|---------|-----|---------|-----|---------|---------|
| Available-for-sale investment    | 3.1 |         | 3.1 |         |     |         |         |
| Derivative financial instruments |     |         |     |         | 0.1 |         | 0.1     |
| <b>Liabilities</b>               |     |         |     |         |     |         |         |
| Derivative financial instruments | \$  | \$ 43.3 | \$  | \$ 43.3 | \$  | \$ 41.1 | \$ 41.1 |

**Table of Contents**

*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 or information provided through third-party advisors. Our deferred compensation plan investments are recorded in other assets in our condensed consolidated balance sheets. The balance at September 30, 2010 also reflects approximately \$16.1 million of participant withdrawals from our deferred compensation plan investments during 2010.

*Available-for-sale Investments.* A company in which we had invested approximately \$0.2 million completed an initial public offering during the three months ending September 30, 2010. We have classified this investment as available-for-sale under the Accounting Standards Codification (the Codification) and recorded these securities as a component of other assets, with any unrealized gains or losses, net of tax, included in accumulated other comprehensive income (loss). The available-for-sale investments are included in Level 1 in the preceding table and are valued using quoted market prices. The following table sets forth the maturity, cost, gross unrealized gains, and fair value of our available-for-sale investment held as of September 30, 2010 (we did not have any available-for-sale investments at December 31, 2009):

(in millions)

**Available-for-sale****Investment**

|   | <b>Cost</b> | <b>Unrealized Gains</b> | <b>Fair Value</b> |
|---|-------------|-------------------------|-------------------|
| Marketable securities with no maturity date | \$ 0.2      | \$ 2.9(1)               | \$ 3.1            |

(1) *The unrealized gain of approximately \$2.9 million is partially offset by approximately \$1.0 million of deferred income tax.*

*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, both our own nonperformance risk and the respective counterparty's nonperformance risk. The fair value of interest rate caps are 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 by us and our counterparties. However, as of September 30, 2010, 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, 2010 and December 31, 2009, the carrying value of cash and cash equivalents, restricted cash, accounts receivable, accounts payable, accrued expenses and other liabilities, and distributions payable approximated their fair value based on the short-term nature of these instruments.

**Table of Contents**

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. In instances where market conditions are not available, we follow the guidance of the Fair Value Measurements and Disclosures Topic of the Codification to estimate fair value in a non-active market. The following table presents the carrying and estimated fair value of our notes receivable and notes payable at September 30, 2010 and December 31, 2009:

| <i>(in millions)</i>         | <b>September 30, 2010</b> |                             | <b>December 31, 2009</b> |                             |
|------------------------------|---------------------------|-----------------------------|--------------------------|-----------------------------|
|                              | <b>Carrying Value</b>     | <b>Estimated Fair Value</b> | <b>Carrying Value</b>    | <b>Estimated Fair Value</b> |
| Notes receivable affiliates  | \$ 17.5                   | \$ 18.1                     | \$ 45.8                  | \$ 46.1                     |
| Fixed rate notes payable (1) | 2,311.8                   | 2,423.6                     | 2,396.8                  | 2,380.9                     |
| Floating rate notes payable  | 230.4                     | 193.5                       | 228.4                    | 189.4                       |

(1) Includes a \$500 million term loan entered into in 2007 and \$16.6 million of a construction loan entered into in 2008 which are fixed by the use of interest rate swaps but evaluated for estimated fair value at the floating rate.

**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, 2010 which required fair value adjustments of our nonfinancial assets and nonfinancial liabilities.

**15. Noncontrolling Interests**

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

| <i>(in thousands)</i>  | <b>2010</b> | <b>2009</b> |
|--|-------------|-------------|
| Net income attributable to common shareholders                                       | \$ 6,069    | \$ 28,486   |
| Transfers from the noncontrolling interests:   |             |             |
| Increase in equity for conversion of operating partnership units                     | 2,132       | 3,760       |
| Increase in equity from purchase of noncontrolling interests                         |             | 648         |
| Change in common shareholders equity and net transfers from noncontrolling interests | \$ 8,201    | \$ 32,894   |



**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, 2009. 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 performance, 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 considered 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 could adversely impact us;
- we could be negatively impacted by the condition of Fannie Mae or Freddie Mac;
- unfavorable changes in economic conditions could adversely impact occupancy or rental rates;
- 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;
- 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;
- 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 laws and 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 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
- we may reduce dividends on our equity securities.

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, development, construction, and management of multifamily apartment communities. As of September 30, 2010, we owned interests in or operated 189 multifamily properties comprised of 64,681 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.

The U.S. economy has experienced a significant recession. Record levels of job losses and high unemployment rates impacted our business, resulting in declines in both rental rates and occupancy levels. Despite unemployment rates remaining at high levels, our results for the most recent two quarters reflect sequential rental revenue growth due to achieving higher rental rates and improvements in occupancy. We believe the current positive trend is due in part to the continued decline in home ownership rates and the limited supply of new rental housing construction. We expect improvements in rental rates to continue in 2010 and believe sustained rental growth and improvements in operating results will depend on, among other things, the timing and extent of employment growth, supply levels of new multifamily housing, the continuation of declining home ownership rate trends, and changing sentiment toward home ownership.

During the quarter ended September 30, 2010, we acquired two multifamily properties for approximately \$41 million on behalf of one of the Funds in which we have a 20% ownership interest. One property is comprised of 306 units located in Houston, Texas and the second property is a 110 unit substantially complete development community located in Atlanta, Georgia.

Additionally, during the third quarter of 2010 we began construction on two development projects. As of September 30, 2010, we were obligated for approximately \$62.7 million of additional expenditures on these projects. We expect to fund these amounts through available cash balances and draws on our unsecured line of credit. We expect to start one development project in the fourth quarter of 2010. Upon completion of construction, which is expected to occur during 2012, these three projects will add approximately 700 apartment homes to our portfolio. We are also evaluating the timing of additional development projects during fiscal year 2011 and beyond.

Subject to market conditions, we intend to continue to look for opportunities to develop and acquire existing communities through the Funds, expand our development pipeline, and complete selective dispositions.

For the longer-term, we intend to continue to focus on strengthening our capital and liquidity positions by generating positive cash flows from operations and reducing outstanding debt and leverage ratios, and controlling overhead costs. 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 secured mortgage notes, and the use of debt and equity offerings under our automatic shelf registration statement, including under our ATM share offering program.

As of September 30, 2010, we had approximately \$91.1 million in cash and cash equivalents and no balances outstanding on our \$500 million unsecured line of credit. We have no scheduled debt maturities for the remainder of 2010 and have approximately \$158.5 million of debt maturities in 2011. We believe we are well-positioned with a strong balance sheet and sufficient liquidity to cover long-term debt maturities and new development funding requirements. We will, however, continue to assess and take further actions where prudent to meet our long-term objectives and capital requirements.

**Table of Contents****Property Portfolio**

Our multifamily property portfolio, excluding land held for future development, is summarized as follows:

|  | September 30, 2010 |            | December 31, 2009  |            |
|--|--------------------|------------|--------------------|------------|
|  | Apartment<br>Homes | Properties | Apartment<br>Homes | Properties |
| <b>Operating Properties</b>                              |                    |            |                    |            |
| Las Vegas, Nevada  | 8,016              | 29         | 8,016              | 29         |
| Houston, Texas (1)                                       | 6,967              | 19         | 6,289              | 16         |
| Dallas, Texas (2)  | 6,119              | 15         | 6,119              | 15         |
| Washington, D.C. Metro                                   | 6,068              | 17         | 6,068              | 17         |
| Tampa, Florida   | 5,503              | 12         | 5,503              | 12         |
| Charlotte, North Carolina                                | 3,574              | 15         | 3,574              | 15         |
| Orlando, Florida   | 3,557              | 9          | 3,557              | 9          |
| Atlanta, Georgia   | 3,202              | 10         | 3,202              | 10         |
| Raleigh, North Carolina                                  | 2,704              | 7          | 2,704              | 7          |
| Southeast Florida  | 2,520              | 7          | 2,520              | 7          |
| Los Angeles/Orange County, California (3)                | 2,481              | 6          | 2,481              | 6          |
| Austin, Texas  | 2,454              | 8          | 2,454              | 8          |
| 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  | 4,999              | 13         | 4,999              | 13         |
| <b>Total Operating Properties</b>                        | <b>63,964</b>      | <b>186</b> | <b>63,286</b>      | <b>183</b> |
| <b>Properties Under Development</b>                      |                    |            |                    |            |
| Houston, Texas   |                    |            | 372                | 2          |
| Orlando, Florida   | 420                | 1          |                    |            |
| Washington, D.C. Metro                                   | 187                | 1          |                    |            |
| Atlanta, Georgia   | 110                | 1          |                    |            |
| <b>Total Properties</b>                                  | <b>64,681</b>      | <b>189</b> | <b>63,658</b>      | <b>185</b> |
| <b>Less: Unconsolidated Joint Venture Properties (4)</b> |                    |            |                    |            |
| Las Vegas, Nevada  | 4,047              | 17         | 4,047              | 17         |
| Houston, Texas   | 2,252              | 7          | 1,946              | 6          |
| Phoenix, Arizona   | 992                | 4          | 992                | 4          |
| Los Angeles/Orange County, California                    | 421                | 1          | 711                | 2          |
| Austin, Texas  | 601                | 2          | 601                | 2          |
| Washington, D.C. Metro                                   | 508                | 1          | 508                | 1          |
| Dallas, Texas  | 456                | 1          | 456                | 1          |
| Denver, Colorado   | 320                | 1          | 320                | 1          |
| Atlanta, Georgia   | 110                | 1          |                    |            |
| Other  | 3,237              | 9          | 3,237              | 9          |
| <b>Total Unconsolidated Joint Venture Properties</b>     | <b>12,944</b>      | <b>44</b>  | <b>12,818</b>      | <b>43</b>  |

|                                      |        |     |        |     |
|--------------------------------------|--------|-----|--------|-----|
| <b>Total Consolidated Properties</b> | 51,737 | 145 | 50,840 | 142 |
|--------------------------------------|--------|-----|--------|-----|

(1) *Includes Camden Travis Street, a fully-consolidated joint venture, of which we retain a 25% ownership.*

(2) *Includes one multifamily property comprised of 602 apartment homes designated as held for sale as of September 30, 2010.*

(3) *Includes Camden Main and Jamboree, a fully-consolidated joint venture, of which we retain a 99.99% ownership.*

(4) *Refer to Note 5, Investments in Joint Ventures in the notes to condensed consolidated financial statements for further discussion of our unconsolidated 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. Three of our recently completed properties reached stabilization during the nine months ended September 30, 2010.

| <i>(\$ in millions)</i><br><b>Property and Location</b> | <b>Number of<br/>Apartment<br/>Homes</b> | <b>Date of<br/>Completion</b> | <b>Date of<br/>Stabilization</b> |
|---|--|-------------------------------|----------------------------------|
| Camden Dulles Station<br><i>Oak Hill, VA</i>            | 366                                      | 1Q09                          | 2Q10                             |
| Camden Amber Oaks joint venture<br><i>Austin, TX</i>    | 348                                      | 2Q09                          | 2Q10                             |
| Camden Travis Street (1)<br><i>Houston, TX</i>          | 253                                      | 1Q10                          | 3Q10                             |

(1) *Camden Travis Street is a fully-consolidated joint venture, of which we retain a 25% ownership.*

**Discontinued Operations and Assets Held for Sale**

We intend to maintain a long-term strategy of managing our invested capital through the selective sale of properties and expect to utilize the proceeds to reduce our outstanding debt and leverage ratios and fund investments with higher anticipated growth prospects in our markets. Income from discontinued operations includes the operations of properties, including land, sold during the period or classified as held for sale as of September 30, 2010. The components of earnings classified as discontinued operations include separately identifiable property-specific revenues, expenses, depreciation, and interest expense. Any gain or loss on the disposal of the properties held for sale, if any, is also classified as discontinued operations.

As of September 30, 2010, we had one operating property, placed in service in 1986 and comprised of 602 apartment homes, held for sale with an approximate net book value of \$9.7 million. During the nine months ended September 30, 2009, we received net proceeds of approximately \$28.0 million and recognized a gain of approximately \$16.9 million from the sale of one property to an unaffiliated third party. There were no sales of operating properties during the nine months ended September 30, 2010.

**Development and Lease-Up Properties**

At September 30, 2010, we had two consolidated properties under construction as follows:

| <i>(\$ in millions)</i><br><b>Property and Location</b> | <b>Number of<br/>Apartment<br/>Homes</b> | <b>Estimated<br/>Cost</b> | <b>Cost<br/>Incurred</b> | <b>Included in<br/>Properties<br/>Under<br/>Development</b> | <b>Estimated<br/>Date of<br/>Completion</b> | <b>Estimated<br/>Date of<br/>Stabilization</b> |
|---|--|---------------------------|--------------------------|---|---|--|
| Camden Lake Nona<br><i>Orlando, FL</i>                  | 420                                      | \$ 61.0                   | \$ 25.7                  | \$ 25.7   | 3Q12  | 4Q14   |
| Camden Summerfield II<br><i>Landover, MD</i>            | 187                                      | 32.0                      | 4.6                      | 4.6   | 3Q12  | 2Q13   |
| Total   | 607                                      | \$ 93.0                   | \$ 30.3                  | \$ 30.3   |   |  |



**Table of Contents**

We did not have any consolidated properties in lease-up at September 30, 2010.

Our condensed consolidated balance sheet at September 30, 2010 included approximately \$198.4 million related to properties under development and land. Of this amount, approximately \$30.3 million related to our projects currently under development. In addition, we had approximately \$168.1 million invested in land held for future development, which includes approximately \$92.8 million related to projects we expect to begin constructing during the next 18 months, and approximately \$75.3 million invested in land tracts for which we may begin developing in the future. At September 30, 2010, we had investments in non-consolidated joint ventures which were developing the following multifamily communities:

| <i>(\$ in millions)</i>          |                    | <b>Number of<br/>Apartment<br/>Homes</b> | <b>Total<br/>Cost<br/>Incurred</b> | <b>% Leased<br/>at<br/>10/31/10</b> |
|----------------------------------|--------------------|--|------------------------------------|-------------------------------------|
| <b>Property and Location</b>     | <b>Ownership %</b> |  |                                    |                                     |
| <b>Completed Communities (1)</b> |                    |  |                                    |                                     |
| Braeswood Place<br>Houston, TX   | 72%                | 340                                      | \$ 50.2                            | 83%                                 |
| Belle Meade<br>Houston, TX       | 72%                | 119                                      | 37.6                               | 89%                                 |
| Total Completed Communities      |                    | 459                                      | \$ 87.8                            |                                     |
| <b>Under Construction (1)</b>    |                    |  |                                    |                                     |
| Camden Ivy Hall<br>Atlanta, GA   | 20%                | 110                                      | \$ 15.9                            | 53%                                 |
| Total Under Construction         |                    | 110                                      | \$ 15.9                            |                                     |
| <b>Total Acres</b>               |                    |  |                                    |                                     |
| <b>Pre-Development(2)</b>        |                    |  |                                    |                                     |
| Lakes at 610<br>Houston, TX      | 30%                | 6.1                                      | \$ 7.3                             |                                     |
| Total Pre-Development            |                    | 6.1                                      | \$ 7.3                             |                                     |

(1) Properties in lease-up as of September 30, 2010.

(2) Properties in pre-development by joint venture partner.

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, 2010 and 2009 are as follows:

| <i>(\$ in thousands)</i>   | <b>Three Months Ended</b> |             | <b>Nine Months Ended</b> |             |
|--|---------------------------|-------------|--------------------------|-------------|
|  | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|  | <b>2010</b>               | <b>2009</b> | <b>2010</b>              | <b>2009</b> |
| Average monthly property revenue per apartment home                  | \$ 1,035                  | \$ 1,039    | \$ 1,021                 | \$ 1,048    |
| Annualized total property expenses per apartment home                | \$ 5,106                  | \$ 5,148    | \$ 5,033                 | \$ 5,027    |
| Weighted average number of consolidated operating apartment homes    | 50,327                    | 49,781      | 50,127                   | 49,589      |
| Weighted average occupancy of consolidated operating apartment homes | 94.4%                     | 93.8%       | 94.1%                    | 94.1%       |

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

The following tables present the property-level revenues and expenses, excluding discontinued operations, for the three and nine months ended September 30, 2010 as compared to the same periods in 2009:

| (\$ in thousands)                    | Apartment<br>Homes<br>At<br>9/30/10 | Three Months<br>Ended September<br>30, |            |            |        | Nine Months<br>Ended September<br>30, |            |             |        |  |
|--------------------------------------|-------------------------------------|--|------------|------------|--------|---------------------------------------|------------|-------------|--------|--|
|                                      |                                     | 2010                                   | 2009       | Change     |        | 2010                                  | 2009       | Change      |        |  |
|                                      |                                     |  |            | \$         | %      |                                       |            | \$          | %      |  |
| <b>Property revenues</b>             |                                     |  |            |            |        |                                       |            |             |        |  |
| Same store communities               | 46,757                              | \$ 142,750                             | \$ 144,104 | \$ (1,354) | (0.9)% | \$ 423,030                            | \$ 436,168 | \$ (13,138) | (3.0)% |  |
| Non-same store communities           | 3,771                               | 12,455                                 | 9,805      | 2,650      | 27.0   | 34,321                                | 27,594     | 6,727       | 24.4   |  |
| Development and lease-up communities | 607                                 |  |            |            |        |                                       |            |             |        |  |
| Other                                |                                     | 1,071                                  | 1,316      | (245)      | (18.6) | 3,426                                 | 3,757      | (331)       | (8.8)  |  |
| <b>Total property revenues</b>       | 51,135                              | \$ 156,276                             | \$ 155,225 | \$ 1,051   | 0.7%   | \$ 460,777                            | \$ 467,519 | \$ (6,742)  | (1.4)% |  |
| <b>Property expenses</b>             |                                     |  |            |            |        |                                       |            |             |        |  |
| Same store communities               | 46,757                              | \$ 57,888                              | \$ 58,747  | \$ (859)   | (1.5)% | \$ 171,352                            | \$ 172,242 | \$ (890)    | (0.5)% |  |
| Non-same store communities           | 3,771                               | 5,026                                  | 4,377      | 649        | 14.8   | 14,025                                | 12,160     | 1,865       | 15.3   |  |
| Development and lease-up communities | 607                                 |  |            |            |        |                                       |            |             |        |  |
| Other                                |                                     | 1,333                                  | 945        | 388        | 41.1   | 3,826                                 | 2,575      | 1,251       | 48.6   |  |
| <b>Total property expenses</b>       | 51,135                              | \$ 64,247                              | \$ 64,069  | \$ 178     | 0.3%   | \$ 189,203                            | \$ 186,977 | \$ 2,226    | 1.2%   |  |

*Same store communities are communities we owned and were stabilized as of January 1, 2009. Non-same store communities are stabilized communities we have acquired, developed or re-developed after January 1, 2009. Development and lease-up communities are non-stabilized communities we have developed or acquired after January 1, 2009.*

**Same store analysis**

Same store property revenues for the three months ended September 30, 2010 decreased approximately \$1.4 million, or 0.9%, from the same period in 2009. The decrease was primarily related to a decline in same store rental revenues of approximately \$1.3 million due to a 1.2% decline in average rental rates for our same store portfolio, partially offset by an increase in average occupancy of approximately 0.4% for the three months ended September 30, 2010 as compared to the same period in 2009.

Same store property revenues for the nine months ended September 30, 2010 decreased approximately \$13.1 million, or 3.0%, from the same period in 2009. Same store rental revenues decreased approximately \$13.5 million, despite average occupancy remaining at approximately 94.0% for both the nine months ended September 30, 2010 and 2009, primarily due to a 3.4% decline in average rental rates for our same store portfolio. The decrease was partially offset



by an approximate \$0.4 million increase in other property revenue primarily due to increases in revenues from our utility rebilling programs, offset by decreases in miscellaneous income.

Property expenses from our same store communities decreased approximately \$0.9 million, or 1.5%, for the three months ended September 30, 2010 as compared to the same period in 2009. The decrease in same store property expenses was primarily due to lower real estate taxes as a result of declining rates and valuations at a number of our communities and declines in repairs and maintenance and property insurance costs. These decreases were partially offset by increases in expenses related to our utility rebilling programs and an increase in salary and benefits expense due primarily to higher medical claims during the three months ended September 30, 2010 as compared to the same period in 2009. Excluding the expenses associated with our utility rebilling programs, same store property expenses for this period decreased approximately \$1.3 million, or 2.3%.

Property expenses from our same store communities decreased approximately \$0.9 million, or 0.5%, for the nine months ended September 30, 2010 as compared to the same period in 2009. The decrease in same store property expenses was primarily due to lower real estate taxes as a result of declining rates and valuations at a number of our communities. These decreases were partially offset by increases in expenses related to our utility rebilling programs. Excluding the expenses associated with our utility rebilling programs, same store property expenses for this period decreased approximately \$2.2 million, or 1.4%.

**Table of Contents***Non-same store analysis*

Property revenues from non-same store communities increased approximately \$2.7 million and \$6.7 million for the three and nine months ended September 30, 2010, respectively, as compared to the same periods in 2009. Property expenses from non-same store communities increased approximately \$0.6 million and \$1.9 million for the three and nine months ended September 30, 2010, respectively, as compared to the same periods in 2009. The increases during the period were primarily due to seven consolidated properties in our re-development and development pipelines reaching stabilization during 2009 and 2010, in addition to approximately \$0.7 million of revenues and approximately \$0.3 million of expenses recognized in the third quarter of 2010 related to our newly consolidated joint venture as more fully described in Note 5, Investments in Joint Ventures.

*Other property analysis*

Other property revenues of approximately \$1.1 million and \$3.4 million for the three and nine months ended September 30, 2010 relate primarily to retail lease income. Other property expenses increased approximately \$0.4 million and \$1.3 million for the three and nine months ended September 30, 2010, respectively, as compared to the same periods in 2009. The increases were primarily related to increases in property taxes expensed on land holdings for eight projects for which we decided in 2009 to postpone development. As a result, we ceased capitalization of expenses, including property taxes.

Non-property income

| (\$ in thousands)                     | Three Months Ended |                  |                  |                | Nine Months Ended |                  |                  |                |
|---------------------------------------|--------------------|------------------|------------------|----------------|-------------------|------------------|------------------|----------------|
|                                       | September 30,      |                  | Change           |                | September 30,     |                  | Change           |                |
|                                       | 2010               | 2009             | \$               | %              | 2010              | 2009             | \$               | %              |
| Fee and asset management              | \$ 2,145           | \$ 1,818         | \$ 327           | 18.0%          | \$ 6,028          | \$ 6,093         | \$ (65)          | (1.1)%         |
| Interest and other income             | 451                | 582              | (131)            | (22.5)         | 3,988             | 2,414            | 1,574            | 65.2           |
| Income on deferred compensation plans | 6,918              | 8,194            | (1,276)          | (15.6)         | 6,818             | 11,702           | (4,884)          | (41.7)         |
| <b>Total non-property income</b>      | <b>\$ 9,514</b>    | <b>\$ 10,594</b> | <b>\$(1,080)</b> | <b>(10.2)%</b> | <b>\$ 16,834</b>  | <b>\$ 20,209</b> | <b>\$(3,375)</b> | <b>(16.7)%</b> |

Fee and asset management income increased approximately \$0.3 million and decreased approximately \$0.1 million for the three and nine months ended September 30, 2010, respectively, as compared to the same periods in 2009. For the three months ended September 30, 2010, the increase was primarily related to an increase in third-party construction activities during 2010. For the nine months ended September 30, 2010, the increase in third-party construction activities during 2010 was offset by decreases in development and construction fees earned on our development joint ventures as compared to 2009 due to the completion of construction activities during 2009 and 2010 and decreases in fees earned on our stabilized joint ventures due to declines in rental income.

Interest and other income decreased approximately \$0.1 million and increased approximately \$1.6 million for the three and nine months ended September 30, 2010, respectively, as compared to the same periods in 2009. For the nine months ended September 30, 2010, the \$1.6 million increase was primarily due to recognition of approximately \$2.7 million of other income resulting from indemnification provisions in an operating joint venture agreement which expired in January 2010, partially offset by an approximate \$0.8 million decrease in interest income primarily due to declines in interest income on our mezzanine loan portfolio related to contractual reductions in interest rates on mezzanine loans for development communities which have reached stabilization and lower balances of outstanding mezzanine loans due in part to conversion of the mezzanine loans into additional equity interests in certain of our joint ventures in 2009 and 2010.

Income on deferred compensation plans was approximately \$6.9 million and \$6.8 million for the three and nine months ended September 30, 2010, respectively, as compared to income of approximately \$8.2 million and \$11.7 million for the three and nine months ended September 30, 2009, respectively. The decreases were related to the performance of the investments held in deferred compensation plans for participants and were directly offset by the

expense related to these plans, as discussed below.

**Table of Contents**Other expenses

| (\$ in thousands)                        | Three Months Ended |                  |                 |             | Nine Months Ended |                   |                   |               |
|--|--------------------|------------------|-----------------|-------------|-------------------|-------------------|-------------------|---------------|
|  | September 30,      |                  | Change          |             | September 30,     |                   | Change            |               |
|  | 2010               | 2009             | \$              | %           | 2010              | 2009              | \$                | %             |
| Property management                      | \$ 4,789           | \$ 4,377         | \$ 412          | 9.4%        | \$ 14,994         | \$ 13,848         | \$ 1,146          | 8.3%          |
| Fee and asset management                 | 1,155              | 1,074            | 81              | 7.5         | 3,611             | 3,512             | 99                | 2.8           |
| General and administrative               | 7,568              | 7,532            | 36              | 0.5         | 22,339            | 23,010            | (671)             | (2.9)         |
| Interest                                 | 31,781             | 31,117           | 664             | 2.1         | 95,078            | 97,364            | (2,286)           | (2.3)         |
| Depreciation and amortization            | 43,685             | 42,697           | 988             | 2.3         | 129,963           | 130,197           | (234)             | (0.2)         |
| Amortization of deferred financing costs | 1,185              | 682              | 503             | 73.8        | 2,624             | 2,356             | 268               | 11.4          |
| Expense on deferred compensation plans   | 6,918              | 8,194            | (1,276)         | (15.6)      | 6,818             | 11,702            | (4,884)           | (41.7)        |
| <b>Total other expenses</b>              | <b>\$ 97,081</b>   | <b>\$ 95,673</b> | <b>\$ 1,408</b> | <b>1.5%</b> | <b>\$ 275,427</b> | <b>\$ 281,989</b> | <b>\$ (6,562)</b> | <b>(2.3)%</b> |

Property management expense, which represents regional supervision and accounting costs related to property operations, increased approximately \$0.4 million and \$1.1 million for the three and nine months ended September 30, 2010, respectively, as compared to the same periods in 2009. The increases were primarily due to increases in salary and benefit expenses, higher rental expense, and an increase in travel expenses as compared to the same periods in 2009. Property management expenses were approximately 3.1% and 3.3% of total property revenues for the three and nine months ended September 30, 2010, respectively, and approximately 2.8% and 3.0% for the three and nine months ended September 30, 2009, respectively.

General and administrative expense decreased approximately \$0.7 million for the nine months ended September 30, 2010, as compared to the same period in 2009. The decrease was primarily due to \$1.0 million in severance payments made in connection with the reduction in force of our construction and development staff in January 2009, and a decrease in legal costs and discretionary expenses during the nine months ended September 30, 2010, and was partially offset by an increase in salary and benefit expenses, including long-term incentive compensation, during the three and nine months ended September 30, 2010 as compared to 2009. General and administrative expenses were approximately 4.8% and 4.7% of total property revenues and non-property income, excluding income on deferred compensation plans, for the three and nine months ended September 30, 2010, respectively, and were approximately 4.8% of total property revenues and non-property income, excluding income on deferred compensation plans, for both the three and nine months ended September 30, 2009.

Interest expense increased approximately \$0.7 million and decreased approximately \$2.3 million for the three and nine months ended September 30, 2010, respectively, as compared to the same periods in 2009. The decrease for the nine months ended September 30, 2010 was primarily due to using the net proceeds of \$272.1 million from the equity offering completed during the second quarter of 2009 and approximately \$134.6 million in net proceeds from our ATM program during the nine months ended September 30, 2010 to retire outstanding debt, prior to its maturity, of approximately \$325.0 million during the first six months of 2009 and repay maturing secured and unsecured notes during 2009 and 2010, as well as reduce the balances outstanding on our unsecured line of credit during the second quarter of 2009. This decrease was partially offset by the increased interest expense incurred on our \$420 million credit facility entered into during the second quarter of 2009 and lower capitalized interest of approximately \$3.6 million during the nine months ended September 30, 2010 as compared to the same period in 2009 primarily due to the completion of communities in our development pipeline and our decision in fiscal year 2009 to postpone the development of land holdings for eight future projects.

The increase for the three months ended September 30, 2010 as compared to the same period in 2009 was primarily due to lower capitalized interest of approximately \$1.4 million primarily due to the completion of communities in our development pipeline and our decision in fiscal year 2009 to postpone development of land holdings for eight future projects. The increase was also due to approximately \$0.3 million of interest expense relating to our joint venture which was consolidated during the three months ended September 30, 2010 as discussed in Note 5, Investments in Joint Ventures, and approximately \$0.2 million of interest expense relating to a consolidated joint venture which completed construction during the three months ended March 31, 2010. These increases were partially offset by lower interest expense due to lower debt levels due to retirement of outstanding debt, prior to its maturity, and payment of outstanding balances on our unsecured line of credit during 2009, in addition to repayments of maturing debt in 2009 and 2010.

**Table of Contents**

Depreciation and amortization increased approximately \$1.0 million and decreased approximately \$0.2 million for the three and nine months ended September 30, 2010, respectively, as compared to the same periods in 2009. The increase for the three months ended September 30, 2010 was due in part to the consolidation of one of our joint ventures previously accounted for under the equity method of accounting. The decrease for the nine months ended September 30, 2010 was primarily due to an increase in the number of assets being fully depreciated in 2010 as compared to 2009, and was offset by new development and capital improvements placed in service during 2009 and 2010 and the consolidation of the previously mentioned joint venture.

Amortization of deferred financing costs increased approximately \$0.5 million and \$0.3 million for the three and nine months ended September 30, 2010, respectively, as compared to the same periods in 2009. These increases were primarily due to additional financing costs incurred on our \$500 million unsecured credit facility, entered into in August 2010, and on our \$420 million credit facility, entered into in the second quarter of 2009. These increases were partially offset by lower amortization of deferred financing costs related to the repurchase and retirement of certain series of notes during 2009.

Expense on deferred compensation plans totaled approximately \$6.9 million and \$6.8 million for the three and nine months ended September 30, 2010, respectively, as compared to expense of approximately \$8.2 million and \$11.7 million for the three and nine months ended September 30, 2009, respectively. The decreases were related to the performance of the investments held in deferred compensation plans for participants, and were directly offset by the income related to these plans, as discussed above.

**Other**

| (\$ in thousands)                          | Three Months Ended |                    | Change |   | Nine Months Ended  |                    | Change  |        |
|--|--------------------|--------------------|--------|---|--------------------|--------------------|---------|--------|
|  | September 30, 2010 | September 30, 2009 | \$     | % | September 30, 2010 | September 30, 2009 | \$      | %      |
| Gain on sale of properties, including land | \$                 | \$                 | \$     |   | %\$ 236            | \$                 | \$ 236  | 100.0% |
| Loss on early retirement of debt           |                    |                    |        |   |                    | (2,550)            | 2,550   | 100.0  |
| Equity in income (loss) of joint ventures  | (244)              | (38)               | (206)  | * | (785)              | 592                | (1,377) | *      |
| Income tax expense current                 | (712)              | (126)              | 586    | * | (1,286)            | (772)              | 514     | 66.6   |

\* *Not a meaningful percentage*

Loss on early retirement of debt was approximately \$2.6 million for the nine months ended September 30, 2009, primarily due to the repurchase and retirement of approximately \$317.6 million of various unsecured and secured notes from unrelated third parties for approximately \$320.3 million during the three months ended June 30, 2009. This loss was partially offset by the repurchase and retirement of approximately \$7.4 million of unsecured notes from unrelated third parties for approximately \$7.2 million during the three months ended March 31, 2009. The loss on early retirement of debt also includes applicable loan costs. There was no early retirement of debt during the three months ended September 30, 2010 or 2009 or the nine months ended September 30, 2010.

Equity in income (loss) of joint ventures decreased approximately \$0.2 million and \$1.4 million for the three and nine months ended September 30, 2010, respectively, as compared to the same periods in 2009. These decreases were primarily the result of declining earnings by our stabilized operating joint ventures due to declines in rental income, and the recognition of net operating losses by certain development joint ventures during the lease-up phase of operations, which were offset by increases in earnings in other development joint ventures reaching or nearing stabilization during 2009 and 2010.

We incurred entity-level taxes for our operating partnerships and other state and local taxes totaling approximately \$0.7 million and \$0.1 million for the three months ended September 30, 2010 and 2009, respectively, and totaling approximately \$1.3 million and \$0.8 million for the nine months ended September 30, 2010 and 2009, respectively. The increases during the three and nine months ended September 30, 2010 as compared to the same periods in 2009 were due to increases in taxable income related to our third-party construction activities conducted in a taxable REIT subsidiary.

**Table of Contents****Noncontrolling interests**

| (\$ in thousands)   | Three Months<br>Ended<br>September 30, |          | Change  |         | Nine Months<br>Ended<br>September 30, |            | Change   |         |
|---|--|----------|---------|---------|---------------------------------------|------------|----------|---------|
|   | 2010                                   | 2009     | \$      | %       | 2010                                  | 2009       | \$       | %       |
| Income allocated to noncontrolling interests from continuing operations | \$ (432)                               | \$ (505) | \$ (73) | (14.5)% | \$ (542)                              | \$ (1,448) | \$ (906) | (62.6)% |
| Income allocated to perpetual preferred units                           | (1,750)                                | (1,750)  |         |         | (5,250)                               | (5,250)    |          |         |

Income allocated to noncontrolling interests from continuing operations decreased approximately \$0.9 million for the nine months ended September 30, 2010 as compared to the same period in 2009. The decrease was primarily due to the completion during the three months ended March 31, 2010 and lease-up during the three months ended September 30, 2010 of a property by a fully-consolidated joint venture of which we retain a 25% ownership, which resulted in our recording depreciation and interest expense on the property, upon completion of construction, in excess of income recognized during the lease-up period. The decrease was partially offset by higher earnings associated with properties held by our operating partnerships during 2010 as compared to 2009.

**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 one compare the operating performance of a company's real estate 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 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.



**Table of Contents**

Reconciliations of net income attributable to common shareholders to diluted FFO for the three and nine months ended September 30, 2010 and 2009 are as follows:

| <i>(\$ in thousands)</i>   | <b>Three Months</b>        |                  | <b>Nine Months</b>         |                   |
|--|----------------------------|------------------|----------------------------|-------------------|
|  | <b>Ended September 30,</b> |                  | <b>Ended September 30,</b> |                   |
|  | <b>2010</b>                | <b>2009</b>      | <b>2010</b>                | <b>2009</b>       |
| <b>Funds from operations</b>   |                            |                  |                            |                   |
| Net income attributable to common shareholders                                       | \$ 1,650                   | \$ 3,937         | \$ 6,069                   | \$ 28,486         |
| Real estate depreciation and amortization, including discontinued operations         | 42,457                     | 41,834           | 126,675                    | 127,707           |
| Adjustments for unconsolidated joint ventures  | 2,292                      | 1,935            | 6,753                      | 5,812             |
| Gain on sale of properties, including land and discontinued operations, net of taxes |                            |                  |                            | (16,887)          |
| Income allocated to noncontrolling interests   | 281                        | 406              | 864                        | 1,148             |
| <b>Funds from operations diluted</b>   | <b>\$ 46,680</b>           | <b>\$ 48,112</b> | <b>\$ 140,361</b>          | <b>\$ 146,266</b> |
| <b>Weighted average shares basic</b>   | <b>69,100</b>              | <b>66,094</b>    | <b>67,898</b>              | <b>61,087</b>     |
| Incremental shares issuable from assumed conversion of:                              |                            |                  |                            |                   |
| Common share options and awards granted  | 341                        | 36               | 271                        | 13                |
| Common units   | 2,584                      | 2,829            | 2,610                      | 2,867             |
| <b>Weighted average shares diluted</b>   | <b>72,025</b>              | <b>68,959</b>    | <b>70,779</b>              | <b>63,967</b>     |

**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 2.6 and 2.5 times for the three and nine months ended September 30, 2010, respectively, and approximately 2.6 times for each of the three and nine months ended September 30, 2009. Our interest expense coverage ratio is calculated by dividing interest expense for the period into the sum of property revenues and expenses, non-property income, other expenses, and income from discontinued operations, after adding back depreciation, amortization, and interest expense from both continuing and discontinued operations. This ratio is a method for calculating the amount of operating cash flows available to cover interest expense. At September 30, 2010 and 2009, approximately 71.6% and 73.1%, respectively, of our properties (based on invested capital) were unencumbered. Our weighted average maturity of debt, including our line of credit, was approximately 5.7 years at September 30, 2010.

We intend to continue to focus on strengthening our capital and liquidity position by generating positive cash flows from operations, reducing outstanding debt 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, secured mortgage debt, and the use of debt and equity offerings under our automatic shelf registration statement, including under our ATM share offering program. We believe our liquidity and financial condition are sufficient to meet all of our reasonably anticipated cash flow needs during 2010 and 2011 including:

- normal recurring operating expenses;

- current debt service requirements;

- recurring capital expenditures;

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

- and

- the minimum dividend payments required to maintain our REIT qualification under the Internal Revenue Code of 1986.

**Table of Contents**

Factors which could increase or decrease our future liquidity include, but are not limited to, volatility in capital and credit markets, sources 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, repurchases of debt and common shares, and distributions paid on our equity securities 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, 2010 and 2009.

Net cash from operating activities was approximately \$178.5 million during the nine months ended September 30, 2010 as compared to approximately \$185.4 million for the same period in 2009. The decrease was primarily due to declines in property revenues within our same store communities partially offset by an increase in revenues from certain non-same store communities reaching stabilization in 2009 and 2010. The decrease was offset by lower interest payments and the timing of payments relating to accounts payable and accrued expenses.

Net cash used in investing activities during the nine months ended September 30, 2010 totaled approximately \$50.1 million as compared to approximately \$50.4 million during the nine months ended September 30, 2009. Cash outflows for property development and capital improvements were approximately \$43.9 million during the nine months ended September 30, 2010 as compared to approximately \$55.1 million for the same period in 2009 due to the timing of completions of communities in our development pipeline and a reduction in construction and development activity in 2010 as compared to 2009. Additionally, cash outflows for investments in joint ventures were approximately \$5.1 million during the nine months ended September 30, 2010 as compared to approximately \$22.8 million during the same period in 2009. The cash outflow for 2010 primarily relates to two acquisitions made during the third quarter of 2010 by one of the Funds in which we own a 20% interest. The cash outflow for 2009 was a result of our \$22.2 million preferred equity investment (with a preference on distribution of cash flows over previously contributed equity) in one of our joint ventures located in Orange County, California during the third quarter 2009. The cash outflows during the nine months ended September 30, 2009 were offset by proceeds received from the sale of one operating property of approximately \$28.1 million and from payments received on notes receivable other for approximately \$8.7 million.

Net cash used in financing activities totaled approximately \$101.5 million for the nine months ended September 30, 2010, primarily as a result of the repayment of maturing outstanding 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. The cash outflows were partially offset by cash receipts of approximately \$134.6 million relating to proceeds received from the sale of approximately 2.9 million common shares under our ATM share offering program entered into in March 2010. Cash outflows were further offset by decreases in accounts receivable from affiliates of approximately \$3.8 million relating to proceeds received from participant withdrawals from our deferred compensation plans and approximately \$57.6 million for 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 one of our communities under construction during 2010. Net cash provided by financing activities totaled approximately \$60.7 million during the nine months ended September 30, 2009, primarily due to proceeds from a \$420 million secured credit facility entered into during the second quarter of 2009. Additionally, we received net proceeds of approximately \$272.1 million from the completion of our equity offering in May 2009. These increases in cash flows from financing activities were offset by cash outflows of approximately \$647.9 million used for the repayment of notes payable and pay-off of all amounts outstanding on our unsecured line of credit, and approximately \$119.5 million used for distributions paid to shareholders, perpetual preferred unit holders, and noncontrolling interest holders.

**Table of Contents****Financial Flexibility**

In August 2010, we entered into a \$500 million unsecured credit facility, with the ability to further increase to \$600 million, which matures in August 2012 and may be extended at our option to August 2013. This facility replaces our \$600 million unsecured credit facility which was scheduled to mature in January 2011. Interest rate spreads float on a margin based on LIBOR and are 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, 2010, we had outstanding letters of credit totaling approximately \$10.2 million, leaving approximately \$489.8 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 million shares of beneficial interest, consisting of 100 million common shares and 10 million preferred shares. As of September 30, 2010, we had approximately 67.6 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 announced the creation of an at-the-market ( ATM ) share offering program through which we may, but have no obligation to, sell common shares having an aggregate offering price of up to \$250 million, in amounts and at times as we determine, into the existing trading market at current market prices as well as through negotiated transactions. Actual sales will depend on a variety of factors we determine from time to time, including, among others, market conditions, the trading price of our common shares and determinations of the appropriate sources of funding for us.

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

|                         | <b>Three Months<br/>Ended<br/>September 30,<br/>2010</b> | <b>Nine Months<br/>Ended<br/>September 30,<br/>2010</b> |
|-------------------------|--|---|
| Common shares sold      | 0.6  | 2.9   |
| Total net consideration | \$ 28.2  | \$ 134.6  |
| Average price per share | \$ 48.05   | \$ 46.91  |

During the fourth quarter of 2010, we issued approximately 1.0 million common shares at an average price of \$49.25 per share for total net consideration of approximately \$50.4 million. As of the date of this filing, we had common shares having an aggregate offering price of up to \$61.9 million remaining available for sale under the ATM program.

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 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 due to the continued volatility in the capital and credit markets.

**Future Cash Requirements and Contractual Obligations**

One of our principal long-term liquidity requirements includes the repayment of maturing debt, including borrowings under our unsecured line of credit used to fund development and acquisition activities. We have no scheduled debt maturities for the remainder of 2010 and have approximately \$158.5 million of debt maturities in 2011. We intend to

meet future long-term liquidity requirements through available cash balances, cash flows generated from operations, draws on our unsecured credit facility, proceeds from property dispositions and secured mortgage notes, and the use of debt and equity offerings under our automatic shelf registration statement, including under our ATM share offering program.

**Table of Contents**

During the third quarter of 2010 we began construction on two development projects. As of September 30, 2010, we were obligated for approximately \$62.7 million of additional expenditures on these projects. We expect to fund these amounts through available cash balances and draws on our unsecured line of credit. We expect to start one development project in the fourth quarter of 2010. Upon completion of construction, which is expected to occur during 2012, these three projects will add approximately 700 apartment homes to our portfolio. We are also evaluating the timing of additional development projects during fiscal year 2011 and beyond.

In order for us to continue to qualify as a REIT we are required to distribute annual dividends 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 2010, we announced our Board of Trust Managers had declared a dividend distribution of \$0.45 per share to common shareholders of record as of September 30, 2010. The dividend was subsequently paid on October 18, 2010. We paid equivalent amounts per unit to holders of the common operating partnership units. This distribution to common shareholders and holders of common operating partnership units equates to an annualized dividend rate of \$1.80 per share or equivalent unit.

**Off-Balance Sheet Arrangements**

The joint ventures in which we have an interest have been funded in part with secured, third-party debt. We are also committed to additional funding under mezzanine loans provided to joint ventures. We have guaranteed no more than our proportionate interest, totaling approximately \$47.8 million, of four loans utilized for construction and development activities for our joint ventures. Our commitment to fund additional amounts under the mezzanine loans was an aggregate of approximately \$6.0 million at September 30, 2010.

**Inflation**

Substantially all of our apartment leases are for a 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. The short-term nature of our leases generally minimizes our risk from the adverse affects 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, 2009.

*Recent Accounting Pronouncements.* In December 2009, the FASB issued ASU 2009-17, *Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*, which codified the previously issued Statement of Financial Accounting Standards 167, *Amendments to FASB Interpretation No. 46R*. ASU 2009-17 changes the consolidation analysis for VIEs and requires a qualitative analysis to determine the primary beneficiary of the VIE. The determination of the primary beneficiary of a VIE is based on whether the entity has the power to direct matters which most significantly impact the activities of the VIE and has the obligation to absorb losses, or the right to receive benefits, of the VIE which could potentially be significant to the VIE. The ASU requires an ongoing reconsideration of the primary beneficiary and also amends the events triggering a reassessment of whether an entity is a VIE. ASU 2009-17 requires additional disclosures for VIEs, including disclosures about a reporting entity's involvement with VIEs, how a reporting entity's involvement with a VIE affects the reporting entity's financial statements, and significant judgments and assumptions made by the reporting entity to determine whether it must consolidate the VIE. ASU 2009-17 was effective for us beginning January 1, 2010. Our adoption of ASU 2009-17 did not have a material effect on our financial statements, but could potentially have a material impact on future reconsideration events and subsequent reassessment of VIE status.

**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, 2009.

**Table of Contents**

**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.

*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 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 11, 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, 2009.

**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

**Item 6. Exhibits**

(a) Exhibits

|         |   |
|---------|---|
| 31.1    | Certification pursuant to Rule 13a-14(a) of Chief Executive Officer dated November 5, 2010.                             |
| 31.2    | Certification pursuant to Rule 13a-14(a) of Chief Financial Officer dated November 5, 2010.                             |
| 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  |

**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

November 5, 2010

Michael P. Gallagher  
Vice President    Chief Accounting Officer

Date



**Table of Contents**

**Exhibit Index**

| Exhibit | Description of Exhibits   |
|---------|---|
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