A BRIEF OVERVIEW OF THE BATON ROUGE APARTMENT MARKET

Presented By
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I. Introduction

A synopsis of new multifamily residential construction and major renovation projects (involving reactivation of "down" units, increasing the supply of available units) will be presented, followed by graphs illustrating the recent trends in apartment rentals (as reported by the LSU Real Estate Research Institute), vacancies (as reported by the Baton Rouge Apartment Association), and sales (as compiled by D. Wesley Moore, II, MAI). The data suggests that the substantial incoming supply of apartment units in 1995-98 (2,299 units, all of which are now available for occupancy) temporarily generated a moderate downward impact on apartment rentals (rentals continued upward, though the rate of increase slowed from pre-1995 levels) and vacancies (citywide vacancies by the beginning of 1998 reached 8.5%, up from the 4% and 5% levels experienced in the early 1990's). The Fall 1998 data suggests that absorption of these new units has occurred, with vacancies shrinking and rentals increasing. The completion of an additional 1,066 units planned/underway should hold rental increases for certain sectors in check over the next 2-3 years.

II. New Apartment Construction

Baton Rouge experienced a small "boom" in apartment construction from 1995 to 1998. During this period, 10 apartment complexes containing a total of 2,299 units were built in Baton Rouge. An additional 618± units remain under construction in Spring 1999 and 448± proposed units have been announced. It remains notable that none of the new complexes offer standard, "garden-style" apartment units (i.e., all are orient toward "niche" markets to some degree). A substantial portion of the incoming supply has been oriented toward upscale tenants (4 non-student upscale apartment communities totaling 1,185 units). These facilities are offering amenity and security packages competitive with and/or superior to anything available in the local market. Most of the new units for 1999-2000 will be upscale apartments oriented toward more affluent LSU students (like those in University Commons, with 132 four-bedroom units completed in 1995).

Financial feasibility of the new construction has been supplemented in many cases by governmental incentives (tax credits). Roughly half of the units built in 1995-97 (and virtually all of the re-activated) were subsidized by Federal Low Income Housing Tax Credits (LIHTC), which place income-based limitations on the tenant base and the allowable rentals. A popular misconception regarding these complexes is that they are similar to Section 8 housing (for which rentals are subsidized to market levels, though tenants may pay substantially less). In the LIHTC projects, allowable rentals are set by federal agencies and are a function of median household income and expected utility costs for typical households in the Parish. As many residents in the City's older "garden-style" apartment complexes have household incomes sufficiently low to qualify for occupancy in the newer tax-credit assisted properties, a certain amount of "horizontal" movement (i.e., tenant loss in the older properties) has occurred. Absorption of these new "affordable housing" units has reportedly been strong, though certain market corridors appear to have attracted a temporary oversupply. The new apartment complexes are identified on the following exhibits:

New Apartment Complexes Completed in 1995-99
Baton Rouge, Louisiana

Project Name & Location	# of Units	Completion Date	Comments
Siegen Village 6630 Siegen Lane	312	Completed Late '95	Affordable Housing (Tax Credit) Units
Jefferson Lakes, Phase III 9853 Jefferson Hwy	112	Completed August '95	Affordable Housing (Tax Credit) Units Last phase of large complex
University Commons 4600 Burbank Drive	132	Completed Sept '95	Upscale "niche" student complex offering only 4-bedroom units (528 bedrooms)
Bluebonnet Ridge 10624 Glenstone Ct	112	Completed Early '96	Affordable Housing (Tax Credit) Units
Charleston Oaks Jefferson Street in Baker	30	Completed Late '96	Affordable Housing (Tax Credit) Units Reserved for elderly
The Gates at CitiPlace 2500 Gates Circle	369	Completed Mid '97	Upscale/Luxury units
The Park on Bluebonnet 8008 Bluebonnet Blvd	272	1st Phase - Late 1996 2nd Phase - Planned for 1998	Upscale/Luxury units - 1st Phase (272 units) completed 2nd Phase (80 units) planned
Mansions in the Park Perkins Road	264	First Units Completed Spring '98 Construction Completed Fall '98	Upscale/Luxury units near Olympia Stadium
Edgewood Place Plank Road @ Blount Road	72	Construction Completed Fall '98	Affordable Housing (Tax Credit) Units
St. Jean Apartments 16441 S. Harrell's Ferry Rd	624	400+ finished during 1997 Last units completed in Spring 1998	Affordable Housing (Tax Credit) Units First units became available 4/1/97
Total	**2,299**		

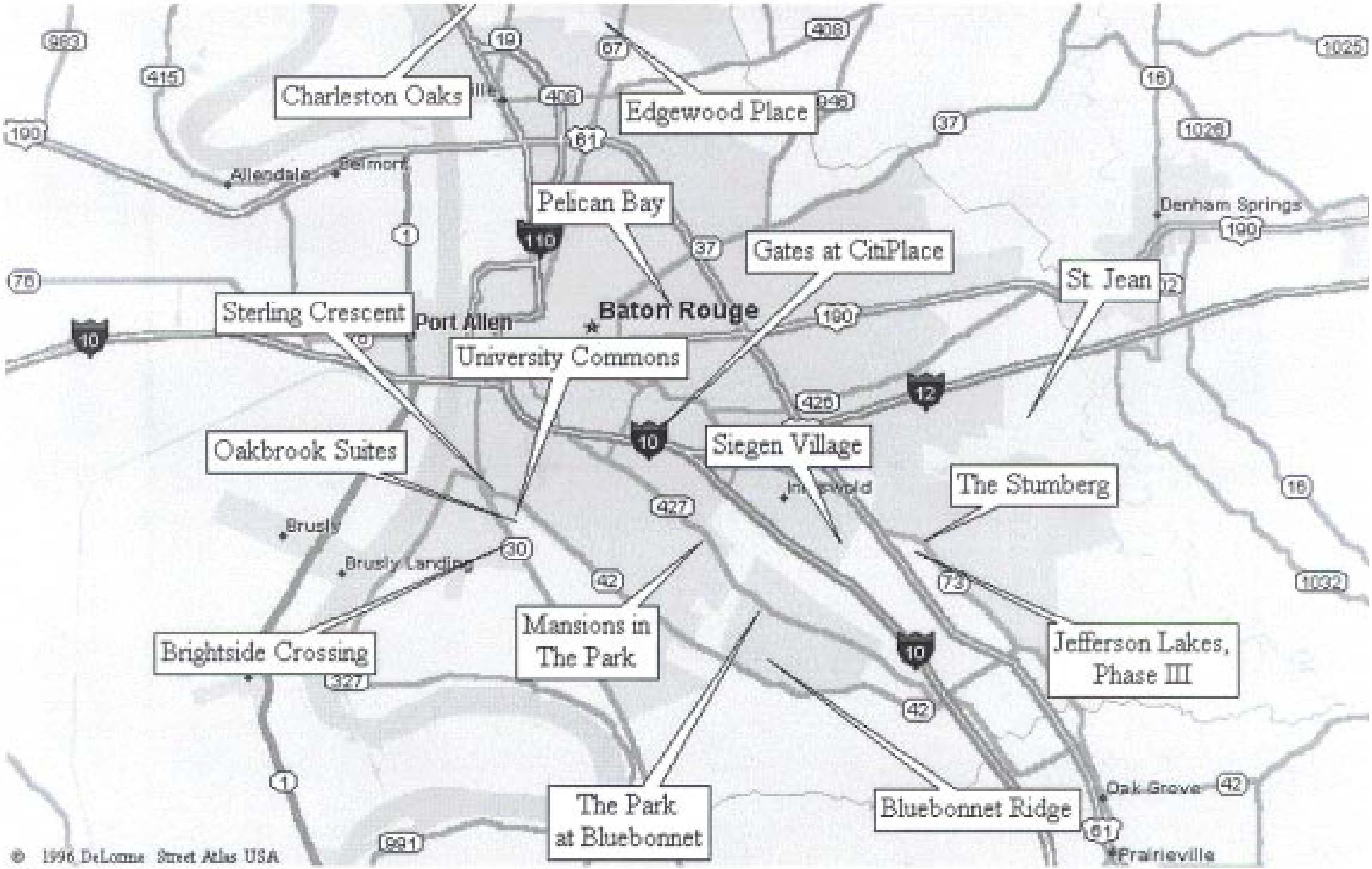
New Apartment Complexes to be Completed in 1999
Baton Rouge, Louisiana

Project Name & Location	# of Units	Estimated Completion Date	Comments
The Park on Bluebonnet 8008 Bluebonnet Blvd	80	1st Phase - Completed Late 1996 2nd Phase - To be Completed 5/99	Upscale/Luxury units - 1st Phase (272 units) completed 2nd Phase (80 units) being built
Brightside Crossing (JPI of Dallas, TX) Brightside Lane @ Nicholson Dr	252	Summer 1999	Upscale student units (774 bedrooms) Construction Underway
Sterling (Dinerstein of Houston, TX) Burbank Dr, South of Jennifer Jean	196	Summer 1999	Upscale student units (612 bedrooms) Construction underway
Oakbrook Suites 5055 Nicholson Drive	90	Completed Early 1999	Upscale student units (252 bedrooms) Construction near Completion
Total	**618**		

New Apartment Complexes Planned for 1999-2000
Baton Rouge, Louisiana

Project Name, Developer & Location	# of Units	Estimated Completion Date	Comments
Longridge Apts (Bratten Construction of Houston, TX) Longridge off S. Sherwood Forest	144	Mid 2000	Upscale/Luxury units Site plan approval on 4/20/98 - Not underway yet
Pelican Bay Apts (Esko Pelican Point Affordable Housing of Palm Beach, FL) 2121 Lobdell Ave	120	Mid 2000	Affordable Housing (tax credit) units Not underway yet
The Stumburg Apartments (Gros Construction of Houston, TX) Old Jefferson @ Stumberg Lane	184	Early 2000	Upscale/Luxury units Site plan approved 11/98
Total	**448**		

NEW APARTMENT COMPLEXES



Note the substantial amount of upscale student housing planned and under construction (oriented toward LSU students). Fall semester enrollment at LSU dropped sharply from 1984 through 1990. It stabilized in the early 1990's and has shown substantial improvement in recent years, as illustrated below:

Year	Enrollment
1983	29,863
1984	29,497
1985	28,979
1986	27,704
1987	27,295
1988	26,564
1989	25,977
1990	25,307
1991	26,138
1992	26,607
1993	25,369
1994	25,317
1995	25,879
1996	26,851
1997	28,077
1998	29,881

The 1998-99 enrollment of 29,881 was up 6.4% from 1997-98. The 1997-98 enrollment of 28,077 was up roughly 5% from 1996-97. University officials expect enrollment to continue to increase. The boost in student enrollment is at least partially attributable to TOPS (Tuition Opportunity Program for Students), a State-funded program that was modified in the Summer 1997 legislative session that affects all Louisiana high school graduates that are incoming college freshmen in 1998 (or later) and out of high school less than 2 years. Historically reserved for students whose families earn less than $35,000 per year, *the household income restrictions were removed in the modified legislation*. Under the TOPS plan, students can qualify for *free college tuition* to any public college or university in Louisiana by graduating in a college preparatory curriculum with a 2.5 grade point average and at least a 19 (the State average, which is subject to change in the future) on the American College Test (ACT). Students with higher GPA and ACT scores (3.5 and 27, respectively) can qualify for *free college tuition and as much as an $800 annual stipend*. This program has boosted college enrollment throughout the State (which has positively affected demand for student housing).

LSU announced in the Fall of 1998 that it will be raising admissions requirements beginning Fall 2000. The minimum ACT score for entering freshmen will be 20 (no minimum is currently in place at LSU), the minimum GPA will be 2.5 (increasing from 2.3), and the minimum high school credit will be 17.5 units (no change - this is the same as current requirements). Officials at LSU note the following:

- ❏ Higher admissions standards improve not only the overall reputation/prestige related to the university (as the statistical student "quality" improves). The retention and graduation rates also improve, as better students typically remain in school and graduate sooner.

- ❏ Residual benefits from the improved reputation is a better ability to draw students from other universities (i.e., the school's competitive positioning improves). Many of the students attracted are non-resident (and, thus, require additional housing units).

- ❑ Admissions standards were increased in 1995 from a minimum 2.0 GPA to a 2.3. Enrollment has boomed since 1995. Though it is difficult to assign a direct correlation, this is a notable indicator that the increased admissions standards may further boost enrollment.

- ❑ The average incoming freshman for Fall 1998 had an ACT score of 23.51, according to Bernie Braun of LSU's Budget & Planning Office. Mr. Braun indicated that more than 75% of the freshman had a ACT score of 21 or better.

We expect student enrollment at LSU to continue to grow. Further supporting this expectation is the fact that the U.S. Department of Commerce forecasts steady population growth in the college-age segment (18 to 23 year olds). This expectation is based on the fact that many members of the Baby Boom Echo generation (i.e., the children of the first Baby Boomers) are reaching college age. The nationwide population of 18 to 23 years olds, which had gradually declined in the early 1990's, stabilized in 1995-96 and has begun to improve. The timing of this improvement parallels the improvements LSU has experience in terms of enrollment.

II. Apartment Renovations

A notable number of "down" apartment units were refurbished and brought back into the rental market in 1995-98 (over 750 units). The depressed apartment market of the late 1980's spawned substantial scavenging of failed or poorly operated facilities. A significant inventory of lender-owned units, resulting from a multitude of loan defaults and foreclosures (and exacerbated by bank failures and the disposition of assets by the FDIC and RTC), facilitated numerous acquisitions of apartment properties at depressed prices. Many of these properties were renovated and put back into operation. Others were held awaiting recovery of the market and are now being renovated. Complexes that were at one point abandoned and/or boarded and have been refurbished and brought back into the rental market are considered relevant new market entrants. These rejuvenated units often offer superior housing quality and/or condition to nearby facilities and are competitive and marketable. As the available inventory of dilapidated units has diminished greatly over the past decade, the amount of major renovation/reactivation activity has dropped appreciably.

III. Other Sources of Housing Supply

In addition to the new and renovated units entering the market, there are numerous other forms of housing offering competition. These include single family dwellings (which, due to historically low interest rates and numerous government-backed incentive programs oriented toward home ownership, have drawn substantially from the apartment tenant base), assisted-living and other elderly-oriented, seniors housing facilities, condos/townhomes (of which there has been virtually no construction in the past 12 years), and mobile/manufactured homes. Condo conversions are of no net effect on the rental market (i.e., the tenants and units leave the rental market simultaneously).

The seniors housing market has attracted notable construction in recent years. The various seniors housing types are defined as follows:

- ❑ **Congregate Senior Housing** is normally built in apartment-like settings (independent living) and has a common dining area, although units also have small kitchens. Some services may be included in monthly fees.

- ❑ **Assisted Living Facilities** provide services for elderly individuals who need help in one or more daily tasks. Around-the-clock nursing is typically not available.

❑ **Continuing Care Retirement Communities (CCRC's)** have fee structures which provide health care ranging from the level found in congregate housing to around-the-clock nursing facilities. As residents age, they can obtain more support without having to move. An endowment or buy-in-fee is typically charged.

❑ **Skilled Nursing Facilities** typically provide licensed nursing care for residents requiring extensive medical or rehabilitative assistance. To support aging in place in this facility, a licensed Home Health Care Agency will provide home health care in the facility and in the resident's unit, as prescribed by the resident's physician.

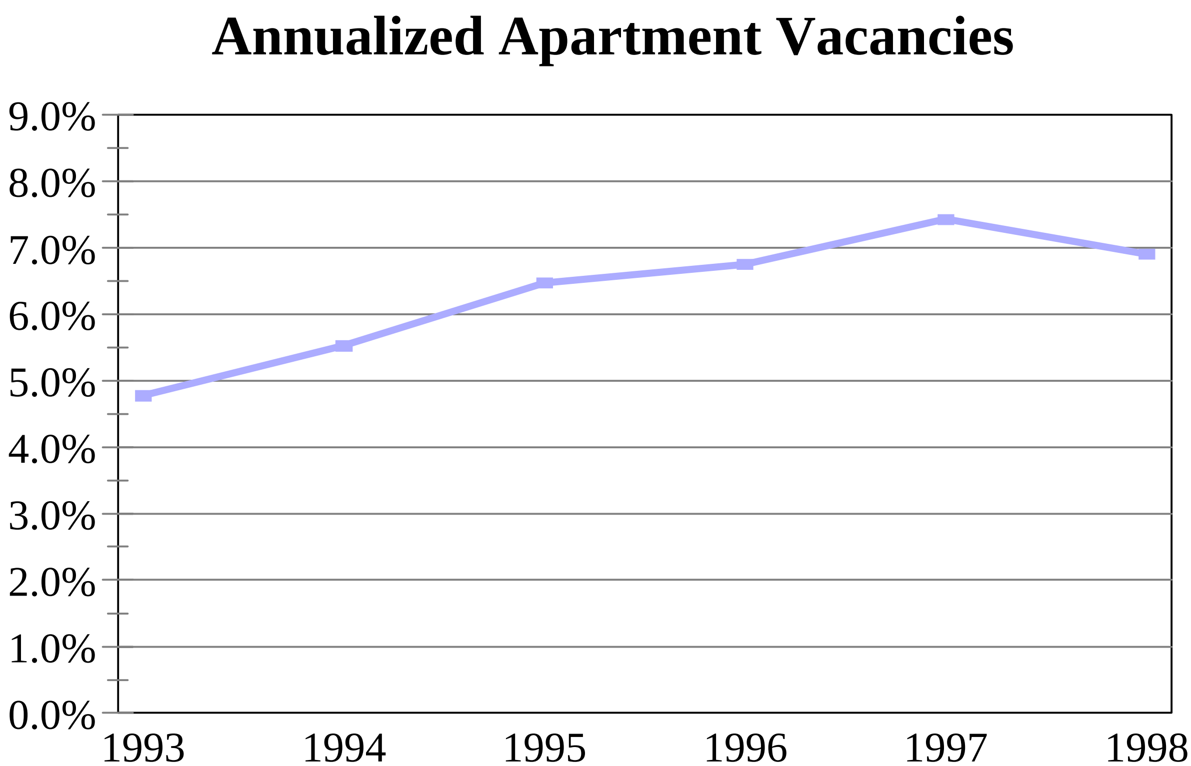
Baton Rouge has historically had only 5 facilities offering market-rate Assisted Living units and 3 facilities offering market-rate Congregate Care units (though other facilities have apartments oriented toward elderly residents, only a small number of facilities offer the support services requisite to these classifications). In recent years, however, several new facilities offering Assisted Living and Congregate Care units have been built, with additional units underway. These are listed below:

New Seniors Housing Facilities 1997-99
Baton Rouge, Louisiana

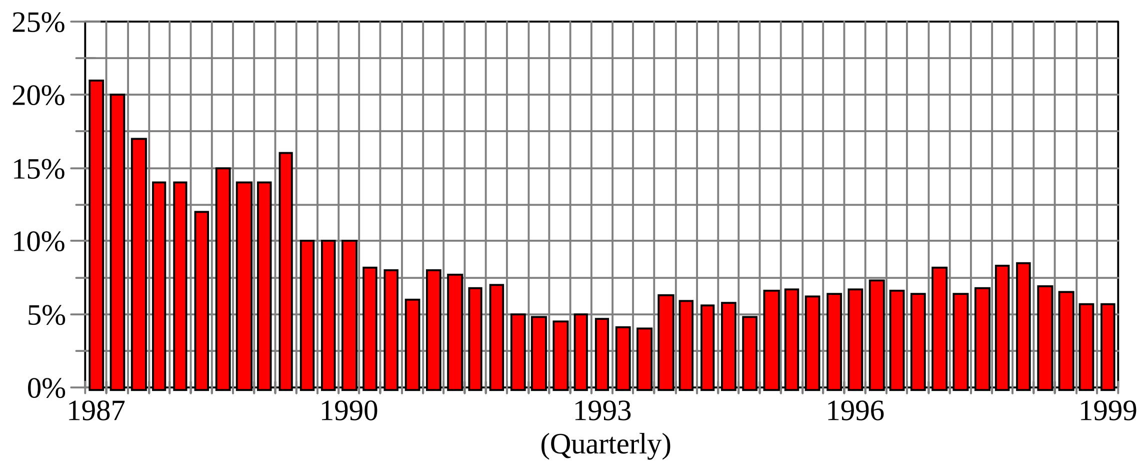
Project Name & Location	# of Units	Comments
The Village at Bluebonnet Highland Bluebonnet @ Burbank	98 Assisted Living 48 Alzhiemer's Care Units	Construction Underway Expected Completion Spring 2000
Oxford Place Oxford Place near Airline Highway	32 Assisted Living 56 Full-Care Nursing Units	Proposed Construction Expected Completion 2000
Lake Sherwood Seniors Living Center Plaza Tower Drive, off S. Sherwood Forest	120 Congregate Care 44 Assisted Living	Construction Completed 1998
Lakewood Quarters Summa Drive	108 Assisted Living	Construction Completed 1998
Village at Windemere YMCA Plaza Drive, off Perkins Road	109 Congregate Care	Construction Completed 1998
LA Plantation Assisted Living Complex 26635 LA Hwy 16, Denham Springs	71 Assisted Living	Construction Completed 1998
Williamsburg Government Street near Foster Dr	43 Assisted Living	Construction Completed 2/97
Southside Gardens Perkins Road @ Lee Drive	33 Assisted Living	Expansion of existing facility Construction Completed 1998
Total	**56 Nursing Units** **48 Alzheimer's Care** **229 Congregate Care** **429 Assisted Living**	

IV. Apartment Rentals and Vacancies

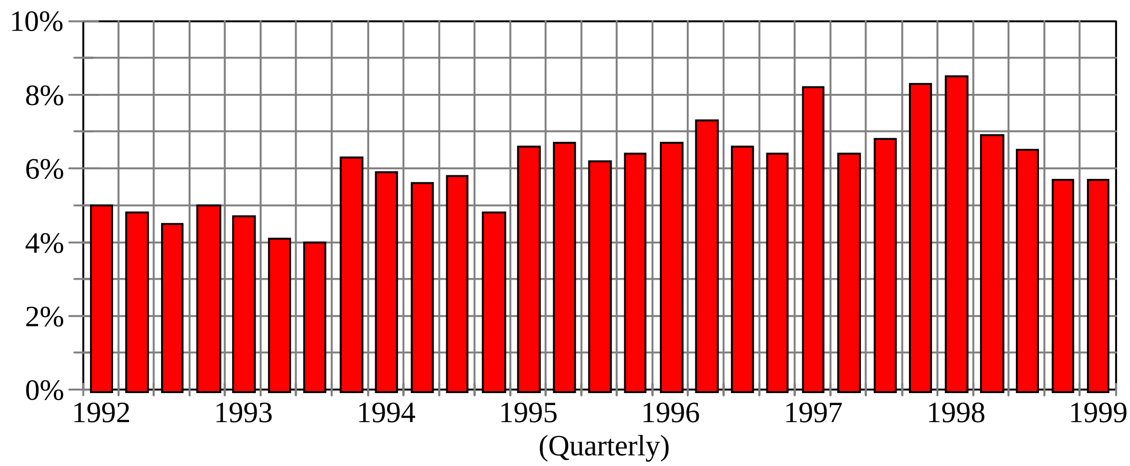
The following graphs illustrate the recent trends in apartment rentals (as reported by the LSU Real Estate Research Institute) and vacancies (as reported by the Baton Rouge Apartment Association). The data suggests that, until 1998, the substantial incoming supply of apartment units and competing sources of housing negatively impacted apartment rentals (while continuing upward, the rate of increase slowed) and vacancies (peaking at 8.5%, the overall vacancy for the city hit its highest levels since late 1990). Substantial recovery (absorption of the new supply) during 1998-99 has been occurred.



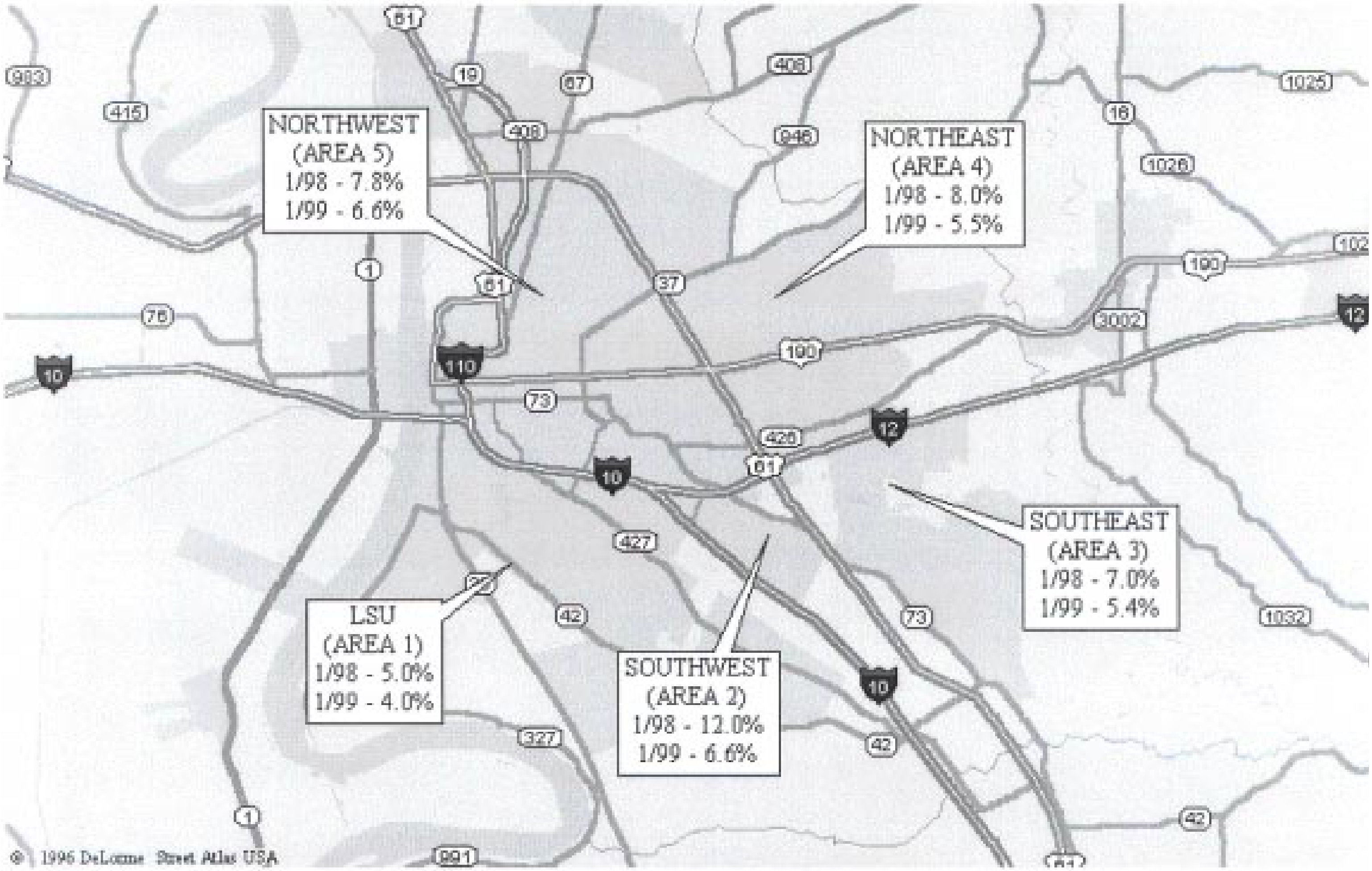
Apartment Vacancies



Apartment Vacancies

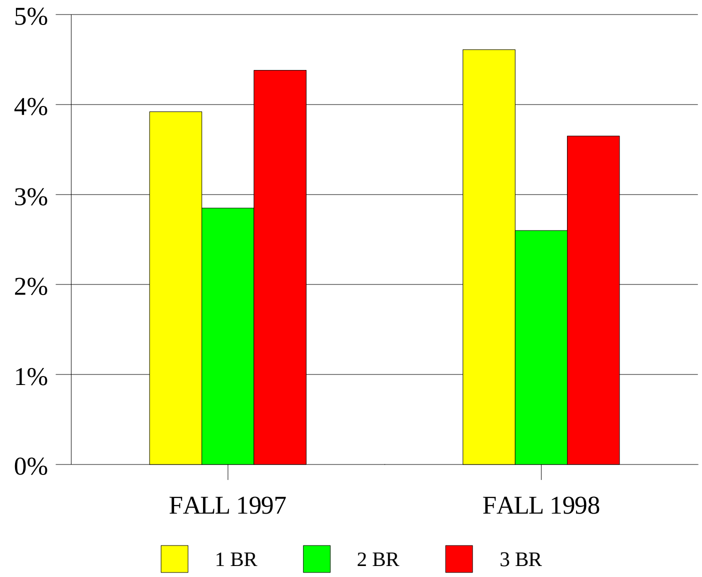


APARTMENT VACANCIES



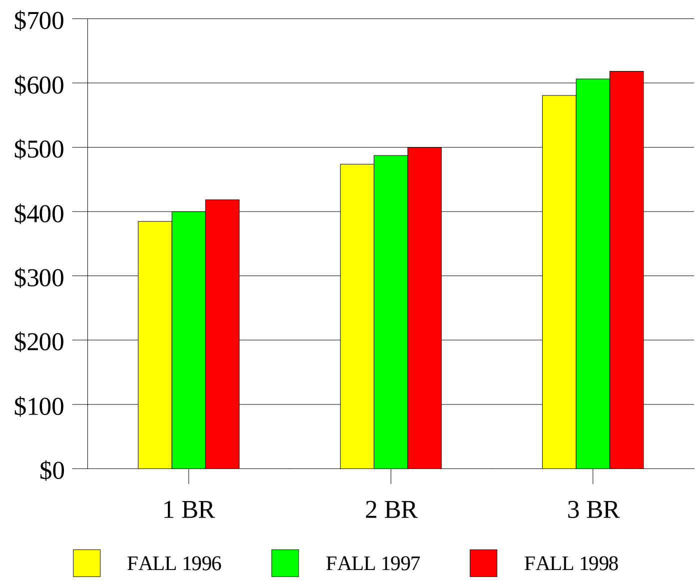
ANNUAL PERCENTAGE INCREASE IN APARTMENT RENTAL RATES BY UNIT TYPE

BASED ON MATCHED SAMPLE OF 112 COMPLEXES (FULL DATA SET)



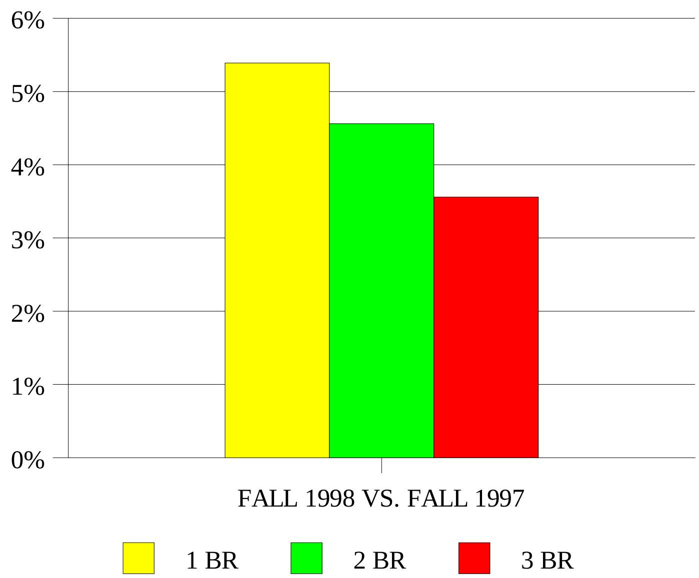
AVERAGE APARTMENT RENTAL RATES BY UNIT TYPE

BASED ON MATCHED SAMPLE OF 112 COMPLEXES



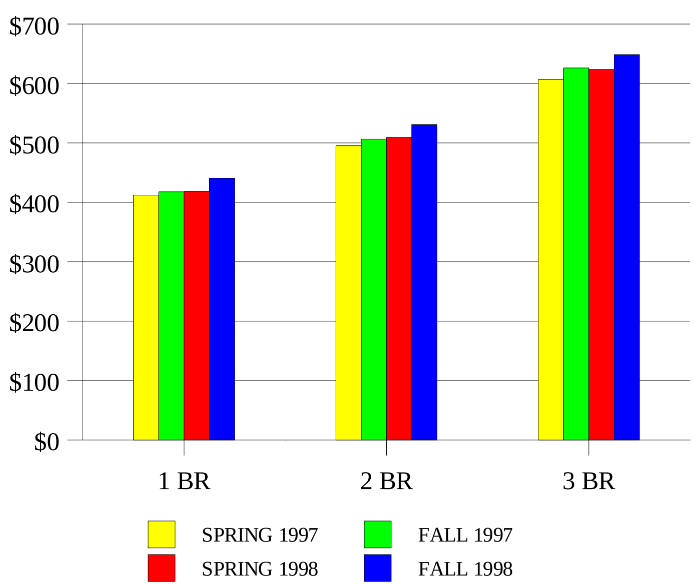
ANNUAL PERCENTAGE INCREASE INAPARTMENT RENTAL RATES BY UNIT TYPE

BASED ON MATCHED SAMPLE OF 32 LARGE COMPLEXES (201+ UNITS ONLY)



AVERAGE APARTMENT RENTAL RATES BY UNIT TYPE

BASED ON MATCHED SAMPLE OF 32 LARGE COMPLEXES (201+ UNITS ONLY)



AVERAGE RENTS REPORTED BY TYPE OF APARTMENT
Full LSU Data Set: 112 Complexes

Matched Sample Comparison
Fall 1996 - Fall 1998

	1BR	2BR	3BR
Number of Complexes Reporting	95	104	60
Number of Units	6,048	8,456	2,018
Fall 1996 Rent	$384.72	$473.72	$580.72
Spring 1997 Rent	$387.39	$473.21	$586.55
Fall 1997 Rent	$399.80	$487.20	$606.16
Spring 1998 Rent	$402.60	$488.86	$602.19
Fall 1998 Rent	$418.25	$499.86	$618.29
Change from Fall '97 to Fall '98	$15.65	$11.00	$16.10
Percent Change	**3.88%**	**2.25%**	**2.67%**

V. Sales Activity

A brief synopsis of sales activity involving multifamily properties over the past couple years is provided below. A wide array of “per unit” pricing is noted (the figures below, in some cases, include repair, renovation and/or lease-up costs incurred following the sale - they reflect “total acquisition costs”). As capitalization rate indications involve proprietary information, none are provided on the table that follows.

Property ID	Sale Date	Sale Price	Size (Units)	Price /Unit
University Gardens 2750 Alaska Street	03/99	$832,860	90	$9,254
Mansions in the Park 7250 Perkins Road	10/98	$18,000,000	264	$68,182
Oak Royale East Florida Boulevard	08/98	$940,000	64	$14,688
The Promenade Blvd de Province	06/98	$5,195,860	219	$23,721
Nehru Gardens 16011 Nehru Drive	06/98	$1,095,200	32	$34,225
Stadium Square 4759 Earl Gros	02/98	$1,400,000	74	$18,919
Oak Royale West 450 Cloud Drive	09/97	$1,522,000	89	$17,101
Park Place Millerville Road	08/97	$1,393,000	50	$27,860
The Normandie Blvd de Province	08/97	$1,760,000	76	$23,158

VI. <u>Conclusions</u>

In-depth analyses by D. Wesley Moore, II, MAI, and Tom W. Cook, MAI, which were based in large part on economic modeling developed by David Treppendahl, CCIM, suggest that East Baton Rouge Parish should be able to readily absorb roughly 700 new units per year without suffering a substantial increase in vacancies. This projection assumes stable growth in population and the number of households of 1% per year and apartment depletion (through demolition, condemnation, etc.) of 225± units per year (based on historical trends and national averages).

Even after consideration of pent-up demand exhibited in certain market segments in the early and mid-1990s (most notably upscale units, student housing, and elderly housing), the incoming supply of units (2,299 completed and being absorbed, 1,066 proposed or under construction) has exceeded this level. The resulting market-wide increase in vacancies (to the 8.5% level in early 1998, up from 4% and 5% in the early 1990s) and moderation of rental increases appears to have subsided. Fall 1998 figures gathered by LSU and January 1999 vacancy figures compiled by the Baton Rouge Apartment Association indicate that absorption of the new units has occurred (vacancies have returned to a citywide average of 5.7%, with rentals continuing upward at 2% to 4% per year).

Our conclusions are tempered by certain key considerations:

1. Local job growth in recent years (local job growth for the year ended December 1998 was 5.1%, or 14,600 jobs, based on revised figures from the Department of Labor) strongly exceeded our projection of average population growth (1% per year, or 4,000 people). If unemployment remains at such low levels (5%±) and job growth is sustained at recent levels over an extended period (2.1% job growth is projected by Dr. Loren Scott of LSU), it is unlikely that the average rate of population growth (and a corresponding increase in the number of households) will not increase. As our model is sensitive to population growth projections (with greater growth supporting stronger absorption of new multifamily units), the impact of the new supply on overall vacancies could be diminished.

2. Certain market segments (i.e., upscale units, student housing, etc.) and corridors appear to be/have been under-supplied in the mid-1990s have attracted the strongest absorption. The upscale conventional and student-oriented units that have been completed thus far report very strong occupancies (typically near 100%) and absorptions (typically 30 to 50 units leased per month during construction).

   The remaining new units (predominantly oriented toward lower-income tenants via governmental subsidization programs) have had some impact on older, less competitive properties marketed toward the same tenant base. Slower absorption has been reported in most affordable housing developments (typically 20 to 25 units per month), with the influx of new affordable housing units entering the market essentially coming to a halt.