2009 Survey of Operating Income & Expenses in Rental Apartment Properties

EXECUTIVE SUMMARY

BY CHRISTOPHER LEE

REGIONS USED IN SURVEY

Region I	CT, DC, DE, MA, MD, ME, NH, NJ, NY, PA, PR, RI, VA, VT, WV
Region II	AL, FL, GA, KY, MS, NC, SC, TN
Region III	IL, IN, MI, MN, OH, WI
Region IV	AR, LA, OK, TX
Region V	CO, IA, KS, MO, MT, ND, NE, NM, SD, UT, WY
Region VI	AK, AZ, CA, HI, ID, NV, OR, WA

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A full survey report and individual market data will be available at www.naahq.org/09ies by Oct. 1.

Challenging Times Require Bottom-Line Focus

In a transformational year of bailouts, stimulus programs, deficit spending and financial industry restructuring, in addition to a dramatic decline of home and stock ownership and values, rising unemployment and bankruptcies, the U.S. apartment industry continues to face many short-term challenges. In the face of a prolonged recession, rising cost of living, tax increases, declining rents and a significant decline in both transactional volume and asset values, the apartment industry is placing an even great emphasis on operational basics and performance metrics.

The turmoil created by economic uncertainty has raised the bar within the apartment industry for increased focus on operations. Asset and property management skills and experience are now more of a priority than ever before, as the apartment industry focuses on offensive and defensive actions to control the financial bottom line of property and portfolio operations.

These findings are just a few of the many conclusions drawn from the recently completed National Apartment Association's 2009 Survey of Operating Income & Expenses. This NAA-sponsored survey of nearly 900,000 apartment units nationwide, conducted by Los Angeles-based CEL & Associates Inc., concluded that the quality and dedication of leadership and onsite talent within the apartment industry does matter.

The 2009 survey results reveal that apartment operators are successfully balancing a commitment to providing high-quality living environments with the need to be financially diligent in managing and controlling often unexpected increases in operating costs. Within the apartment industry, the experience, knowledge and dedication of onsite personnel is paying big dividends for residents and owners alike.

NAA has completed its Survey of Operating Income & Expenses in Rental Apartment Properties for 2009, based on annual data for 2008.

Major findings in this survey of the professionally managed rental apartment industry reflect the uncertainties of the current economy, as demonstrated by net operating income in the "market rent" segment of the rental apartment market declining by 2.7 percentage points to 53.9 percent and a higher economic loss rate of 12.42 percent from 10.11 percent in 2007. Total operating expenses increased by 0.9 percentage points, or 2.3 percent. The economic state of subsidized properties in the survey also experienced variable results over 2007.

A total of 3,619 properties containing 898,523 units are represented in this year's report. Data was reported for 3,107 market rent properties containing 822,991 units and 512 subsidized properties containing 75,532 units. Forms with partial data or apparent problems that could not be resolved were not included.

The report presents data from stratifications of garden and mid-rise/high-rise properties, further segmented by individually metered and master-metered utilities. Survey data is presented in three forms: dollars per unit, dollars per square foot of rentable

All Market Rent Properties

OPERATING INCOME & EXPENSE DATA

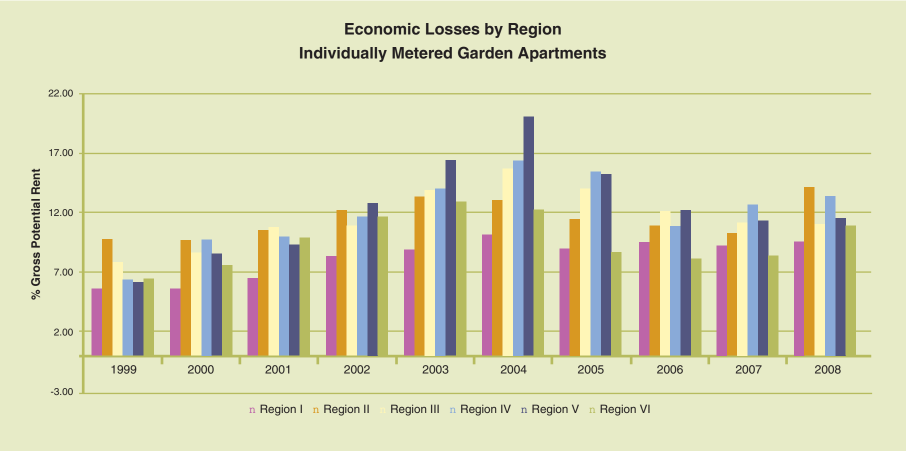
INDIVIDUAL METERED PROPERTIES

	Total			Garden			Mid & Hi Rise		
Number of Properties		2670			2492			178	
Number of Units		712,640			671,556			41,084	
Avg. No. of Units/Property		267			269			231	
Avg. No. of Square Feet/Unit		906			909			868	
Turnover rate in %		55%			55%			50%	
	$ Per Unit	$ Per Sq. Ft.	% of GPR	$ Per Unit	$ Per Sq. Ft.	% of GPR	$ Per Unit	$ Per Sq. Ft.	% of GPR
Revenues									
Gross Potential Rent	10,653	11.75	100.0%	10,367	11.41	100.0%	15,330	17.67	100.0%
Rent Revenue Collected	9,349	10.31	87.8%	9,080	9.99	87.6%	13,758	15.86	89.7%
Losses to Vacancy	802	0.88	7.5%	785	0.86	7.6%	1,071	1.23	7.0%
Collection Losses	93	0.10	0.9%	94	0.10	0.9%	72	0.08	0.5%
Losses to Concessions	409	0.45	3.8%	407	0.45	3.9%	429	0.49	2.8%
Other Revenue	696	0.77	6.5%	691	0.76	6.7%	779	0.90	5.1%
Total Revenue	10,045	11.08	94.3%	9,771	10.75	94.3%	14,536	16.76	94.8%
Operating Expenses									
Salaries and Personnel	1,094	1.21	10.3%	1,078	1.19	10.4%	1,362	1.57	8.9%
Insurance	237	0.26	2.2%	234	0.26	2.3%	286	0.33	1.9%
Taxes	1,037	1.14	9.7%	1,007	1.11	9.7%	1,530	1.76	10.0%
Utilities	456	0.50	4.3%	451	0.50	4.4%	535	0.62	3.5%
Management Fees	296	0.33	2.8%	289	0.32	2.8%	413	0.48	2.7%
Administrative	245	0.27	2.3%	238	0.26	2.3%	362	0.42	2.4%
Marketing	180	0.20	1.7%	175	0.19	1.7%	255	0.29	1.7%
Contract Services	291	0.32	2.7%	284	0.31	2.7%	403	0.46	2.6%
Repair and Maintenance	442	0.49	4.1%	428	0.47	4.1%	658	0.76	4.3%
Total Operating Expenses	4,279	4.72	40.2%	4,185	4.61	40.4%	5,805	6.69	37.9%
Net Operating Income	5,767	6.36	54.1%	5,585	6.15	53.9%	8,731	10.06	57.0%
Capital Expenditures	889	0.98	8.3%	901	0.99	8.7%	716	0.82	4.7%

MASTER METERED PROPERTIES

	Total			Garden			Mid & Hi Rise		
Number of Properties		437			326			111	
Number of Units		110,351			82,595			27,756	
Avg. No. of Units/Property		253			253			250	
Avg. No. of Square Feet/Unit		905			939			803	
Turnover rate in %		46%			47%			45%	
	$ Per Unit	$ Per Sq. Ft.	% of GPR	$ Per Unit	$ Per Sq. Ft.	% of GPR	$ Per Unit	$ Per Sq. Ft.	% of GPR
Revenues									
Gross Potential Rent	13,532	14.95	100.0%	12,375	13.18	100.0%	16,975	21.15	100.0%
Rent Revenue Collected	12,037	13.30	88.9%	10,957	11.67	88.5%	15,249	19.00	89.8%
Losses to Vacancy	1,011	1.12	7.5%	935	1.00	7.6%	1,234	1.54	7.3%
Collection Losses	116	0.13	0.9%	120	0.13	1.0%	106	0.13	0.6%
Losses to Concessions	368	0.41	2.7%	363	0.39	2.9%	386	0.48	2.3%
Other Revenue	1,011	1.12	7.5%	886	0.94	7.2%	1,383	1.72	8.1%
Total Revenue	13,048	14.41	96.4%	11,843	12.62	95.7%	16,632	20.72	98.0%
Operating Expenses									
Salaries and Personnel	1,336	1.48	9.9%	1,254	1.34	10.1%	1,578	1.97	9.3%
Insurance	308	0.34	2.3%	265	0.28	2.1%	437	0.54	2.6%
Taxes	1,128	1.25	8.3%	915	0.97	7.4%	1,761	2.19	10.4%
Utilities	1,299	1.44	9.6%	1,301	1.39	10.5%	1,292	1.61	7.6%
Management Fees	473	0.52	3.5%	418	0.45	3.4%	637	0.79	3.8%
Administrative	402	0.44	3.0%	362	0.39	2.9%	519	0.65	3.1%
Marketing	210	0.23	1.6%	192	0.20	1.6%	264	0.33	1.6%
Contract Services	516	0.57	3.8%	436	0.46	3.5%	755	0.94	4.4%
Repair and Maintenance	565	0.62	4.2%	546	0.58	4.4%	620	0.77	3.6%
Total Operating Expenses	6,237	6.89	46.1%	5,691	6.06	46.0%	7,862	9.80	46.3%
Net Operating Income	6,811	7.52	50.3%	6,153	6.55	49.7%	8,769	10.93	51.7%
Capital Expenditures	1,085	1.20	8.0%	1,024	1.09	8.3%	1,254	1.56	7.4%

Source: National Apartment Association 2009 Survey of Operating Income & Expenses in Rental Apartment Communities



floor area and as a percentage of gross potential rent (GPR).

Responses from garden properties with individually metered utilities represent 85.9 percent of the market rent properties and 70.5 percent of the subsidized properties. Therefore, the analysis is focused primarily on the garden properties with individually metered utilities.

The market rent segment generally has greater units per property and greater floor area per unit than the subsidized segment. The average size of individually metered market rent garden properties is 269 units (143 units in subsidized). Rentable floor area averaged 909 square feet for market rent apartments and 875 square feet for the subsidized units.

The complete report (available online Oct. 1 at www.naahq.org/09ies) contains detailed data summarized for six geographic regions and metropolitan areas. Seventy-seven metropolitan areas met the separate reporting requirements for market rent properties. Sufficient numbers of subsidized properties were submitted for 20 metropolitan areas.

This report also includes results for all "other" properties at the state level with a minimum of six properties located in metro areas that did not meet requirements for separate reporting. Nonmetro area reporting also is included at the state level. Tables for market rent properties are provided for 12 states and for subsidized properties in 16 states.

Market Rent Properties

Economic Losses. A standard measure of the health of the rental housing market is economic losses, defined as the difference between Gross Potential Rent (GPR) and rent revenue collected, expressed as a percentage of GPR. Included in the losses are revenues lost to physical vacancies, net uncollected rents and the value of rent concessions.

The economic loss rate in the survey for market rent individually metered garden properties increased to 12.42 percent in the data for 2008, the highest in the past four years of reporting, compared to 10.11 percent in 2007, 10.20 in 2006 and 11.87 percent in 2005. Economic losses overall reported in the survey increased over levels not seen since prior to 2005.

Net Operating Income (NOI) and Revenues. NOI is a key measurement for evaluating the health of a property and the rental housing market. It is defined by the difference between total revenue collected and total operating expenses. NOI represents the gross cash available for debt service, capital expenditures and profits. NOI in the survey also reflected the current downward pressure on rental apartment market economics in 2008.

NOI measured as a percent of GPR for 2008 was 53.9 percent, declining 2.7 percentage points from 56.6 percent in 2007 (56.9 percent in 2006, 53.9 percent in 2005 and 52.2 percent in 2004). The NAA survey's historical peak was 58.9 percent in 1999. Regionally, NOIs in 2008 ranged from a high of 59.4 percent in the Northeast (Region I) and Pacific (Region VI) states to a low of 48.5 percent in the Southwest states (Region IV), which has usually experienced the lowest NOI percentage among the regions.

Average NOIs for the last three survey data years of individually metered garden properties are presented in the table on p. 65.

Gross Potential Rent (GPR). GPR in the survey data tables

Economic Loss Rates By Region
Individually Metered Garden Properties

	2008	2007	2006	2005	2004	2003	2002	2001
All	12.42%	10.11%	10.20%	11.87%	13.99%	13.35%	11.39%	9.69%
Region I	9.49%	9.16%	9.46%	8.87%	10.02%	8.79%	8.21%	6.36%
Region II	14.07%	10.09%	10.84%	11.35%	12.89%	13.31%	12.10%	10.44%
Region III	10.93%	11.11%	12.02%	13.87%	15.54%	13.84%	10.85%	10.64%
Region IV	13.34%	12.55%	10.77%	15.39%	16.23%	13.98%	11.53%	9.90%
Region V	11.45%	11.22%	12.12%	15.14%	19.99%	16.33%	12.75%	9.16%
Region VI	10.82%	8.26%	8.09%	8.57%	12.15%	13.21%	11.54%	9.79%

All Subsidized Properties

OPERATING INCOME & EXPENSE DATA, INDIVIDUAL METERED PROPERTIES

INDIVIDUAL METERED PROPERTIES

	Total			Garden			Mid & Hi Rise		
Number of Properties		361			303			58	
Number of Units		51,986			43,227			8,759	
Avg. No. of Units/Property		144			143			151	
Avg. No. of Square Feet/Unit		841			875			713	
Turnover rate in %		32%			34%			27%	
	$ Per Unit	$ Per Sq. Ft.	% of GPR	$ Per Unit	$ Per Sq. Ft.	% of GPR	$ Per Unit	$ Per Sq. Ft.	% of GPR
Revenues									
Gross Potential Rent	9,649	11.38	100.0%	9,432	10.78	100.0%	10,720	15.03	100.0%
Rent Revenue Collected	8,881	10.48	92.0%	8,606	9.83	91.2%	10,239	14.35	95.5%
Losses to Vacancy	481	0.57	5.0%	514	0.59	5.4%	317	0.44	3.0%
Collection Losses	110	0.13	1.1%	128	0.15	1.4%	24	0.03	0.2%
Losses to Concessions	177	0.21	1.8%	184	0.21	2.0%	140	0.20	1.3%
Other Revenue	319	0.38	3.3%	314	0.36	3.3%	345	0.48	3.2%
Total Revenue	9,200	10.85	95.3%	8,920	10.19	94.6%	10,584	14.84	98.7%
Operating Expenses									
Salaries and Personnel	1,230	1.45	12.7%	1,214	1.39	12.9%	1,311	1.84	12.2%
Insurance	280	0.33	2.9%	270	0.31	2.9%	328	0.46	3.1%
Taxes	642	0.76	6.7%	623	0.71	6.6%	740	1.04	6.9%
Utilities	537	0.63	5.6%	511	0.58	5.4%	665	0.93	6.2%
Management Fees	473	0.56	4.9%	456	0.52	4.8%	558	0.78	5.2%
Administrative	410	0.48	4.3%	405	0.46	4.3%	436	0.61	4.1%
Marketing	98	0.12	1.0%	98	0.11	1.0%	98	0.14	0.9%
Contract Services	468	0.55	4.8%	468	0.53	5.0%	465	0.65	4.3%
Repair and Maintenance	368	0.43	3.8%	396	0.45	4.2%	230	0.32	2.1%
Total Operating Expenses	4,506	5.32	46.7%	4,441	5.07	47.1%	4,830	6.77	45.1%
Net Operating Income	4,694	5.54	48.6%	4,479	5.12	47.5%	5,754	8.07	53.7%
Capital Expenditures	683	0.81	7.1%	710	0.81	7.5%	562	0.79	5.2%

MASTER METERED PROPERTIES

	Total			Garden			Mid & Hi Rise		
Number of Properties		151			73			78	
Number of Units		23,546			9,959			13,587	
Avg. No. of Units/Property		156			136			174	
Avg. No. of Square Feet/Unit		723			818			661	
Turnover rate in %		21%			24%			18%	
	$ Per Unit	$ Per Sq. Ft.	% of GPR	$ Per Unit	$ Per Sq. Ft.	% of GPR	$ Per Unit	$ Per Sq. Ft.	% of GPR
Revenues									
Gross Potential Rent	10,016	13.85	100.0%	9,142	11.18	100.0%	10,656	16.13	100.0%
Rent Revenue Collected	9,388	12.98	93.7%	8,204	10.03	89.7%	10,256	15.52	96.2%
Losses to Vacancy	421	0.58	4.2%	591	0.72	6.5%	297	0.45	2.8%
Collection Losses	114	0.16	1.1%	204	0.25	2.2%	49	0.07	0.5%
Losses to Concessions	93	0.13	0.9%	144	0.18	1.6%	55	0.08	0.5%
Other Revenue	307	0.42	3.1%	342	0.42	3.7%	281	0.43	2.6%
Total Revenue	9,695	13.40	96.8%	8,546	10.45	93.5%	10,537	15.95	98.9%
Operating Expenses									
Salaries and Personnel	1,329	1.84	13.3%	1,374	1.68	15.0%	1,297	1.96	12.2%
Insurance	360	0.50	3.6%	330	0.40	3.6%	382	0.58	3.6%
Taxes	653	0.90	6.5%	508	0.62	5.6%	759	1.15	7.1%
Utilities	1,369	1.89	13.7%	1,234	1.51	13.5%	1,467	2.22	13.8%
Management Fees	546	0.75	5.4%	480	0.59	5.2%	594	0.90	5.6%
Administrative	491	0.68	4.9%	506	0.62	5.5%	479	0.73	4.5%
Marketing	52	0.07	0.5%	75	0.09	0.8%	36	0.05	0.3%
Contract Services	635	0.88	6.3%	643	0.79	7.0%	629	0.95	5.9%
Repair and Maintenance	344	0.48	3.4%	443	0.54	4.8%	272	0.41	2.6%
Total Operating Expenses	5,780	7.99	57.7%	5,594	6.84	61.2%	5,916	8.95	55.5%
Net Operating Income	3,915	5.41	39.1%	2,952	3.61	32.3%	4,622	6.99	43.4%
Capital Expenditures	902	1.25	9.0%	812	0.99	8.9%	963	1.46	9.0%

Source: National Apartment Association 2009 Survey of Operating Income & Expenses in Rental Apartment Communities

NOI By Region for Past Three Survey Data Years
Individually Metered Garden Properties

	Dollars per Unit			Dollars per Square Foot			% of GPR		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
All	$5,585	$6,011	$5,644	$6.15	$6.60	$6.36	53.9%	56.6%	56.9%
Region I	$7,367	$7,542	$7,577	$8.22	$8.37	$8.46	59.4%	59.3%	61.4%
Region II	$5,119	$5,547	$5,111	$5.22	$5.66	$5.48	52.4%	55.8%	55.7%
Region III	$4,860	$4,535	$4,783	$5.13	$4.83	$5.55	49.9%	49.6%	53.0%
Region IV	$4,569	$4,570	$4,118	$5.41	$5.40	$4.91	48.5%	49.7%	50.0%
Region V	$5,406	$5,780	$5,113	$6.22	$6.54	$5.73	58.0%	59.1%	57.1%
Region VI	$7,552	$8,153	$7,993	$8.96	$9.37	$9.18	59.4%	62.7%	62.6%

is defined on a "look-back" fiscal year basis. It is the sum of total rents of all occupied units at 2008 lease rates and all vacant units at 2008 market rents.

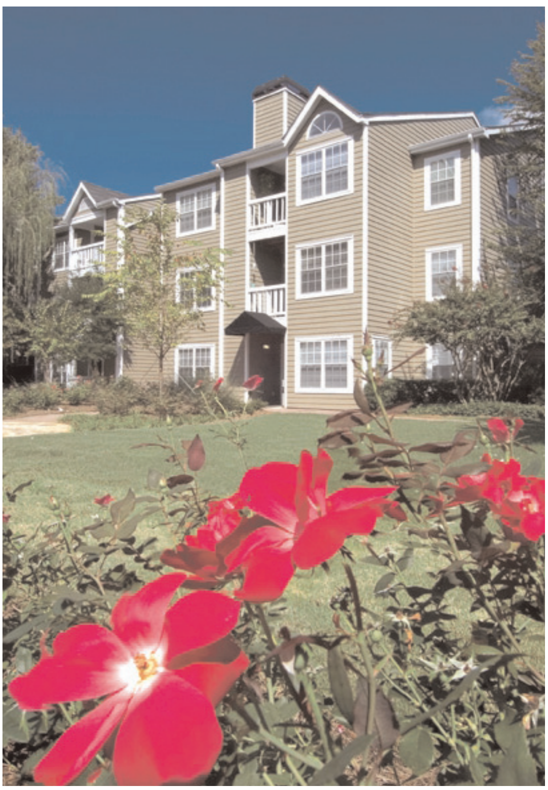
Average annual GPR decreased by 2.4 percent in 2008 for garden properties with individually metered utilities. Average GPR was $10,367 per unit ($864 monthly) in this year's survey versus $10,624 per unit ($885 monthly) in the previous year's survey (2007). On a per square foot basis, GPR was $11.41 ($0.95 per month) versus $11.67 ($0.97 per month) in 2007.

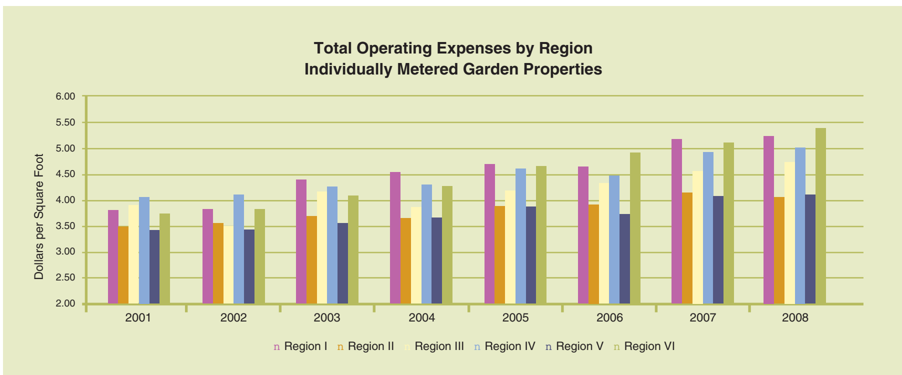
Median annual GPR for individually metered garden properties in the survey is $9,700 ($808 per month) versus $9,639 ($803 per month) in 2007 and $8,751 ($729 per month) in 2006.

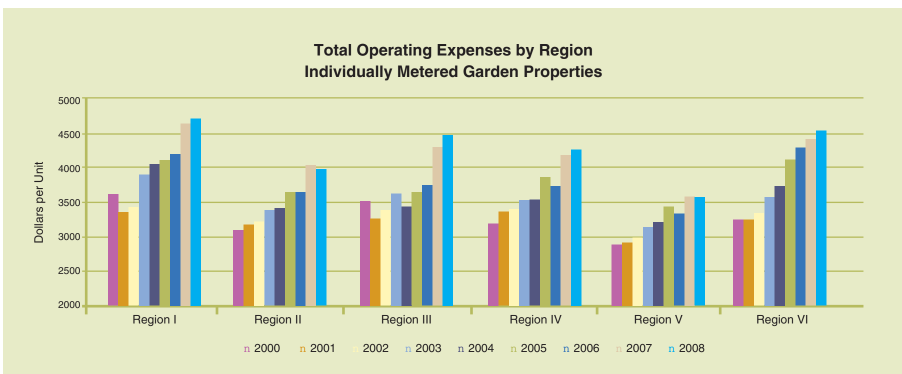
Rent Revenue Collected. Annual rent revenue collected averaged $9,080 per individually metered garden property unit, down 4.9 percent from $9,550 in last year's survey. Measured on a per square-foot basis, rent revenue averaged $9.99 per square foot versus $10.49 in 2007 and $10.04 in 2006.

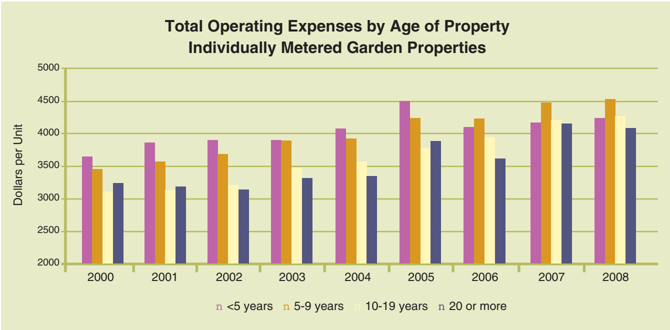
Revenue Losses. Revenue losses averaged 12.42 percent of GPR in 2008 versus 10.11 percent in 2007, 10.20 percent in 2006 and 11.87 percent in 2005. Revenue losses were reported in three categories: those from vacancies, collections and concessions. Vacancy losses for individually metered market rent garden properties averaged 7.6 percent of GPR in the current survey ($785 per unit, $0.86 per square foot) versus 6.9 percent of GPR ($732 per unit, $0.80 per square foot) in 2007. Collection losses averaged 0.9 percent of GPR ($94 per unit, $0.10 per square foot) in comparison to 0.6 percent of GPR ($64 per unit, $0.07 per square foot) from 2007. Losses from rent concessions increased, averaging 3.9 percent of GPR ($407 per unit in the property, $0.45 per square foot) in 2008 versus 2.6 percent of GPR ($278 per unit in the property, $0.31 per square foot) last year.

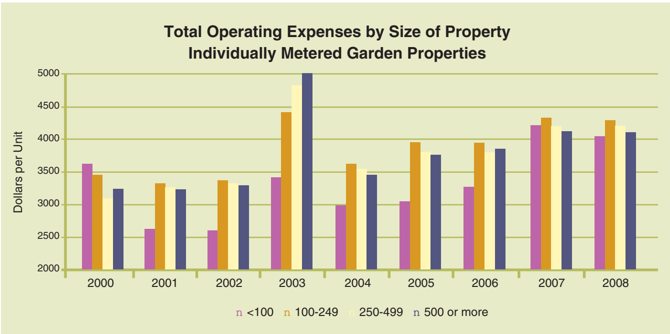
Other Revenue Collected. The trend of multifamily housing owners and service providers creating and offering additional revenue sources is reflected in a continued increase of 0.5 percent-











age points or 8.1 percent as a percent of GPR this year. Other revenue collected from operating sources includes receipts from onsite laundries, cable, TV/Internet service, telephone systems, parking fees and other charges for services and amenities. These other operating revenues averaged $691 per unit ($0.76 per square foot) in 2008 versus $658 per unit ($0.72 per square foot) in 2007 for individually metered garden properties reported in the survey. Median other operating revenues were $608 per unit.

Total Operating Expenses. Total operating expenses, as a percent of GPR, increased by 0.9 percentage points or 2.3 percent in 2008, because of the decline in overall GPR. The total operating expenses represented 40.4 percent of GPR versus 39.5 percent in 2007. Total operating expenses for individually metered garden properties in the survey averaged $4,185 per unit ($4.61 per square foot) versus $4,196 per unit ($4.61 per square foot) in 2007.

Operating expenses in the survey are collected for nine major categories: salary and personnel costs, insurance, taxes (real estate and other directly related property only), utilities (net of any reimbursements from residents), management fees, general and administration, marketing, contract services and maintenance. (Non-recurring capital expenses were excluded and reported separately.)

There continues to be variation in the trends among individual categories of operating costs, some of which may be derived from variations in accounting policy regarding expense classification that the survey cannot further delineate. Average property-related insurance costs decreased 12.0 percent in 2008 to $234 per unit ($0.26 per square foot) from $266 per unit ($0.29 per square foot) in 2007. Administrative costs rose 1.3 percent to $238 from $235 per unit in 2007. Management fees decreased 15.0 percent to $289 per unit (2.8 percent of GPR) from $340 per unit (3.2 percent of GPR) a year earlier. Marketing costs increased 1.7 percent to $175 per unit or 1.7 percent of GPR from $172 per unit or 1.6 percent of GPR in 2007. Maintenance costs increased again at 3.4 percent to $428 per unit from $414 per unit in the 2007 survey. Contract services costs increased 7.2 percent to an average of $284 per unit in 2008 from $265 in 2007.

The overall turnover rate declined again from last year. As previous homeowners continued the migration back to apartment units, the overall turnover rate declined to 55 percent of total units among the individually metered garden apartment properties reported in the survey for 2008 from 59 percent in 2007 and 62 percent in 2006. This equals a new low turnover rate over the history of this survey, which has been in the range of 59 percent to 69 percent. The previous lows occurred in the data for 2007 and 1995 and the high during the recession year 1990.

All regional turnover rates declined last year: Northeast (Region I), 52 percent to 42 percent; Southeast (Region II), 59 percent to 58 percent; North Midwest (Region III), 52 percent to 50 percent; Southwest (Region IV), 61 percent to 60 percent; Mountain/South Midwest States (Region V), 60 percent to 58 percent and in the Pacific (Region VI), 62 percent to 52 percent.

Age of Property. Operating expenses as a percentage of GPR and dollars per square foot basis expectedly rose in individually metered garden properties in the report as they age. Operating expenses are 38.9 percent of GPR ($4.41 per square foot) in properties less than 5 years old and rise to 42.5 percent of GPR ($4.76 per square foot) for properties 20 or more years old. As operating expenses decrease over the span of years, capital expenditures increase as the building ages. For example, operating expenses were $4,231 per unit for those 5 to 9 years old and decreased to $4,071 per unit for properties 20 or more years old, while capital expenditures ranged from $270 to $1,006, respectively, by age of property.

The highest average NOI as a percentage of GPR occurred in properties 10 to 19 years old at 56.5 percent. Measured in terms of dollars per unit, the low was $5,027 per unit in properties that are 20 or more years old and the high was $6,801 for properties 5 to 9 years old.

Economic losses continue to be the highest among the newest properties. Properties less than 5 years old reported the highest ratio of economic losses at 17 percent of GPR, while the lowest was in those that are 20 or more years old at 12 percent.

Age of property groupings again show distinct differences in the individual cost components of operating costs. The largest difference is in real estate and related property taxes and fees, varying from a high (average) of $1,334 per unit ($1.34 per square foot) in those properties five to nine years old, to a low of $820 ($0.96 per square foot) for those aged 20 or more years.

Expectedly, capital expenditures were significantly lower for the newest properties. They averaged $270 per unit ($0.28 per square foot) for properties less than five years old, compared to the highest average reported for properties 20 or more years old at $1,006 per unit ($1.18 per square foot).

Size of Property. Economies of scale in apartment property size are evident if operating costs decline as the size of properties increases. Economies of scale did appear when total operating costs were measured on a percentage of gross potential rent basis, dropping from 43.7 percent of GPR in properties of less than 100 units, to 40.3 percent in those containing 500 or more units. The survey results, however, did not show similar economies of scale on a per unit basis. Operating costs, across property sizes, ranged from $4,024 to $4,261 per unit.

Economic losses varied based on property size. Losses were highest with properties with 500 or more units at 13.1 percent of GPR and the lowest for properties with fewer than 100 units at 8.9 percent.

Metro-Area Operating Income & Expenses

Detailed tables in the full report are presented for the 77 metropolitan areas where a total of six or more garden communities of all types were reported in the survey. This is the only section of the report with metropolitan area data for garden, mid-rise and high-rise building properties, and is further segmented into those with utilities that are individually or master metered. Care should be taken when reviewing the data for individual property types in metropolitan areas where the number of properties reported is small.

Following are highlights of the metropolitan area data, focusing on garden properties with individually metered utilities unless otherwise noted.

- NOIs on a dollar-per-unit basis ranged from $12,179 ($13.19 per square foot) in the San Jose-Sunnyvale-Santa Clara metro area to a low of $2,013 ($2.43 per square foot) in the Augusta-Richmond County, Ga.-S.C. metro area. The New York-Northern New Jersey-Long Island metro area had the highest NOI measured as a percent of GPR at 68.6 percent and Augusta-Richmond County, Ga.-SC had the lowest at 39 percent.
- GPR averages were the highest in the San Jose-Sunnyvale-Santa Clara, Calif., metro area at $19,272 per unit ($20.87 per square foot). A low of $5,156 per unit ($6.22 per square foot) was tabulated for properties reported from Augusta-Richmond County, Ga.-S.C.
- Economic losses were lowest in the Des Moines, Iowa, metro area at 2.07 percent of GPR and Salt Lake City at 4.31 percent.

Both, however, have small numbers of reported individually metered garden properties. Metro areas with the highest economic losses were Birmingham, Ala., at 18.63 percent, and Wilmington, N.C., at 17.43 percent.

• Total operating costs' highs and lows vary among metro areas based on which measure is selected. Properties reporting from the Boston metro area had the highest operating costs based on a per unit basis at $7,048 ($7.35 per square foot), followed by Ventura, Calif., at $6,528 per unit ($7.50 per square foot). A low of $2,862 per unit ($2.93 per square foot) was reported in the Jackson, Tenn., metro area.

• Real estate taxes remained high in many metro areas in 2008. The San Jose-Sunnyvale-Santa Clara, Calif., metro area had the highest real estate taxes per unit at $2,083; Miami, Fla., was second at $2,073 per unit followed by the New York-Northern New Jersey-Long Island metro area at $1,878 per unit. The lowest average was for properties located in Colorado Springs, Colo., and Wilmington, N.C., metro areas at $245 and $307, respectively.

• Insurance costs on a per unit basis were the highest among the following areas, including several hurricane prone metro areas: They were at $544 per unit ($0.52 per square foot) in Fort Lauderdale, Fla.; $525 ($0.79 per square foot) in the New York-Northern New Jersey-Long Island metro area; and $492 ($0.58 per square foot) in Deltona-Daytona Beach, Fla. They were lowest in the Tucson, Ariz., and Des Moines metro areas at $103 per unit ($0.13 per square foot and $0.12 per square foot, respectively).

• Salaries and personnel costs were the lowest in the Jackson, Miss., metro area at $680 per unit ($0.63 per square foot) and Des Moines, at $661 ($0.78 per square foot). Boston had the highest average at $2,322 per unit ($2.42 per square foot) followed by $1,391 in the Philadelphia-Camden metro area ($1.52 per square foot).

• Dayton, Ohio, and Jackson, Miss., had the largest units among the metro areas reported separately in this report with an average of 1,089 and 1,088 square feet of floor area per unit, respectively. Properties reporting located in the Salt Lake City and New York metros had the lowest averaging at 675 and 663 square feet per unit, respectively.

Subsidized Properties Income & Expenses

Operating Income & Expenses Summary. Data was received for 512 subsidized properties containing 75,532 units. Garden properties with individually metered utilities represent the largest subgroup of properties reporting, and analysis herein will be limited to this sector. Data tables are presented for 20 metropolitan areas in the full report that met the minimum for separate reporting. Subsidized garden apartment properties with individually metered utilities in the survey tend to have fewer units and less floor area than market rent units. Responding properties contained an average of 143 units versus 269 units for market rent properties of the same type. These subsidized properties had an average of 875 square feet of floor area versus 909 square feet for the market rent properties.

Revenues. GPR averaged $9,432 per unit ($10.78 per square foot) annually in this year's survey versus $8,556 per unit ($9.77 per square foot) in 2007 and $9,070 per unit ($10.62 per square foot) in 2006. Rental revenues averaged $8,606 ($9.83 per square foot) versus $7,867 ($8.98 per square foot) in 2007 and $8,475 per unit ($9.92 per square foot) in 2006. Other operating revenues averaged $314 per unit ($0.36 per square foot) in 2008 versus $320 per unit ($0.36 per square foot) in 2007 and $341 per unit ($0.40 per square foot) for 2006.

Operating Expenses. Operating expenses in subsidized properties were higher than those for market rent properties. Subsidized properties reported in the survey had total operating costs averaging $4,441 ($5.07 per square foot) in 2008 versus the $4,339 ($4.95 per square foot) in 2007 and $3,974 per unit ($4.65 per square foot) reported for responding properties in 2006.

Net Operating Income. Subsidized properties reported in the survey had lower levels of NOI than the market rent properties in all three measures. NOI for subsidized properties in the survey averaged 47.5 percent of GPR versus 53.9 percent for the market rent properties. Other comparisons of subsidized to market rent were $4,479 versus $5,585 on a dollars-per-unit basis, and $5.12

versus $6.15 on a per-square foot-of-floor-area basis, respectively.

Economic Losses. Economic losses tend to be lower in subsidized properties with their lower rents and relatively tight supply. An 8.8 percent average rate was calculated for the subsidized individually metered garden properties versus 12.42 percent for market rent units. The economic loss ratio in subsidized properties increased over last year's 8.1 percent and 6.56 percent in 2006.

Turnover Rates. Occupants of subsidized apartments have lower incomes and fewer housing choices in most local markets and are less likely to move. The turnover rate in individually metered subsidized units was 34 percent versus 55 percent for market rent units.

Metrics (Garden, Individually Metered Properties)

To provide a better understanding of apartment operations, CEL has provided additional analysis in the form of ratios (metrics), which provide benchmarks of the relationship between key operating variables from survey participants.

In the table below, several operating metrics are presented, stratified by number of units per community.

These include measures of the relationship between payroll (staffing) and revenue (top line) and income (NOI), shown as Revenue (or Income) dollars per dollar of payroll, or Payroll as a percent of Revenue or NOI, and the number of units supported by each full-time (and total) employee.

These metrics should be used as a point of reference and guidelines for readers of this survey report, and not necessarily as a target or requirement to assure efficiency or operational policy.

Summary

Calendar year 2009, despite its challenges, provides an opportunity within the apartment industry to do more with less. It is clear that many apartment firms, leaders and onsite personnel have and continue to demonstrate the managerial and service qualities of which the apartment industry can be proud.

It also is clear that economic conditions in 2009 will not likely improve dramatically. The hidden value during these difficult times is the opportunity for industry professionals to fine-tune property and portfolio operating policy and procedures, which are capable of building an even stronger financial management platform as markets recover.

The NAA survey results in 2009 continue to demonstrate that many in the apartment industry know how to protect, add and create value, and are proving their skills in operations management.

Beyond financial results, the real "bottom line" for the multifamily housing industry is creating and maintaining a welcoming environment for approximately 35 million apartment residents—a deliverable requiring the range of diverse skills, creative talents and experience within the apartment industry.

Glossary of Terms

Administrative. Total monies spent on general and administrative items such as answering service, donations, mileage reimbursement, bank charges, legal/eviction charges, postage, telephone/fax/Internet charges, office supplies, resident functions, uniforms, credit reports, permits, membership dues, subscriptions, data processing, etc.

Capital Expenditures. Total monies spent on non-recurring capital expenditures such as asphalt/parking, concrete/masonry, water heaters, range/cook top/ovens, dishwashers, glass, blinds/draperies, sidewalks/curbing, vinyl, pool, new carpet, washers/dryers, club amenities, fitness equipment, etc. A zero on the line meant there were no capital expenditures.

Contract Services. Total monies spent on all contract services such as landscaping, security, snow removal, trash removal, exterminator and other services provided on a contract basis.

GPR Residential. Total rents of all occupied units at 2008 lease rates and all vacant units at 2008 market rents (or fiscal year end).

Heating/Cooling Fuel. Type of fuel used in apartment units.

Insurance. Includes property hazard and liability and real property insurance and does not include payroll insurance.

Maintenance. Total monies spent on general maintenance, maintenance supplies and uniforms, minor painting/carpeting repairs, plumbing supplies and repairs, security gate repairs, keys/locks, minor roof/window repairs, HVAC repairs, cleaning supplies, etc. Non-recurring capital expense not included.

Management Fees. Total fees paid to the management agent/company by the owner.

Marketing. Total monies spent on media advertising, including locator fees, apartment guides, signage, newsletter, Internet, marketing gifts/incentives (not rent concessions), model expense, promotions, etc.

Apartment Operations Metrics
Individually Metered Garden Properties

	Properties	Units	Revenue / Payroll	Net Operating Income / Payroll	# Units / Full-time Employees	# Units / Total Employees	Payroll / Revenue	Payroll / Net Operating Income
Less Than 100 Units	224	16,290	$8.45	$4.63	32.4	23.5	11.8%	21.6%
100 to 199 Units	590	88,841	$8.40	$4.68	38.7	33.5	11.9%	21.4%
200 to 299 Units	828	201,888	$8.91	$5.08	42.5	38.7	11.2%	19.7%
300 to 399 Units	470	159,538	$9.14	$5.21	45.1	42.4	10.9%	19.2%
400 to 499 Units	216	94,886	$9.99	$5.95	47.4	44.5	10.0%	16.8%
500 or More Units	164	110,113	$9.18	$5.22	46.0	43.4	10.9%	19.2%
Total	2,492	671,556	$9.07	$5.18	43.4	39.5	11.0%	19.3%

Thank You
To Our Participating Companies

NAA sends a special note of appreciation to the 373 firms who donated their time to accumulate the data necessary to make this survey valuable. The following companies and their officers provided more than 20 properties for the 2009 Survey of Operating Income & Expenses in Rental Apartment Properties.

AEW Capital Management
AIMCO
Alco Management Inc.
Alliance Communities
Alliance Residential/Westcorp
Ambling Management Company
AMCAL
AMLI Management Company
Archon Residential
Babcock & Brown Residential
Bell Partners Inc.
Camden
Colonial Properties Trust
Dial Equities Inc.
Drucker & Falk
Dunlap & Magee Property Management
First Choice Management Group
Gables Residential
Greystar Real Estate Partners LLC
Humphrey Management Company
JCM Partners
Legacy Partners
Makowsky Ringel Greenberg
Mid-America Apartment Communities
Milestone Management
Nevins Adams Lewbel Schell
Post Apartment Homes L.P.
PRG Real Estate Management Inc.
Shelter Properties LLC
Simpson Housing LLLP
The Dolben Company Inc.
UDR
Venterra Realty
Village Green Management
Waterton Residential
Western National Property Management
William C. Smith & Company

Net Commercial Square Footage. Total rentable square feet of commercial floor space.

Net Rentable Residential Square Feet. Total rentable square feet of floor space in residential units only. Area reported includes only finished space inside four perimeter walls of each unit. Common areas are excluded.

Other Revenue. Total collections from laundry, vending, cable, deposit forfeitures, furniture, parking, amenity charges, etc. Does not include interest income. Does not include utility reimbursements (i.e., RUBS) in GPR or rental revenue. All utility reimbursements are subtracted from gross utility expense.

Payroll Costs. Gross salaries and wages paid to employees assigned to the property. Including payroll taxes, group health/life/disability insurance, 401(k), bonuses, leasing commissions, value of employee apartment allowance, workers' compensation, retirement contributions, overtime and other cash benefits.

Rent-Controlled Property. A property is subject to rent controls through local or state government regulations. This does not apply if rents are controlled through a government program that provides direct subsidies.

Rental Revenue Commercial. Total rent collections for commercial space after vacancy, administrative, bad debt and discount or concession losses.

Rental Revenue Residential. Total rent collections for residential units after vacancy, administrative, bad debt and discount or concession losses.

Revenue Losses to Collections. Amount of residential rents not received due to collection losses.

Revenue Losses to Concessions. Amounts of gross potential residential rents not received due to concessions.

Revenue Losses to Vacancies. Amount of rental income for residential units not collected because of vacancies and other use of units, such as models and offices.

Subsidized Property. A property has controlled rents through a government-subsidized program. If subsidized, the program was listed (i.e., Section 236, Section 8).

Taxes. Total real estate and personal property taxes only. Does not include payroll or rendering fees related to property taxes or income taxes.

Tax-Exempt Bond or Housing-Credit Property. A property that has received tax-exempt bond financing and/or is a low income tax credit property.

Total Operating Expenses. Sum of all operating costs. The sum of all expense categories must balance with this line, using total net utility expenses only.

Turnover. Number of apartments in which residents moved out of the property during the 12-month reporting period.

Utilities. Total cost of all utilities and each listed type, net of any income reimbursements for or from residents (i.e., RUBS or similar systems). Does not include trash removal.

Utility Configuration. Whether electric, gas, oil and water/sewer utilities to individual units in subject property are: Master Metered, Owner Pays; Master Metered, Resident Pays (RUBS); Individual or Submetered, Resident Pays.

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