

BATON ROUGE APARTMENT MARKET OVERVIEW

TRENDS IN REAL ESTATE 2003

Presented By

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Data collected recently regarding apartment rentals (as reported by the LSU Real Estate Research Institute) and vacancies (as reported by the LSU RERI and the Baton Rouge Apartment Association) suggests that the substantial incoming supply of apartment units in 1995-01 (3,993± units in East Baton Rouge Parish) 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). For most of 1999 and 2000, this temporary oversupply was rapidly absorbed, with vacancies citywide returning to around 6% until late 2000. The 2001 and early 2002 data noted moderate softening while absorption of several new units was underway, with vacancies rising slightly (peaking at 7.4% citywide in April 2001) and rental increases remaining nominal (2%± per year). The Fall 2002 data collected by LSU RERI suggests that most of the new units have been absorbed, with citywide vacancies returning to 5.5%± in October 2002, though rental increases have slowed (averaging roughly 1% per year). The completion of an additional 1,738± units in 2002-03 (most are currently under construction), 617± units 'officially' planned and announced for 2004, and 168± units "on the drawing board" could hold rental increases for certain sectors in check over the next 3± years and produce a short-term increase in vacancies. The January 2003 citywide vacancy compiled by the BRAA was 6.9%.

In retrospect, the market appears to have maintained an absorption rate of 600 to 700 units per year (4,500± units built and absorbed over a 7± year period = 650± units per year). If all of the 2,200± units (which equates to a 3± year supply) planned for construction during the next 2± years are completed, a temporary oversupply of apartment units (most notably in the upscale segment) will likely result.

A bulleted summary of our conclusions (tailored towards apartment managers & owners) is provided below:

- Market-wide vacancies should begin to gradually increase (though 92% to 93% city-wide occupancy is OK, really) through 2003, likely peaking in 2004
- Competitive pressures (from new apartment units) should increase during 2003, as the units under construction should start coming online, forcing overall rentals to stall (if not decline) and concessionary practices (e.g., reduced deposits, short-term rental discounts, etc.) to increase
- The 'dance floor' may start to get a bit crowded by mid or late 2003, forcing older properties to 'dress-up' more for the dance (i.e., capital improvements, updating, increased services, etc.) or potentially accept lower and/or stagnating rentals