

AN OVERVIEW OF THE BATON ROUGE APARTMENT MARKET
APRIL 2005

Presented By
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I. Introduction

A synopsis of new multifamily residential construction projects will be presented, followed by graphs illustrating the recent trends in apartment rentals and vacancies, as collected and analyzed by Cook, Moore & Associates (CMA), graduate students with the LSU Real Estate Research Institute, the Commercial Investment Division (CID) of GBRAR, and the Baton Rouge Apartment Association (BRAA).

The construction of 2,816± apartment units in 2002-04 (with 1,271± of those units completed in 2004-05) was expected to result in stagnant (if not declining) rentals in 2004-05 and produce a short-term, but notable increase in vacancies. This doesn't appear to be the case. The January 2005 citywide vacancy reported by BRAA was 7.9% (up from 7.4% in January 2004 and 6.9% in January 2003). The CMA/LSU survey results suggest that vacancies have remained essentially constant from 2004 to 2005 (both Spring surveys reported 5.77% citywide vacancies). It should be noted that the vacancy surveys generally include only "stabilized" properties, thus, most of the properties in "lease-up" (with substantial vacancies) are not reflected in the published statistics. The full impact of the new supply on citywide vacancies has unlikely been fully realized, though the local market has exhibited a strong ability to expand and absorb new apartment units. Concessions (rent specials) being offered by upscale properties (the vast majority of the new product) have been prevalent, but diminishing. As such, vacancies in most corridors are not expected to substantially increase over the next 12± months.

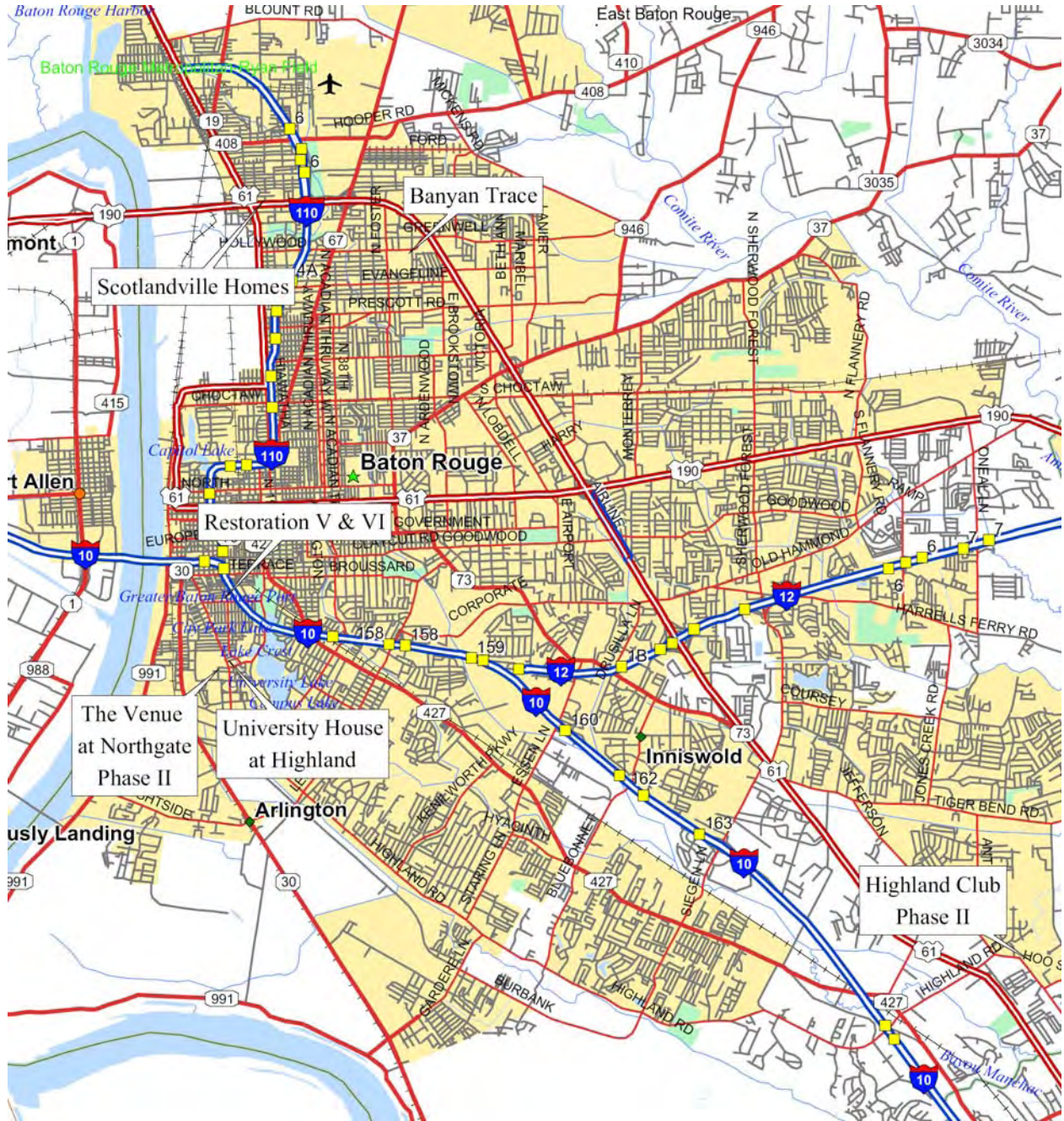
II. New Apartment Construction

Baton Rouge experienced a small "boom" in apartment construction from 1995 to 2001. During this period, 22 new apartment complexes containing a total of 3,993± units were built in Baton Rouge. An additional 3 complexes with 434± units were built in 2002, 5 complexes with 1,111± units were built in 2003 and 6 complexes with 1,271± units were built in 2004. The total addition to the rental supply over the last decade (since 1995) now stands at roughly 6,809± apartment units (excluding "for sale" condos). It remains notable that very few of the new complexes are offering standard, mid-grade apartment units (i.e., virtually all are orient toward "niche" markets, such as students or lower-income households). The vast majority of the new supply has been oriented toward more affluent tenants. These facilities offer premium amenities, finishes, services and/or security packages. Most of the new units built in 2004 were upscale apartments oriented toward more affluent LSU students. The small amount of new supply planned for 2005-06 will once again be predominantly oriented toward affluent students. The new apartment complexes in Baton Rouge are identified on the following exhibits:

**Apartment Complexes Planned for 2005-06
in Baton Rouge, Louisiana**

Project Name, Developer & Location	# of Units	Expected Completion Date	Comments
Highland Club - Phase II (Ed Kramer, Baton Rouge) Jefferson Hwy near Highland Rd	44	Mid 2006	Upscale/Luxury Conventional units planned adjoining Phase I of Highland Club Construction has not started
The Venue at Northgate - Phase II (First Worthing, Dallas, TX) South side of W. State Street	21	Mid 2006	Upscale/Luxury Student-Oriented units planned along State Street (former McDonald's site) Construction has not started
University House at Highland (First Worthing, Dallas, TX) Highland Rd north of W. State St.	180	Mid 2006	Upscale/Luxury Student-Oriented units planned along east side of Highland Rd near State St Construction has not started
Restoration V & VI (George Jenne, Baton Rouge, LA) Varies throughout Old South Baton Rouge	39	Late 2005/Early 2006	Affordable Housing (Tax Credit) units Single-family, Scattered-Site Rental Grouping on various sites in Old South Baton Rouge
Banyan Trace (Bowen Arnold, Ft. Myers, FL) McClelland and Hollywood Drive	20	Summer 2005	Affordable Housing (Tax Credit) units Manufactured Housing Rental Grouping Construction almost completed
Scotlandville Homes (Ronnie Benitez, Baton Rouge, LA) Monte Sano Avenue off Scenic	58	Summer 2005	Affordable Housing (Tax Credit) units Single-family, Scattered-Site Rental Grouping Construction almost completed
Total (through 2006)	362		

MAP OF APARTMENT COMPLEXES PROPOSED FOR 2005-06

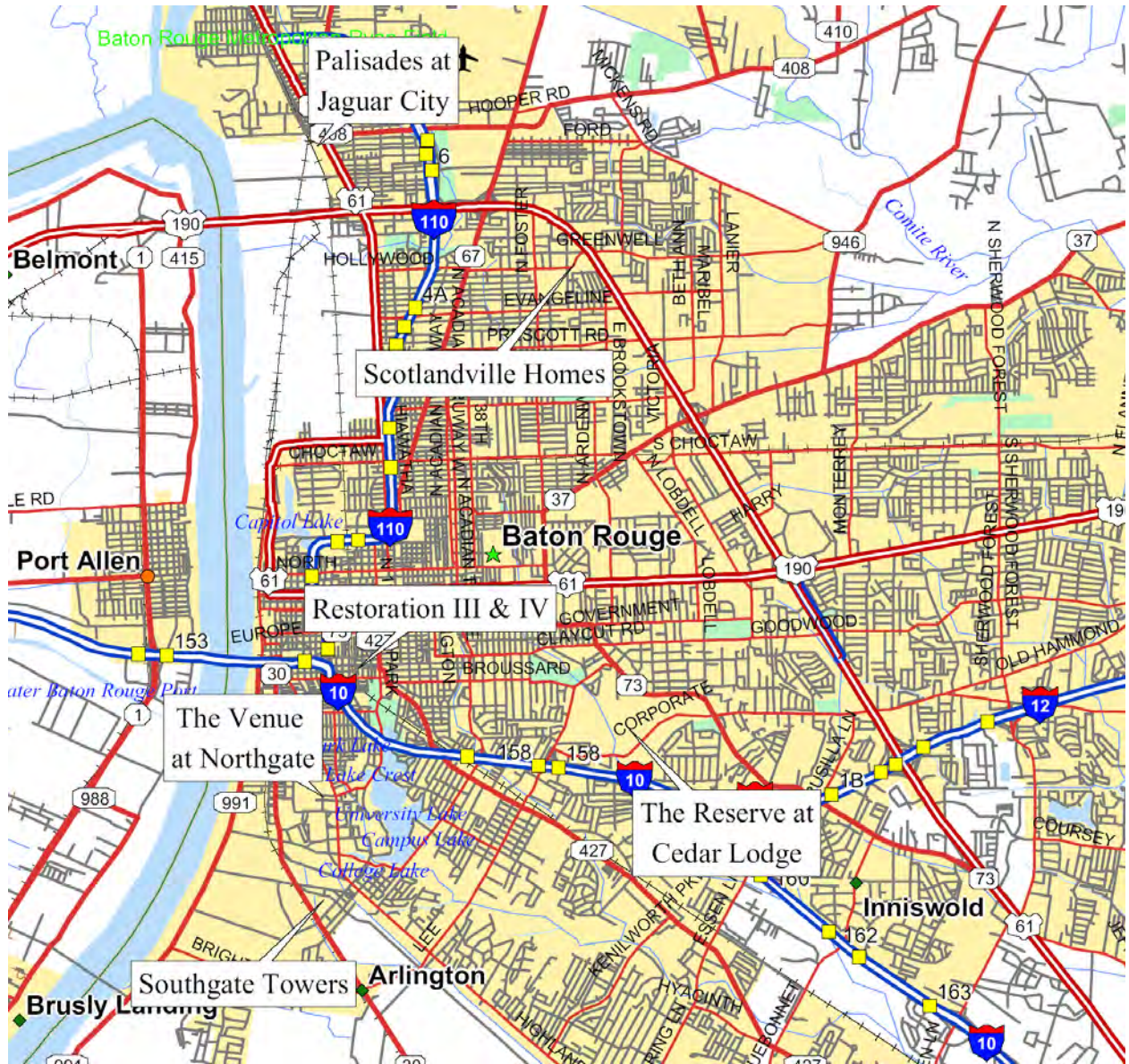


**Apartment Complexes Built in 2004
in Baton Rouge, Louisiana**

<u>Project Name, Developer & Location</u>	# of Units	Completion Date	Comments
The Venue at Northgate (First Worthing, Dallas, TX) 252 W. State Street at Highland Rd	193	Mid 2004	Upscale/Luxury Student-Oriented units
The Palisades at Jaguar City (Educational Devpmt Co. of America) Scenic Hwy at Harding Blvd	324	Mid 2004	Upscale/Luxury Student-Oriented units
The Reserve at Cedar Lodge Creekstone (Steve Keller, Houston, TX) Corporate Blvd near Jefferson Hwy	300	Mid 2004	Upscale/Luxury units
Southgate Towers (Phase I) (R.W. Day & Associates, Baton Rouge) Nicholson Drive south of LSU	343	Late2004/Early 2005	High-rise, Upscale/Luxury Student-Oriented Units Construction near completion Additional phases planned
Restoration III & IV (George Jenne, Baton Rouge, LA) Varies throughout Old South Baton Rouge	59	Mid 2004	Affordable Housing (Tax Credit) units Single-family, Scattered-Site Rental Grouping on various sites in South Baton Rouge
Hollywood Homes (Joe Wahl, Greenwill, LA) Hollywood at McClelland Drive	52	Mid 2004	Affordable Housing (Tax Credit) units Single-family, Scattered-Site Rental Grouping
Total (through 2004)	1,271		

Not included in these lists may be additional properties (in the planning and/or financing stages) for which the site has not been purchased, site plan approval has not been granted and/or plans have not been publicly announced. As construction of new units cannot occur without site plan approval and the process of acquiring such approval is highly political and speculative (as can be the site acquisition process), inclusion of such properties in a traditional 'pipeline' analysis would be inappropriate.

MAP OF APARTMENT COMPLEXES BUILT IN 2004



**Apartment Complexes Completed in 2003
in Baton Rouge, Louisiana**

Project Name, Developer & Location	# of Units	Completion Date	Comments
Pinnacle Homes at Coursey Place (Colonial Properties, Montgomery, AL) Coursey at Hickory Ridge	352	Spring 2003	Upscale/Luxury units (HUD 221d4) Construction started mid-2002
Lakeside Villas (Gros Construction of Houston, TX) Millerville Road near Wedgewood S/D	224	Summer 2003 (1 st Phase)	Upscale/Luxury Units Construction started late 2002
CitiScape at Essen (Danny Brown, Baton Rouge) Essen between Summa & Mancuso	216	Fall 2003	Upscale/Luxury units (HUD 221d4) Construction started late 2002
Muriel Crossing (Sidney Coxe, Jr) Muriel Drive off South Sherwood Forest	116	Spring 2003	Mid-Scale Conventional Units Construction started late 2002
Highland Club (Ed Kramer, Baton Rouge, LA) Old Jefferson near Highland Rd	203	Summer 2003	Upscale/Luxury units (HUD 221d4) Construction started late 2002
Total (for 2003)	1,111		

**Apartment Complexes Completed in 2002
Baton Rouge, Louisiana**

Project Name, Developer & Location	# of Units	Completion Date	Comments
Cypress Lake Apts (Bryan Company of Jackson, MS) Reiger Road off Siegen Lane	314	Late 2002 (1 st phase)	Upscale/Luxury units Construction Completed 1/02
Howell Place Apartments (Barron Builders of The Woodlands, TX) 72 nd Avenue off Plank Road	48	Mid 2002 (1 st Phase of 96± unit facility)	Affordable Housing (tax credit) units
Pirates Bend Apartments (Barron Builders of The Woodlands, TX) Plank Road north of Harding	72	Late 2002	Affordable Housing (tax credit) units
Total	434		

Apartment Construction in Surrounding Parishes

Construction in the Parishes surrounding Baton Rouge has, thus far, remained moderate. Prior to 2005, the only substantial construction had occurred in Livingston Parish (with the 264-unit Live Oak Tract Apartments delivering their first units in 2002). There are now 2 new upscale complexes with a combined total of 528 units under construction in Ascension Parish and 1 new upscale complex in Livingston Parish with 264 units completed and in lease-up.

The notable recent construction in surrounding Parishes (all the Livingston Parish properties are in the Denham Springs area) is summarized on the following table:

Apartment Construction in 2000-2005 in Livingston & Ascension Parishes			
Project Name, Developer & Location	# of Units	Completion Date	Comments
Live Oak Trace Apts (Brian Campbell, Baton Rouge) LA 64 west of LA 16, Livingston Parish	264	2002	Mid-scale (Class B) conventional units
Springtree Apartments (Sunquest Properties, Monroe, LA) Off LA 16, Livingston Parish	72	2000	Affordable Housing (tax credit) units
Boardwalk Place Apartments (Danny Brown, Baton Rouge) North side of LA 1034, Livingston Parish	264	Late 2004	Upscale/Luxury units (HUD 221d4) Completed December 2004
Lakeside Oaks at Old Dutchtown (John Fetzer, Baton Rouge) LA 75 at I-10, Ascension Parish	248	Mid 2005	Upscale/Luxury Conventional units Under Construction
Villages at Fountain Lake Apartments (Vintage Realty & Destiny Developers) LA 30 at I-10, Ascension Parish	240	Mid 2005	Upscale/Luxury units (HUD 221d4) Under Construction
Total	1,088		

The impact of these new units will likely be seen most in the existing properties in the southern and eastern portions of Baton Rouge. These units, combined with the substantial incoming supply of condos, will likely deter substantial construction of additional rental units in the southern and eastern portions of Baton Rouge through 2006.

LSU Influence

Note the substantial amount of upscale student housing planned or recently completed (oriented toward LSU students). Fall semester enrollment at LSU dropped sharply from 1984 through 1990. It stabilized in the early 1990's and has shown substantial improvement in recent years, as illustrated below:

<u>Year</u>	<u>Enrollment</u>
1983.....	29,863
1984.....	29,497
1985.....	28,979
1986.....	27,704
1987.....	27,295
1988.....	26,564
1989.....	25,977
1990.....	25,307
1991.....	26,138
1992.....	26,607
1993.....	25,369
1994.....	25,317
1995.....	25,879
1996.....	26,851
1997.....	28,077
1998.....	29,881
1999.....	30,966
2000.....	30,870
2001.....	31,402
2002.....	31,560
2003.....	31,234
2004.....	31,561

The 2004-2005 enrollment of 31,561± is an increase of 1% from enrollment in 2003. It is notable that the 2004 figure was 25% higher than the 1994 enrollment (an increase of roughly 6,250 students). The boost in student enrollment has been at least partially attributable to TOPS (Tuition Opportunity Program for Students), a State-funded program that was modified in the Summer 1997 legislative session that affects all Louisiana high school graduates who were incoming college freshmen in 1998 (or later) and have been out of high school less than 2 years. Historically reserved for students whose families earn less than \$35,000 per year, *the household income restrictions were removed in the modified legislation*. Under the TOPS plan, students can qualify for *free college tuition* to any public college or university in Louisiana by graduating in a college preparatory curriculum with a 2.7 grade point average and at least a 21 (the State average, which is subject to change in the future) on the American College Test (ACT). Students with higher GPA and ACT scores (3.5 and 27, respectively) can qualify for *free college tuition and as much as an \$800 annual stipend*. This program has boosted enrollment at several Universities throughout the State.

Officials at LSU note the following:

- ❑ Higher admissions standards improve not only the overall reputation/prestige related to the university (as the statistical student “quality” improves). The retention and graduation rates also improve, as better students typically remain in school and graduate sooner.

- ❑ Residual benefits from the improved reputation is a better ability to draw students from other universities (i.e., the school's competitive positioning improves). Many of the students attracted are non-resident (and, thus, require additional housing units).
- ❑ Admissions standards were increased in 1995 from a minimum 2.0 GPA to a 2.3. These standards were increased further in 2002 and will be increased again in Fall 2005 (to a minimum of a 3.0 GPA, 25 ACT *or* finish in top 10% of high school graduating class). **Enrollment at LSU has boomed since 1995 (the number of incoming freshman in Fall 1995 was 3,428, with an average ACT score of 23.4; the number of incoming freshman in Fall 2003 was 5,089, with an average ACT score of 24.4).** Though it is difficult to assign a direct correlation, this is a notable indicator that the increased admissions standards may actual serve to further boost enrollment.

We expect student enrollment at LSU to maintain a slower, more stable pace of growth. Further supporting this is the fact that the U.S. Department of Commerce forecasts steady population growth in the college-age segment (18 to 23 year olds). This expectation is based on the fact that many members of the Baby Boom Echo generation (i.e., the children of the first Baby Boomers) are reaching college age. The nationwide population of 18 to 23 years olds, which gradually declined in the early 1990's, stabilized in 1995-96 and has since improved. The timing of this improvement parallels the improvements LSU has experienced in terms of enrollment.

III. Apartment Renovations

A notable number of "down" apartment units were refurbished and brought back into the rental market in 1995-98 (over 750 units). The depressed apartment market of the late 1980's spawned substantial scavenging of failed or poorly operated facilities. A significant inventory of lender-owned units, resulting from a multitude of loan defaults and foreclosures (and exacerbated by bank failures and the disposition of assets by the FDIC and RTC), facilitated numerous acquisitions of apartment properties at depressed prices. Many of these properties were renovated and put back into operation. Others were held awaiting recovery of the market and are now being renovated. Complexes that were at one point abandoned and/or boarded and have been refurbished and brought back into the rental market are considered relevant new market entrants. These rejuvenated units often offer superior housing quality and/or condition to nearby facilities and are competitive and marketable. As the available inventory of dilapidated units has diminished greatly over the past decade, the amount of major renovation/reactivation activity has dropped appreciably.

IV. Other Sources of Housing Supply

In addition to the new and renovated units entering the market, there are numerous other forms of housing offering competition. These include single family dwellings (which, due to historically low interest rates and numerous government-backed incentive programs oriented toward home ownership, have drawn substantially from the apartment tenant base), assisted-living and other elderly-oriented, seniors housing facilities, condos/townhomes (construction and absorption of numerous condo units has been completed over the past 5± years, most near LSU, with a substantial number of additional units underway), and mobile/manufactured homes. Condo conversions are of minimal net effect on the rental market (i.e., the tenants and units leave the rental market simultaneously).

A source of rental housing often overlooked is renter-oriented condo construction. In the immediate proximity of LSU, several condo developments have been built over the past few years and have attracted

relatively rapid absorption (typically 5 to 10 units selling per month, depending more on construction schedules and availability than market demand). The notable condo developments are summarized below:

Student-Oriented Condo Developments Completed from 1998-2004 Baton Rouge, Louisiana			
Project Name, Developer & Location	# of Units	Year Built	Comments
University View (Bill Hopper) East Boyd @ Nicholson Dr	144	2000-2001	Upscale student-oriented condos Virtually all units sold prior to completion Average 2BR unit pricing of \$105,000±
Leigh's Cove - Phase I (Greg Cramer, et al) Etta Street off West Lee Dr	32	2000-2001	Upscale student-oriented condos Units sold at a rate of 3/month 2BR unit pricing of \$100,000 to \$113,000±
Highland Village II (Bill Hopper) Highland Road @ LSU Avenue	80	1998-1999	Upscale student-oriented condos Units sold at a rate of 4.5/month Average 2BR unit pricing in 2001 of \$103,000±
Courtney Place Condos (DNT Properties) Burbank south of Jennifer Jean	48	2002	Upscale student-oriented condos All units were pre-sold prior to completion 2BR unit pricing of \$106,000 to \$116,000±
Leigh's Cove - Phase II (Greg Cramer, et al) Etta Street off West Lee Dr	32	2003	Upscale student-oriented condos Units sold at a rate of 3/month 2BR unit pricing of \$135,000 to \$139,000±
Burbank Estates Condos (Earl Weber, New Orleans) Burbank south of Jennifer Jean	104	2003/2004	Upscale student-oriented condos All units in Phase I were pre-sold prior to completion 2BR unit pricing of \$129,000 to \$159,000±
Jessica's Landing Condos (DNT Properties) Brightside Lane west of Nicholson Dr.	48	2003/2004	Upscale student-oriented condos All units were pre-sold prior to completion 2BR unit pricing of \$115,000 to \$135,000±
Lake Beau Pre Townhomes - Phases 1 & 2 (Greg Flores, Baton Rouge) River Road, South of Brightside Dr	86	2004	Upscale student-oriented townhouses Phases 1 & 2 of a 5-phase development 2BR & 3BR unit pricing of \$125,000 to \$155,000±
Parker Place Condominiums (Brian Dantin, Baton Rouge) Highland Road at South Gates of LSU	18	2004	Upscale student-oriented condos 2BR unit pricing of \$169,000 to \$240,000± All units were pre-sold prior to completion
Total	592		

**Student-Oriented Condo Developments
Under Construction 2005-2006
Baton Rouge, Louisiana**

Project Name, Developer & Location	# of Units	Year Built	Comments
Lake Beau Pre - Phases 3, 4 & 5 (Greg Flores, Baton Rouge) River Road, South of Brightside Dr	121	Expected Completion - Fall 2005	Upscale student-oriented townhouses Phases 3, 4 & 5 of a 5-phase development
The Gates at Brightside (DNT Properties, Baton Rouge) Brightside Drive, next to Varn Villa Apts	72	Expected Completion - Fall 2005	Upscale student-oriented condos Most units reportedly pre-sold
Arlington Townhomes (Rick Cappo, Baton Rouge) Brightside Drive at Sharlo Drive	106	Expected Completion - Fall 2005	Upscale student-oriented townhouses Most units reportedly pre-sold
Brightside South Estates Condos (Earl Weber, New Orleans) Brightside Drive at Nicholson Drive	128	Expected Completion - Fall 2005	Upscale student-oriented condos Most units reportedly pre-sold
Total	427		

Additional developments in the works include The Fieldhouse Gameday Condos along Nicholson Drive north of the LSU campus (Capstone Development), the 36-unit Red Stick Lofts planned along the west side of Nicholson Drive roughly 1 mile north of the LSU campus and Southgate Towers condos along Nicholson Drive south of Burbank Drive planned by R. W. Day Development.

With the strong absorption noted in the student-oriented condo market, it is likely the influx of units will continue. An upward swing in mortgage interest rates could have an adverse impact on this demand, though no signs of slacking demand have yet shown.

We also tracked the recent construction of “for sale” townhome and condos in the remainder of Baton Rouge, a notable amount of which has recently occurred. A summary list is provided:

**Conventional Condo Developments
2002-2005
Baton Rouge, Louisiana**

Project Name, Developer & Location	# of Units	Year Built	Comments
Georgetown Homes (Terry Hebert) Congress Blvd @ Bunker Hill Ave	44	2001-2002	2BR single-story condos with garages 1,071± sf to 1,124± sf Unit pricing of \$106,000 to \$122,000±
Jackson Square (Signature Homes) Congress Blvd @ Jamestown Ave	63	2003-2004	2BR & 3BR single-story condos with garages 1,203± sf to 1,538± sf Unit pricing of \$125,000 to \$147,000±
Carriage Place (Signature Homes) 9124 Old Hammond Hwy	53	2004	2BR & 3BR single-story condos with garages 1,330± sf to 1,523± sf Unit pricing of \$146,900 to \$160,400±
Bromley Townhomes (Scott Bardwell) Hyacinth at Perkins	32	2005	2BR 2-story townhomes with garages 1,460± sf Unit pricing of \$204,900± (\$140±/sf)
Windsor Village (Signature Homes) Coursey Blvd near Jones Creek Rd	106	2005	2BR single-story condos with garages 1,463± sf to 1,523± sf Unit pricing of \$153,400 to \$158,500±
Fairwood Village (Terry Hebert) Old Hammond Hwy near Flannery Rd	94	2005	2BR single-story condos with garages 1,100± sf Unit pricing of \$122,900± (\$112±/sf)
Shadowbrook (Terry Hebert) Shadowbrook Dr off S. Harrell's Ferry Rd	10	2005	3BR single-story condos with garages 1,400± sf Unit pricing of \$165,000± (\$115±/sf)
Lakes at Bluebonnet (Rick Cappel) Burbank Dr @ Bluebonnet	142	2005	2BR & 3BR condos with garages 1,370± sf to 1,474± sf Unit pricing of \$149,900 to \$165,900±
The Burbank Condos (Gordon Pugh) Burbank Dr @ S. Kenilworth Pkwy	48	2005	2BR 1 and 2-story condos 1,196± sf to 1,400± sf Unit pricing of \$138,900 to \$151,300±
Riverview Condos (Donnie Jarreau & Bobby Waters) River Rd north of the CBD	98	2005	Conversion of hotel rooms to 1 and 2BR condos 665± sf to 1,368± sf Unit pricing of \$79,900 to \$149,900±
Hidden Oaks Condos (Brandy Carber w/REMax) Range near Lockhart, Denham Springs	48	2005	2BR & 3BR single-story condos with carports 1,073± sf to 1,271± sf Unit pricing of \$102,900 to \$111,900±
Total	738		

Additional developments in the works include Perkins Rowe condo units along Perkins Road at Bluebonnet planned by JTS Interests, 48 units along Old Perkins Road in Prairieville near Santa Maria (Signature Homes), 106 units in Zachary near Lane Memorial Hospital planned by the Business Investment Group, LLC, River Place Condos in the CBD planned by Richard Preis and Hearne Construction, and 100+ units along Burbank Drive south of South Kenilworth Parkway planned by R. W. Day Development.

While the direct effects of these “for sale” units on the rental markets are difficult to quantify, they are relevant. These units primarily attempt to fill the void created by a general undersupply of newly-built detached single-family dwellings in East Baton Rouge Parish priced at under \$170,000 (as currently achievable land prices in EBRP often render lot and home pricing at lower levels infeasible). These units also facilitate conversion of renters to owners, effectively diminishing the number of potential apartment tenants in the market.

Seniors Housing

The seniors housing market has attracted notable construction in recent years. The various seniors housing types are defined as follows:

- ❑ **Congregate Senior Housing** is normally built in apartment-like settings (independent living) and has a common dining area, although units also have small kitchens. Some services may be included in monthly fees.
- ❑ **Assisted Living Facilities** provide services for elderly individuals who need help in one or more daily tasks. Around-the-clock nursing is typically not available.
- ❑ **Continuing Care Retirement Communities (CCRC's)** have fee structures which provide health care ranging from the level found in congregate housing to around-the-clock nursing facilities. As residents age, they can obtain more support without having to move. An endowment or buy-in-fee is typically charged.
- ❑ **Skilled Nursing Facilities** typically provide licensed nursing care for residents requiring extensive medical or rehabilitative assistance. To support aging in place in this facility, a licensed Home Health Care Agency will provide home health care in the facility and in the resident's unit, as prescribed by the resident's physician.

Baton Rouge has historically had only 5 facilities offering market-rate Assisted Living units and 3 facilities offering market-rate Congregate Care units (though other facilities have apartments oriented toward elderly residents, only a small number of facilities offer the support services requisite to these classifications). In 1997-2002, however, several new facilities offering Assisted Living or Congregate Care units were built. No additional units are known to be under construction. These are listed on the following table:

**New Seniors Housing Facilities 1997-04
Baton Rouge, Louisiana**

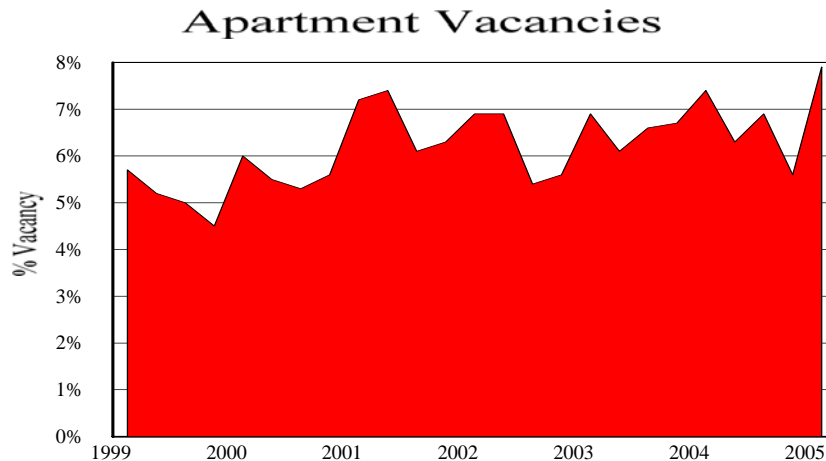
Project Name & Location	# of Units	Comments
St. James Place Lee Drive near Highland Road	74 Assisted Living 64 Nursing/Congregate Care	Construction completed in 2002 Expansion of existing facility
Sunrise Assisted Living Facility corner of Jefferson Highway and Essen Lane	54 Assisted Living	Completed in August 2000
Sherwood Manor Nursing Center Westfork off South Sherwood	107 Nursing Units	Construction Completed 2001
Oxford Place Oxford Place near Airline Highway	32 Assisted Living 56 Full-Care Nursing Units	Construction Completed 2001
Lake Sherwood Seniors Living Center Plaza Tower Drive, off S. Sherwood Forest	120 Congregate Care 44 Assisted Living	Construction Completed 1998
Lakewood Quarters Summa Drive	108 Assisted Living	Construction Completed 1998
Village at Windermere YMCA Plaza Drive, off Perkins Road	109 Congregate Care	Construction Completed 1998
LA Plantation Assisted Living Complex 26635 LA Hwy 16, Denham Springs	71 Assisted Living	Construction Completed 1998
Williamsburg Government Street near Foster Dr	43 Assisted Living	Construction Completed 2/97
Southside Gardens Perkins Road @ Lee Drive	33 Assisted Living	Expansion of existing facility Construction Completed 1998
Total	227 Nursing Units 229 Congregate Care 459 Assisted Living	

V. Absorption Rates

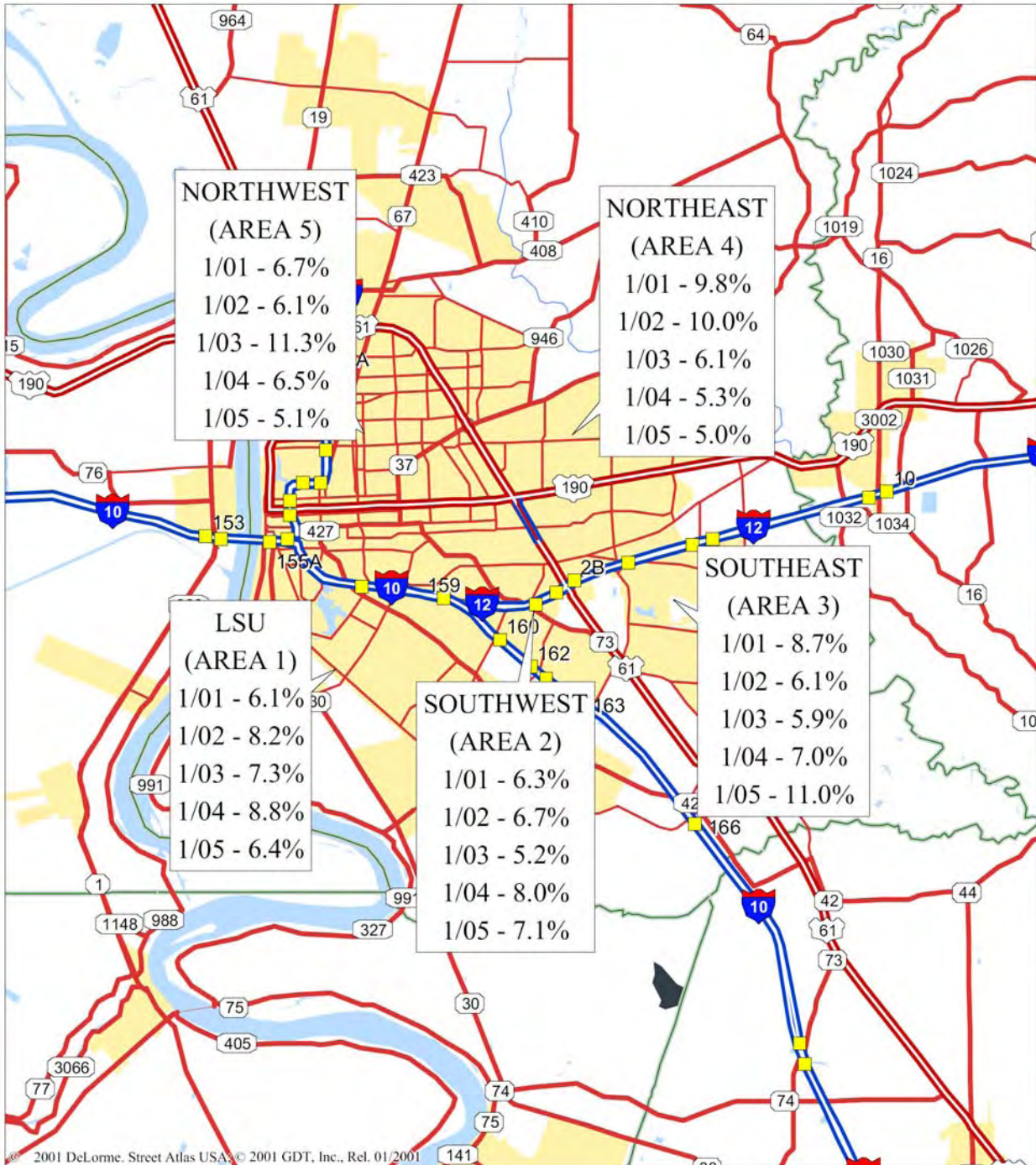
Certain market segments (i.e., upscale units, student housing, etc.) and corridors that appear to be/have been under-supplied in the mid-1990s have attracted the strongest absorption. **The upscale conventional and student-oriented units that were completed in 1996-2000 (3,473± units in 19 complexes), for the most part, reported very strong absorptions (typically 20 to 25 units leased per month during the lease-up phase). The units constructed since 2001 (3,225± units in 14 complexes) have faced greater competition and, as a result, have typically attracted much slower absorptions (typically 10 to 15 units per month).** The exceptions to this have been the student-oriented properties that have been able to ride seasonal “waves” of demand related to the semester system. It’s also notable that the more recent absorption rates have been fueled, in part, by concessionary practices (such as offering a free month with a 13-month lease).

VI. Apartment Vacancies & Rental Trends

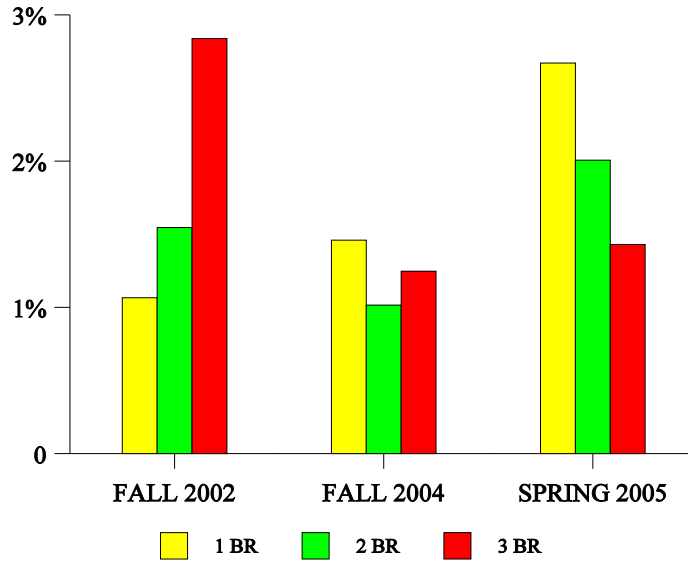
The following graphs illustrate the recent trends in apartment vacancies (as reported by the Baton Rouge Apartment Association). The data suggests that, until 1998, the substantial incoming supply of apartment units and competing sources of housing negatively impacted apartment rentals (while continuing upward, the rate of increase slowed) and vacancies (peaking at 8.5%, the overall vacancy for the city hit its highest level since late 1990). Gradual recovery (absorption of the new supply) occurred in 1999-2002, with city-wide vacancies reported by the Baton Rouge Apartment Association at 5.5% in October 2002. The substantial construction in 2002-04 resulted in an increase in citywide vacancies to 7.9% in January 2005. The apartment vacancy and rental trends over the past several years are illustrated on the following exhibits:



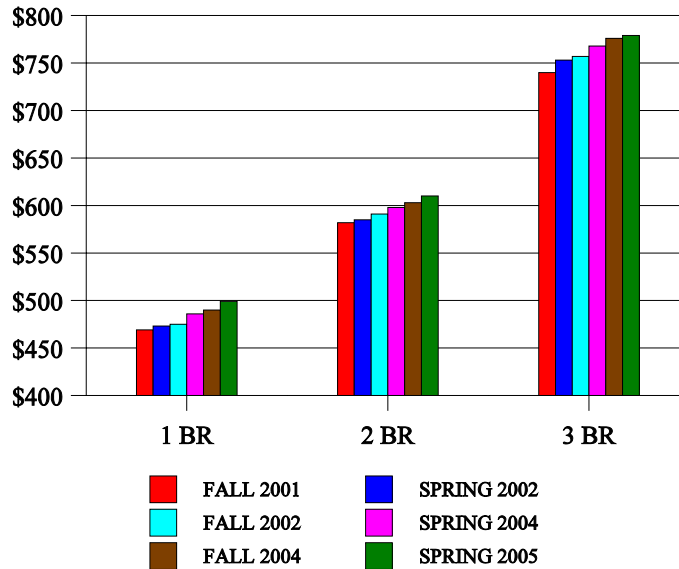
APARTMENT VACANCIES



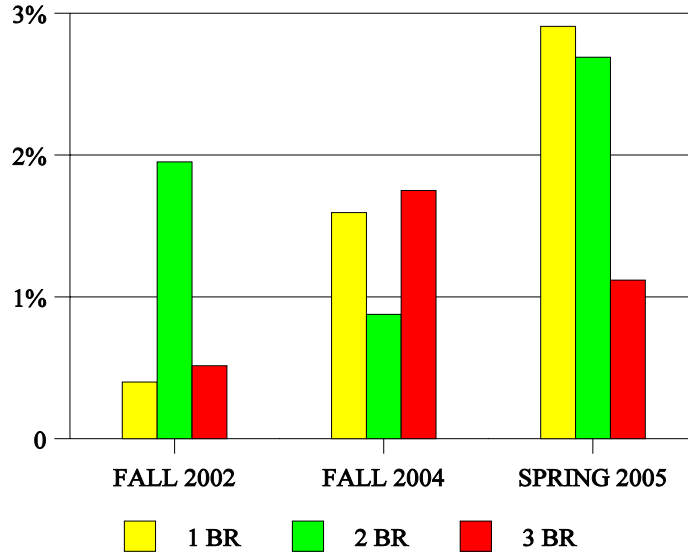
**ANNUAL PERCENTAGE INCREASE IN APARTMENT RENTAL RATES BY UNIT TYPE
BASED ON MATCHED SAMPLE OF 122 COMPLEXES**



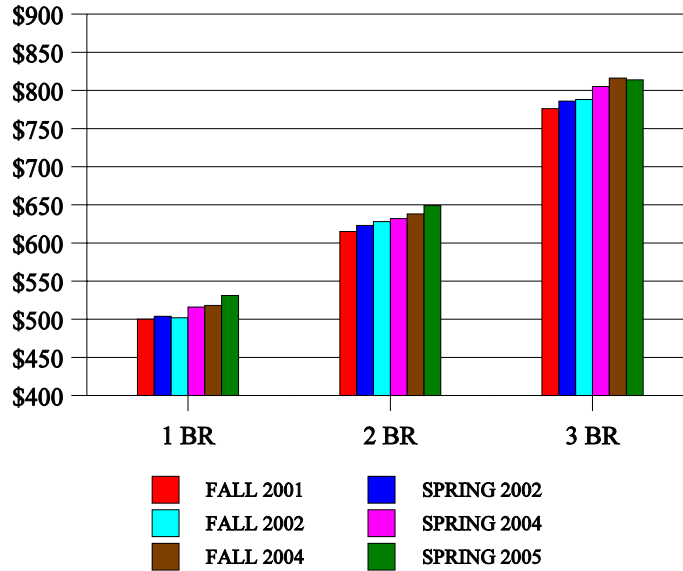
**AVERAGE APARTMENT RENTAL RATES BY UNIT TYPE
BASED ON MATCHED SAMPLE OF 122 COMPLEXES**



**ANNUAL PERCENTAGE INCREASE IN APARTMENT RENTAL RATES BY UNIT TYPE
BASED ON MATCHED SAMPLE OF 32 LARGE COMPLEXES (201+ UNITS ONLY)**



**AVERAGE APARTMENT RENTAL RATES BY UNIT TYPE
BASED ON MATCHED SAMPLE OF 32 LARGE COMPLEXES (201+ UNITS ONLY)**



VII. Conclusions

In-depth analyses by D. Wesley Moore, II, MAI, CCIM, and Craig Davenport, which were based in large part on economic modeling developed by David Treppendahl, CCIM, suggest that East Baton Rouge Parish should be able to readily absorb roughly 700± new units per year without suffering a substantial increase in vacancies. This projection assumes stable growth in population and the number of households of 1% per year (the actual compounded annual growth rate in East Baton Rouge Parish from 1990-2000 was 0.85%) and/or a continued decline in average household size (the average household size for the Baton Rouge MSA is estimated to have declined from 2.80 in 1990 to 2.55 in 2004), as well as continued apartment depletion (through demolition, condemnation, etc.) of 200± to 250± units per year, on average (based on historical trends for East Baton Rouge Parish and national averages).

Pent-up demand was exhibited in certain market segments in the early and mid-1990s (most notably upscale units, student housing, and seniors housing). The new supply of units (6,809± completed from 1995 through 2004) appears to have maintained consistency with the market's sustainable level of absorption (6,809± units ÷ 10 years = 681± units per year). A moderate market-wide increase in vacancies (up from 4% - 5% in the early 1990s to 6% - 8% in 2001-04) and moderation of rental increases (now averaging 2%± annually) appears to have resulted from the competitive pressures created by new supply. Recent vacancy figures compiled by the Baton Rouge Apartment Association indicate that absorption of most of the new units has occurred, while moderate softening appears to have periodically arisen (spiking at the 8.5% level in early 1998 and 7.9% in January 2005, vacancies have historically returned to a citywide average of 6% to 7%, while rentals have continued to gradually move upward at 1% to 3%± per year).

In retrospect, the market appears to have maintained an absorption rate fairly consistent with that suggested sustainable by our model (700± units per year), however, the delivery of 2,800± units (which equates to a 4± year supply) over a 3-year span (2002-04) appears to have generated a temporary oversupply of apartment units (most notably in the upscale segment). The result has been an increase in competitive pressures and tactics (several of the newer upscale complexes have been offering 1 month free with a 13-month lease to new tenants in an attempt to accelerate absorption). Until this new "bubble" of upscale supply is fully absorbed, such pressures and tactics are likely to remain prevalent.

A bulleted summary of our key considerations & expectations is provided below:

- ❑ Market-wide vacancies should stabilize, then gradually decline (though 93%± city-wide occupancy is not really a sign of oversupply) through 2005-06. They have likely peaked, as the strongest leasing season (the summer months) is still ahead. The substantial number of units soon to enter the market in Ascension will likely keep competitive pressures high in the local market for the next 2 years.
- ❑ Competitive pressures (from new apartment units) should continue to prevail during 2005-06, as the new units continue to fight to capture tenants, keeping overall rent increases in check and promoting the continuation of concessionary practices (e.g., reduced deposits, rental discounts, etc.).
- ❑ The apartment market has become increasingly crowded over the past few years, with substantial construction of new units occurring at the same time that historically low interest rates have been luring tenants toward home-ownership. Older properties will likely need to continue to improve their product and/or services (i.e., renovations, updating, increased services, increased marketing, etc.) or potentially have to accept lower and/or stagnating rentals or occupancies.

- ❑ Through 2000, Baton Rouge enjoyed 13 straight years of expansion, maintaining an average annual employment growth rate of almost 3% (6,800± new jobs per year). Local job growth in 2001-02 was slowed by the national economic recession (local job growth for 2002 was roughly 1%, based on figures from the Department of Labor), though the figures reflected economic strength on a relative basis (as most of the Country *lost* jobs in 2001-02, to generate *any* job growth during this period was a worthy accomplishment). While moderate recovery from the recession has been noted in 2003-05 on a national basis, local job growth has been slowed by losses in the chemical sector attributable primarily to high natural gas prices. Job growth in the Baton Rouge MSA for 2004 was 1.9%, with unemployment at 5.1%.
- ❑ Even during an economic downturn, local job growth has exceeded our average population growth (0.85%± per year from 1990 to 2000). If unemployment remains at such low levels (currently 5.1%±) and job growth is sustained at recent levels over an extended period (less than 1%± annual job growth over the next 2± years is projected by Dr. Loren Scott of LSU), the average rate of population growth (and a corresponding increase in the number of households) might decline from historical levels (STDBOnline estimates that 2000-2004 population growth in the MSA has averaged 1% per year, which is consistent with the 1990-2000 growth rate). As our model is sensitive to population growth projections (with greater growth supporting stronger absorption of new multifamily units), the impact of the new supply on overall apartment vacancies could be diminished.
- ❑ A key point to note is the steadily declining average household size in the local market (as well as regionally and nationally). Even in a market with no population growth, the demand for housing units can increase when the average number of people per household declines. The mechanics of this equation are as follows: # number of people ÷ average # of people per household = # of households. If the denominator in this equation shrinks (which has steadily occurred over the past 15 years), the number of households will increase (with demand for housing units increasing correspondingly). I term this “evolving lifestyle choices.” For whatever the multitude of reasons (divorces, the effects of the aging baby boomer bubble, the coming of age of the baby boomer “echo” generation, etc.), the average household size is shrinking. This is a critical factor driving the demand for and absorption of additional housing units.
- ❑ While my conclusions and overall tone are more positive than in my Spring 2004 report, the Baton Rouge apartment market is not yet “out of the woods.” With 300+ newly-built units in East Baton Rouge Parish and 700+ units in Ascension and Livingston Parishes yet to be absorbed, 362± additional units under construction and a substantial incoming supply of condo units (427+ student-oriented units and 578+ conventional units under way, with another 1,000± units trying to enter the pipeline), I remain quite cautionary about considering additional apartment construction locally over the next 1-2 years.