EXECUTIVE SUMMARY

2015 NAA Survey of Operating Income & Expenses in Rental Apartment Communities

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/15ies by mid-August.

Balancing Accelerated Growth in 2015

During the past 24 months, the multifamily industry has experienced unprecedented growth in demand for rental apartments, rapidly increasing rents, declining vacancies and dramatic increases in asset values. The combination of the continuing U.S. shift to a rental-based society and the abundance of investment capital that is seeking yield has placed the multifamily industry in the bull's-eye for investors and operators alike. While the U.S. economy appears to be improving (albeit very slow and far below the recovery period following past recessions), the job market is creating increased numbers of lower wage positions that necessitate renting versus owning solutions.

Renting is increasingly becoming a lifestyle choice for many and the apartment industry is now faced with a delicate balancing act... finding the right balance between managed growth, maintaining product quality and service excellence, controlling operating costs, and investing for the future changes ahead. Over the next 24 months, those owners and/or operators who can successfully balance these four factors will benefit for years to come.

There are several emerging facts that highlight this transformative time within the apartment industry amid the need for careful balance among all aspects and expectations of investors and residents. According to a recent survey, around 14 percent of 24-34 year olds (post-college years) still live at home with their parents. Nearly 51 percent of 18-23 year olds currently live at home. These young adults are much less likely to be: married, working or to have graduated from college. The average starting salary for college graduates (class of 2014) is $48,127, up 6.2 percent over 2013. According to the Wall Street Journal, the average student loan debt for a 2015 grad is $35,000... this is over double, after adjusting for inflation, what student borrowers paid back 20 years ago. Around 7 out of 10 college graduates today have some form of student loan debt... hardly a prescription for qualifying for a home mortgage. This is in addition to the average credit card debt of 2014 grads of around $3,000. Renting (or living at home) for young adults is now a necessity, not an option.

The median age for the first marriage continues to increase to around 29 years for men and slightly over 26 years for women. According to the latest available data, only 26 percent of Millennials get married by age 32 versus 48 percent of Baby Boomers and 65 percent of Silent Generation who were married by age 32. The marriage rate among college-educated adults is far higher than less educated adults. In addition, the percent of adults currently married (around 50 percent) is far lower than it was in 1960 (72.2 percent). For the first time in 2014, the number of unmarried adults outnumbered their married counterparts. The trend toward cohabitation and partnering indicates a continued demand for rental housing.

The U.S. fertility rate has been declining since 2007. Slightly fewer than 4 million babies are born in the U.S. each year. The average age of first-time mothers is now around 26 years versus 21.4 years in 1970. The number of births by age cohort is declining for those under 29 years of age. In 2014, there were nearly 10 million single moms living with children younger than 18, up from 3.4 million in 1970. The percentage of nonmarital births has held steady since its peak of 41 percent in 2009. One of the main reasons for the fertility rate decline, other than the impact of the 2007-2009 recession, is the rapid rise in the number of women in the workforce. Women now comprise 47 percent of the U.S. workforce and, by 2018, will account for 51 percent of the increase in total labor force growth. The median weekly earnings of women who are full-time workers is around $724 versus $887 for men. This combination of marrying and having children later and lower wages will mean extended years as renters versus. homeowners.

Fewer high paying jobs, a declining labor force participation rate (62.6 percent versus 66.4 percent in 2007), over 93 million Americans not in the labor force, over 6 million Americans looking for work and a historically low employment-population ratio (less than 60 percent) are real time indicators of a shift to a more rental-based society. As a result, the homeownership rate has declined steadily from a peak of 69.2 percent in June 2004 to now 63.7 percent and contributed to rising apartment rental rates. For the first time, U.S. homeownership rate has declined below the 1965-1999 average. The demand for affordable housing has also risen. Renting has become the first, not optional, choice.

All Market-Rent Properties

OPERATING INCOME & EXPENSE DATA

INDIVIDUAL METERED AND RECOVERY SYSTEM PROPERTIES*

		Total			Garden			Mid & Hi Rise	
Number of Properties		3,557			3,089			468	
Number of Units		932,991			808,248			124,743	
Avg. No. of Units/Property		262			262			267	
Avg. No. of Square Feet/Unit		930			932			917	
Turnover rate in %		51%			51%			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	12,706	13.66	100.0%	11,857	12.72	100.0%	18,210	19.87	100.0%
Rent Revenue Collected	11,749	12.63	92.5%	10,967	11.76	92.5%	16,815	18.34	92.3%
Losses to Vacancy	717	0.77	5.6%	664	0.71	5.6%	1,061	1.16	5.8%
Collection Losses	68	0.07	0.5%	68	0.07	0.6%	65	0.07	0.4%
Losses to Concessions	172	0.18	1.4%	157	0.17	1.3%	269	0.29	1.5%
Other Revenue	781	0.84	6.1%	723	0.78	6.1%	1,155	1.26	6.3%
Total Revenue	12,530	13.47	98.6%	11,690	12.54	98.6%	17,970	19.60	98.7%
Operating Expenses									
Salaries and Personnel	1,275	1.37	10.0%	1,236	1.33	10.4%	1,528	1.67	8.4%
Insurance	266	0.29	2.1%	260	0.28	2.2%	304	0.33	1.7%
Taxes	1,420	1.53	11.2%	1,293	1.39	10.9%	2,244	2.45	12.3%
Utilities	353	0.38	2.8%	323	0.35	2.7%	550	0.60	3.0%
Management Fees	371	0.40	2.9%	355	0.38	3.0%	475	0.52	2.6%
Administrative	263	0.28	2.1%	246	0.26	2.1%	378	0.41	2.1%
Marketing	173	0.19	1.4%	160	0.17	1.3%	260	0.28	1.4%
Contract Services	366	0.39	2.9%	345	0.37	2.9%	503	0.55	2.8%
Repair and Maintenance	432	0.46	3.4%	419	0.45	3.5%	514	0.56	2.8%
Total Operating Expenses	4,920	5.29	38.7%	4,637	4.97	39.1%	6,757	7.37	37.1%
Net Operating Income	7,610	8.18	59.9%	7,054	7.56	59.5%	11,213	12.23	61.6%
Capital Expenditures	1,090	1.17	8.6%	1,008	1.08	8.5%	1,626	1.77	8.9%

MASTER METERED PROPERTIES**

		Total			Garden			Mid- & Hi-Rise	
Number of Properties		317			226			91	
Number of Units		64,851			47,437			17,414	
Avg. No. of Units/Property		205			210			191	
Avg. No. of Square Feet/Unit		861			879			814	
Turnover rate in %		41%			43%			37%	
	$ 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	13,351	15.50	100.0%	11,626	13.23	100.0%	18,047	22.18	100.0%
Rent Revenue Collected	12,430	14.43	93.1%	10,866	12.37	93.5%	16,691	20.51	92.5%
Losses to Vacancy	727	0.84	5.4%	602	0.69	5.2%	1,066	1.31	5.9%
Collection Losses	62	0.07	0.5%	53	0.06	0.5%	87	0.11	0.5%
Losses to Concessions	131	0.15	1.0%	104	0.12	0.9%	203	0.25	1.1%
Other Revenue	812	0.94	6.1%	723	0.82	6.2%	1,056	1.30	5.8%
Total Revenue	13,243	15.38	99.2%	11,590	13.19	99.7%	17,747	21.81	98.3%
Operating Expenses									
Salaries and Personnel	1,408	1.64	10.6%	1,314	1.50	11.3%	1,666	2.05	9.2%
Insurance	300	0.35	2.2%	301	0.34	2.6%	296	0.36	1.6%
Taxes	1,175	1.36	8.8%	1,037	1.18	8.9%	1,552	1.91	8.6%
Utilities	975	1.13	7.3%	800	0.91	6.9%	1,453	1.79	8.1%
Management Fees	456	0.53	3.4%	403	0.46	3.5%	601	0.74	3.3%
Administrative	367	0.43	2.8%	317	0.36	2.7%	504	0.62	2.8%
Marketing	146	0.17	1.1%	124	0.14	1.1%	205	0.25	1.1%
Contract Services	442	0.51	3.3%	377	0.43	3.2%	621	0.76	3.4%
Repair and Maintenance	634	0.74	4.7%	553	0.63	4.8%	855	1.05	4.7%
Total Operating Expenses	5,904	6.86	44.2%	5,225	5.95	44.9%	7,754	9.53	43.0%
Net Operating Income	7,339	8.52	55.0%	6,364	7.24	54.7%	9,993	12.28	55.4%
Capital Expenditures	1,386	1.61	10.4%	1,185	1.35	10.2%	1,930	2.37	10.7%

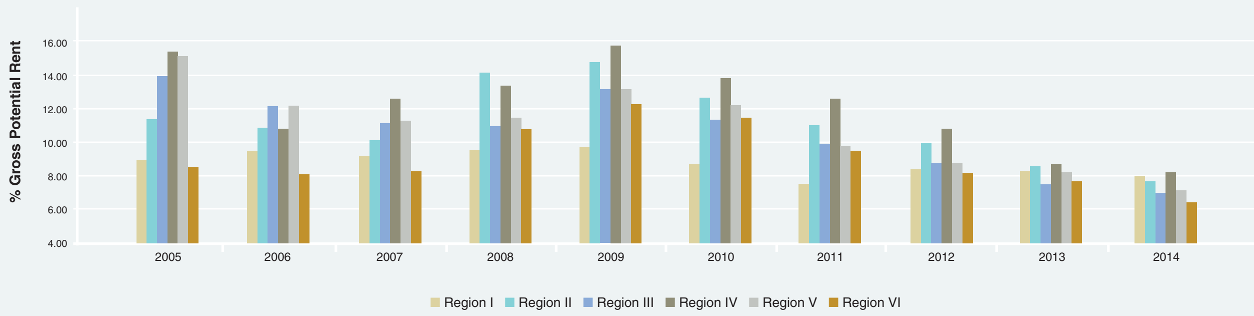
* Individual Meter and Recovery System (submeter, RUBS, flat fee) for primary utility.

** Master Meter Owner Paid for primary utility.

Source: National Apartment Association 2015 Survey of Operating Income & Expenses in Rental Apartment Communities

Economic Losses by Region

Individually Metered and Recovery System • Market-Rent Garden Properties



In 2015, the seasonally adjusted number of multifamily permits (5+) will likely range from 380,000 to 405,000. Multifamily starts should remain around 319,000. Completions will likely hover around the 245,000 to 251,000 range on a seasonally-adjusted basis. The number of permits, starts and completions will be around 2014 levels. Investor interest will remain high in 2015, particularly for niche, urban, mixed-use, senior living, micro units and B product in secondary markets.

Rent increases for professionally managed apartments in 2015 are expected to range from 4.4 percent to 4.6 percent, far higher than the rate of inflation. Cap rates nationally are likely to remain below 6 percent, with core assets in core locations commanding a 4 percent and lower cap rates. During the next 12 months, the amount of available capital "chasing deals" and the amount of un-deployed fund capital that "must be placed" will keep cap rates down and transactional volume up.

In an age of geographic mobility, tenure at an apartment community can be a significant factor in overall turnover costs. Around 26.5 percent of apartment renters lived somewhere else a year ago. As aging Millennials "settle in" once their financial and career opportunities become clearer, those states which offer greater career, professional and more stable economic climate will likely attract more renters... some of whom will have become renters by choice. Furthermore, states with the highest share of immigrants will tend to have higher demand for rental properties.

In 2015 to assure success and position themselves for 2016, apartment owners and operators will need to:

1. Take steps to focus on resident services, resident feedback and resident profiling.
2. Control operating costs but not at the expense of compromising resident services.
3. Quantitatively and qualitatively review and rebalance your portfolio for maximum operating efficiency and effectiveness.
4. Maximize brand differentiation.
5. Lock in long-term debt.
6. Upgrade operational technology.

In times of incredible growth, there is a tendency to overlook the future. Current problems can be masked by financial success. Keeping "internal score" is as, or perhaps more, important than "external scores." Creating and adding value mandates a balanced management and operating platform. Balancing resident service while monitoring operating expenses, and balancing resident retention with rising rents, are both an opportunity and a challenge. As renting by choice becomes more commonplace, apartment owners and operators will need strategic as well as operational goals. Having the proper benchmarks is one of the keys to formulating one's goals.

In 2015 and beyond, long-term success requires visionary and transformative leadership, core values, exceptional talent, aligned strategies and goals, a commitment to a resident-centric operating platform, and accurate and timely data for making the proper decisions.

Economic Loss Rates by Regions

Individually Metered and Recovery System • Market-Rent Garden Properties

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
All	7.50%	8.29%	9.48%	10.53%	12.16%	13.78%	12.42%	10.11%	10.20%	11.87%
Region I	7.96%	8.28%	8.37%	7.50%	8.65%	9.71%	9.49%	9.16%	9.46%	8.87%
Region II	7.67%	8.56%	9.94%	11.00%	12.63%	14.75%	14.07%	10.09%	10.84%	11.35%
Region III	6.94%	7.44%	8.75%	9.84%	11.34%	13.15%	10.93%	11.11%	12.02%	13.87%
Region IV	8.14%	8.70%	10.80%	12.56%	13.79%	15.71%	13.34%	12.55%	10.77%	15.39%
Region V	7.10%	8.19%	8.76%	9.72%	12.16%	13.13%	11.45%	11.22%	12.12%	15.14%
Region VI	6.47%	7.67%	8.24%	9.49%	11.52%	12.34%	10.82%	8.26%	8.09%	8.57%

All Subsidized Properties

OPERATING INCOME & EXPENSE DATA

INDIVIDUAL METERED AND RECOVERY SYSTEM PROPERTIES*

	Total			Garden			Mid & Hi Rise		
Number of Properties		222			144			78	
Number of Units		42,460			23,119			19,341	
Avg. No. of Units/Property		191			161			248	
Avg. No. of Square Feet/Unit		874			892			853	
Turnover rate in %		37%			34%			41%	
	$ 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	13,521	15.47	100.0%	11,012	12.35	100.0%	16,520	19.37	100.0%
Rent Revenue Collected	12,646	14.47	93.5%	10,195	11.43	92.6%	15,575	18.26	94.3
Losses to Vacancy	617	0.71	4.6%	518	0.58	4.7%	735	0.86	4.4%
Collection Losses	103	0.12	0.8%	128	0.14	1.2%	74	0.09	0.4%
Losses to Concessions	155	0.18	1.1%	171	0.19	1.6%	136	0.16	0.8%
Other Revenue	756	0.87	5.6%	450	0.50	4.1%	1,123	1.32	6.8%
Total Revenue	13,402	15.33	99.1%	10,645	11.93	96.7%	16,698	19.58	101.1%
Operating Expenses									
Salaries and Personnel	1,377	1.58	10.2%	1,420	1.59	12.9%	1,327	1.56	8.0%
Insurance	287	0.33	2.1%	323	0.36	2.9%	243	0.28	1.5%
Taxes	1,150	1.32	8.5%	848	0.95	7.7%	1,512	1.77	9.1%
Utilities	699	0.80	5.2%	735	0.82	6.7%	655	0.77	4.0%
Management Fees	381	0.44	2.8%	456	0.51	4.1%	293	0.34	1.8%
Administrative	443	0.51	3.3%	437	0.49	4.0%	451	0.53	2.7%
Marketing	134	0.15	1.0%	112	0.13	1.0%	160	0.19	1.0%
Contract Services	462	0.53	3.4%	455	0.51	4.1%	471	0.55	2.9%
Repair and Maintenance	477	0.55	3.5%	571	0.64	5.2%	365	0.43	2.2%
Total Operating Expenses	5,411	6.19	40.0%	5,357	6.01	48.6%	5,475	6.42	33.1%
Net Operating Income	7,991	9.14	59.1%	5,288	5.93	48.0%	11,223	13.16	67.9%
Capital Expenditures	685	0.78	5.1%	554	0.62	5.0%	839	0.98	5.1%

MASTER METERED PROPERTIES**

	Total			Garden			Mid- & Hi-Rise		
Number of Properties		130			86			44	
Number of Units		19,231			12,120			7,111	
Avg. No. of Units/Property		148			141			162	
Avg. No. of Square Feet/Unit		744			736			756	
Turnover rate in %		16%			15%			16%	
	$ 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	11,375	15.30	100.0%	10,412	14.14	100.0%	13,017	17.22	100.0%
Rent Revenue Collected	10,922	14.69	96.0%	9,974	13.54	95.8%	12,537	16.59	96.3%
Losses to Vacancy	344	0.46	3.0%	310	0.42	3.0%	401	0.53	3.1%
Collection Losses	78	0.11	0.7%	85	0.12	0.8%	66	0.09	0.5%
Losses to Concessions	32	0.04	0.3%	43	0.06	0.4%	12	0.02	0.1%
Other Revenue	398	0.53	3.5%	259	0.35	2.5%	634	0.84	4.9%
Total Revenue	11,319	15.22	99.5%	10,233	13.89	98.3%	13,171	17.42	101.2%
Operating Expenses									
Salaries and Personnel	1,624	2.18	14.3%	1,519	2.06	14.6%	1,803	2.38	13.9%
Insurance	266	0.36	2.3%	248	0.34	2.4%	297	0.39	2.3%
Taxes	786	1.06	6.9%	633	0.86	6.1%	1,048	1.39	8.0%
Utilities	1,340	1.80	11.8%	1,314	1.78	12.6%	1,384	1.83	10.6%
Management Fees	466	0.63	4.1%	409	0.56	3.9%	564	0.75	4.3%
Administrative	496	0.67	4.4%	469	0.64	4.5%	544	0.72	4.2%
Marketing	54	0.07	0.5%	56	0.08	0.5%	49	0.06	0.4%
Contract Services	470	0.63	4.1%	410	0.56	3.9%	572	0.76	4.4%
Repair and Maintenance	587	0.79	5.2%	597	0.81	5.7%	572	0.76	4.4%
Total Operating Expenses	6,090	8.19	53.5%	5,655	7.68	54.3%	6,832	9.04	52.5%
Net Operating Income	5,229	7.03	46.0%	4,578	6.22	44.0%	6,340	8.39	48.7%
Capital Expenditures	647	0.87	5.7%	475	0.65	4.6%	931	1.23	7.1%

* Individual Meter and Recovery System (submeter, RUBS, flat fee) for primary utility. ** Master Meter Owner Paid for primary utility.

Source: National Apartment Association 2015 Survey of Operating Income & Expenses in Rental Apartment Communities

These findings are just a few of the many conclusions drawn from CEL & Associates, Inc. research and the recently completed National Apartment Association's 2015 Survey of Operating Income & Expenses in Rental Apartment Communities. This NAA-sponsored survey of over 1 million apartments nationwide, conducted by Los Angeles-based CEL & Associates Inc., again indicated that improving conditions for the rental housing market continue to be reflected in improvements to operating fundamentals.

NAA has completed its Survey of Operating Income & Expenses in Rental Apartment Communities for 2015, based on data for fiscal year 2014.

Major findings in this survey of the professionally managed rental apartment industry reflect the fluctuations and continued uncertainty of the U.S. economy. Overall net operating income in the "market-rent" segment of the rental apartment market rose by 0.3 percentage points to 59.5 percent in 2014, versus 59.2 percent in 2013; with a lower economic loss rate of 7.50 percent versus 8.29 percent in 2013, because of a decline in vacancy and concessions. Total operating expenses increased by 0.2 percentage points. The economic state of subsidized properties in the survey also experienced variable results over the prior year.

A total of 4,226 properties containing 1,059,533 units are represented in this year's report. Data was reported for 3,874 market-rent properties containing 997,842 units and 352 subsidized properties containing 61,691 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 individual meter and recovery systems (e.g., submeter, RUBS, flat fee), and master-metered utilities, for the property's primary utility. 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 individual meter/recovery utilities represent 79.7 percent of the market-rent properties and 40.9 percent of the subsidized properties. Therefore, the analysis is focused primarily on the garden properties with individual meter/recovery utilities.

The market-rent segment generally has more units per property and greater floor area per unit than the subsidized segment. The average size (# of units) of individual meter/recovery, market-rent garden properties is 262 units in 2014 (269 in 2013), and 161 units in subsidized properties in 2014 (153 in 2013). Rentable floor area averaged 932 square feet (925 in 2013) for market-rent apartments and 892 square feet (877 in 2013) for the subsidized units.

The full report (available mid-August at www.naahq.org/15ies) contains detailed data summarized for six geographic regions, and 86 metropolitan areas met the separate reporting criteria for market-rent properties. Sufficient numbers of subsidized properties were submitted for 13 metropolitan areas.

This report also includes results for all "other" properties at the state level located in metro areas that did not meet criteria for separate reporting. Non-metro area reporting also is included at the state level. Tables for these "other" market-rent properties are provided for 22 states and for subsidized properties in four states.

The NAA survey was adjusted last year to include standard utilities and to distinguish expenses and recoveries by utility configuration to confirm that net utilities are reported. This level of standard utility expense will more consistently represent utilities for comparison between properties. Not all properties are able to designate this detail. The additional utility reports represent those properties that offer utility detail for comparison.

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, individual meter/recovery garden properties continued its decline in this strong market to 7.50 percent in 2014 (compared to 8.29 percent in the data for 2013 and 9.48 percent in 2012). The highest economic losses overall were 13.99 percent, reported in the survey in 2004.

Net Operating Income and Revenues. NOI is a key measurement for evaluating the health of a property and the rental

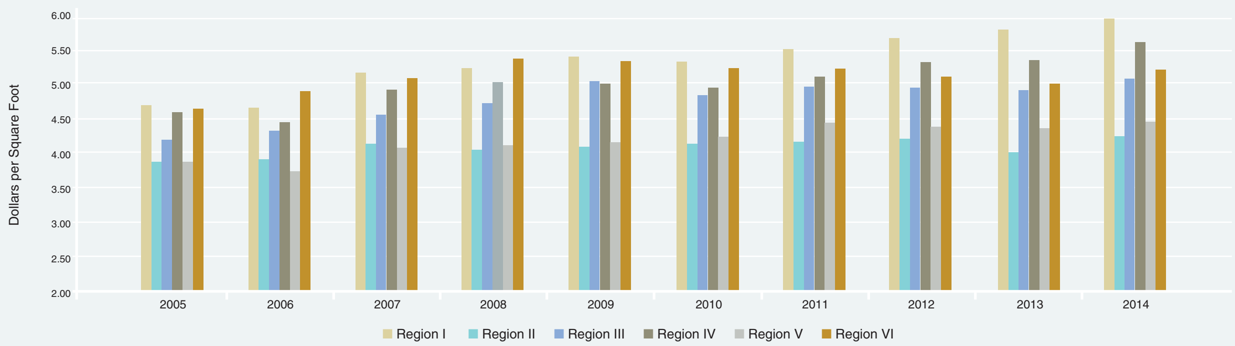
NOI by Region for Last Three Survey Data Years

Individually Metered and Recovery System • Market-Rent Garden Properties

	Dollars per Unit			Dollars per Sq. Ft.			% of GPR		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
All	$7,054	$6,676	$6,076	$7.56	$7.22	$6.58	59.5%	59.2%	56.6%
Region I	$8,886	$8,817	$8,349	$9.34	$9.32	$9.05	59.3%	59.8%	60.2%
Region II	$6,449	$6,313	$5,597	$6.41	$6.29	$5.67	59.7%	60.6%	56.9%
Region III	$6,251	$6,123	$5,765	$6.68	$6.54	$6.16	55.9%	56.8%	54.7%
Region IV	$6,438	$5,980	$5,335	$7.28	$6.86	$6.06	55.4%	54.8%	51.5%
Region V	$7,212	$6,754	$6,003	$8.12	$7.72	$6.75	64.7%	63.4%	60.0%
Region VI	$8,581	$7,781	$7,282	$9.70	$8.94	$8.42	64.4%	62.5%	60.8%

Total Operating Expenses by Region

Individually Metered and Recovery System • Market-Rent Garden Properties



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 (as a percent of GPR) in the NAA survey improved again in 2014, indicative of continued strong fundamentals in demand and pricing.

NOI measured as a percent of GPR for 2014 was 59.5 percent, improving by 0.3 percentage points (59.2 percent in 2013 and 56.6 percent in 2012). Regionally, NOIs in 2014 ranged from a high of 64.7 percent in the Mountain/South Midwest states (Region V) to a low of 55.4 percent in the South Central states (Region IV), which has generally experienced the lowest NOI percentage among the regions, albeit with continued improvement.

Average NOIs for the last three survey data years of individual meter/recovery market-rent garden properties are presented on page 31.

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 2014 lease rates and all vacant units at 2014 market rents.

Average annual GPR in the survey increased by 5.1 percent in 2014 for garden properties with individual meter/recovery utilities. Average GPR was $11,857 per unit ($988 monthly) in this year's survey versus $11,280 per unit ($940 monthly) in 2013 and $10,727 per unit ($894 monthly) in 2012. On a per-square-foot basis, GPR was $12.72 ($1.06 per month) versus $12.19 ($1.02 per month) in 2013 and $11.62 ($0.97 per month) in 2012.

Median annual GPR for individual meter/recovery garden properties in the survey was $10,878 ($907 per month) versus $10,370 ($864 per month) in 2013 and $10,175 ($848 per month) in 2012.

Rent Revenue Collected. Annual rent revenue collected averaged $10,967 per individual meter/recovery garden property unit, up 6.0 percent from $10,345 in last year's survey and $9,709 in 2012. Measured on a per-square-foot basis (average size increased by 7 square feet), and average number of units (average declined by 7 units), rent revenue averaged $11.76 in 2014 versus $11.18 in 2013 and $10.52 in 2012.

Revenue Losses. Revenue losses averaged 7.50 percent of GPR in 2014 versus 8.29 percent of GPR in 2013 and 9.48 percent of GPR in 2012.

Vacancy losses for market-rent garden properties with individual meter/recovery utilities averaged 5.6 percent of GPR in the current survey ($664 per unit, $0.71 per square foot) versus 5.9 percent of GPR ($663 per unit, $0.72 per square foot) in 2013 and 6.0 percent of GPR ($644 per unit, $0.70 per square foot) in 2012.

Collection losses remained the same, as percent of GPR, averaging 0.6 percent ($68 per unit, $0.07 per square foot) in comparison to 0.6 percent of GPR ($73 per unit, $0.08 per square foot) in 2013 and 0.6 percent of GPR ($65 per unit, $0.07 per square foot) in 2012.

Apartment Operations Metrics

Individually Metered and Recovery System • Market-Rent 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	284	21,623	$7.94	$4.27	32.8	28.0	12.6%	23.4%
100 to 199 Units	758	113,493	$8.32	$4.74	37.8	34.2	12.0%	21.1%
200 to 299 Units	980	239,744	$9.37	$5.66	41.8	39.2	10.7%	17.7%
300 to 399 Units	648	220,381	$9.80	$6.00	45.9	43.4	10.2%	16.7%
400 to 499 Units	267	117,679	$10.01	$6.17	46.7	45.1	10.0%	16.2%
500 or More Units	152	95,328	$10.14	$6.25	48.7	47.2	9.9%	16.0%
Total	**3,089**	**808,248**	**$9.46**	**$5.71**	**43.2**	**40.5**	**10.6%**	**17.5%**

Losses from rent concessions continued to decline by 0.5 percentage points to 1.3 percent of GPR ($157 per unit, $0.17 per square foot) in 2014 versus averaging 1.8 percent of GPR ($199 per unit, $0.22 per square foot) in 2013 and 2.9 percent of GPR ($308 per unit, $0.33 per square foot) in 2012.

Other Revenue Collected. Multifamily housing owners and service providers continue to create and offer additional revenue sources. There was a .03 percentage point decline to 6.1 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 $723 per unit ($0.78 per square foot) in 2014 versus $718 per unit ($0.78 per square foot) in 2013 and $802 per unit ($0.87 per square foot) in 2012 for individual meter/recovery garden properties reported in the survey.

Total Operating Expense. Total operating expenses, as a percent of GPR, increased by 0.2 percentage points in 2014. The total operating expenses represented 39.1 percent of GPR in 2014 versus 38.9 percent of GPR in 2013 and 41.3 percent of GPR in 2012. Total operating expenses for individual meter/recovery garden properties in the survey averaged $4,637 per unit ($4.97 per square foot) versus $4,387 per unit ($4.74 per square foot) in 2013 and $4,435 per unit ($4.81 per square foot) in 2012.

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 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 increased to $260 per unit ($0.28 per square foot) in 2014 versus $253 per unit ($0.27 per square foot) in 2013 and $249 per unit ($0.27 per square foot) in 2012.

Administrative costs (G&A) remained approximately the same at $246 per unit in 2014 versus $245 per unit in 2013, with $252 per unit in 2012.

Management fees reported $355 per unit (3.0 percent of GPR) in 2014 versus $329 per unit (2.9 percent of GPR) in 2013 and $337 per unit (3.1 percent of GPR) in 2012.

Marketing costs increased to $160 per unit or 1.3 percent of GPR in 2014 versus $152 per unit or 1.3 percent of GPR in 2013 and $156 per unit or 1.5 percent of GPR in 2012.

Maintenance costs declined to $419 per unit in 2014 versus $434 per unit in 2013 and $449 per unit in 2012.

Contract services costs increased to an average of $345 per unit in 2014 ($296 in 2013 and $249 in 2012).

Salaries changed to $1,236 per unit in 2014 versus $1,178 per unit in 2013 and $1,147 per unit in 2012.

Turnover Rates. The overall turnover rate in the survey declined overall to 51 percent in 2014 (versus 55 percent in 2013). Turnover declined in varied rates for all regions in 2014: Northeast (Region I), dropped from 46 percent to 45 percent; Southeast (Region II) declined from 56 percent to 53 percent; North Midwest (Region III), declined from 50 percent to 49 percent; South Central (Region IV), dropped from 57 percent to 52 percent; Mountain/South Midwest states (Region V), declined from 59 percent to 54 percent; and the Pacific (Region VI) dropped from 55 percent to 50 percent.

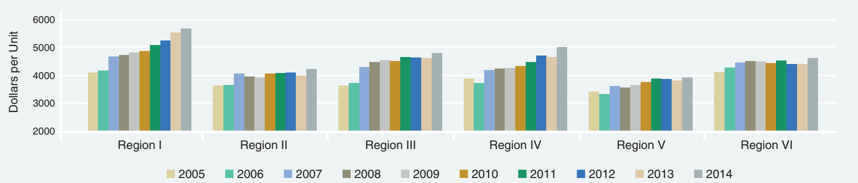
Age of Property. Operating expenses as a percentage of GPR ranged from 35.6 percent of GPR in properties less than five years old and rose to 40.0 percent of GPR for properties 20 or more years old. Generally, operating expenses decrease over the span of years per unit, while capital expenditures tend to increase as the building ages. In this year's survey, operating expenses were $5,045 per unit for those less than 5 years old and decreased to $4,389 per unit for properties 20 or more years old. Capital expenditures ranged from $295 to $1,251 per unit, generally increasing by age of property. Capital expenditures again increased overall in 2014 as deferred maintenance and market competition have required upgrades and repositioning while general maintenance costs have declined again.

The highest average NOI as a percentage of GPR occurred in properties 10 to 19 years old at 61.0 percent. Measured in terms of dollars per unit, the low was $6,386 per unit in properties that are 20 or more years old and the high was $8,580 for properties less than 5 years old.

Economic losses continue to be the highest among the newest properties. Properties younger than 5 years old reported the highest ratio of economic losses at 9.47 percent of GPR, while the lowest was in those that are 10 to 19 years old at 7.16 percent.

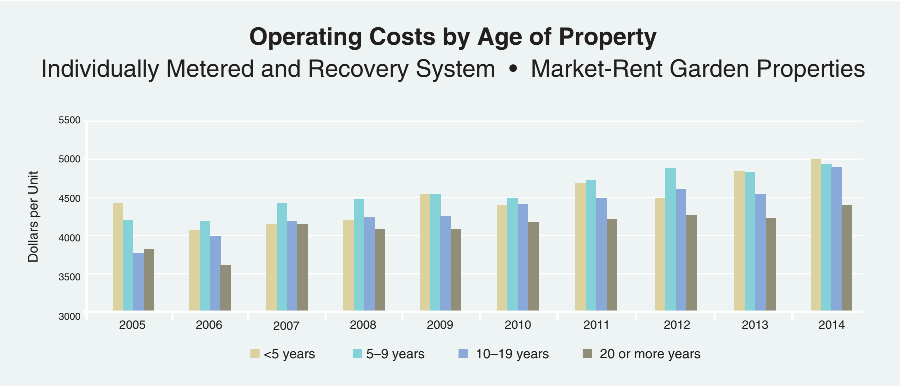
Total Operating Expenses by Region

Individually Metered and Recovery System • Market-Rent Garden Properties



Age of property groupings again show distinct differences in the individual cost components of operating costs. The largest difference is in real estate-related property taxes and fees, varying from a high (average) of $1,699 per unit ($1.71 per square foot) in those properties that are less than 5 years old, to a low of $1,015 ($1.16 per square foot) for those aged 20 or more years.

As expected, capital expenditures were significantly lower for the newest properties. They averaged $295 per unit ($0.30 per square foot) for properties less than 5 years old, compared to the average reported for properties 10 to 19 years old at $1,251 per unit ($1.25 per square foot) and for properties aged 20 or more years at $1,015 per unit ($1.16 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, ranging from 46.0 percent of GPR in properties of less than 100 units, to 37.8 percent in those containing 500 or more units. On a per-unit basis, operating costs across property sizes ranged from $4,992 (less than 100 units) to $4,555 per unit (250 to 499 units).

Economic losses varied based on property size. The range of losses were similar in this year's survey; the highest was with properties with 250 to 499 units at 7.66 percent of GPR and the lowest for properties with fewer than 100 units at 6.11 percent.

Metro Area Operating Income & Expenses

Detailed tables in the full report are presented for 86 metropolitan areas reported in the survey. This is the only section of the report with metropolitan area data for garden and mid-rise/high-rise building properties, and is further segmented into those with utilities that are individual meter/recovery system 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 individual meter/recovery system utilities, and sorted based on dollars-per-unit, unless otherwise noted. (Additional per square foot data may be included for additional reference.)

• NOI on a dollar per unit basis ranged from $15,345 ($18.60 per square foot) in the San Francisco-Oakland-Fremont, Calif., metro area to a low of $4,131 ($4.80 per square foot) in the Dayton, Ohio, metro area. The San Francisco-Oakland-Fremont, Calif., metro area had the highest NOI measured as a percent of GPR at 69.2 percent and Cleveland-Elyria-Mentor, Ohio, had the lowest at 44.1 percent.

• GPR averages on a dollar per unit were the highest in the San Francisco-Oakland-Fremont, Calif., metro area at $22,171 unit ($26.88 per square foot), and the lowest at $7,912 per unit ($9.06 per square foot) was tabulated for properties reported from Evansville, Ind.-Ky. The San Francisco-Oakland-Fremont, Calif., metro area had the highest GPR measured on a dollar per square foot at $26.88 and Winston-Salem, N.C., had the lowest at $8.47 per square foot.

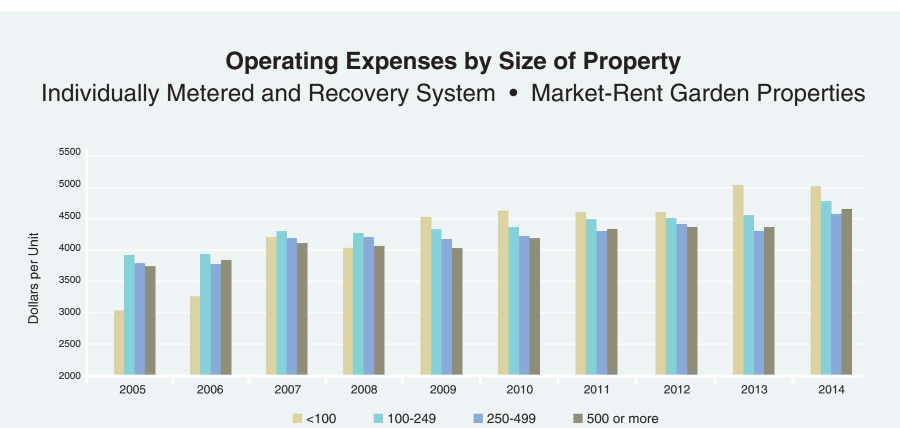
• Economic losses were lowest in the Santa Barbara-Santa Maria-Goleta, Calif., and Vallejo-Fairfield, Calif., metro areas at 2.83 percent and 4.29 percent of GPR, respectively. Metro areas with the highest economic losses were Tyler, Texas, at 16.25 percent and Killeen-Temple-Fort Hood, Texas, at 15.21 percent.

• Total operating costs' highs and lows vary among metro areas based on which measure is selected. Properties reporting from the Boston-Cambridge-Quincy, Mass.-N.H., metro area had the highest operating costs based on a per-unit basis at $6,733 ($6.78 per square foot), followed by the Washington-Arlington-Alexandria, D.C.-Va.-Md.-W. Va., metro area at $6,499 per unit ($6.87 per square foot). A low of $3,249 per unit ($3.43 per square foot) was reported in the Winston-Salem, N.C., metro area, with $3,294 per unit ($3.57 per square foot) in the Las Vegas-Paradise, Nev., metro area. The highest operating costs based on a per square foot basis, with a smaller average unit size, were Santa Barbara-Santa Maria-Goleta, Calif., at $7.64 per square foot, and San Francisco-Oakland-Fremont, Calif., at $7.56 per square foot.

• Real estate taxes remained high in many metro areas in 2014. The Fort Lauderdale-Pompano Beach-Deerfield Beach, Fla., metro area had the highest real estate taxes per unit at $2,423; and the Austin-Round Rock-San Marcos, Texas, metro area was second at $2,354 per unit. The lowest average was for properties located in Colorado Springs, Colo., and Las Vegas-Paradise, Nev., metro areas at $427 and $492, respectively.

• Insurance costs on a per-unit basis were the highest among the following areas, including several hurricane-prone metro areas. They were $684 per unit ($0.65 per square foot) in Miami-Miami Beach-Kendall, Fla., and $566 ($0.53 per square foot) in the West Palm Beach-Boca Raton-Delray, Fla., metro area. They were lowest in the Winston-Salem, N.C., and Albuquerque, N.M., metro areas at $124 and $140 per unit ($0.13 and $0.16 per square foot), respectively.

• Salaries and personnel costs were reported lowest in the Grand Rapids-



Wyoming, Mich., metro area at $842 per unit ($0.94 per square foot) and the Santa Barbara-Santa Maria-Goleta, Calif., metro area at $990 ($1.22 per square foot). The Anaheim-Santa Ana-Irvine, Calif., metro area had the highest average at $1,574 per unit ($1.90 per square foot) followed by $1,470 in the Miami-Miami Beach-Kendall, Fla., metro area ($1.41 per square foot).

• West Palm Beach-Boca Raton-Delray, Fla., and Birmingham-Hoover, Ala., had the largest units among the metro areas reported separately in this report with an average of 1,074 and 1,058 square feet of floor area per unit, respectively. Properties reporting located in the Salt Lake City, Utah, and Killeen-Temple-Fort Hood, Texas, metros had the smallest, averaging 770 and 771 square feet per unit, respectively.

Subsidized Properties Income & Expenses

Operating Income & Expenses Summary. Data was received for 352 subsidized properties containing 61,691 units. Garden properties with individual meter/recovery system utilities represent the largest subgroup of properties reporting, and analysis herein will be limited to this sector. Data tables are presented for 13 metropolitan areas in the full report that met the criteria for reporting. Subsidized garden apartment properties with individual meter/recovery utilities in the survey generally tend to have fewer units and less floor area than market-rent units. Responding properties contained an average of 161 units versus 262 units for market-rent properties of the same type. These subsidized properties had an average of 892 square feet of floor area versus 932 square feet reported for the market-rent properties in the 2014 survey.

Revenues. GPR averaged $11,012 per unit ($12.35 per square foot) annually in this year’s survey versus $9,824 per unit ($11.20 per square foot) in 2013 and $9,448 per unit ($10.36 per square foot) in 2012. Rental revenues averaged $10,195 ($11.43 per square foot) versus $9,168 ($10.45 per square foot) in 2013 and $8,745 ($9.59 per square foot) in 2012. Other operating revenues averaged $450 per unit ($0.50 per square foot) in 2014 versus $493 per unit ($0.56 per square foot) in 2013, and $361 per unit ($0.40 per square foot) in 2012.

Operating Expenses. Operating expenses in subsidized properties were similar to those for market-rent properties. Subsidized properties reported in the survey had total operating costs averaging $5,357 per unit ($6.01 per square foot) in 2014 versus $4,957 per unit ($5.65 per square foot) in 2013 and $4,372 per unit ($4.80 per square foot) in 2012.

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 48.0 percent of GPR versus 59.5 percent for the market-rent properties. Other comparisons of subsidized NOI to market-rent were $5,288 versus $7,054 on a dollars-per-unit basis, and $5.93 versus $7.56 on a per-square-foot basis, respectively.

Economic Losses. Economic losses tend to be lower in subsidized properties with their lower rents and relatively tight supply. However this year, with the continued improvements to market rent economics, a 7.50 percent average rate was calculated for both the subsidized individual meter/recovery garden properties and for market-rent units. The economic loss ratio in subsidized properties increased from last year’s 6.70 percent and 7.44 percent in 2012.

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 individual meter/recovery subsidized units was 34 percent versus 51 percent for market-rent units.

Metrics (Garden, Individually Metered/Recovery 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 on page 32, 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

The 2015-2016 outlook for owners and operators of apartment properties is very positive. The perfect storm of supply and demand factors has and is creating many opportunities. However, the issues of affordability, interest rate increases, increasing government oversight/regulation, and protracted entitlement/permitting processes raise the specter of future challenges around 2018. Now is the time to set in motion a process that will assure prosperity now and into 2020.

As the U.S. continues its shift to a more renter-based society (housing, automobiles, community bicycles, etc.), the operating sophistication of apartment management must accelerate. The outlook for GDP growth after 2016 is slow to moderate at best. Stagnant incomes, rising use of robotics and a rapidly growing pool of part-time employees will put pressure on rents. The shift to smaller unit sizes, greater reliance on technology, increasing demand for outstanding talent and ever-changing resident expectations and needs will continue to challenge CEOs and leadership teams throughout the apartment industry and the U.S. Every day apartment owners and operators must bring their “A Game” or suffer the consequences of being one to two steps behind one’s competitors.

One fact remains clear... operating costs are and will continue to increase. Keeping “on track” and “closely monitoring” those costs is critical... even in today’s robust environment. Bad operating practices typically get started in times of rapid growth and prosperity. Staying relevant, creating a competitive edge and preparing for future challenges requires a balanced approach.

The apartment industry is in great shape. In 2015 and beyond, the pace of consolidation combined with the emergence of new and very dynamic competitors and new technologies will continue to transform the apartment industry. Achieving success tomorrow requires one to stay focused, prioritize, grow initiatives and "get balanced." The stage is set, the audience is ready... now the actors need to perform. The NAA survey can be a cornerstone for shaping success today and preparing one for the change that is ahead.

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. Does not include any payroll related expenses.

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, exterminator and other services provided on a contract basis.

GPR Residential. Total rents of all occupied units at 2014 lease rates and all vacant units at 2014 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 health/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. Does not include any payroll related expenses or non-recurring capital expenses.

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 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 or standard utility reimbursements (i.e., submeter, RUBS, flat fee). These utility reimbursements are reported separately and subtracted from gross utility expense.

Thank You To Our Participating Companies

NAA sends a special note of appreciation to the 166 firms who donated their time to accumulate the data necessary to make this survey valuable. The following companies and their officers provided 20 properties or more for the 2015 Survey of Operating Income & Expenses in Rental Apartment Properties.

Adara Communities
Advanced Management Company
AEW Capital Management
Aimco
ALCO Management
AMLI Residential
Bell Partners Inc.
Berkshire Communities
Beztak Properties
BH Management Services
Blue Ridge Property Management
Buckingham Companies
Camden
Concierge Management Services
Corcoran Management Company
Cortland Partners
Cottonwood Residential
CWS Apartment Homes
Dominium
Drucker & Falk
ECI Management Corporation
Equity Management
Fogelman Management Group
Gables Residential
Greystar
Harbor Group International
Holland Residential
Integral
Internacional Realty
Konover Residential Corporation
LCOR Incorporated
Legacy Partners Residential, Inc.
Lincoln Property Company
LumaCorp Inc.
MAA
Makowsky, Ringel Greenberg
MG Properties Group
Milestone Management
MV Residential Property Management, Inc.
NALS Apartment Homes
Nolan Real Estate Services
Palms Associates
Pinnacle
Prime Residential
RAIT Residential
Sandalwood
Shelter Properties LLC
Simpson Housing LLLP
Stout Management Company
The Dolben Company, Inc.
Timberland Partners
Van Metre Companies
Venterra Realty
Village Green
Wallick Company
Waterton Residential
WC Smith
WestCorp Management Group
Western National Property Management
Wilkinson Real Estate Advisors, Inc.

Payroll Costs. Gross salaries and wages paid to employees assigned to the property in all departments. Includes 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 (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. Does not include debt service or any one-time extraordinary costs.

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

Utilities. Total cost of all standard utilities and each listed type, net of any income reimbursements for or from residents (i.e., submeter, RUBS, flat fee or similar system).

Utility Configuration. Whether electric, gas, oil and water/sewer utilities to individual units in subject property are: Master Metered, Owner Paid; Master Metered with a Recovery System, Resident Paid (submeter, RUBS, flat fee); Individual Meter, Resident Paid. Report grouping is based on the configuration of the primary utility for the residents.

Christopher Lee, President & Chief Executive Officer of CEL & Associates Inc., is a Special Advisor to NAA. Special thanks to Janet Gora, Managing Director, CEL & Associates Inc., as project manager; and David Edwards and Joshua Dick of NAA for handling survey logistics.