

CAMDEN PROPERTY TRUST
Form 10-K
February 15, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

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 76-6088377
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

11 Greenway Plaza, Suite 2400 77046
Houston, Texas
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (713) 354-2500

Securities registered pursuant to Section 12(b) of the Act:
Title of each class Name of each exchange on which registered
Common Shares of Beneficial Interest, \$.01 par value New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether 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 every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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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 definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected to not use the extended transition period for complying with any new or revised financial accounting standards provided pursuant of Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in the Rule 12b-2 of the Act). Yes
No

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant was \$8,386,569,325 based on a June 29, 2018 share price of \$91.13.

On February 7, 2019, 93,259,373 common shares of the registrant were outstanding, net of treasury shares and shares held in our deferred compensation arrangements.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement in connection with its Annual Meeting of Shareholders to be held May 9, 2019 are incorporated by reference in Part III.

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PART I

Item 1. Business

General

Formed on May 25, 1993, Camden Property Trust, a Texas real estate investment trust (“REIT”), and all its consolidated subsidiaries are primarily engaged in the ownership, management, development, redevelopment, acquisition, and construction of multifamily apartment communities. Unless the context requires otherwise, “we,” “our,” “us,” and the “Company” refer to Camden Property Trust and its consolidated subsidiaries. Our multifamily apartment communities are referred to as “communities,” “multifamily communities,” “properties,” or “multifamily properties” in the following discussion.

Our website is located at www.camdenliving.com. We make available free of charge through our website, our annual report on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and amendments to such reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the U.S. Securities and Exchange Commission (the “SEC”). We also make available, free of charge on our website, our Guidelines on Governance, Code of Business Conduct and Ethics, Code of Ethical Conduct for Senior Financial Officers, and the charters of each of our Audit, Compensation, and Nominating and Corporate Governance Committees. Copies are also available, without charge, from Investor Relations, 11 Greenway Plaza, Suite 2400, Houston, Texas 77046.

References to our website in this report are provided as a convenience and do not constitute, and should not be viewed as, an incorporation by reference of the information contained on, or available through our website, and therefore such information should not be considered part of this report.

Our annual, quarterly, and current reports, proxy statements, and other information are electronically filed with the SEC. The SEC maintains a website (<http://www.sec.gov>) that contains reports, proxy, and information statements and other information regarding issuers that file electronically with the SEC.

Narrative Description of Business

As of December 31, 2018, we owned interests in, operated, or were developing 167 multifamily properties comprised of 56,858 apartment homes across the United States. Of the 167 properties, six properties were under construction and will consist of a total of 1,698 apartment homes when completed. We also own land holdings which we may develop into multifamily communities in the future.

Operating and Business Strategy

We believe producing consistent earnings growth through property operations, development and acquisitions, achieving market balance, and recycling capital are crucial factors to our success. We rely heavily on our sophisticated property management capabilities and innovative operating strategies to help us maximize the earnings potential of our communities.

Real Estate Investments and Market Balance. We believe we are well positioned in our current markets and have the expertise to take advantage of new opportunities as they arise. These capabilities, combined with what we believe is a conservative financial structure, should allow us to concentrate our growth efforts toward selective opportunities to enhance our strategy of having a geographically diverse portfolio of assets which meet the requirements of our residents.

We continue to operate in our core markets which we believe provides an advantage due to economies of scale. We believe, where possible, it is best to operate with a strong base of properties in order to benefit from the personnel allocation and the market strength associated with managing multiple properties in the same market. However, consistent with our goal of generating sustained earnings growth, we intend to selectively dispose of properties and redeploy capital for various strategic reasons, including if we determine a property cannot meet our long-term earnings growth expectations.

We try to maximize capital appreciation of our properties by investing in markets characterized by conditions favorable to multifamily property appreciation. These markets generally feature the following:

- Strong economic growth leading to household formation and job growth, which in turn should support higher demand for our apartments; and

An attractive quality of life, which may lead to higher demand and retention for our apartments and allow us to more readily increase rents.

Subject to market conditions, we intend to continue to seek opportunities to develop new communities, and to redevelop, reposition and acquire existing communities. We also intend to evaluate our operating property and land development portfolio and plan to continue our practice of selective dispositions as market conditions warrant and opportunities arise.

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We expect to maintain a strong balance sheet and preserve our financial flexibility by continuing to focus on our core fundamentals which currently are generating positive cash flows from operations, maintaining appropriate debt levels and leverage ratios, and controlling overhead costs. We intend to meet our near-term liquidity requirements through a combination of one or more of the following: cash flows generated from operations, draws on our unsecured credit facility or other short-term borrowing, the use of debt and equity offerings under our automatic shelf registration statement, proceeds from property dispositions, equity issued from our 2017 at-the-market ("ATM") share offering program, other unsecured borrowings, or secured mortgages.

Sophisticated Property Management. We believe the depth of our organization enables us to deliver quality services, promote resident satisfaction, and retain residents, thereby increasing our operating revenues and reducing our operating expenses. We manage our properties utilizing a staff of professionals and support personnel, including certified property managers, experienced apartment managers and leasing agents, and trained apartment maintenance technicians. Our on-site personnel are trained to deliver high-quality services to our residents, and we strive to motivate our on-site employees through incentive compensation arrangements based upon property operational results, rental rate increases, occupancy levels, and level of new leases and lease renewals achieved.

Operations. We believe an intense focus on operations is necessary to realize consistent, sustained earnings growth. Ensuring resident satisfaction, increasing rents as market conditions allow, maximizing rent collections, maintaining property occupancy at optimal levels, and controlling operating costs comprise our principal strategies to maximize property financial results. We believe our web-based property management and revenue management systems strengthen on-site operations and allow us to quickly adjust rental rates as local market conditions change. Lease terms are generally staggered based on vacancy exposure by apartment type so lease expirations are matched to each property's seasonal rental patterns. We generally offer leases ranging from twelve to fifteen months with individual property marketing plans structured to respond to local market conditions. In addition, we conduct ongoing customer service surveys to help ensure timely response to residents' changing needs and a high level of satisfaction.

Investments in Joint Ventures. We have entered into, and may continue in the future to enter into, joint ventures or partnerships, including limited liability companies, through which we own an indirect economic interest in less than 100% of the community or land owned by the joint venture or partnership. We account for three investment funds (collectively, the "Funds") utilizing the equity method of accounting. As of December 31, 2018, we have two discretionary investment funds, which are closed to future investments, and a third fund which we formed in March 2015 for future multifamily investments of up to \$450 million. See Note 9, "Investments in Joint Ventures," and Note 15, "Commitments and Contingencies," in the notes to the Consolidated Financial Statements for further discussion of our investments in joint ventures.

Competition

There are numerous housing alternatives which compete with our communities in attracting residents. Our properties compete directly with other multifamily properties as well as condominiums, single-family homes, third-party providers of short-term rentals and serviced apartments, which are available for rent or purchase in the markets in which our communities are located. This competitive environment could have a material adverse effect on our ability to lease apartment homes at our present properties or any newly developed or acquired property, as well as on the rents realized.

Employees

At December 31, 2018, we had approximately 1,600 employees, including executive, administrative, and community personnel.

Qualification as a Real Estate Investment Trust

As of December 31, 2018, we met the qualification of a REIT under Sections 856-860 of the Internal Revenue Code of 1986, as amended (the "Code"). As a result, we, with the exception of our taxable REIT subsidiaries, will not be subject to federal income tax to the extent we continue to meet certain requirements of the Code.

Item 1A. Risk Factors

In addition to the other information contained in this Form 10-K, the following risk factors should be considered carefully in evaluating our business. Our business, financial condition, or results of operations could be materially adversely affected by any of these risks.

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Risks Associated with Capital Markets, Credit Markets, and Real Estate

Volatility in capital and credit markets, or other unfavorable changes in economic conditions, either nationally or regionally in one or more of the markets in which we operate, could adversely impact us.

The capital and credit markets are subject to volatility and disruption. We therefore may not be able to obtain new debt financing or refinance our existing debt on favorable terms or at all, which would adversely affect our liquidity, our ability to make distributions to shareholders, acquire assets and continue our development activities. Other weakened economic conditions, including job losses, high unemployment levels, stock market volatility, and uncertainty about the future, could adversely affect rental rates and occupancy levels. Unfavorable changes in economic conditions may have a material adverse impact on our cash flows and operating results.

Additional key economic risks which may adversely affect conditions in the markets in which we operate include the following:

- local conditions, such as an oversupply of apartments or other housing available for rent, or a reduction in demand for apartments in the area;

- declines in the financial condition of our residents, which may make it more difficult for us to collect rents from some residents;

- declines in market rental rates;

- low mortgage interest rates and home pricing, making alternative housing more affordable;

- government or builder incentives which enable home buyers to put little or no money down, making alternative housing options more attractive;

- regional economic downturns, including, but not limited to, business layoffs, downsizing and increased unemployment, which may impact one or more of our geographical markets; and

- increased operating costs, if these costs cannot be passed through to our residents.

Short-term leases expose us to the effects of declining market rents.

Our apartment leases are generally for a term of fifteen months or less. As these leases typically permit the residents to leave at the end of the lease term without penalty, our rental revenues are impacted by declines in market rents more quickly than if our leases were for longer terms.

Competition could limit our ability to lease apartments or increase or maintain rental income.

There are numerous housing alternatives which compete with our properties in attracting residents. Our properties compete directly with other multifamily properties, condominiums, single-family homes, third-party providers of short-term rentals and serviced apartments, which are available for rent or purchase in the markets in which our properties are located. This competitive environment could have a material adverse effect on our ability to lease apartment homes at our present properties or any newly developed or acquired property, as well as on the rents realized.

We face risks associated with land holdings and related activities.

We hold land for future development and may in the future acquire additional land holdings. The risks inherent in purchasing, owning, and developing land increase as demand for apartments, or rental rates, decrease. Real estate markets are highly uncertain and, as a result, the value of undeveloped land may fluctuate significantly. In addition, carrying costs can be significant and can result in losses or reduced profitability. As a result, we hold certain land, and may in the future acquire additional land, in our development pipeline at a cost we may not be able to fully recover or at a cost which may preclude us from developing a profitable multifamily community. If there are subsequent changes in the fair market value of our land holdings which we determine is less than the carrying basis of our land holdings reflected in our financial statements plus estimated costs to sell, we may be required to take future impairment charges which would reduce our net income.

Potential reforms to Fannie Mae and Freddie Mac could adversely affect us.

There is significant uncertainty surrounding the futures of Fannie Mae and Freddie Mac. Through their lender originator networks, Fannie Mae and Freddie Mac are potential significant lenders both to us and to buyers of our properties. Fannie Mae and Freddie Mac have a mandate to support multifamily housing through their financing activities and any changes to their mandates, further reductions in their size or the scale of their activities, or loss of

their key personnel could have a significant adverse impact on us and may, among other things, lead to lower values for our assets and higher interest rates on our borrowings.

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Fannie Mae's and Freddie Mac's regulator has set overall volume limits on most of Fannie Mae's and Freddie Mac's lending activities. The regulator in the future could require Fannie Mae and Freddie Mac to focus more of their lending activities on small borrowers or properties the regulator deems affordable, which may or may not include our assets, which could also adversely impact us. In addition, the members of the current Presidential administration and House and Senate banking committees have proposed various reform plans for Fannie Mae and Freddie Mac, and there is uncertainty regarding the impact of these actions on us and buyers of our properties.

Risks Associated with Our Operations

Development, redevelopment and construction risks could impact our profitability.

We intend to continue to develop, redevelop and construct multifamily apartment communities for our portfolio. In 2019, we expect to incur costs between approximately \$205 million and \$225 million related to the construction of six consolidated projects. Additionally, during 2019, we expect to incur costs between approximately \$95 million and \$105 million related to the start of new development activities, between approximately \$46 million and \$50 million related to repositions and revenue enhancing expenditures of existing properties and between approximately \$25 million and \$33 million in extensive redevelopment expenditures of existing properties. Our development, redevelopment and construction activities may be exposed to a number of risks which may increase our construction costs and decrease our profitability, including the following:

- inability to obtain, or delays in obtaining, necessary zoning, land-use, building, occupancy, and other required permits and authorizations;
- increased materials and labor costs, problems with contractors or subcontractors, or other costs including those costs due to errors and omissions which occur in the design or construction process;
- inability to obtain financing with favorable terms;
- inability to complete construction and lease-up of a community on schedule;
- forecasted occupancy and rental rates may differ from the actual results; and
- the incurrence of costs related to the abandonment of development opportunities which we have pursued and subsequently deemed unfeasible.

Our inability to successfully implement our development, redevelopment and construction strategy could adversely affect our results of operations and our ability to satisfy our financial obligations and pay distributions to shareholders. One of our wholly-owned subsidiaries is engaged in the business of providing general contracting services under construction contracts entered into between it and third parties (which may include our nonconsolidated affiliates). The terms of those construction contracts generally require this subsidiary to estimate the time and costs to complete a project to calculate the cost plus margin for the project fee, but not to exceed a maximum amount, and to assume the risk when these estimates may be greater than anticipated. As a result, profitability on those contracts is dependent on the ability to accurately predict such factors. The time and costs necessary to complete a project may be affected by a variety of factors, including, but not limited to, those listed above, many of which are beyond this subsidiary's control. In addition, the terms of those contracts generally require this subsidiary to warrant its work for a period of time during which it may be required to repair, replace, or rebuild non-conforming work. Further, trailing liabilities, based on various legal theories such as claims of negligent construction, may result from such projects, and these trailing liabilities may go on for a number of years depending on the length of the statute of repose in the applicable jurisdictions.

Investments through joint ventures and investment funds involve risks not present in investments in which we are the sole investor.

We have invested and may continue to invest as a joint venture partner in joint ventures. These investments involve risks, including, but not limited to, the possibility the other joint venture partner may: have business goals which are inconsistent with ours, possess the ability to take or force action or withhold consent contrary to our requests, or become insolvent and require us to assume and fulfill the joint venture's financial obligations. We and our joint venture partners may each have the right to initiate a buy-sell arrangement, which could cause us to sell our interest, or acquire a joint venture partner's interest, at a time when we otherwise would not have entered into such a transaction. Each joint venture agreement is individually negotiated, and our ability to operate, finance, or dispose of a community in

our sole discretion may be limited to varying degrees depending on the terms of the applicable joint venture agreement. We account for three investment funds (collectively, the "Funds") utilizing the equity method of accounting. As of December 31, 2018, we had two discretionary investment funds and in March 2015, we completed the formation of a third fund with an unaffiliated third party and it did not own any properties in 2018, 2017, or 2016. The risks associated with our Funds, which we manage as the general partner and advisor, include, but are not limited to, the following:

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one of our wholly-owned subsidiaries is the general partner of the Funds and has unlimited liability for the third-party debts, obligations, and liabilities of the Funds pursuant to partnership law; investors in the Funds (other than us), by majority vote, may remove our subsidiary as the general partner of the Funds with or without cause and the Funds' advisory boards, by a majority vote of their members, may remove our subsidiary as the general partner of the Funds at any time for cause; while we have broad discretion to manage the Funds and make investment decisions on behalf of the Funds, the investors or the Funds' advisory boards must approve certain matters, and as a result we may be unable to make certain investments or implement certain decisions on behalf of the Funds which we consider beneficial; our ability to dispose of all or a portion of our investments in the Funds is subject to significant restrictions; and we may be liable if the Funds fail to comply with various tax or other regulatory matters.

Competition could adversely affect our ability to acquire properties.

We expect other real estate investors will compete with us to acquire additional operating properties. This competition could increase prices for the type of properties we would likely pursue and adversely affect our ability to acquire these properties or achieve the expected profitability of such properties upon acquisition.

Our acquisition strategy may not produce the cash flows expected.

We may acquire additional operating properties on a selective basis. Our acquisition activities are subject to a number of risks, including, but not limited to, the following:

- we may not be able to successfully integrate acquired properties into our existing operations;
- our estimates of the costs, if any, of repositioning or redeveloping the acquired property may prove inaccurate;
- the expected occupancy, rental rates and operating expenses may differ from the actual results;
- we may not be able to obtain adequate financing; and
- we may not be able to identify suitable candidates on terms acceptable to us and may not achieve expected returns or other benefits as a result of integration challenges, such as personnel and technology.

Failure to qualify as a REIT could have adverse consequences.

We may not continue to qualify as a REIT in the future. Also, the Internal Revenue Service may challenge our qualification as a REIT for prior years.

For any taxable year we fail to qualify as a REIT and do not qualify under statutory relief provisions:

- we would be subject to federal income tax on our taxable income at regular corporate rates including, for taxable years ended before January 1, 2019, any applicable alternative minimum tax;
- we would be disqualified from treatment as a REIT for the four taxable years following the year in which we failed to qualify, thereby reducing our net income, including any distributions to shareholders, as we would be required to pay significant income taxes for the year or years involved; and
- our ability to expand our business and raise capital would be impaired, which may adversely affect the value of our common shares.

We may face other tax liabilities in the future which may impact our cash flow. These potential tax liabilities may be calculated on our income or property values at either the corporate or individual property levels. Any additional tax expense incurred would decrease the cash available for cash distributions to our common shareholders and non-controlling interest holders. Additionally, 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 adjusted taxable income.

Tax laws have recently changed and may continue to change at any time, and any such legislative or other actions could have a negative effect on us.

Tax laws remain under constant review by persons involved in the legislative process, at the Internal Revenue Service and the U.S. Department of Treasury, and by various state and local tax authorities, as evidenced by the 2017 Jobs Act signed into law

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in December 2017. Future changes in tax laws, including to the administrative interpretations thereof or to the enacted tax rates, or new pronouncements relating to accounting for income taxes, could adversely affect us in a number of ways, including making it more difficult or more costly for us to qualify as a REIT.

Litigation risks could affect our business.

As an owner, manager and developer of multifamily properties, we may incur liability based on various conditions at our properties and the buildings thereon, and we also have become and in the future may become involved in legal proceedings, including consumer, employment, tort or commercial litigation, which if decided adversely to or settled by us, and not adequately covered by insurance, could result in liability which is material to our financial condition or results of operations.

Damage from catastrophic weather and other natural events could result in losses.

A certain number of our properties are located in areas that have experienced and may in the future experience catastrophic weather and other natural events from time to time, including fires, snow or ice storms, windstorms, tornadoes, hurricanes, earthquakes, flooding or other severe weather. These adverse weather or natural events could cause substantial damages or losses to our properties which could exceed our insurance coverage. In the event of a loss in excess of insured limits, we could lose our capital invested in the affected property, anticipated future revenue from the property, and could also continue to be obligated to repay any mortgage indebtedness or other obligations related to the property. Any such loss could materially and adversely affect our business, financial condition and results of operations.

We are in the process of implementing a new enterprise resource planning system and problems with the design or implementation of this system could interfere with our business and operations.

We are engaged in a multi-year implementation of a cloud-based enterprise resource planning (ERP) system which is planned to be deployed in phases beginning in 2019. The new ERP system will replace multiple current business systems and is being designed to improve processes across the Company. The new ERP system will maintain books and records, record transactions and provide important information of the operations of our business to our management. The implementation of the new ERP system has required, and will continue to require, the investment of significant personnel and financial resources. While we have invested, and will continue to invest, significant resources in planning and project management, implementation issues may arise during the course of implementation, and it is possible we may experience delays, increased costs and other difficulties not presently contemplated. Any disruptions, delays or deficiencies in the design and implementation of the new ERP system could have a materially adverse affect on our financial condition and results of operations.

A cybersecurity incident and other technology disruptions could negatively impact our business.

We use technology in substantially all aspects of our business operations, including internet and cloud-based systems and applications. We also use mobile devices, social networking, outside vendors and other online activities to connect with our employees, suppliers and residents. Such uses and the on-going advancement in technology give rise to potential cybersecurity risks with increasing sophistication, including but not limited to, security breach, espionage, system disruption, theft and inadvertent release of confidential information. Our business involves the storage and transmission of numerous classes of sensitive and confidential information and intellectual property, including residents' and suppliers' personal information, private information about employees, and financial and strategic information about us. Further, as we pursue our strategy to grow through acquisitions and developments and to pursue new initiatives to improve our operations, we are also expanding our information technologies, resulting in a larger technological presence and corresponding exposure to cybersecurity risk. If we fail to assess and identify cybersecurity risks associated with our operations, we may become increasingly vulnerable to such risks and may be liable for the consequential litigation and remediation costs. Additionally, the measures we have implemented to prevent security breaches and cyber incidents may not be effective and there can be no complete assurance of prevention or anticipation of such incidents. The theft, destruction, loss, misappropriation, or release of sensitive data, confidential information or intellectual property, or interference with our information technology systems or the technology systems of third parties on which we rely could result in business disruption, negative publicity, brand damage, violation of privacy laws, loss of residents, potential liability and competitive disadvantage, any of which

could result in a material adverse effect on our financial condition or results of operations.

Our third-party service providers are primarily responsible for the security of their own information technology environments and in certain instances, we rely significantly on third-party service providers to supply and store our sensitive data in a secure manner. All of these third parties face potential risks relating to cybersecurity similar to ours which could disrupt their businesses and therefore adversely impact us. While we provide guidance and specific requirements in some cases, we do not directly control any of these parties' information technology security operations, or the amount of investment they place in guarding against cybersecurity threats. Accordingly, we are subject to any flaws in or breaches to their information technology systems or those which they operate for us, which could have a material adverse effect on our fina