



Camden Potomac Yard, Arlington, Va.

2010 Survey of Operating Income & Expenses In Rental Apartment Communities

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	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/10ies by Oct. 1.

Performance Counts During a Period of Rebound

Over the past 12 months the apartment industry has faced some of its greatest operating challenges in decades. It did not matter whether the owner or operator was a public or private company, a large or small organization, or based in any particular region of the country; the impact of the economic downturn, historically high level of unemployment, lack of meaningful job creation, declining rents, and significant declines in both transaction volume and asset values placed a greater emphasis on operation performance and bottom line metrics.

However, the challenges over the past year appear to be “bottoming out” for the multifamily sector, and there are signs that over the next 12 to 36 months, there will be significant improvement in operating performance. The focus of managing apartment buildings has shifted to managing apartment communities—with more emphasis on meeting and exceeding resident expectations. Rents are beginning to rise, concessions are slowly declining, investor interest has increased and a renewed emphasis on managing the bottom line at the property and portfolio level is underway. The apartment industry is clearly entering a period of improved fundamentals and in this time of rebound, sustained diligence in operations is required to produce the expected bottom line results.

These findings are just a few of the many conclusions drawn from the recently completed National Apartment Association’s

2010 Survey of Operating Income & Expenses. This NAA-sponsored survey of nearly 1.1 million apartments nationwide, conducted by Los Angeles-based CEL & Associates Inc., concluded that the differential in operating performance often is a result of inspirational leadership, talented onsite personnel and a commitment to quality, service and resident retention.

The 2010 survey results reveal that apartment operators are successfully balancing a commitment to providing high-quality living environments with the need to be financially rigorous in managing and controlling often-unexpected increases in operating costs. Within the apartment industry, the knowledge and dedication of experienced 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 2010 based on annual data for 2009.

Major findings in this survey of the professionally managed rental apartment industry reflect the still uncertain current economy, as demonstrated by net operating income in the “market rent” segment of the rental apartment market declining by 0.6 percentage points to 53.3 percent and a higher economic loss rate of 13.78 percent from 12.42 percent in 2008, primarily due to an increase in concessions. Total operating expenses decreased by 0.2 percentage points, showing the continued emphasis on cost cutting.

A total of 4,274 properties containing 1,095,683 units are represented in this year’s report. Data was reported for 3,768 market

All Market Rent Properties OPERATING INCOME & EXPENSE DATA

INDIVIDUAL METERED PROPERTIES

	Total			Garden			Mid & Hi Rise		
Number of Properties	3,272			3,010			262		
Number of Units	893,898			833,699			60,199		
Avg. No. of Units/Property	273			277			230		
Avg. No. of Square Feet/Unit	897			899			869		
Turnover rate in %	57%			57%			52%		
	\$ Per Unit	\$ Per Sq. Ft.	% of GPR	\$ Per Unit	\$ Per Sq. Ft.	% of GPR	\$ Per Unit	\$ Per Sq. Ft.	% of GPR
Revenue									
Gross Potential Rent	10,812	12.05	100.0%	10,439	11.61	100.0%	15,975	18.39	100.0%
Rent Revenue Collected	9,330	10.40	86.3%	9,000	10.01	86.2%	13,896	16.00	87.0%
Losses to Vacancy	865	0.96	8.0%	836	0.93	8.0%	1,269	1.46	7.9%
Collection Losses	81	0.09	0.7%	80	0.09	0.8%	91	0.10	0.6%
Losses to Concessions	536	0.60	5.0%	523	0.58	5.0%	719	0.83	4.5%
Other Revenue	764	0.85	7.1%	753	0.84	7.2%	915	1.05	5.7%
Total Revenue	10,094	11.25	93.4%	9,754	10.85	93.4%	14,811	17.05	92.7%
Operating Expenses									
Salaries and Personnel	1,118	1.25	10.3%	1,101	1.22	10.5%	1,350	1.55	8.5%
Insurance	218	0.24	2.0%	215	0.24	2.1%	251	0.29	1.6%
Taxes	1,089	1.21	10.1%	1,038	1.15	9.9%	1,788	2.06	11.2%
Utilities	440	0.49	4.1%	435	0.48	4.2%	507	0.58	3.2%
Management Fees	298	0.33	2.8%	290	0.32	2.8%	415	0.48	2.6%
Administrative	230	0.26	2.1%	219	0.24	2.1%	373	0.43	2.3%
Marketing	181	0.20	1.7%	174	0.19	1.7%	279	0.32	1.7%
Contract Services	292	0.33	2.7%	285	0.32	2.7%	384	0.44	2.4%
Repair and Maintenance	443	0.49	4.1%	436	0.48	4.2%	540	0.62	3.4%
Total Operating Expenses	4,308	4.80	39.8%	4,194	4.66	40.2%	5,888	6.78	36.9%
Net Operating Income	5,786	6.45	53.5%	5,560	6.18	53.3%	8,924	10.27	55.9%
Capital Expenditures	736	0.82	6.8%	720	0.80	6.9%	965	1.11	6.0%

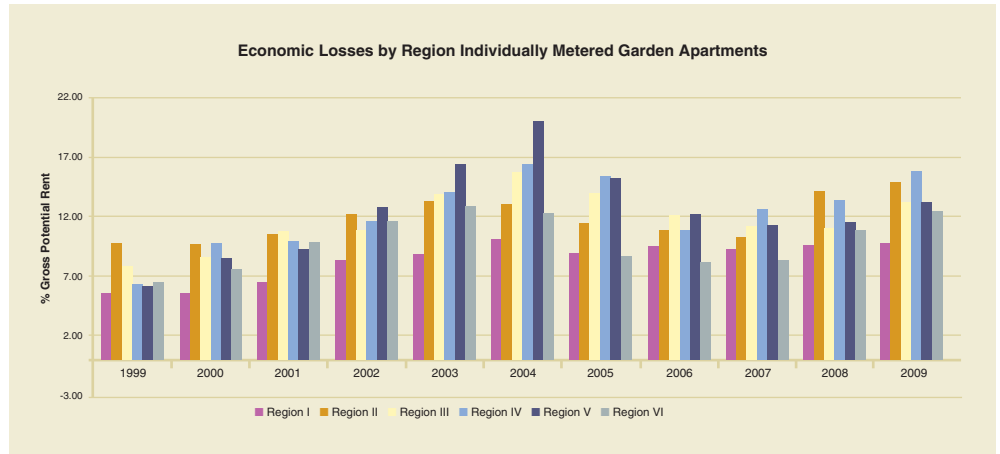
MASTER METERED PROPERTIES

	Total			Garden			Mid & Hi Rise		
Number of Properties	496			320			176		
Number of Units	126,924			80,904			46,020		
Avg. No. of Units/Property	256			253			261		
Avg. No. of Square Feet/Unit	916			953			849		
Turnover rate in %	48%			50%			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	14,402	15.72	100.0%	12,369	12.98	100.0%	17,976	21.18	100.0%
Rent Revenue Collected	12,564	13.72	87.2%	10,767	11.30	87.1%	15,723	18.52	87.5%
Losses to Vacancy	1,181	1.29	8.2%	1,035	1.09	8.4%	1,437	1.69	8.0%
Collection Losses	129	0.14	0.9%	134	0.14	1.1%	121	0.14	0.7%
Losses to Concessions	528	0.58	3.7%	433	0.45	3.5%	695	0.82	3.9%
Other Revenue	1,119	1.22	7.8%	980	1.03	7.9%	1,363	1.61	7.6%
Total Revenue	13,683	14.94	95.0%	11,747	12.33	95.0%	17,086	20.13	95.0%
Operating Expenses									
Salaries and Personnel	1,380	1.51	9.6%	1,238	1.30	10.0%	1,629	1.92	9.1%
Insurance	241	0.26	1.7%	216	0.23	1.7%	285	0.34	1.6%
Taxes	1,295	1.41	9.0%	1,012	1.06	8.2%	1,793	2.11	10.0%
Utilities	1,339	1.46	9.3%	1,271	1.33	10.3%	1,457	1.72	8.1%
Management Fees	475	0.52	3.3%	420	0.44	3.4%	572	0.67	3.2%
Administrative	368	0.40	2.6%	302	0.32	2.4%	486	0.57	2.7%
Marketing	237	0.26	1.6%	186	0.20	1.5%	328	0.39	1.8%
Contract Services	510	0.56	3.5%	418	0.44	3.4%	670	0.79	3.7%
Repair and Maintenance	658	0.72	4.6%	616	0.65	5.0%	730	0.86	4.1%
Total Operating Expenses	6,503	7.10	45.2%	5,679	5.96	45.9%	7,950	9.37	44.2%
Net Operating Income	7,180	7.84	49.9%	6,068	6.37	49.1%	9,136	10.76	50.8%
Capital Expenditures	902	0.98	6.3%	814	0.85	6.6%	1,056	1.24	5.9%

Source: National Apartment Association 2010 Survey of Operating Income & Expenses in Rental Apartment Communities
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Colonial Grand at Ashton Oaks, Austin



rent properties containing 1,020,822 units and 506 subsidized properties containing 74,861 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 and is 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 area and as a percentage of gross potential rent (GPR).

Responses from garden properties with individually metered utilities represent 80 percent of the market rent properties and 53 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 more units per property and greater floor area per unit than the subsidized segment. The average number of units in individually metered market rent garden properties is 277 units (149 units in subsidized). Rentable floor area averaged 899 square feet for market rent apartments and 892 square feet for the subsidized units in 2009.

The complete report (available online Oct. 1 at www.naahq.org/10ies) contains detailed data summarized for six geographic regions and metropolitan areas. Eighty-four metropolitan areas met the separate reporting requirements for market rent properties. Sufficient numbers of subsidized properties were submitted for 17 metropolitan areas.

This report also includes results for all “other” properties at the state level located in metro areas that did not meet requirements

for separate reporting. Non-metro area reporting also is included at the state level. Tables for market rent properties are provided for 14 states and for subsidized properties in 13 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 from 12.42 percent in 2008 to 13.78 percent in the data for 2009, compared to 10.11 percent in 2007. Economic losses overall reported in the survey increased over levels not seen since 13.99 percent in 2004.

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 2009.

NOI measured as a percent of GPR for 2009 was 53.3 percent, declining 0.6 percentage points from 53.9 in 2008 (56.6 percent in 2007). The NAA survey’s historical peak was 58.9 percent in 1999. Regionally, NOIs in 2009 ranged from a high of 58.6 percent

Economic Losses Rates by Regions
Individually Metered Garden Properties

	2009	2008	2007	2006	2005	2004	2003	2002
All	13.78%	12.42%	10.11%	10.20%	11.87%	13.99%	13.35%	11.39%
Region I	9.71%	9.49%	9.16%	9.46%	8.87%	10.02%	8.79%	8.21%
Region II	14.75%	14.07%	10.09%	10.84%	11.35%	12.89%	13.31%	12.10%
Region III	13.15%	10.93%	11.11%	12.02%	13.87%	15.54%	13.84%	10.85%
Region IV	15.71%	13.34%	12.55%	10.77%	15.39%	16.23%	13.98%	11.53%
Region V	13.13%	11.45%	11.22%	12.12%	15.14%	19.99%	16.33%	12.75%
Region VI	12.34%	10.82%	8.26%	8.09%	8.57%	12.15%	13.21%	11.54%

All Subsidized Properties OPERATING INCOME & EXPENSE DATA

INDIVIDUAL METERED PROPERTIES

	Total			Garden			Mid & Hi Rise		
Number of Properties	338			269			69		
Number of Units	50,296			40,116			10,180		
Avg. No. of Units/Property	149			149			148		
Avg. No. of Square Feet/Unit	866			892			754		
Turnover rate in %	33%			35%			26%		
	\$ 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	9,465	10.93	100.0%	9,103	10.20	100.0%	10,892	14.44	100.0%
Rent Revenue Collected	8,661	10.01	91.5%	8,275	9.27	90.9%	10,185	13.50	93.5%
Losses to Vacancy	499	0.58	5.3%	515	0.58	5.7%	437	0.58	4.0%
Collection Losses	82	0.09	0.9%	96	0.11	1.1%	26	0.04	0.2%
Losses to Concessions	222	0.26	2.3%	217	0.24	2.4%	243	0.32	2.2%
Other Revenue	526	0.61	5.6%	514	0.58	5.6%	576	0.76	5.3%
Total Revenue	9,188	10.61	97.1%	8,788	9.85	96.5%	10,762	14.27	98.8%

Operating Expenses

Salaries and Personnel	1,236	1.43	13.1%	1,218	1.36	13.4%	1,305	1.73	12.0%
Insurance	254	0.29	2.7%	251	0.28	2.8%	268	0.35	2.5%
Taxes	639	0.74	6.7%	597	0.67	6.6%	804	1.07	7.4%
Utilities	542	0.63	5.7%	520	0.58	5.7%	630	0.83	5.8%
Management Fees	469	0.54	5.0%	455	0.51	5.0%	526	0.70	4.8%
Administrative	370	0.43	3.9%	363	0.41	4.0%	396	0.53	3.6%
Marketing	86	0.10	0.9%	91	0.10	1.0%	67	0.09	0.6%
Contract Services	422	0.49	4.5%	421	0.47	4.6%	427	0.57	3.9%
Repair and Maintenance	389	0.45	4.1%	403	0.45	4.4%	336	0.44	3.1%
Total Operating Expenses	4,408	5.09	46.6%	4,319	4.84	47.4%	4,758	6.31	43.7%
Net Operating Income	4,780	5.52	50.5%	4,469	5.01	49.1%	6,004	7.96	55.1%
Capital Expenditures	561	0.65	5.9%	572	0.64	6.3%	515	0.68	4.7%

MASTER METERED PROPERTIES

	Total			Garden			Mid & Hi Rise		
Number of Properties	168			86			82		
Number of Units	24,565			11,597			12,968		
Avg. No. of Units/Property	146			135			158		
Avg. No. of Square Feet/Unit	796			890			714		
Turnover rate in %	23%			28%			19%		
	\$ 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	10,873	13.65	100.0%	10,108	11.36	100.0%	11,558	16.20	100.0%
Rent Revenue Collected	10,146	12.74	93.3%	9,346	10.50	92.5%	10,860	15.22	94.0%
Losses to Vacancy	480	0.60	4.4%	435	0.49	4.3%	520	0.73	4.5%
Collection Losses	108	0.14	1.0%	147	0.17	1.5%	73	0.10	0.6%
Losses to Concessions	140	0.18	1.3%	180	0.20	1.8%	105	0.15	0.9%
Other Revenue	423	0.53	3.9%	452	0.51	4.5%	397	0.56	3.4%
Total Revenue	10,569	13.27	97.2%	9,799	11.01	96.9%	11,258	15.78	97.4%

Operating Expenses

Salaries and Personnel	1,418	1.78	13.0%	1,426	1.60	14.1%	1,411	1.98	12.2%
Insurance	290	0.36	2.7%	293	0.33	2.9%	286	0.40	2.5%
Taxes	795	1.00	7.3%	618	0.69	6.1%	952	1.33	8.2%
Utilities	1,434	1.80	13.2%	1,261	1.42	12.5%	1,589	2.23	13.7%
Management Fees	557	0.70	5.1%	507	0.57	5.0%	602	0.84	5.2%
Administrative	429	0.54	3.9%	429	0.48	4.2%	430	0.60	3.7%
Marketing	82	0.10	0.8%	88	0.10	0.9%	76	0.11	0.7%
Contract Services	558	0.70	5.1%	575	0.65	5.7%	543	0.76	4.7%
Repair and Maintenance	398	0.50	3.7%	423	0.47	4.2%	376	0.53	3.3%
Total Operating Expenses	5,961	7.48	54.8%	5,621	6.32	55.6%	6,264	8.78	54.2%
Net Operating Income	4,608	5.79	42.4%	4,177	4.69	41.3%	4,994	7.00	43.2%
Capital Expenditures	711	0.89	6.5%	668	0.75	6.6%	749	1.05	6.5%

Source: National Apartment Association 2010 Survey of Operating Income & Expenses in Rental Apartment Communities

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in the Pacific (Region VI) states to a low of 47.4 percent in the Southwest states (Region IV), which has generally 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 below.

Gross Potential Rent (GPR). GPR in the survey data tables is defined on a “look-back” fiscal year basis. It is the sum of total rents of all occupied units at 2009 lease rates and all vacant units at 2009 market rents.

Average annual GPR increased by 0.7 percent in 2009 for garden properties with individually metered utilities. Average GPR was \$10,439 per unit (\$870 monthly) in this year’s survey versus \$10,367 per unit (\$864 monthly) in 2008 and \$10,624 per unit (\$885 monthly) in 2007. On a per square foot basis, GPR was \$11.61 (\$0.97 per month) versus \$11.41 (\$0.95 per month) in 2008 and \$11.67 (\$0.97 per month) in 2007.

Median annual GPR for individually metered garden properties in the survey was \$9,889 (\$824 per month) versus \$9,700 (\$808 per month) in 2008 and \$9,639 (\$803 per month) in 2007.

Rent Revenue Collected. Annual rent revenue collected averaged \$9,000 per individually metered garden property unit, down 0.9 percent from \$9,080 in last year’s survey and \$9,550 in 2007. Measured on a per square-foot basis, and based on slightly smaller average unit size reported in 2009, rent revenue averaged \$10.01 versus \$9.99 in 2008 and \$10.49 in 2007.

Revenue Losses. Revenue losses averaged 13.78 percent of GPR in 2009 versus 12.42 percent in 2008 and 10.11 percent in 2007. Revenue losses in 2009 were reported in two of the three categories: vacancies and concessions. Vacancy losses for individually metered market rent garden properties averaged 8.0 percent of GPR in the current survey (\$836 per unit, \$0.93 per square foot) versus 7.6 percent of GPR in 2008 (\$785 per unit, \$0.86 per square foot) and 6.9 percent of GPR (\$732 per unit, \$0.80 per square foot) in 2007. Collection losses averaged 0.8 percent of GPR (\$80 per unit, \$0.09 per square foot) in comparison to 0.9 percent of GPR (\$94 per unit, \$0.10 per square foot) in 2008 and 0.6 percent of GPR (\$64 per unit, \$0.07 per square foot) from 2007. Losses from rent concessions increased, averaging 5.0 percent of GPR (\$523 per unit in the property, \$0.58 per square foot) in 2009 versus 3.9 percent of GPR (\$407 per unit in the property, \$0.45 per square foot) in 2008 and 2.6 percent of GPR (\$278 per unit in the property, \$0.31 per square foot) in 2007.

Other Revenue Collected. The trend continues with multi-family housing owners and service providers creating and offering additional revenue sources, reflected in an increase of 0.5 percentage points or 7.2 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 \$753 per unit (\$0.84 per square foot) in 2009 versus \$691 per unit (\$0.76 per square foot) in 2008 and \$658 per unit (\$0.72 per square foot) in 2007 for individually metered garden properties reported in the survey.

Total Operating Expenses. Total operating expenses, as a percent of GPR, declined by 0.2 percentage points in 2009. The total operating expenses represented 40.2 percent of GPR versus 40.4 percent of GPR in 2008 and 39.5 percent in 2007. Total operating expenses for individually metered garden properties in the survey averaged \$4,194 per unit (\$4.66 per square foot) versus \$4,185 per unit (\$4.61 per square foot) in 2008 and \$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 expenses directly related to the property only); utilities (net of any reimbursements from residents); management fees; general and administrative; marketing; contract services; and maintenance. (Non-recurring capital expenses were excluded and are reported separately.)

There continues to be variation in the trends among individual categories of operating costs, some of which may be derived from differences in accounting policy regarding expense classification that the survey cannot further delineate. Average property-related insurance costs decreased by 0.2 percentage points in 2009 to \$215 per unit (\$0.24 per square foot) from \$234 per unit (\$0.26 per square foot) in 2008 and \$266 per unit (\$0.29 per square foot) in 2007. Administrative costs (G&A) declined by 0.2 percentage points, (as percent of GPR), to \$219 from \$238 per unit in 2008 and \$235 per unit in 2007.

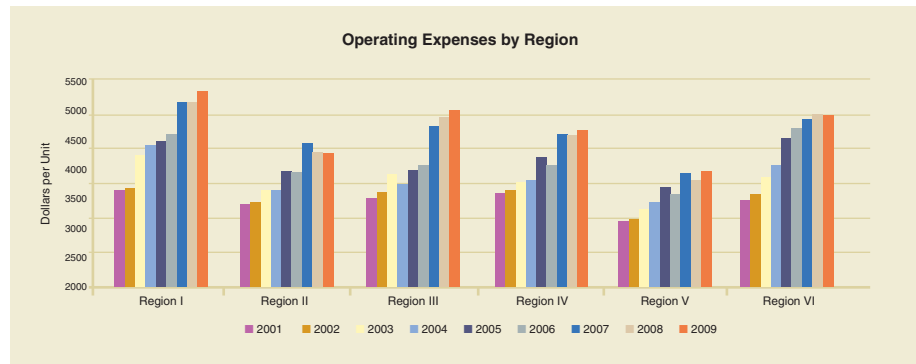
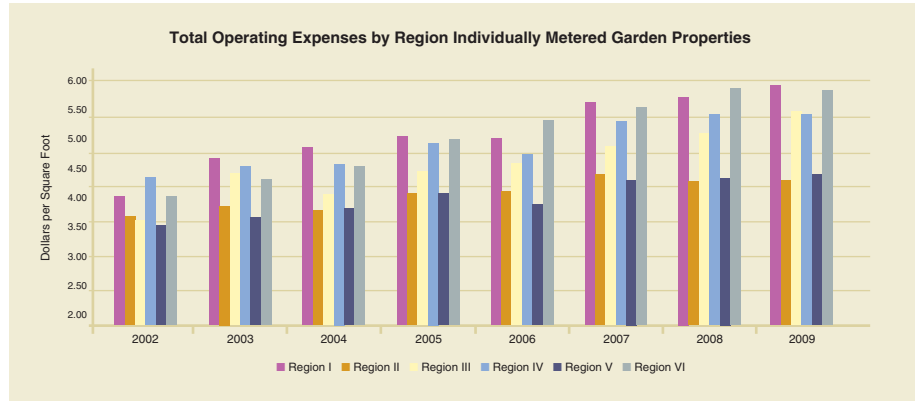
Management fees remained approximately the same at \$290 per unit (2.8 percent of GPR) versus \$289 per unit (2.8 percent of GPR) in 2008 and \$340 per unit (3.2 percent of GPR) a year earlier. Marketing costs remained essentially the same at \$174 per unit or 1.7 percent of GPR (\$175 per unit or 1.7 percent of GPR in

NOI by Region for Last Three Survey Data Years
Individually Metered Garden Properties

	Dollars per Unit			Dollars per Sq. Ft			% of GPR		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
All	\$5,560	\$5,585	\$6,011	\$6.18	\$6.15	\$6.60	53.3%	53.9%	56.6%
Region I	\$7,424	\$7,367	\$7,542	\$8.35	\$8.22	\$8.37	58.2%	59.4%	59.3%
Region II	\$5,230	\$5,119	\$5,547	\$5.42	\$5.22	\$5.66	53.2%	52.4%	55.8%
Region III	\$5,065	\$4,860	\$4,535	\$5.63	\$5.13	\$4.83	49.7%	49.9%	49.6%
Region IV	\$4,566	\$4,569	\$4,570	\$5.37	\$5.41	\$5.40	47.4%	48.5%	49.7%
Region V	\$5,563	\$5,406	\$5,780	\$6.33	\$6.22	\$6.54	57.8%	58.0%	59.1%
Region VI	\$7,344	\$7,552	\$8,153	\$8.74	\$8.96	\$9.37	58.6%	59.4%	62.7%



Milestone's Country View, San Antonio



2008 and \$172 per unit or 1.6 percent of GPR in 2007). Maintenance costs increased to \$436 per unit versus \$428 per unit in 2008 and \$414 per unit in the 2007 survey. Contract services costs remained approximately the same at an average of \$285 per unit in 2009 (\$284 in 2008 and \$265 in 2007).

The overall turnover rate increased 2.0 percentage points to 57 percent in 2009. After a surge of homeowners moving to rental housing during the height of the housing crisis (reflected in a decline in turnover rate in 2008), continued and increasingly challenging economic and job conditions have created further uncertainty, risk and change for renters of all demographic strata. Market conditions may have increased the potential renter population, but have also exacerbated the number and frequency of factors that create turnover, such as job loss, returning to live with parents, relocation, new job/new location, downsizing in unit size, moving in with friends, and seeking cheaper living costs.

The previous low of 55 percent occurred in the data for 2008 and the high during the recession year 1990.

Most regional turnover rates increased last year: Northeast (Region I), 42 percent to 48 percent; Southeast (Region II), 58 percent to 59 percent; North Midwest (Region III), 50 percent to 51 percent; Mountain/South Midwest States (Region V), 58 percent to 59 percent and in the Pacific (Region VI), 52 percent to 60 percent. The Southwest (Region IV) was an exception, with turnover declining from 60 percent to 59 percent.

Age of Property. Operating expenses as a percentage of GPR and on a dollars-per-square-foot basis ranged from 37.9 percent of GPR in properties less than 5 years old up to 41.8 percent of GPR for properties 20 or more years old. As operating expenses generally decrease over the span of years, capital expenditures increase as the building ages. For example, operating expenses were \$4,601 per unit for those 5 to 9 years old and decreased to

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	209	15,140	\$7.20	\$3.65	36.9	27.2	13.9%	27.4%
100 to 199 Units	685	101,850	\$8.07	\$4.42	39.9	33.9	12.4%	22.6%
200 to 299 Units	1016	248,167	\$8.73	\$4.94	39.5	36.4	11.5%	20.2%
300 to 399 Units	609	206,200	\$8.97	\$5.11	42.3	40.3	11.1%	19.6%
400 to 499 Units	282	124,863	\$9.59	\$5.68	47.1	45.1	10.4%	17.6%
500 or More Units	209	137,479	\$9.20	\$5.34	44.9	43.1	10.9%	18.7%
Total	3,010	833,699	\$8.86	\$5.05	42.1	38.9	11.3%	19.8%

\$4,067 per unit for properties 20 or more years old, while capital expenditures ranged from \$240 to \$809, respectively, by age of property, all declining from 2008 due to reductions in spending overall.

The highest average NOI as a percentage of GPR occurred in properties 10 to 19 years old at 55.4 percent. Measured in terms of dollars per unit, the low was \$5,113 per unit in properties that are 20 or more years old and the high was \$6,472 for properties 5 to 9 years old.

Economic losses continue to be the highest among the newest properties, particularly under current conditions. Properties less than 5 years old reported the highest ratio of economic losses at 17.5 percent of GPR, while the lowest was in those that are 20 or more years old at 13.18 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 \$1,465 per unit (\$1.53 per square foot) in those properties less than five years old, to a low of \$866 (\$1.02 per square foot) for those aged 20 or more years.

As expected, capital expenditures were significantly lower for the newest properties. They averaged \$240 per unit (\$0.25 per square foot) for properties less than five years old, compared to the highest average reported for properties 20 or more years old at \$809 per unit (\$0.95 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 46.9 percent of GPR in properties of less than 100 units to 38.9 percent in those containing 500 or more units. This year, the survey results showed similar economies of scale on a per unit basis. Operating costs ranged from \$4,518 (less than 100 units) to \$4,012 per unit (500 or more units).

Economic losses varied based on property size. Losses were highest with properties with 500 or more units at 14.42 percent of GPR and the lowest for properties with fewer than 100 units at 10.54 percent.

Metro-Area Operating Income & Expenses

Detailed tables in the full report are presented for 84 metropolitan areas 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 \$13,196 (\$17.84 per square foot) in the San Francisco-San Mateo-Redwood City, Calif., metro area to a low of \$2,640 (\$3.25 per square foot) in the Evansville, Ind.-Ky., metro area. The Santa Ana-Anaheim-Irvine, Calif., metro area had the highest NOI measured as a percent of GPR at 67.0 percent and Dayton, Ohio, had the lowest at 39.8 percent.

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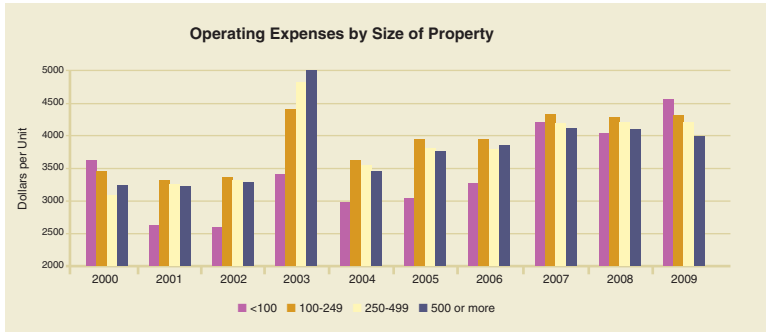
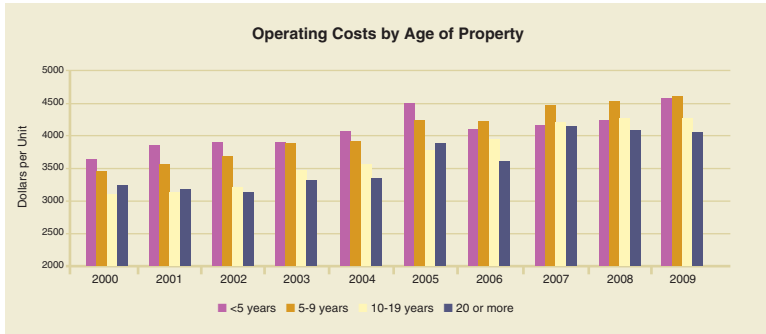
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Bell Partners' Apartments at Meadowmont, Chapel Hill, N.C.

- GPR averages were the highest in the San Francisco metro area at \$20,101 per unit (\$27.17 per square foot). A low of \$6,305 per unit (\$7.77 per square foot) was tabulated for properties reported from Evansville, Ind.-Ky.
- Economic losses were lowest in the San Jose-Sunnyvale-Santa Clara, Calif., metro area at 6.64 percent of GPR. Metro areas with the highest economic losses were Lubbock, Texas, at 23.31 percent, and Birmingham-Hoover, Ala., at 20.87 percent.
- Total operating cost highs and lows vary among metro areas based on which measure is selected. Properties reporting from the San Francisco metro area had the highest operating costs on a per-unit basis at \$6,497 (\$8.78 per square foot), followed by the Oakland metro area at \$6,226 per unit (\$7.28 per square foot). The New York metro area had high operating costs on a per-square-foot basis, at \$8.70 per square foot (\$5,609 per unit). A low of \$2,842 per unit (\$3.57 per square foot) was reported in the Albuquerque, N.M., metro area and \$3,026 per unit (\$3.66 per square foot) was reported in the Colorado Springs, Colo., metro area.
- Real estate taxes remained high in many metro areas in 2010. The San Francisco metro area had the highest real estate taxes per unit at \$2,045; and the Fort Lauderdale, Fla., metro area was second at \$2,005 per unit. The lowest average was for properties located in the Colorado Springs, Colo., and Wilmington, N.C., metro areas at \$292 and \$335, respectively.
- Insurance costs on a per unit basis were the highest among the following areas, including several hurricane-prone metro areas. They were \$475 per unit (\$0.48 per square foot) in Tallahassee, Fla., \$449 (\$0.44 per square foot) in the Miami, Fla., metro area and in the New York-Northern New Jersey-Long Island metro area they were \$331 per unit (\$0.51 per square foot). They were lowest in the Evansville, Ind.-Ky., and Albuquerque, N.M., metro areas at \$120 and \$123 per unit, respectively (\$0.15 per square foot each).
- Salaries and personnel costs were reported lowest in the Lubbock, Texas, metro area at \$803 per unit (\$1.02 per square foot) and the Detroit metro area at \$821 (\$0.86 per square foot).

The San Francisco metro area had the highest average at \$1,499 per unit (\$2.03 per square foot) followed by \$1,410 in the Oakland metro area (\$1.65 per square foot).

- Fort Lauderdale, Fla., and Huntsville, Ala., had the largest units among the metro areas reported separately in this report with an average of 1,120 and 1,077 square feet of floor area per unit, respectively. Properties located in the New York and San Jose metros had the lowest, averaging at 645 and 670 square feet per unit, respectively.

Subsidized Properties Income & Expenses

Operating Income & Expenses Summary. Data was received for 506 subsidized properties containing 74,861 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 17 metropolitan areas in the full report that met the minimum for reporting. Subsidized garden apartment properties with individually metered utilities in the survey generally tend to have fewer units and less floor area than market rent units. Responding properties contained an average of 149 units versus 277 units for market rent properties of the same type. These subsidized properties had an average of 892 square feet of floor area versus 899 square feet reported for the market rent properties in 2009.

Revenues. GPR averaged \$9,103 per unit (\$10.20 per square foot) annually in this year's survey versus \$9,432 per unit (\$10.78 per square foot) in 2008, and \$8,556 per unit (\$9.77 per square foot) in 2007. Rental revenues averaged \$8,275 (\$9.27 per square foot) versus \$8,606 (\$9.83 per square foot) in 2008, and \$7,867 (\$8.98 per square foot) in 2007. Other operating revenues averaged \$514 per unit (\$0.58 per square foot) in 2009 versus \$314 per unit (\$0.36 per square foot) in 2008, and \$320 per unit (\$0.36 per square foot) in 2007.

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 \$4,319 (\$4.84 per square foot) in 2009 versus \$4,441 (\$5.07 per square foot) in 2008, and \$4,339 (\$4.95 per square foot) in 2007.

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 49.1 percent of GPR versus 53.3 percent for the market rent properties. Other comparisons of subsidized NOI to market-rent NOI were \$4,469 versus \$5,560 on a dollars-per-unit basis, and \$5.01 versus \$6.18 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. A 9.1 percent average rate was calculated for the subsidized individually metered garden properties versus 13.78 percent for market rent units. The economic loss ratio in subsidized properties increased over last year's 8.8 percent and 8.1 percent in 2007.

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 35 percent versus 57 percent for market rent units.

Metrics (Garden and Ind. 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. Several operating metrics are presented on page 64, stratified by number of units per community. These include measures of the relationship between payroll (staffing), revenue (top line) and income (NOI), shown as Revenue (or Income) dollars per dollar of payroll; 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

Most in the multifamily housing industry believe that calendar year 2010 will be a better year and a rebound year (or are seeing evidence of such). While this is good news and a move in the right direction, the sector will

face continuing challenges due to market and economic conditions. The opportunity for creative apartment management and to redefine resident relationships continues, and in fact, many new management methods, procedures and policies established during the past two years will no doubt remain permanent.

The mantra of doing more with less continues, and 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 underlying economic conditions in 2010 are beginning to improve, albeit slowly. Because full recovery could take many years, the unlocked value of improved management methods and fiscal discipline derived during these transitioning times creates the opportunity for industry

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professionals to redefine the property and portfolio operating procedures and resident satisfaction/retention management methods that will characterize the industry for its next growth period.

The NAA survey results in 2010 demonstrate the commitment (and sacrifice) that has been made to sustain the industry in this unprecedented economic downturn, proving the industry's capacity to focus on protecting and creating value. Multifamily managers across the country are showing and improving

their management skills in operations and leadership. The industry will be far stronger from the experience of the past two years.

As always, at the heart of financial results is the interface of property operations and resident satisfaction: the ability to create and sustain a welcoming and continuously effective environment for approximately 35 million apartment residents. This challenge has been compounded by the difficulties of the down cycle; however, the industry has clearly demonstrated the

leadership and talents needed to meet it.

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/cooktop/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, extermination and other services provided on a contract basis.

GPR Residential. Total rents of all occupied units at 2009 lease rates and all vacant units at 2009 market rents (or fiscal year end).

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

Insurance. Includes all property fire and hazard, as well as liability, insurances 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.

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

Net Rentable Residential Square Feet. Total rentable square feet of floor



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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. Amount 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 (e.g., Section 236).

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. **NA**

Christopher Lee, President & Chief Executive Officer of CEL & Associates Inc., is a Special Advisor to NAA. Special thanks to Janet Gora, Director, CEL & Associates Inc., as project manager; and Valerie Hairston, NAA's Director of Membership and Affiliate Services, for handling survey logistics and paper responses.

Thank You To Our Participating Companies

NAA sends a special note of appreciation to the 327 firms who donated their time to accumulate the data necessary to make this survey valuable. If you'd like to participate in next year's Income & Expense Survey, contact NAA's Valerie Hairston at valerie@naahq.org. The following companies and their officers provided 20 properties or more for the 2010 Survey of Operating Income & Expenses in Rental Apartment Communities. Photos shown are from participating companies.

AEW Capital Management	Legacy Partners
AIMCO	LumaCorp Inc.
Alco Management Inc.	Makowsky Ringel Greenberg
American Realty Advisors	Marquette Management
AMLI Management Company	MG Properties
Archon Residential	Mid-America Apartment Communities
BBR Management LLC	Milestone Management
Bell Partners Inc.	Nevins Adams Lewbel Schell
BH Management	Pennrose Management Company
Buckingham Management LLC	Pinnacle, an American Management Services Co.
Camden	Post Apartment Homes L.P.
Capreit	PRG Real Estate Management Inc.
Colonial Properties Trust	Riverstone Residential Group
Corcoran Management Company	Ross Development and Investment
CWS Apartment Homes LLC	Shelter Properties LLC
Dial Equities Inc.	Simpson Housing LLLP
The Dolben Company	Steven Scott Management
Drucker & Falk	Tower Management Service LP
Dunlap & Magee Property Management	TriVest Residential LLC
Equity Management II LLC	UDR
First Choice Management Group	Venterra Realty
Fogelman Management Group	Village Green Companies
Forest City Residential Management	Waterton Residential
Gables Residential	WestCorp Management Group
Greystar Real Estate Partners LLC	Western National Property Management
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