



An Overview of the Baton Rouge Apartment Market – 2007

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TRENDS
www.batonrougetrends.com



Thanks to....

- Sean McDonald with Cook, Moore & Associates
- Craig Davenport with Cook, Moore & Associates
- Keith Richard with Cook, Moore & Associates
- The LSU Real Estate Research Institute
- Mr. Charles Breard with Charles Breard Aerial & Commercial Photography
- Gregg Cordaro with Cordaro Companies
- David Treppendahl, CCIM

What Will Be Presented?

- Driving Forces affecting Housing Demand (short and long-term population shift resulting from Katrina)
- Recent Sales of Apartment Complexes (Cap Rates, etc.)
- Recent & Pending Construction of Apartments & Condos
- Trends in Rents & Vacancies
- What's Ahead



What People Think Developers & Brokers Do All the Time

(On the site, working....it's a myth)



What People Think Appraisers Do All the Time

(It's also a myth...big time)





Mechanics of Housing Demand

Housing demand is driven by:

1. Population growth (33,000+ post-Katrina residents)
2. Changes in average household size (shrinking)
 - The mechanics of the equation start with the following:
Total population (# of people) divided by
average # of people per household = # of households
3. Depletion & Replacement of the housing supply (physical and/or functional obsolescence of housing units). Dwelling units (structures) don't last forever.
 - Increase in # of households results in an increase in # of housing units needed, plus allowance for replacements



Katrina Effect

Katrina may have the following effect on housing demand in BR:

1. Long-term population growth of 33,000+ in BR MSA (some economists say 50,000+, while Census Bureau says roughly 33,000 extra residents in July 2006, likely the result of Katrina & Rita)
2. At an average household size of 2.75 people, this suggests we will need roughly 12,000 housing units in the BR area to satisfy the incremental demand created by Katrina
3. Of these, roughly a third need to be rental units (based on historical norms), suggesting the BR market should be able to absorb 4,000+ apartment units before returning to its "pre-Katrina" state (in terms of the balance of supply & demand).
4. With a 2007-08 pipeline of 4,000+ rental units and 600+ units built in 2006, the short-term undersupply should soon be "but a memory."



Driving Forces

■ Jobs, Jobs, Jobs

- If you create jobs, people will move into (or stay in) the area to fill the positions and will need housing
- Population growth, which ultimately drives housing demand, can't be sustained perpetually without job growth



Driving Forces

■ Jobs, Jobs, Jobs

- The Baton Rouge MSA gained 21,000 jobs from August 2005 to February 2007 (up from 350,000 in 2005 to 371,000 in 2007), which should support a population increase of roughly 42,000 (as the pre-K population was just north of 700,000).
- Baton Rouge may stand to capture jobs that may have historically (pre-Katrina) gone to New Orleans, especially from new employers considering where they'd prefer to establish offices in South LA



Driving Forces (GO Zone Act)

- **The Federal Government**

- Redevelopment aid and incentives from governing (primarily Federal) agencies will continue to play a critical role in this regard, ultimately driving the number of jobs in South LA (many related to construction) over the next several years.

Gulf Opportunity Zone (GO Zone) Act

This sweeping incentive program (which includes 50% Bonus Depreciation in the 1st year for certain localized capital investments) has had a profound effect on the rate at which rental housing (and other investment properties) in South LA is being built.

- Learn more at www.gozoneguide.com



Driving Forces

■ Low Income Housing Tax Credits (LIHTCs)

- Louisiana has historically received and administered enough Federal tax credits to facilitate construction of roughly 800 apartment units each year Statewide, of which roughly 100 were typically in BR
- Under the GO Zone Act, the 2006 through 2008 allocation to LA is 8 times the norm, which, in theory, could facilitate construction of 20,000 affordable rental units Statewide and construction expenditures of \$2 billion in 2007-08, though most will be in the New Orleans and Lake Charles MSAs.
- This “wild card” will facilitate the construction of 1,200+ affordable housing units in the Baton Rouge MSA over the next 2 years.
- Bonus Depreciation allowed under the GO Zone Act, depending on the interpretation and application of passive income rules, could further boost affordable housing development activity.



Apartment Rental & Vacancy Trends - Snapshot

- Rentals for a matched sample of 129 local complexes increased 12.2% from Spring 2005 to Fall 2006 (up from the normal 2% per year), while average increases from Fall 2005 to Fall 2006 slowed to 5.6%
- Vacancies for this same sample were reported at 1.58% in Fall 2006, down from 6% in Spring 2005 (BRAA reported 2.1% citywide vacancy in January 2007)
- Concessions? Not yet...but likely will return when many of the new units start to be delivered
- A lot of new units are on there way...a return to more normal, competitive market conditions is likely



Property Sales 2006-2007

	\$/SF	\$/Unit	Cap Rate
Jefferson Place (234 units, \$26,500,000)	\$83	\$113,248	7.5%
Park at Bluebonnet (352 units, \$36,000,000)	\$100	\$102,273	6.3%
Cobblestone (191 units, \$10,500,000)	\$54	\$54,974	7.4%
Cypress Lake (314 units, \$30,800,000)	\$83	\$98,089	7.2%



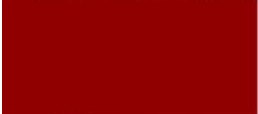
Property Sales 2006-2007

	\$/SF	\$/Unit	Cap Rate
Regency Club (312 units, \$20,725,000)	\$82	\$66,426	7.6%
Live Oak Trace (264 units, \$18,350,000)	\$66	\$69,508	7.3%
Aspen Place (117 units, \$4,250,000)	\$46	\$36,325	6.1%
River Palms (98 units, \$4,850,000)	\$55	\$49,490	7.3%



Property Sales 2006-2007

	\$/SF	\$/Unit	Cap Rate
Eden Point (158 units, \$6,000,000)	\$48	\$37,975	6.4%
The Spires of Sherwood (124 units, \$6,160,000)	\$48	\$49,677	7.9%
Lone Oak (60 units, \$2,040,000)	\$45	\$34,000	7.2%
Greenwell Plaza (103 units, \$3,841,000)	\$44	\$37,291	6.6%



Property Sales 2006-2007

	\$/SF	\$/Unit	Cap Rate
Magnolia Gardens (119 units, \$4,046,000)	\$42	\$34,000	7.2%
Drusilla Apartments (56 units, \$1,750,000)	\$51	\$31,250	6.9%
Myrtle Place (76 units, \$2,500,000)	\$36	\$32,895	7.6%
Meadowbrook (200 units, \$4,840,000)	\$38	\$24,200	7.5%



Property Sales 2006-2007

	\$/SF	\$/Unit	Cap Rate
King's Court (183 units, \$3,300,000)	\$26	\$18,033	7.2%
Castlebrook Apartments (263 units, \$16,500,000)	\$78	\$62,738	5.6%



Sales Summary

- Sales of 20 to 40-year old complexes have been hovering around \$40 to \$50/square foot, with newer or better-located units attracting \$80+/square foot
- \$/Unit pricing varies widely with unit size, location and quality; most older properties between \$30,000 to \$50,000 per unit, unless they are new and/or have strong condo potential (then \$75+k/unit)
- Cap rates for newer, more upscale properties have been hovering around 6% to 7%, with most older properties selling at 6.5% to 7.5% cap rates



Rental Units Built 1995-2006

	Built Thru 2005	Built In 2006	Total thru 2006
Upscale Conventional	3,510	318	3,828
Upscale Student	1,530	263	1,793
Affordable Housing	1,886	0	1,886
Total	6,926	601	7,527



Rental Units Underway/Planned 2007-2008

	Underway	Planned	Total
Upscale Conventional	1,403	1,334	2,737
Upscale Student	0	210	210
Affordable Housing	316	788	1,104
Total	1,719	2,332	4,051



Units completed prior to Trends 2006



■ New Units Completed 2004-05

- The Reserve at Cedar Lodge (300 Units on Corporate)
- The Venue at Northgate (193 units on West State St)
- The Palisades at Jaguar City (324 units on Scenic at Harding)
- Southgate Towers (343 units on Nicholson Dr)



■ New Units Completed 2005-06

- Lakeside Oaks at Old Dutchtown (248 Units at I-10/LA74)
- Villages at Fountain Lake (240 Units at I-10/LA 30)
- Restoration V & VI (39 SFR Units throughout Old South BR)
- Scotlandville Homes (58 SFR units - Monte Sano off Scenic)
- Banyon Trace (20 SFR units along McClelland)





Complexes Completed in 2006

■ Complexes completed in 2006

- The Regent
 - 318 upscale units in southwest quadrant of I-12 at Millerville
 - Developer: Executive Affiliates (Big Rock, IL)

- University House at Highland & The Venue – Phase II
 - 185 upscale student units along Highland Rd north of LSU Campus
 - Developers: First Worthing (Dallas, TX)

- Sterling University Northgate
 - 99 upscale student units along Highland Rd north of LSU Campus
 - Developers: Dinerstein (Houston, TX)

The Regent Apartments

Millerville @ I-12



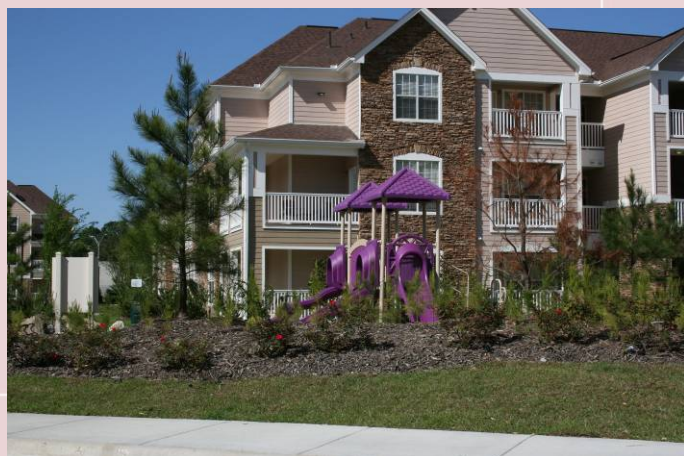
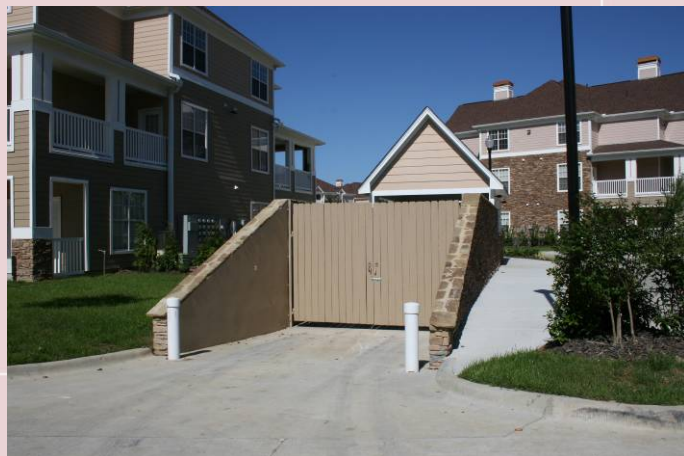
The Regent Apartments

Millerville @ I-12



The Regent Apartments

Millerville @ I-12



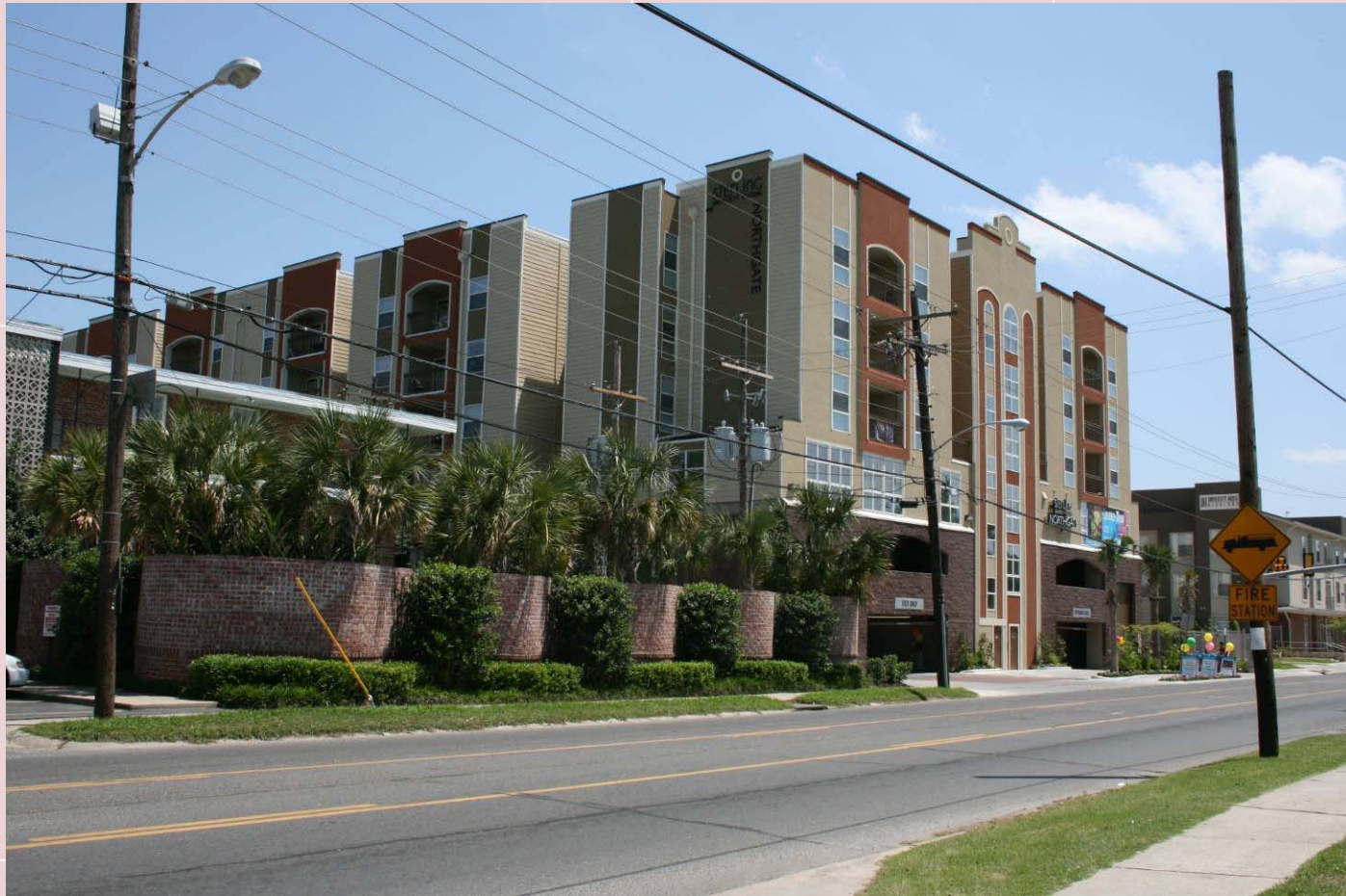
The Regent Apartments

Millerville @ I-12



Sterling University Housing Northgate

Highland Road north of LSU



Sterling University Housing Northgate

Highland Road north of LSU



Sterling University Housing Northgate

Highland Road north of LSU



Sterling University Housing Northgate

Highland Road north of LSU



Sterling University Housing Northgate

Highland Road north of LSU



University House at Highland

Highland Road north of LSU



University House at Highland

Highland Road north of LSU



University House at Highland

Highland Road north of LSU



University House at Highland

Highland Road north of LSU





Proposed Complexes – Under Construction

■ Complexes Under Construction in 2007

- Highland Club – Phase II
 - 44 upscale units along Jefferson Hwy south of Highland Rd
 - Developer: Palm Hills Dev., Ed Kramer (Baton Rouge)
- Tuscany Reserve
 - 274 upscale units off Siegen & I-10 (Siegen Marketplace)
 - Developer: Peek-Howe (Baton Rouge)
- Ivy Park
 - 252 upscale units on west side of Jones Creek north of Tiger Bend
 - Developer: TJ Iarocci (New Orleans)
- Mansions at Ivy Lake
 - 240 upscale units along east side of Airline Hwy in Duplessis
 - Developer: Darryl Leblanc (Baton Rouge)



Proposed Complexes – Under Construction

■ Complexes Under Construction in 2007

- Perkins Rowe
 - 317 upscale units on Perkins Road at Bluebonnet Blvd
 - Developer: JTS (Baton Rouge)
- The Millenium (formerly The Jefferson Highway) Apts
 - 276 upscale units along Jefferson Hwy north of Corporate Blvd
 - Developer: Dinerstein (Houston)
- The Reserve at Jefferson Crossing
 - 180 LIHTC (affordable) units along Old Jefferson south of Highland
 - Developer: Tom Delahaye (Plaquemine)
- The Crossing Apartments
 - 136 LIHTC (affordable) units on Buddy Ellis Rd in Denham Springs
 - Developer: Tom Delahaye (Plaquemine)

Ivy Park Apartments – 252 units

Jones Creek Road north of Tiger Bend Road



Ivy Park Apartments – 252 units

Jones Creek Road north of Tiger Bend Road



Ivy Park Apartments – 252 units

Jones Creek Road north of Tiger Bend Road



Tuscany Reserve Apartments – 274 units in Siegen Marketplace off I-10



Tuscany Reserve Apartments – 274 units in Siegen Marketplace off I-10



The Millenium Apartments – 276 units on Jefferson north of CAMD and Towne Center



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The Millenium Apartments – 276 units on Jefferson north of CAMD and Towne Center





Proposed Complexes – Under Construction

- Affordable Housing Complexes to be completed in 2007
 - Brookstown
 - 25 LIHTC SFR Houses off West Brookstown
 - Developer: George Jenne (Baton Rouge)
 - St. Louis Pointe
 - 26 LIHTC Units along Bard Dr
 - Developer: Ray Rose (New Orleans)
 - Villa Ashley I & II
 - 50 LIHTC Duplex Units along Villa Ashley Dr off N. Ardenwood
 - Developer: Ray Rose (New Orleans)
 - Banyan Trace, Phase II
 - 20 LIHTC SFR Houses on McClelland & Hollywood Dr
 - Developer: Bowen Arnold (Ft. Myers, FL)



Proposed Upscale Complexes – Planned (not underway)

- **Upscale Complexes proposed for 2008**
 - Camden Lakes
 - 224 upscale units on east side of O'Neal south of I-12
 - Developer: TJ Iarocci (New Orleans)
 - 2 University House Phases yet to be named
 - 210 upscale student units on west side of Highland Rd north of LSU
 - Developer: First Worthing (Dallas, TX)
 - The Enclave at Towne Center
 - 270 upscale units in along Corporate Blvd in Towne Center
 - Developer: Creekstone (Houston/Baton Rouge)
 - Zachary Parkside
 - 260 upscale units in Zachary on LA 964 & LA 64
 - Developer: Maestri Murrell (Baton Rouge)
 - Bristol
 - 324 upscale units in along Siegen Lane north of I-10
 - Developer: Creekstone (Houston/Baton Rouge)



Proposed LIHTC Complexes – Planned (not underway)

- **Affordable Complexes proposed for 2008**
 - Hooper Pointe
 - 176 LIHTC units on south side of Hooper east of Plank Rd
 - Developer:
 - Southern Woods
 - 60 LIHTC units on south side of Hooper east of Plank Rd
 - Developer:
 - Townhomes of Sherwood
 - 126 LIHTC units at North Sherwood & Greenwell Springs Rd
 - Developer: Bill Wenson (Austin, TX)
 - Senior Residences of Central
 - 80 LIHTC units on north side of Hooper west of Joor
 - Developer: Bill Wenson (Austin, TX)



Proposed LIHTC Complexes – Planned (not underway)

■ Affordable Complexes proposed for 2008

- Canterbury House
 - 120 LIHTC units on North Harrell's Ferry Road
 - Developer: Herman & Kittle Properties
- River West Subdivision
 - 23 SFR LIHTC units off Commercial Dr in Port Allen
 - Developer: Jeff Beaver
- Fullerton Estates Subdivision
 - 22 SFR LIHTC units off Plank Road
 - Developer: Jeff Beaver
- Cedar Point
 - 80 LIHTC units on Mickens Rd
 - Developer: Bowen Arnold (Florida)



Condo Developments – Built in 2006 or underway

- There are 2,300+ units in 32+ condo developments either built in 2006, under construction or announced/planned, including (to mention a few) -
 - The Crescent at University Lake (165 units, Mike Wampold)
 - Fieldhouse Gameday Condos (99 units, Capstone)
 - Victory Commons (52 units, Quadrants)
 - Stone Lake (60 units, RW Day)
 - Preserve at Longwood (330 units, Cortlandt)
 - Cottages at Southfork (109 units, Nick FaKouri)
 - Cottages at Blue Heron Lakes (108 units, BIG, LLC)
 - South Hampton Condos (61 units, Alvarez)
 - Arlington Trace (74 units, Greg Flores/Crown Construction)

The Cottages at Blue Heron Lakes

108 Condo Units built along McHugh Rd in Zachary – Built 2006



The Crescent at University Lake

165 Condo Units being built along Stanford Ave across from University Lake



The Crescent at University Lake

165 Condo Units being built along Stanford Ave across from University Lake



The Crescent at University Lake

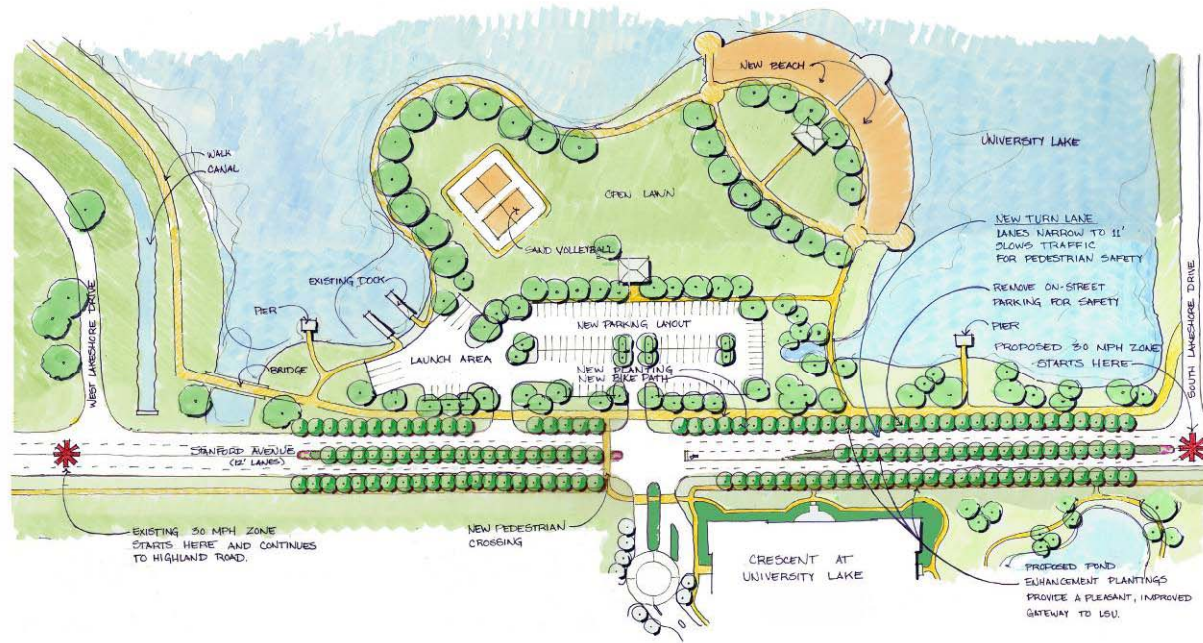
165 Condo Units being built along Stanford Ave across from University Lake





The Crescent at University Lake

165 Condo Units being built along Stanford Ave across from University Lake



Stanford Avenue Improvements

Stanford Avenue, Baton Rouge, Louisiana
Option "B"

Reich Associates
Landscape Architecture/Land Planning
ABMB
Engineers

The Crescent at University Lake

165 Condo Units being built along Stanford Ave across from University Lake





The Crescent at University Lake

165 Condo Units being built along Stanford Ave across from University Lake





The Crescent at University Lake

165 Condo Units being built along Stanford Ave across from University Lake



Fieldhouse & Victory Commons Condos

Along both sides of Nicholson Drive immediately north of LSU



Fieldhouse & Victory Commons Condos

Along both sides of Nicholson Drive immediately north of LSU



Fieldhouse & Victory Commons Condos

Along both sides of Nicholson Drive immediately north of LSU



Stone Lake Condos

Along west side of Burbank Drive south of South Kenilworth Pkwy





Stone Lake Condos

Along west side of Burbank Drive south of South Kenilworth Pkwy





Stone Lake Condos

Along west side of Burbank Drive south of South Kenilworth Pkwy





Stone Lake Condos

Along west side of Burbank Drive south of South Kenilworth Pkwy





Stone Lake Condos

Along west side of Burbank Drive south of South Kenilworth Pkwy





Stone Lake Condos

Along west side of Burbank Drive south of South Kenilworth Pkwy



Burbank at South Kenilworth – 2006 Photo

Lake's Edge Condos



Burbank at South Kenilworth – 2007 Photo

Lake's Edge Too Condos in Background & Burbank Landing Condos in Foreground





Burbank Landing Condos

Along west side of Burbank Drive north of South Kenilworth Pkwy





Announced CBD Condo Developments

- Condo developments announced for the CBD, but not yet under construction include -
 - River Place (90+ units, Richard Preis)
 - 439 North 5th (30+ units, CPDC)
 - Kress Building (40+ units, Cyntrenics)
 - 232 Third St (6 units, Norman Chenevert)



Notable Condo Conversions

- Recent & ongoing condo conversions in BR include:
 - The Blox at Brightside (104 units, Donnie Jarreau)
 - The Jefferson (102 units, Desmond Johnson)
 - Jefferson Place (234 units, John Fetzer, Hardy Swyers & Alan Walsh)
 - Courtyard Orleans (95 units, formerly Bengal Apartments, Whitten Foundation)
 - Courtyard Condos (32 units, formerly The Forum, Gregg Cordaro)



Condo Trends

- Typical Pricing of \$150,000 to \$200,000 for 1,200 to 1,600 square foot units (hovering around \$110 to \$130/square foot), though some of the newer/proposed units are priced at \$250 to \$300+/sf. Units in the CBD are \$300+/sf.
- Most developments generate substantial sales prior to completion of construction. Absorptions of units built thus far have remained strong.
- The number of condo units in the pipeline is substantial -
 - 2,300+ units built, under construction and/or announced



Apartment Rental Trends

- Rentals in 1997-00 rose at a rate of 3%+ per year
- Rental increases in 2001 began to slow, as a wave of new construction was absorbed
- Rental increases in 2001-02 dropped to below 2%, as job growth & economic activity slowed
- Rental increases in 2002-04 averaged roughly 1% per year, due primarily to increased competition
- Rental increases in 2004-05 returned to an annual rate averaging slightly above 2%, despite substantial construction of new apartment and condo units



Apartment Rental Trends

- Rentals for 1BR Units increased 8.0% from Spring 2005 to Spring 2006
- Rentals for 2BR Units increased 11.7% from Spring 2005 to Spring 2006
- Rentals for 3BR Units increased 9.4% from Spring 2005 to Spring 2006
- These increases were, of course, predominantly attributable to the "Katrina Effect"



Apartment Rental Trends

- Rentals for 1BR Units increased 5.7% from Fall 2005 to Fall 2006
- Rentals for 2BR Units increased 5.5% from Fall 2005 to Fall 2006
- Rentals for 3BR Units increased 5.7% from Fall 2005 to Fall 2006
- Concessions, which were common for upscale properties in 2003-04, are now rare



Apartment Vacancies

- BRAA reported 7.9% citywide vacancy in Jan 2005
- BRAA reported 2.1% Citywide vacancy in Jan 2007
- LSU/CMA Spring 2006 Matched Sample Survey of 129 complexes reported overall vacancy of only 1.58% (down from 6% in Spring 2005)
- As long as vacancies remain this low, rents will likely keep rising (though I expect the magnitude of the rental increases to diminish)



Summary

- Prepare for several thousand apartments and condos to enter the local market over the next 1-2 years (most before end of 2008 due to GO Zone).
- Rents will continue increasing for the remainder of 2007, though more likely at much lower annualized rate than the torrid 10% seen in 2005-06. I expect average increases in the 3% range in 2007.
- It will likely shift from being a “landlord’s market” to being a “tenant’s market” over the next 12 to 18 months as the new supply enters the market and competes for tenants.



Summary

- Concessions (rent specials, give-aways) will eventually become common again, particularly during the lease-up of the newly-completed properties.
- Vacancies will remain relatively low through 2007. As we begin to absorb the new units that should come online in late 2007 and throughout 2008, vacancies should begin to return toward something resembling normalcy (7% to 8%).



Summary

- Flashback: Almost 7,000 apartments were built in BR in 1983-84. In 1986-93, fewer than 500 units were built (cumulatively). We absorbed 700 or so units annually from 1995 to 2005 without creating a substantial oversupply.
- With the “Katrina Effect,” BR may be able to absorb 4,000 new rental units without creating a significant oversupply, though a return to the more competitive “pre-Katrina-like” conditions for property owners & managers is likely.



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