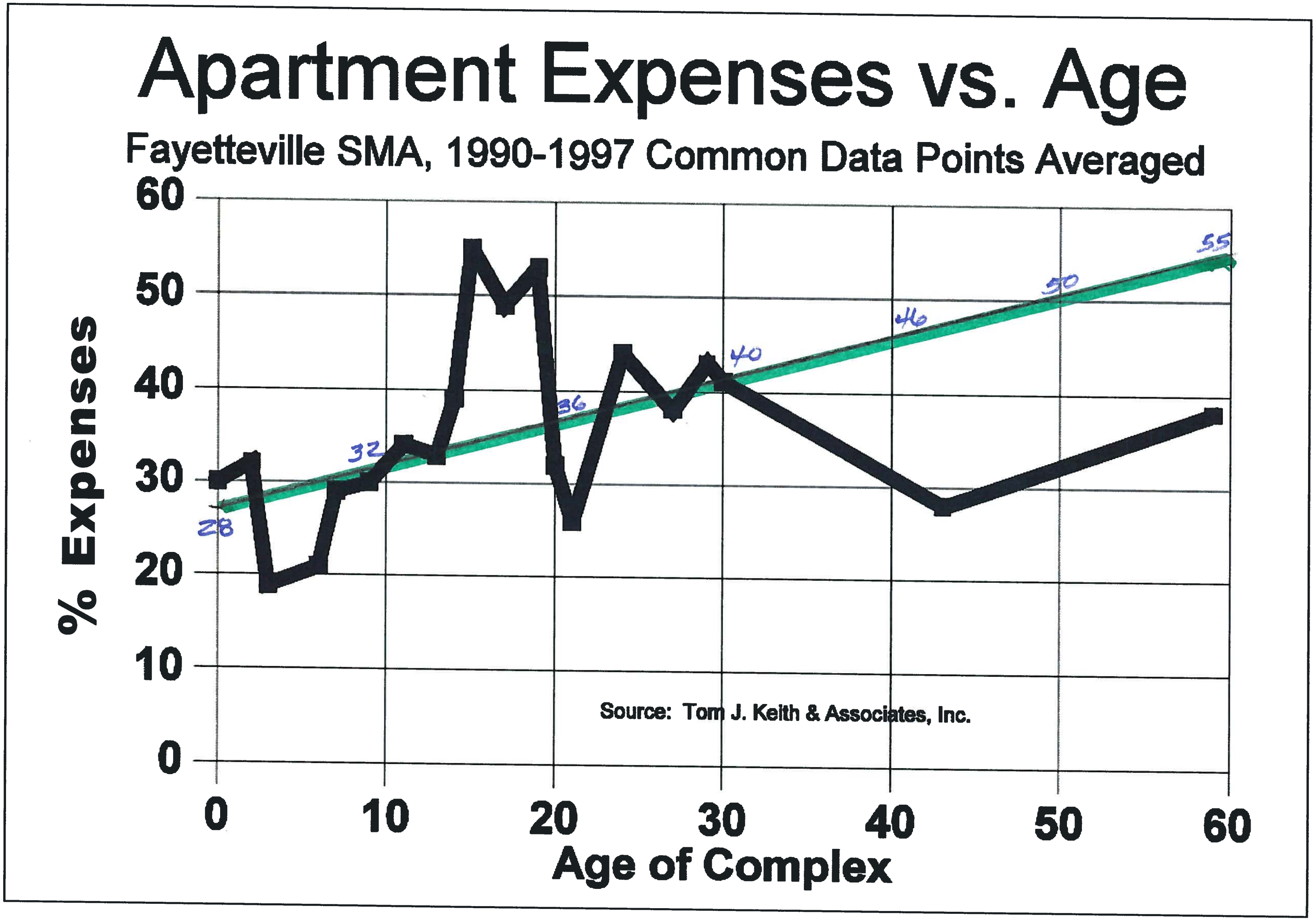

Apartment Expenses vs. Age
Fayetteville SMA, 1990-1997 Common Data Points Averaged
% Expenses
Age of Complex
0
10
20
30
40
50
60
Source: Tom J. Keith & Associates, Inc.
28
32
36
40
46
50
55

In 1990-1997, the members of the firm of Tom J. Keith & Associates, Inc. reviewed approximately 20 financial statements of apartment units having over 100 units in the facility to determine the expenses and how it varied with the age of the complex. The data points on this chart above shows the actual expenses based on how old the unit was at the time it was analyzed. Later on, additional data points were obtained from older units to develop a more accurate relationship between the percentage of expenses and the age of the complex. As you will note from the chart, there are only two data points above 30 year old complexes which exhibited 40% expenses. Two data points to cover 30 years difference in a facility is not considered adequate and in fact later research of units over 30 years old revealed that expenses for 60 year old complexes generally range in the 55% category. The straight line (green line) shows more of a realistic and accurate determination for those facilities having over 30 years of age.

You will also note that in years 15 and 20 that expenses tend to peak for all facilities and this is assumed to be from the additional monies spent to replace the short-lived items around year 15-20. Short-lived items include things such as carpet, roof, paving, cabinets, and appliances. If there are a variety of units having different ages, these peaks may be leveled out to some extent by the replacement schedule of the newer units versus the older units.

The straight line intersects the various "Age of Complex" line based on the table below.

| **Age** | **Expenses (%)** | **NOI (%)** |
|---|---|---|
| New | 28 | 72 |
| 10 | 32 | 68 |
| 20 | 36 | 64 |
| 30 | 40 | 60 |
| 40 | 46 | 54 |
| 50 | 50 | 50 |
| 60 | 55 | 45 |

Tom Keith, MAI has compared these figures with other investors, appraisers and lenders and found them to be very realistic and accurate.