Bell Partners' Bell Channelside, Tampa, Fla. Photo credit: Greg Wilson

EXECUTIVE SUMMARY

2014 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/14ies by Oct. 1.

Gaining A Competitive Edge in 2014

In times of unprecedented growth in rents, value and opportunities, keeping an eye on operating expenses is indeed a priority. The recent perfect storm of limited supply of rental apartments, pent-up demand, declining vacancies, the nation's shift to a renter-based society and inexpensive and readily available debt has raised the question, "When will the apartment industry's strong performance end?" As America debates the way to reduce the U6 employment rate (12.2 percent) and create jobs, control rapidly rising federal debt and deficit spending, handle rising consumer costs, adjust to new government regulations and how to address major social issues (e.g., healthcare, immigration, tax reform and entitlements, among others), renting has become an increasingly "preferred" lifestyle option. Uncertainty has shifted focus from preparing for tomorrow to responding to today's challenges. The apartment industry has been the recipient of benefits of this uncertainty and change... a condition that will likely exist for years to come.

The realization that tomorrow may or may not be like today is increasing demand for rental properties (single-family and apartments). A recent 10-year study of Millennials (2002-2012) revealed that nearly one in four (22.6 percent) 26-year-olds are still living with their parents. Fifty-four percent in the study made less than $25,000 from their employment in 2011, and over 60 percent of those enrolled in college reported that they had taken out student loans.

More women are postponing motherhood. In 1970, 1 percent of first children were born to women over the age of 35. In 2012, that number increased to 15 percent, according to Pew Research Center. This delay in first children means there is likely to be an increase in smaller families, lowering the nation's fertility rate... which reached an all-time low in 2012. As more women pursue advanced education and careers and focus on financial independence, apartment communities located in or near major employment centers are likely to benefit. In addition, the percentage of mothers who do not work outside the home rose to 29 percent in 2012, up from a modern era low of 23 percent in 1999. The labor force participation rate for women 16 years and older is now 56.9 percent... among the lowest it has been since 1988. Fewer mothers working means the monies available for housing is dependent upon the income of one's partner. Further, these "opt-out-mothers" cross all education and affluence categories.

Student debt (now nearly $1 trillion) is becoming a growing share of debt for households. Student loan debt, from both Federal and private loans, now represents the biggest aggregate balance among non-mortgage debt categories. Two-thirds of recent graduates have student loan debt.

Fewer jobs, lower average household income, increasing level of debt, changing household formations and age of first-child births will keep these 18 to 34-year-old and more likely 18 to 40-

All Market-Rent Properties

OPERATING INCOME & EXPENSE DATA

INDIVIDUAL METERED AND RECOVERY SYSTEM PROPERTIES*

	Total	Garden	Mid- & Hi-Rise
Number of Properties	3,107	2,765	342
Number of Units	851,776	744,569	107,207
Avg. No. of Units/Property	274	269	313
Avg. No. of Square Feet/Unit	925	925	926
Turnover rate in %	54%	55%	50%

	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	12,026	13.00	100.0%	11,280	12.19	100.0%	17,208	18.58	100.0%
Rent Revenue Collected	11,031	11.92	91.7%	10,345	11.18	91.7%	15,802	17.07	91.8%
Losses to Vacancy	711	0.77	5.9%	663	0.72	5.9%	1,047	1.13	6.1%
Collection Losses	73	0.08	0.6%	73	0.08	0.6%	71	0.08	0.4%
Losses to Concessions	211	0.23	1.8%	199	0.22	1.8%	288	0.31	1.7%
Other Revenue	783	0.85	6.5%	718	0.78	6.4%	1,236	1.33	7.2%
Total Revenue	11,815	12.77	98.2%	11,063	11.96	98.1%	17,037	18.40	99.0%
Operating Expenses									
Salaries and Personnel	1,213	1.31	10.1%	1,178	1.27	10.4%	1,462	1.58	8.5%
Insurance	260	0.28	2.2%	253	0.27	2.2%	314	0.34	1.8%
Taxes	1,290	1.39	10.7%	1,184	1.28	10.5%	2,028	2.19	11.8%
Utilities	346	0.37	2.9%	316	0.34	2.8%	555	0.60	3.2%
Management Fees	340	0.37	2.8%	329	0.36	2.9%	420	0.45	2.4%
Administrative	265	0.29	2.2%	245	0.27	2.2%	400	0.43	2.3%
Marketing	163	0.18	1.4%	152	0.16	1.3%	241	0.26	1.4%
Contract Services	310	0.34	2.6%	296	0.32	2.6%	408	0.44	2.4%
Repair and Maintenance	446	0.48	3.7%	434	0.47	3.8%	529	0.57	3.1%
Total Operating Expenses	4,635	5.01	38.5%	4,387	4.74	38.9%	6,358	6.87	36.9%
Net Operating Income	7,180	7.76	59.7%	6,676	7.22	59.2%	10,679	11.53	62.1%
Capital Expenditures	959	1.04	8.0%	900	0.97	8.0%	1,365	1.47	7.9%

MASTER METERED PROPERTIES**

	Total	Garden	Mid- & Hi-Rise
Number of Properties	259	178	81
Number of Units	54,786	38,499	16,287
Avg. No. of Units/Property	212	216	201
Avg. No. of Square Feet/Unit	892	918	831
Turnover rate in %	45%	48%	39%

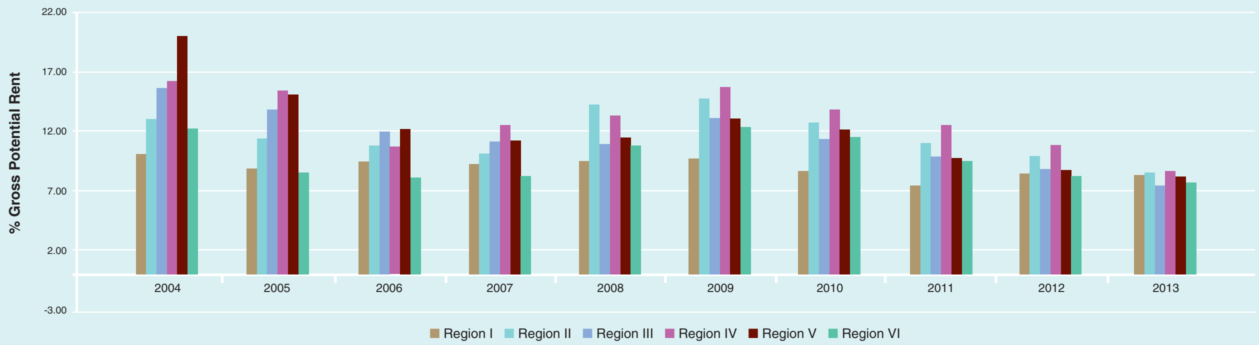
	Total $ Per Unit	Total $ Per Sq. Ft.	Total % of GPR	Garden $ Per Unit	Garden $ Per Sq. Ft.	Garden % of GPR	Mid- & Hi-Rise $ Per Unit	Mid- & Hi-Rise $ Per Sq. Ft.	Mid- & Hi-Rise % of GPR
Revenues									
Gross Potential Rent	13,806	15.48	100.0%	12,749	13.89	100.0%	16,303	19.62	100.0%
Rent Revenue Collected	12,711	14.25	92.1%	11,751	12.80	92.2%	14,981	18.03	91.9%
Losses to Vacancy	755	0.85	5.5%	661	0.72	5.2%	978	1.18	6.0%
Collection Losses	90	0.10	0.7%	91	0.10	0.7%	86	0.10	0.5%
Losses to Concessions	249	0.28	1.8%	245	0.27	1.9%	259	0.31	1.6%
Other Revenue	753	0.84	5.5%	675	0.74	5.3%	937	1.13	5.7%
Total Revenue	13,464	15.09	97.5%	12,426	13.54	97.5%	15,918	19.15	97.6%
Operating Expenses									
Salaries and Personnel	1,376	1.54	10.0%	1,334	1.45	10.5%	1,477	1.78	9.1%
Insurance	245	0.28	1.8%	220	0.24	1.7%	306	0.37	1.9%
Taxes	1,187	1.33	8.6%	1,055	1.15	8.3%	1,500	1.81	9.2%
Utilities	995	1.12	7.2%	831	0.91	6.5%	1,384	1.67	8.5%
Management Fees	482	0.54	3.5%	473	0.52	3.7%	504	0.61	3.1%
Administrative	435	0.49	3.2%	444	0.48	3.5%	412	0.50	2.5%
Marketing	169	0.19	1.2%	165	0.18	1.3%	178	0.21	1.1%
Contract Services	449	0.50	3.3%	358	0.39	2.8%	663	0.80	4.1%
Repair and Maintenance	651	0.73	4.7%	633	0.69	5.0%	695	0.84	4.3%
Total Operating Expenses	5,991	6.72	43.4%	5,513	6.01	43.2%	7,121	8.57	43.7%
Net Operating Income	7,474	8.38	54.1%	6,913	7.53	54.2%	8,798	10.59	54.0%
Capital Expenditures	1,289	1.45	9.3%	1,150	1.25	9.0%	1,617	1.95	9.9%

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

** Master Meter Owner Paid for primary utility.

Source: National Apartment Association 2014 Survey of Operating Income & Expenses in Rental Apartment Communities

Economic Losses by Region
Individually Metered and Recovery System • Market-Rent Garden Properties



year-old groups as renters for a much longer period of time. Renting as a lifestyle has and will become a reality for many.

Calendar year 2014 will likely go down as the formal beginning of the shift to a renter-based society. Finding jobs is more important than where to live. Achieving financial stability is taking precedent over residential lifestyle choices. Renting is now perceived as a first, not optional, choice.

In 2014, the seasonally-adjusted number of multifamily permits will range from 350,000 to 365,000. Multifamily starts should remain around 300,000. Completions will hover around the 230,000 to 240,000 level on a seasonally-adjusted basis. The number of permits, starts and completions will exceed 2013 totals. Demand for rental living will remain strong as more Americans are expected to rent in 2014. Investor interest in urban, micro-units and senior-living apartments is expected to increase in 2014.

Rents in 2014 are expected to range from a 3.1 percent to 3.2 percent increase nationally, which will again be higher than the rate of inflation. The demand for rental apartments is directly tied to the number of jobs being created. As the U.S. economy continues its slow recovery, the pent-up demand will continue to increase. Ironically, the rapid rise in apartment rents is in contrast to the much slower increase in median household income (today around $53,000, or about 3.8 percent higher than at the recession low point reached in August 2011).

One of the lessons learned during the 2007 to 2009 recession is that there are no guarantees tomorrow will look like today.

To assure success in 2014 and forward, apartment owners and operators will need to:

1. Continue to make resident satisfaction a priority.
2. Assemble a best-in-class team to assure a competitive advantage in a highly competitive marketplace.
3. Focus on maximizing investment returns without sacrificing quality or service.
4. Control operating costs.
5. Perfect one's brand and market identity.

Despite the halcyon time, the apartment industry today finds itself paying close attention to external metrics and benchmarks in order to "keep score" and determine how one "stacks up" to a peer group of multifamily firms.

Creating value is more than buying right… it comes from deploying a robust operating platform that can manage rents, achieve and maintain high levels of occupancy and provide excellent service and a quality living environment. As renting by choice accelerates in 2014, the need for every owner and operator to focus on the top and bottom line begins with realistic operating costs.

In 2014 and beyond, long-term success in the apartment industry will be derived from a foundation of values, executed by a talented team of professionals with resident-centric focus that exceeds the expectations of all stakeholders. Reliance on accurate data is the foundation for making the right decisions.

Economic Loss Rates by Regions
Individually Metered and Recovery System • Market-Rent Garden Properties

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
All	8.29%	9.48%	10.53%	12.16%	13.78%	12.42%	10.11%	10.20%	11.87%	13.99%
Region I	8.28%	8.37%	7.50%	8.65%	9.71%	9.49%	9.16%	9.46%	8.87%	10.02%
Region II	8.56%	9.94%	11.00%	12.63%	14.75%	14.07%	10.09%	10.84%	11.35%	12.89%
Region III	7.44%	8.75%	9.84%	11.34%	13.15%	10.93%	11.11%	12.02%	13.87%	15.54%
Region IV	8.70%	10.80%	12.56%	13.79%	15.71%	13.34%	12.55%	10.77%	15.39%	16.23%
Region V	8.19%	8.76%	9.72%	12.16%	13.13%	11.45%	11.22%	12.12%	15.14%	19.99%
Region VI	7.67%	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 AND RECOVERY SYSTEM PROPERTIES*

	Total			Garden			Mid- & Hi-Rise		
Number of Properties		217			149			68	
Number of Units		38,961			22,793			16,168	
Avg. No. of Units/Property		180			153			238	
Avg. No. of Square Feet/Unit		858			877			831	
Turnover rate in %		39%			37%			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	11,780	13.73	100.0%	9,824	11.20	100.0%	14,537	17.50	100.0%
Rent Revenue Collected	11,090	12.93	94.1%	9,168	10.45	93.3%	13,800	16.61	94.9%
Losses to Vacancy	486	0.57	4.1%	429	0.49	4.4%	568	0.68	3.9%
Collection Losses	80	0.09	0.7%	107	0.12	1.1%	42	0.05	0.3%
Losses to Concessions	123	0.14	1.0%	120	0.14	1.2%	127	0.15	0.9%
Other Revenue	731	0.85	6.2%	493	0.56	5.0%	1,068	1.29	7.3%
Total Revenue	11,822	13.78	100.4%	9,661	11.01	98.3%	14,868	17.90	102.3%
Operating Expenses									
Salaries and Personnel	1,312	1.53	11.1%	1,406	1.60	14.3%	1,181	1.42	8.1%
Insurance	257	0.30	2.2%	261	0.30	2.7%	251	0.30	1.7%
Taxes	900	1.05	7.6%	621	0.71	6.3%	1,293	1.56	8.9%
Utilities	660	0.77	5.6%	728	0.83	7.4%	565	0.68	3.9%
Management Fees	346	0.40	2.9%	439	0.50	4.5%	215	0.26	1.5%
Administrative	409	0.48	3.5%	420	0.48	4.3%	394	0.47	2.7%
Marketing	112	0.13	0.9%	98	0.11	1.0%	132	0.16	0.9%
Contract Services	416	0.48	3.5%	444	0.51	4.5%	377	0.45	2.6%
Repair and Maintenance	450	0.52	3.8%	540	0.62	5.5%	323	0.39	2.2%
Total Operating Expenses	4,862	5.67	41.3%	4,957	5.65	50.5%	4,728	5.69	32.5%
Net Operating Income	6,959	8.11	59.1%	4,704	5.36	47.9%	10,140	12.21	69.7%
Capital Expenditures	830	0.97	7.0%	625	0.71	6.4%	1,118	1.35	7.7%

MASTER METERED PROPERTIES*

	Total			Garden			Mid- & Hi-Rise		
Number of Properties		115			53			62	
Number of Units		20,773			9,731			11,042	
Avg. No. of Units/Property		181			184			178	
Avg. No. of Square Feet/Unit		708			781			643	
Turnover rate in %		21%			24%			19%	
	$ Per Unit	$ Per Sq. Ft.	% of GPR	$ Per Unit	$ Per Sq. Ft.	% of GPR	$ Per Unit	$ Per Sq. Ft.	% of GPR
Revenues									
Gross Potential Rent	10,618	15.01	100.0%	10,289	13.18	100.0%	10,908	16.96	100.0%
Rent Revenue Collected	10,175	14.38	95.8%	9,658	12.37	93.9%	10,631	16.52	97.5%
Losses to Vacancy	307	0.43	2.9%	416	0.53	4.0%	211	0.33	1.9%
Collection Losses	93	0.13	0.9%	137	0.18	1.3%	54	0.08	0.5%
Losses to Concessions	43	0.06	0.4%	78	0.10	0.8%	13	0.02	0.1%
Other Revenue	409	0.58	3.9%	427	0.55	4.2%	394	0.61	3.6%
Total Revenue	10,584	14.96	99.7%	10,085	12.92	98.0%	11,025	17.14	101.1%
Operating Expenses									
Salaries and Personnel	1,461	2.07	13.8%	1,361	1.74	13.2%	1,549	2.41	14.2%
Insurance	279	0.39	2.6%	255	0.33	2.5%	300	0.47	2.7%
Taxes	646	0.91	6.1%	775	0.99	7.5%	533	0.83	4.9%
Utilities	1,333	1.88	12.6%	1,323	1.69	12.9%	1,343	2.09	12.3%
Management Fees	363	0.51	3.4%	284	0.36	2.8%	432	0.67	4.0%
Administrative	395	0.56	3.7%	413	0.53	4.0%	379	0.59	3.5%
Marketing	58	0.08	0.5%	77	0.10	0.7%	40	0.06	0.4%
Contract Services	523	0.74	4.9%	469	0.60	4.6%	571	0.89	5.2%
Repair and Maintenance	505	0.71	4.8%	633	0.81	6.2%	392	0.61	3.6%
Total Operating Expenses	5,562	7.86	52.4%	5,589	7.16	54.3%	5,539	8.61	50.8%
Net Operating Income	5,022	7.10	47.3%	4,496	5.76	43.7%	5,486	8.53	50.3%
Capital Expenditures	708	1.00	6.7%	611	0.78	5.9%	791	1.23	7.2%

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

Source: National Apartment Association 2014 Survey of Operating Income & Expenses in Rental Apartment Communities

Greystar's Elan Desert Ridge, Phoenix

These findings are just a few of the many conclusions drawn from our research and the recently completed National Apartment Association's 2014 Survey of Operating Income & Expenses. This NAA-sponsored survey of nearly 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 2014, based on data for fiscal year 2013.

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 2.6 percentage points to 59.2 percent, versus 56.6 percent in 2012; it also had a lower economic loss rate of 8.29 percent versus 9.48 percent in 2012, primarily because of a decline in concessions. Total operating expenses declined by 2.4 percentage points. The economic state of subsidized properties in the survey also experienced variable results over the prior year.

A total of 3,698 properties containing 966,296 units are represented in this year's report. Data was reported for 3,366 market-rent properties containing 906,562 units and 332 subsidized properties containing 59,734 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 82.1 percent of the market-rent properties and 44.9 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 269 units (153 units in subsidized). In this year's survey, rentable floor area averaged 925 square feet for market-rent apartments and 877 square feet for the subsidized units in 2013.

The complete report (available Oct. 1 at www.naahq.org/14ies) contains detailed data summarized for six geographic regions, and 82 metropolitan areas met the separate reporting criteria for market-rent properties. Sufficient numbers of subsidized properties were submitted for eight metropolitan areas.

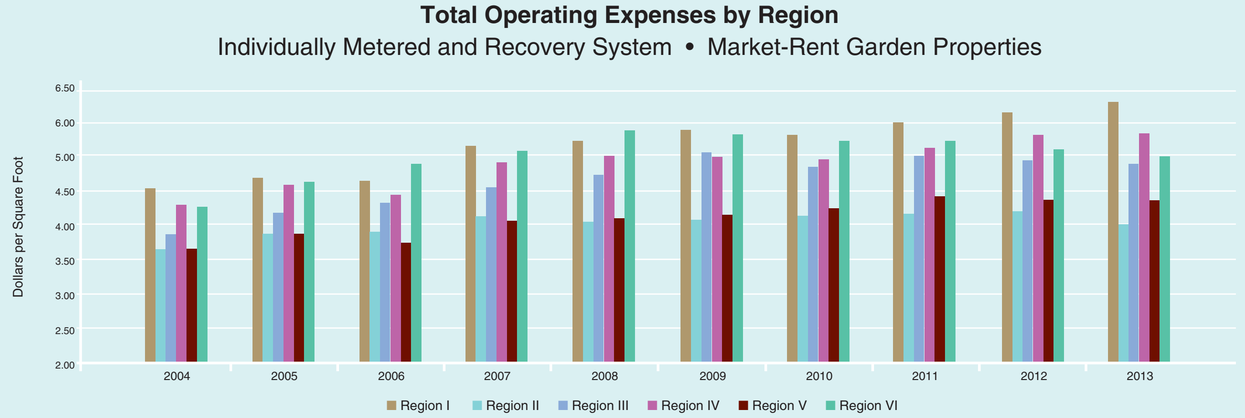
This report also includes results for all "other" properties at the state level located in metro areas that did not meet criteria for separate reporting. Non-metro area reporting also is included at the state level. Tables for these "other" market-rent properties are provided for 15 states and for subsidized properties in seven states.

The NAA survey was adjusted this year to include only standard utilities and to also 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. The decline in the utility expenses reported for 2013 is likely affected by this adjustment.

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		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
All	$6,676	$6,076	$5,873	$7.22	$6.58	$6.39	59.2%	56.6%	55.8%
Region I	$8,817	$8,349	$8,023	$9.32	$9.05	$8.74	59.8%	60.2%	60.5%
Region II	$6,313	$5,597	$5,377	$6.29	$5.67	$5.46	60.6%	56.9%	55.8%
Region III	$6,123	$5,765	$5,530	$6.54	$6.16	$5.95	56.8%	54.7%	52.7%
Region IV	$5,980	$5,335	$5,074	$6.86	$6.06	$5.82	54.8%	51.5%	50.7%
Region V	$6,754	$6,003	$5,735	$7.72	$6.75	$6.54	63.4%	60.0%	58.8%
Region VI	$7,781	$7,282	$7,386	$8.94	$8.42	$8.61	62.5%	60.8%	60.4%



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 8.29 percent in 2013 (compared to 9.48 percent in the data for 2012 and 10.53 percent in 2011). 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 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 2013, indicative of continued strong fundamentals in demand and pricing.

NOI measured as a percent of GPR for 2013 was 59.2 percent, improving by 2.6 percentage points (56.6 percent in 2012 and 55.8 percent in 2011). Regionally, NOIs in 2013 ranged from a high of 63.4 percent in the Mountain/South Midwest states (Region V) to a low of 54.8 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 35.

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 2013 lease rates and all vacant units at 2013 market rents.

Average annual GPR in the survey increased by 5.2 percent in 2013 for garden properties with individual meter/recovery utilities. Average GPR was $11,280 per unit ($940 monthly) in this year's survey versus $10,727 per unit ($894 monthly) in 2012 and $10,534 per unit ($878 monthly) in 2011. On a per square foot basis, GPR was $12.19 ($1.02 per month) versus $11.62 ($0.97 per month) in 2012 and $11.47 ($0.96 per month) in 2011.

Median annual GPR for individual meter/recovery garden properties in the survey was $10,370 ($864 per month) versus $10,175 ($848 per month) in 2012 and $9,695 ($808 per month) in 2011.

Rent Revenue Collected. Annual rent revenue collected averaged $10,345 per individual meter/recovery garden property

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	221	16,917	$8.07	$4.25	34.3	28.6	12.4%	23.5%
100 to 199 Units	676	101,958	$8.41	$4.81	39.3	34.8	11.9%	20.8%
200 to 299 Units	870	212,302	$9.25	$5.56	43.0	40.1	10.8%	18.0%
300 to 399 Units	583	198,535	$9.73	$5.96	44.7	42.9	10.3%	16.8%
400 to 499 Units	248	109,100	$9.85	$6.06	44.5	42.8	10.2%	16.5%
500 or More Units	167	105,757	$9.94	$6.15	46.0	44.9	10.1%	16.3%
Total	**2,765**	**744,569**	**$9.39**	**$5.67**	**43.3**	**40.6**	**10.6%**	**17.6%**

unit, up 6.6 percent from $9,709 in last year's survey and $9,424 in 2011. Measured on a per square foot basis, and maintaining a similar average unit size, rent revenue averaged $11.18 in 2013 versus $10.52 in 2012 and $10.26 in 2011.

Revenue Losses. Revenue losses averaged 8.29 percent of GPR in 2013 versus 9.48 percent of GPR in 2012 and 10.53 percent of GPR in 2011. Revenue losses in 2013 were nearly the same level for vacancy and collections, while concessions declined by 1.1 percentage points reflecting the stronger market.

Vacancy losses for market-rent garden properties with individual meter/recovery utilities averaged 5.9 percent of GPR in the current survey ($663 per unit, $0.72 per square foot) versus 6.0 percent of GPR ($644 per unit, $0.70 per square foot) in 2012 and 6.2 percent of GPR ($649 per unit, $0.71 per square foot) in 2011.

Collection losses remained the same, as percent of GPR, averaging 0.6 percent ($73 per unit, $0.08 per square foot) in comparison to 0.6 percent of GPR ($65 per unit, $0.07 per square foot) in 2012 and 0.7 percent of GPR ($72 per unit, $0.08 per square foot) in 2011.

Losses from rent concessions continued to decline by 1.1 percentage points to 1.8 percent of GPR ($199 per unit, $0.22 per square foot) in 2013 versus averaging 2.9 percent of GPR ($308 per unit, $0.33 per square foot) in 2012 and 3.7 percent of GPR ($388 per unit, $0.42 per square foot) in 2011.

Other Revenue Collected. Multifamily housing owners and service providers continue to create and offer additional revenue sources. There was a decline of 1.1 percentage points, to 6.4 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 $718 per unit ($0.78 per square foot) in 2013 versus $802 per unit ($0.87 per square foot) in 2012 and $807 per unit ($0.88 per square foot) in 2011 for individual meter/recovery garden properties reported in the survey.

Total Operating Expense. Total operating expenses, as a percent of GPR, declined by 2.4 percentage points in 2013. The total operating expenses represented 38.9 percent of GPR in 2013 versus 41.3 percent of GPR in 2012 and 41.4 percent of GPR in 2011. Total operating expenses for individual meter/recovery garden properties in the survey averaged $4,387 per unit ($4.74 per square foot) versus $4,435 per unit ($4.81 per square foot) in 2012 and $4,358 per unit ($4.74 per square foot) in 2011.

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 $253 per unit ($0.27 per square foot) in 2013 versus $249 per unit ($0.27 per square foot) in 2012 and $221 per unit ($0.24 per square foot) in 2011.

Administrative costs (G&A) declined to $245 per unit in 2013 versus $252 per unit in 2012 and $235 per unit in 2011.

Management fees declined to $329 per unit (2.9 percent of GPR) in 2013 versus $337 per unit (3.1 percent of GPR) in 2012 and $295 per unit (2.8 percent of GPR) in 2011.

Marketing costs remained close at $152 per unit or 1.3 percent of GPR in 2013 versus $156 per unit or 1.5 percent of GPR in 2012 and $155 per unit or 1.5 percent of GPR in 2011.

Maintenance costs declined to $434 per unit in 2013 versus $449 per unit in 2012 and $490 per unit in 2011.

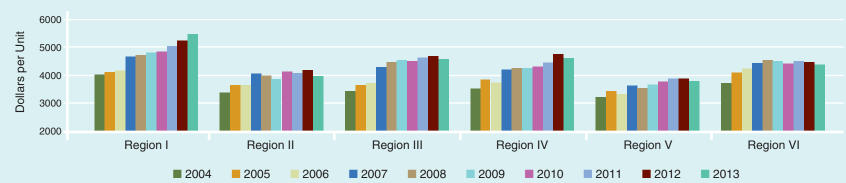
Contract services costs increased to an average of $296 per unit in 2013 ($249 in 2012 and $282 in 2011).

Salaries changed slightly to $1,178 per unit in 2013 versus $1,147 per unit in 2012 and $1,143 per unit in 2011.

Turnover Rates. The overall turnover rate in the survey remained nearly the same at 55 percent in 2013 (versus 54 percent in 2012). Turnover was varied for all regions in 2013: Northeast (Region I), dropped slightly from 47 percent to 46 percent; Southeast (Region II) rose slightly from 55 percent to 56 percent; North Midwest (Region III), remained the same at 50 percent; South Central (Region IV), dropped slightly from 58 percent to 57 percent; Mountain/South Midwest states (Region V), increased from 56 percent to 59 percent; and the Pacific (Region VI) increased from 53 percent to 55 percent.

Total Operating Expenses by Region

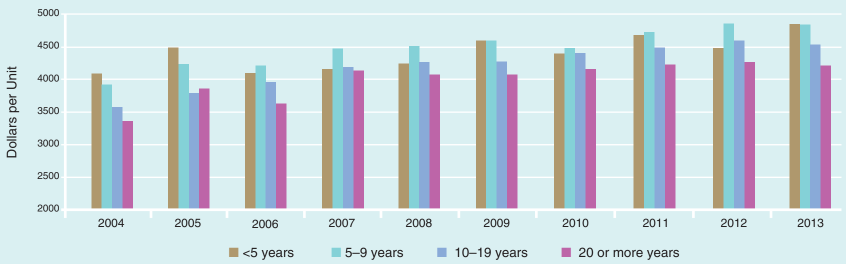
Individually Metered and Recovery System • Market-Rent Garden Properties



Age of Property. Operating expenses as a percentage of GPR ranged from 36.6 percent of GPR in properties 10 to 19 years old and rose to 40.8 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 $4,833 per unit for those less than 5 years old and decreased to $4,205 per unit for properties 20 or more years old. Capital expenditures ranged from $358 to $1,167 per unit, generally increasing by age of property. Capital expenditures again increased overall in 2013 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 62.0 percent. Measured in terms of

Operating Costs by Age of Property
Individually Metered and Recovery System • Market-Rent Garden Properties



dollars per unit, the low was $5,939 per unit in properties that are 20 or more years old and the high was $7,667 for properties 10 to 19 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 12.49 percent of GPR, while the lowest was in those that are 10 to 19 years old at 7.62 percent.

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 $1,673 per unit ($1.71 per square foot) in those properties that are less than 5 years old, to a low of $936 ($1.08 per square foot) for those aged 20 or more years.

As expected, capital expenditures were significantly lower for the newest properties. They averaged $358 per unit ($0.37 per square foot) for properties less than 5 years old, compared to the average reported for properties 10 to 19 years old at $1,167 per unit ($1.16 per square foot) and for properties aged 20 or more years at $875 per unit ($1.01 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 46.2 percent of GPR in properties of less than 100 units, to 37.6 percent in those containing 500 or more units. On a per-unit basis, operating costs across property sizes ranged from $5,002 (less than 100 units) to $4,288 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 8.45 percent of GPR and the lowest for properties with fewer than 100 units at 7.42 percent.

Operating Expenses by Size of Property
Individually Metered and Recovery System • Market-Rent Garden Properties

Metro Area Operating Income & Expenses

Detailed tables in the full report are presented for 82 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 $15,460 ($14.72 per square foot) in the Miami-Miami Beach-Kendall, Fla., metro area to a low of $7,309 ($8.55 per square foot) in the Colorado Springs, Colo., metro area. The Miami-Miami Beach-Kendall, Fla., metro area had the highest NOI measured as a percent of GPR at 72.9 percent and Tyler, Texas, had the lowest at 35.9 percent.
- GPR averages on a dollar per unit were the highest in the Miami-Miami Beach-Kendall, Fla., metro area at $21,217 unit ($20.20 per square foot), and the lowest at $7,633 per unit ($9.02 per square foot) was tabulated for properties reported from Dayton, Ohio. The Los Angeles-Long Beach-Glendale, Calif., metro area had the highest GPR measured on a dollar per square foot at $23.13 and Knoxville, Tenn., had the lowest at $4.81 per square foot.
- Economic losses were lowest in the Salt Lake City, Utah, and Corpus Christi, Texas, metro areas at 3.79 percent and 4.51 percent of GPR, respectively. Metro areas with the highest economic losses were Lawrence, Kansas, at 17.26 percent and Tyler, Texas, at 17.18 percent.
- Total operating costs' highs and lows vary among metro areas based on which measure is selected. Properties reporting from the Miami-Miami Beach-Kendall, Fla., metro area had the highest operating costs based on a per unit basis at $6,950 ($6.62 per square foot), followed by the Boston-Cambridge-Quincy, Mass.-N.H., metro area at $6,848 per unit ($6.87 per square foot). A low of $2,964 per unit ($3.47 per square foot) was reported in the Colorado Springs, Colo., metro area, with $3,032 per unit ($2.90 per square foot) in the Huntsville, Ala., metro area. The highest operating costs based on a per square foot basis, with

a smaller average unit size, were Los Angeles-Long Beach-Glendale, Calif., at $7.91 per square foot, and San Francisco-Oakland-Fremont, Calif., at $7.35 per square foot.

• Real estate taxes remained high in many metro areas in 2013. The Miami-Miami Beach-Kendall, Fla., metro area had the highest real estate taxes per unit at $2,503; and the Fort Lauderdale-Pompano Beach-Deerfield Beach, Fla., metro area was second at $2,401 per unit. The lowest average was for properties located in Colorado Springs, Colo., and Tulsa, Okla., metro areas at $334 and $442, respectively.

• Insurance costs on a per-unit basis were the highest among the following areas, including several hurricane-prone metro areas. They were $732 per unit ($0.78 per square foot) in New Orleans-Metairie-Kenner, La., and $690 ($0.66 per square foot) in the Miami-Miami Beach-Kendall, Fla., metro area. They were lowest in the Winston-Salem, N.C., and Stockton, Calif., metro areas at $120 and $134 per unit ($0.13 and $0.17 per square foot), respectively.

• Salaries and personnel costs were reported lowest in the Des Moines-West Des Moines, Iowa, metro area at $874 per unit ($0.92 per square foot) and the Killeen-Temple-Fort Hood, Texas, metro area at $913 ($1.16 per square foot). The Anaheim-Santa Ana-Irvine, Calif., metro area had the highest average at $1,570 per unit ($1.93 per square foot) followed by $1,507 in the Boston-Cambridge-Quincy, Mass.-N.H., metro area ($1.51 per square foot).

• Knoxville, Tenn., 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 1,914 and 1,119 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 787 square feet per unit, respectively.

Subsidized Properties Income & Expenses

Operating Income & Expenses Summary. Data was received for 332 subsidized properties containing 59,734 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 eight 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 153 units versus 269 units for market-rent properties of the same type. These subsidized properties had an average of 877 square feet of floor area versus 925 square feet reported for the market-rent properties in the 2013 survey.

Revenues. GPR averaged $9,824 per unit ($11.20 per square foot) annually in this year's survey versus $9,448 per unit ($10.36 per square foot) in 2012 and $9,156 per unit ($10.39 per square foot) in 2011. Rental revenues averaged $9,168 ($10.45 per square foot) versus $8,745 ($9.59 per square foot) in 2012 and $8,434 ($9.57 per square foot) in 2011. Other operating revenues averaged $493 per unit ($0.56 per square foot) in 2013 versus $361 per unit ($0.40 per square foot) in 2012, and $312 per unit ($0.35 per square foot) in 2011.

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 $4,957 per unit ($5.65 per square foot) in 2013 versus $4,372 per unit ($4.80 per square foot) in 2012 and $4,470 per unit ($5.07 per square foot) in 2011.

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 50.5 percent of GPR versus 59.2 percent for the market-rent properties. Other comparisons of subsidized NOI to market-rent were $4,704 versus $6,676 on a dollars-per-unit basis, and $5.36 versus $7.22 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 6.70 percent average rate was calculated for the subsidized individual meter/recovery garden properties versus 8.29 percent for market-rent units. The economic loss ratio in subsidized properties decreased from last year's 7.44 percent and 7.9 percent in 2011.

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 37 percent versus 55 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 36, 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 2014-2015 outlook for owners and operators of apartment properties is very positive.

In 2014 and beyond, the apartment industry will continue to attract investor interest in both primary, secondary and, in some cases, tertiary markets and among all rental property types. As the U.S. continues its gradual shift to a more rental-based society, the demand for apartment units will continue to increase. However, the looming impact of rising construction costs, potential interest rate increases, flat household income growth and a rising number of part-time employees will put pressure on rents. The shift to smaller units, demand for more urban/mixed-use properties in employment growth markets, and increasing resident demands and expectations for more—not fewer—services will continue to challenge CEOs and leadership teams throughout the apartment industry. In addition, the impact of technology on how apartments are operated, sold and maintained will continue to require apartment owners and operators to bring their "A Game" each and every day of the year.

Operating costs will increase; and, in a rising rent/high-occupancy environment, monitoring these costs can get lost when "everything is going so well." In 2014 and beyond, apartment leaders will need to carefully examine their core business, operating and resident-based strategies to successfully meet the challenges of tomorrow. Staying relevant, creating a strategic advantage and developing a differentiating brand will be necessary in a rapidly-changing world.

The apartment industry is in great shape; however, during the next five to seven years, there will likely be further consolidation, legacy exits, and the emergence of new and dynamic competitors. Achieving success tomorrow requires one to take care of business today. While the outlook remains very positive for apartment owners and operators, the next two to three years is the time to set the stage for some likely challenges ahead. The NAA survey can be a cornerstone of shaping success today and 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, exterminator and other services provided on a contract basis.

GPR Residential. Total rents of all occupied units at 2013 lease rates and all vacant units at 2013 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 is 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 or standard utility reimbursements (i.e.,submeter, RUBS, flat fee). These 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,

Thank You To Our Participating Companies

NAA sends a special note of appreciation to the 176 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 2014 Survey of Operating Income & Expenses in Rental Apartment Properties.

Advanced Management Company
AEW Capital Management
Aimco
ALCO Management
American Realty Advisors
AMLI Residential
Atlas Residential/WestCorp Management Group
Bell Partners Inc.
Berkshire Communities
Beztak Properties
BH Management Services, LLC
Blue Ridge Property Management
Camden
ConAm Management
Concierge Management Services
CWS Apartment Homes
DEI Communities
Drucker & Falk
Equity Management
Fogelman Management Group
Gables Residential
Greystar Real Estate Partners, LLC
Harbor Group International
Holland Residential
Integral
JCM Partners
KMG Prestige, Inc.
Lawler Wood Housing, LLC
Lincoln Property Company
LumaCorp Inc.
MAA
Makowsky, Ringel Greenberg
MC Residential
MG Properties Group
Milestone Management
Monarch Investment and Management Group
MV Residential Property Management, Inc.
NALS Apartment Homes
Nolan Real Estate Services
Olympus Property
Pinnacle Family of Companies
Prime Residential
RAIT Residential
Resource Real Estate
Riverstone
RMK Management
The Collier Companies
The Dolben Company, Inc.
Timberland Partners
Village Green
Waterton Residential
WC Smith
Westdale Asset Management
Western National Property Management
Wilkinson Real Estate Advisors, Inc.

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., 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 of NAA for handling survey logistics.