Greystar's The Roosevelt, Los Angeles

EXECUTIVE SUMMARY

2012 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/12ies by Oct. 1.

Benchmarking Has Become A Top Priority

Building on strong performance in 2011, the apartment industry continues to be the beneficiary of a tepid economic recovery, consumer deleveraging, dramatic declines in homeownership, global and financial uncertainty and rising costs for gasoline, healthcare, food and other basic staples.

Calendar year 2012 will go down as the pivotal year when Americans began the shift to a more renter-based society. From single-family residences to apartments. From owning cars to Zip-Cars. From impulse buying to value buying.

Expectations for a rapid recovery in home prices, an improving job market and increases in household income have been replaced by an acceptance that tomorrow may be only slightly better than today. The benefits of renting versus owning have become apparent, and mobility has replaced settling down. Access to jobs has replaced access to housing. During these past 12 months, the pendulum of opportunity has shifted from permanent to temporary.

The expected burdens of potential significant tax increases and restrictive access to debt have shifted Americans from unleashed to prudent consumers. The high rate of unemployment and lack of job creation is likely to continue through 2012 and 2013. Rising federal debt, entitlement spending and increased government regulations present significant challenges. The level of uncertainty about what tomorrow may bring has revitalized the apartment industry. In 2012 and 2013 there will be a dramatic increase in 5+ starts, rents will continue to rise 100bsp to 300bsp above the rate of inflation and the abundance of capital pursuing core and value-add apartment communities will keep cap rates low.

However, in the robust apartment industry, the complexities of managing an apartment community and portfolio have increased dramatically. Resident expectations for valued services and amenities will continue to grow. Owners and operators will need to manage vendors who will need to increase their costs just to maintain minimal profit margins. Pressure on achieving "competitive" NOIs, keeping labor costs "under control" and managing realistic capital expenditure plans mandate comparative benchmarking. Creating value in 2012 will require apartment leaders to not only keep track and monitor expenses, but to keep score on how well one is operating their apartment communities. Because 2012 is the transition year into the next growth cycle, benchmarking is not only the proper tactical action to take... it is also the best strategic option to deploy in order to achieve a competitive advantage. Managing the bottom line is not an option, it is a necessity.

Today the apartment industry has embraced a more disciplined and benchmarking-based, performance evaluative operating platform. Reliance on accurate peer data provides a valuable measurement tool for which future success can be assured.

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

All Market Rent Properties

OPERATING INCOME & EXPENSE DATA

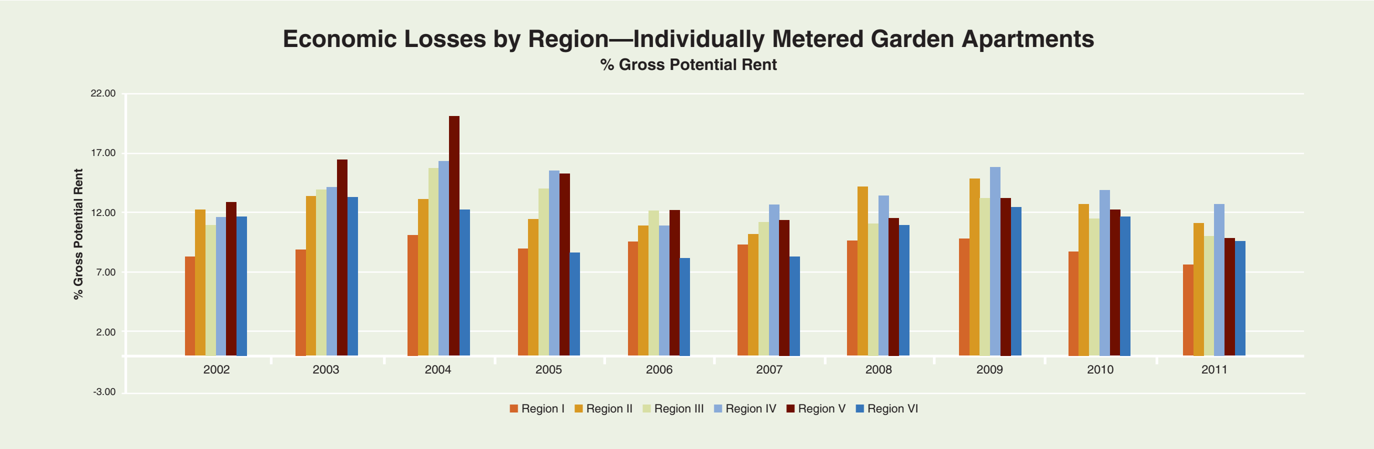
INDIVIDUAL METERED PROPERTIES

	Total			Garden			Mid & Hi Rise		
Number of Properties		3408			3109			299	
Number of Units		916,294			840,937			75,357	
Avg. No. of Units/Property		269			270			252	
Avg. No. of Square Feet/Unit		916			919			883	
Turnover rate in %		53%			54%			48%	
	$ 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	11,008	12.02	100.0%	10,534	11.47	100.0%	16,297	18.45	100.0%
Rent Revenue Collected	9,851	10.76	89.5%	9,424	10.26	89.5%	14,611	16.54	89.7%
Losses to Vacancy	674	0.74	6.1%	649	0.71	6.2%	952	1.08	5.8%
Collection Losses	73	0.08	0.7%	72	0.08	0.7%	78	0.09	0.5%
Losses to Concessions	410	0.45	3.7%	388	0.42	3.7%	657	0.74	4.0%
Other Revenue	816	0.89	7.4%	807	0.88	7.7%	918	1.04	5.6%
Total Revenue	10,667	11.65	96.9%	10,231	11.14	97.1%	15,528	17.58	95.3%
Operating Expenses									
Salaries and Personnel	1,165	1.27	10.6%	1,143	1.24	10.8%	1,413	1.60	8.7%
Insurance	222	0.24	2.0%	221	0.24	2.1%	240	0.27	1.5%
Taxes	1,058	1.16	9.6%	1,010	1.10	9.6%	1,593	1.80	9.8%
Utilities	533	0.58	4.8%	528	0.57	5.0%	586	0.66	3.6%
Management Fees	303	0.33	2.7%	295	0.32	2.8%	382	0.43	2.3%
Administrative	243	0.27	2.2%	235	0.26	2.2%	331	0.38	2.0%
Marketing	161	0.18	1.5%	155	0.17	1.5%	235	0.27	1.4%
Contract Services	305	0.33	2.8%	282	0.31	2.7%	569	0.64	3.5%
Repair and Maintenance	495	0.54	4.5%	490	0.53	4.6%	558	0.63	3.4%
Total Operating Expenses	4,485	4.90	40.7%	4,358	4.74	41.4%	5,906	6.69	36.2%
Net Operating Income	6,181	6.75	56.2%	5,873	6.39	55.8%	9,622	10.89	59.0%
Capital Expenditures	756	0.83	6.9%	730	0.79	6.9%	1,049	1.19	6.4%

MASTER METERED PROPERTIES

	Total			Garden			Mid & Hi Rise		
Number of Properties		706			506			200	
Number of Units		170,934			123,363			47,571	
Avg. No. of Units/Property		242			244			238	
Avg. No. of Square Feet/Unit		945			970			879	
Turnover rate in %		49%			51%			42%	
	$ 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	14,023	14.85	100.0%	12,045	12.42	100.0%	19,154	21.79	100.0%
Rent Revenue Collected	12,612	13.35	89.9%	10,826	11.16	89.9%	17,241	19.62	90.0%
Losses to Vacancy	851	0.90	6.1%	748	0.77	6.2%	1,118	1.27	5.8%
Collection Losses	130	0.14	0.9%	132	0.14	1.1%	125	0.14	0.7%
Losses to Concessions	431	0.46	3.1%	339	0.35	2.8%	670	0.76	3.5%
Other Revenue	1,219	1.29	8.7%	1,120	1.16	9.3%	1,474	1.68	7.7%
Total Revenue	13,830	14.64	98.6%	11,946	12.32	99.2%	18,715	21.29	97.7%
Operating Expenses									
Salaries and Personnel	1,336	1.41	9.5%	1,234	1.27	10.2%	1,601	1.82	8.4%
Insurance	244	0.26	1.7%	231	0.24	1.9%	278	0.32	1.5%
Taxes	1,243	1.32	8.9%	980	1.01	8.1%	1,923	2.19	10.0%
Utilities	1,491	1.58	10.6%	1,410	1.45	11.7%	1,701	1.94	8.9%
Management Fees	340	0.36	2.4%	316	0.33	2.6%	403	0.46	2.1%
Administrative	366	0.39	2.6%	319	0.33	2.6%	490	0.56	2.6%
Marketing	190	0.20	1.4%	172	0.18	1.4%	236	0.27	1.2%
Contract Services	565	0.60	4.0%	465	0.48	3.9%	824	0.94	4.3%
Repair and Maintenance	688	0.73	4.9%	639	0.66	5.3%	815	0.93	4.3%
Total Operating Expenses	6,463	6.84	46.1%	5,766	5.95	47.9%	8,271	9.41	43.2%
Net Operating Income	7,367	7.80	52.5%	6,181	6.37	51.3%	10,444	11.88	54.5%
Capital Expenditures	922	0.98	6.6%	759	0.78	6.3%	1,343	1.53	7.0%

Source: National Apartment Association 2012 Survey of Operating Income & Expenses in Rental Apartment Communities



2012 Survey of Operating Income & Expenses. This NAA-sponsored survey of more than 1.1 million apartments nationwide, conducted by Los Angeles-based CEL & Associates, Inc., concluded that the improving conditions for the rental housing market were also being reflected in improvements to operating fundamentals.

The 2012 survey results reveal that apartment operators are continuing to successfully manage their commitment to providing high-quality living environments with the need to be financially prudent in 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 2012, based on data for fiscal year 2011.

Major findings in this survey of the professionally managed rental apartment industry reflect the continuing uncertainty of the U.S. economy. Overall net operating income in the "market rent" segment of the rental apartment market rose by 1.7 percentage points from 54.1 percent to 55.8 percent and had a lower economic loss rate of 10.53 percent vs. 12.16 percent in 2010, again primarily due to a decline in vacancies and concessions. Total operating expenses declined by 0.5 percentage points. The economic state of subsidized properties in the survey also experienced variable results over 2010.

A total of 4,645 properties containing 1,159,874 units are represented in this year's report. Data was reported for 4,114 market rent properties containing 1,087,228 units and 531 subsidized properties containing 72,646 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 75.6 percent of the market rent properties and 51 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 size (# of units) of individually metered market rent garden properties is 270 units (131 units in subsidized). However, in this year's survey, rentable floor area averaged 919 square feet for market rent apartments and 881 square feet for the subsidized units in 2011.

The complete report (available Oct. 1 at www.naahq.org/12ies) contains detailed data summarized for six geographic regions, and 78 metropolitan areas met the separate reporting criteria for market rent properties. Sufficient numbers of subsidized properties were submitted for nine 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

Economic Loss Rates by Region
Individually Metered Garden Properties

	2011	2010	2009	2008	2007	2006	2005	2004	2003
All	10.53%	12.16%	13.78%	12.42%	10.11%	10.20%	11.87%	13.99%	13.35%
Region I	7.50%	8.65%	9.71%	9.49%	9.16%	9.46%	8.87%	10.02%	8.79%
Region II	11.00%	12.63%	14.75%	14.07%	10.09%	10.84%	11.35%	12.89%	13.31%
Region III	9.84%	11.34%	13.15%	10.93%	11.11%	12.02%	13.87%	15.54%	13.84%
Region IV	12.56%	13.79%	15.71%	13.34%	12.55%	10.77%	15.39%	16.23%	13.98%
Region V	9.72%	12.16%	13.13%	11.45%	11.22%	12.12%	15.14%	19.99%	16.33%
Region VI	9.49%	11.52%	12.34%	10.82%	8.26%	8.09%	8.57%	12.15%	13.21%

All Subsidized Properties

OPERATING INCOME & EXPENSE DATA

INDIVIDUAL METERED PROPERTIES

	Total			Garden			Mid & Hi Rise		
Number of Properties		319			271			48	
Number of Units		42,667			35,604			7,063	
Avg. No. of Units/Property		134			131			147	
Avg. No. of Square Feet/Unit		854			881			711	
Turnover rate in %		31%			33%			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	9,502	11.13	100.0%	9,156	10.39	100.0%	11,247	15.82	100.0%
Rent Revenue Collected	8,818	10.32	92.8%	8,434	9.57	92.1%	10,751	15.12	95.6%
Losses to Vacancy	422	0.49	4.4%	446	0.51	4.9%	305	0.43	2.7%
Collection Losses	75	0.09	0.8%	85	0.10	0.9%	28	0.04	0.2%
Losses to Concessions	187	0.22	2.0%	191	0.22	2.1%	163	0.23	1.4%
Other Revenue	356	0.42	3.7%	312	0.35	3.4%	575	0.81	5.1%
Total Revenue	9,174	10.74	96.5%	8,747	9.93	95.5%	11,326	15.93	100.7%
Operating Expenses									
Salaries and Personnel	1,271	1.49	13.4%	1,250	1.42	13.7%	1,378	1.94	12.3%
Insurance	239	0.28	2.5%	246	0.28	2.7%	204	0.29	1.8%
Taxes	563	0.66	5.9%	569	0.65	6.2%	534	0.75	4.7%
Utilities	669	0.78	7.0%	649	0.74	7.1%	768	1.08	6.8%
Management Fees	380	0.44	4.0%	377	0.43	4.1%	394	0.55	3.5%
Administrative	393	0.46	4.1%	362	0.41	4.0%	548	0.77	4.9%
Marketing	95	0.11	1.0%	103	0.12	1.1%	54	0.08	0.5%
Contract Services	483	0.57	5.1%	475	0.54	5.2%	522	0.73	4.6%
Repair and Maintenance	424	0.50	4.5%	439	0.50	4.8%	346	0.49	3.1%
Total Operating Expenses	4,516	5.29	47.5%	4,470	5.07	48.8%	4,749	6.68	42.2%
Net Operating Income	4,658	5.45	49.0%	4,277	4.85	46.7%	6,577	9.25	58.5%
Capital Expenditures	718	0.84	7.6%	747	0.85	8.2%	580	0.82	5.2%

MASTER METERED PROPERTIES

	Total			Garden			Mid & Hi Rise		
Number of Properties		212			130			82	
Number of Units		29,979			18,238			11,741	
Avg. No. of Units/Property		141			140			143	
Avg. No. of Square Feet/Unit		818			882			712	
Turnover rate in %		21%			24%			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	10,348	12.64	100.0%	9,976	11.31	100.0%	10,925	15.35	100.0%
Rent Revenue Collected	9,855	12.04	95.2%	9,403	10.66	94.3%	10,557	14.83	96.6%
Losses to Vacancy	341	0.42	3.3%	393	0.45	3.9%	261	0.37	2.4%
Collection Losses	80	0.10	0.8%	107	0.12	1.1%	38	0.05	0.3%
Losses to Concessions	72	0.09	0.7%	73	0.08	0.7%	70	0.10	0.6%
Other Revenue	341	0.42	3.3%	285	0.32	2.9%	427	0.60	3.9%
Total Revenue	10,195	12.46	98.5%	9,688	10.98	97.1%	10,983	15.43	100.5%
Operating Expenses									
Salaries and Personnel	1,427	1.74	13.8%	1,422	1.61	14.3%	1,435	2.02	13.1%
Insurance	279	0.34	2.7%	268	0.30	2.7%	296	0.42	2.7%
Taxes	604	0.74	5.8%	562	0.64	5.6%	670	0.94	6.1%
Utilities	1,443	1.76	13.9%	1,384	1.57	13.9%	1,536	2.16	14.1%
Management Fees	430	0.53	4.2%	469	0.53	4.7%	368	0.52	3.4%
Administrative	483	0.59	4.7%	478	0.54	4.8%	489	0.69	4.5%
Marketing	63	0.08	0.6%	68	0.08	0.7%	56	0.08	0.5%
Contract Services	682	0.83	6.6%	638	0.72	6.4%	751	1.05	6.9%
Repair and Maintenance	547	0.67	5.3%	593	0.67	5.9%	475	0.67	4.4%
Total Operating Expenses	5,959	7.28	57.6%	5,883	6.67	59.0%	6,076	8.54	55.6%
Net Operating Income	4,237	5.18	40.9%	3,805	4.31	38.1%	4,907	6.89	44.9%
Capital Expenditures	752	0.92	7.3%	811	0.92	8.1%	661	0.93	6.1%

Source: National Apartment Association 2012 Survey of Operating Income & Expenses in Rental Apartment Communities separate reporting. Non-metro area reporting also is included at the state level. Tables for these "other" market rent properties are provided for 24 states and for subsidized properties in 15 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 declined from 12.16 percent in 2010 to 10.53 percent in the data for 2011, compared to 13.78 percent in 2009. The highest economic losses overall were 13.99 percent, reported in the survey 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 (as a percent of GPR) in the NAA survey improved in 2011, indicative of strong fundamentals in demand and pricing.

NOI measured as a percent of GPR for 2011 was 55.8 percent, increasing 1.7 percentage points from 54.1 percent in 2010 (53.3 percent in 2009). The NAA survey's historical peak was 58.9 percent in 1999. Regionally, NOIs in 2011 ranged from a high of 60.5 percent in the Northeast states (Region I) to a low of 50.7 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 2011 lease rates and all vacant units at 2011 market rents.

Average annual GPR increased by 3.6 percent in 2011 for garden properties with individually metered utilities. Average GPR was $10,534 per unit ($878 monthly) in this year's survey versus $10,171 per unit ($848 monthly) in 2010 and $10,439 per unit ($870 monthly) in 2009. On a per square foot basis, GPR was

Colonial Grand at Brier Falls, Raleigh, N.C.

$11.47 ($0.96 per month) versus $11.16 ($0.93 per month) in 2010 and $11.61 ($0.97 per month) in 2009.

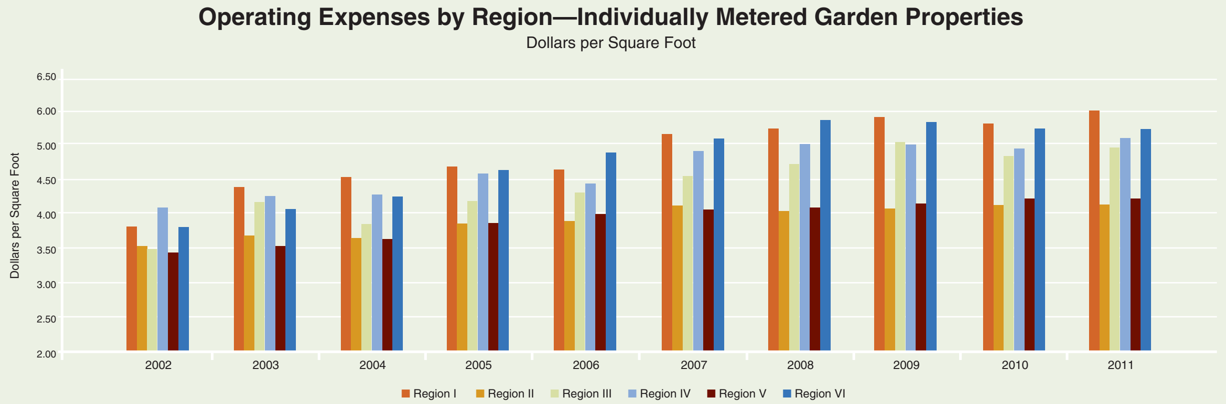
Median annual GPR for individually metered garden properties in the survey was $9,695 ($808 per month) versus $10,201 ($850 per month) in 2010 and $9,889 ($824 per month) in 2009.

Rent Revenue Collected. Annual rent revenue collected averaged $9,424 per individually metered garden property unit, up 5.5 percent from $8,934 in last year's survey ($9,000 in 2009). Measured on a per square foot basis, and maintaining a larger average unit size reported in 2011 and 2010, rent revenue averaged $10.26 versus $9.80 in 2010 and $10.01 in 2009.

Revenue Losses. Revenue losses averaged 10.53 percent of GPR in 2011 versus 12.16 percent of GPR in 2010 and 13.78 percent in 2009. Revenue losses in 2011 declined in two of the three loss categories: vacancies and concessions.

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

	Dollars per Unit			Dollars per Sq. Ft			% of GPR		
	2011	2010	2009	2011	2010	2009	2011	2010	2009
All	$5,873	$5,501	$5,560	$6.39	$6.03	$6.18	55.8%	54.1%	53.3%
Region I	$8,023	$7,501	$7,424	$8.74	$8.25	$8.35	60.5%	60.0%	58.2%
Region II	$5,377	$5,178	$5,230	$5.46	$5.29	$5.42	55.8%	54.5%	53.2%
Region III	$5,530	$5,027	$5,065	$5.95	$5.38	$5.63	52.7%	50.4%	49.7%
Region IV	$5,074	$4,555	$4,566	$5.82	$5.25	$5.37	50.7%	48.6%	47.4%
Region V	$5,735	$5,509	$5,563	$6.54	$6.21	$6.33	58.8%	57.2%	57.8%
Region VI	$7,386	$6,994	$7,344	$8.61	$8.28	$8.74	60.4%	58.2%	58.6%



Vacancy losses for individually metered market rent garden properties averaged 6.2 percent of GPR in the current survey ($649 per unit, $0.71 per square foot) versus 6.9 percent of GPR in 2010 ($701 per unit, $0.77 per square foot) and 8.0 percent of GPR in 2009 ($836 per unit, $0.93 per square foot).

Collection losses remained approximately the same, averaging 0.7 percent of GPR ($72 per unit, $0.08 per square foot) in comparison to 0.7 percent of GPR ($73 per unit, $0.08 per square foot) in 2010 and 0.8 percent of GPR ($80 per unit, $0.09 per square foot) in 2009.

Losses from rent concessions decreased, averaging 3.7 percent of GPR ($388 per unit, $0.42 per square foot) in 2011 versus averaging 4.5 percent of GPR ($462 per unit, $0.51 per square foot) in 2010 and 5.0 percent of GPR ($523 per unit, $0.58 per square foot) in 2009.

Other Revenue Collected. Multifamily housing owners and service providers are continuing to create and offer additional revenue sources. There was a slight decline of 0.4 percentage points, to 7.7 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 $807 per unit ($0.88 per square foot) in 2011 versus $824 per unit ($0.90 per square foot) in 2010 and $753 per unit ($0.84 per square foot) in 2009 for individually metered garden properties reported in the survey.

Total Operating Expenses. Total operating expenses, as a percent of GPR, declined by 0.5 percentage points in 2011. The total operating expenses represented 41.4 percent of GPR in 2011 versus 41.9 percent of GPR in 2010 and 40.2 percent of GPR in 2009. Total operating expenses for individually metered garden properties in the survey averaged $4,358 per unit ($4.74 per square foot) versus $4,257 per unit ($4.67 per square foot) in 2010 and $4,194 per unit ($4.66 per square foot) in 2009.

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 remained approximately the same at $221 per unit ($0.24 per square foot) in 2010 versus $218 per unit ($0.24 per square foot) in 2010 and $215 per unit ($0.24 per square foot) in 2009.

Administrative costs (G&A) increased at $235 per unit in 2011 versus $212 per unit in 2010 and $219 per unit in 2009.

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	250	18,192	$7.50	$3.91	31.7	25.6	13.3%	25.6%
100 to 199 Units	765	114,893	$8.04	$4.38	38.5	34.1	12.4%	22.8%
200 to 299 Units	1,017	248,488	$8.90	$5.10	42.0	39.1	11.2%	19.6%
300 to 399 Units	618	210,813	$9.29	$5.44	44.9	42.9	10.8%	18.4%
400 to 499 Units	253	111,684	$9.75	$5.75	45.4	43.7	10.3%	17.4%
500 or More Units	206	136,867	$9.00	$5.18	44.0	42.2	11.1%	19.3%
Total	**3,109**	**840,937**	**$8.95**	**$5.14**	**42.6**	**39.8**	**11.2%**	**19.5%**

Management fees decreased slightly at $295 per unit (2.8 percent of GPR) in 2011 versus $311 per unit (3.1 percent of GPR) in 2010 and $290 per unit (2.8 percent of GPR) in 2009.

Marketing costs remained approximately the same at $155 per unit or 1.5 percent of GPR versus $156 per unit or 1.5 percent of GPR in 2010, and $174 per unit or 1.7 percent of GPR in 2009.

Maintenance costs increased to $490 per unit in 2011 versus $467 per unit in 2010 and $436 per unit in 2009.

Contract services costs remained approximately the same at an average of $282 per unit in 2011 ($283 in 2010 and $285 in 2009).

Salaries changed slightly to $1,143 per unit in 2011 versus $1,118 per unit in 2010 and $1,101 per unit in 2009.

Turnover Rates. The overall turnover rate remained the same at 54 percent in 2011 (which has been a new low for 2011 and 2010 after previously reaching 55 percent in 2008). Apartment demand continues to grow. Doubling up, living with several friends, remaining flexible relative to work opportunity or delaying decisions on buying a home have increased the potential renter population. The slow pace of the job market has also contributed to a delay in the age of first time marriages and the age of women having their first child. Unemployment of college graduates and those without college degrees remain high by historical standards. However, once one has a job and achieves a real or perceived stable financial condition, "staying put" becomes a priority. The continued lower turnover rates reflect where the combination of the bottom of the economic cycle and improving financial security reduces volatility in the need to relocate. Owning a home and its value decline continues to be a likely barrier to those who require greater flexibility to "go where the jobs are."

Turnover was varied for all regions in 2011 after declining last year: Northeast (Region I), 47 percent to 46 percent; Southeast (Region II) remained the same at 55 percent; North Midwest (Region III), 49 percent to 48 percent; Southwest (Region IV), 57 percent to 58 percent; Mountain/South Midwest States (Region V), 57 percent to 54 percent; and in the Pacific (Region VI), 52 percent to 53 percent.

Age of Property. Operating expenses as a percentage of GPR and dollars per square foot basis ranged from 37.2 percent of GPR in properties less than 5 years old and rose to 43.2 percent of GPR for properties 20 or more years old. As operating expenses generally decrease over the span of years, capital expenditures tend to increase as the building ages. For example, operating expenses were $4,679 per unit for those 5 to 9 years old and decreased to $4,202 per unit for properties 20 or more years old. Capital expenditures ranged from $289 to $813, increasing by age of property; however increased overall in 2011 as deferred maintenance and market competition have required upgrades.

The highest average NOI as a percentage of GPR occurred in properties 5 to 9 years old at 58.3 percent. Measured in terms of dollars per unit, the low was $5,263 per unit in properties that are 20 or more years old and the high was $7,007 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 14.02 percent of GPR, while the lowest was in those that are 5 to 9 years old at 9.90 percent.

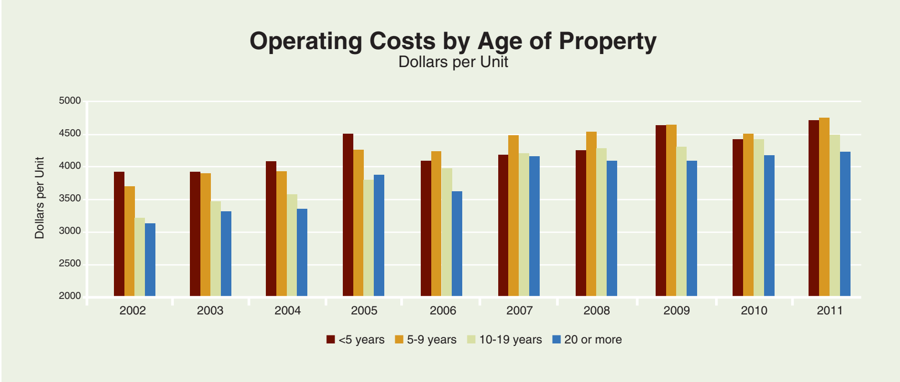
Age of property groupings again show distinct differences in the individual cost components of operating costs. The largest difference is in real estate and related property taxes and fees, varying from a high (average) of $1,384 per unit ($1.38 per square foot) in those properties less than five years old, to a low of $826 ($0.96 per square foot) for those aged 20 or more years.

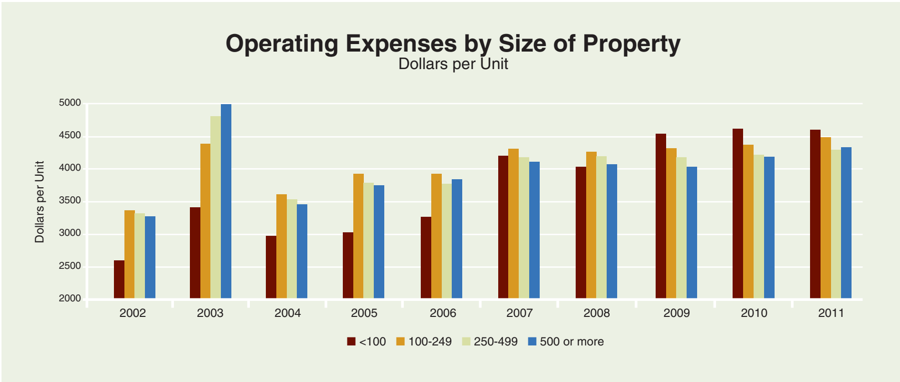
As expected, capital expenditures were significantly lower for the newest properties. They averaged $289 per unit ($0.29 per square foot) for properties less than five years old, compared to the highest average reported for properties 20 or more years old at $813 per unit ($0.94 per square foot).

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 45.7 percent of GPR in properties of less than 100 units, to 40.3 percent in those containing 250 to 499 units. This year, the survey results showed similar economies of scale on a per unit basis. Operating costs, across property sizes, ranged from

$4,600 (less than 100 units) to $4,294 per unit (250 to 499 units).

Economic losses varied based on property size. The range of losses was again compact this year; the highest was with properties with 500 or more units at 10.74 percent of GPR and the lowest for properties with fewer than 100 units at 9.65 percent.





Metro Area Operating Income & Expenses

Detailed tables in the full report are presented for 78 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 $12,484 ($14.82 per square foot) in the San Jose-Sunnyvale-Santa Clara, CA metro area to a low of $3,228 ($4.13 per square foot) in the Tulsa, OK metro area. The Chattanooga, TN metro area had the highest NOI measured as a percent of GPR at 67.1 percent and Beaumont-Port Arthur, TX had the lowest at 44.7 percent.
- GPR averages on a dollar per unit were the highest in the San Jose-Sunnyvale-Santa Clara, CA metro area at $18,847 per unit ($22.37 per square foot), and the lowest of $7,103 per unit ($9.08 per square foot) was tabulated for properties reported from Tulsa, OK. The San Francisco-Oakland-Fremont, CA metro area had the highest GPR measured on a dollar per square foot at $23.67 and Winston-Salem, NC had the lowest at $6.75 per square foot.
- Economic losses were lowest in the St. Louis, MO-IL and San Jose-Sunnyvale-Santa Clara, CA metro areas at 4.10 percent and 4.80 percent of GPR, respectively. Metro areas with the highest economic losses were Beaumont-Port Arthur, TX at 21.31 percent and Lubbock, TX at 18.95 percent.
- Total operating costs' highs and lows vary among metro areas based on which measure is selected. Properties reporting from the San Jose-Sunnyvale-Santa Clara, CA metro area had the highest operating costs based on a per unit basis at $6,633 ($7.87 per square foot), followed by the Ft. Lauderdale-Pompano Beach-Deerfield Beach, FL metro area at $5,906 per unit ($5.41 per square foot). A low of $3,082 per unit ($3.45 per square foot) was reported in the Reno-Sparks, NV metro area, with $3,231 per unit ($4.05 per square foot) in the Albuquerque, NM metro area.
- Real estate taxes remained high in many metro areas in 2011. The San Jose-Sunnyvale-Santa Clara, CA metro area had the highest real estate taxes per unit at $2,157; and the Chicago-Naperville-Joliet, IL metro area was second at $1,786 per unit. The lowest average was for properties located in Colorado Springs, CO, and Wilmington, NC metro areas at $313 and $394, respectively.

Western National's Canyon Village, Anaheim Hills, Calif.

- Insurance costs on a per unit basis were the highest among the following areas including several hurricane prone metro areas. They were $554 per unit ($0.57 per square foot) in New Orleans-Metairie-Kenner, LA, and $478 ($0.53 per square foot) in the Palm Bay-Melbourne-Titusville, FL metro area. They were lowest in the Reno-Sparks, NV and Tucson, AZ metro areas at $114 and $117 per unit, respectively ($0.13 each per square foot).
- Salaries and personnel costs were reported lowest in the Sacramento-Arden-Arcade-Roseville, CA metro area at $759 per unit ($0.97 per square foot) and the Tulsa, OK metro area at $819 ($1.05 per square foot). The San Jose-Sunnyvale-Santa Clara, CA metro area had the highest average at $1,544 per unit ($1.83 per square foot) followed by $1,490 in the San Francisco-Oakland-Fremont, CA metro area ($1.88 per square foot).
- Winston-Salem, NC and Fort Lauderdale-Pompano Beach-Deerfield Beach, FL had the largest units among the metro areas reported separately in this report with an average of 1,126 and 1,092 square feet of floor area per unit, respectively. Properties reporting located in the St. Louis, MO-IL and El Paso, TX metros had the lowest averaging at 743 square feet per unit each.


Colonial Reserve at Medical District, Dallas

Subsidized Properties Income & Expenses

Operating Income & Expenses Summary. Data was received for 531 subsidized properties containing 72,646 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 nine metropolitan areas in the full report that met the criteria 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 131 units versus 270 units for market rent properties of the same type. These subsidized properties had an average of 881 square feet of floor area versus 919 square feet reported for the market rent properties in the 2011 survey.

Revenues. GPR averaged $9,156 per unit ($10.39 per square foot) annually in this year's survey versus $9,512 per unit ($10.31 per square foot) in 2010, and $9,103 per unit ($10.20 per square foot) in 2009. Rental revenues averaged $8,434 ($9.57 per square foot) versus $8,738 ($9.47 per square foot) in 2010, and $8,275 ($9.27 per square foot) in 2009. Other operating revenues averaged $312 per unit ($0.35 per square foot) in 2011 versus $338 per unit ($0.37 per square foot) in 2010, and $593 per unit ($0.66 per square foot) in 2009.

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 $4,470 per unit ($5.07 per square foot) in 2011 versus $4,856 per unit ($5.26 per square foot) in 2010, and $4,319 per unit ($4.84 per square foot) in 2009.

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 46.7 percent of GPR versus 55.8 percent for the market rent properties. Other comparisons of subsidized NOI to market rent were $4,227 versus $5,873 on a dollars-per-unit basis, and $4.85 versus $6.39 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. A 7.90 percent average rate was calculated for the subsidized individually metered garden properties versus 10.53 percent for market rent units. The economic loss ratio in subsidized properties decreased from last year's 8.14 percent and 9.10 percent in 2009.

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 33 percent versus 54 percent for market rent units.

Metrics (Garden, 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. In the table on page 42, 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

While the outlook for 2012-2013 for owners and operators of apartment properties is robust, the challenges and complexities of managing an apartment community have also increased dramatically.

The combination of additional regulations, competitive alternatives, vendor pricing, rising operating costs and staffing/payroll matters have reaffirmed the need for baseline benchmarking data from which to objectively evaluate performance. The need to balance operating efficiency with enhanced resident services mandates transformational leadership, an aligned vision, clear goals and priorities, a commitment to service and quality excellence and the fiscal discipline to achieve results. The uncertainty created by global and domestic financial challenges, election year sound bites, shifting capital markets and potential tax increases have placed owner/operators on notice to "manage effectively and efficiently."

In the 2012-2013 period, the bottom line results will be more internally driven than from the market. Protecting, adding and creating value mandates a consistent adherence to standards and performance metrics. Because economic recovery is slow, not geographically uniform and subject to unexpected events, apartment owners and operators must secure the performance of existing assets by re-engineering their operating systems, policies and processes for today's results while preparing for tomorrow's opportunities.

While the future continues to be bright for the apartment industry, remembering the operating basics and the elements of outstanding service is essential. Identifying, determining and applying performance benchmark metrics that are important to one's apartment enterprise will be very important.

The NAA survey results in 2012 demonstrate the operating discipline and managerial experience to make difficult decisions within rapidly changing apartment markets. Those entrepreneurial, visionary and transforming leadership skills highlight why this industry is a cornerstone for America's prosperity. The apartment industry is stronger, more vibrant and prepared for tomorrow's challenges. As always, at the heart of financial results is the interface of property operations and resident needs/satisfaction. The challenge to create and sustain a welcoming and continuously effective environment for millions of apartment residents is an achievement for those who embrace operational basics, comparative benchmarking and have the talent to implement and adapt to the changes required to successfully compete in today's business climate.

Glossary of Terms

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

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

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

GPR Residential. Total rents of all occupied units at 2011 lease rates and all vacant units at 2011 market rents (or fiscal year end).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Subsidized Property. A property has controlled rents through a government-subsidized program. If subsidized, the program was listed (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.

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 Valerie Hairston of NAA for handling survey logistics and paper responses.*

Thank You To Our Participating Companies

NAA sends a special note of appreciation to the 250 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 2012 Survey of Operating Income & Expenses in Rental Apartment Properties.

Advanced Management Company
AEW Capital Management, L.P.
AIMCO
Alco Management Inc.
American Realty Advisors/PMRG
AMLI Residential
Bell Partners Inc.
BH Management Services, Inc.
Blue Ridge Property Management
Buckingham Management, LLC
Camden
Capreit
Colonial Properties Trust
Concord Management Ltd.
Continental Realty Corp.
Corcoran Management Company
Crossbeam Capital/Concierge Mgmt.
CWS Apartment Homes, LLC
DEI Communities
Dominium Inc.
Drucker & Falk
Dunlap & Magee
Equity Management II, LLC
First Choice Management Group
Fogelman Management Group
Fore Property Company
Forest City Enterprises
Gables Residential
Ginkgo Residential LLC
Greystar Real Estate Partners, LLC
H. J. Russell & Company
Harbor Group International
Humphrey Management
JCM Partners
Jupiter Communities
KMG Prestige, Inc.
Lane Management, LLC
Legacy Partners Residential, Inc.
LumaCorp, Inc.
Makowsky, Ringel Greenberg
MC Residential Of Texas, LLC
MG Properties
MAA
Milestone Management
Nevins Adams Lewbel Schell
Pennrose Management Company
Pinnacle Family of Companies
Post Apartment Homes, L.P.
PRG Real Estate Management, Inc.
Prime Residential
Resource Real Estate
RMK Management
Ross Management Services
Shelter Properties LLC
Simpson Housing LLLP
The Dolben Company
Timberland Partners
TVO North America
UDR
Venterra Realty
Village Green Companies
Waterton Residential
WestCorp Management Group
Western National Property Management
William C. Smith & Company
Yarco Company