

BATON ROUGE APARTMENT MARKET OVERVIEW **TRENDS IN REAL ESTATE 2004**

Presented By

COOK, MOORE & ASSOCIATES
D. WESLEY MOORE, II, MAI, CCIM,
CRAIG A. DAVENPORT & SEAN MCDONALD
13000 Justice Avenue, Suite 3
Baton Rouge, LA 70816
Voice (225) 293-7006/Fax (225) 293-7009

Data collected in Spring 2004 regarding apartment rentals and vacancies and vacancies (as collected by Cook, Moore & Associates in conjunction with the LSU Real Estate Research Institute and the Baton Rouge Apartment Association) 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 flat (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. Concessionary offerings at upscale properties will also likely become more common. It should be noted that the vacancy surveys generally include only "stabilized" properties, thus, most of the newer properties in "lease-up" (with substantial vacancies) are not reflected in the published statistics.

In retrospect, the market appears to have maintained an absorption rate of 700± units per year (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 6 to 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 prevail.

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 be commonplace.
- ❑ 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.

The new apartment complexes in Baton Rouge are identified on the following exhibits:

Apartment Complexes Under Construction for 2004 in Baton Rouge

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		

Apartment Complexes Completed in 2003 in Baton Rouge

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 Cox, 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		