

AN OVERVIEW OF THE BATON ROUGE APARTMENT MARKET
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Presented By
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I. Introduction

A synopsis of new multifamily residential construction projects will be presented, followed by graphs illustrating the recent trends in apartment rentals and vacancies (as collected by Cook, Moore & Associates in conjunction with the LSU Real Estate Research Institute and the Baton Rouge Apartment Association). The data suggests that the substantial incoming supply of apartment units in 1995-01 (3,993± units) 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 appears to have been 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. The Fall 2002 data suggested that most of the new units had been absorbed, with citywide vacancies returning to 5.5%± in October 2002. The completion of an additional 1,545± units in 2002-03, with 1,160± units under construction in 2004, will likely result in (if not declining) rentals over the next 2± years and produce a short-term, but notable increase in vacancies. The January 2004 citywide vacancy was 7.4% (up from 5.5% in October 2002 and 6.9% in January 2003). The full impact of the new supply on citywide vacancies has unlikely been fully realized. As such, vacancies in most corridors will likely increase over the next 12± months. Concessions at upscale properties will also likely remain prevalent. It should be noted that the vacancy surveys generally include only "stabilized" properties, thus, most of the properties in "lease-up" (with substantial vacancies) are not reflected in the published statistics.

II. New Apartment Construction

Baton Rouge experienced a small "boom" in apartment construction from 1995 to 2001. During this period, 22 new apartment complexes containing a total of 3,993± units were built in Baton Rouge. An additional 3 complexes with 434± units were built in 2002, 5 complexes with 1,111± were built in 2003 and 4 complexes with 1,160± units are under construction and will be completed in 2004. It remains notable that very few of the new complexes are offering standard, mid-grade apartment units (i.e., virtually all are orient toward "niche" markets, such as students or lower-income households). The vast majority of the new supply has been oriented toward more affluent tenants. These facilities offer premium amenities, finishes, services and/or security packages. Most of the new units built in 1999 were upscale apartments oriented toward more affluent LSU students. Most of those built in 2002-2003 were more conventional upscale/luxury units. The new supply in 2004 will once again be predominantly oriented toward affluent students. The new apartment complexes in Baton Rouge are identified on the following exhibits:

**Apartment Complexes Under Construction for 2004
in Baton Rouge, Louisiana**

Project Name, Developer & Location	# of Units	Expected Completion Date	Comments
The Venue at Northgate (First Worthing, Dallas, TX) 252 W. State Street at Highland Rd	193	Mid 2004	Upscale/Luxury Student-Oriented units Construction underway
The Palisades at Jaguar City (Educational Devpmt Co. of America) Scenic Hwy at Harding Blvd	324	Mid 2004	Upscale/Luxury Student-Oriented units Construction underway
The Reserve at Cedar Lodge Creekstone (Steve Keller, Houston, TX) Corporate Blvd near Jefferson Hwy	300	Mid 2004	Upscale/Luxury units Construction Underway
Southgate Towers (Phase I) (R.W. Day & Associates, Baton Rouge) Nicholson Drive south of LSU	343	Mid 2004	High-rise, Upscale/Luxury Student-Oriented Units Construction Underway Additional phases planned
Total (through 2004)	1,160		

Not included in these lists may be additional properties (in the planning and/or financing stages) for which the site has not been purchased, site plan approval has not been granted and/or plans have not been publicly announced. As construction of new units cannot occur without site plan approval and the process of acquiring such approval is highly political and speculative (as can be the site acquisition process), inclusion of such properties in a traditional 'pipeline' analysis would be inappropriate.

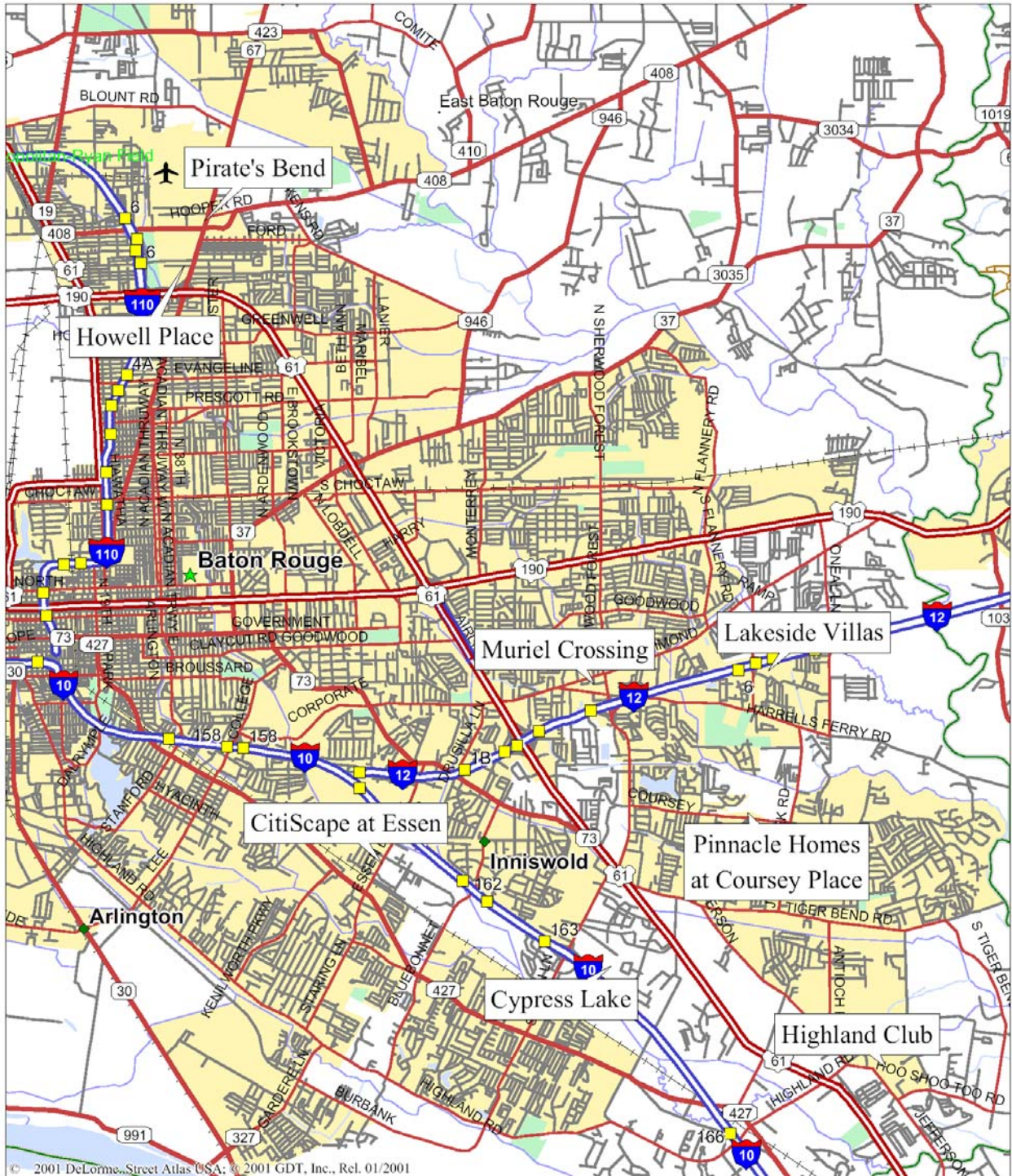
**Apartment Complexes Completed in 2003
in Baton Rouge, Louisiana**

Project Name, Developer & Location	# of Units	Completion Date	Comments
Pinnacle Homes at Coursey Place (Colonial Properties, Montgomery, AL) Coursey at Hickory Ridge	352	Spring 2003	Upscale/Luxury units (HUD 221d4) Construction started mid-2002
Lakeside Villas (Gros Construction of Houston, TX) Millerville Road near Wedgewood S/D	224	Summer 2003 (1 st Phase)	Upscale/Luxury Units Construction started late 2002
CitiScape at Essen (Danny Brown, Baton Rouge) Essen between Summa & Mancuso	216	Fall 2003	Upscale/Luxury units (HUD 221d4) Construction started late 2002
Muriel Crossing (Sidney Coxe, Jr) Muriel Drive off South Sherwood Forest	116	Spring 2003	Mid-Scale Conventional Units Construction started late 2002
Highland Club (Ed Kramer, Baton Rouge, LA) Old Jefferson near Highland Rd	203	Summer 2003	Upscale/Luxury units (HUD 221d4) Construction started late 2002
Total (for 2003)	1,111		

**Apartment Complexes Completed in 2002
Baton Rouge, Louisiana**

Project Name, Developer & Location	# of Units	Completion Date	Comments
Cypress Lake Apts (Bryan Company of Jackson, MS) Reiger Road off Siegen Lane	314	Late 2002 (1 st phase)	Upscale/Luxury units Construction Completed 1/02
Howell Place Apartments (Barron Builders of The Woodlands, TX) 72 nd Avenue off Plank Road	48	Mid 2002 (1 st Phase of 96± unit facility)	Affordable Housing (tax credit) units
Pirates Bend Apartments (Barron Builders of The Woodlands, TX) Plank Road north of Harding	72	Late 2002	Affordable Housing (tax credit) units
Total	434		

MAP OF APARTMENT COMPLEXES BUILT IN 2002-03



**Apartment Complexes Completed in 2001
Baton Rouge, Louisiana**

Project Name, Developer & Location	# of Units	Completion Date	Comments
Pelican Bay Apts - Phase III (Barron Builders of The Woodlands, TX) 2121 Lobdell Avenue	48	Completed October 2001 (3 rd phase of 152-unit facility)	Affordable Housing (tax credit) units Fully Leased by Time of Completion
Springbrook Apts (Summers Investments) George O'Neal near Jones Creek	200	Completed Spring 2001	Upscale/Luxury units Leased to 80%+ occupancy by Fall 2001
Turnberry Place Apts (Belcher Properties) Linkwood Court off Bluebonnet Blvd	272	December 2001	Upscale/Luxury Units
Total	520		

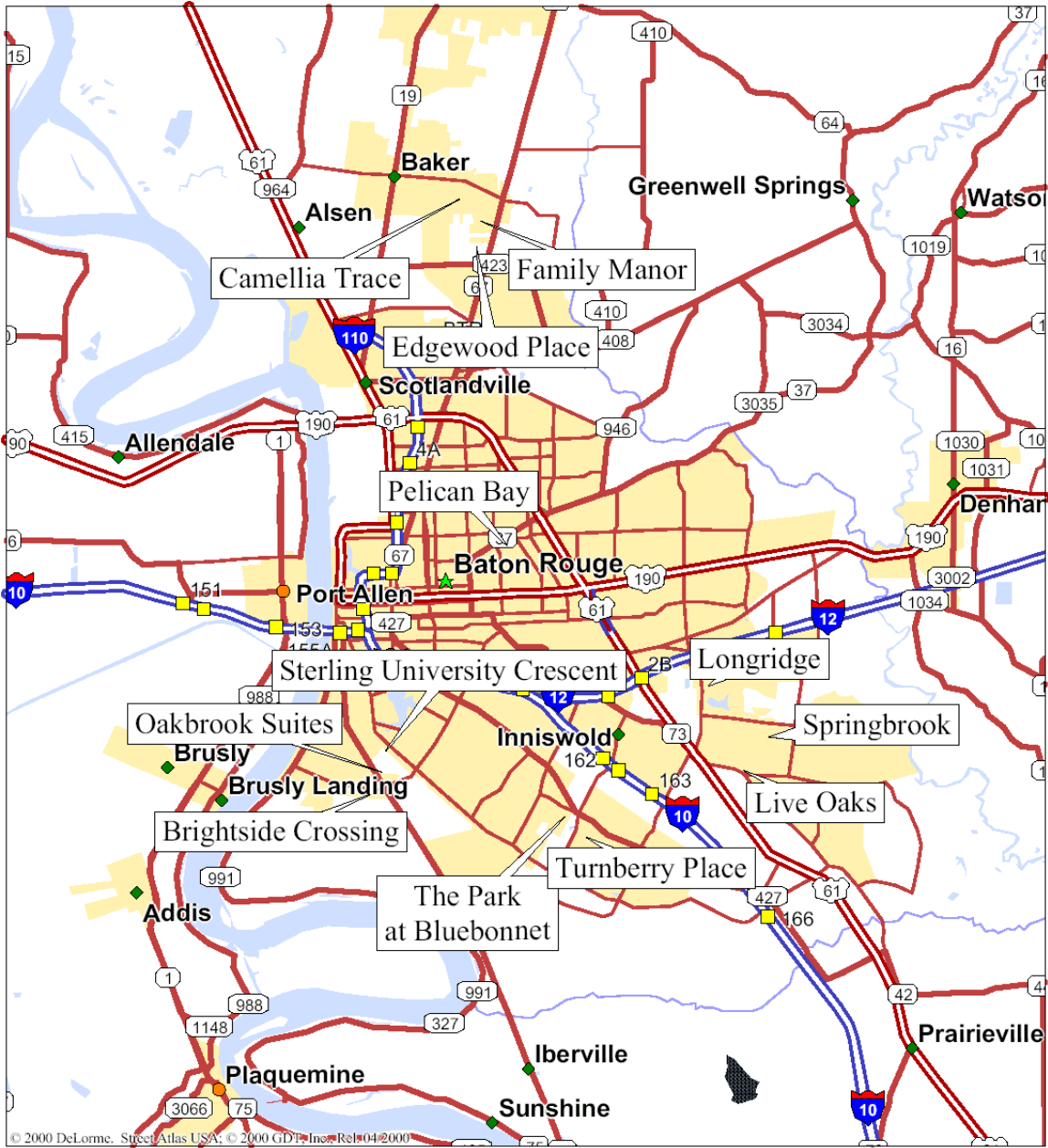
**Apartment Complexes Completed in 2000
Baton Rouge, Louisiana**

Project Name, Developer & Location	# of Units	Completion Date	Comments
Longridge Apts (Bratten of Houston, TX) Longridge off S. Sherwood Forest	144	Completed October 2000	Upscale/Luxury units
Pelican Bay Apts (Barron Builders of The Woodlands, TX) 2121 Lobdell Avenue	104	Completed Late 2000 (Phases I & II)	Affordable Housing (tax credit) units Fully leased prior to completion
The Live Oak Apartments (Gros Construction of Houston, TX) Old Jefferson @ Stumberg Lane	184	Completed October 2000 1 st Units available July 2000	Upscale/Luxury units
Family Manor Apartments Plank Road near Blount Road	40	Completed Early 2000	Affordable Housing (tax credit) units
Total	472		

**Apartment Complexes Completed in 1999
Baton Rouge, Louisiana**

Project Name, Developer & Location	# of Units	Completion Date	Comments
Brightside Crossing (JPI of Dallas, TX) Brightside Lane @ Nicholson Dr	252	Completed August 1999	Upscale student units (774 bedrooms)
The Park on Bluebonnet 8008 Bluebonnet Blvd	80	1st Phase - Completed Late 1996 2nd Phase - Completed Summer 1999	Upscale/Luxury units - 1st Phase (272 units) 2nd Phase (80 units)
Camelia Trace Apts (Standard Enterprises & Risdon Wood Groom Road in Baker	88	Completed in July 1999	Affordable Housing (tax credit) units
Edgewood Place Plank Road @ Blount Road	72	Completed in Summer 1999	Affordable Housing (Tax Credit) Units
Oakbrook Suites (R.W. Day & Associates) 5055 Nicholson Drive	90	Completed Early 1999	Upscale student units (252 bedrooms)
Sterling University Crescent (Dinerstein of Houston, TX) Burbank Dr, South of Jennifer Jean	192	Completed August 1999	Upscale student units (612 bedrooms)
Total	774		

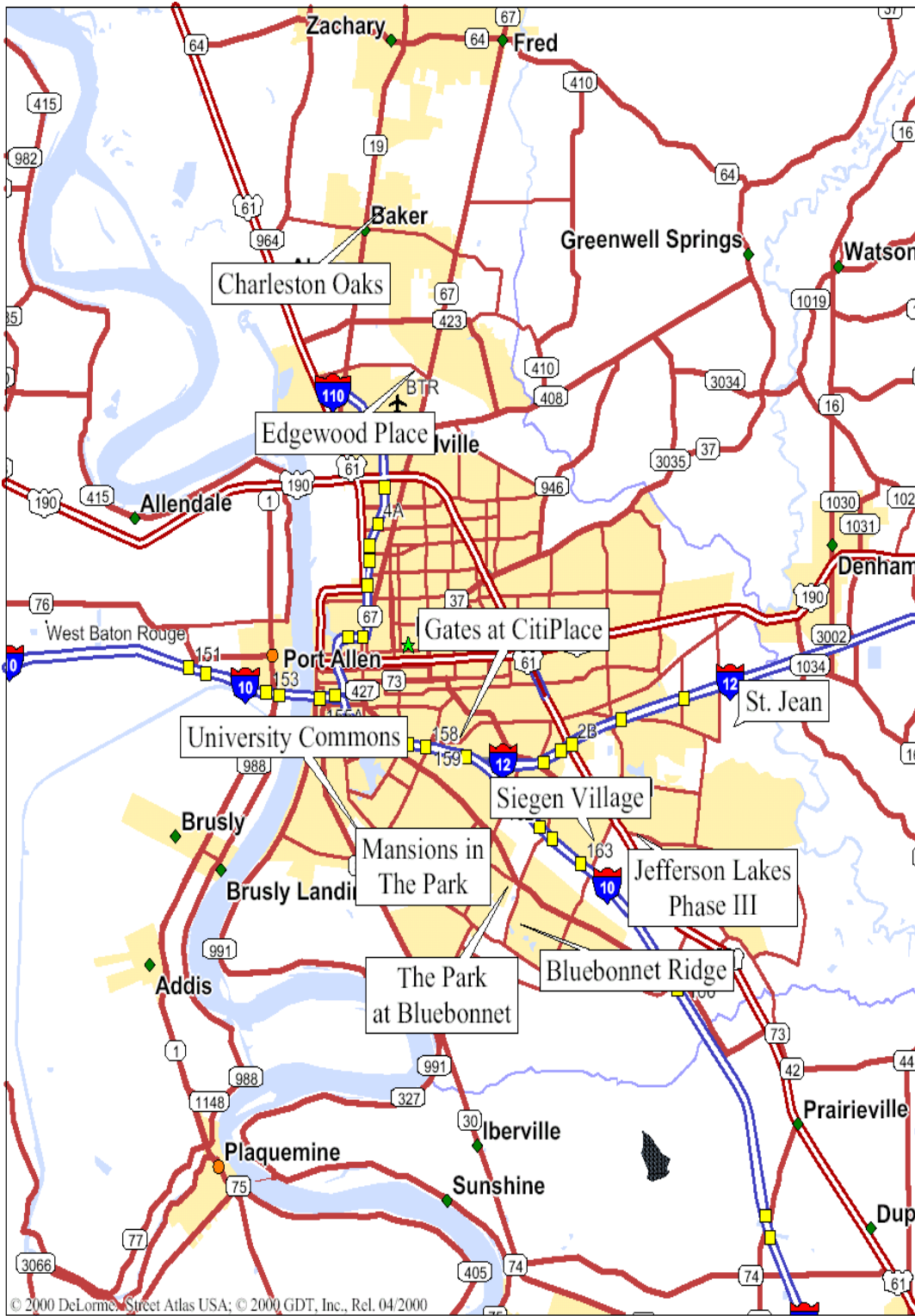
MAP OF APARTMENT COMPLEXES BUILT 1999-2001



**New Apartment Complexes Completed in 1995-98
Baton Rouge, Louisiana**

Project Name & Location	# of Units	Completion Date	Comments
Siegen Village 6630 Siegen Lane	312	Completed Late 1995	Affordable Housing (Tax Credit) Units
Jefferson Lakes, Phase III 9853 Jefferson Hwy	112	Completed August 1995	Affordable Housing (Tax Credit) Units Last phase of large complex
University Commons 4600 Burbank Drive	132	Completed Sept 1995	Upscale "niche" student complex offering only 4-bedroom units (528 bedrooms)
Bluebonnet Ridge 10624 Glenstone Ct	112	Completed Early 1996	Affordable Housing (Tax Credit) Units
Charleston Oaks Jefferson Street in Baker	30	Completed Late 1996	Affordable Housing (Tax Credit) Units Reserved for elderly
The Gates at CitiPlace 2500 Gates Circle	369	Completed Mid 1997	Upscale/Luxury units
The Park on Bluebonnet 8008 Bluebonnet Blvd	272	1st Phase - Late 1996 2nd Phase - Mid 1998	Upscale/Luxury units
Mansions in the Park Perkins Road	264	Completed Fall '98	Upscale/Luxury units near Olympia Stadium
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	2,227		

MAP OF APARTMENT COMPLEXES BUILT 1995-1998



Apartment Construction in Surrounding Parishes

Construction in the Parishes surrounding Baton Rouge has, thus far, remained very moderate. The only substantial construction has occurred in Livingston Parish, though at least 3 new upscale complexes with a combined total of 700+ units are planned in Ascension Parish (at the time of this writing, none are under construction in Ascension Parish, though one has received HUD approval to commence construction in mid-2004).

The notable recent construction in surrounding Parishes (all the Livingston Parish properties are in the Denham Springs area) is summarized on the following table:

Apartment Construction in 2000-2005 in Livingston & Ascension Parishes			
Project Name, Developer & Location	# of Units	Completion Date	Comments
Live Oak Trace Apts (Brian Campbell, Baton Rouge) LA 64 west of LA 16, Livingston Parish	264	2002	Mid-scale (Class B) conventional units
Springtree Apartments (Sunquest Properties, Monroe, LA) Off LA 16, Livingston Parish	72	2000	Affordable Housing (tax credit) units
Boardwalk Place Apartments (Danny Brown, Baton Rouge) North side of LA 1034, Livingston Parish	264	Late 2004	Upscale/Luxury units (HUD 221d4) Under Construction
Tuscany Apartments (Vintage Realty & Destiny, Shreveport) LA 30 at I-10, Ascension Parish	240	Mid 2005	Upscale/Luxury units (HUD 221d4) Construction to start Mid-2004
Total	840		

LSU Influence

Note the substantial amount of upscale student housing planned or recently completed (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:

<u>Year</u>	<u>Enrollment</u>
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
1999.....	30,966
2000.....	30,870
2001.....	31,402
2002.....	31,560
2003.....	31,234

The 2003-2004 enrollment of 31,234± reflected a slight decrease of 1.1% from enrollment in Fall 2002. It is notable, however, that the 2002 figure was 17% higher than the 1996 enrollment. The boost in student enrollment was 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 who were incoming college freshmen in 1998 (or later) and have been 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 2.7 grade point average and at least a 21 (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 enrollment at several Universities throughout the State.

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. These standards were increased further in 2002 and will be increased again in Fall 2005 (to a minimum of a 3.0 GPA, 25 ACT *or* finish in top 10% of high school graduating class). **Enrollment at LSU has boomed since 1995 (the number of incoming freshman in Fall 1995 was 3,428, with an average ACT score of 23.4; the number of incoming freshman in Fall 2003 was 5,089, with an average ACT score of 24.4).** Though it is difficult to assign a direct correlation, this is a notable indicator that the increased admissions standards may actual serve to further boost enrollment.

We expect student enrollment at LSU to maintain a slower, more stable pace of growth. Further supporting this 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 gradually declined in the early 1990's, stabilized in 1995-96 and has since improved. The timing of this improvement parallels the improvements LSU has experienced in terms of enrollment.

III. 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.

IV. 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 (construction and absorption of numerous condo units has been completed over the past 4± years, virtually all near LSU, with more units currently underway), and mobile/manufactured homes. Condo conversions are of minimal net effect on the rental market (i.e., the tenants and units leave the rental market simultaneously).

A source of rental housing often overlooked is renter-oriented condo construction. In the immediate proximity of LSU, several condo developments have been built over the past few years and have attracted

relatively rapid absorption (typically 5 to 10 units per month, depending more on construction schedules and availability than market demand). The notable condo developments are summarized below:

Student-Oriented Condo Developments 1998-2003 Baton Rouge, Louisiana			
Project Name, Developer & Location	# of Units	Year Built	Comments
University View (Bill Hopper) East Boyd @ Nicholson Dr	144	2000-2001	Upscale student-oriented condos Virtually all units sold prior to completion Average 2BR unit pricing of \$105,000±
Leigh's Cove (Greg Cramer, et al) Etta Street off West Lee Dr	32	2000-2001	Upscale student-oriented condos Units sold at a rate of 3/month 2BR unit pricing of \$100,000 to \$113,000±
Highland Village II (Bill Hopper) Highland Road @ LSU Avenue	80	1998-1999	Upscale student-oriented condos Units sold at a rate of 4.5/month Average 2BR unit pricing in 2001 of \$103,000±
Courtney Place Condos (DNT Properties) Burbank south of Jennifer Jean	48	2002	Upscale student-oriented condos All units sold prior to completion 2BR unit pricing of \$106,000 to \$116,000±
Burbank Estates Condos (Earl Weber, New Orleans) Burbank south of Jennifer Jean	32	2003	Upscale student-oriented condos All units sold prior to completion 2BR pricing of \$129,900 to \$135,900
Jessica's Landing (DNT Properties) Brightside Lane south of Nicholson	24 (1 st Phase)	2003	Upscale student-oriented condos 2BR Pricing of \$115,000 to \$125,000
Leigh's Cove - Phase II (Greg Cramer, et.al.) Etta Street off West Lee Drive	26	2003	Upscale student-oriented condos 2BR Pricing of \$129,000 to \$139,000
Total	386		

**Student-Oriented Condo Developments Under Construction for 2004-05
in Baton Rouge, Louisiana**

Project Name, Developer & Location	# of Units	Expected Completion Date	Comments
Lake Beau Pre (Greg Flores of Baton Rouge, LA) River Road south of Brightside Lane	115 (1 st 3 Phases) 192 (Total)	Mid 2004 Mid 2005	Upscale student-oriented townhomes Expected Completion 8/04 87 Units Pre-Sold
Jessica's Landing (DNT Properties) Brightside Lane south of Nicholson	24 (2 nd Phase)	Mid 2004	Upscale student-oriented condos Expected Completion 7/04
Burbank Estates Condos - Phase II (Earl Weber, New Orleans) Burbank south of Jennifer Jean	72	Mid 2004	Upscale student-oriented condos All units pre-sold 2BR pricing of \$135,900 to \$149,900
Arlington Plantation (Rick Cappo, Denham Springs) Brightside Lane south of Heatherstone	104	2004/2005	Upscale student-oriented townhomes Construction to start mid-2004
Southgate Towers Condos (R.W. Day & Associates, Baton Rouge) Nicholson Drive south of LSU	91	2005	High-rise, Upscale/Luxury Student-Oriented Units Planned start date - Mid-2004 Part of larger development of retail/apartments/office
Total (through 2005)	483		

Seniors Housing

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.

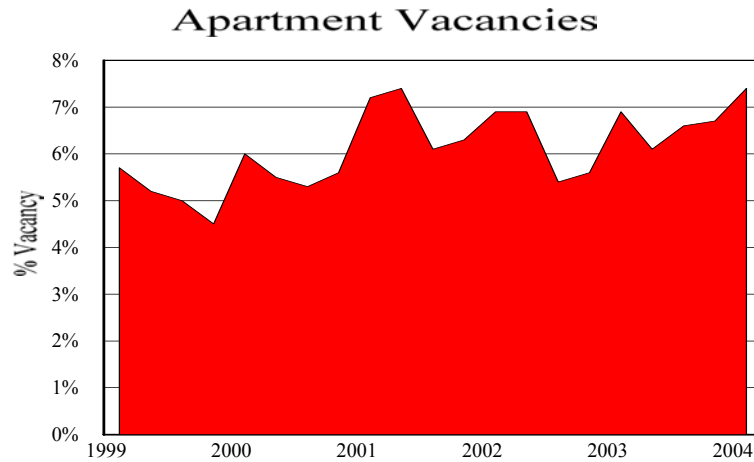
Baton Rouge has historically had only 5 facilities offering market-rate Assisted Living units and 3 facilities offering market-rate Congregate Care units (though other facilities have apartments oriented toward elderly residents, only a small number of facilities offer the support services requisite to these classifications). In recent years, however, several new facilities offering Assisted Living or Congregate Care units have been built, though no additional units are known to be under construction. These are listed on the following table:

**New Seniors Housing Facilities 1997-03
Baton Rouge, Louisiana**

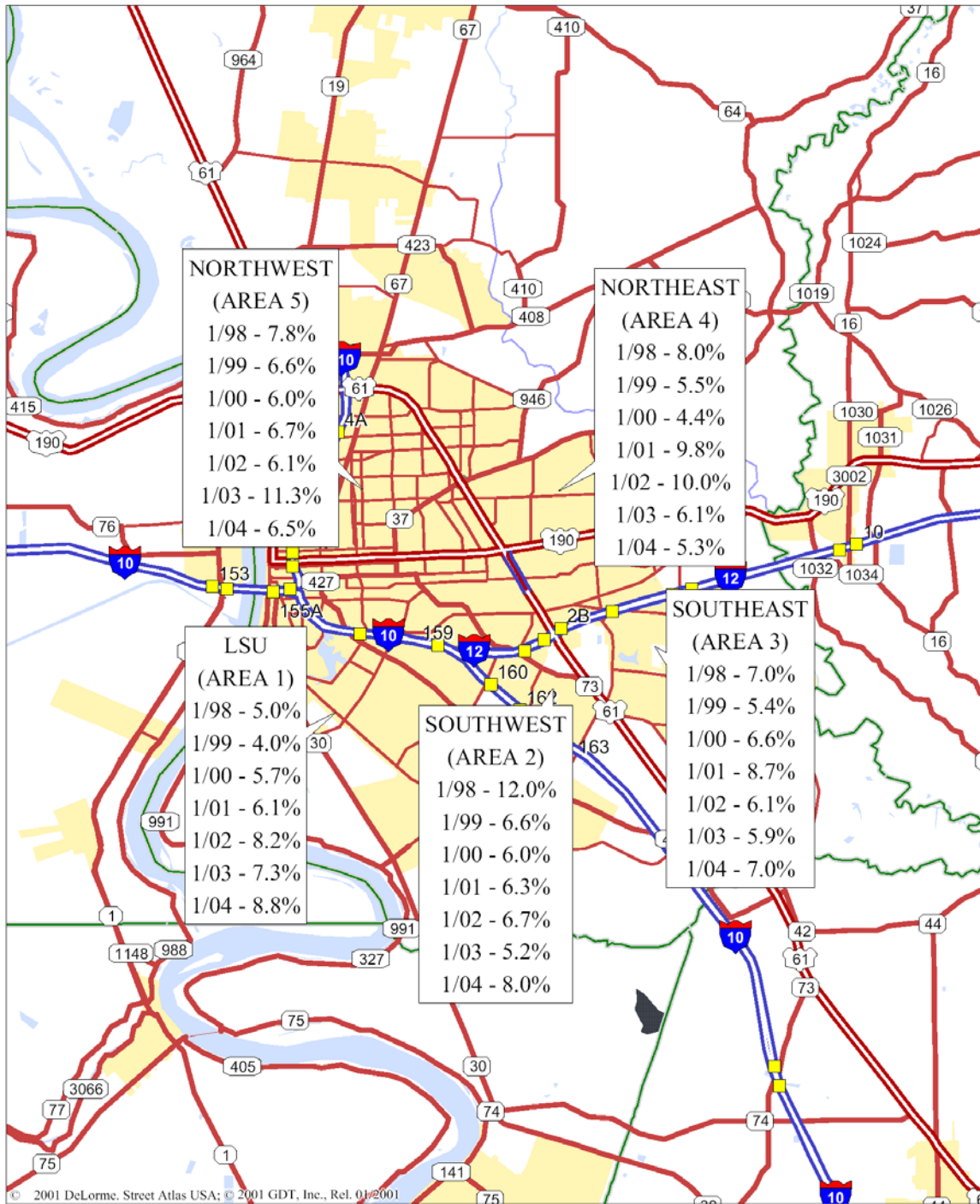
Project Name & Location	# of Units	Comments
St. James Place Lee Drive near Highland Road	74 Assisted Living 64 Congregate Care	Construction began in Fall 1999 Expansion of existing facility
Sunrise Assisted Living Facility corner of Jefferson Highway and Essen Lane	54 Assisted Living	Completed in August 2000
Sherwood Manor Nursing Center Westfork off South Sherwood	107 Nursing Units	Construction Completed 2001
Oxford Place Oxford Place near Airline Highway	32 Assisted Living 56 Full-Care Nursing Units	Construction Completed 2001
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	163 Nursing Units 293 Congregate Care 459 Assisted Living	

V. Apartment Vacancies & Rental Trends

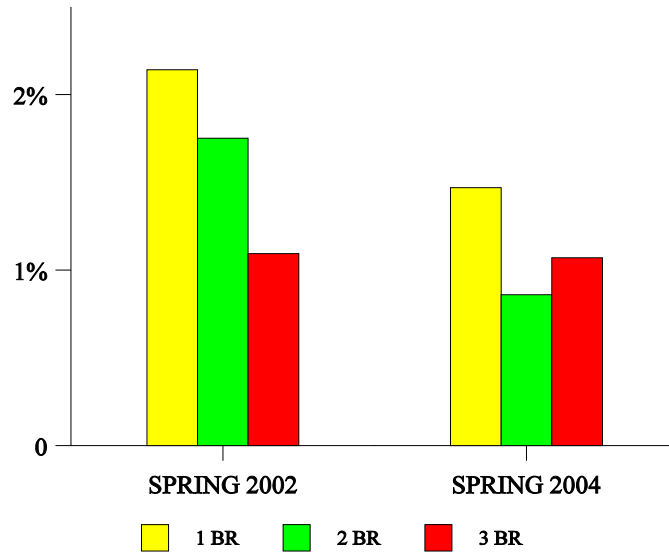
The following graphs illustrate the recent trends in apartment vacancies (as reported by the Baton Rouge Apartment Association). The data suggests that, until 1998, the substantial incoming supply of apartment units and competing sources of housing negatively impacted apartment rentals (while continuing upward, the rate of increase slowed) and vacancies (peaking at 8.5%, the overall vacancy for the city hit its highest level since late 1990). Gradual recovery (absorption of the new supply) occurred in 1999-2002, with city-wide vacancies reported by the Baton Rouge Apartment Association at 5.5% in October 2002. The substantial construction in 2002-03 has resulted in an increase in citywide vacancies to 7.4% in January 2004. The apartment vacancies trends over the past several years are illustrated on the following exhibits:



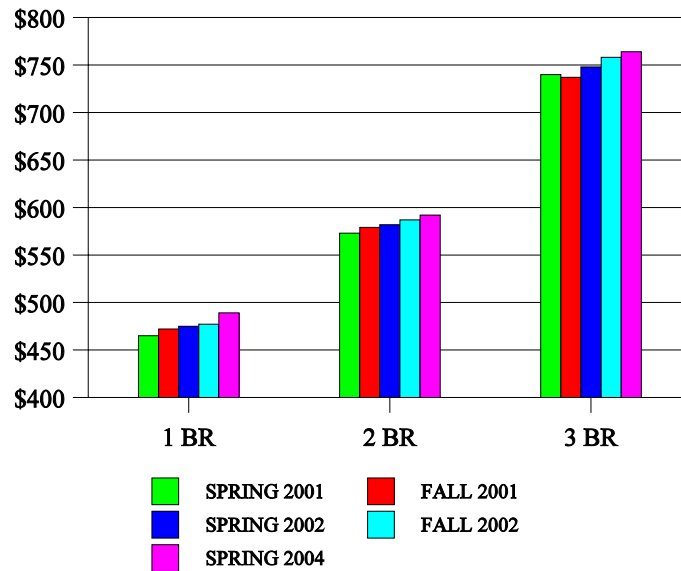
APARTMENT VACANCIES



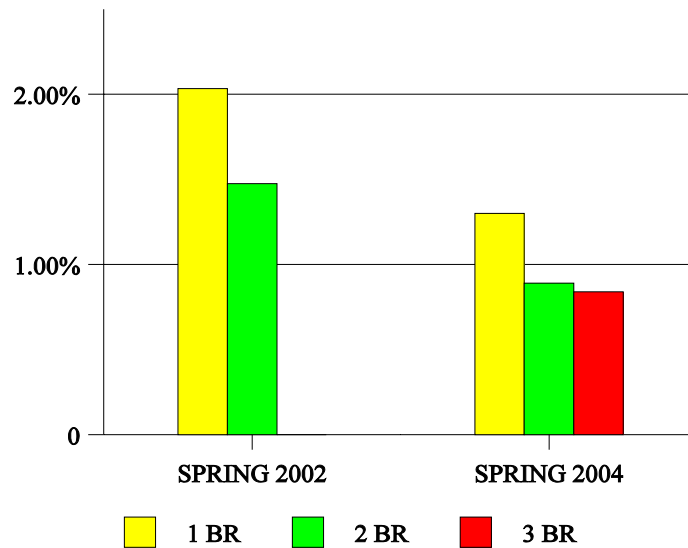
**ANNUAL PERCENTAGE INCREASE IN APARTMENT RENTAL RATES BY UNIT TYPE
BASED ON MATCHED SAMPLE OF 128 COMPLEXES**



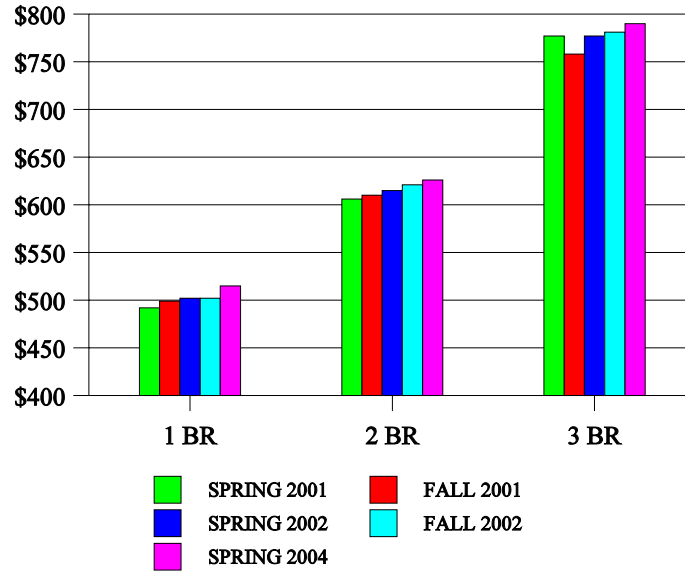
**AVERAGE APARTMENT RENTAL RATES BY UNIT TYPE
BASED ON MATCHED SAMPLE OF 128 COMPLEXES**



**ANNUAL PERCENTAGE INCREASE IN APARTMENT RENTAL RATES BY UNIT TYPE
BASED ON MATCHED SAMPLE OF 35 LARGE COMPLEXES (201+ UNITS ONLY)**



**AVERAGE APARTMENT RENTAL RATES BY UNIT TYPE
BASED ON MATCHED SAMPLE OF 35 LARGE COMPLEXES (201+ UNITS ONLY)**



VI. Absorption Rates

Certain market segments (i.e., upscale units, student housing, etc.) and corridors that appear to be/have been under-supplied in the mid-1990s have attracted the strongest absorption. **The upscale conventional and student-oriented units that were completed in 1996-2000 (3,473± units in 19 complexes), for the most part, reported very strong absorptions (typically 20 to 25 units leased per month during the lease-up phase). The units constructed since 2001 (2,065± units in 11 complexes) have faced greater competition and, as a result, have typically attracted much slower absorptions (typically 10 to 15 units per month).** It's also notable that the more recent absorption rates have been fueled, in part, by the aforementioned concessionary practices.

VII. Conclusions

In-depth analyses by D. Wesley Moore, II, MAI, CCIM, 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 (the actual compounded annual growth rate in East Baton Rouge Parish from 1990-2000 was 0.85%) and apartment depletion (through demolition, condemnation, etc.) of 200± to 250± units per year, on average (based on historical trends for East Baton Rouge Parish and national averages).

Pent-up demand was exhibited in certain market segments in the early and mid-1990s (most notably upscale units, student housing, and seniors housing). The new supply of units (5,538± completed from 1995 through 2003 and 1,160± units under construction) appears to have maintained consistency with the market's sustainable level of absorption (5,538± units ÷ 8 years = 692± units per year). A moderate market-wide increase in vacancies (up from 4% - 5% in the early 1990s to 6% - 7% in 2001-03) and moderation of rental increases (now averaging 1%± annually) appears to have resulted from the competitive pressures created by new supply. Recent vacancy figures compiled by the Baton Rouge Apartment Association indicate that absorption of many of the new units has occurred, while moderate softening appears to have periodically arisen (spiking at the 8.5% level in early 1998 and 7.4% in April 2001, vacancies have historically returned to a citywide average of 6% to 7%, while rentals have continued to gradually move upward at 1% to 2%± per year).

In retrospect, the market appears to have maintained an absorption rate consistent with that suggested sustainable by our model (5,538± units built over an 8± year period = 700± units per year), however, the delivery of 2,700± units (which equates to a 4± year supply) over a 3-year span (2002-04) appears to have generated a temporary oversupply of apartment units (most notably in the upscale segment). The result has been an increase in competitive pressures and tactics (several of the newer upscale complexes are offering 1 to 2 months free with a 12-month lease to new tenants in an attempt to accelerate absorption). Until this new "bubble" of upscale supply is absorbed, such pressures and tactics are likely to remain prevalent.

A bulleted summary of our key considerations & expectations is provided below:

- ❑ Market-wide vacancies should continue to gradually increase (though 92% to 93% city-wide occupancy is OK, really) through 2004, likely peaking in early 2005.
- ❑ Competitive pressures (from new apartment units) should prevail during 2004, as the units under construction continue to come online, forcing overall rentals to stall (minimal, if any, increases) and concessionary practices (e.g., reduced deposits, rental discounts, etc.) to remain common.
- ❑ The apartment market has become increasingly crowded over the past 2 years, with historically low interest rates luring tenants toward home-ownership. Older properties will likely need to improve their product and/or services (i.e., renovations, updating, increased services, increased marketing, etc.) or potentially have to accept lower and/or stagnating rentals or occupancies.
- ❑ Through 2000, Baton Rouge enjoyed 13 straight years of expansion, maintaining an average annual employment growth rate of almost 3% (6,800± new jobs per year). Local job growth in 2001-02 was slowed by the national economic recession (local job growth for 2002 was roughly 1%, based on figures from the Department of Labor), though the figures reflected economic strength on a relative basis (as most of the Country *lost* jobs in 2001-02, to generate *any* job growth during this period was a worthy accomplishment). Moderate recovery from the recession was noted in 2003, with annualized local job growth (through February 2004) returning to 1.9%.
- ❑ Even during an economic downturn, local job growth has exceeded our average population growth (0.85%± per year from 1990 to 2000). If unemployment remains at such low levels (currently 6%±) and job growth is sustained at recent levels over an extended period (2%± annual job growth over then next 2± years 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 at least hold at historical levels. 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.