



MIDDLEBURG
COMMUNITIES

Middleburg Markets Report

Q4
2021



Middleburg Communities is pleased to present our Middleburg Markets Report for the 4th quarter of 2021. This report summarizes our current thinking about the rental housing market both nationally and in those markets that we most closely evaluate for development, acquisition, or other forms of investment.

We at Middleburg believe that we derive an important advantage from our deep familiarity not only with the largest markets in the region but also with smaller secondary and tertiary markets that may offer particularly appealing opportunities to the most attentive and informed investors. As usual, in this report we summarize conditions and outlook not only for the 15 largest metro areas in our territory but also for a selection of the smaller markets that we keep continually in our range of vision.

Middleburg has always been proud of our consistently strong performance in all aspects of the rental housing industry, and of the data-driven approach that informs our decisions. We hope you will value this report as we value the analysis that it reflects.



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CO-MANAGING PARTNER AND
CHIEF EXECUTIVE OFFICER



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The data presented in this report are gathered from multiple sources that have been cited. Note that even historical data may change in subsequent reports. Although every effort is made to ensure the accuracy, timeliness, and completeness of the information provided in this publication, the information is provided "AS IS" and Middleburg Communities does not guarantee, warrant, represent, or undertake that the information provided is correct, accurate, current, or complete. This paper makes a number of predictions. These predictions of the future environment for the multifamily industry address matters that are uncertain and may turn out to be materially different than as expressed in this paper. The information provided in this paper is not a substitute for legal and other professional advice. If any reader requires legal advice or other professional assistance, each such reader should consult his or her own legal or other professional advisor and discuss the specific facts and circumstances that apply to the reader. Middleburg Communities is not liable for any loss, claim, or demand arising directly or indirectly from any use or reliance upon the information contained herein.

Introduction

As the omicron wave of the covid-19 pandemic recedes, attention has been shifting from coping with extraordinary market situations toward responding to ordinary market forces. The dominant theme of Q42021 was one of supply-demand imbalances throughout the economy, including in the real housing market.

At the end of 2020 the inflation rate over the previous 12 months was a paltry 1.3 percent; the Federal Open Market Committee was concerned that “downward risks to employment and inflation have increased,” and promised that “the Committee is prepared to use its full range of tools” to increase the inflation rate to “moderately above 2 percent for some time.” One year later we appear to be firmly in that “some time” but inflation well above seven percent per year can hardly be described as “moderate.”

Similarly, at the end of 2020 the average rate on new Class A apartment leases over the previous 12 months was -4.0 percent, and the average rate on renewal leases was just +1.1 percent, according to data from our data partner RealPage. Just nine months later the new lease rate change over the past 12 months for Class A properties had hit 19 percent—its 2021 peak, although by the end of the year it had slackened only slightly—while the renewal lease rate change had passed eight percent on its way to double digits.

Middleburg Communities is committed to being among the first to recognize how rapid changes affect the rental housing industry, so our Q42021 Middleburg Markets Report begins by delving into the supply-demand imbalances that explain such remarkable developments. We then present our updated analysis of conditions in the 15 largest housing markets in “our” part of the country before highlighting five more in a rotating set of smaller markets, this time Durham NC, Huntsville AL, Myrtle Beach SC, Naples FL, and Savannah GA.



Mosby Ingleside, Charleston, SC

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U.S. Overview

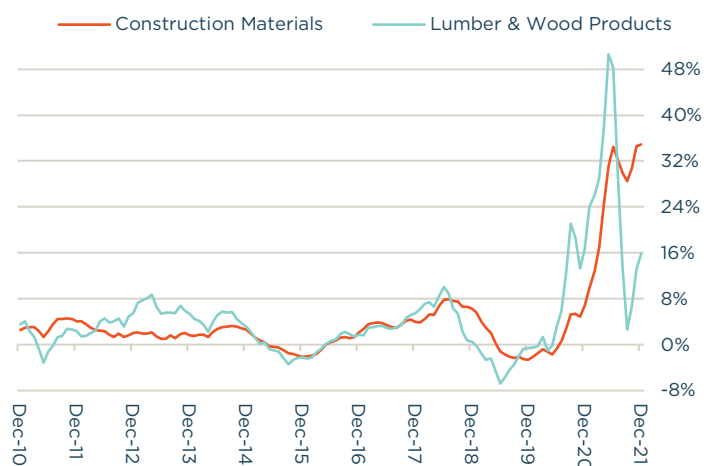
Supply-demand imbalances stemming from the covid-19 pandemic, and the public and private responses to it, have affected multiple segments of the U.S. macroeconomic situation including inflation and homebuilding. Some of those imbalances have made Middleburg's activities more difficult, but essentially all have reduced downside risks while increasing the likely rewards to what we do.

On the supply side of the economy, the pandemic has disrupted supply chains both globally and within our country, leading to scarcities that have driven up costs generally. One of the most dramatic examples has been in the **Producer Prices** for construction materials, especially lumber. Over the decade prior to the pandemic the rate of price inflation for construction materials, and for lumber and wood products specifically, had averaged 2.0 and 2.3 percent per year, respectively. In September 2020, however, price inflation in the two categories reached 2.5 percent and 7.8 percent respectively—not per year, but just for that single month. Year-over-year price inflation for lumber and wood products reached 51 percent in May 2021—the highest rate since 1947—while year-over-year price inflation for construction materials more generally reached 34 percent, the highest rate ever recorded since the 1948 start of that data series.

Inflation has also affected consumer prices, but not all of the increase in consumer price inflation can be attributed to supply-chain disruptions. Real personal income has grown one-third more rapidly during the past two years of pandemic than it had during the decade preceding it, with the average growth rate increasing from 4.4 percent per year during 2010-2019 to 5.9 percent per year during 2021-2022.

Personal consumption—which had declined by an astonishing 10 percent during the second quarter of 2020—completed its recovery to pre-pandemic levels (adjusted for inflation) during the first quarter of 2021, thanks in part to relief payments and other government measures to support the individuals and businesses affected by the shutdown. While real consumer

Producer Price Index

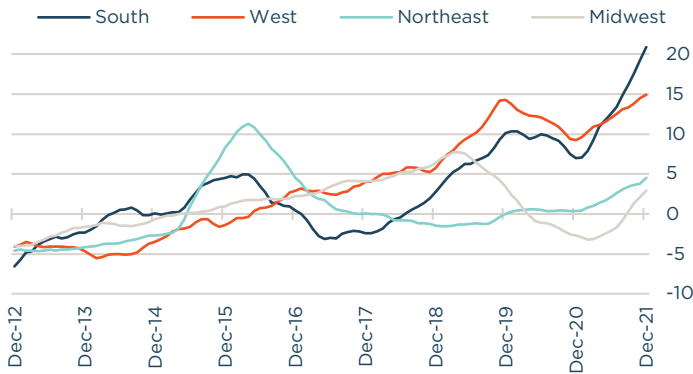


spending on some categories—most notably motor vehicles and parts—has continued to be suppressed by supply-chain problems, spending in other categories such as recreational goods & vehicles and clothing has surged even after taking into account higher prices. In short, strong consumer demand—not just supply problems—is certainly responsible for price increases in some parts of the economy.

The housing industry has been affected by both drivers of price inflation, supply problems and increased demand. On the supply side, cost inflation was not the only effect of the difficulty in getting lumber and other construction materials to market: the pandemic also prevented construction from being started on many homes, even after local governments had approved them. At the start of the pandemic the number of **Multifamily Housing Units Authorized but Not yet Started** in the South region, over the previous 12 months, was already

about ten thousand more than the long-term average. By the end of 2021, however, that number had more than doubled to 21 thousand, mirroring conditions in other regions of the country as builders waited to secure materials.

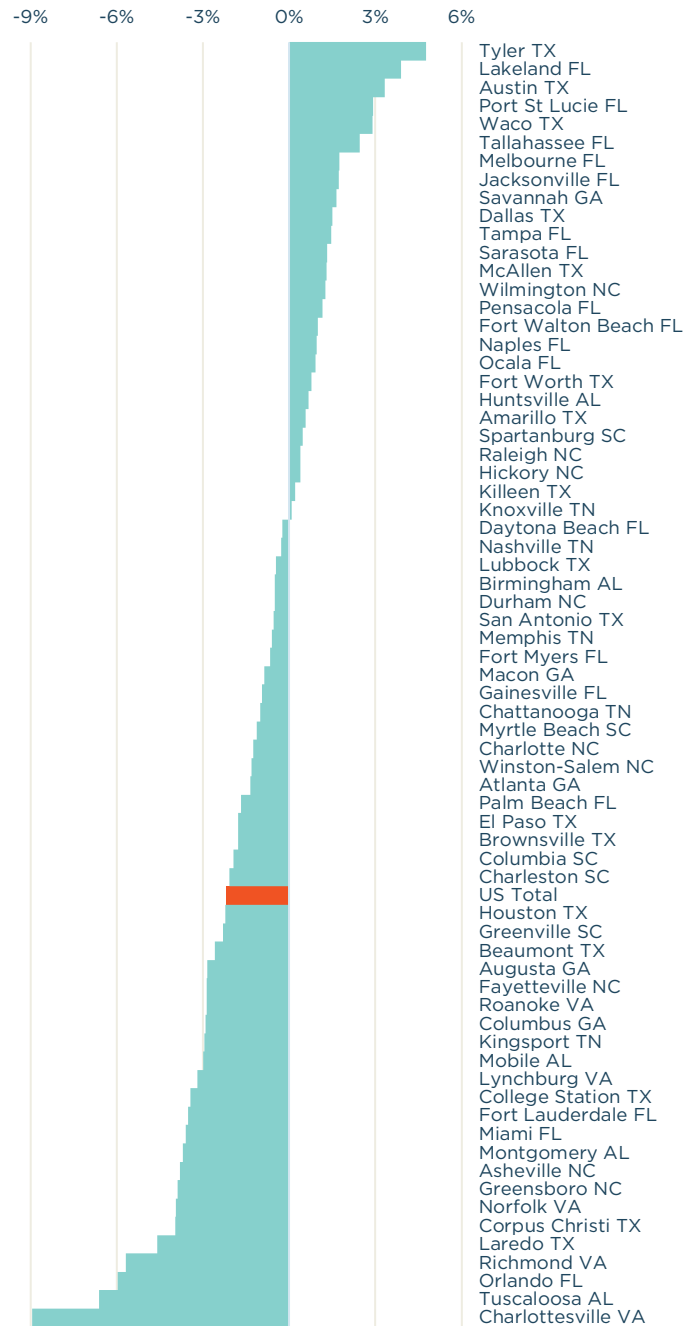
MF Housing Units Authorized but Not Started
Rolling 12-month average, 000s, relative to Long-Term Average



On the demand side, the housing industry has struggled to keep up with nationwide growth in the number of households, a favorable consequence of a return to pre-pandemic growth in the propensity to form new households—that is, the propensity of individuals or couples to rent or buy their own homes rather than to continue sharing housing with relatives, friends, or other housemates.

The struggle to keep up with demand growth has been exacerbated, however, in Middleburg's states—the arc from Virginia south through the Carolinas and Georgia to Florida, and west through Tennessee and Alabama to Texas. Two main reasons explain the stronger demand growth in Middleburg's arc relative to the rest of the country. The first is continued strong migration from the Northeast, Midwest, and West to the Southeast and Southwest, which has increased the number of households in Middleburg's states more strongly than in other states. The second is relative **Employment Growth**: total nonfarm employment remains 2.2 percent below its pre-pandemic peak in the country as a whole, but employment has recovered more strongly than that in 62 of the 89 largest metro areas in Middleburg's states, and has surpassed its pre-pandemic levels in 37 of them.

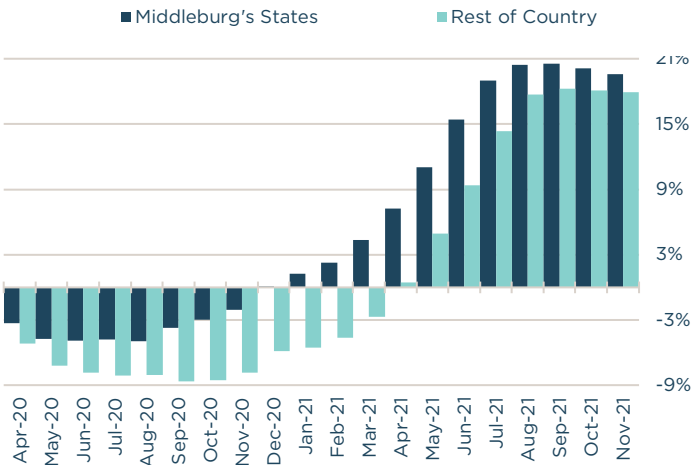
Employment Growth, Pre-Covid to 2021Q4



During the early part of the pandemic apartment rents declined sharply throughout the country—but migration and faster employment recovery helped to moderate that decline for rental housing owners in Middleburg's arc. For example, RealPage data indicate that **Rents on New Class A Leases** declined nationwide in every month from April 2020

through March 2021, with monthly declines averaging 5.2 percent. In Middleburg's part of the country, however, the monthly decline averaged just 3.9 percent and lasted only through November 2020—followed by four months of growth averaging 2.0 percent while the rest of the country continued to see declines.

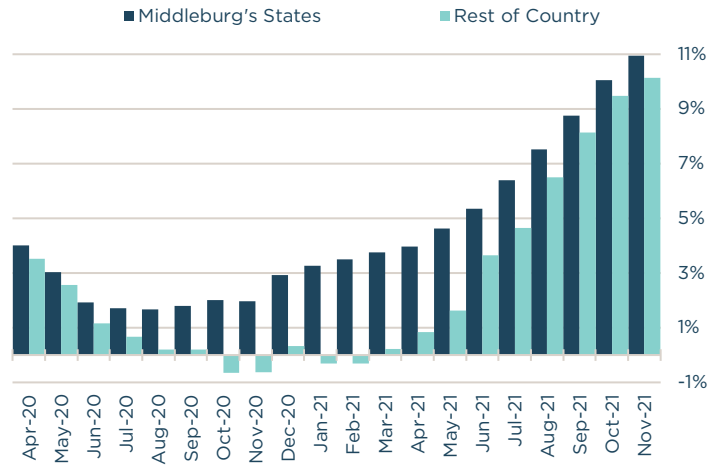
Class A New Lease Rent Growth



Following that first stage of the pandemic, the effect of the combination of supply constraints, continued income growth, employment recovery, and (in Middleburg's area) continued strong in-migration has been historically high increases in both house prices and apartment rents, especially in Middleburg's part of the country. The same RealPage data indicate that, outside of Middleburg's states, average growth in new-lease rents for Class A properties exceeded 18 percent in late 2021; in Middleburg's states, however, average growth had been positive in every month since November 2020 and exceeded 20 percent in late 2021.

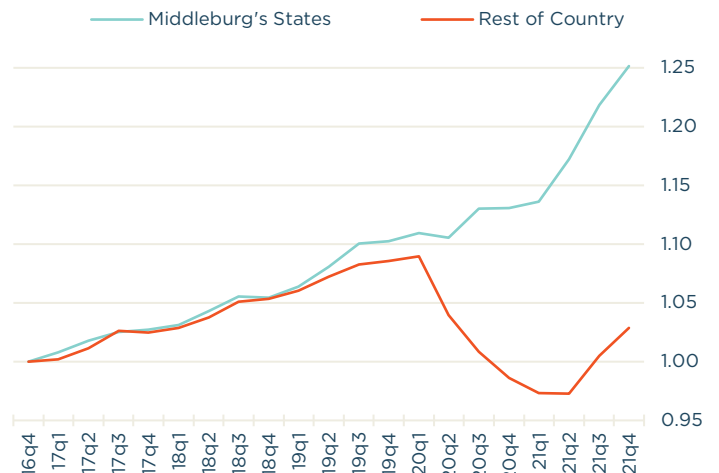
Of course new leases represent only a small fraction of total rental housing. RealPage data on renewal leases, however, show essentially the same picture of supply-demand imbalances reflected in strong rent growth, especially in Middleburg's part of the country. The average growth rate on **Class A Renewal Lease Rents** in Middleburg's states slowed in 2020 from March through August—but never went negative—before recovering to 11 percent by late 2021. In the rest of the country, average renewal lease rents were negative through February 2021 before recovering to 10 percent by the end of the year.

Class A Renewal Rent Growth

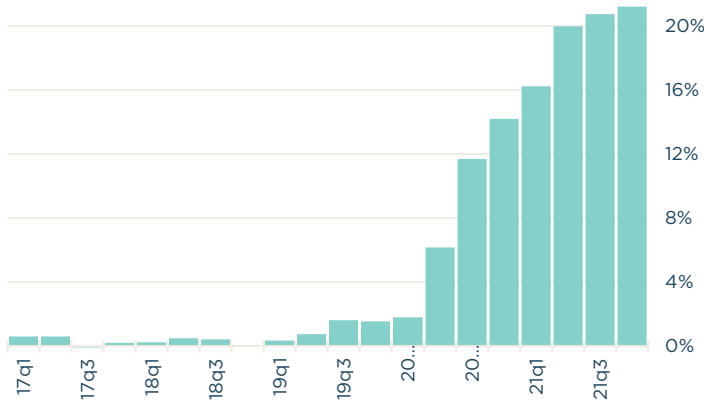


Stronger demand for rental housing in Middleburg's part of the country has had a dramatic effect on operating revenues and net operating income. Middleburg's analysis indicates that **Same-Property Operating Revenues** started growing more rapidly in Middleburg's states than in the rest of the country as early as 2019, but that the divergence became dramatic during the five quarters 2020Q2-2021Q2, when operating income continued to increase in Middleburg's states while it declined sharply in the rest of the country.

Growth in Same-Property Operating Revenue

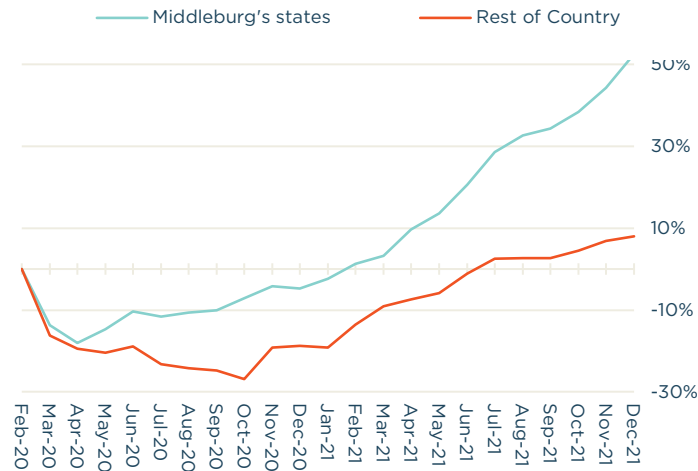


Cumulative Difference in Same-Property Operating Revenue Growth



This dramatic difference in operating performance is the primary reason that **Apartment Properties have Appreciated** much more strongly in Middleburg's arc than in other parts of the country. That outperformance continued during 2021Q4, during which we estimate that the (unlevered) total return on apartment properties was 10.6 percent for properties in Middleburg's states compared with just 4.3 percent for properties in the rest of the country.

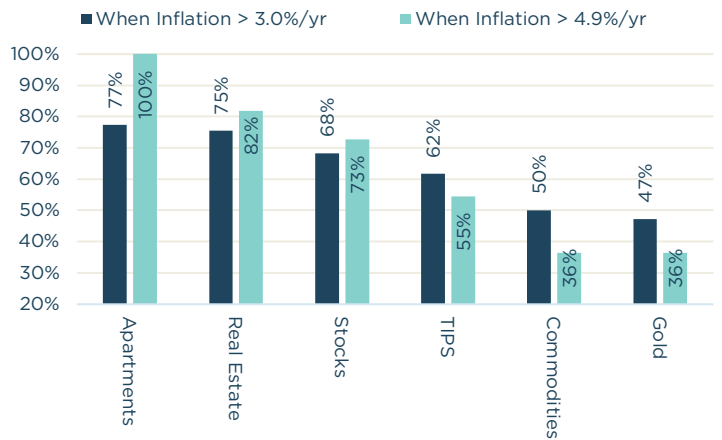
Apartment Property Appreciation (Feb 20 = 0)



The strong performance of apartment property investments during a time of heightened inflation should come as no surprise. Real estate—and apartment real estate in particular—has long proven itself to be among the most dependable ways for investors to protect their standard of living against erosion during high-inflation periods. Middleburg recently published

an empirical analysis based on historical returns showing that apartment real estate outperformed other assets including real estate more generally, stocks, TIPS, commodities, and gold in terms of providing total returns that **Exceeded the Inflation Rate** during 77 percent of high-inflation six-month periods (>3.0 percent per year) as well as during every very-high-inflation six-month period (>4.9 percent per year) dating back to 1993, when high-quality apartment return data first became available.

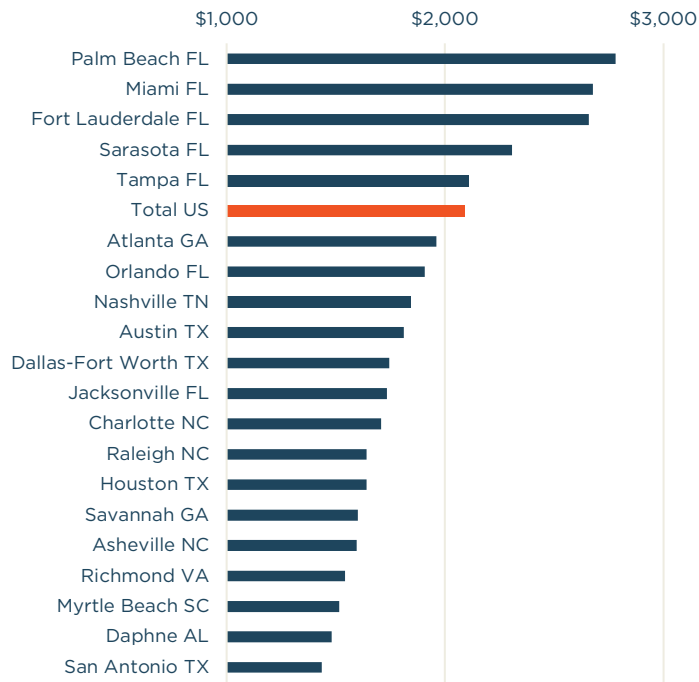
Apartments Have Provided Dependable Inflation Protection



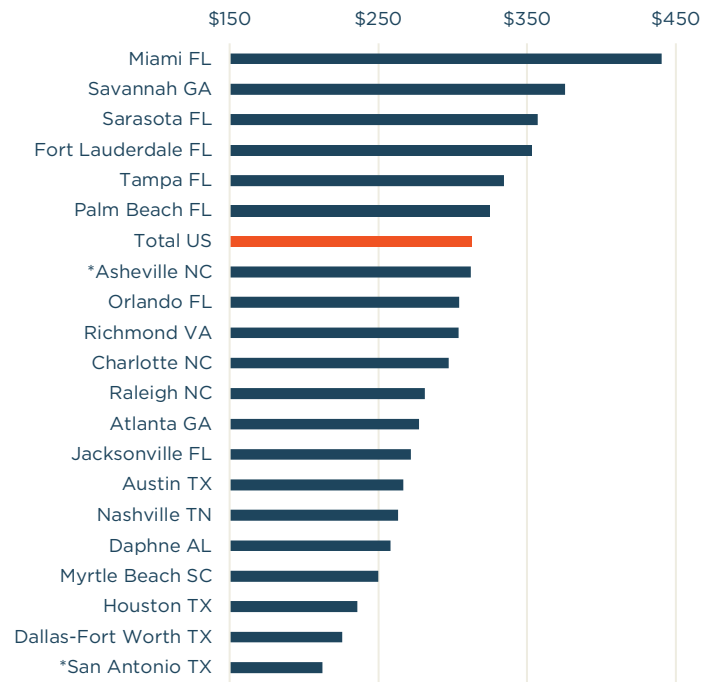
To summarize Middleburg's view of the macroeconomic situation as it affected investments in rental housing during 2021Q4, we regard the imbalance of supply and demand conditions as providing an exceptionally healthy environment both for development and for ownership of rental housing in Middleburg's arc. Producer price increases and supply-chain disruptions—on top of endemic issues with local land-use regulatory processes—have prevented new development at the scale necessary to keep up with the demand growth arising from an extraordinary combination of household formation, in-migration, employment growth, and income stability.

As usual, however, development and acquisition opportunities vary by market and sub-market throughout our territory, reinforcing the value of Middleburg's understanding of local market conditions in helping us evaluate discerningly the sites and properties that we identify. In the following pages we review demand and supply conditions in each of the 15 largest metro areas in Middleburg's arc, along with a sample of five smaller markets from among those that are "also on our radar."

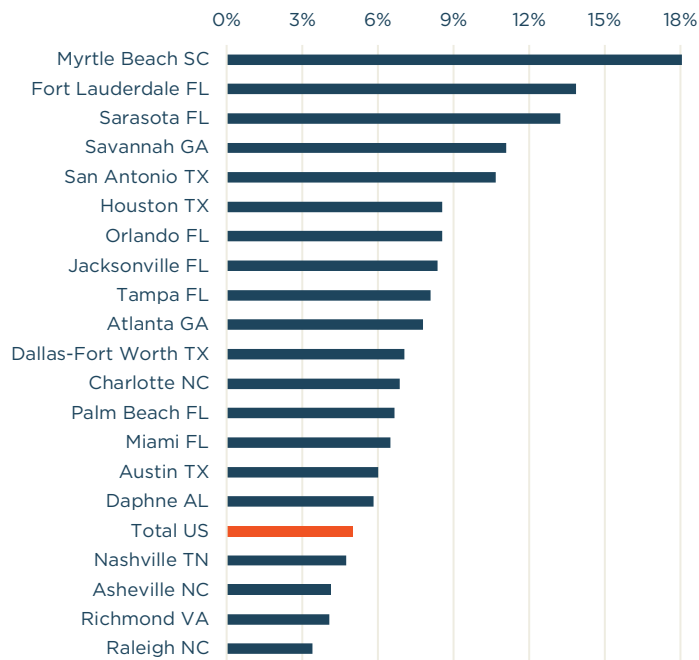
Class A Effective Rent/Unit



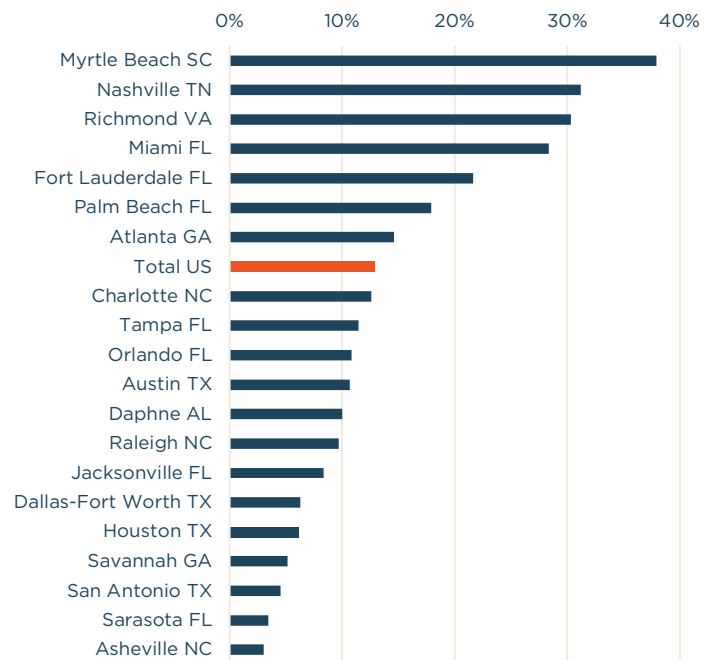
Class A Sale Price/Unit (000)



Class A Units Sold as % of Inventory



Class A Delivered & Under Const as % of Inventory



*data as of 2021Q4

Dallas / Fort Worth, TX

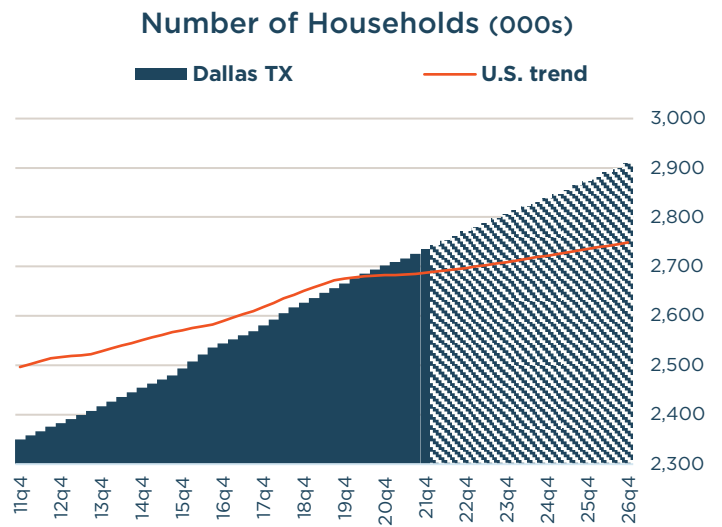
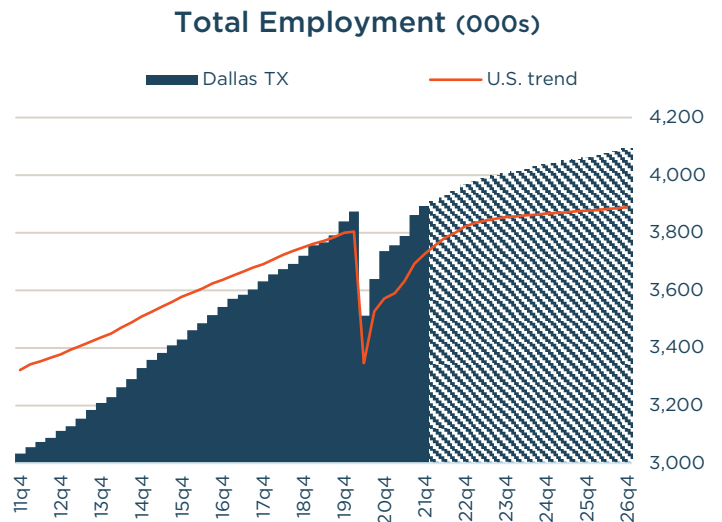
The largest metro area in Middleburg’s territory, Dallas/Fort Worth is already recognized as a “near-gateway” market and is likely to continue leading a long-term shift away from older gateway markets such as New York and San Francisco.

MIDDLEBURG’S RANK #4 AMONG 15 LARGEST METROS

Already one of the most diversified in the country, the Dallas / Fort Worth economic base has been further strengthened recently by high-profile corporate relocations such as Charles Schwab, CBRE, Raytheon, Kubota, Liberty Mutual, and McKesson.

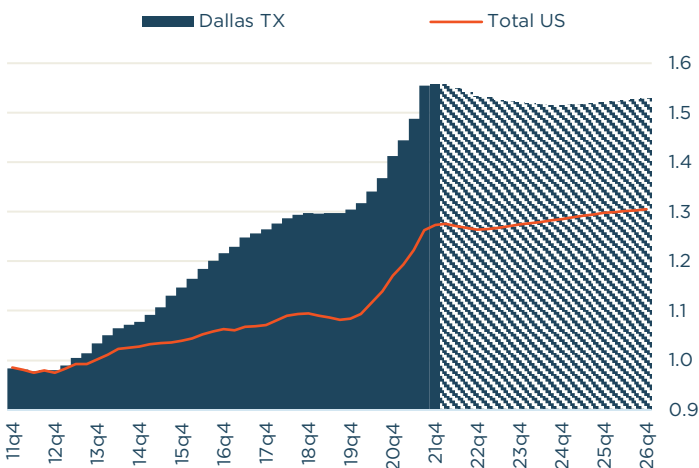
Dallas’s population already skews young, but Oxford Economics forecasts that over the next five years the metro area will grow by an additional 60 thousand young adults (1.1 percent per year), a number rivaled only by Houston. Its 201 thousand new **Employees** (1.0 percent per year) and 174 thousand new **Households** (1.2 percent per year) are expected to trail only Houston.

Median household incomes in Dallas / Fort Worth are expected to keep pace with the rest of the country, growing at 3.7 percent per year over the next five years, but the **House Price to Income Ratio** is expected to ease as house prices grow less rapidly (3.3 percent per year) than in the nation as a whole (4.1 percent per year). The influx of new households, however, leads CoStar to forecast that **Demand** for Class A rental housing units will surpass that in any other market at 102 thousand (2.6 percent per year), driving similarly strong growth in **Effective Rent per Unit** (4.0 percent per year) and net operating income (4.3 percent per year). **New Construction and Net Deliveries** have been persistently lower, relative to existing Class A inventory, than in the nation as a whole, providing some assurance that oversupply problems are unlikely.

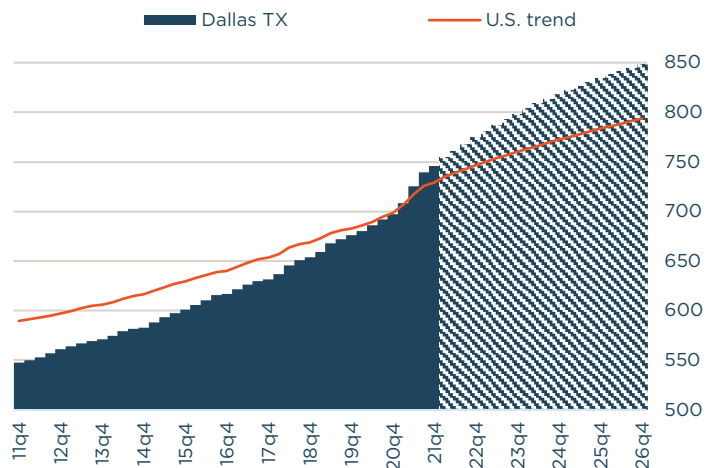


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
789,050	28,776	\$145,465	\$220 million
↑ 0.6%	↓ 5%	↓ 40%	↓ 69%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
17.7%	\$75,592	4.3%	+16 bps
↓ 1.1%	↑ 1.8%	no change	above US avg

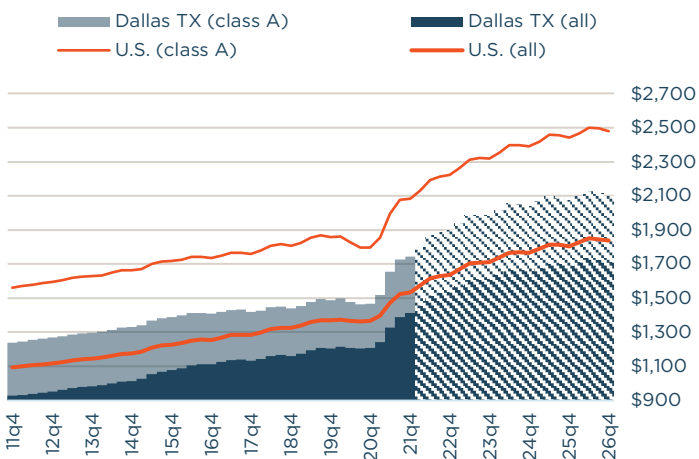
House Price/Income Ratio (11q1=1.0)



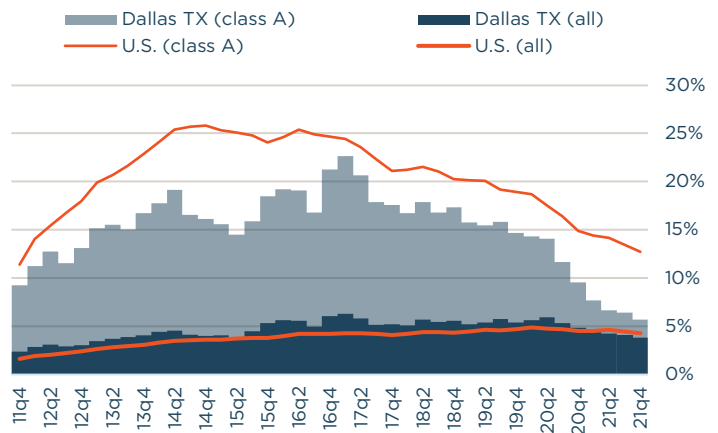
Units in Demand (000s)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory



Representative large employers: Wal-Mart, American Airlines, Texas Health Resources, Bank of America, Lockheed Martin, Texas Instruments

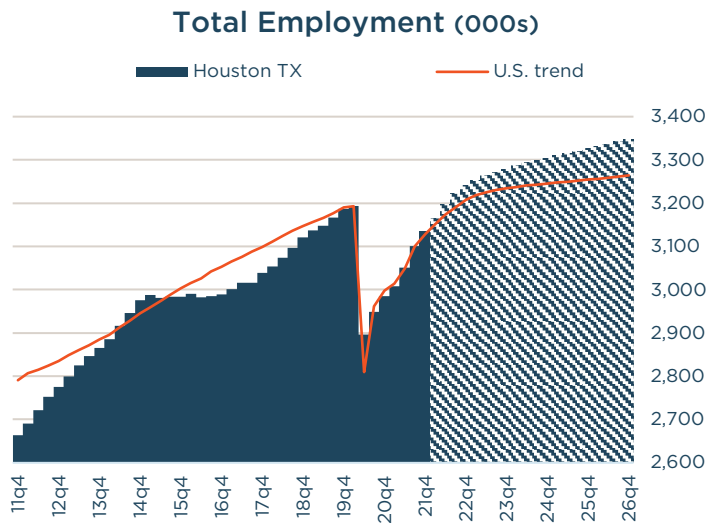
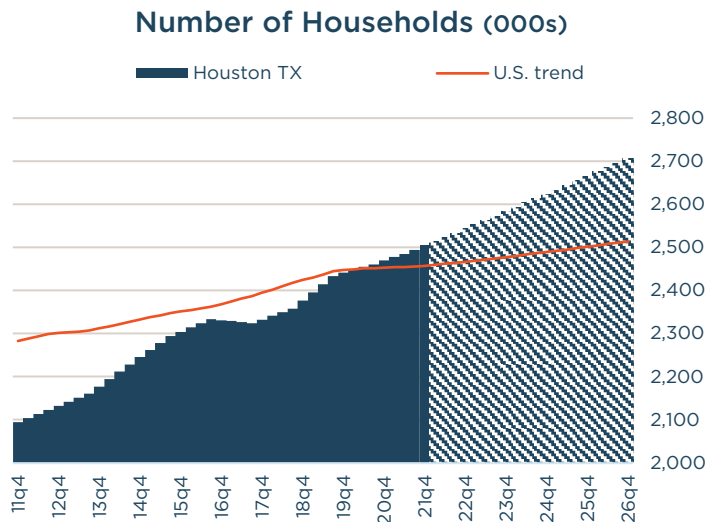
Houston, TX

Houston’s reduced exposure to the oil & gas industry makes what was already a strong market more appealing to long-term investors.

MIDDLEBURG’S RANK #8 AMONG 15 LARGEST METROS

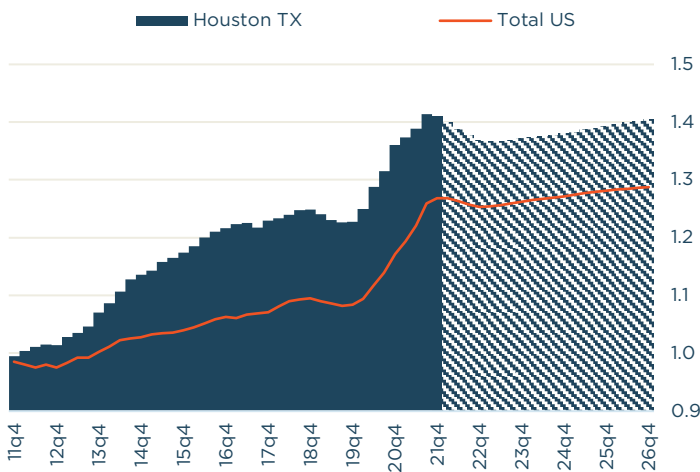
The demographic drivers of rental housing demand in Houston should continue to be strong: for example, Oxford Economics forecasts that the city's young adult population will grow by 60 thousand over the next five years (1.2 percent per year), and growth in **Number of Households** and **Total Employment** should lead all other metro areas in Middleburg's arc at 202 thousand (1.6 percent per year) and 213 thousand (1.3 percent per year) respectively. Moreover, employment growth is expected to be concentrated among higher-paying jobs, with median household income growing by 4.1 percent per year, well above average for metro areas in Middleburg's arc.

Partly as a result of an easing homeownership affordability issue, CoStar forecasts that Houston's rental housing fundamentals will not quite keep up with those in other metro areas along Middleburg's arc: for example, growth in the number of **Units in Demand** is expected to be no better than average at 2.0 percent per year. Similarly, growth in **Effective Rent per Unit** and net operating income for Class A properties are expected to be slightly below average at 3.4 percent per year and 3.6 percent per year, respectively, and appreciation in apartment property values is likewise forecast to be lower than the national average. **Subdued Construction and Net Deliveries** of Class A properties over the past six years suggest that no oversupply problems are on the horizon.

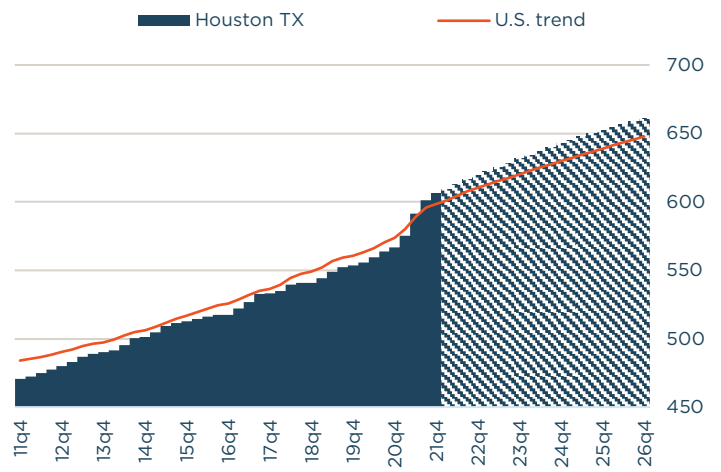


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
652,242	19,548	\$258,813	\$245 million
↑ 0.7%	↓ 14%	↑ 35%	↓ 19%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
11.8%	\$70,552	5.7%	+47 bps
↑ 0.1%	↑ 2.5%	no change	above US avg

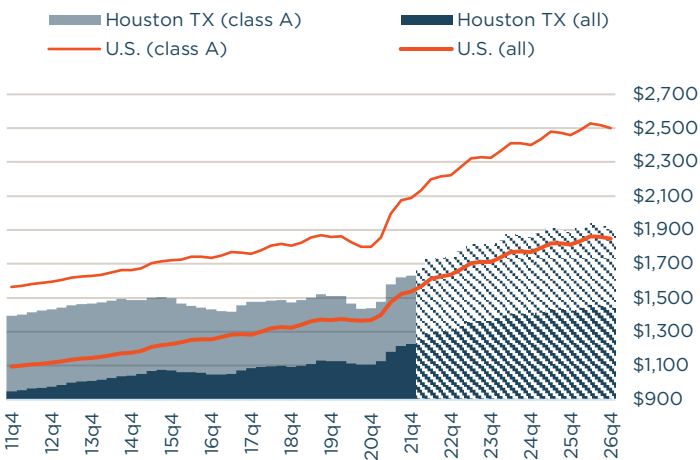
House Price/Income Ratio (11q1=1.0)



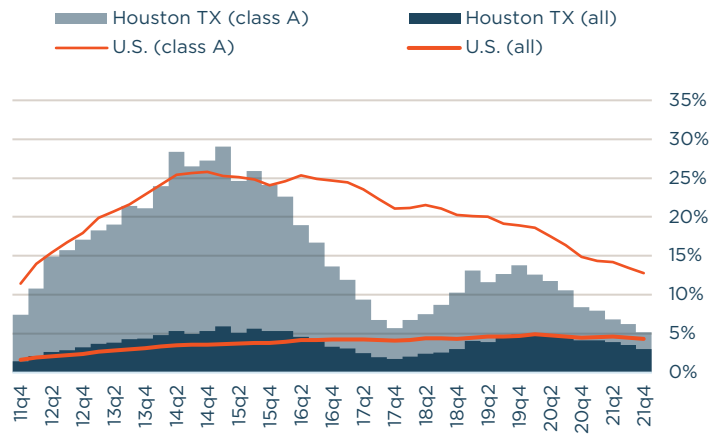
Units in Demand (000s)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory



Representative large employers: Wal-Mart, H-E-B, UT MD Anderson Cancer Center, ExxonMobil, Schlumberger, United Airlines, Amazon

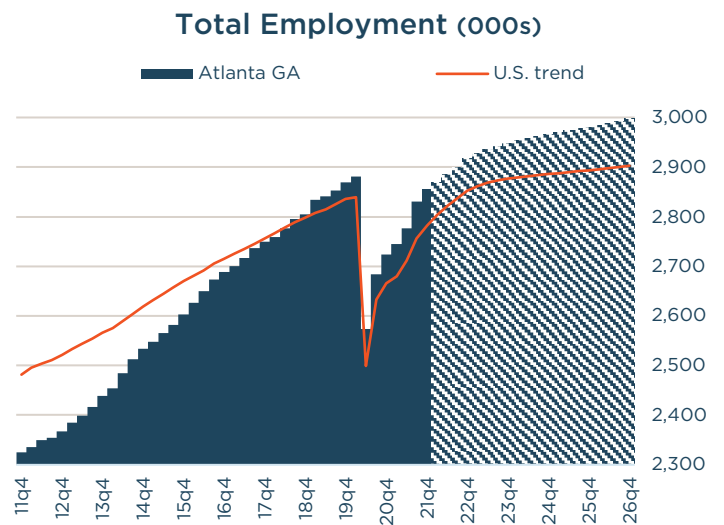
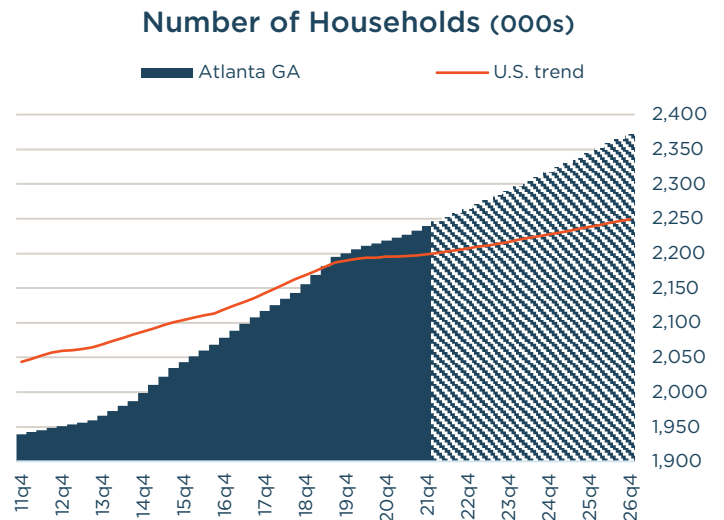
Atlanta, GA

Atlanta is similar in many respects to the Dallas / Fort Worth metro area, but at a slightly smaller and slightly less dynamic scale.

MIDDLEBURG'S RANK #11 AMONG 15 LARGEST METROS

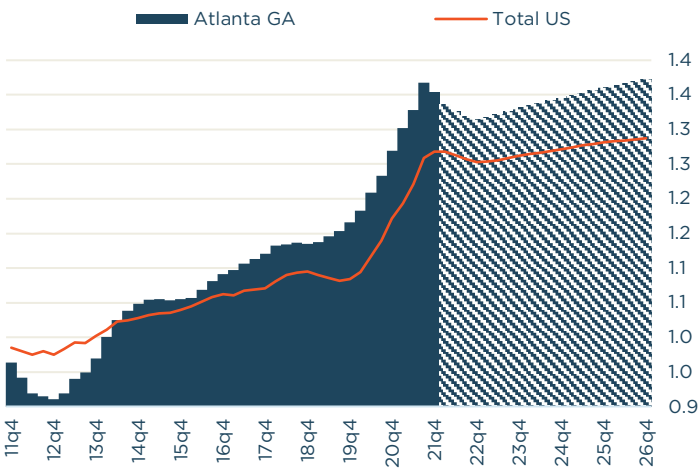
The largest market in Middleburg's territory outside of Texas, Atlanta is projected to add 36 thousand young adults over the next five years (0.8 percent per year), along with 133 thousand **Households** (1.2 percent per year) and 140 thousand in **Total Employment** (1.0 percent per year). Those are solid and appealing underlying demographic fundamentals, but it seems reasonable to wonder whether Atlanta has been "over-loved" by institutional investors: for example, cap rates on Class A apartment properties seem to be about 47 basis points lower in Atlanta than in Dallas.

Homebuyer affordability is expected to worsen slightly more rapidly in Atlanta than in the rest of the country, with house prices increasing more rapidly at 4.4 percent per year (compared with 4.1 percent for the nation as a whole) while median household incomes only slightly outpace the rest of the country. In the rental housing market, the number of **Units in Demand** is expected to grow by 40 thousand over the next five years—large in absolute numbers, but at a pace (1.7 percent per year) that is slightly slower than average for metro areas in Middleburg's region. Similarly, **Effective Rent per Unit** caught up to the rest of the country over the last decade but is expected to grow slightly less rapidly over the next five years than in other cities in Middleburg's area, as is net operating income. On the other hand, CoStar anticipates that apartment property value appreciation in Atlanta will surpass that in any other metro area in Middleburg's area.

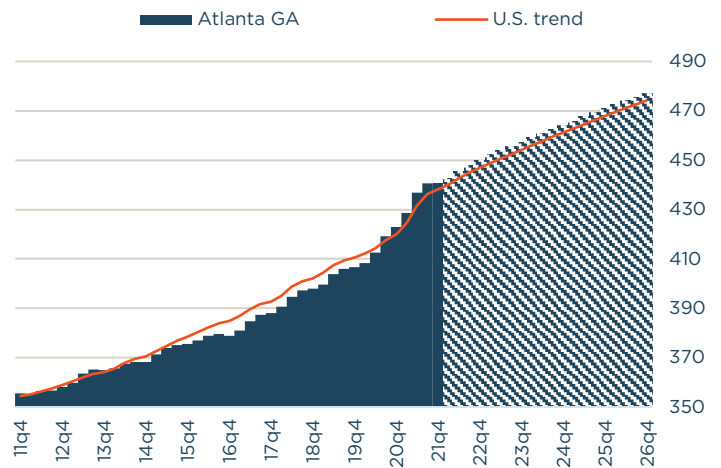


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
467,563	21,810	\$278,151	\$2,634 million
↑ 0.4%	↑ 10%	↓ 17%	↑ 51%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
17.0%	\$77,167	4.7%	-31 bps
↓ 1.1%	↑ 3.0%	↑ 0.8%	below US avg

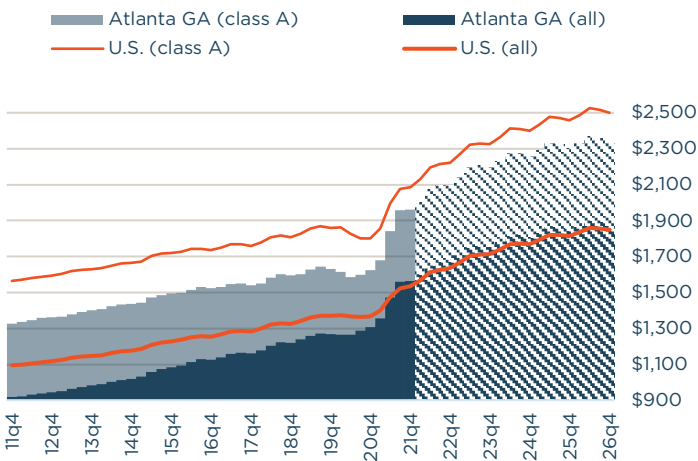
House Price/Income Ratio (11q1=1.0)



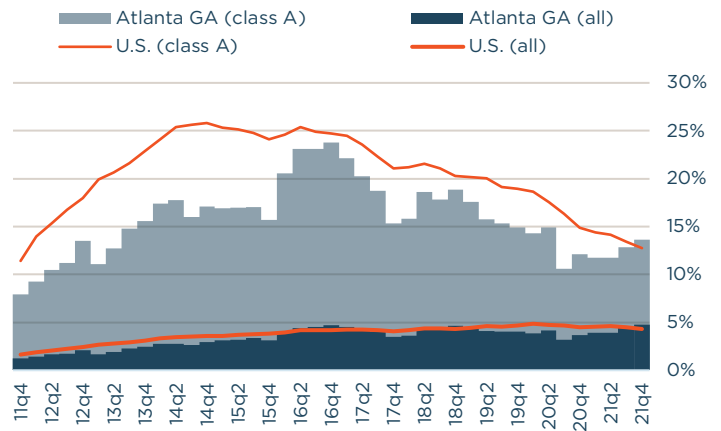
Units in Demand (000s)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory



Representative large employers: Delta Airlines, Emory Healthcare, Home Depot, Publix Super Markets, AT&T, UPS

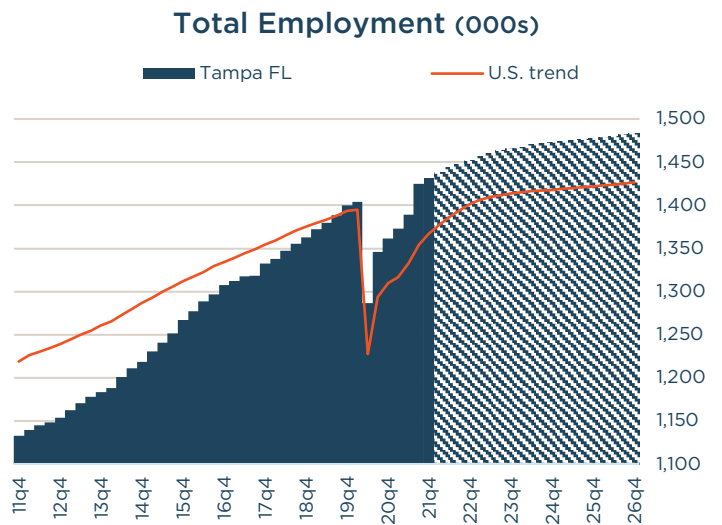
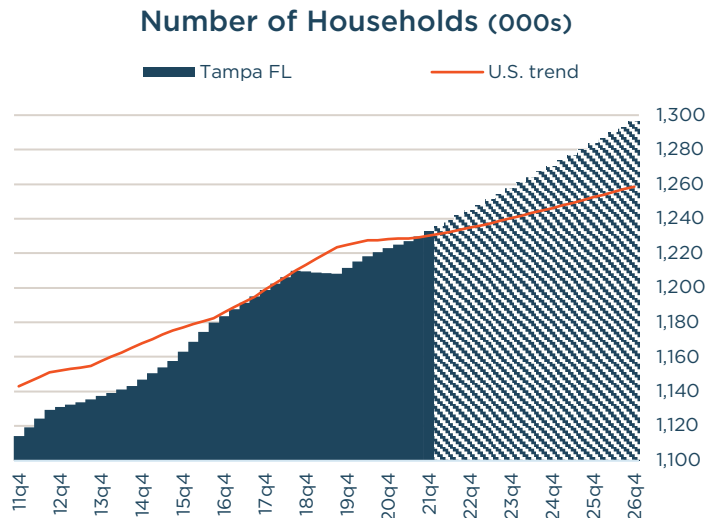
Tampa, FL

The Tampa market should continue to present appealing opportunities even though underlying demographic fundamentals are not as strong as in other metros in the area.

MIDDLEBURG'S RANK #13 AMONG 15 LARGEST METROS

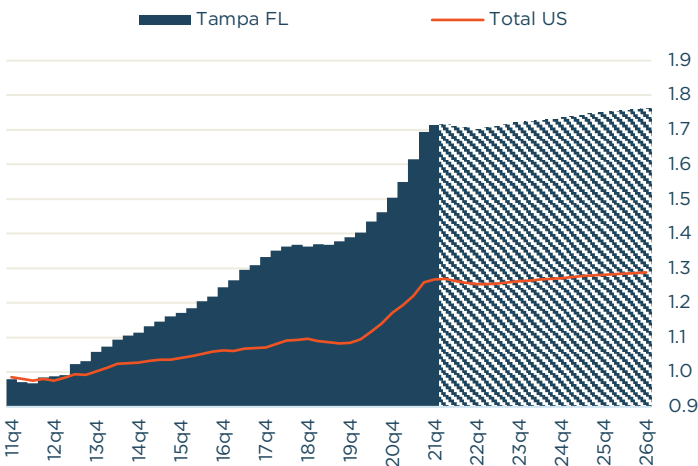
Tampa is not expected to grow as dynamically as other markets in Middleburg's arc. For example, Oxford Economics forecasts that over the next five years Tampa's young adult population will grow at a disappointingly average 0.4 percent per year, its **Number of Households** just slightly above average at 1.0 percent per year, and its **Total Employment** below average at just 0.7 percent per year. On top of that, Tampa's median household income is projected to stagnate, reflecting its increasing appeal among retirees. The metro area's size, however, mean that the absolute increases in households and jobs—64 thousand and 51 thousand respectively—will support continued apartment investment opportunities.

Tampa's increasing homebuyer affordability problems will encourage some of its new households to prefer the rental housing market: even though house price appreciation is forecast to remain below average for Middleburg's region at 3.9 percent per year, the anticipated slow growth of median household income at just 3.1 percent per year means that the **House Price to Income Ratio** is expected to worsen over the next five years. Partly as a result, CoStar projects that the number of **Units in Demand** will rise by 22 thousand (2.2 percent per year), very slightly above average for metro areas in Middleburg's region. And CoStar believes that this will push **Effective Rent per Unit** to grow by 4.5 percent per year and net operating income by 5.2 percent per year, both higher than in any other metro area in Middleburg's territory. With **Construction and Net Deliveries** continuing to remain within manageable ranges, Tampa should also offer solid appreciation in apartment property values.

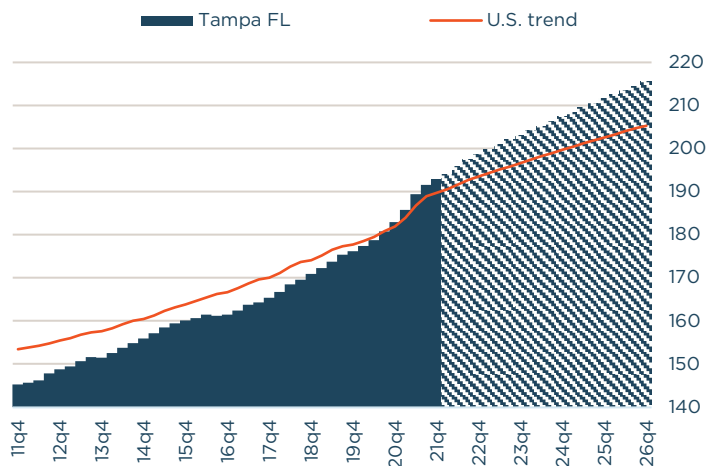


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
201,921	9,896	\$334,244	\$1,215 million
↑0.5%	↓2%	↑18%	↑81%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
21.8%	\$62,166	3.7%	-19 bps
↓0.4%	↑1.9%	↑0.3%	below US avg

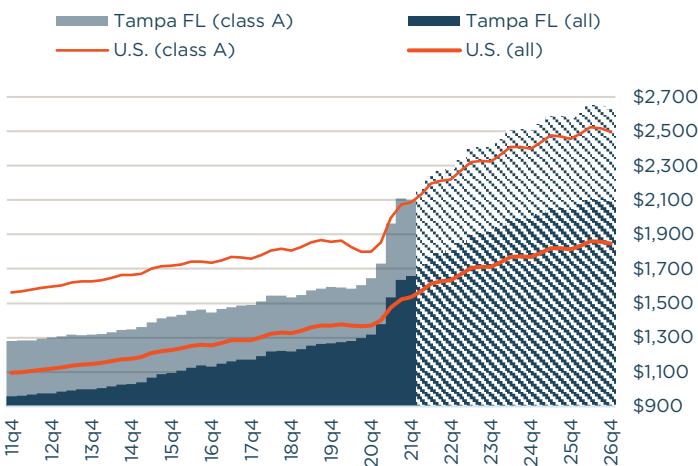
House Price/Income Ratio (11q1=1.0)



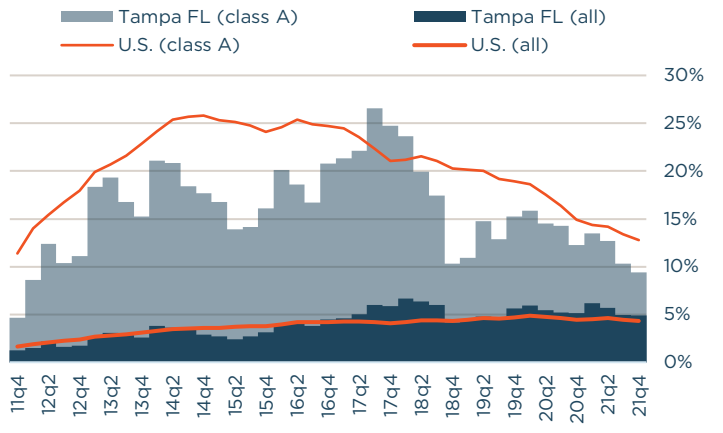
Units in Demand (000s)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory



Representative large employers: Publix Super Markets, BayCare Health System, MacDill Air Force Base, TECO Energy, Verizon Communications

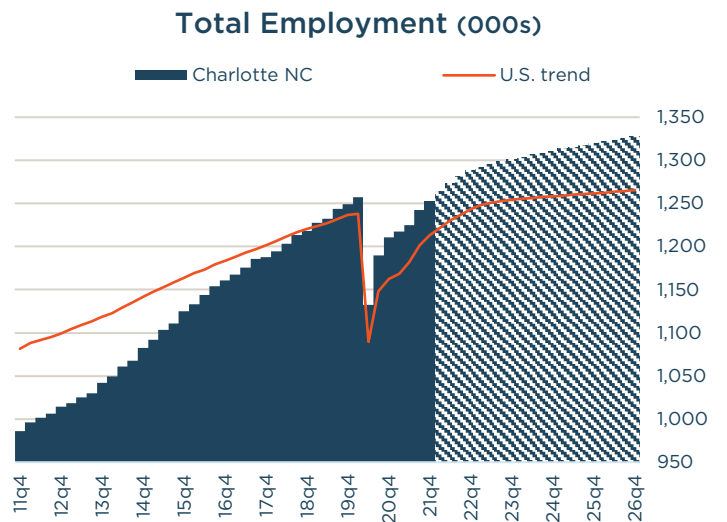
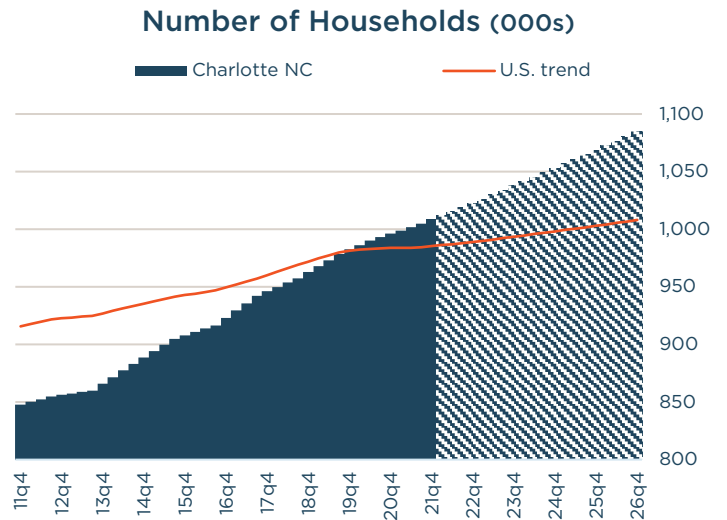
Charlotte, NC

We expect demand for rental housing in Charlotte to be supported by very strong growth in all key demand drivers as it continues its fascinating transformation from a textile manufacturing hub to a diversified hub for finance and high-value manufacturing.

MIDDLEBURG'S RANK #5 AMONG 15 LARGEST METROS

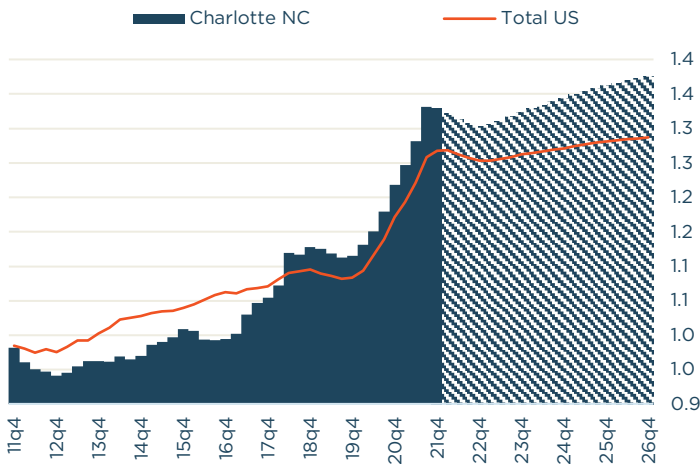
Charlotte's economy has successfully shed its dependence on low-value textiles with its nationally prominent finance sector and the growth of advanced non-textile manufacturing. As a result, over the next five years Oxford Economics forecasts that its young adult population will grow by 19 thousand (1.1 percent per year), its **Number of Households** by 76 thousand (1.5 percent per year), and its **Total Employment** by 75 thousand (1.2 percent per year)—all well above the average for metros in Middleburg's arc.

Homebuyer affordability is expected to worsen more than twice as badly as for the nation as a whole, with relatively slow growth in median household income (3.2 percent per year) lagging behind growth in house prices (4.3 percent per year). This and the area's demographics are expected to add 37 thousand to the number of rental **Units in Demand**, a comfortably above-average rate of 3.8 percent per year. If Charlotte has any weakness relative to its peer markets, it is that CoStar expects **Effective Rent per Unit** and net operating income to grow less rapidly over the next five years than in other markets in Middleburg's territory.

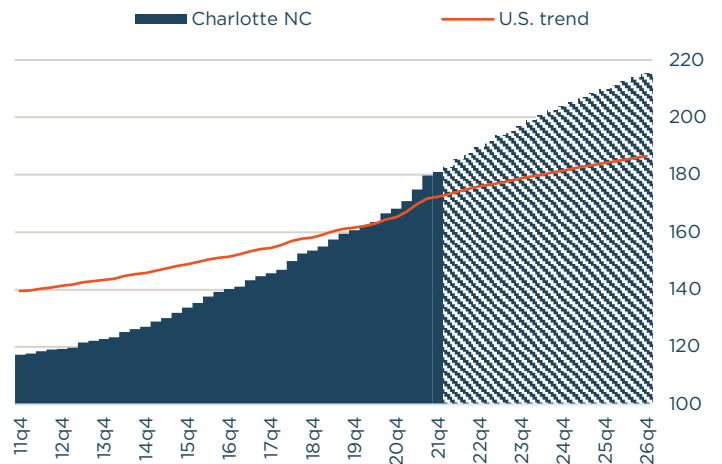


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
193,462	13,969	\$294,540	\$1,017 million
↑ 0.7%	↑ 22%	↑ 9%	↓ 4%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
17.8%	\$70,685	4.5%	-11 bps
↓ 1.5%	↑ 2.2%	↓ 0.4%	below US avg

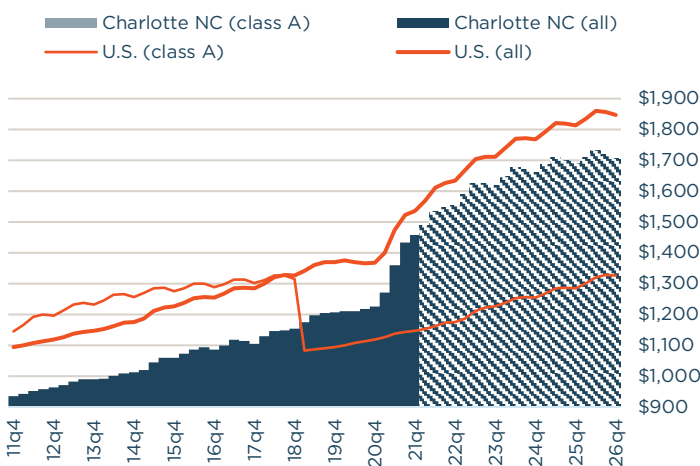
House Price/Income Ratio (11q1=1.0)



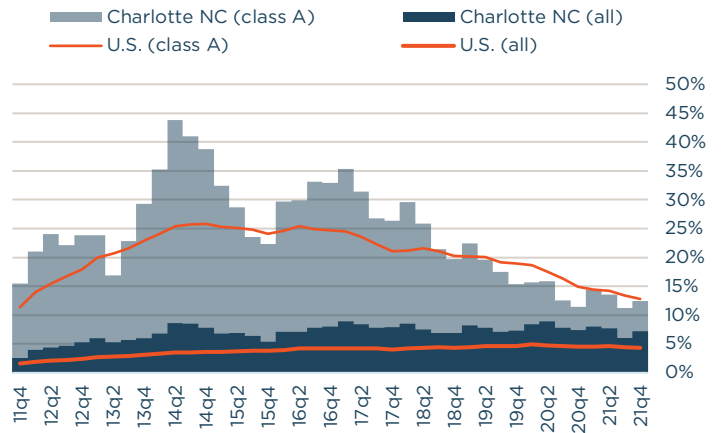
Units in Demand (000s)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory



Representative large employers: Wells Fargo, Atrium Health, Lowe's, Food Lion, Duke Energy, US Airways

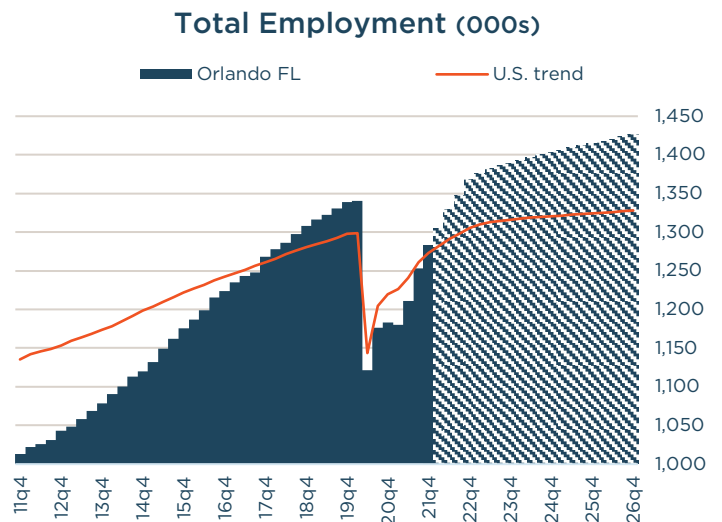
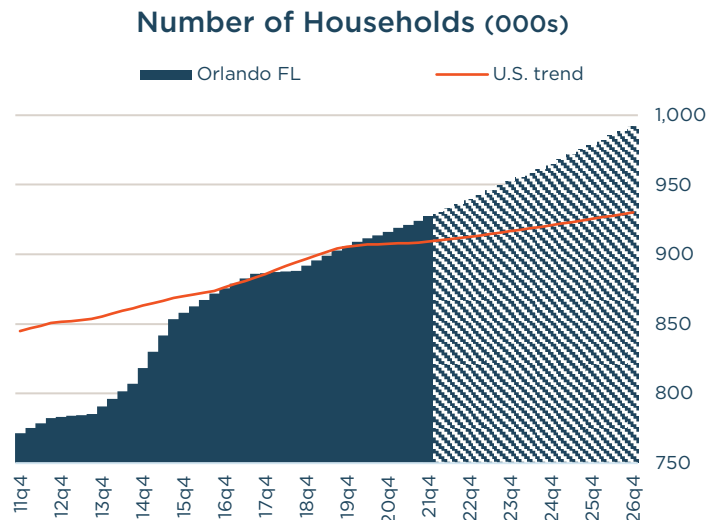
Orlando, FL

It's easy to underestimate the appeal of Orlando as a rental housing market—and it is tremendously appealing, as Orlando's economic base is more robust than many realize.

MIDDLEBURG'S RANK #2 AMONG 15 LARGEST METROS

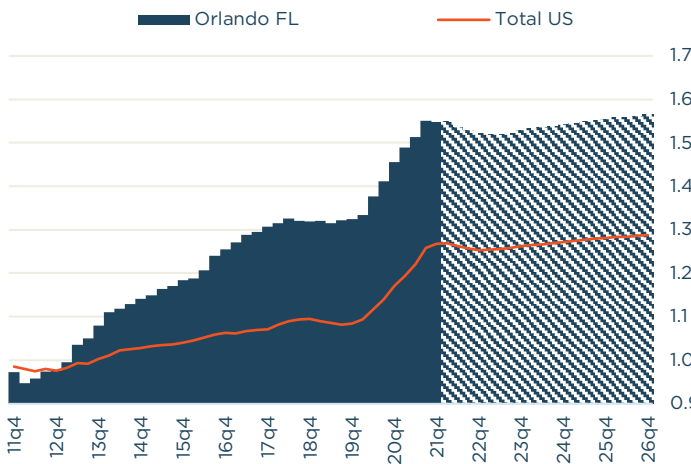
Of course Orlando's hospitality sector, anchored by its famous theme parks, accounts for the largest share of employment, but the interconnectedness of any economy means that employment is also strong in sectors such as construction, finance/real estate, wholesale/retail, and education/health. Oxford Economics forecasts that **Total Employment** in Orlando will grow by 2.1 percent per year over the next five years, resulting in 143 thousand additional workers along with above-average growth in **Median Household Income**. Oxford also expects above-average growth in Orlando's **Young Adult Population** (15 thousand, or 0.8 percent per year) and **Number of Households** (65 thousand, 1.4 percent per year).

Orlando's homebuying affordability problem is expected to worsen marginally, with the **House Price to Income Ratio** growing about 45 percent more than for the nation as a whole. Partly as a result, CoStar forecasts that **Demand** for rental housing will grow by 33 thousand units over the next five years (3.4 percent per year). CoStar also expects that **Effective Rent per Unit** will grow by 4.2 percent per year and net operating income by 4.9 percent per year over the same period, resulting in one of the highest rates of apartment property value appreciation of any metro area in Middleburg's part of the country. In short, it's difficult to identify any weakness in Orlando rental housing market conditions over the next five years. The market's appeal has not gone unnoticed: cap rates on Class A apartments tend to be around 43 basis points below the U.S. average, and the pace of **Construction and Net Deliveries** is about the same as the rest of the country relative to existing Class A inventory, so we will continue monitoring the market to make sure it does not become either overbuilt or overinvested.

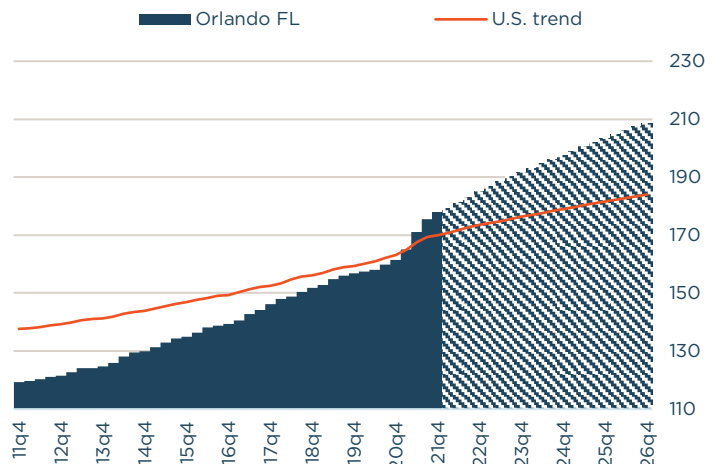


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
187,359	14,606	\$299,675	\$1,557 million
↑ 1.1%	↓ 3%	↑ 28%	↑ 237%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
18.3%	\$66,771	3.9%	-43 bps
↑ 0.8%	↑ 3.4%	↑ 0.6%	below US avg

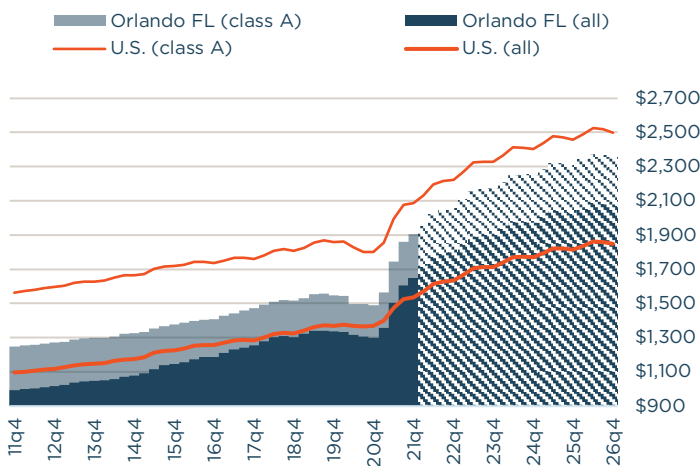
House Price/Income Ratio (11q1=1.0)



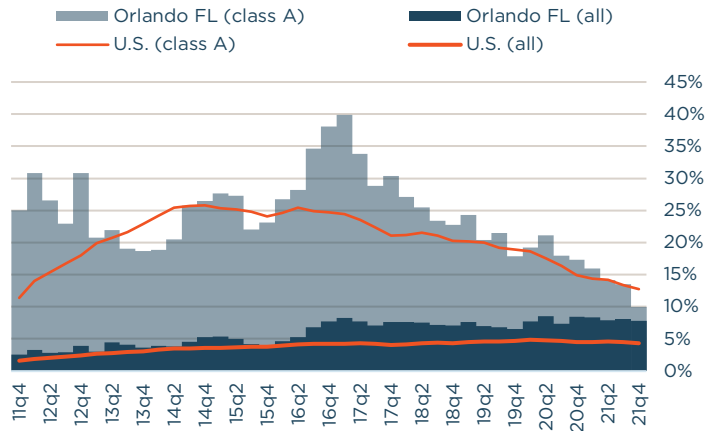
Units in Demand (000s)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory



Representative large employers: Walt Disney World, Advent Health, Publix Super Markets, Lockheed Martin, Siemens Energy

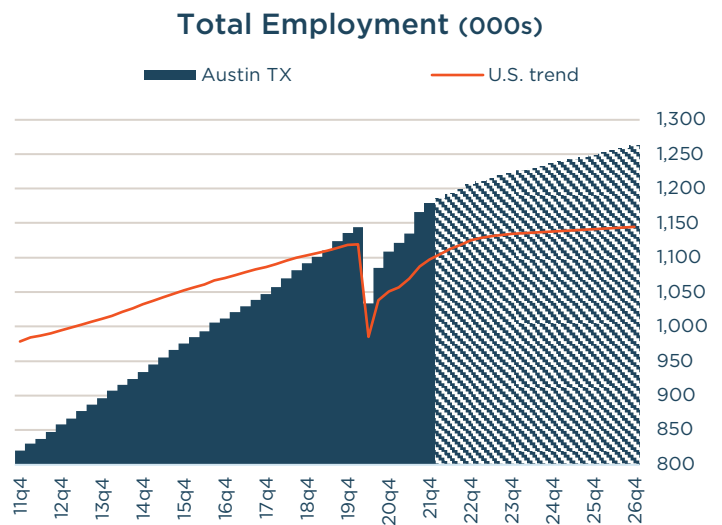
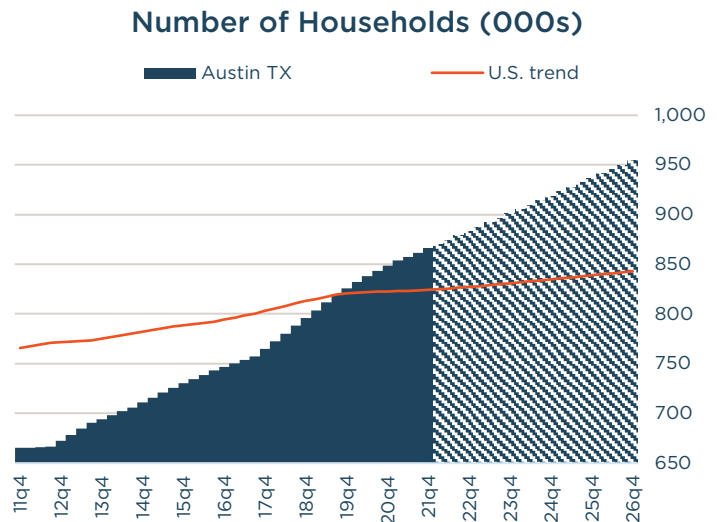
Austin, TX

Austin’s appeal as a rental housing market should surprise nobody, as the Texas capital has become known as a favorite among young professionals, thanks in large part to the University of Texas and the city’s music scene.

MIDDLEBURG’S RANK #1 AMONG 15 LARGEST METROS

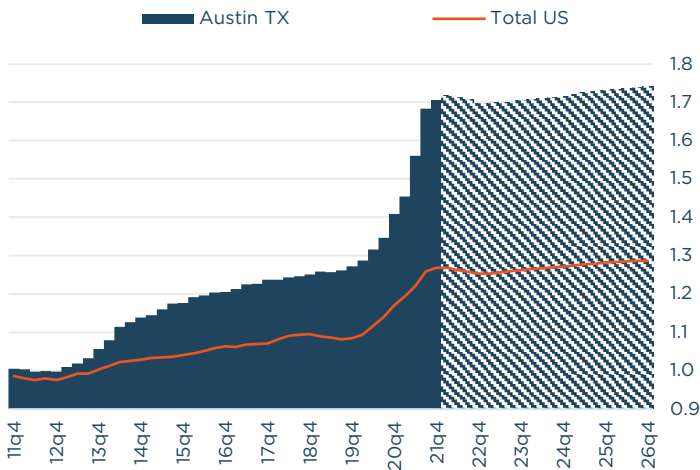
Over the next five years Oxford Economics forecasts that growth in Austin's young adult population and **Number of Households** will outpace every other metro area in Middleburg's footprint in percentage terms (1.8 percent per year and 2.0 percent per year respectively) and trail only the much larger Dallas / Fort Worth, Houston, and Atlanta in absolute numbers at 34 thousand and 89 thousand respectively. Growth in **Total Employment** is also expected to remain well above average at 1.4 percent per year, especially with recent corporate relocations including Oracle and Tesla.

Austin, though the next five years are expected to see only a marginal worsening as house prices increase only slightly more than the national average while median household incomes do the same. As a result of the expected inflows, however, CoStar forecasts that rental housing **Demand** will grow by 45 thousand units over the next five years (3.6 percent per year), trailing only Dallas / Fort Worth and Houston. **Effective Rent per Unit**, net operating income, and apartment property value appreciation will also outpace most other markets in the region, while **Construction and Deliveries** maintain a reasonable pace relative to the existing Class A inventory. The main reason for caution about investing in Austin's rental housing market is that the influx of institutional capital has driven cap rates down to about 46 basis points below the US average—higher than only a handful of metro areas in Middleburg's arc including Palm Beach, Naples, and Fort Lauderdale.

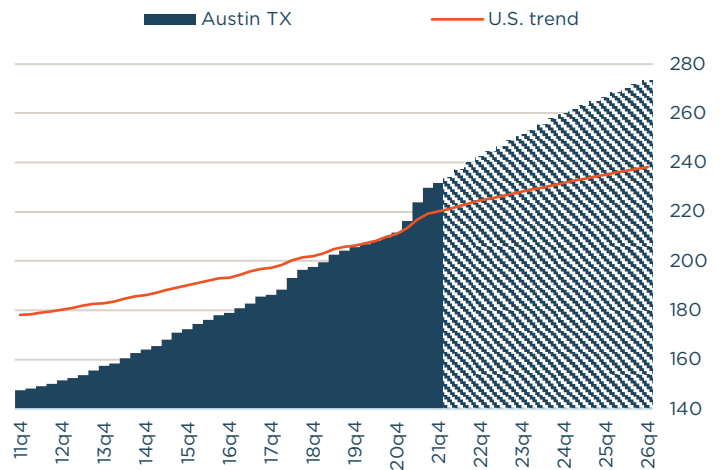


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
246,549	23,282	\$258,011	\$432 million
↑ 1.3%	↓ 1%	↑ 15%	↑ 36%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
31.0%	\$86,104	4.4%	-46 bps
↓ 1.7%	↑ 2.0%	↑ 0.2%	below US avg

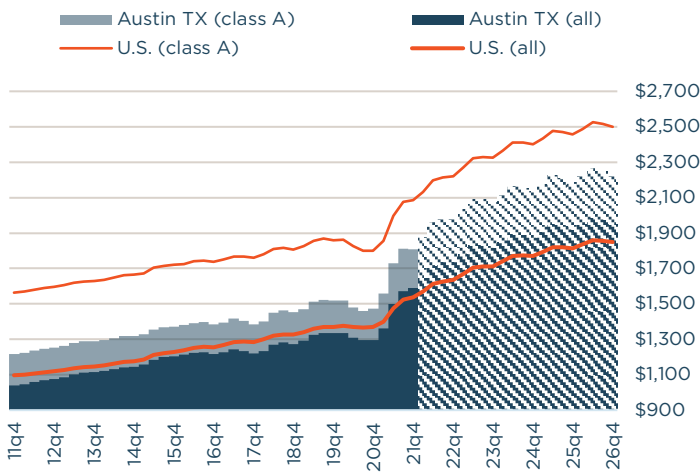
House Price/Income Ratio (11q1=1.0)



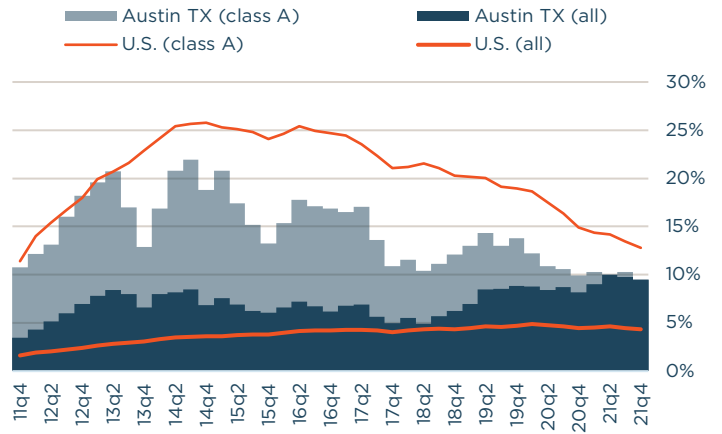
Units in Demand (000s)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory



Representative large employers: UT-Austin, Dell Technologies, Apple, IBM, Samsung Austin Semiconductor, Ascension Seton

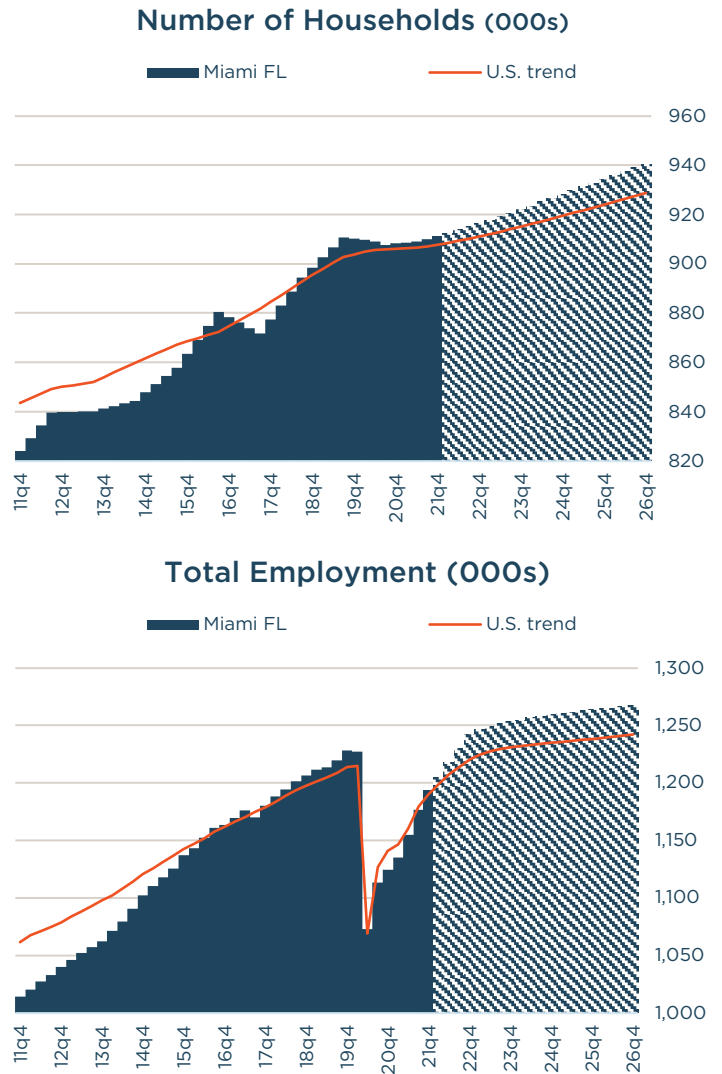
Miami, FL

Miami is a market with some solid demand drivers—but one that, ultimately, is more likely to appeal to investors other than Middleburg.

MIDDLEBURG'S RANK #9 AMONG 15 LARGEST METROS

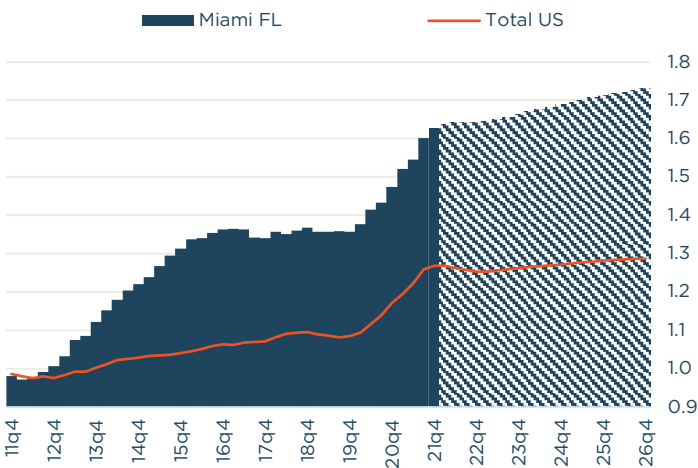
Miami has attracted (or perhaps sought) attention as a new home for tech firms relocating away from the San Francisco Bay area as well as finance firms relocating away from New York City. Even if that happens, it's probably not enough to make the Miami area especially appealing to Middleburg. Oxford Economics forecasts that the area's young adult population—a key demographic driver of non-niche rental housing demand—will actually shrink by five thousand over the next five years (-0.3 percent per year), while the **Number of Households** is expected to grow by an anemic (for this part of the country) 29 thousand, or just 0.6 percent per year.

Demand for rental housing will receive an added push from Miami's continuing homebuyer affordability problem, which is expected to worsen substantially as house prices increase by about 5.1 percent per year while median household incomes increase by just 3.5 percent per year. But Miami's rental housing market is not like those in other cities: for example, Miami's current average **Effective Rent per Unit** of \$1,997 trails only Palm Beach, Naples, and Fort Lauderdale among markets in Middleburg's part of the country even though the metro area's median household income is low by national standards at just \$56,960. On top of that, cap rates on Class A apartment properties tend to be about 45 basis points below the national average, making them more expensive than all metro areas in Middleburg's region except the same troika of Palm Beach, Naples, and Fort Lauderdale plus (but just barely) Austin. In short, rental housing demand in Miami tends to be dominated by wealthy retirees in high-end apartments, rather than the younger professional households in middle-market Class A apartments that form the greatest share of Middleburg's resident base.

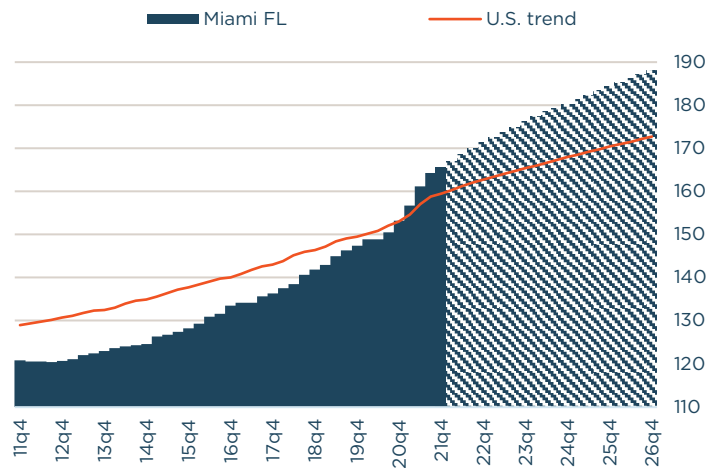


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
171,916	15,449	\$440,428	\$913 million
↑ 0.8%	↑ 10%	↑ 10%	↑ 45%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
19.7%	\$58,652	4.6%	-45 bps
↑ 1.9%	↑ 2.5%	↑ 0.5%	below US avg

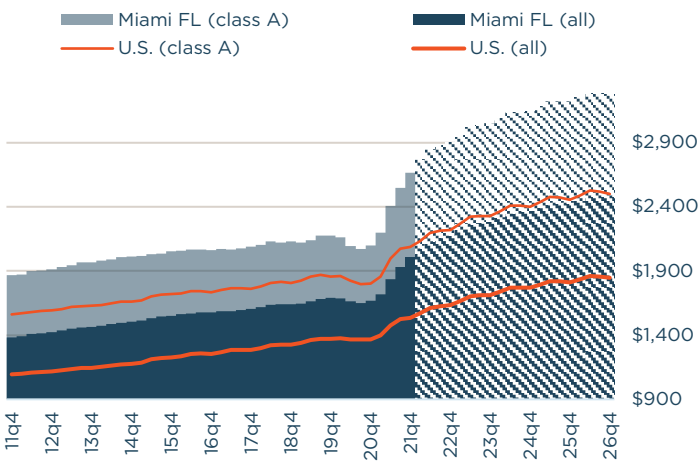
House Price/Income Ratio (11q1=1.0)



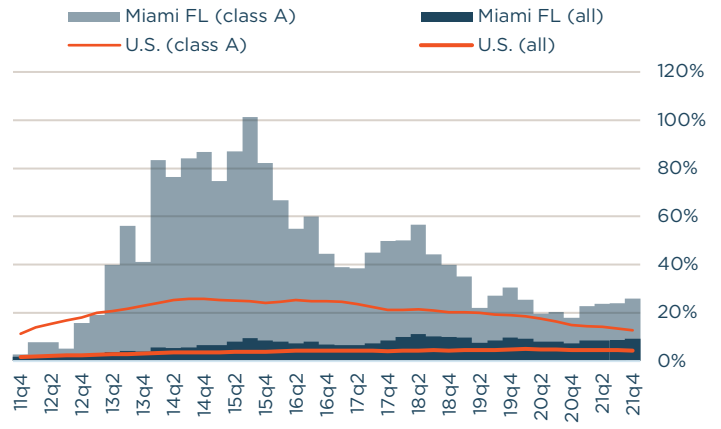
Units in Demand (000s)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory



Representative large employers: University of Miami, Baptist Health South Florida, American Airlines, Carnival Cruise Lines

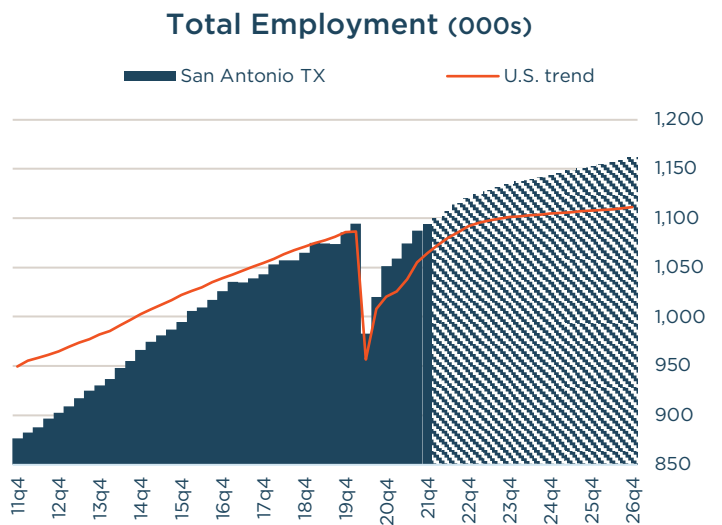
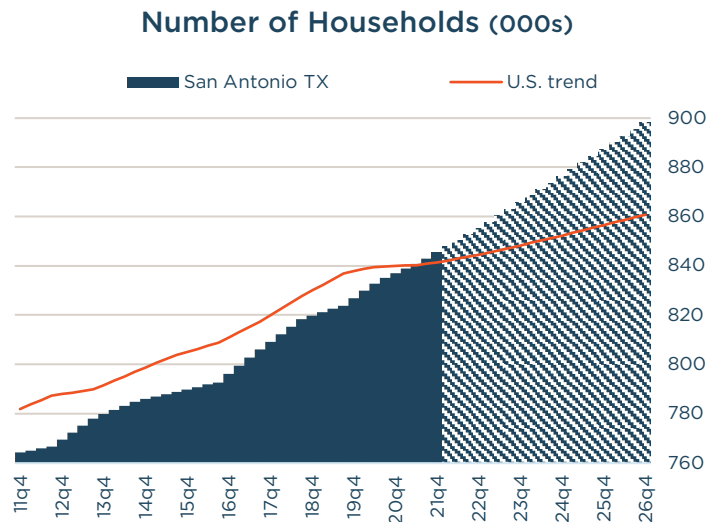
San Antonio, TX

San Antonio has become an interesting market. Only 80 miles from Austin, it is already seeing in-migration from its increasingly unaffordable neighbor.

MIDDLEBURG'S RANK #10 AMONG 15 LARGEST METROS

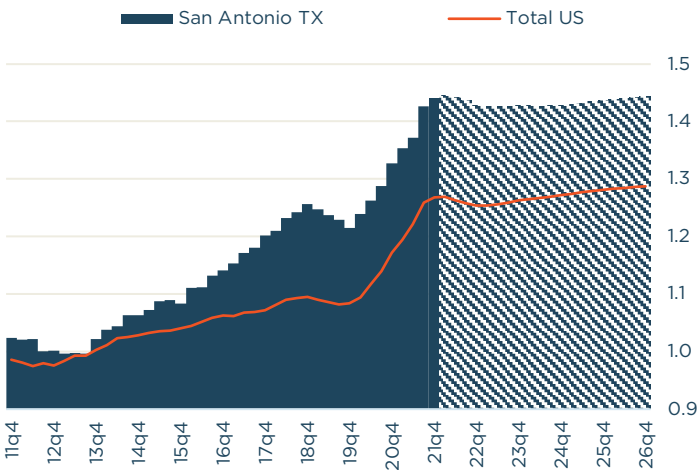
San Antonio's economic base, long dominated by nearby military installations, has diversified impressively in financial services (USAA, JP Morgan Chase), digital technologies (Rackspace Technology, TaskUs), medical care, grocery retailing, and other industries. Oxford Economics forecasts that, over the next five years, San Antonio will experience especially strong growth in all three key demographic drivers of rental housing demand: young adult population (up 26 thousand at 1.4 percent per year), **Number of Households** (up 53 thousand at 1.2 percent per year), and **Total Employment** (up 67 thousand at 1.2 percent per year). As a bonus, San Antonio's median household income, currently 6.7 percent less than the national median, is expected to grow marginally more rapidly at 3.9 percent per year.

San Antonio has seen an increase in homebuyer affordability problems, but that is not likely to be the driver of apartment demand going forward as house prices are expected to grow very slightly less rapidly than incomes. Instead it will be demographics driving increases in **Demand** for rental housing by 21,300 over the next five years (2.2 percent per year), **Effective Rent per Unit** (up 3.9 percent per year), and net operating income (up 4.4 percent per year). On top of this, **Construction and Deliveries** have remained subdued relative to the Class A inventory. If there are significant reasons for concern about San Antonio, they are two: first, that prevailing rents are quite a bit lower than in most other cities in Middleburg's region at just \$1,169 per unit—4.6 percent less than the next-lowest large metro area, Houston at \$1,225—and, second, that cap rates averaging about 10 basis points higher than the national average seem as though they should be somewhat higher.

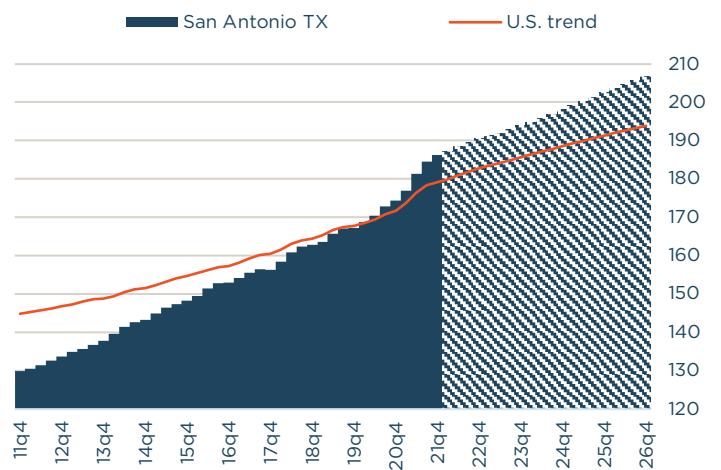


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
197,258	8,414	\$237,273	\$157 million
↑ 0.3%	↑ 11%	↑ 15%	↑ 42%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
16.3%	\$64,869	7.8%	+10 bps
↓ 0.5%	↑ 1.5%	↑ 0.6%	above US avg

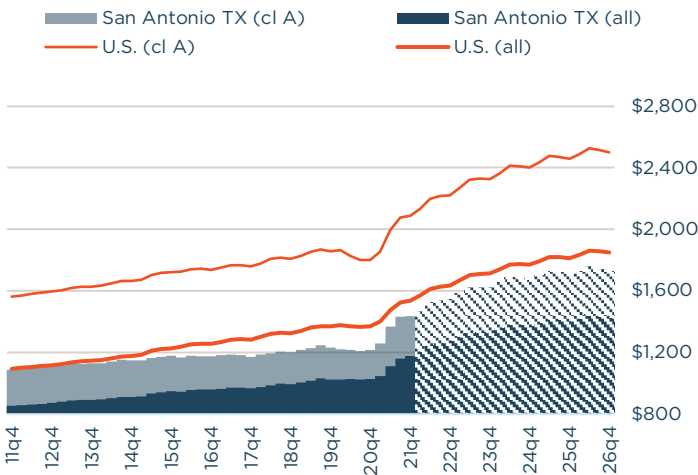
House Price/Income Ratio (11q1=1.0)



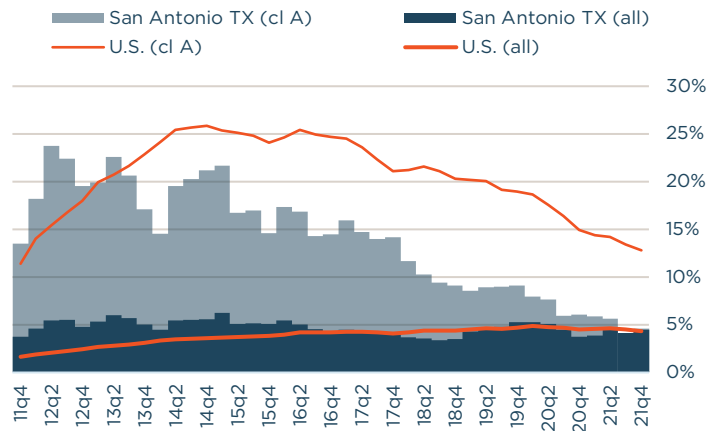
Units in Demand (000s)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory



Representative large employers: Joint Base San Antonio, USAA, H-E-B, Methodist Healthcare System, Rackspace Technology

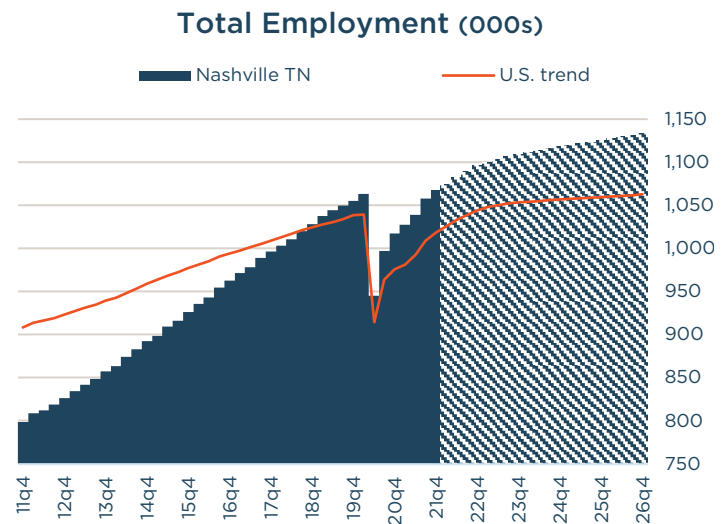
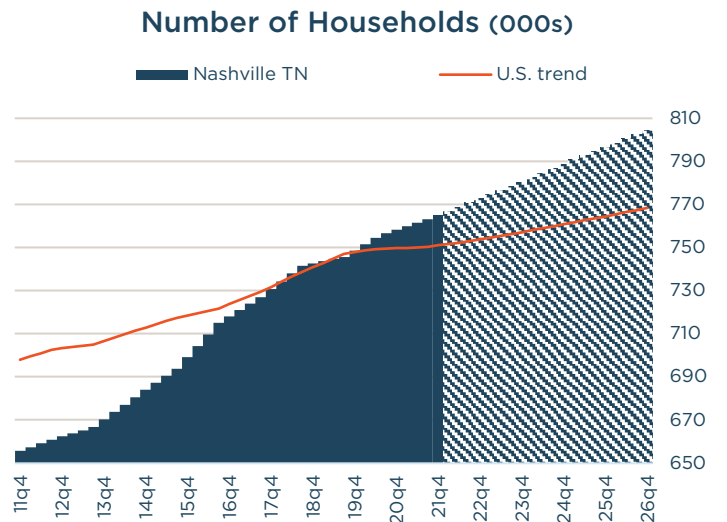
Nashville, TN

Nashville may as well be called "The New Austin." As in Austin, it's hard to find weak aspects of the Nashville rental housing market; also as in Austin, however, the strength of the Nashville market is widely recognized.

MIDDLEBURG'S RANK #3 AMONG 15 LARGEST METROS

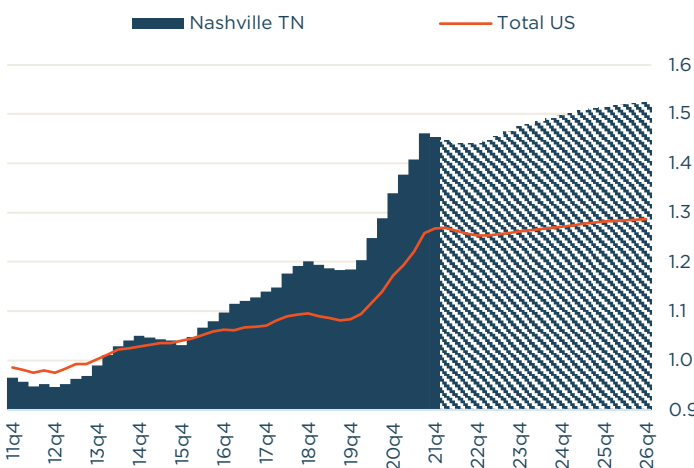
Like Austin, Nashville seems to be a growing favorite of young professionals, based partly on its music scene. Also like Austin, Nashville has seen high-profile recent corporate relocations including AllianceBernstein. As a result, the key demographic drivers of rental housing demand are all expected to grow strongly in Nashville over the next five years. Oxford Economics expects that Nashville's young adult population will grow by 12 thousand over the next five years (0.8 percent per year), that the **Number of Households** will grow by 39 thousand (1.0 percent per year), and that **Total Employment** will grow by 66 thousand (1.2 percent per year).

Nashville's homebuyer affordability problem is expected to catch up with Austin's over the next five years, with the rate of growth for house prices (5.2 percent per year) among the highest in Middleburg's region while median household incomes grow at just 3.7 percent per year. The demographic and affordability pressures are expected to increase apartment **Demand** by 30 thousand units (4.2 percent per year) over the next five years. Nashville is expected to continue outpacing most other metros in Middleburg's arc in terms of **Effective Rent per Unit** (3.8 percent per year), net operating income (4.2 percent per year), and appreciation in apartment property values (2.4 percent per year). The main risk in the Nashville market is likely to be the pace of **Construction and Deliveries**, which have persistently been quite high, relative to Class A and total inventory, for most of the past decade.

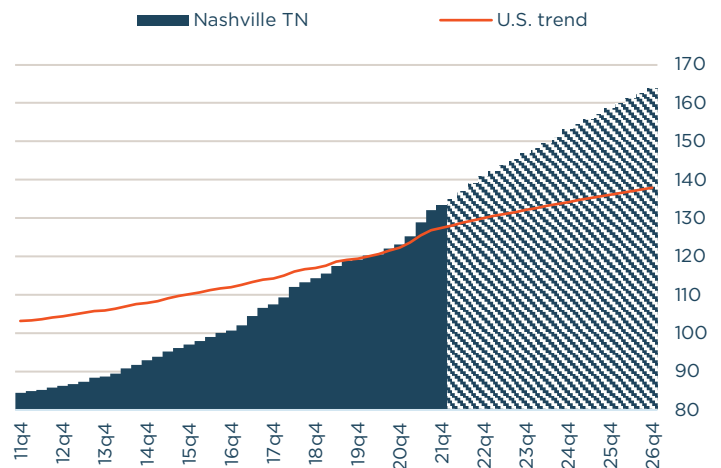


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
141,140	18,796	\$268,919	\$502 million
↑ 1.9%	↓ 5%	↓ 7%	↓ 32%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
18.4%	\$72,541	4.3%	+4 bps
↓ 0.6%	↑ 2.7%	↑ 0.2%	above US avg

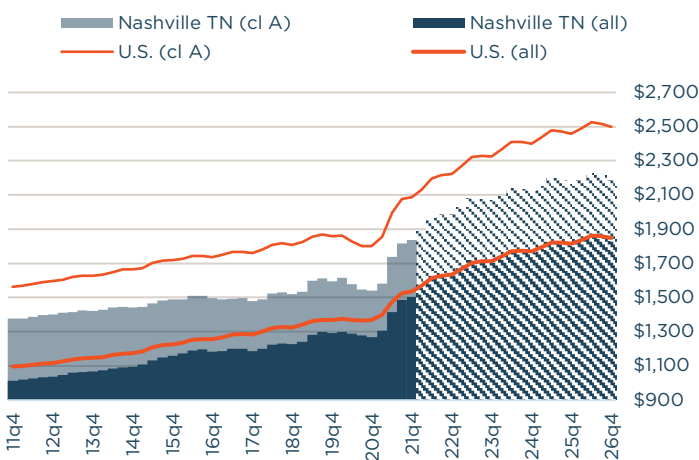
House Price/Income Ratio (11q1=1.0)



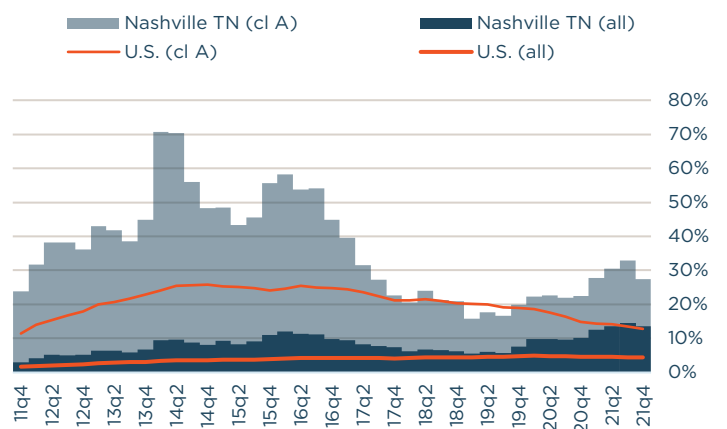
Units in Demand (000s)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory



Representative large employers: Vanderbilt University Medical Center, Nissan North America, HCA Healthcare, Randstad, General Motors

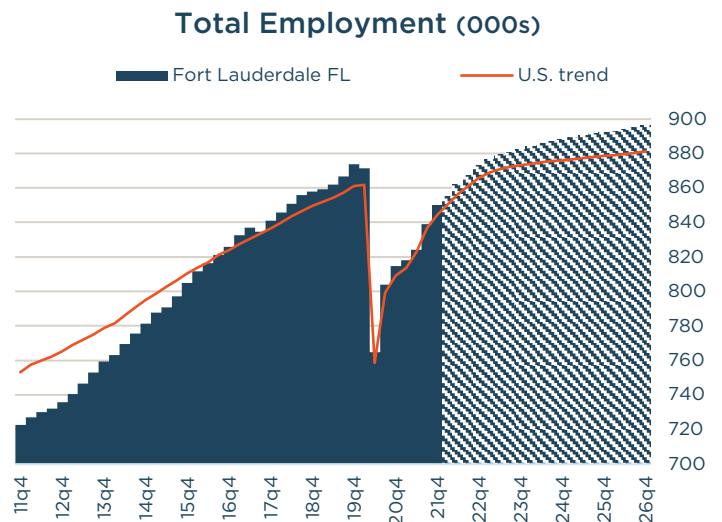
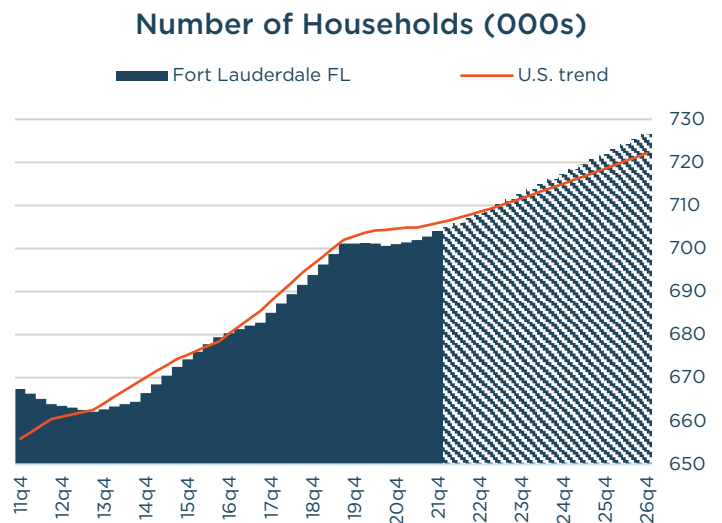
Fort Lauderdale, FL

Like Tampa, the Fort Lauderdale market doesn't promise the same strong growth in underlying demographic fundamentals as other markets in Middleburg's arc; like Miami, its strengths probably appeal more to other investors than to Middleburg.

MIDDLEBURG'S RANK #12 AMONG 15 LARGEST METROS

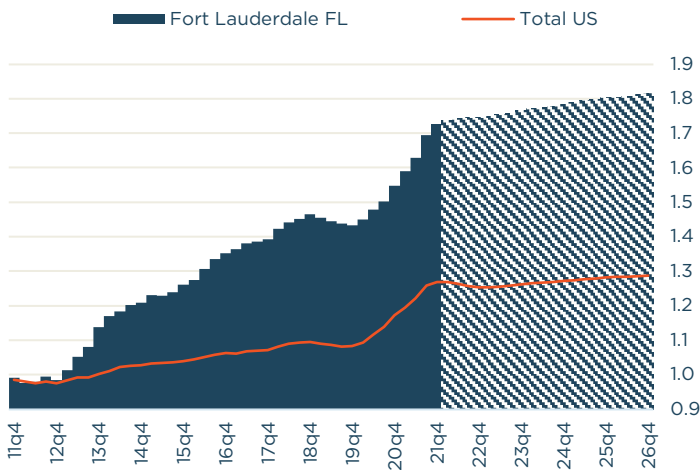
At just 3.4 percent, Fort Lauderdale's current Class A vacancy rate remains the lowest of any large metro area in Middleburg's territory. Similarly, its average Class A **Effective Rent per Unit** of \$2,075 trails only the Palm Beach and Naples markets, and the \$499 growth that CoStar forecasts over the next five years trails only Palm Beach at \$587. That's not really enough to make it especially appealing to Middleburg, given that we don't typically compete at the highest end of the rental housing market. More important to us is the fact that growth in the key demographic drivers is expected to be anemic: Oxford Economics forecasts, for example, that the young adult population will expand by just four thousand (0.4 percent per year) over the next five years, while the **Number of Households** will grow by just 23 thousand (0.6 percent per year).

The rental housing market is likely to be boosted by Fort Lauderdale's continuing homebuyer affordability problem: the **House Price to Income Ratio** is expected to worsen significantly more than the national average as house prices increase by 4.6 percent per year (compared with 4.1 for the country as a whole) while median household incomes increase by only 3.3 percent per year (compared with 3.6 percent). That reflects Fort Lauderdale's growing appeal as an alternative to Miami for relatively wealthy retirees—not so much as a favored destination for the young professionals that are Middleburg's core resident base. Moreover, cap rates averaging about 63 basis points less than the national average make Class A apartments in Fort Lauderdale more expensive than in any large metro area in Middleburg's part of the country except Palm Beach.

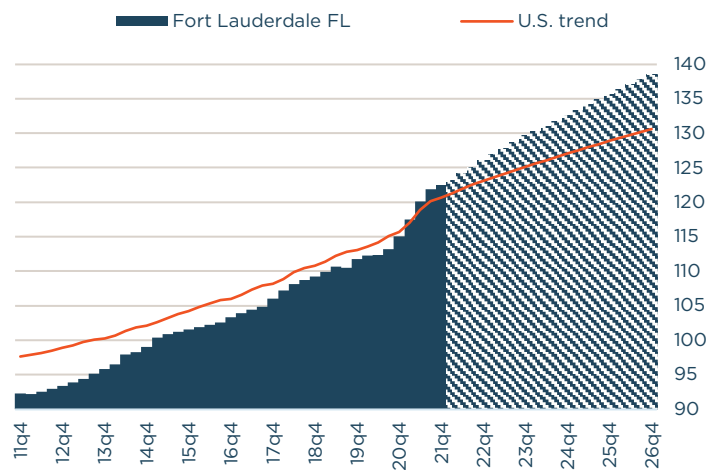


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
126,452	9,393	\$352,686	\$1,380 million
↑ 0.3%	↑ 22%	↑ 17%	↑ 207%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
19.7%	\$65,147	3.4%	-63 bps
↑ 1.3%	↑ 2.1%	↑ 0.2%	below US avg

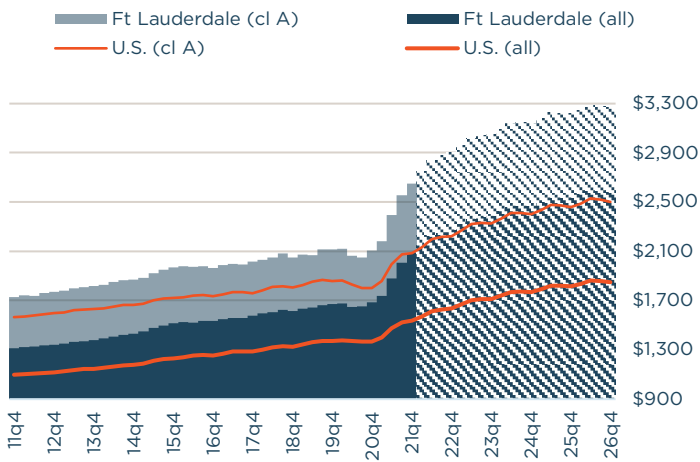
House Price/Income Ratio (11q1=1.0)



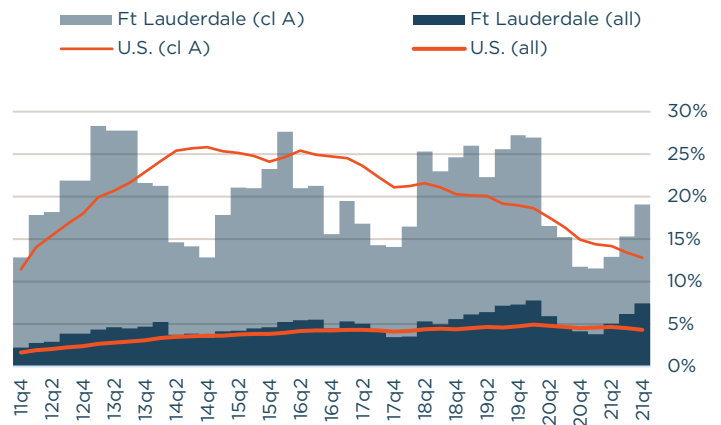
Units in Demand (000s)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory



Representative large employers: Nova Southeastern University, HEICO, Spirit Airlines, American Express, AutoNation

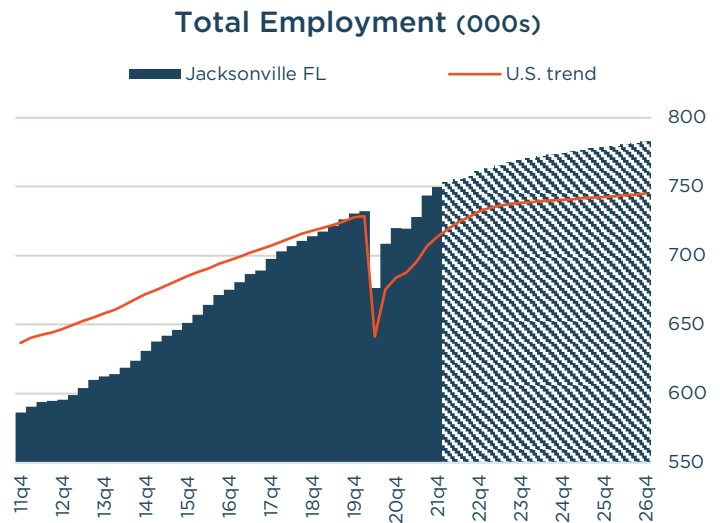
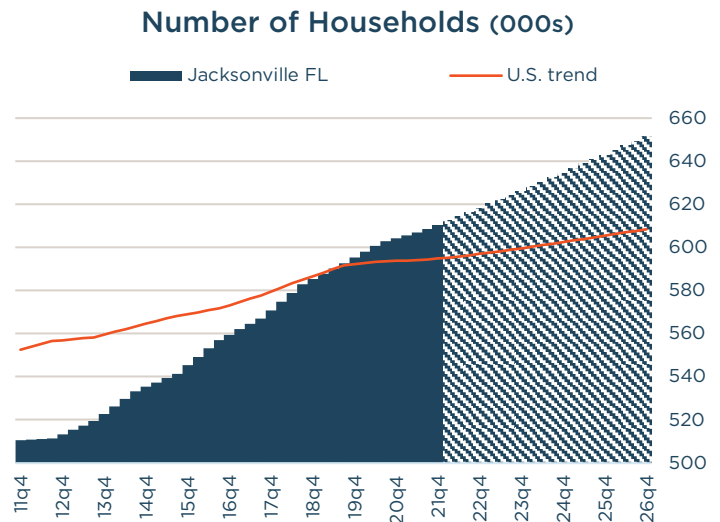
Jacksonville, FL

Jacksonville’s economy is continuing to diversify beyond its former over-reliance on the cruise industry and other port activities, especially with growth in financial services.

MIDDLEBURG’S RANK #15 AMONG 15 LARGEST METROS

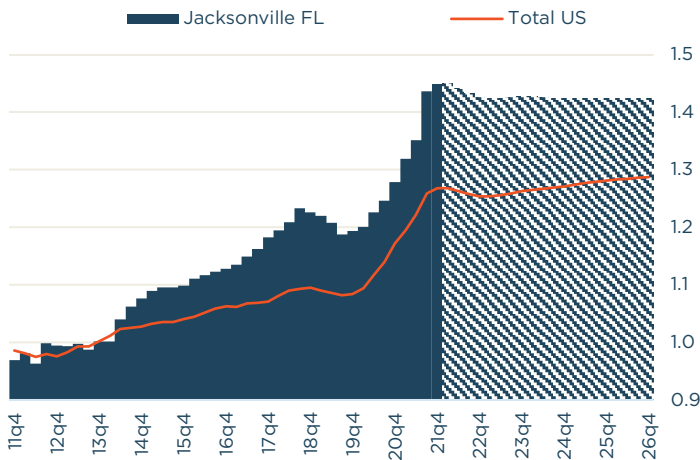
The growth rate of GDP in the Jacksonville metro area has exceeded the national average for several years and is expected to continue, although rental housing demand may not expand quite as strongly. For example, although the **Number of Households** is expected to increase by 41 thousand over the next five years (1.3 percent per year), Oxford Economics forecasts **Total Employment** to grow by just 33 thousand jobs (0.9 percent per year, disappointingly average by the standards of Middleburg’s territory). And its young adult population is expected to grow by a measly four thousand (0.3 percent per year).

Neither is a homeownership affordability problem likely to drive apartment demand, as house prices are expected to grow substantially less than in the rest of the country at just 3.0 percent per year, slightly less than the growth rate of median household income at 3.2 percent per year. Despite the weakness in demographic and affordability drivers, CoStar expects that **Demand** for rental housing units will grow by about 13 thousand over the same period, at a slightly-above-average pace of 2.7 percent per year. **Effective Rent per Unit**, net operating income, and price appreciation for Class A apartment properties are all expected to remain relatively strong at 4.0, 4.5, and 2.7 percent per year respectively, partly because the pace of **Construction and Deliveries** has been consistently reasonable as a share of Class A inventory.

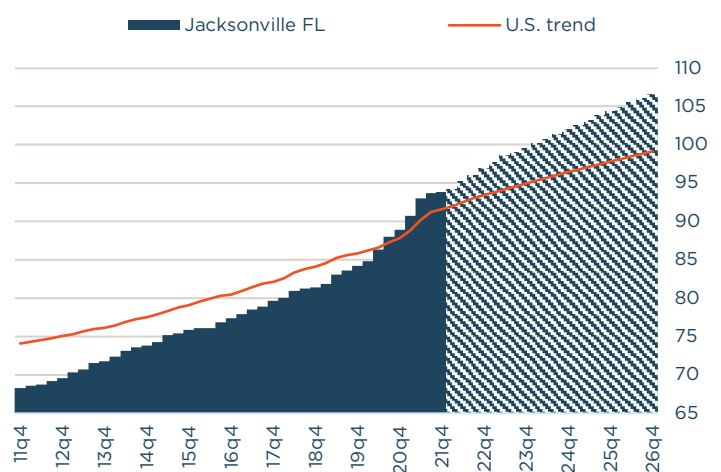


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
98,811	6,291	\$252,064	\$374 million
↑ 0.7%	↑ 5%	↑ 11%	↑ 159%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
21.2%	\$70,088	3.7%	-35 bps
no change	↑ 1.8%	↑ 0.5%	below US avg

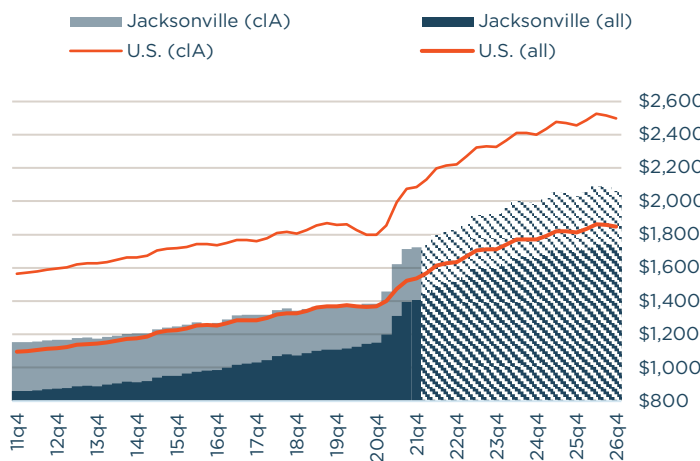
House Price/Income Ratio (11q1=1.0)



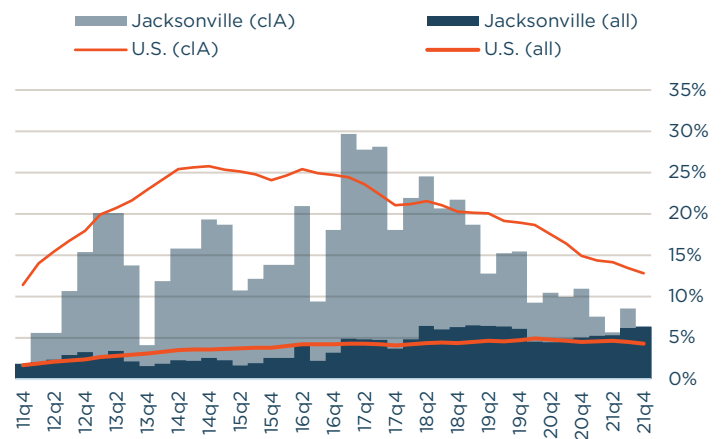
Units in Demand (000s)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory



Representative large employers: CSX, Fleet Readiness Center Southeast, Baptist Health, Bank of America, Southeastern Grocers

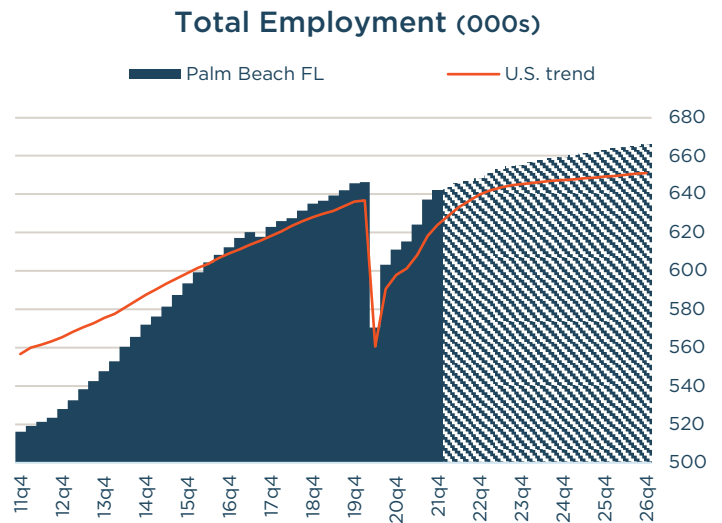
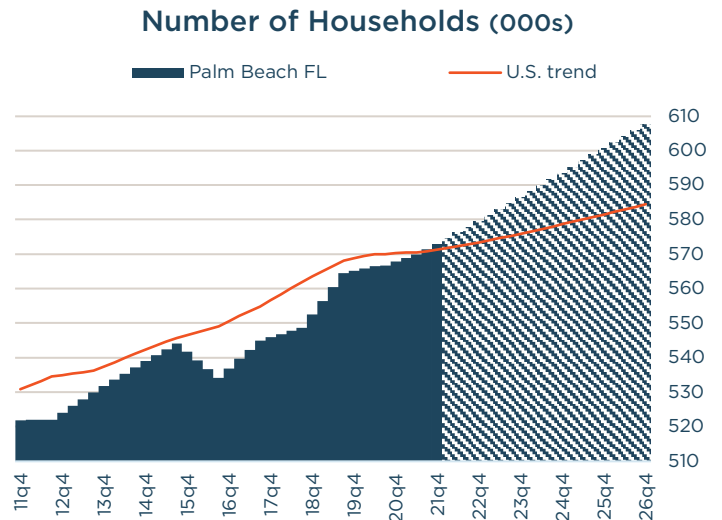
Palm Beach, FL

Like its near neighbors Miami and Fort Lauderdale, the rental housing market in Palm Beach—expensive and skewed toward wealthy retirees, but with promising demographic trends—lends itself more to development projects than to acquisitions.

MIDDLEBURG’S RANK #7 AMONG 15 LARGEST METROS

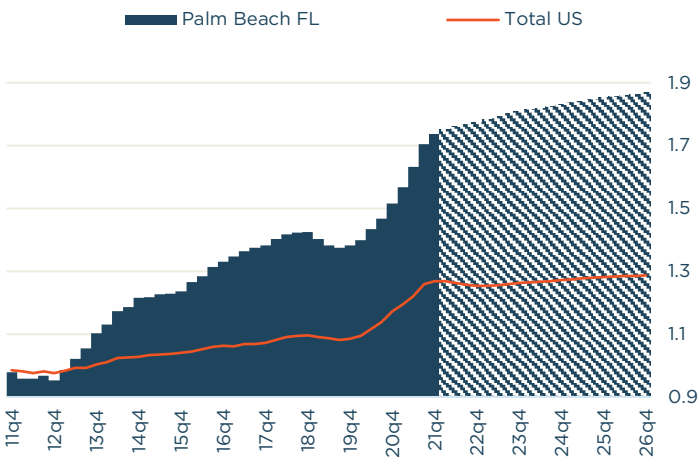
Chief among the positive trends for Palm Beach is growth in its young adult population, which is expected to outpace most metro areas in Middleburg's part of the country at 1.1 percent per year over the next five years. The **Number of Households** is also expected to growth relatively rapidly at 1.2 percent per year, though growth in **Total Employment** is expected to be less impressive at 0.7 percent per year, lower than average for this region. Howeownership affordability problems should also increase demand for rental housing, with anticipated growth in house prices (4.5 percent per year) exceeding the national average while median household incomes lag at just 2.7 percent per year, the lowest of any metro area in Middleburg's arc.

CoStar expects the number of **Units in Demand** to increase by 14 thousand over the next five years at an above-average pace of 3.6 percent per year. **Effective Rent per Unit** and net operating income for Class A properties are expected to grow even more rapidly at 4.0 and 4.7 percent per year, respectively, with both of those paces among the highest for metro areas in Middleburg's states. What makes Palm Beach of interest primarily for development is its cap rates averaging about 143 basis points below the national average—by far the lowest in Middleburg's region—as well as effective rents averaging \$2,273 per unit, by far the highest. **Construction and Deliveries** showed slight bursts in 2013, 2016, and 2021, but generally the pace of new construction has given no sign of any oversupply issue.

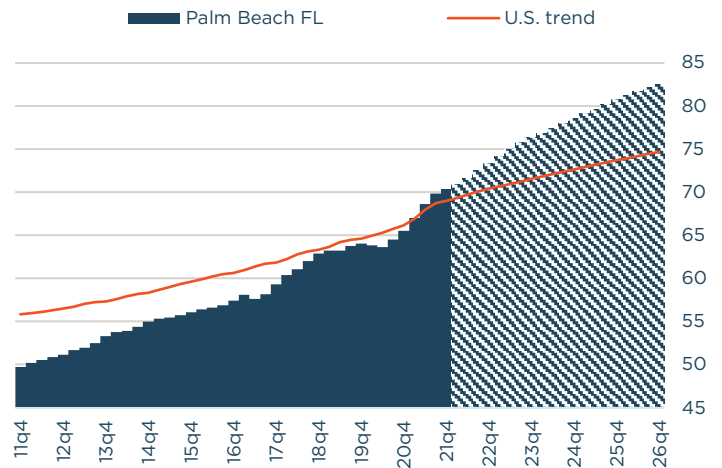


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
73,266	6,345	\$324,904	\$423 million
↑ 1.3%	↑ 5%	↑ 5%	↑ 21%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
21.2%	\$68,712	3.6%	-143 bps
↑ 1.5%	↑ 2.1%	↑ 0.5%	below US avg

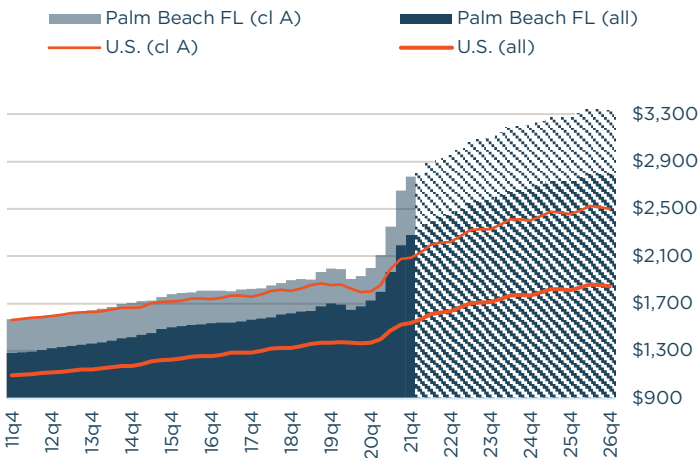
House Price/Income Ratio (11q1=1.0)



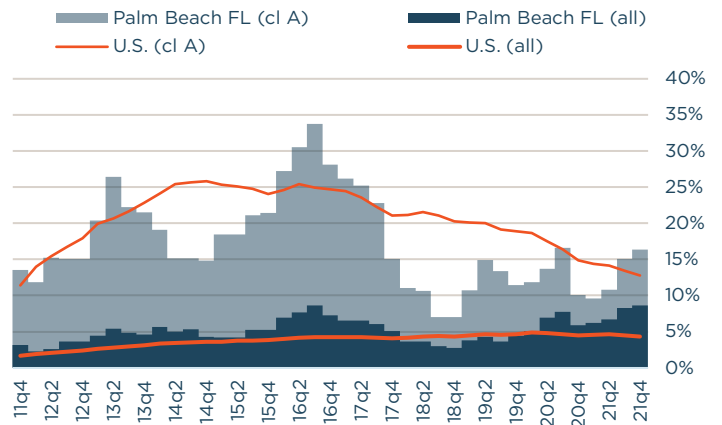
Units in Demand (000s)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory



Representative large employers: Tenet Healthcare, Florida Crystals, Pratt & Whitney, Florida Power & Light, Florida Atlantic University

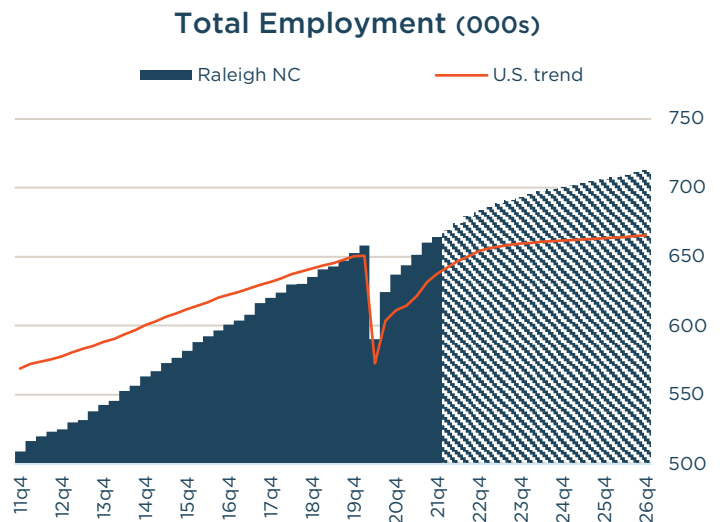
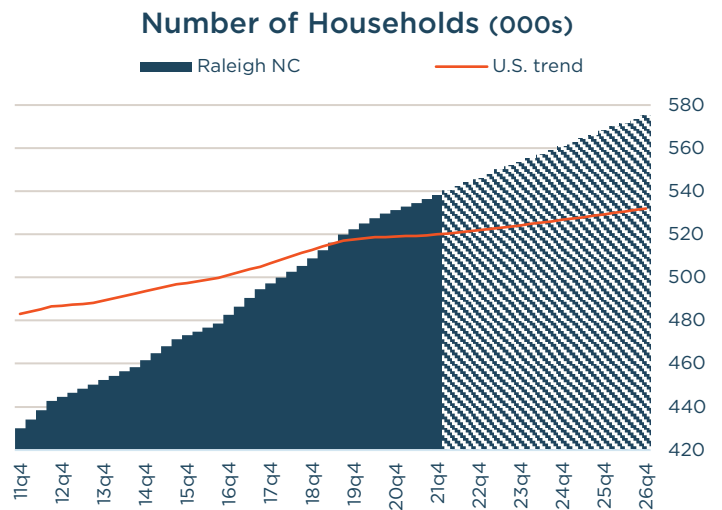
Raleigh, NC

In terms of its attractiveness as a rental housing market, Raleigh can perhaps best be described as a somewhat smaller and much more affordable version of Austin or Nashville—but one in which Class A apartment properties have become surprisingly, and perhaps unjustifiably, expensive.

MIDDLEBURG'S RANK #6 AMONG 15 LARGEST METROS

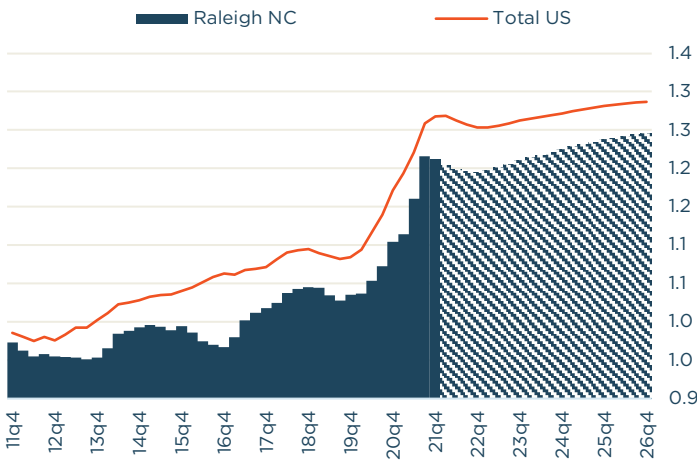
Raleigh has a diverse economic base and an uncommonly high-education, high-income population—a characteristic that it is likely to retain given its reputation as "the low-cost tech hub" and decisions by a large number of tech and life-sciences companies such as IBM, GlaxoSmithKline, and SAS to expand their operations here. Oxford Economics forecasts above-average growth in Raleigh over the next five years for all three key apartment demand drivers with its young adult population growing by 0.9 percent per year, its **Number of Households** by 1.3 percent per year, and its **Total Employment** by 1.4 percent per year.

Homebuyer affordability should worsen only slightly in Raleigh over the next five years, with house prices slightly outpacing the national average (4.3 percent per year vs 4.1 percent) but median household income growth slightly lagging (3.5 percent vs 3.6 percent). Even without an affordability driver, the strong demographic trends are likely to drive equally strong demand for rental housing: CoStar expects **Demand** for rental housing units to expand by 22 thousand over the next five years at 3.9 percent per year. Growth in **Effective Rent per Unit** and net operating income should also slightly outpace the rest of Middleburg's territory at 3.6 percent per year and 4.1 percent per year respectively, helped in part by **Construction and Deliveries** that have been persistently reasonable over the past seven years. The main caution for investors in Raleigh's rental housing market is its prevailing cap rate, which seems surprisingly low at about 36 basis points below the national average, making Raleigh more appealing for new development than for acquisitions.

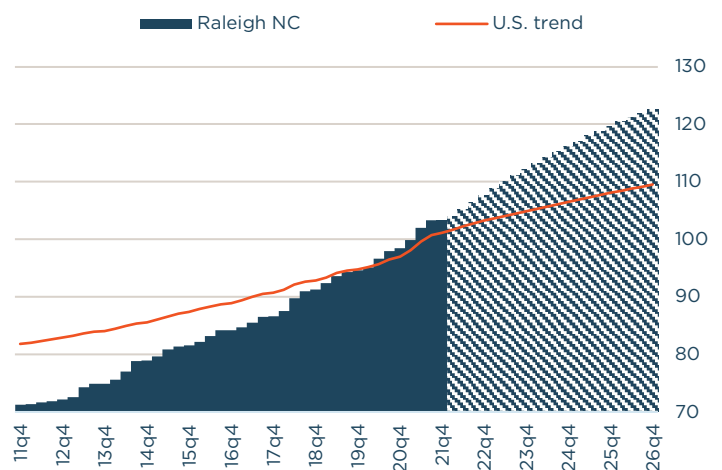


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
108,847	8,534	\$248,532	\$169 million
↑ 0.3%	↑ 16%	↓ 2%	↓ 68%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
18.0%	\$85,493	4.6%	-36 bps
↓ 1.2%	↑ 2.3%	↑ 1.0%	below US avg

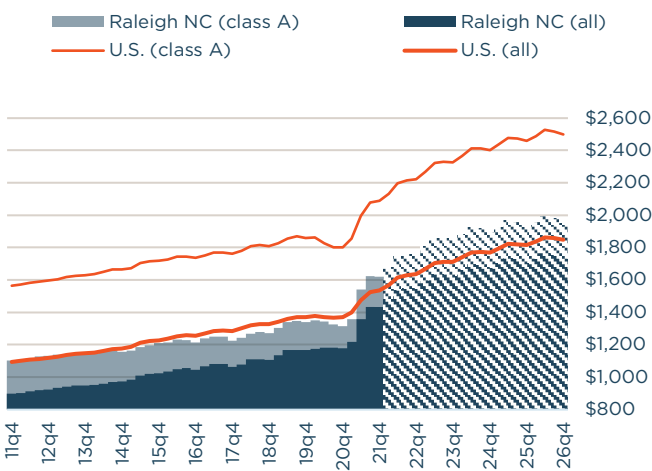
House Price/Income Ratio (11q1=1.0)



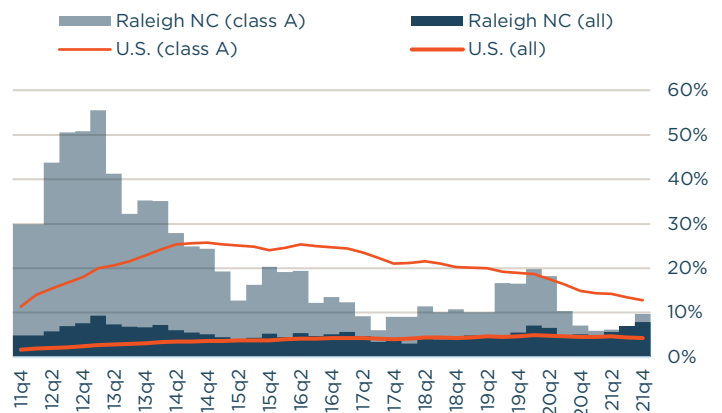
Units in Demand (000s)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory



Representative large employers: Duke Health Systems, Walmart, UNC-Chapel Hill, Food Lion, IBM, SAS Institute

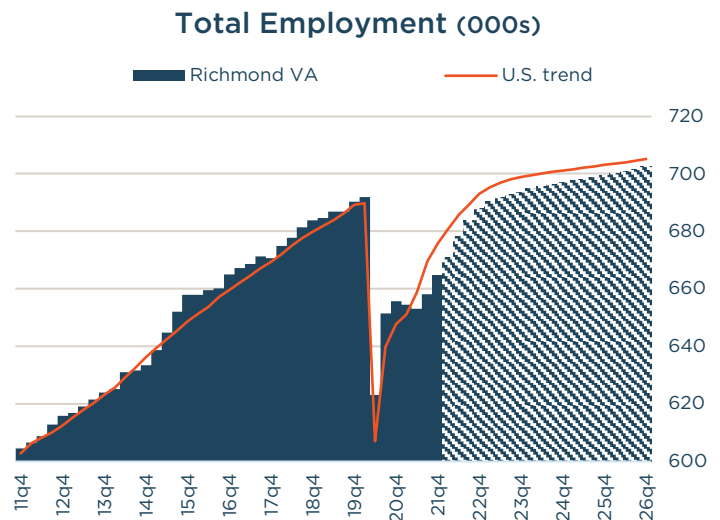
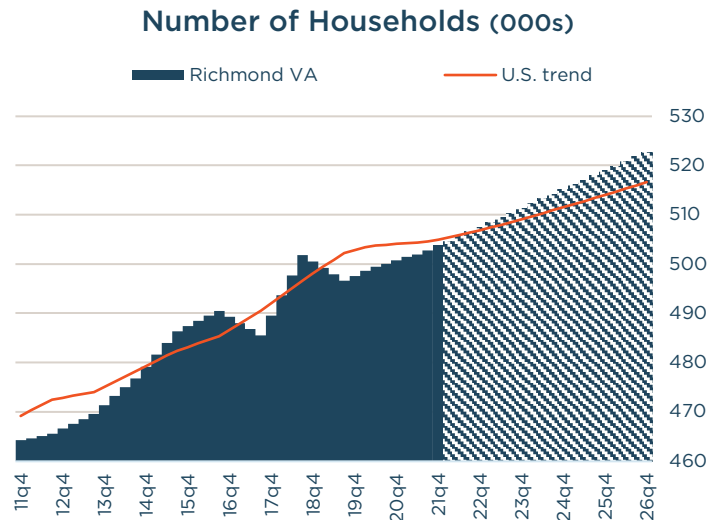
Richmond, VA

Richmond has successfully shed its over-reliance on the tobacco industry and transformed itself into a diversified regional hub with particular strength in financial services.

MIDDLEBURG'S RANK #14 AMONG 15 LARGEST METROS

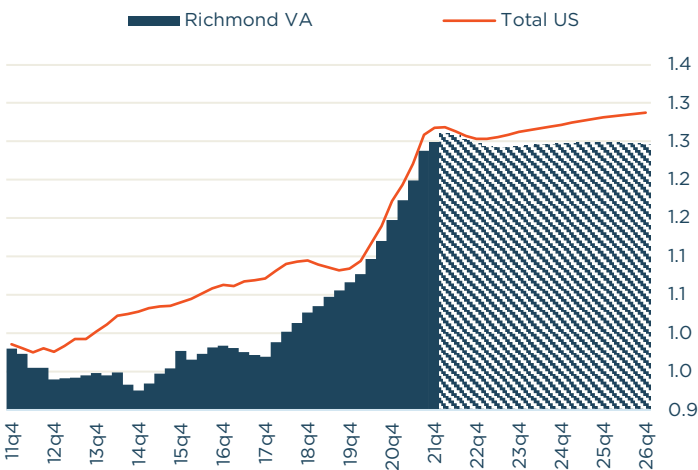
Growth in **Number of Households** and **Total Employment** in Richmond are expected to slightly outpace other metro areas in Middleburg's arc over the next five years at 19 thousand (0.7 percent per year) and 38 thousand (1.1 percent per year) respectively. Homeowner affordability, however, is not anticipated to be a significant driver of rental housing demand, with house prices expected to grow at an anemic 3.4 percent per year, only slightly outpacing median household income growth of 3.3 percent per year.

The demographic drivers should be enough to push growth in **Units in Demand** by 11 thousand units over the next five years at a pace of 2.3 percent per year, slightly above average for Middleburg's part of the country, while **Effective Rent per Unit** and net operating income are expected to grow even more rapidly at 3.9 percent per year and 4.0 percent per year respectively. One of the most appealing aspects of the Richmond housing market for investors, though, is that it simply hasn't yet been discovered by institutional investors: cap rates have tended to be about 92 basis points above the national average, a property value discount that doesn't seem to be justified by its market conditions and that therefore may signal abnormal appreciation over the coming years.

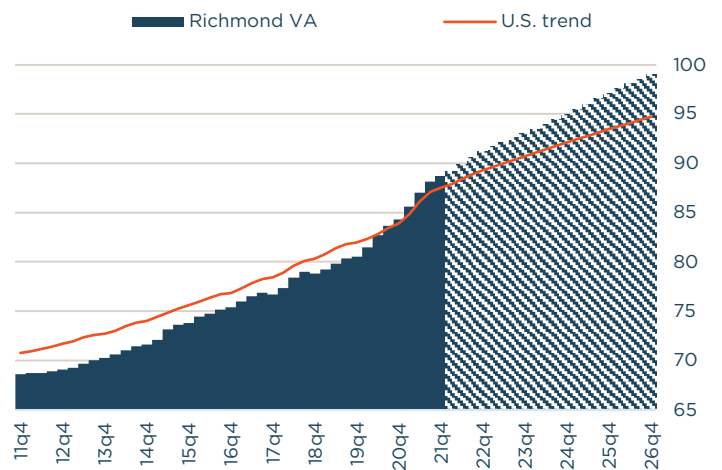


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
92,715	5,573	\$303,837	\$246 million
↑ 0.9%	↓ 2.2%	↑ 13%	↑ 175%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
15.5%	\$71,418	4.1%	+92 bps
↑ 0.1%	↑ 1.7%	↑ 0.2%	above US avg

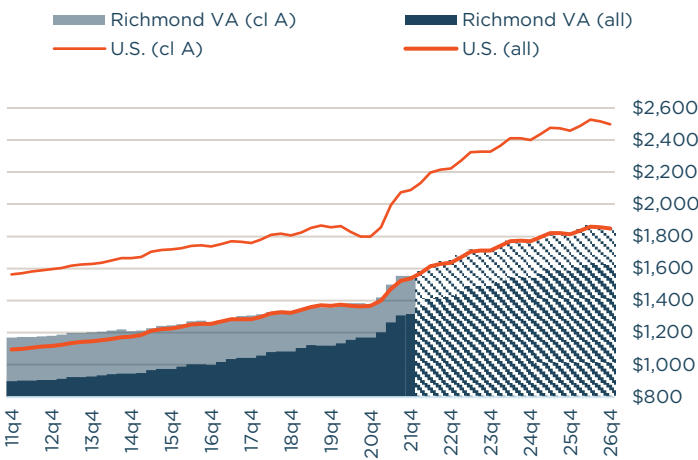
House Price/Income Ratio (11q1=1.0)



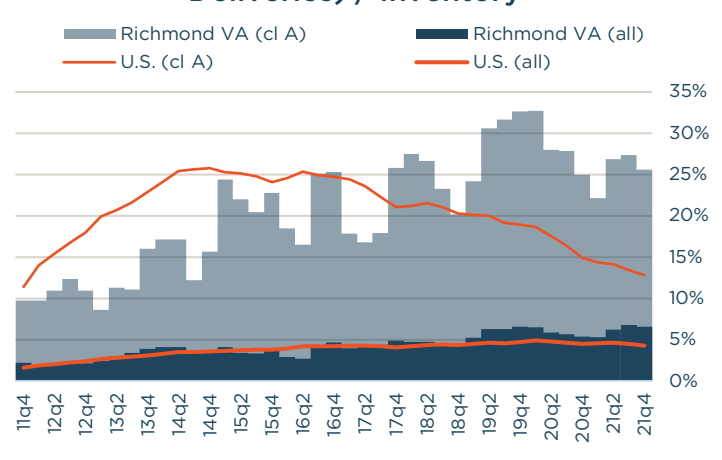
Units in Demand (000s)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory



Representative large employers: Capital One, Bon Secours Health System, Dominion Energy, Truist, Altria Group

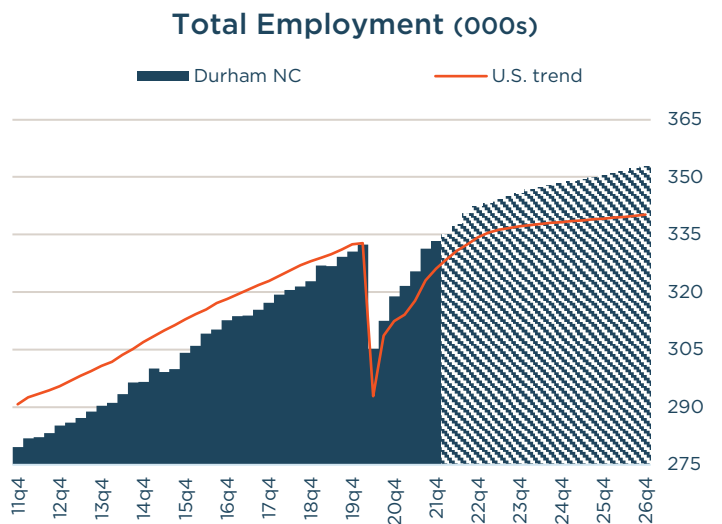
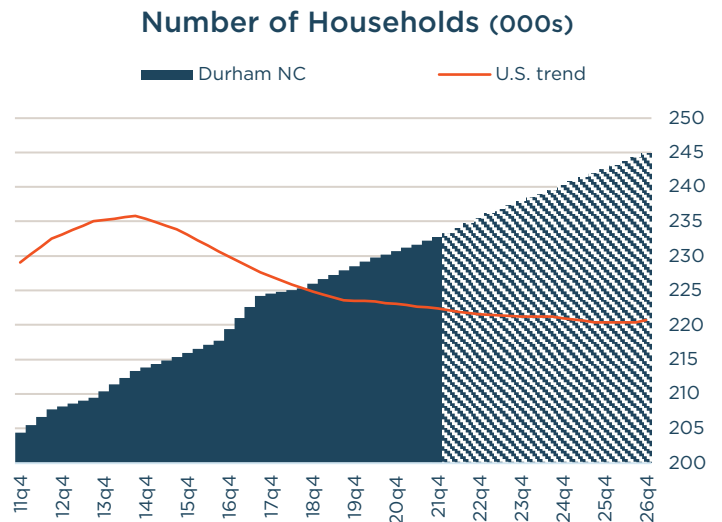
ALSO ON OUR RADAR

Durham, NC

If Raleigh can be described as a smaller and more affordable version of Austin or Nashville, then its near neighbor Durham is essentially a smaller and almost equally interesting version of Raleigh.

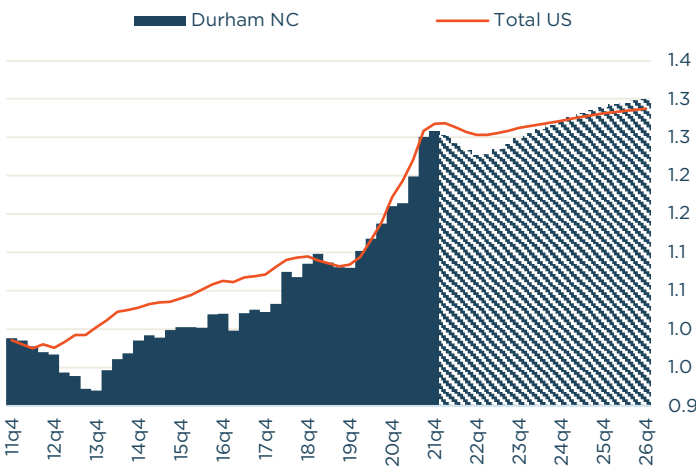
Durham's economic base is not as diversified as Raleigh's, but its concentrations are certainly strengths: the economy is particularly heavy in computer-related manufacturing, pharmaceuticals, scientific research, and of course activities related directly to Duke University. Like Raleigh, Durham is forecast to see above-average growth over the next five years in all of the primary drivers of rental housing demand: young adult population, **Number of Households**, **Total Employment**, and median household income. Rental housing demand is expected to get an additional boost from growth in house prices, which are expected to outpace income growth and put additional pressure on homeownership affordability.

As a result, CoStar forecasts similarly above-average growth over the same period in all of the principal rental housing fundamentals including **Demand** at 6.4 percent per year, **Effective Rent per Unit** at 3.9 percent per year, and **Net Operating Income** at 4.1 percent per year. The number of units **Under Construction or Delivered** has moderated recently, but developers attuned to local market conditions are likely to continue working to provide additional supply in this very appealing market.

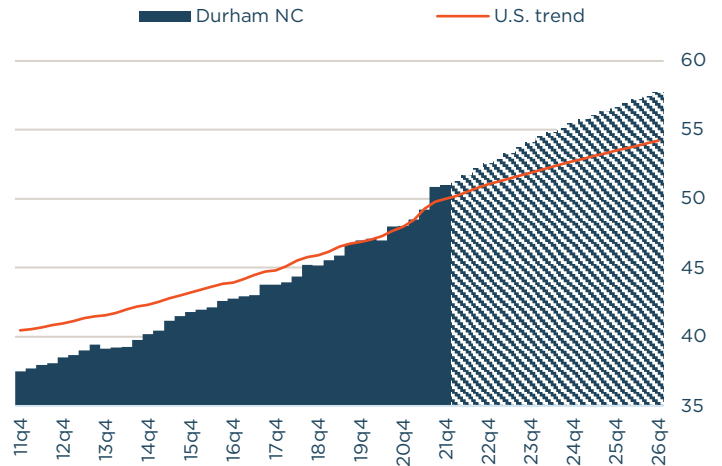


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
53,314	3,151	\$218,440	\$769 million
no change	↑ 15%	no change	↑ 23%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
17.8%	\$69,882	4.3%	-10 bps
↑ 0.3%	↑ 1.8%	↑ 0.3%	below US avg

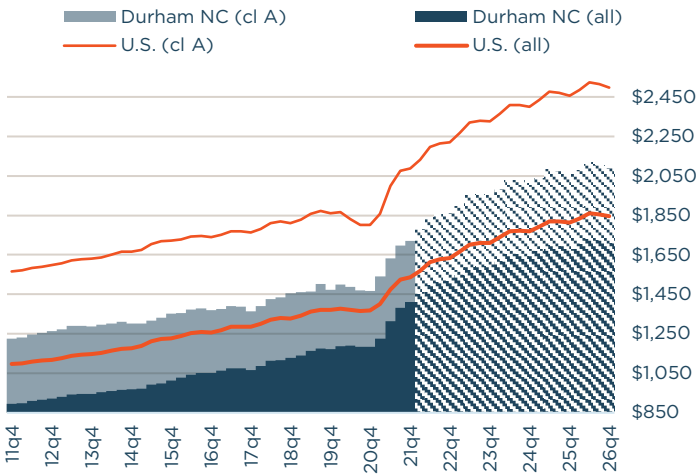
House Price/Income Ratio (11q1=1.0)



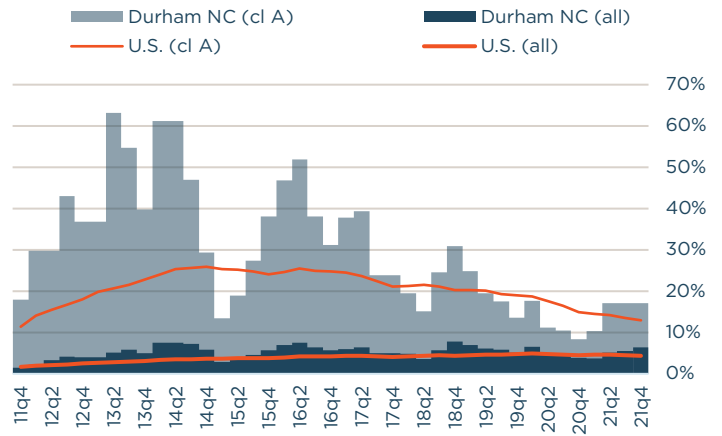
Units in Demand (000s)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory



Representative large employers: Duke University, IBM, Fidelity Investments, RTI International, NetApp

ALSO ON OUR RADAR

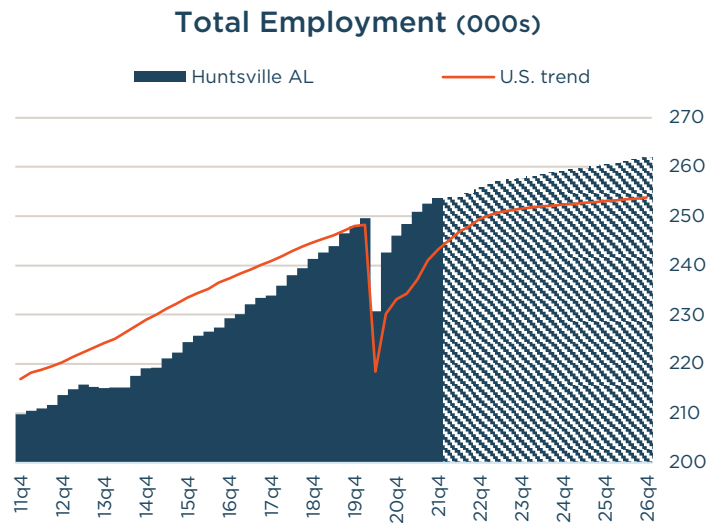
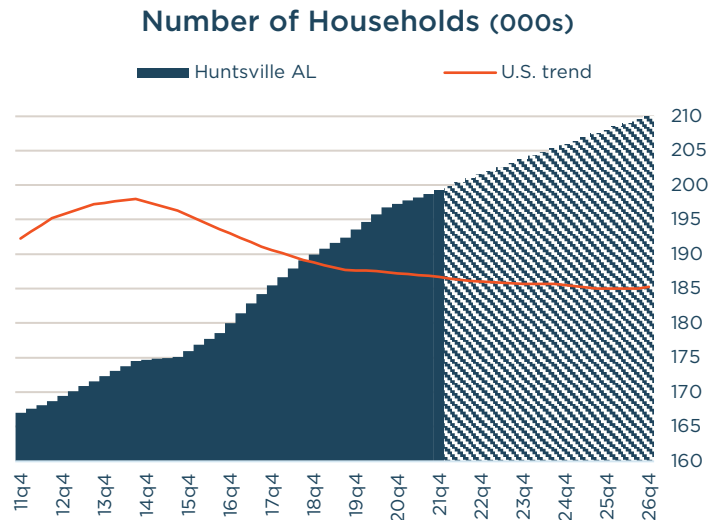
Huntsville, AL

Although it is quite a bit smaller than Durham, Huntsville bears important similarities to it especially in terms of the human capital driving the local economy.

As in Durham, Huntsville's economic base is not especially diversified but its concentrations are strengths: dominated by the U.S. Army's Redstone Arsenal and NASA's Marshall Space Flight Center, the economy is also heavy in engineering services and in manufacturing related to computers, communications equipment, and video equipment. Growth in that economic base is expected to attract above-average growth in Huntsville's young adult population (0.6 percent per year over the next five years) and in the **Number of Households** (1.0 percent per year over the same period).

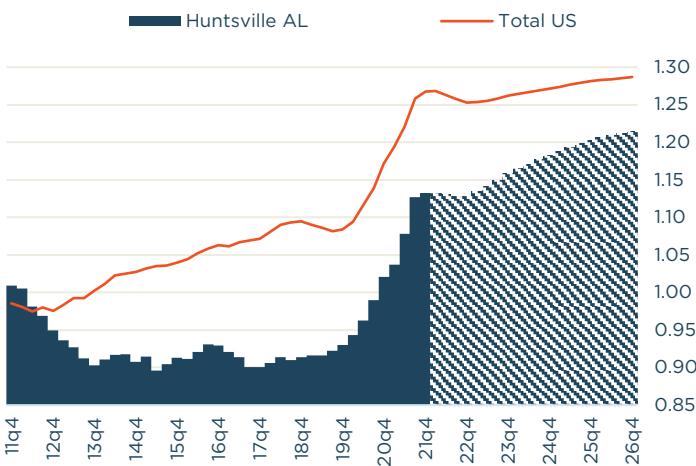
Rental housing demand is also forecast to be driven by a sustained increase in housing prices—among the highest rates in Middleburg's metros at 4.6 percent per year—which will likely outpace the growth of median household income by around 1.5 percent per year, again one of the highest rates in Middleburg's part of the country. As a result, CoStar forecasts that growth in Demand for Class A housing units will surpass that in any other metro area in Middleburg's arc.

Huntsville's main drawback, from a developer's point of view, is that the number of units **Under Construction or Delivered** is extraordinarily high relative to both its existing Class A stock and its total apartment inventory. Huntsville's demand fundamentals will support considerable development—but in a market this size it is important to be able to execute efficiently, to avoid bringing new units to market after some unfavorable change in those fundamentals.

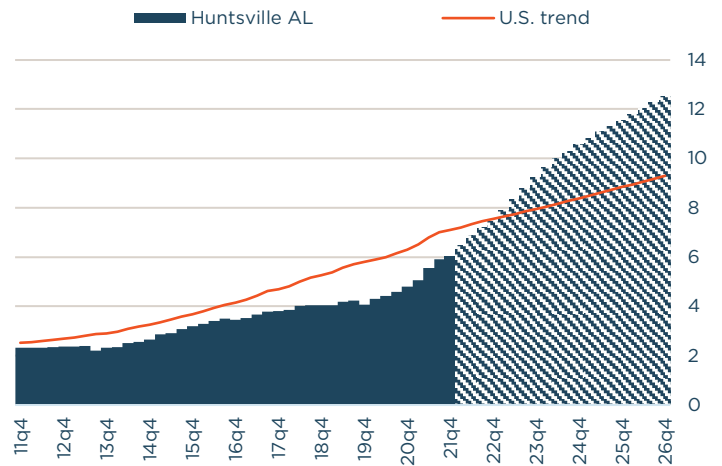


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
31,486	5,204	\$260,465	\$67 million
↑ 1.9%	↓ 10%	↑ 21%	↑ 4%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
18.5%	\$71,992	3.2%	+27 bps
↓ 1.7%	↑ 1.7%	↑ 0.4%	above US avg

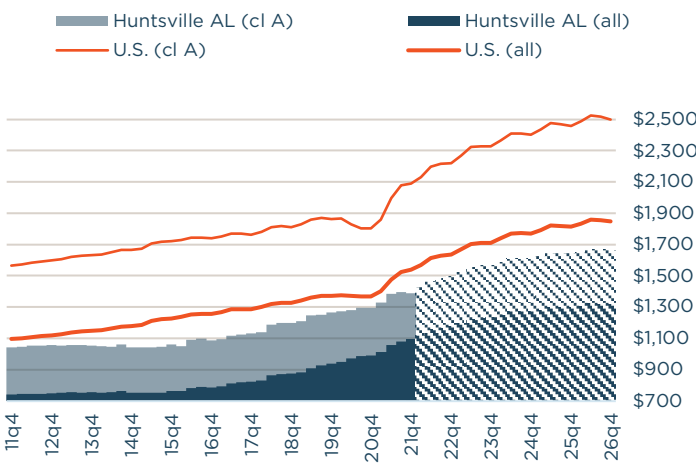
House Price/Income Ratio (11q1=1.0)



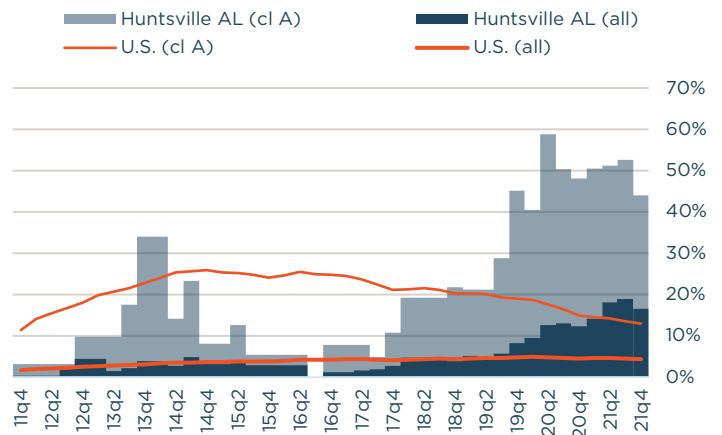
Units in Demand (000s)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory



Representative large employers: U.S. Army Redstone Arsenal, NASA Marshall Space Flight Center, Sanmina-SCI, SAIC, Siemens

ALSO ON OUR RADAR

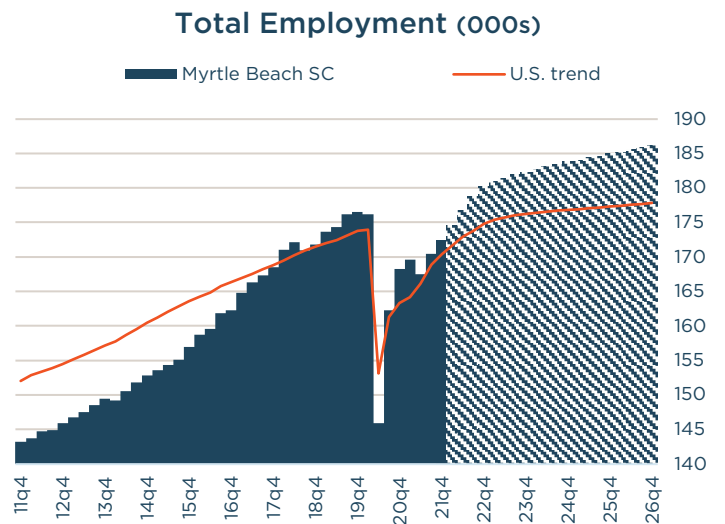
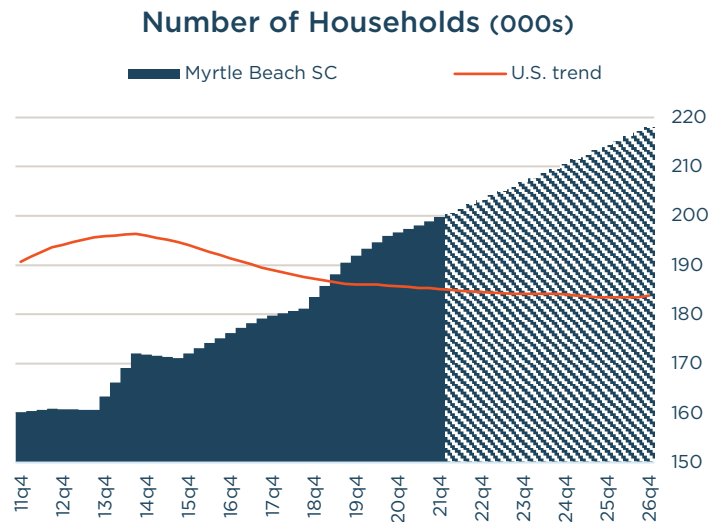
Myrtle Beach, SC

Long recognized primarily as a travel destination—and increasingly as a lower-cost alternative for retirees and seasonal snowbirds—Myrtle Beach nevertheless has strong growth prospects that make it appealing to Middleburg.

Yes, the economy is still oriented heavily toward vacationers and retirees, yet Oxford Economics forecasts that Myrtle Beach will far surpass most other metro areas in growth over the next five years in the primary drivers of rental housing demand. In particular, the young adult population is expected to grow by 1.0 percent per year, the **Number of Households** by 1.8 percent per year, and **Total Employment** by 1.5 percent per year. Myrtle Beach's main weakness, from the point of view of underlying demand fundamentals, is median household income, which—owing to an expected continued influx of retirees—is expected to grow at a slightly below-average 3.6 percent per year.

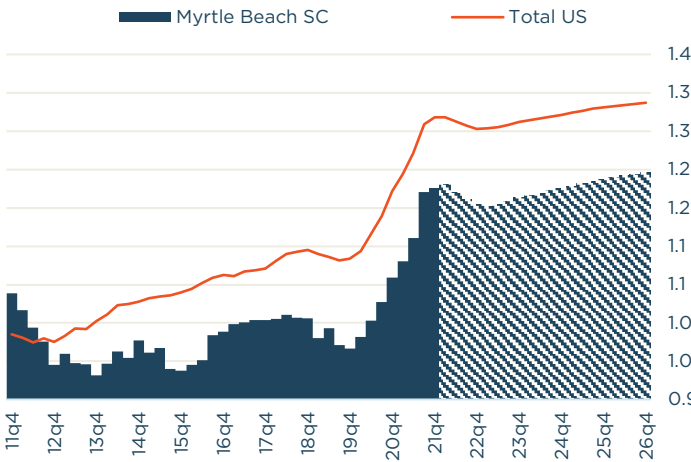
Nevertheless, CoStar forecasts not only that **Demand** for rental housing units will increase at a well-above-average pace of 13.5 percent per year, but also that Myrtle Beach will see above-average growth in **Class A Effective Rent per Unit** (4.1 percent per year) and **Net Operating Income** (4.2 percent per year).

As in Huntsville, the major drawback to the Myrtle Beach market is the pace of new construction: the number of units **Under Construction or Delivered** is extraordinarily high relative to both the existing Class A stock and the entire apartment inventory. Although Middleburg continues to seek high-quality development opportunities, in current market conditions it may be that Myrtle Beach is more appealing for acquisition and management than for aggressive development.

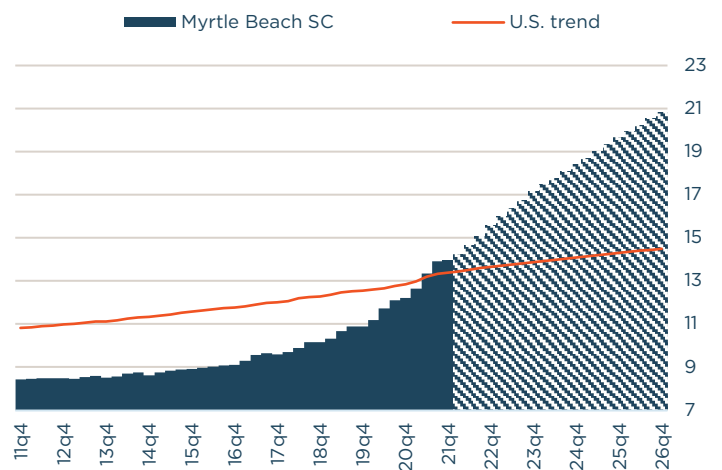


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
14,989	3,376	\$251,349	\$255 million
↑ 2.6%	↑ 42%	↑ 202%	↑ 625%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
19.1%	\$59,770	2.5%	+53 bps
↓ 0.9%	↑ 1.7%	↑ 0.6%	above US avg

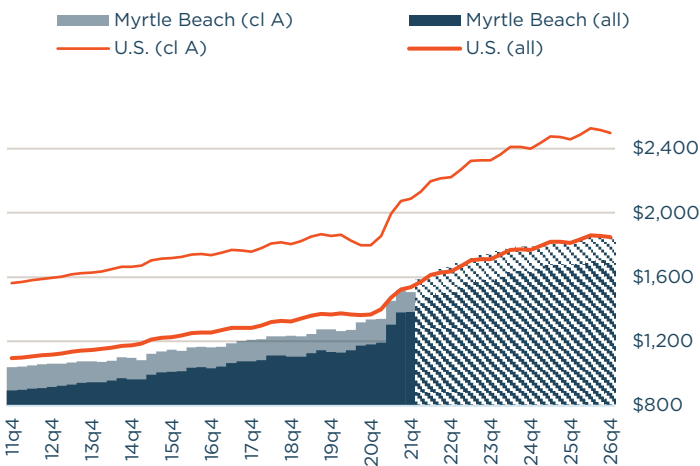
House Price/Income Ratio (11q1=1.0)



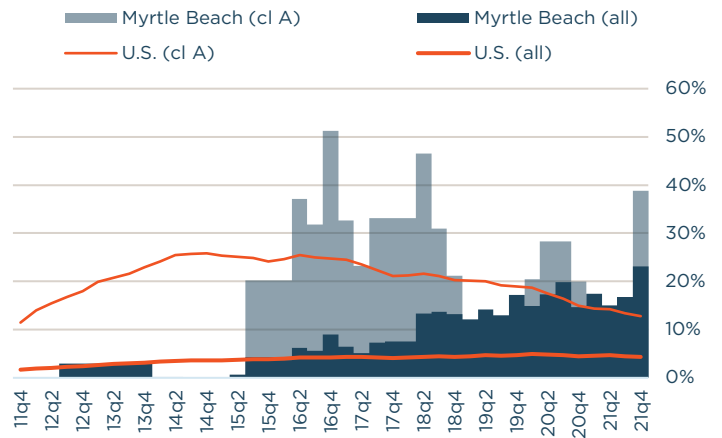
Units in Demand (000s)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory



Representative large employers: Coastal Carolina University, Wal-Mart, Conway Hospital, AVX Corporation, New South Lumber

ALSO ON OUR RADAR

Naples, FL

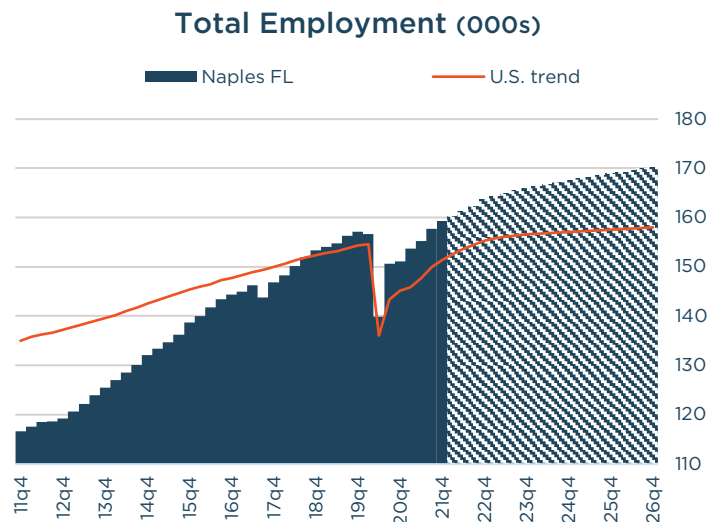
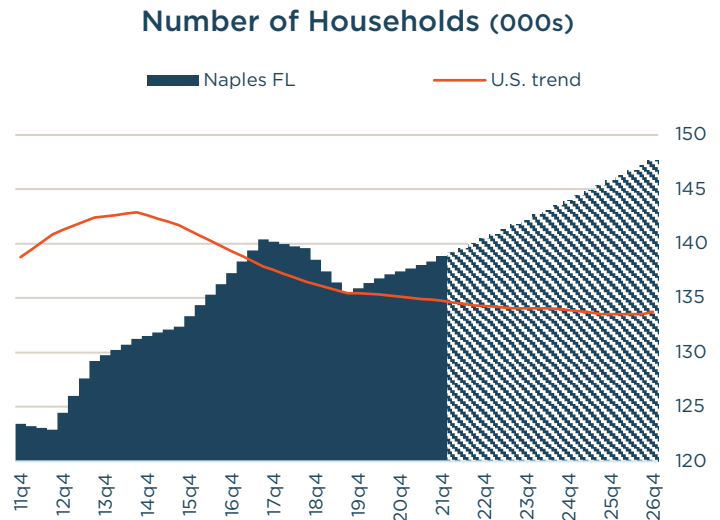
A high-end counterpart to Myrtle Beach—that is, an area that has long appealed to both vacationers and retirees with considerably more income and wealth—Naples shares some of Myrtle Beach’s appeal as a development market but is generally not Middleburg’s target type of market.

Growth in rental housing demand is not going to be driven in Naples by the young adult population, which is expected actually to contract slightly over the next five years. Nor will it be supported by growth in median household income—which is expected to lag behind growth in many other metro areas at 2.9 percent per year although its starting point at \$78 thousand is higher than in almost any other market. Perhaps surprisingly, however, Oxford Economics forecasts that **Total Employment** in Naples will grow by a very strong 1.3 percent per year, to go with almost equally strong growth of 1.2 percent per year in the **Number of Households**.

Moreover, an expected increase in the **House Price to Income Ratio** is likely to provide an additional stimulus to rental housing **Demand**, which CoStar forecasts to grow at 10.6 percent per year, well above average for Middleburg’s part of the country.

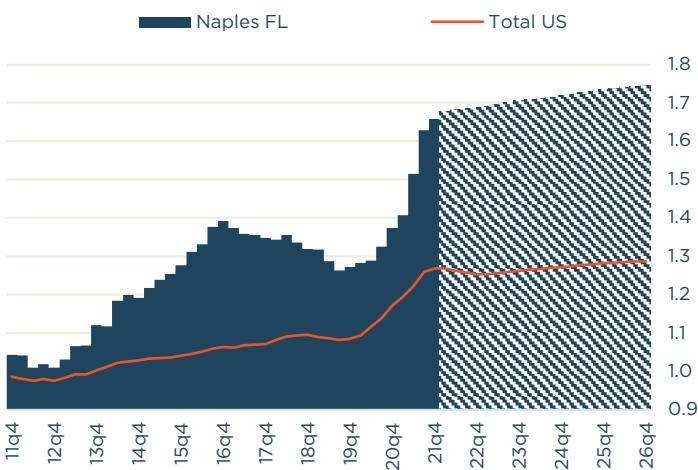
Low prevailing cap rates—almost 90 basis points below the U.S. average for Class A properties—provide an additional reason to look closely at development opportunities in the Naples market. As in other smaller markets, however, it will be important to keep abreast of competing projects, as the number of units **Under Construction or Delivered** has recently been very strong, especially relative to the existing Class A inventory.

In the end, Naples may provide attractive projects on an occasional basis but—like Palm Beach, Miami, and Fort Lauderdale—is dominated too clearly by wealthy retirees to be a continuing focus for Middleburg.

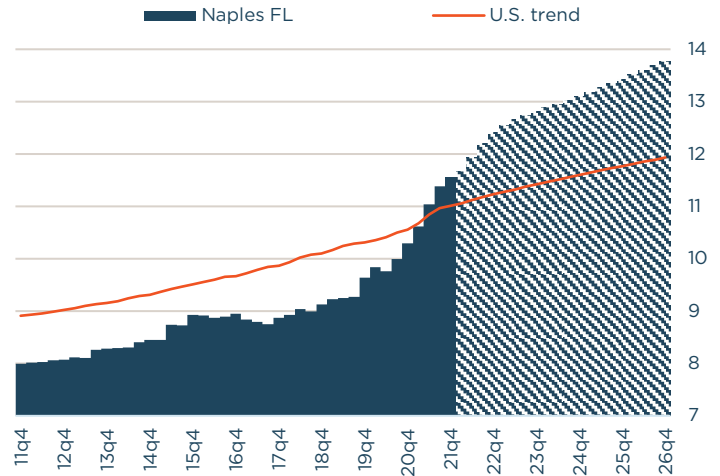


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
12,003	1,112	--	--
no change	no change	n/a	n/a
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
26.2%	\$77,745	3.4%	-87 bps
↑ 0.7%	↑ 1.7%	↓ 0.1%	below US avg

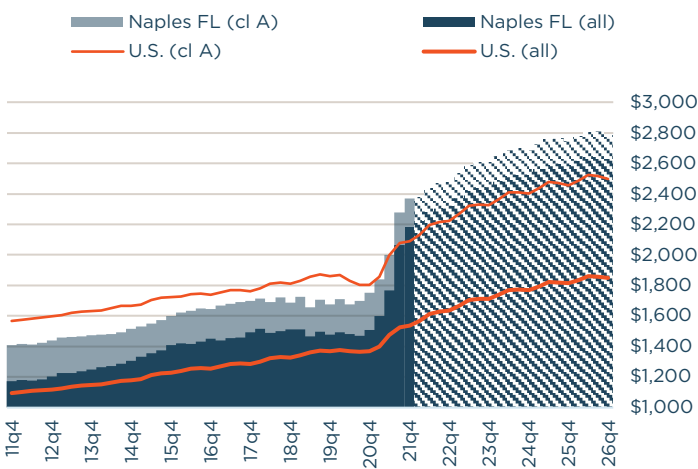
House Price/Income Ratio (11q1=1.0)



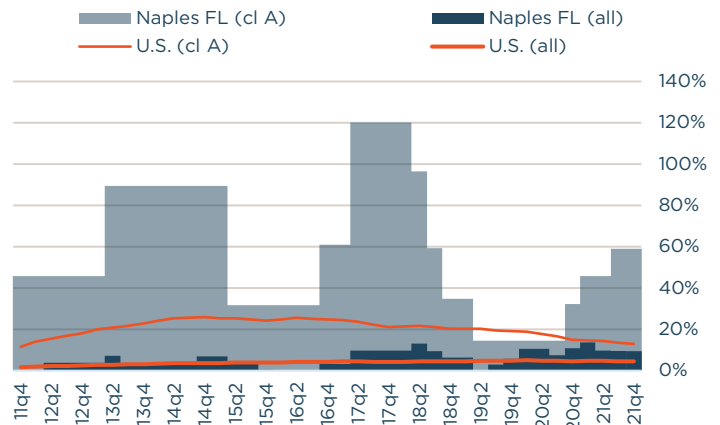
Units in Demand (000s)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory



Representative large employers: NCH Healthcare, Arthrex Inc., Ritz-Carlton Naples, Publix

ALSO ON OUR RADAR

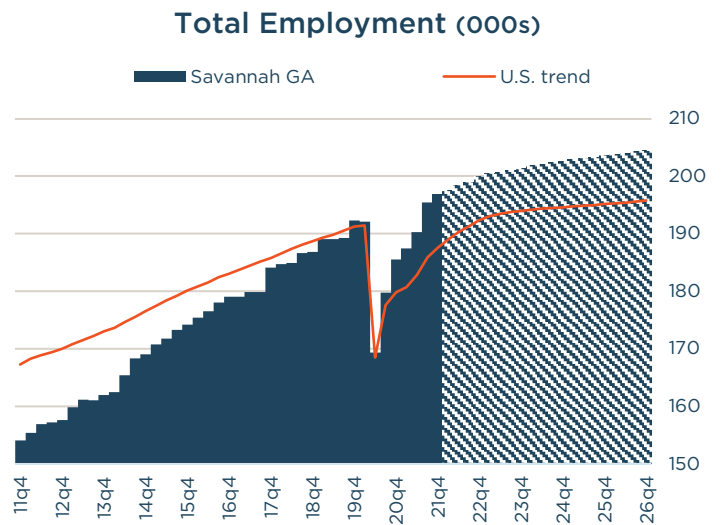
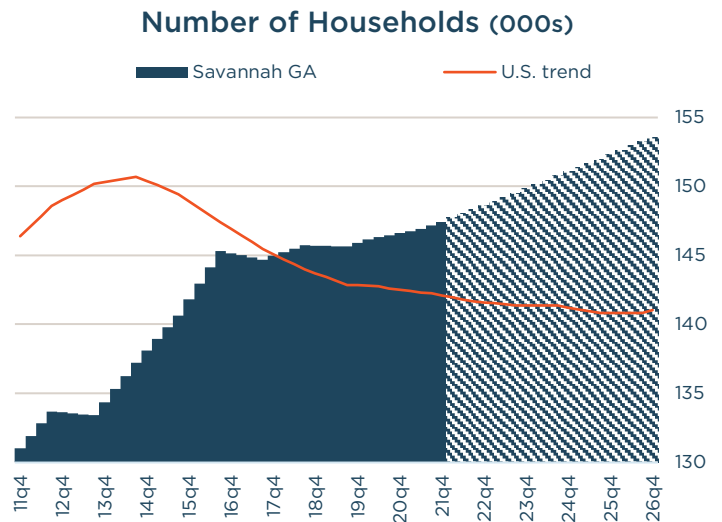
Savannah, GA

Savannah is certainly not unrecognized, but with a diverse economy and stronger growth prospects than commonly supposed—and with properties trading at comparatively high cap rates—it may qualify as underappreciated.

Savannah has a diversified economic base with two contrasting anchors: its visitor industry, and its port along with the manufacturing, distribution, and logistics activities closely tied to it. Oxford Economics forecasts that the **Number of Households**, **Total Employment**, and the young adult population will each grow over the next five years at about 0.8 percent per year—paces that are average and slightly below average for Middleburg's part of the country in the first two cases, but somewhat above-average for the young adult population.

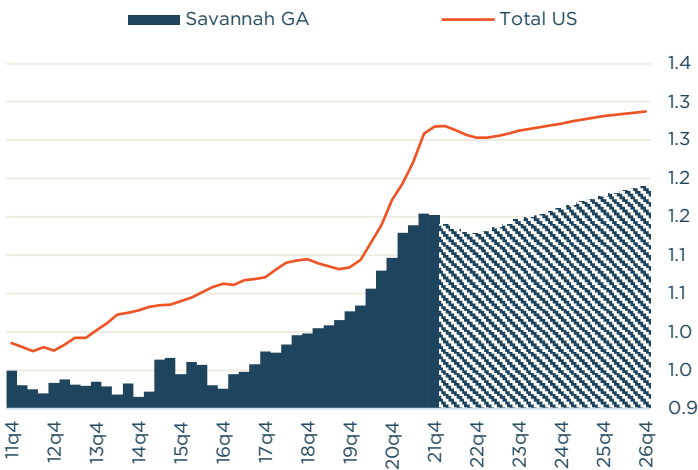
Homeownership affordability has not been a particular issue in Savannah over the past decade, but the **House Price to Income Ratio** is forecast to worsen over the next five years as house price appreciation averaging 4.8 percent per year is expected to outpace Savannah's very strong growth of 4.2 percent per year in median household income.

It is probably accurate to say that overall market conditions make Savannah a solidly average metro area given the extraordinary supply/demand imbalances in many of Middleburg's markets—except that Class A properties appear to be trading at cap rates that are higher than in most of the markets that we evaluate. If a growing recognition of Savannah's strengths is going to push its cap rates closer to the national average, then it could be particularly appealing for property acquisitions.

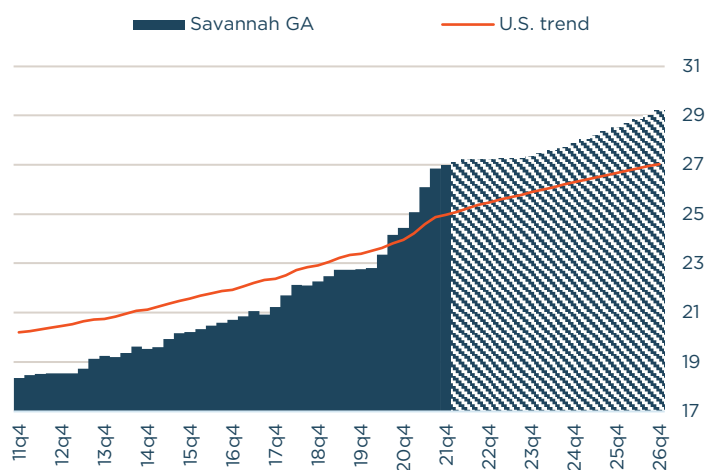


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
28,850	71	\$375.344	\$337 million
↑ 1.5%	↓ 85%	↑ 162%	↑ 187%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
14.9%	\$64,863	4.2%	+70 bps
↑ 0.6%	↑ 2.5%	↑ 0.5%	above US avg

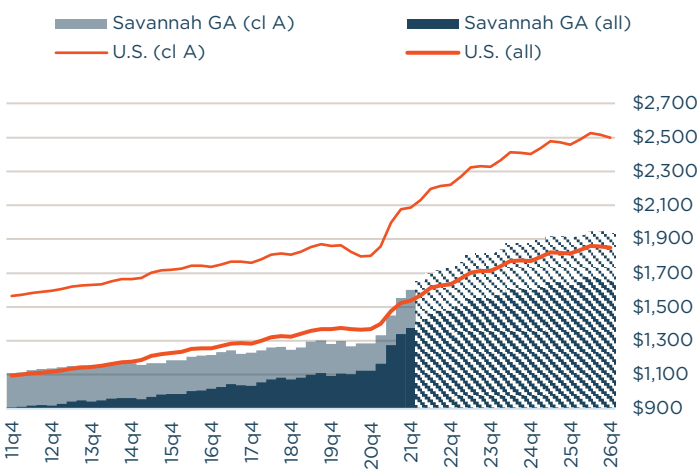
House Price/Income Ratio (11q1=1.0)



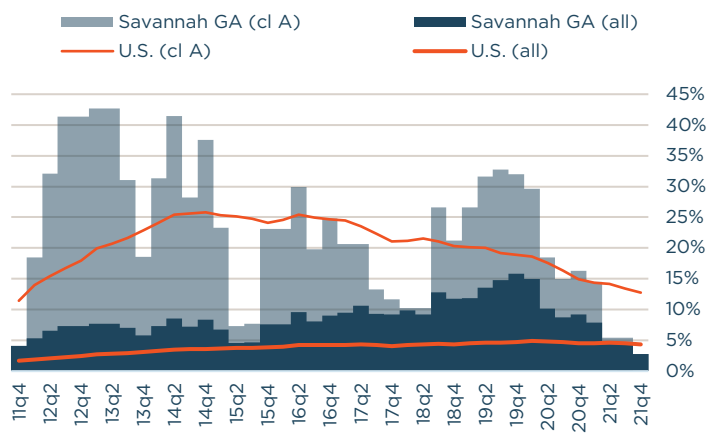
Units in Demand (000s)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory



Representative large employers: Port Wentworth, Gulfstream Aerospace, UTC Overseas, Walmart Distribution, International Paper