
MAA's Allure at Brookwood, Atlanta

EXECUTIVE SUMMARY

2013 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

EXECUTIVE SUMMARY TABLE OF CONTENTS

A full survey report and individual market data will be available at www.naahq.org/13ies by Oct. 1.

For Owners And Operators: Good Times Require Focus

The apartment industry continued its strong performance in 2012 with an even better showing in 2013. The combination of limited supply with growing demand for rental apartments was manifest in rising rents, declining vacancies and increases in permits and starts. Continued consumer deleveraging, rising costs for food and uncertainty regarding the effect of higher taxes and fees has further solidified the nation's move to a renter-based society. Impulse buying has been replaced by value buying. Planning ahead has been replaced by planning for the short-term. Saving for tomorrow has given way to "protecting what I have." The beneficiary of this uncertainty and concern has been the apartment industry. Demand for apartments will remain strong.

The continued high rate of unemployment and underemployment, rising federal debt, growing expectations for a rise in interest rates during the next 24 months and global uncertainty are contributing to a growing opinion that tomorrow may not be much better than today. While U.S. household net worth is now slightly over $70 trillion (the first time it exceeded 2007's $68.1 trillion, total, before the recession began), the net worth of a family headed by someone younger than the age of 35 years decreased from $11,521 in 1984 to $3,662 in 2009, and hasn't improved substantially since. Apartment demand continues to grow. Today, three out of 10 young adults (ages 25 to 34) now live at home, and over 50 percent of 18- to 24-year-olds still live at their parents' homes. The average age of first marriage is now 27 for women and 29 for men (up from 23 for women and 26 for men in 1990). The average age for first-time mothers is also increasing as women are staying in the workforce longer. The average age of first-time homebuyers is now 31 years old. Interestingly, the growing demand for for-sale homes has not had a measurable impact on the apartment industry. There should be around 1.2 million households formed each year through 2019. The realization age of the permanent or long-term renter is becoming a reality for many.

Calendar year 2013 will be remembered as the year of acceptance that lack of jobs, higher taxes and fewer opportunities are becoming the norm and not an exception. The shift to a renter-based society continues in earnest as apartment renters seek financial opportunities over geographic preferences.

In 2013, the seasonally-adjusted number of multifamily permits should top 300,000... the benchmark number many consider to be a barometer of opportunity or risk. Multifamily starts (5+ units) rose 39.8 percent in 2012 to 233,900 units. Completions should hover around 175,000 units on a seasonally-adjusted basis. Both the number of permits and completions are up dramatically from the 2008 and 2009 levels. The demand for apartments is strong as the number of U.S. households grew by 980,000 in 2012, up dramatically from the 600,000 per year average over the past five years.

Rents in 2013 are expected to increase around 2.4 percent to 2.7 percent nationally, which will be higher than the rate of

All Market Rent Properties

OPERATING INCOME & EXPENSE DATA

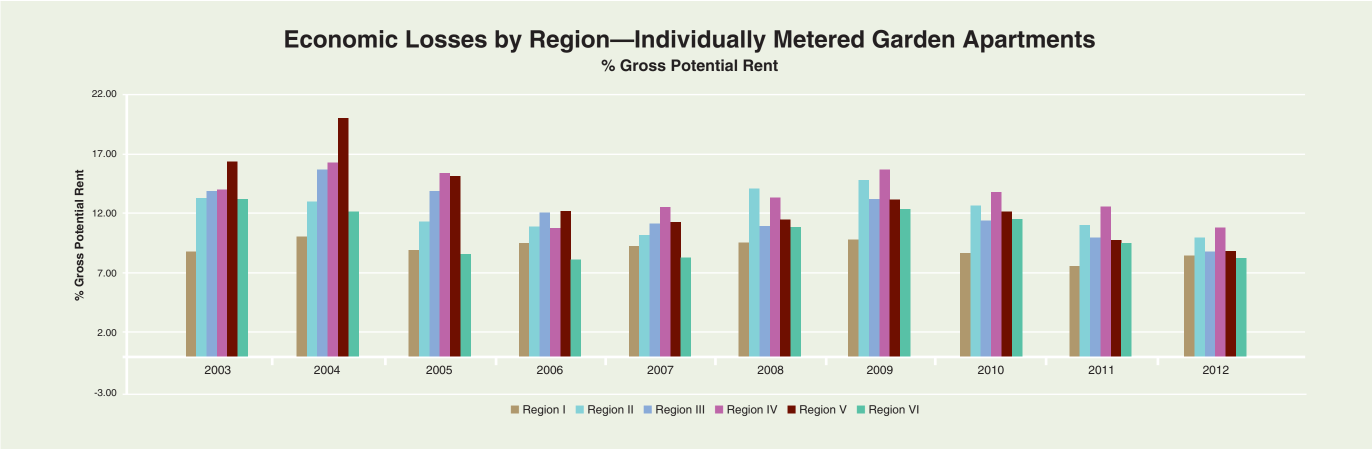
INDIVIDUAL METERED PROPERTIES

	Total			Garden			Mid- & Hi-Rise		
Number of Properties		3,497			3,168			329	
Number of Units		935,865			851,433			84,432	
Avg. No. of Units/Property		268			269			257	
Avg. No. of Square Feet/Unit		921			923			901	
Turnover rate in %		54%			54%			52%	
	$ 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	11,278	12.25	100.0%	10,727	11.62	100.0%	16,834	18.69	100.0%
Rent Revenue Collected	10,224	11.10	90.7%	9,709	10.52	90.5%	15,418	17.11	91.6%
Losses to Vacancy	675	0.73	6.0%	644	0.70	6.0%	988	1.10	5.9%
Collection Losses	64	0.07	0.6%	65	0.07	0.6%	58	0.06	0.3%
Losses to Concessions	314	0.34	2.8%	308	0.33	2.9%	371	0.41	2.2%
Other Revenue	827	0.90	7.3%	802	0.87	7.5%	1,083	1.20	6.4%
Total Revenue	11,052	12.00	98.0%	10,511	11.39	98.0%	16,502	18.32	98.0%
Operating Expenses									
Salaries and Personnel	1,171	1.27	10.4%	1,147	1.24	10.7%	1,415	1.57	8.4%
Insurance	250	0.27	2.2%	249	0.27	2.3%	262	0.29	1.6%
Taxes	1,137	1.23	10.1%	1,065	1.15	9.9%	1,862	2.07	11.1%
Utilities	535	0.58	4.7%	532	0.58	5.0%	564	0.63	3.4%
Management Fees	352	0.38	3.1%	337	0.36	3.1%	503	0.56	3.0%
Administrative	259	0.28	2.3%	252	0.27	2.3%	329	0.37	2.0%
Marketing	163	0.18	1.4%	156	0.17	1.5%	236	0.26	1.4%
Contract Services	266	0.29	2.4%	249	0.27	2.3%	435	0.48	2.6%
Repair and Maintenance	457	0.50	4.1%	449	0.49	4.2%	536	0.60	3.2%
Total Operating Expenses	4,589	4.98	40.7%	4,435	4.81	41.3%	6,144	6.82	36.5%
Net Operating Income	6,462	7.02	57.3%	6,076	6.58	56.6%	10,358	11.50	61.5%
Capital Expenditures	867	0.94	7.7%	838	0.91	7.8%	1,160	1.29	6.9%

MASTER METERED PROPERTIES

	Total			Garden			Mid- & Hi-Rise		
Number of Properties		620			456			164	
Number of Units		141,603			101,928			39,675	
Avg. No. of Units/Property		228			224			242	
Avg. No. of Square Feet/Unit		925			961			832	
Turnover rate in %		46%			48%			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	13,533	14.63	100.0%	11,675	12.15	100.0%	18,304	22.00	100.0%
Rent Revenue Collected	12,308	13.31	90.9%	10,570	11.00	90.5%	16,771	20.16	91.6%
Losses to Vacancy	784	0.85	5.8%	685	0.71	5.9%	1,037	1.25	5.7%
Collection Losses	117	0.13	0.9%	125	0.13	1.1%	94	0.11	0.5%
Losses to Concessions	325	0.35	2.4%	295	0.31	2.5%	401	0.48	2.2%
Other Revenue	1,170	1.27	8.6%	1,108	1.15	9.5%	1,329	1.60	7.3%
Total Revenue	13,478	14.57	99.6%	11,678	12.15	100.0%	18,100	21.76	98.9%
Operating Expenses									
Salaries and Personnel	1,336	1.44	9.9%	1,261	1.31	10.8%	1,527	1.84	8.3%
Insurance	286	0.31	2.1%	263	0.27	2.3%	344	0.41	1.9%
Taxes	1,179	1.27	8.7%	932	0.97	8.0%	1,813	2.18	9.9%
Utilities	1,402	1.52	10.4%	1,351	1.41	11.6%	1,534	1.84	8.4%
Management Fees	508	0.55	3.8%	428	0.45	3.7%	711	0.86	3.9%
Administrative	340	0.37	2.5%	301	0.31	2.6%	442	0.53	2.4%
Marketing	178	0.19	1.3%	165	0.17	1.4%	211	0.25	1.2%
Contract Services	402	0.43	3.0%	304	0.32	2.6%	652	0.78	3.6%
Repair and Maintenance	612	0.66	4.5%	567	0.59	4.9%	728	0.88	4.0%
Total Operating Expenses	6,242	6.75	46.1%	5,573	5.80	47.7%	7,962	9.57	43.5%
Net Operating Income	7,235	7.82	53.5%	6,105	6.35	52.3%	10,139	12.19	55.4%
Capital Expenditures	979	1.06	7.2%	830	0.86	7.1%	1,357	1.63	7.4%

Source: National Apartment Association 2013 Survey of Operating Income & Expenses in Rental Apartment Communities



inflation. The slowing down of rent increases is due to the number of new units coming online and a slowdown in the "rush-to-rent-now" wave of 2011–2012. In addition, the decline in median household income (down 2.18 percent in 2011), potential interest rate increase on federal student loans (from 3.4 percent to 6.8 percent) and economic recovery uncertainty have made renting a lifestyle, not an option, for a growing number of Americans.

However, the optimistic outlook for the apartment industry can lull owners and operators into a complacency that should be avoided. One of the lessons learned from the '07–'09 recession is that one can never reduce the need for benchmarking performance. Resident service expectations are increasing. The impact of social media and the "public voice" of the renter require constant vigilance. Investors continue to want above-market returns, vendors are increasing their costs of goods and services, operating expenses are rising and labor cost increases are showing no sign of abating.

Keeping score, benchmarking results and comparative peer group performance metrics are more essential today than they have been in the past 15 years. Creating value comes from rising rents, service excellence, maximum occupancy levels and realistic operating costs. Because 2013 is the year of acceptance for many residents, it is the year to monitor and compare performance for owners and operators of apartment buildings. Every owner and operator must manage the top line as well as the bottom line. A strategic advantage is gained when the balance between revenues and expenses is at its optimal level.

The apartment industry today is increasingly being governed by quantitative metrics. "How well are we doing?" has been replaced by "How well are we doing compared to others?" Reliance on accurate and timely peer data is essential in the uncertain and often surprising economic reality that exists. Taking control of your destiny begins with operating performance metrics.

These findings are just a few of the many conclusions drawn from the recently completed National Apartment Association's 2013 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 continued improving conditions for the rental housing market were also being reflected in improvements to operating fundamentals.

NAA has completed its Survey of Operating Income & Expenses in Rental Apartment Communities for 2013, based on data for fiscal year 2012.

Major findings in this survey of the professionally managed rental apartment industry reflect the continuing fluctuations and uncertainty of the U.S. economy. Overall net operating income in the "market-rent" segment of the rental apartment market rose by 0.8 percentage points to 56.6 percent, versus 55.8 percent in 2011; it also had a lower economic loss rate of 9.48 percent versus 10.53 percent in 2011, primarily because of a decline in concessions. Total operating expenses declined by 0.1 percentage point. The economic state of subsidized properties in the survey also ex-

Economic Loss Rates by Region
Individually Metered Garden Properties

	2012	2011	2010	2009	2008	2007	2006	2005	2004
All	9.48%	10.53%	12.16%	13.78%	12.42%	10.11%	10.20%	11.87%	13.99%
Region I	8.37%	7.50%	8.65%	9.71%	9.49%	9.16%	9.46%	8.87%	10.02%
Region II	9.94%	11.00%	12.63%	14.75%	14.07%	10.09%	10.84%	11.35%	12.89%
Region III	8.75%	9.84%	11.34%	13.15%	10.93%	11.11%	12.02%	13.87%	15.54%
Region IV	10.80%	12.56%	13.79%	15.71%	13.34%	12.55%	10.77%	15.39%	16.23%
Region V	8.76%	9.72%	12.16%	13.13%	11.45%	11.22%	12.12%	15.14%	19.99%
Region VI	8.24%	9.49%	11.52%	12.34%	10.82%	8.26%	8.09%	8.57%	12.15%

All Subsidized Properties

OPERATING INCOME & EXPENSE DATA

INDIVIDUAL METERED PROPERTIES

	Total	Garden	Mid- & Hi-Rise
Number of Properties	268	212	56
Number of Units	39,434	31,489	7,945
Avg. No. of Units/Property	147	149	142
Avg. No. of Square Feet/Unit	875	912	727
Turnover rate in %	26%	28%	20%

	Total $ Per Unit	Total $ Per Sq. Ft.	Total % of GPR	Garden $ Per Unit	Garden $ Per Sq. Ft.	Garden % of GPR	Mid- & Hi-Rise $ Per Unit	Mid- & Hi-Rise $ Per Sq. Ft.	Mid- & Hi-Rise % of GPR
Revenues									
Gross Potential Rent	9,631	11.01	100.0%	9,448	10.36	100.0%	10,358	14.24	100.0%
Rent Revenue Collected	9,003	10.29	93.5%	8,745	9.59	92.6%	10,025	13.78	96.8%
Losses to Vacancy	432	0.49	4.5%	474	0.52	5.0%	268	0.37	2.6%
Collection Losses	61	0.07	0.6%	70	0.08	0.7%	25	0.03	0.2%
Losses to Concessions	135	0.15	1.4%	159	0.17	1.7%	40	0.06	0.4%
Other Revenue	373	0.43	3.9%	361	0.40	3.8%	419	0.58	4.0%
Total Revenue	9,375	10.72	97.3%	9,106	9.99	96.4%	10,444	14.36	100.8%
Operating Expenses									
Salaries and Personnel	1,239	1.42	12.9%	1,217	1.33	12.9%	1,327	1.83	12.8%
Insurance	250	0.29	2.6%	251	0.27	2.7%	245	0.34	2.4%
Taxes	624	0.71	6.5%	626	0.69	6.6%	619	0.85	6.0%
Utilities	614	0.70	6.4%	582	0.64	6.2%	739	1.02	7.1%
Management Fees	442	0.51	4.6%	421	0.46	4.5%	524	0.72	5.1%
Administrative	347	0.40	3.6%	325	0.36	3.4%	434	0.60	4.2%
Marketing	73	0.08	0.8%	78	0.09	0.8%	51	0.07	0.5%
Contract Services	392	0.45	4.1%	407	0.45	4.3%	331	0.46	3.2%
Repair and Maintenance	420	0.48	4.4%	466	0.51	4.9%	238	0.33	2.3%
Total Operating Expenses	4,399	5.03	45.7%	4,372	4.80	46.3%	4,508	6.20	43.5%
Net Operating Income	4,976	5.69	51.7%	4,734	5.19	50.1%	5,936	8.16	57.3%
Capital Expenditures	741	0.85	7.7%	705	0.77	7.5%	876	1.20	8.5%

MASTER METERED PROPERTIES

	Total	Garden	Mid- & Hi-Rise
Number of Properties	141	86	55
Number of Units	21,154	12,865	8,289
Avg. No. of Units/Property	150	150	151
Avg. No. of Square Feet/Unit	814	857	747
Turnover rate in %	19%	22%	16%

	Total $ Per Unit	Total $ Per Sq. Ft.	Total % of GPR	Garden $ Per Unit	Garden $ Per Sq. Ft.	Garden % of GPR	Mid- & Hi-Rise $ Per Unit	Mid- & Hi-Rise $ Per Sq. Ft.	Mid- & Hi-Rise % of GPR
Revenues									
Gross Potential Rent	11,283	13.86	100.0%	11,003	12.84	100.0%	11,717	15.69	100.0%
Rent Revenue Collected	10,782	13.25	95.6%	10,416	12.16	94.7%	11,348	15.19	96.9%
Losses to Vacancy	363	0.45	3.2%	407	0.47	3.7%	296	0.40	2.5%
Collection Losses	77	0.09	0.7%	97	0.11	0.9%	46	0.06	0.4%
Losses to Concessions	61	0.08	0.5%	83	0.10	0.8%	27	0.04	0.2%
Other Revenue	440	0.54	3.9%	316	0.37	2.9%	633	0.85	5.4%
Total Revenue	11,222	13.79	99.5%	10,732	12.52	97.5%	11,982	16.04	102.3%
Operating Expenses									
Salaries and Personnel	1,572	1.93	13.9%	1,583	1.85	14.4%	1,555	2.08	13.3%
Insurance	299	0.37	2.7%	298	0.35	2.7%	301	0.40	2.6%
Taxes	636	0.78	5.6%	575	0.67	5.2%	732	0.98	6.2%
Utilities	1,469	1.81	13.0%	1,416	1.65	12.9%	1,552	2.08	13.2%
Management Fees	577	0.71	5.1%	466	0.54	4.2%	749	1.00	6.4%
Administrative	463	0.57	4.1%	432	0.50	3.9%	511	0.68	4.4%
Marketing	64	0.08	0.6%	67	0.08	0.6%	60	0.08	0.5%
Contract Services	592	0.73	5.2%	607	0.71	5.5%	568	0.76	4.8%
Repair and Maintenance	463	0.57	4.1%	497	0.58	4.5%	409	0.55	3.5%
Total Operating Expenses	6,135	7.54	54.4%	5,940	6.93	54.0%	6,436	8.62	54.9%
Net Operating Income	5,087	6.25	45.1%	4,792	5.59	43.6%	5,545	7.42	47.3%
Capital Expenditures	826	1.01	7.3%	695	0.81	6.3%	1,041	1.39	8.9%

Source: National Apartment Association 2013 Survey of Operating Income & Expenses in Rental Apartment Communities perienced variable results over the prior year.

A total of 4,526 properties containing 1,138,056 units are represented in this year's report. Data was reported for 4,117 market-rent properties containing 1,077,468 units and 409 subsidized properties containing 60,588 units. (Forms with partial data or apparent problems that could not be resolved were not included.)

Dolben Company's The Apartments at Charlestown Crossing, North East, Md.

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 76.9 percent of the market rent properties and 51.8 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 269 units (149 units in subsidized). However, in this year's survey, rentable floor area averaged 923 square feet for market-rent apartments and 912 square feet for the subsidized units in 2012.

The complete report (available Oct. 1 at www.naahq.org/13ies) contains detailed data summarized for six geographic regions, and 91 metropolitan areas met the separate reporting criteria for market-rent properties. Sufficient numbers of subsidized properties were submitted for 14 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 19 states and for subsidized properties in nine states.

Market-Rent Properties

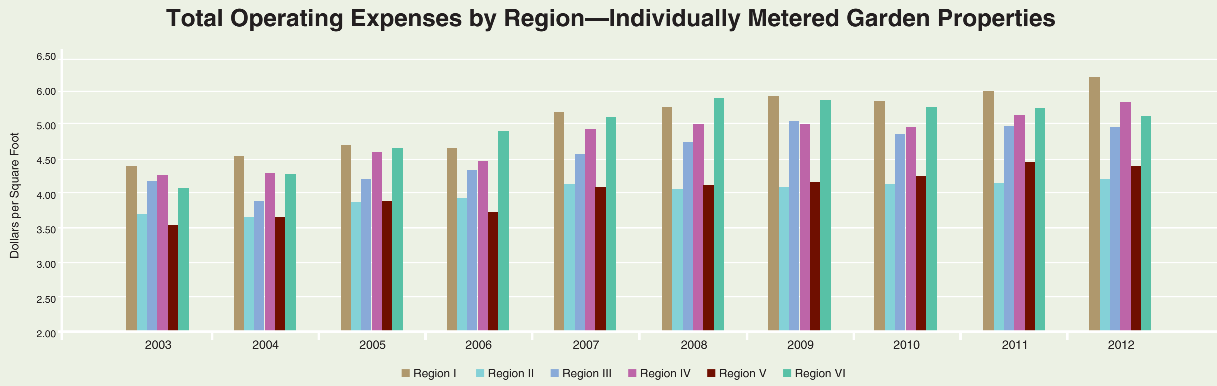
Economic Losses. A standard measure of the health of the rental housing market is economic losses, defined as the difference between Gross Potential Rent (GPR) and rent revenue collected, expressed as a percentage of GPR. Included in the losses are revenues lost to physical vacancies, net uncollected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

The economic loss rate in the survey for market-rent, individually metered garden properties continued to decline to 9.48 percent in 2012 (compared to 10.53 percent in the data for 2011 and 12.16 percent in 2010). 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 again in 2012, indicative of continued strong fundamentals in demand and pricing.

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

	Dollars per Unit			Dollars per Sq. Ft			% of GPR		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
All	$6,076	$5,873	$5,501	$6.58	$6.39	$6.03	56.6%	55.8%	54.1%
Region I	$8,349	$8,023	$7,501	$9.05	$8.74	$8.25	60.2%	60.5%	60.0%
Region II	$5,597	$5,377	$5,178	$5.67	$5.46	$5.29	56.9%	55.8%	54.5%
Region III	$5,765	$5,530	$5,027	$6.16	$5.95	$5.38	54.7%	52.7%	50.4%
Region IV	$5,335	$5,074	$4,555	$6.06	$5.82	$5.25	51.5%	50.7%	48.6%
Region V	$6,003	$5,735	$5,509	$6.75	$6.54	$6.21	60.0%	58.8%	57.2%
Region VI	$7,282	$7,386	$6,994	$8.42	$8.61	$8.28	60.8%	60.4%	58.2%



NOI measured as a percent of GPR for 2012 was 56.6 percent, improving by 0.8 percentage points (55.8 percent in 2011 and 54.1 percent in 2010). The NAA survey's historical peak was 58.9 percent in 1999. Regionally, NOIs in 2012 ranged from a high of 60.8 percent in the Pacific states (Region VI) to a low of 51.5 percent in the South Central states (Region IV), which has generally experienced the lowest NOI percentage among the regions, albeit improving.

Average NOIs for the last three survey data years of individually metered garden properties are presented on page 63.

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 2012 lease rates and all vacant units at 2012 market rents.

Average annual GPR increased by 1.8 percent in 2012 for garden properties with individually metered utilities. Average GPR was $10,727 per unit ($894 monthly) in this year's survey versus $10,534 per unit ($878 monthly) in 2011 and $10,171 per unit ($848 monthly) in 2010. On a per square foot basis, GPR was $11.62 ($0.97 per month) versus $11.47 ($0.96 per month) in 2011 and $11.16 ($0.93 per month) in 2010.

Median annual GPR for individually metered garden properties in the survey was $10,175 ($848 per month) versus $9,695 ($808 per month) in 2011 and $10,201 ($850 per month) in 2010.

Rent Revenue Collected. Annual rent revenue collected averaged $9,709 per individually metered garden property unit, up 3 percent from $9,424 in last year's survey ($8,934 in 2010). Measured on a per square foot basis, and maintaining a similar average unit size reported in 2011, rent revenue averaged $10.52 in 2012 versus $10.26 in 2011 and $9.80 in 2010.

Revenue Losses. Revenue losses averaged 9.48 percent of GPR in 2012 versus 10.53 percent of GPR in 2011 and 12.16 percent of GPR in 2010. Revenue losses in 2012 declined in all three loss categories; however, primarily in concessions.

Vacancy losses for individually metered market-rent garden properties averaged 6.0 percent of GPR in the current survey ($644 per unit, $0.70 per square foot) versus 6.2 percent of GPR ($649 per unit, $0.71 per square foot) in 2011 and 6.9 percent of GPR in 2010 ($701 per unit, $0.77 per square foot).

Collection losses declined slightly, averaging 0.6 percent of GPR ($65 per unit, $0.07 per square foot) in comparison to 0.7 percent of GPR ($72 per unit, $0.08 per square foot) in 2011 and 0.7 percent of GPR ($73 per unit, $0.08 per square foot) in 2010.

Losses from rent concessions decreased, averaging 2.9 percent of GPR ($308 per unit, $0.33 per square foot) in 2012 versus averaging 3.7 percent of GPR ($388 per unit, $0.42 per square foot) in 2011 and 4.5 percent of GPR ($462 per unit, $0.51 per square foot) in 2010.

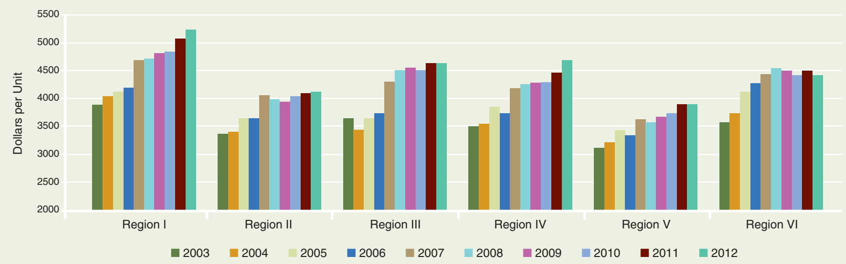
Other Revenue Collected. Multifamily housing owners and service providers are continuing to create and offer additional revenue sources. There was a slight decline of 0.2 percentage

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	249	18,883	$8.36	$4.63	29.3	25.4	12.0%	21.6%
100 to 199 Units	801	119,765	$8.33	$4.70	37.9	33.8	12.0%	21.3%
200 to 299 Units	1,029	251,700	$9.02	$5.17	42.2	39.5	11.1%	19.4%
300 to 399 Units	628	212,697	$9.50	$5.58	44.6	42.9	10.5%	17.9%
400 to 499 Units	250	110,006	$9.78	$5.80	45.4	43.6	10.2%	17.2%
500 or More Units	211	138,382	$9.39	$5.40	46.6	45.2	10.6%	18.5%
Total	**3,168**	**851,433**	**$9.17**	**$5.30**	**42.7**	**40.2**	**10.9%**	**18.9%**

Operating Expenses by Region—
Individually Metered Garden Apartments



points, to 7.5 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 $802 per unit ($0.87 per square foot) in 2012 versus $807 per unit ($0.88 per square foot) in 2011 and $824 per unit ($0.90 per square foot) in 2010 for individually metered garden properties reported in the survey.

Total Operating Expenses. Total operating expenses, as a percent of GPR, declined by 0.1 percentage points in 2012. The total operating expenses represented 41.3 percent of GPR in 2012 versus 41.4 percent of GPR in 2011 and 41.9 percent of GPR in 2010. Total operating expenses for individually metered garden properties in the survey averaged $4,435 per unit ($4.81 per square foot) versus $4,358 per unit ($4.74 per square foot) in 2011 and $4,257 per unit ($4.67 per square foot) in 2010.

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 $249 per unit ($0.27 per square foot) in 2012 versus $221 per unit ($0.24 per square foot) in 2011 and $218 per unit ($0.24 per square foot) in 2010.

Administrative costs (G&A) increased to $252 per unit in 2012 versus $235 per unit in 2011 and $212 per unit in 2010.

Management fees increased to $337 per unit (3.1 percent of GPR) in 2012 versus $295 per unit (2.8 percent of GPR) in 2011 and $311 per unit (3.1 percent of GPR) in 2010.

Marketing costs remained approximately the same at $156 per unit or 1.5 percent of GPR 2011 versus $155 per unit or 1.5 percent of GPR and $156 per unit or 1.5 percent of GPR in 2010.

Maintenance costs declined to $449 per unit in 2012 versus $490 per unit in 2011 and $467 per unit in 2010.

Contract services costs declined to an average of $249 per unit in 2012 ($282 in 2011 and $283 in 2010).

Salaries changed slightly to $1,147 per unit in 2012 versus $1,143 per unit in 2011 and $1,118 per unit in 2010.

Turnover Rates. The overall turnover rate in the survey remained the same at 54 percent in 2012 (after previously reaching 55 percent in 2008). Turnover was varied for all regions in 2012: Northeast (Region I), 46 percent to 47 percent; Southeast (Region II) again remained the same at 55 percent; North Midwest (Region III), 48 percent to 50 percent; South Central (Region IV), remained at 58 percent; Mountain/South Midwest states (Region V), 54 percent to 56 percent; and the Pacific (Region VI) remained at 53 percent.

Age of Property. Operating expenses as a percentage of GPR ranged from 38.2 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 $4,865 per unit for those 5 to 9 years old and decreased to $4,264 per unit for properties 20 or more years old. Capital expenditures ranged from $297 to $906, generally increasing by age of property. Capital expenditures again increased overall in 2012 as deferred maintenance and market competition have required upgrades, while general maintenance costs have declined.

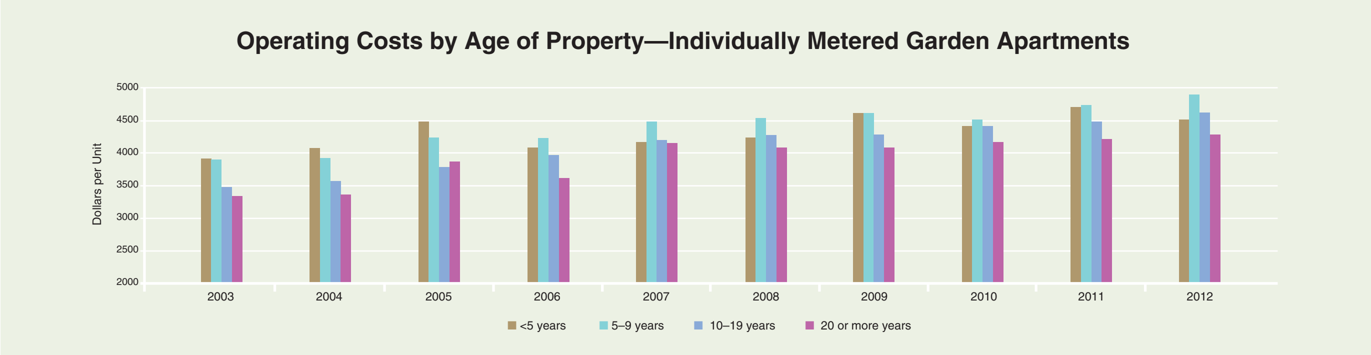
The highest average NOI as a percentage of GPR occurred in properties 10 to 19 years old at 59.0 percent. Measured in terms of dollars per unit, the low was $5,438 per unit in properties that are 20 or more years old and the high was $7,114 for properties 5 to 9 years old.

Economic losses continue to be the highest among the newest properties, particularly under current conditions. Properties younger than 5 years old reported the highest ratio of economic losses at 12.11 percent of GPR, while the lowest was in those that are 10 to 19 years old at 8.91 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 $1,382 per unit ($1.39 per square foot) in those properties that are 5 to 9 years old, to a low of $863 ($0.99 per square foot) for those aged 20 or more years.

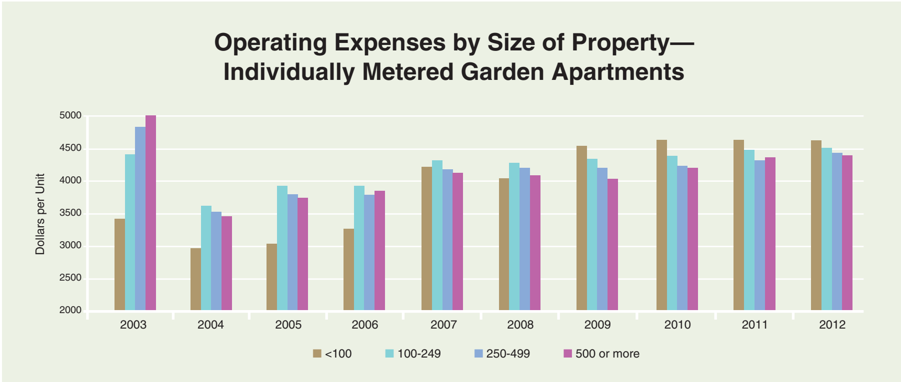
As expected, capital expenditures were significantly lower for the newest properties. They averaged $297 per unit ($0.30 per square foot) for properties less than five years old, compared to the average reported for properties 10 to 19 years old at $922 per unit ($0.93 per square foot) and for properties aged 20 or more years at $906 per unit ($1.04 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 43.6 percent of GPR in properties of less than 100 units, to 40.5 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 $4,601 (less than 100 units) to $4,397 per unit (500 or more units).

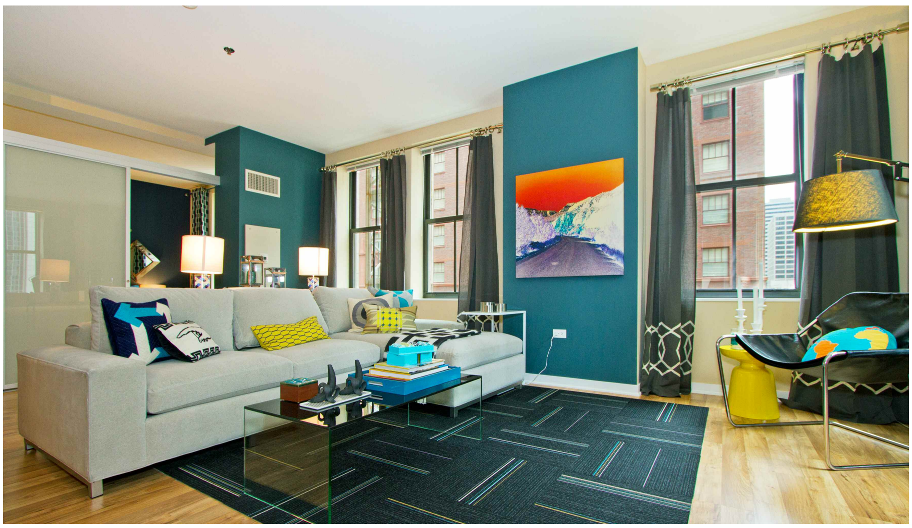
Economic losses varied based on property size. The range of losses were within approximately two percentage points this year; the highest was with properties with 500 or more units at 9.80 percent of GPR and the lowest for properties with fewer than 100 units at 7.64 percent.



Metro Area Operating Income & Expenses

Detailed tables in the full report are presented for 91 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 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.



Living room of Village Green's Randolph Tower City Apartments, Chicago

• NOI on a dollar-per-unit basis ranged from $11,504 ($14.19 per square foot) in the San Francisco-Oakland-Fremont, Calif., metro area to a low of $3,038 ($3.83 per square foot) in the Tulsa, Okla., metro area. The San Diego-Carlsbad-San Marcos, Calif., metro area had the highest NOI measured as a percent of GPR at 66.2 percent and Beaumont-Port Arthur, Texas, had the lowest at 40.3 percent.

• GPR averages on a dollar per unit were the highest in the San Francisco-Oakland-Fremont, Calif., metro area at $17,869 per unit ($22.04 per square foot), and the lowest of $7,360 per unit ($9.29 per square foot) was tabulated for properties reported from Tulsa, Okla. The San Francisco-Oakland-Fremont, Calif., metro area had the highest GPR measured on a dollar per square foot at $22.04 and Winston-Salem, N.C., had the lowest at $7.16 per square foot.

• Economic losses were lowest in the Salt Lake City, Utah, and Corpus Christi, Texas, metro areas at 3.25 percent and 5.46 percent of GPR, respectively. Metro areas with the highest economic losses were Beaumont-Port Arthur, Texas ,at 22.26 percent and Lubbock, Texas, at 21.09 percent.

• Total operating costs' highs and lows vary among metro areas based on which measure is selected. Properties reporting from the Fort Lauderdale-Pompano Beach-Deerfield Beach, Fla., metro area had the highest operating costs based on a per unit basis at $6,360 ($5.66 per square foot), followed by the West Palm Beach-Boca Raton-Delray Beach, Fla., metro area at $6,263 per unit ($5.88 per square foot). A low of $3,158 per unit ($3.85 per square foot) was reported in the Albuquerque, N.M., metro area, with $3,202 per unit ($3.71 per square foot) in the Wichita, Kan.,

Camden's La Vina Apartments, Orlando, Fla.

metro area. The highest operating costs based on a per square foot basis, with a smaller average unit size, were San Francisco-Oakland-Fremont, Calif., at $7.68 per square foot, and Santa Barbara-Santa Maria-Goleta, Calif., at $7.45 per square foot.

• Real estate taxes remained high in many metro areas in 2012. The Fort Lauderdale-Pompano Beach-Deerfield Beach, Fla., metro area had the highest real estate taxes per unit at $2,050; and the West Palm Beach-Boca Raton-Delray Beach, Fla., metro area was second at $1,955 per unit. The lowest average was for properties located in Tulsa, Okla., and Colorado Springs, Colo., metro areas at $415 and $419, respectively.

• Insurance costs on a per unit basis were the highest among the following areas, including several hurricane prone metro areas. They were $645 per unit ($0.69 per square foot) in New Orleans-Metairie-Kenner, La., and $557 ($0.62 per square foot) in the Beaumont-Port Arthur, Texas, metro area. They were lowest in the Sacramento-Arden-Arcade-Roseville, Calif., and Fayetteville, N.C., metro areas at $124 and $130 per unit ($0.14 and $0.13 per square foot), respectively.

• Salaries and personnel costs were reported lowest in the Des Moines-West Des Moines, Iowa, metro area at $800 per unit ($0.96 per square foot) and the Fayetteville, N.C., metro area at $854 ($0.84 per square foot). The Anaheim-Santa Ana-Irvine, Calif., metro area had the highest average at $1,503 per unit ($1.86 per square foot) followed by $1,477 in the Los Angeles-Long Beach-Glendale, Calif., metro area ($1.75 per square foot).

• Chattanooga, Tenn.-Ga., and Fort Lauderdale-Pompano Beach-Deerfield Beach, Fla., had the largest units among the metro areas reported separately in this report with an average of 1,191 and 1,124 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 743 and 764 square feet per unit, respectively.

Subsidized Properties Income & Expenses

Operating Income & Expenses Summary. Data was received for 409 subsidized properties containing 60,588 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 14 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 149 units versus 269 units for market rent properties of the same type. These subsidized properties had an average of 912 square feet of floor area versus 923 square feet reported for the market rent properties in the 2012 survey.

Revenues. GPR averaged $9,448 per unit ($10.36 per square foot) annually in this year's survey versus $9,156 per unit ($10.39 per square foot) in 2011 and $9,512 per unit ($10.31 per square foot) in 2010. Rental revenues averaged $8,745 ($9.59 per square foot) versus $8,434 ($9.57 per square foot) in 2011 and $8,738 ($9.47 per square foot) in 2010. Other operating revenues averaged $361 per unit ($0.40 per square foot) in 2012 versus $312 per unit ($0.35 per square foot) in 2011, and $338 per unit ($0.37 per square foot) in 2010.

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 $4,372 per unit ($4.80 per square foot) in 2012 versus $4,470 per unit ($5.07 per square foot) in 2011 and $4,856 per unit ($5.26 per square foot) in 2010.

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 50.1 percent of GPR versus 56.6 percent for the market-rent properties. Other comparisons of subsidized NOI to market rent were $4,734 versus $6,076 on a dollars-per-unit basis, and $5.19 versus $6.58 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 7.44 percent average rate was calculated for the subsidized individually metered garden properties versus 9.48 percent for market-rent units. The economic loss ratio in subsidized properties decreased from last year's 7.9 percent and 8.14 percent in 2010.

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 28 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

64, 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 2013–2014 outlook for owners and operators of apartment properties is positive, with few warning signs on the horizon.

In 2013 and beyond, the apartment industry will likely experience the impacts of increasing "green" regulations and legislation. The looming threat of rent control will increase as reduced or flat household incomes limit what a renter can "afford" to pay. The shift to more urban-based product will be a welcome opportunity for developers, but a regulatory and construction challenge for CEOs.

Increasing demands for more services, a willingness to accept a smaller unit for price and location, and a rise in competitor challenges reaffirm the need for baseline benchmarking data from which to objectively evaluate performance. The ability to manage expectations of residents, investors, vendors, employees and government agencies is a high wire challenge that even famed daredevil Nik Wallenda would salute.

In the 2013–2014 period, concerns over letting operating costs "inch their way up to pre-recession levels" and/or "paying more because our rental income is up" must be carefully monitored. Managing to a benchmark is a good way to keep overall operating costs in line while enjoying the halcyon years in the apartment industry. In the months and years ahead, adherence to standards can make a difference. There will be no economic recovery akin to 2005-2007 and, thus, owners and operators of multifamily properties must re-engineer their business models and create operating platforms to stay relevant and increase their competitive edge. Tomorrow has already arrived and the NAA survey results reveal the discipline necessary to build a sustainable future.

The apartment industry is in great shape; however, during the next 3 years to 4 years, success will be determined by operational excellence, quality of leadership and talent, and the quality of resident services and the resident relationship. Millions of apartment residents call their unit "home" and, thus, how owners and operators treat and take care of that home will be the difference between success and not-so-successful in the 2013–2014 period. The first step every apartment owner and operator must take is to make sure the operational businesses are in order. The NAA survey can be a cornerstone for success today and prosperity tomorrow.

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 2012 lease rates and all vacant units at 2012 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 Sterns of NAA for handling survey logistics and paper responses.*

Thank You To Our Participating Companies

NAA extends a special note of appreciation to the 207 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 2013 NAA Survey of Operating Income & Expenses in Rental Apartment Communities.

Advanced Management Company
AEW Capital Management
Aimco
ALCO Management
AMLI Residential
Bell Partners Inc.
Beztak Properties
BH Management Services
Blue Ridge Property Management
Camden
CFLANE, LLC
Colonial Properties Trust
Concierge Management Services
Concord Management Ltd.
Continental Realty Corp.
Corcoran Management Company
CWS Apartment Homes
DEI Communities
The Dolben Company
Drucker & Falk
Dunlap & Magee
ECI Management Corporation
Equity Management
First Choice Management Group
Fogelman Management Group
Gables Residential
Ginkgo Residential LLC
Greystar Real Estate Partners, LLC
Harbor Group International
The JBG Companies
JCM Partners
Jupiter Communities
JVM Realty Corporation
KMG Prestige, Inc.
Legacy Partners Residential, Inc.
MAA
Makowsky, Ringel Greenberg
Marquette Management
MC Residential Of Texas, LLC
MG Properties Group
Milestone Management
NALS Apartment Homes
Nolan Real Estate Services
Pennrose Management Company
Pinnacle Family of Companies
Post Apartment Homes, L.P.
PRG Real Estate Management, Inc.
Prime Residential
Resource Real Estate
Riverstone
Shelter Properties LLC
Simpson Housing LLLP
St Anton Management
Timberland Partners
Venterra Realty
Village Green Management Company
Waterton Residential
WC Smith
WestCorp Management Group
Western National Property Management
Wilkinson Real Estate Advisors, Inc.