MIDDLEBURG COMMUNITIES

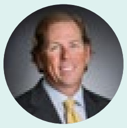
Middleburg Markets Report

Q1 2024

Middleburg Communities is pleased to present our Middleburg Markets Report for the 1st quarter of 2024. 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.



Christopher C. Finlay
CHIEF EXECUTIVE OFFICER

Kory Geans
CHIEF INVESTMENT OFFICER

Introduction

During the first quarter of 2024 the hope that the Fed could finally start cutting interest rates gradually gave way to the realization that macroeconomic conditions remain simply too strong to permit reducing rates quickly or aggressively.

It is worth recalling that, two years ago in our 2022Q1 Middleburg Markets Report, we disagreed with "a few economists, most prominently those at Deutsche Bank, [who] have already forecast a U.S. recession in 2023" and pointed out instead that "three related sources of strength suggest that overall economic conditions are likely to remain favorable: labor markets, personal incomes, and consumer spending." Our view was correct not merely in that report but consistently over the two years since then: macroeconomic conditions remain strong, and no recession—nor even monetary easing—can legitimately be forecast based on currently available data.

This 2024Q1 Middleburg Markets Report begins by revisiting a range of macroeconomic indicators and interpreting their messages for the overall economy. It then examines the more recent decline in the pace of new residential construction in the context of the changes in the rental housing market prompted by the covid pandemic. As always, we then update our discussion of conditions in the 15 largest housing markets in "our" part of the country along with five in a rotating set of smaller markets—this time Ft Walton Beach FL, Huntsville AL, Midland TX, Norfolk VA, and Winchester VA.

Hamlet at MidCity, Huntsville, AL

Table of Contents

U.S. Overview . . . 5
Dallas / Fort Worth, TX . . . 11
Houston, TX . . . 13
Atlanta, GA . . . 15
Tampa, FL . . . 17
Charlotte, NC . . . 19
Orlando, FL . . . 21
Austin, TX . . . 23
Miami, FL . . . 25
San Antonio, TX . . . 27
Nashville, TN . . . 29
Fort Lauderdale, FL . . . 31
Jacksonville, FL . . . 33
Palm Beach, FL . . . 35
Raleigh, NC . . . 37
Richmond, VA . . . 39

ALSO ON OUR RADAR

Ft Walton Beach, FL . . . 41
Huntsville, AL . . . 43
Midland, TX . . . 45
Norfolk, VA . . . 47
Winchester, VA . . . 49

U.S. Overview

In our 2023Q4 report we posed the question "whether (and when) the Fed can, indeed, pivot from its recent rate-hike regime not merely to rate stability—after three consecutive meetings with no change in its rate target—but all the way to a rate-cut regime." One quarter later the macroeconomy remains strong and the answer to that question remains "not yet."

At the beginning of 2024 the CME FedWatch Tool implied only a 1.6 percent likelihood that the Federal Funds Rate target would still be the 5.25%-5.50% range by the end of the May 1, 2024 meeting of the Federal Open Market Committee. Options trading implied a 25% likelihood that the rate target would be cut by 25 basis points during 2024Q1, a 65% likelihood that it would be cut by 50 basis points, and an 8.7% likelihood that it would be cut by 75 basis points. Three months later the market expectation had flipped entirely, with the CME FedWatch tool implying a 99.3% likelihood that, after the upcoming meeting, the rate target would still be fixed at 5.25%-5.50.

The reason is not difficult to discern, nor have policymakers had difficulty communicating it. On April 3 Federal Reserve Board Chair Jerome Powell started his speech at the Stanford Business, Government, and Society Forum by cautioning that "the job of sustainably restoring 2 percent inflation is not yet done," and continued by saying that "we do not expect that it will be appropriate to lower our policy rate until we have greater confidence that inflation is moving sustainably down toward 2 percent." This view has been reinforced in public remarks by what seems to be every other Federal Reserve Board member or Bank President.

The consensus around this view reflects not merely the fact that inflation itself has remained stubbornly high but also the fact that a broad array of other macroeconomic indicators have remained similarly strong. In the labor market, for example, the annualized rate of growth in total nonfarm employment has increased in each of the last three months, with employment growth corresponding to an annualized rate of 2.0 percent in January, 2.1 percent in February, and 2.2 percent in March. Other labor market indicators also remain strong: for example, average weekly hours worked by manufacturing employees—an important gauge of health in the overall economy, not just the manufacturing sector—increased from 40.2 in January to 40.6 in February and 40.7 in March.

Similarly, real personal consumption expenditures increased at a 2.7 percent annualized rate during the latest available three-month period, December-February—greater than the 2.4 percent average rate during the decade leading up to the covid pandemic. Not quite the same could be said for investment, but the 3.7 percent annualized increase in real private nonresidential fixed investment—that is, investment in nonresidential structures, equipment, and intellectual property products—was equal to the average rate during the half-decade prior to the pandemic.

In short, essentially every aspect of the macroeconomic situation continues to show remarkable resilience. Given the breadth of positive indicators, it is no surprise that the risk of a recession has continued to decline, according to Middleburg's recession forecasting model. The latest data available through April 5, including the Employment Situation report for March, suggests that the probability of a recession in the next 12 months is currently just 15 percent—still elevated, but the lowest in almost six quarters and down sharply from the 31% estimated just three months ago.

PROXIMITY TO THE PRESIDENTIAL ELECTION PRESENTS RISKS TO THE MACROECONOMIC SITUATION

Chairman Powell's April 3 speech included a not-new but clear summary of the risks inherent in monetary policymaking:

> *The outlook is still quite uncertain, and we face risks on both sides. Reducing rates too soon or too much could result in a reversal of the progress we have seen on inflation and ultimately require even tighter policy to get inflation back to 2 percent. But easing policy too late or too little could unduly weaken economic activity and employment.*

Perhaps the greatest risk to the continuation of the current steady pace of macroeconomic improvement, however, is referenced later in his speech:

> *Congress granted the Fed a substantial degree of independence in our conduct of monetary policy. ... Our decisions are not subject to reversal by other parts of the government,* ***other than through legislation.*** *This independence both enables and* ***requires*** *us to make our monetary policy decisions without consideration of short-term political matters. [emphases added]*

The problem, and therefore the risk, is simply the possibility that macroeconomic conditions may change materially, for better or for worse, during the period leading up to the coming national election—and that the FOMC members may feel constrained NOT to respond appropriately for fear of influencing (or merely being accused of trying to influence) the outcome of what appear likely to be close contests for the Presidency and/or control of Congress.

US Recession Risk Dashboard

Category	Indicators	12/23	1/24	2/24	3/24
Financial Market	Near-Term Forward Spread	-1.37%	-1.46%	-1.18%	**-1.13%**
	S&P 500 3mo/3mo	0.3%	6.2%	10.4%	**11.7%**
Labor Market	Total Nonfarm Payroll 3mo/3mo	0.4%	0.4%	0.5%	**0.5%**
	Civilian Labor Force 3mo/3mo	0.1%	-0.1%	-0.3%	**-0.1%**
	Avg Wkly Hrs Manufacturing 3mo/3mo	-0.6%	-1%	-7%	**0.0%**
Inflation	CPI Inflation 3mo/3mo	0.7%	0.6%	0.7%	
Production	Total Capacity Utilization 3mo/3mo	-0.8%	-0.7%	-0.8%	
Construction	Single-Family Permits 3mo/3mo	3.7%	4.1%	4.9%	
	Multifamily Permits 3mo/3mo	-6.2%	-11.3%	-6.1%	
	Single-Family Starts 3mo/3mo	9.0%	10.9%	4.5%	
	Multifamily Starts 3mo/3mo	5.0%	8.3%	6.4%	
Summary Status	ChiFed Natl Activity Indx 3mo-3mo	-0.11%	0.17%	-0.06%	
Recession Risk	12mo Probability of Recession	31%	16%	10%	**15%**

0-25th Percentile   25-50th Percentile   50-75th Percentile   75-100th Percentile

Sources: https://neartermforward spread.com and data from S&P Global, Bureau of Labor Statistics (Employment Situation, Consumer Price Index), Federal Reserve Board (G.17 Industrial Production and Capacity Utilization), US Census Bureau (New Residential Construction), and Chicago Fed (CFNAI) Sourced through Macrobond DISCLAIMER

MIDDLEBURG COMMUNITIES

For example, a risk on one side is that the current broad strength in employment, income growth, personal consumption, and investment could falter materially, perhaps as a result of a sudden broad deflation in what appears to be a richly valued stock market. In such a scenario the appropriate response might well be for the Fed to cut interest rates aggressively to ward off a recession—but, during the election season, such a policy response might well be seen as the Fed violating the conditions of its independence by influencing the election in favor of President Biden and his Democratic party.

Conversely, the same broad but currently reasonable strengths could inflate into dangerously strong demand-driven inflation pressures, threatening a second wave of inflation reminiscent of the early 1980s (which followed a first inflationary wave in the 1970s). In such a scenario the appropriate response might well be for the Fed to raise interest rates aggressively to combat inflation—but, during the election season, such a policy response might well be seen as the Fed violating the conditions of its independence in the opposite direction by influencing the election in favor of former President Trump and his Republican party.

The importance that the Fed attaches to preserving its independence may effectively rule out aggressive interest-rate actions that might otherwise be appropriate at its July 30-31 and September 17-18 meetings. In short, the Fed might find itself unwilling to make good on the promise contained in Powell's speech, that "we are making decisions meeting by meeting, and we will do everything we can to achieve our maximum-employment and price-stability goals." If this concern is correct, then the U.S. economy may be at heightened risk during the 16-week period between the Fed's June 11-12 meeting and its November 6-7 meeting (immediately following the November 5 election).

THE RENTAL HOUSING MARKET: SUPPLY SURGE SEEMS TO HAVE PEAKED, RENTS SEEM TO HAVE TROUGHED

Middleburg puts special emphasis on forecasting changes in both demand for and supply of rental housing at the metro-area level for each of the 117 metropolitan areas in "our" eight states, from the largest (Dallas, Houston, Atlanta) to the smallest (Hinesville GA, Victoria TX, Morristown TN). Our supply forecasts make use of a range of supply-related data including new multifamily permits issued, multifamily units currently under construction, and average time required to complete construction of an authorized multifamily project; while our demand forecasts make use of demand-related data such as the age distribution of local populations, changes in the local headship rate, and changes in the local rentership rate.

It is informative to use these internal forecasts to trace the effects of the covid pandemic on the rental housing market in Middleburg's part of the country with, now, three years of perspective. Doing so seems to validate Middleburg's supply and demand forecasting processes, and also puts in context the dramatic changes in rent growth over the past two years.

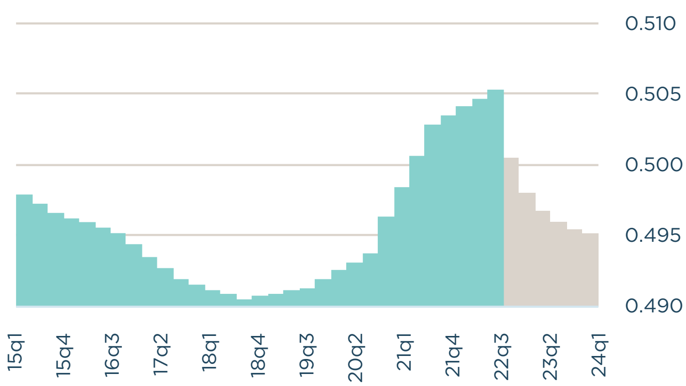
The earliest effect of the covid pandemic on the housing market was a sudden surge in the adult population in Middleburg's metro areas as adults moved from other parts of the country. During the 6½ years from 2013Q2 through 2019Q4 the aggregate adult population in the 117 metro areas that make up Middleburg's territory increased at a steady rate averaging 1.9 percent per year; during 2020, however, the aggregate adult population suddenly increased by 3.1 percent.

In-migrants tended to be employed people (including many taking advantage of new opportunities to work from home), so a corollary effect was a sudden surge in the population of employed residents. During the 6½ years 2013Q2-2019Q4 the aggregate number of employed residents in Middleburg's part of the country increased at a rate averaging 2.1 percent per year, but during 2020 the number of employed residents suddenly increased by 3.1 percent. (Both annualized growth rates have since subsided to 1.6 and 1.9 percent respectively.)

Another dramatic effect of the covid pandemic was a sudden change in the estimated headship rate, equal to the average number of households per adult, as adults who had previously been sharing housing elected instead to live independently. The headship rate nationwide had entered a general decline following the collapse of the dot-com bubble in 2000, but had already started recovering in 2018. During the two years from 2020Q3 through 2022Q3, however, the estimated aggregate headship rate in Middleburg's 117 metro areas surged from

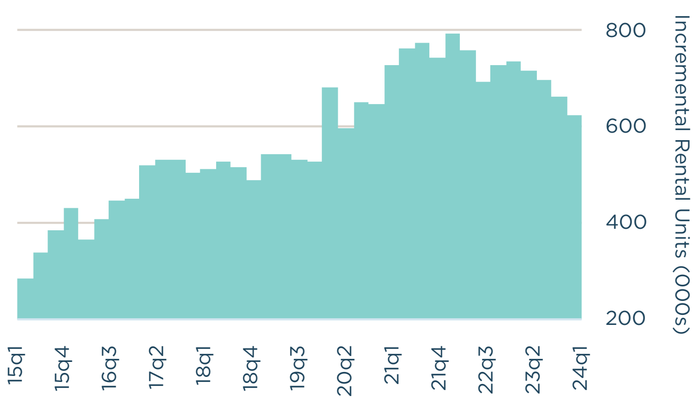
0.494 to 0.505, an unprecedented jump in such a normally slow-moving parameter. (Our analyses are based on a conservative assumption that the headship rate reverted to 0.495 after 2022Q3, but we actually forecast continued growth in the headship rate and our conservative working assumption will be continually adjusted as actual data become available at the metro level.)

Aggregate Estimated Headship Rate



As a result of these changes the pandemic also caused a sudden surge in the number of renter households. During the four years 2016Q1-2019Q4 the aggregate number of renter households in Middleburg's territory had increased at a rate averaging 1.3 percent per year, but during the two years 2020Q1-2021Q4 the increase in the number of renter households averaged 2.1 percent per year.

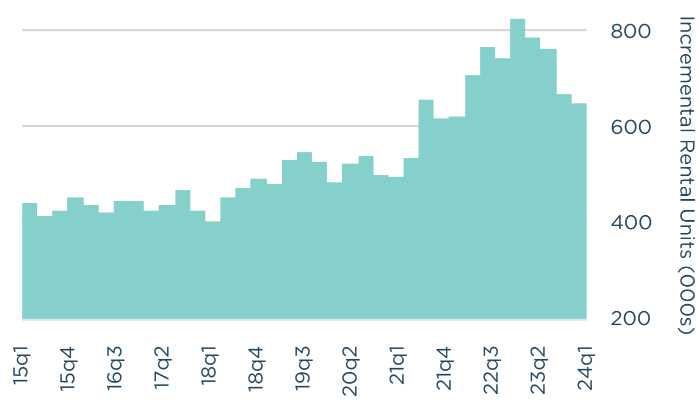
Aggregate 3-yr Demand Forecast



The surges in the employed adult population, the headship rate, and the number of renter households caused Middleburg's forecasts of growth in demand for rental housing units over the following three years to jump from an average of 522 thousand using data available from 2017Q1 through 2019Q4 to an average of 712 thousand using data available from 2020Q1 through 2022Q2—a demand surge of 36.3 percent. The forecast for incremental demand hit a peak in 2022Q1 before tapering downward, reflecting the end of the demand surge.

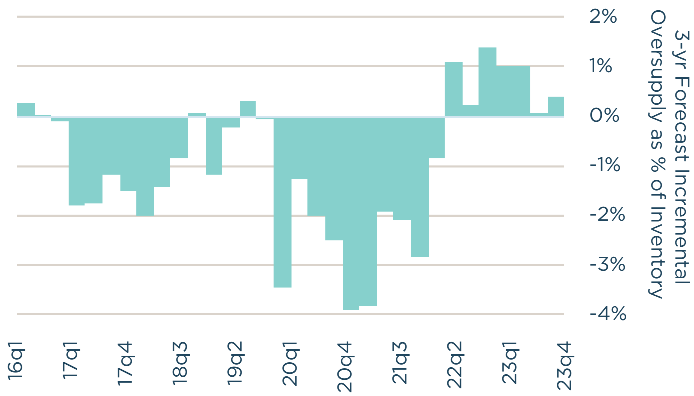
Residential construction activity is often described as sensitive to interest rates, but it is more accurately described straightforwardly as a response to demand: in fact, quarterly changes in incremental supply can be described quite successfully as a simple 5- or 6-quarter lag of changes in incremental demand. The fact that demand plays no part in Middleburg's forecasts of growth in supply of rental housing units over the following three years makes it especially striking that our supply forecasts jumped from an average of 510 thousand using data available from 2018Q3 through 2021Q2 to an average of 712 thousand using data available from 2021Q3 through 2023Q4—a supply surge of 39.7 percent neatly matching the demand surge six quarters previously. The forecast for incremental supply hit its peak in 2023Q1 before tapering downward, reflecting the end of the supply surge.

Aggregate 3-yr Supply Forecast

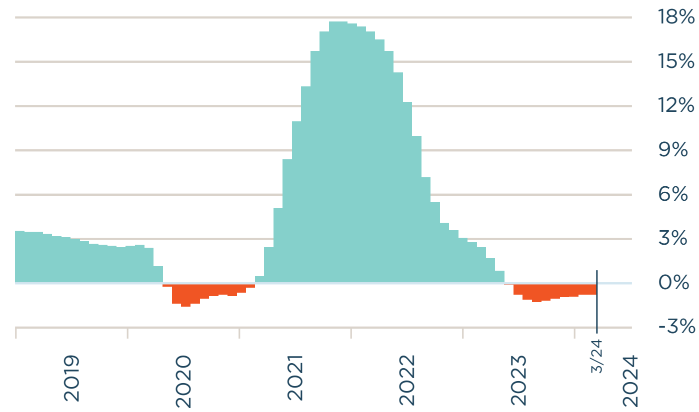


To summarize, the apex of the supply surge in rental housing units seems to have ended, not so much because interest rates increased and capital markets tightened but because the incremental supply of rental housing units already in-process simply caught up with the incremental demand for rental housing units that surged during the first six quarters of the covid pandemic.

Supply/Demand Imbalance



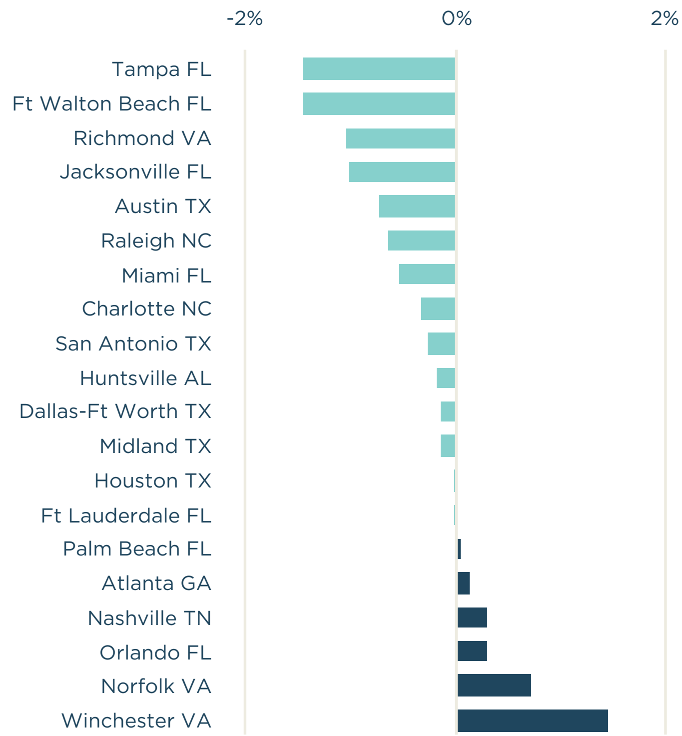
Year-over-Year U.S. Rent Growth



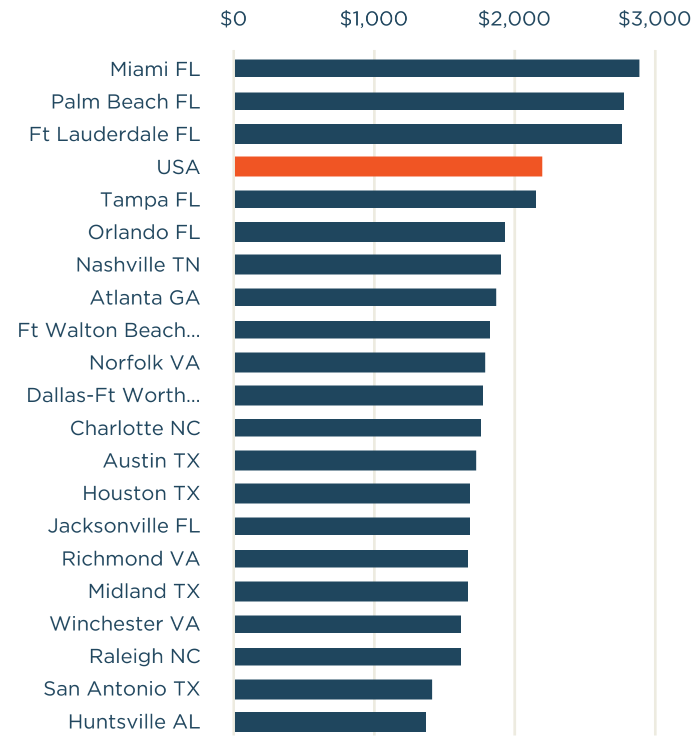
In fact, the 2020Q1-2022Q2 demand surge created a supply/demand imbalance that seems to have been much greater than the imbalance created by the 2021Q3-2023Q4 supply surge. It was that whipsawing between the demand surge and the responsive supply surge six quarters later that caused year-over-year growth in new-lease rents to climb rapidly to almost 18 percent in late 2021 and then fall almost as rapidly to slightly less than zero in late 2023, according to data collected by ApartmentList.com. Deflation in new-lease rents reached its limit in September 2023, reflecting the end of the supply surge and a welcome new balance between demand growth and supply growth.

With the abnormalities induced by the covid pandemic now seemingly behind us, we expect that Middleburg's ability to evaluate both demand and supply growth for individual markets (and their submarkets) to identify the best opportunities for our development, acquisition, and other activities will continue to enable us to separate quality investment opportunities from, well, other investment opportunities. In the following pages we review demand, supply, and capital market 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."

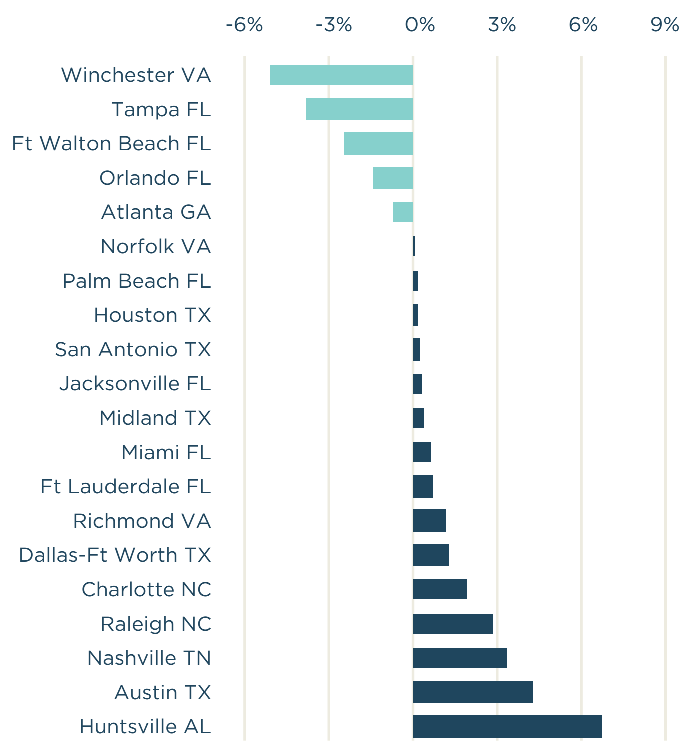
Change in Forecast Supply Growth



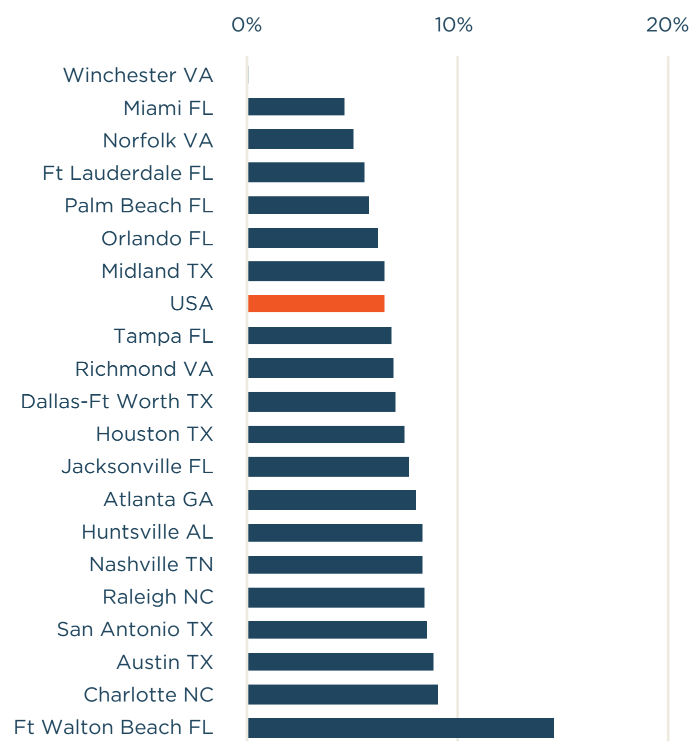
Class A Effective Rent per Unit



Forecast Oversupply Risk



Stabilized Class A Vacancy Rate



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. Current indicators suggest that near-suburban counties and Tarrant County (Fort Worth) likely offer better opportunities than Dallas County itself.

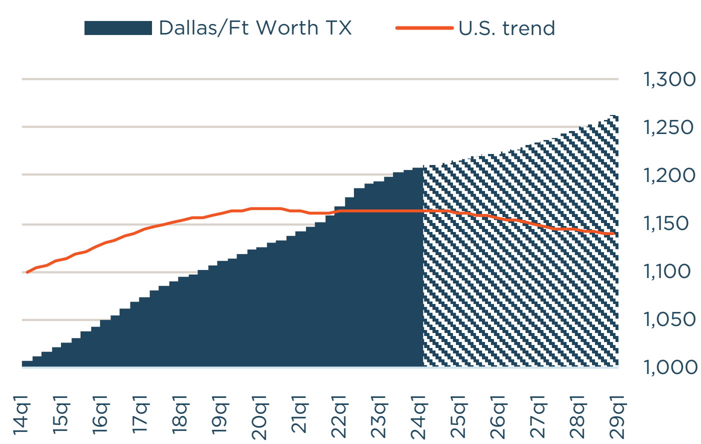
MIDDLEBURG'S RANK #9 AMONG 15 LARGEST METROS

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.

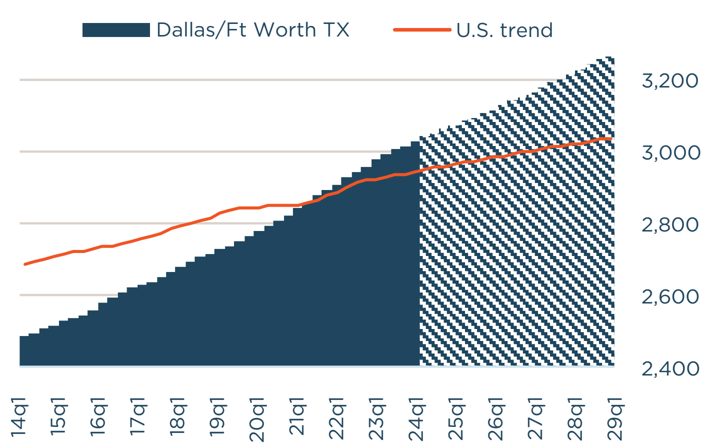
Dallas's population already skews young, but Oxford Economics forecasts that over the next five years the metro area will grow by an additional 53 thousand **Young Adults** (0.9 percent per year), 276 thousand new employees (1.3 percent per year) and 237 thousand new **Households** (1.5 percent per year) all total numbers that lead every other metro area in Middleburg's part of the country.

Effective Rent per Unit and **Net Operating Income** are expected to continue growing robustly at 2.5 and 2.7 percent per year, respectively, although both are expected to lag slightly behind the national averages (2.7 and 3.0 percent respectively). Middleburg estimates that the supply of rental housing units will grow by 2.7 percent over the next three years while demand will grow by 1.5 percent per year. That implies only a marginal threat of oversupply in the market, and fits with CoStar's forecast that market sale price per unit will grow by 3.9 percent per year.

Young Adult Population (000s)

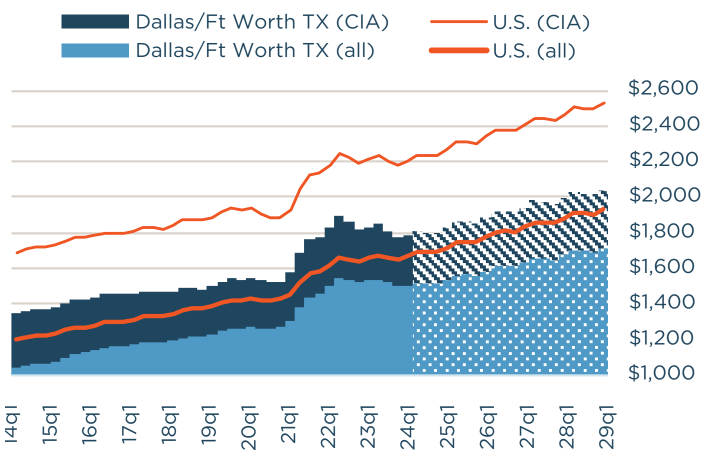


Number of Households (000s)

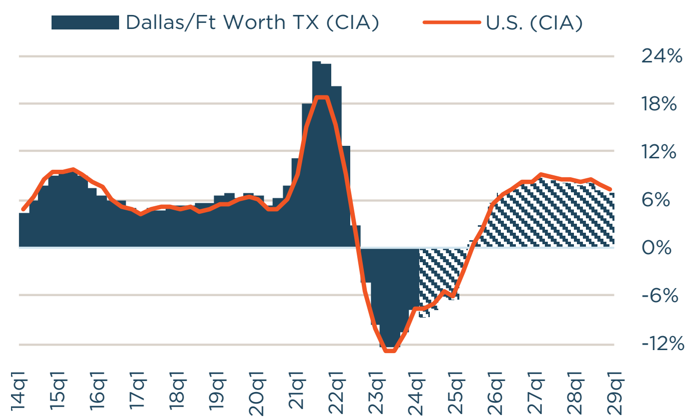


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
260,343	22,877	$27,981	1,066
↑ 1.6%	↓ 13.7%	↓ 0.2%	↓ 65%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
+2.0%	$85,760	7.3%	+18 bps
↓ 0.4%	↑ 0.1%	↑ 0.1%	above US avg

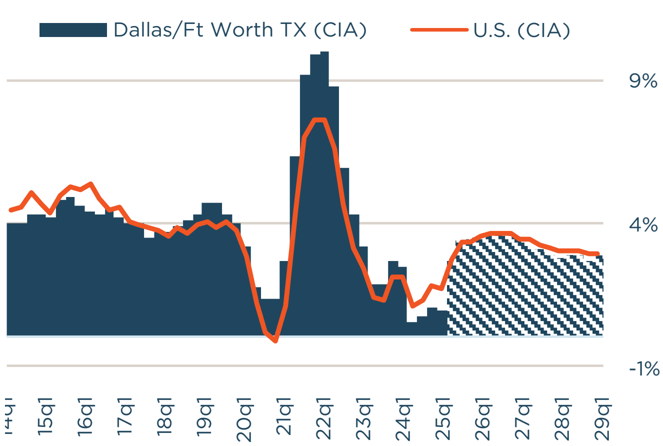
Effective Rent per Unit



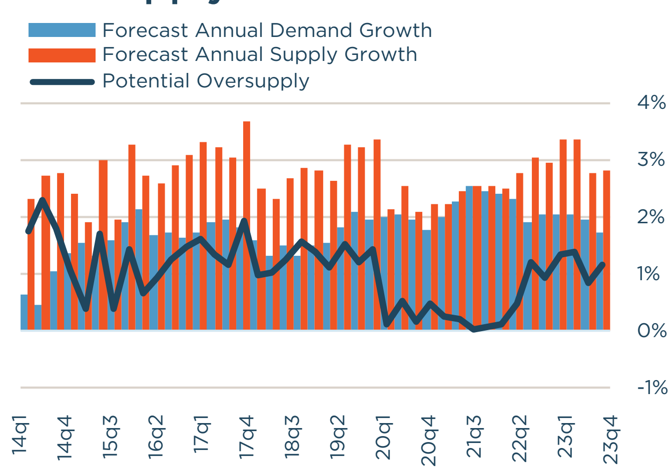
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



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

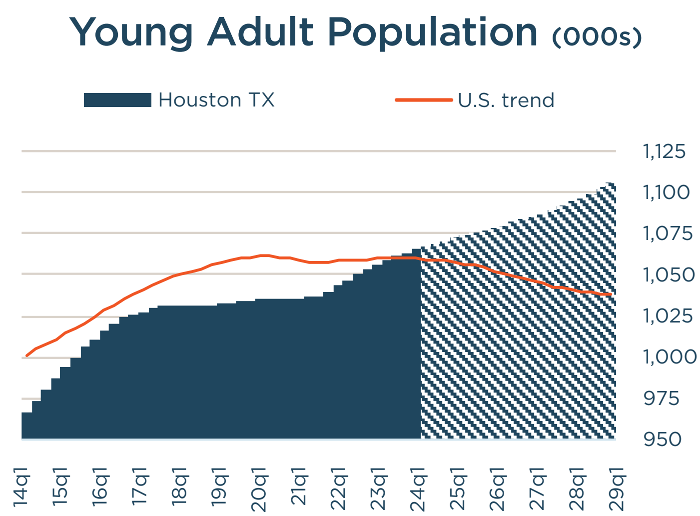
Houston, TX

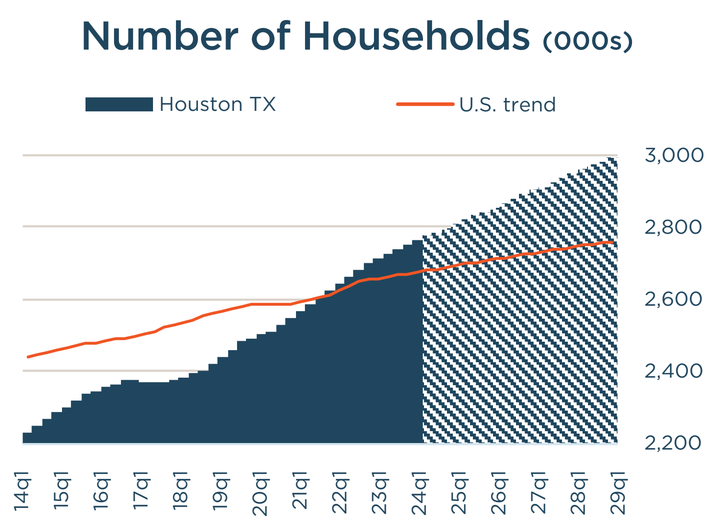
Houston's reduced exposure to the oil & gas industry makes what was already a strong market more appealing to long-term investors, although forecast rental housing fundamentals will likely continue to shine more brightly in Austin and Dallas. Current conditions suggest that the coastal and near-suburban counties likely offer better opportunities than Harris County itself.

MIDDLEBURG'S RANK #12 AMONG 15 LARGEST METROS

The demographic drivers of rental housing demand in Houston should continue to be strong: for example, Oxford Economics forecasts that growth in the city's **Young Adult Population**, **Number of Households** and total employment should lead all other metro areas in Middleburg's arc except Dallas/Fort Worth at 39 thousand (0.7 percent per year), 232 thousand (1.6 percent per year) and 168 thousand (1.0 percent per year) respectively. The house-price-to-income ratio is expected to ease slightly as growth in median household income slightly exceeds house price appreciation (3.2% vs 2.9%), but that would represent a slightly stronger boost to rental housing in Houston than in the country as a whole where the house-price-to-appreciation ratio is expected to ease by -0.5%.

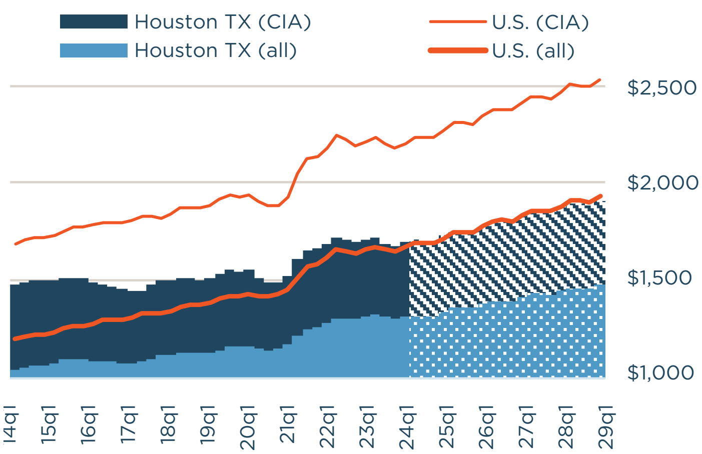
CoStar forecasts that Houston's rental housing fundamentals will be adequate but not as strong as in other metro areas along Middleburg's arc: for example, **Effective Rent per Unit** is forecast to grow by 2.4 percent per year (vs a national average of2.7 percent), **Net Operating Income** by 2.6 percent per year (vs 3.0 percent), and market sale price per unit by 3.7 percent per year (vs 4.2 percent). Perhaps the most promising aspect of Houston's rental housing market is that Middleburg forecasts its inventory to grow by only 1.6 percent per year over the next three years—less than in any other large metro area in our territory—keeping oversupply concerns in check despite what we project to be demand growth averaging slightly less at 1.4% per year.



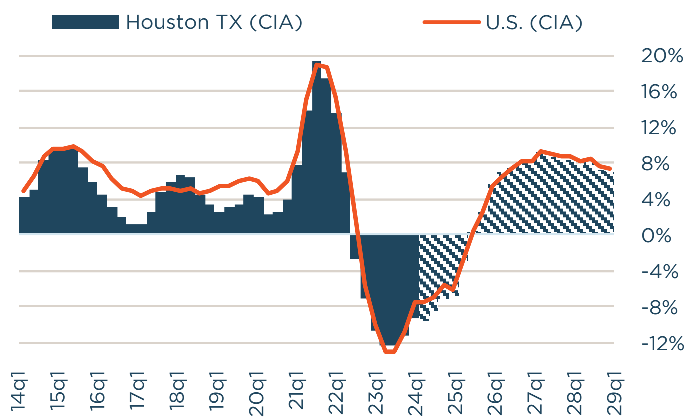


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
201,545	4,688	$205,900	1,128
↑ 1.0%	↓ 24%	↓ 1.1%	↓ 11%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
5.1%	$77,880	7.7%	+39 bps
↑ 0.6%	↓ 0.2%	↑ 0.2%	above US avg

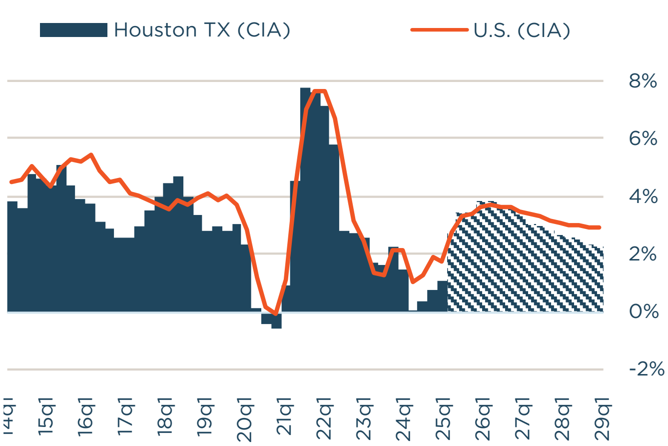
Effective Rent per Unit



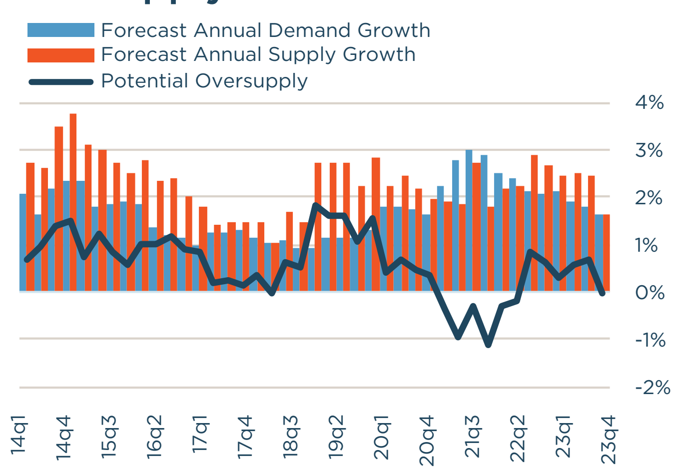
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



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

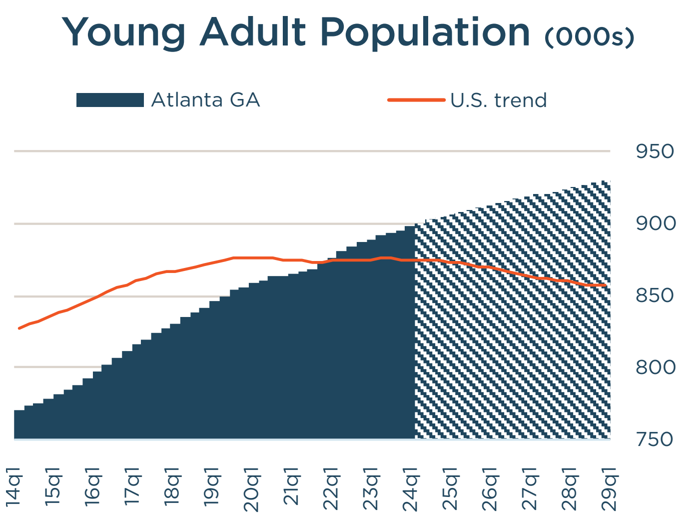
Atlanta, GA

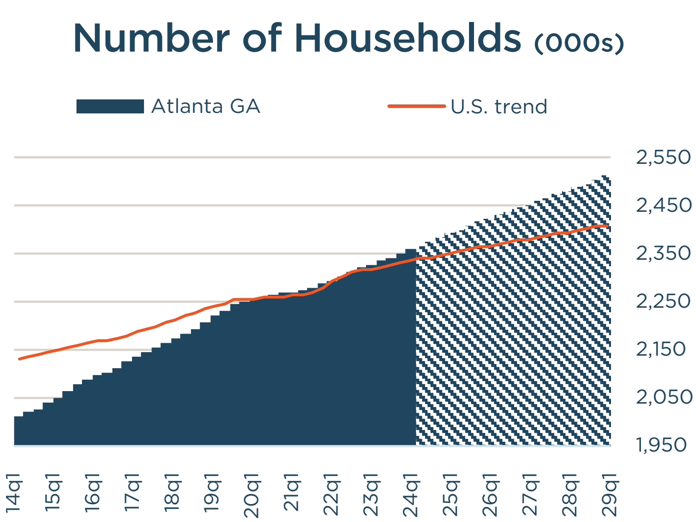
Atlanta is similar in many respects to the Dallas / Fort Worth metro area, but at a slightly smaller and slightly more dynamic scale. The large number of counties and diversity of local market conditions in the Atlanta metro area offers a premium for more disaggregated location evaluation, with certain counties such as Gwinnett, Paulding, Newton, and Coweta currently more appealing than others such as Spalding, Clayton, and Fulton.

MIDDLEBURG'S RANK #8 AMONG 15 LARGEST METROS

The largest market in Middleburg's territory outside of Texas, Atlanta is projected to see growth over the next five years of 0.7 percent per year in the number of **Young Adults** (33 thousand), 1.3 percent per year in the **Number of Households** (157 thousand) and 1.0 percent per year in total employment (156 thousand), all substantially better than the national rate. As in Houston, the house-price-to-income ratio is expected to ease in Atlanta by -0.3%, which would be helpful to rental housing demand only relative to the national average.

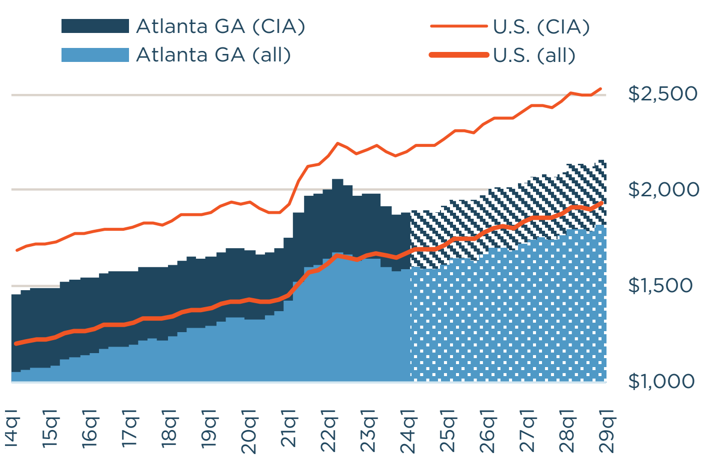
Rental housing fundamentals are forecast to show moderate improvement in Atlanta, with growth in **Effective Rent per Unit** averaging 2.5 percent per year, growth in **Net Operating Income** averaging 2.9 percent per year, and growth in market sale price per unit averaging 4.0 percent per year. Middleburg forecasts supply of rental housing units to grow slowly by the standards of large metro areas in our part of the country at just 2.6 percent per year while demand grows more robustly at 3.3% per year, resulting in the third-most-favorable supply/demand balance among large metros in our part of the country, trailing only Tampa and Orlando.



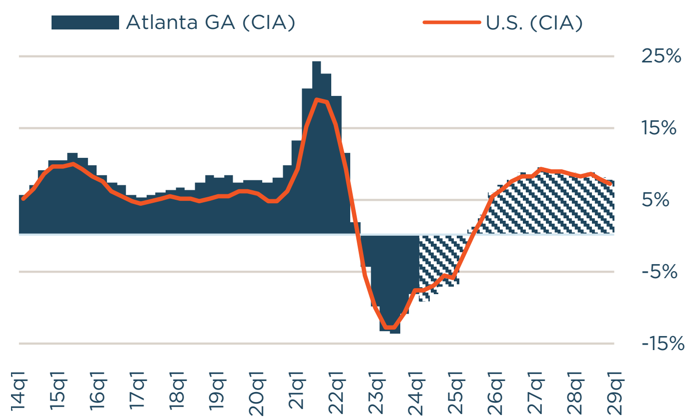


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
143,758	17,458	$291,511	1,317
↑ 2.2%	↓ 8.2%	↓ 0.5%	↓ 58%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
4.2%	$87,320	8.3%	-3 bps
↓ 1.6%	↑ 0.3%	↑ 0.3%	below US avg

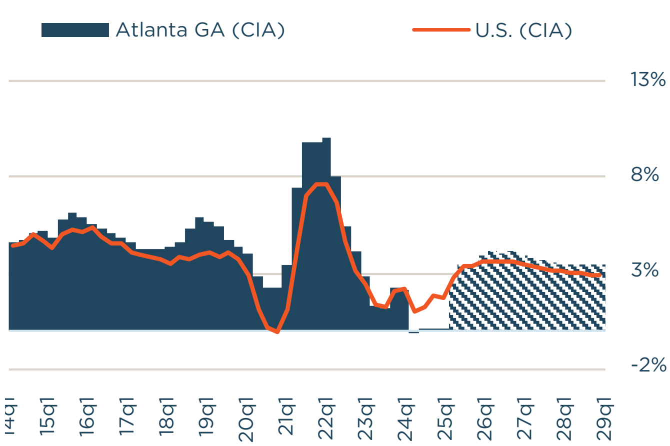
Effective Rent per Unit



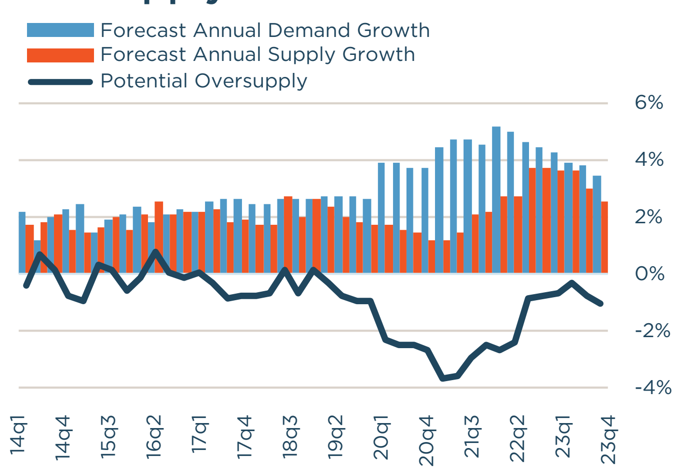
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



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

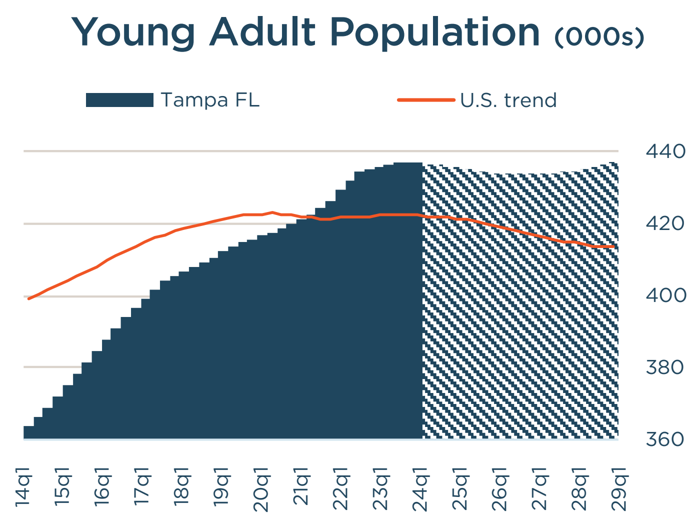
Tampa, FL

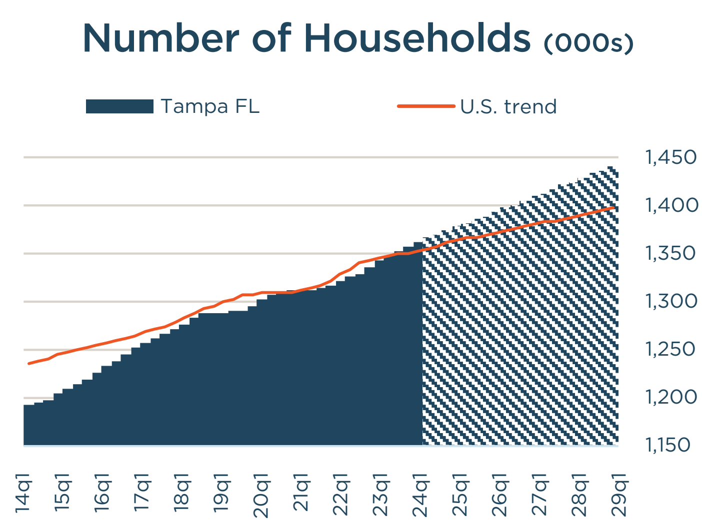
Fundamentals in the Tampa market remain strong, but relatively weak demographic drivers for the metro area as a whole make other metros more favorable at the market level. Sharp differences among local areas, however, mean that there are plenty of appealing neighborhoods, especially along the north-south I-75 and east-west Route 60.

MIDDLEBURG'S RANK #15 AMONG 15 LARGEST METROS

Oxford Economics forecasts that over the next five years Tampa will beat the national average in all key demand drivers. Tampa's **Young Adult Population** is expected to shrink just barely (but better than the national average of -0.4 percent per year) while **Number of Households** and total employment are expected to grow at 1.1 percent per year (79 thousand) and 0.9 percent per year (68 thousand) compared with national averages of 0.6 and 0.8 respectively. Tampa's rental housing market is unlikely, however, to see an additional boost from home affordability problems, with the price-to-income ratio expected to decline by -0.7 percent, slightly more than the national rate of -0.5 percent.

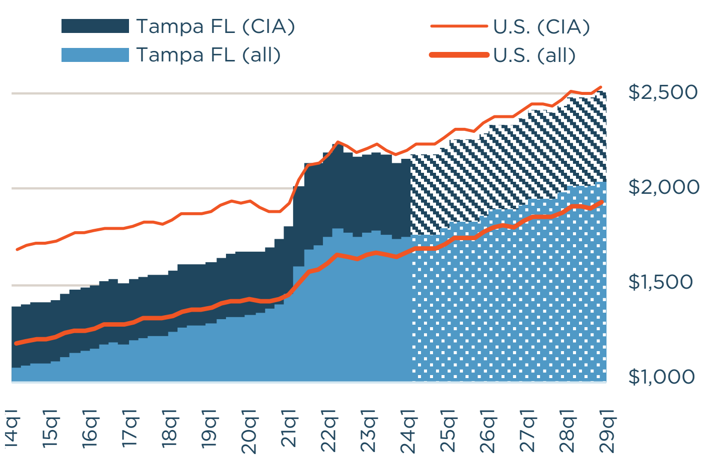
Nevertheless, CoStar projects that Tampa will see growth in **Effective Rent per Unit** (3.0% per year), **Net Operating Income** (3.3% per year), and **Market Sale Price Per Unit** (4.5% per year) exceeding not only the growth rates in most other large metros in Middleburg's part of the country but also the national averages of 2.7%, 3.0%, and 4.2% respectively. This may be due to the most favorable supply/demand balance of any large metro area in Middleburg's arc, with demand for rental housing units expected to outpace all rival cities at 5.9 percent per year over the next three years according to Middleburg's projections while supply growth projected at just 2.5 percent per year is expected to lag behind every other metro large metro area except Houston.



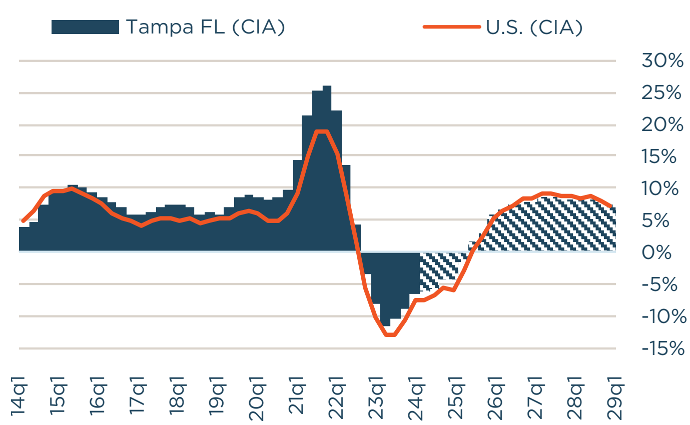


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
56,940	6,952	$290,950	0
↑ 2.6%	↓ 11%	↓ 0.2%	↓ 100%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
6.1%	$74,200	7.1%	+1 bps
↓ 0.9%	↑ 0.4%	no change	above US avg

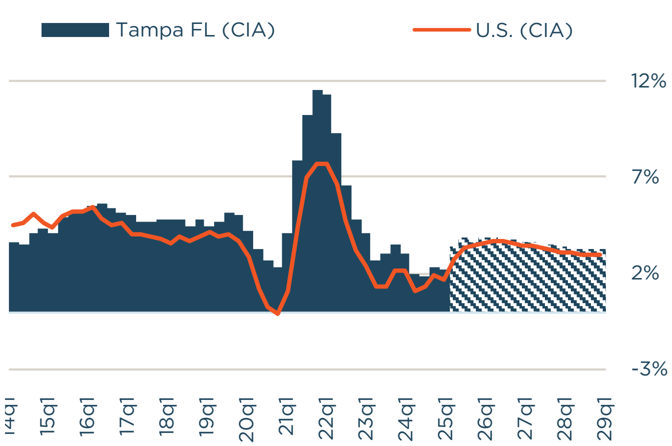
Effective Rent per Unit



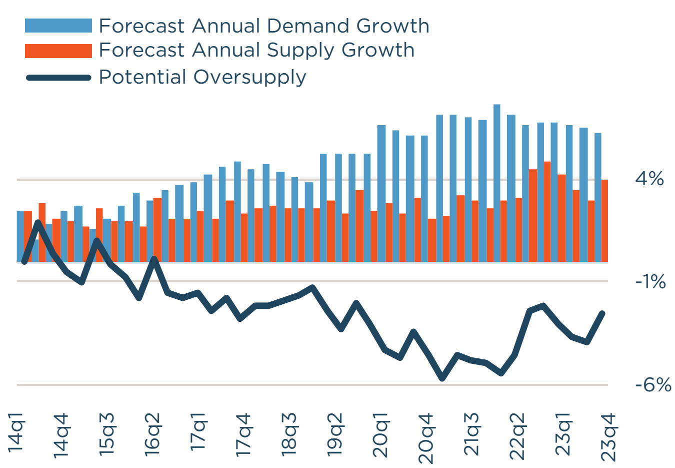
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



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

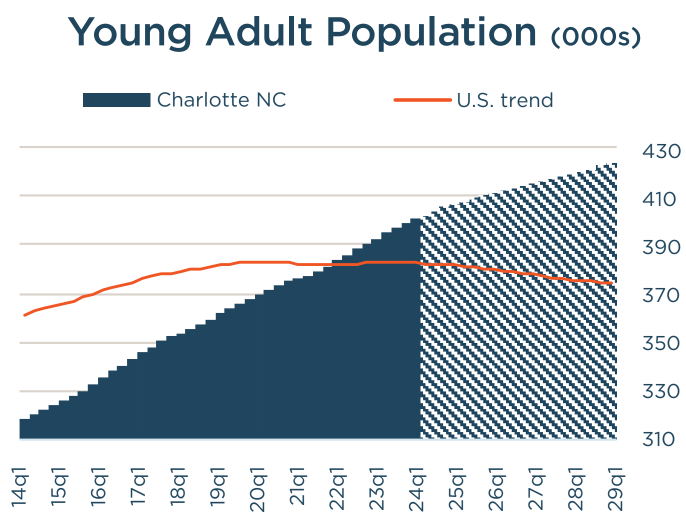
Charlotte, NC

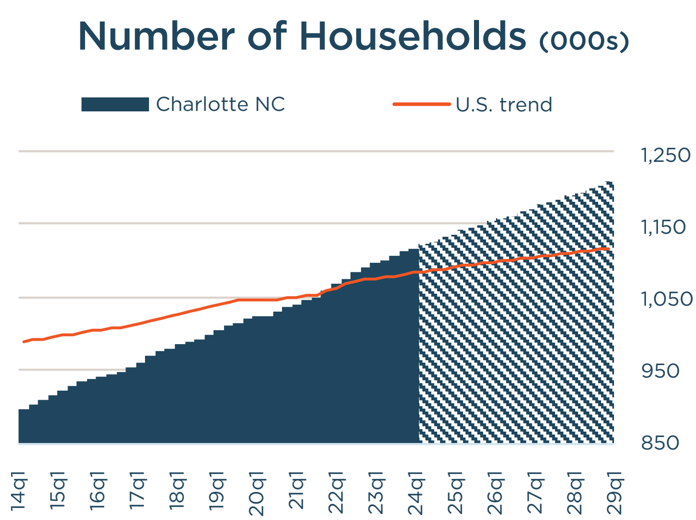
Charlotte's strong demand drivers have attracted even stronger supply growth, continuing to present oversupply concerns despite what is likely to remain a strong growth trajectory. Conditions remain especially favorable, however, in Mecklenburg County and its southern near neighbors, Union and (across the state border) York counties.

MIDDLEBURG'S RANK #3 AMONG 15 LARGEST METROS

The uncommonly strong demographic drivers of demand growth in Charlotte should not falter over the next five years: Oxford Economics forecasts, for example, that Charlotte's **Young Adult Population** will grow at 1.2 percent per year (23 thousand), trailing only Austin, while growth in the **Number of Households** (1.6% per year or 91 thousand) and total employment (1.1% per year or 76 thousand) also comfortably exceed both the national average and the median of large metros in Middleburg's territory. Moreover, rental housing demand is likely to get an additional boost as house price appreciation outpaces the national average (3.5 vs 2.9 percent per year) while median household income growth slightly lags the national average (3.0 vs 3.3 percent per year).

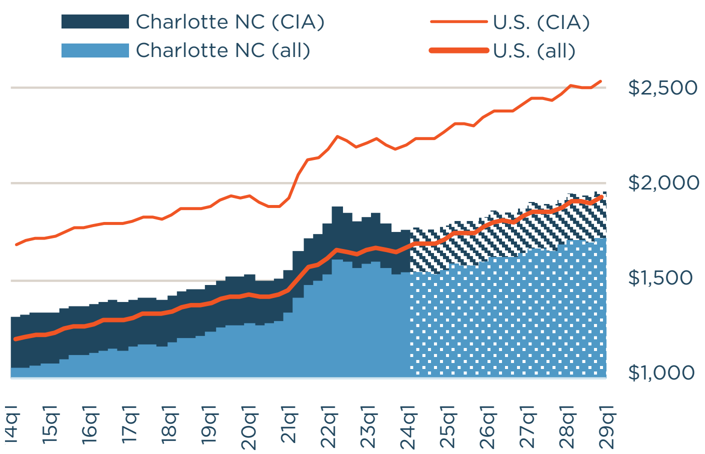
The strength of the demand drivers, however, is likely to be countered by the strength of the supply response. CoStar forecasts, for example, that **Effective Rent per Unit** and **Net Operating Income** are likely to grow less rapidly over the next five years in Charlott3 than in many other markets in Middleburg's territory—and the national average—at just 2.0 and 2.5 percent per year respectively, compared with the national paces of 2.7 and 3.0 percent per year. Middleburg estimates that the supply of rental housing units will grow by 5.0 percent per year over the next three years while demand grows by just 3.2 percent per year, creating an oversupply concern that trails only Austin, Nashville, and Raleigh among large metro areas in Middleburg's part of the country.



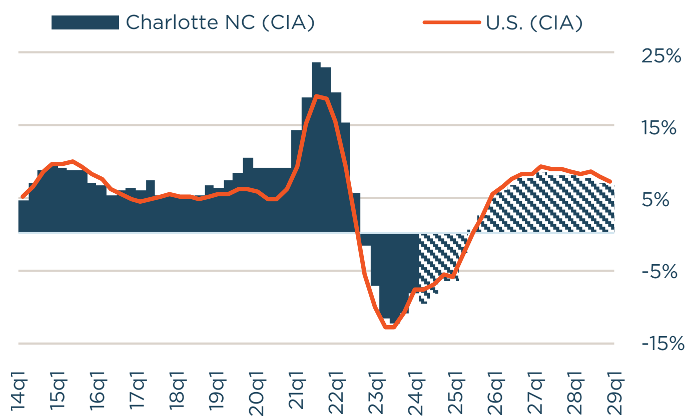


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
65,530	11,341	$273,593	0
↑ 1.6%	↓ 4.1%	↓ 0.4%	↓ 100%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
5.3%	$79,560	9.3%	-13 bps
↓ 0.5%	↑ 0.3%	↑ 0.2%	below US avg

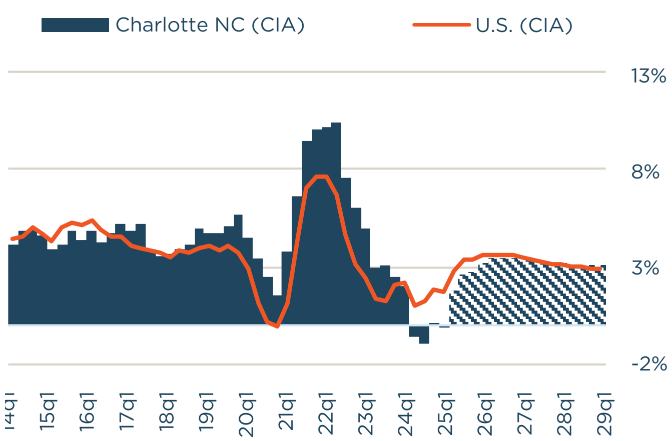
Effective Rent per Unit



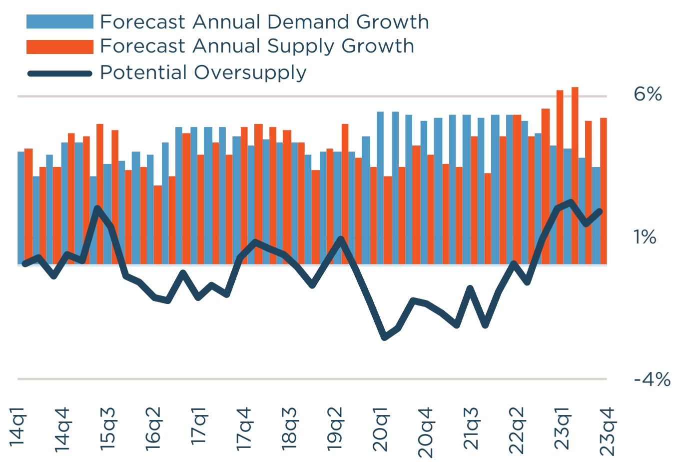
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



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

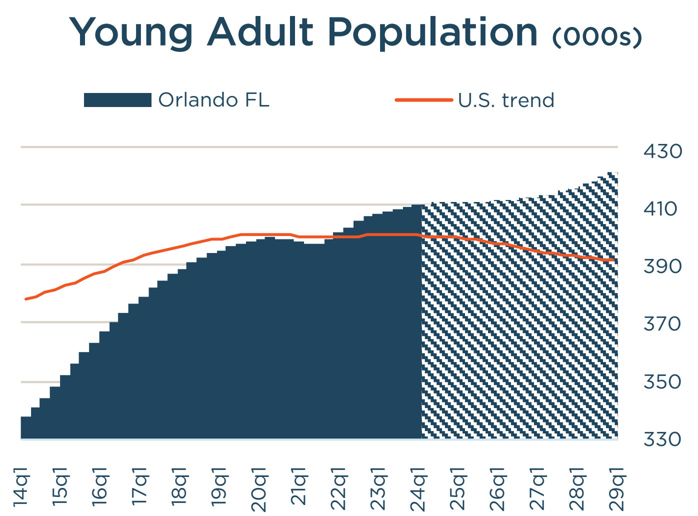
Orlando, FL

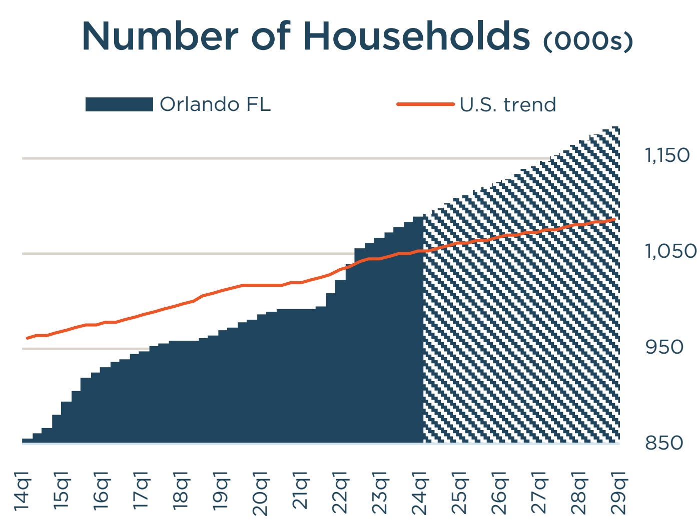
Orlando continues to hold its place as one of the most appealing rental housing markets in the country, and the first concrete steps toward a detente between the state government and Orlando's largest employer have started to reduce the unwelcome uncertainty regarding the market's growth path.

MIDDLEBURG'S RANK #5 AMONG 15 LARGEST METROS

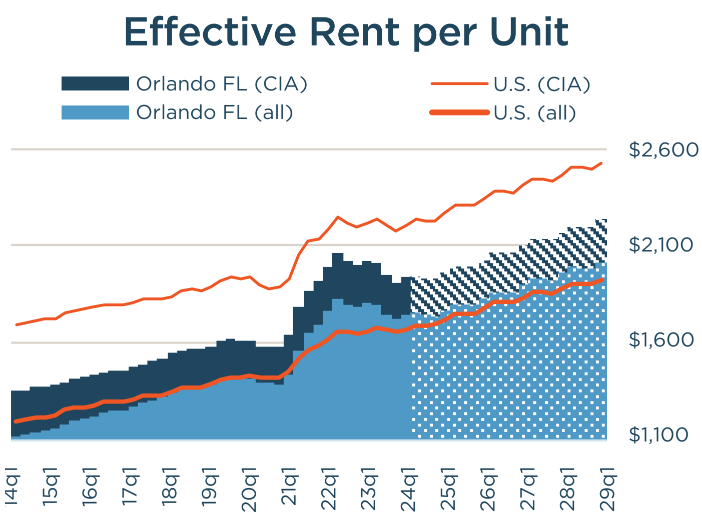
Orlando has broadened its economy to encompass much more than its roots as a pure tourist destination, and the most likely path forward is one that builds on that breadth as well as its best-in-class resorts. Oxford Economics forecasts that growth in total employment and the **Number of Households** will trail only Austin at 1.3 and 1.7 percent per year, respectively, adding 99 thousand jobs and 97 thousand households. Oxford also expects above-average growth in Orlando's **Young Adult Population** at 0.5 percent per year (10 thousand) while the young adult population of the U.S. shrinks by -0.4 percent per year. Orlando's homebuying affordability problem, however, is expected to ease more markedly than the national average over the next five years.

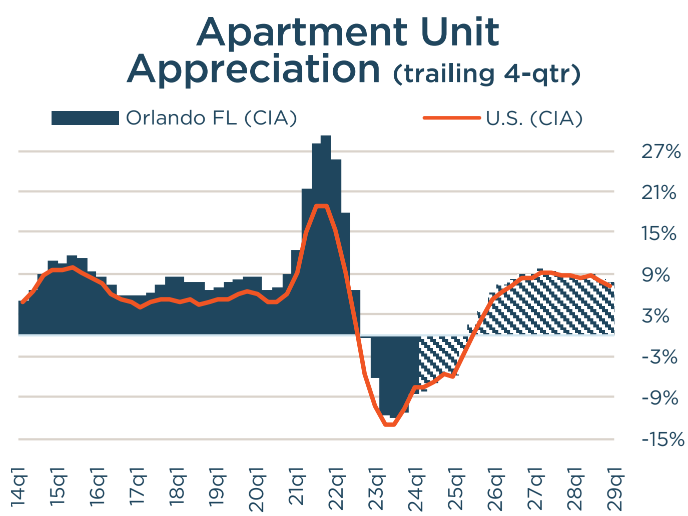
CoStar forecasts that rental housing fundamentals will remain stronger in Orlando than in most other large metro areas in Middleburg's part of the country: for example, CoStar expects Orlando to see growth in **Effective Rent per Unit** at 2.9 percent per year, **Net Operating Income** at 3.2 percent per year, and market sale price per unit at 4.6 percent per year. Middleburg's internal forecasting reflects this strong view of operating fundamentals, with growth in demand for rental housing units projected to average 5.3 percent per year over the next three years—trailing only Tampa among large metro areas in our territory, while supply grows at just 4.0 percent per year, creating the second-most-favorable supply/demand balance behind only Tampa.

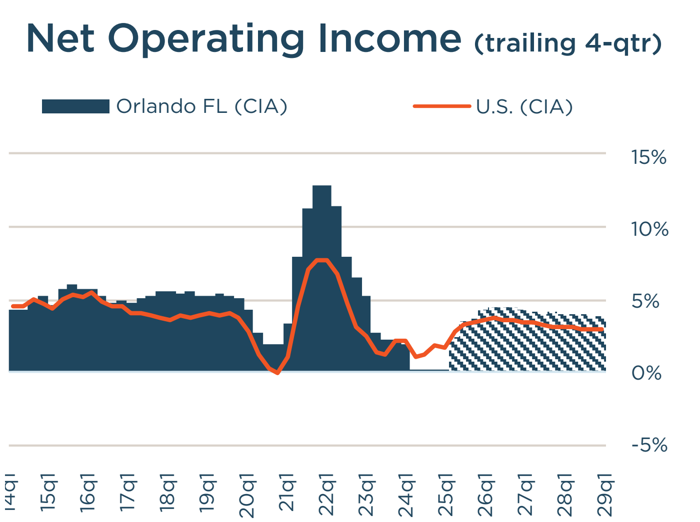


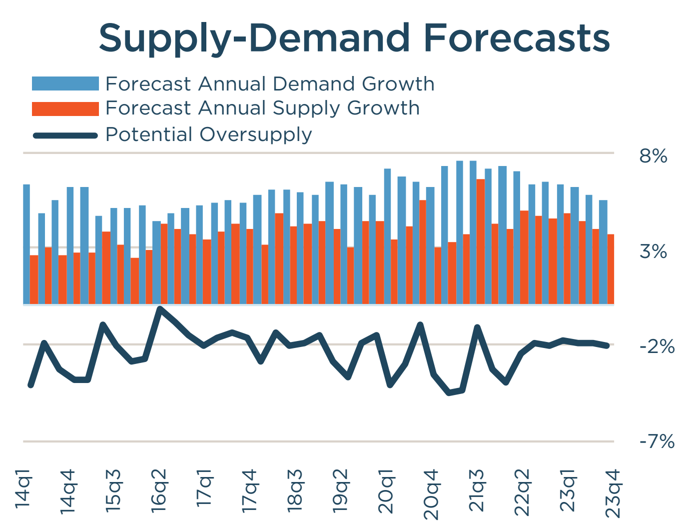


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
70,114	6,986	$281.718	770
↑ 3.1%	↓ 20%	↓ 0.4%	↓ 8.6%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
4.0%	$75,640	6.4%	-8 bps
↓ 0.5%	↑ 0.6%	↑ 0.2%	below US avg









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

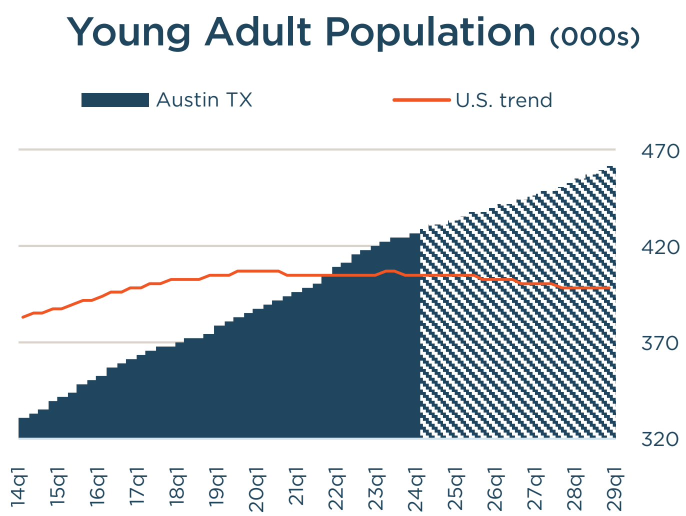
Austin, TX

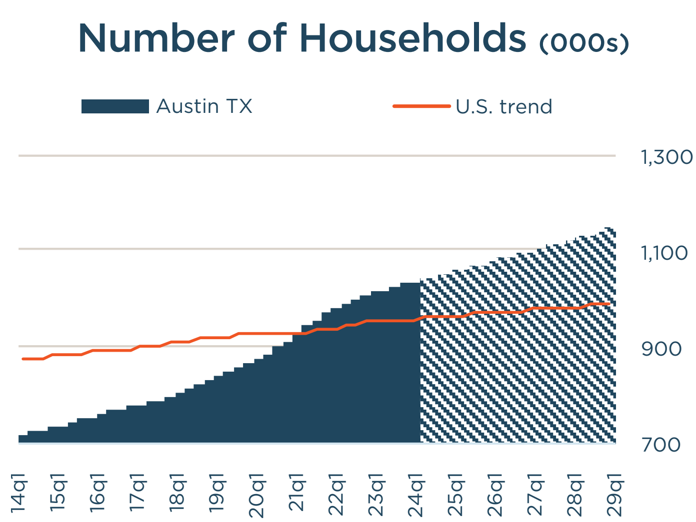
Austin's appeal as a rental housing market should surprise nobody, as the Texas capital has become known as a favorite among young professionals, thanks in large part to the University of Texas and the city's music scene. As in Nashville and Charlotte, however, the strong market supply response to obviously favorable demand drivers has dimmed Austin's star.

MIDDLEBURG'S RANK #4 AMONG 15 LARGEST METROS

Over the next five years Oxford Economics forecasts that growth in Austin's **Young Adult Population**, **Number of Households**, and total employment will outpace every other metro area in Middleburg's footprint in percentage terms at 1.6, 2.1, and 1.7 percent per year, respectively. The absolute numerical growth in young adults is expected to trail only the much larger Dallas and Atlanta at 35 thousand; growth in the number of new households and total employment is expected to trail only Dallas, Houston, and Atlanta at 110 thousand and 118 thousand respectively.

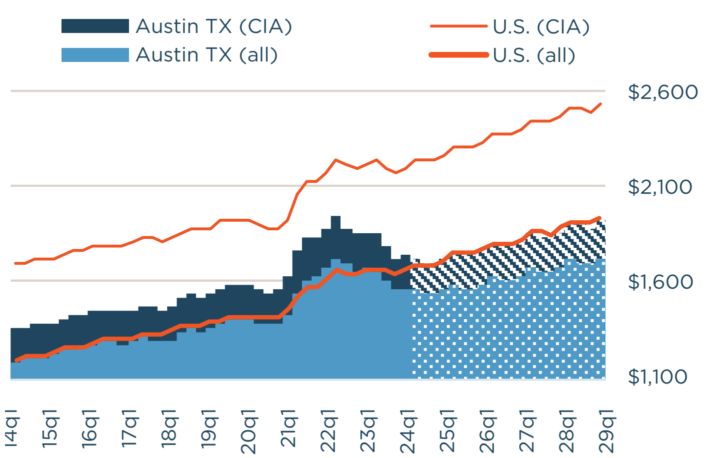
Homeownership affordability is forecast to remain both a very serious and a growing problem in Austin, with house price appreciation continuing at 4.2 percent per year—well above the national average of 2.9 percent per year—while growth in median household income falls slightly short of the national average at 3.1 percent per year. The major threat to rental housing fundamentals in Austin is supply, which Middleburg forecasts will growth by 5.4 percent per year over the next three years—more than in any other primary market in our part of the country except Nashville—while demand grows by just 1.3 percent per year. In short, Austin faces a more serious oversupply threat than any other market in our territory.



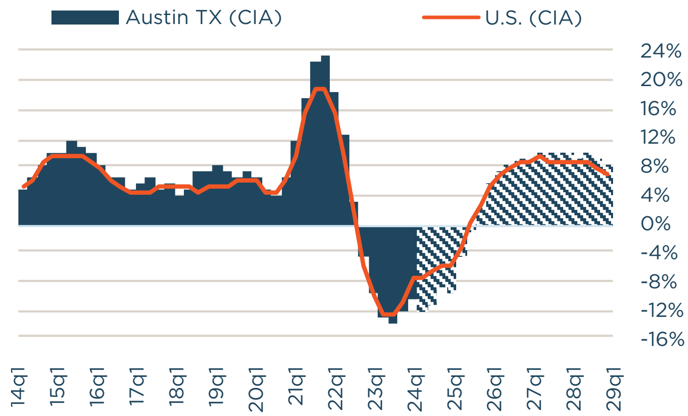


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
100,883	14,195	$260,686	0
↑ 4.1%	↓ 20%	↓ 0.6%	↓ 100%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
-1.5%	$98,120	9.1%	-16 bps
↑ 2.0%	no change	↑ 0.5%	below US avg

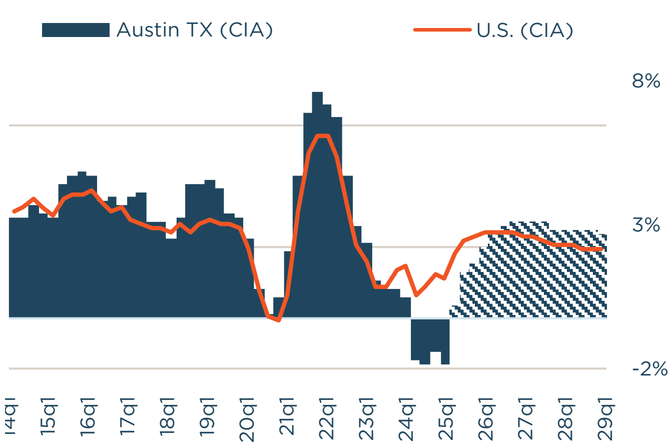
Effective Rent per Unit



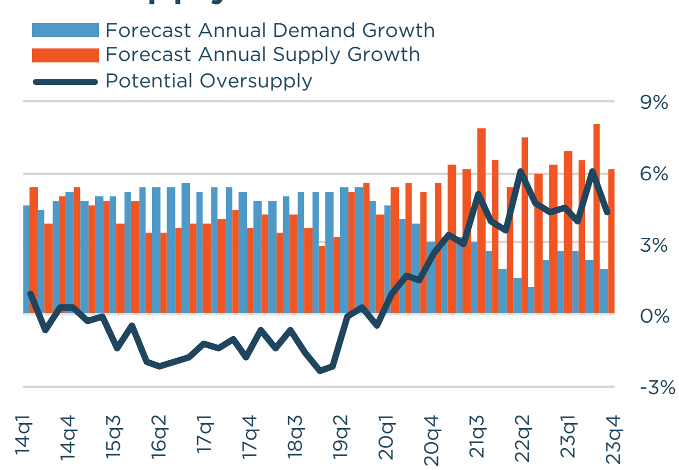
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



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

Miami, FL

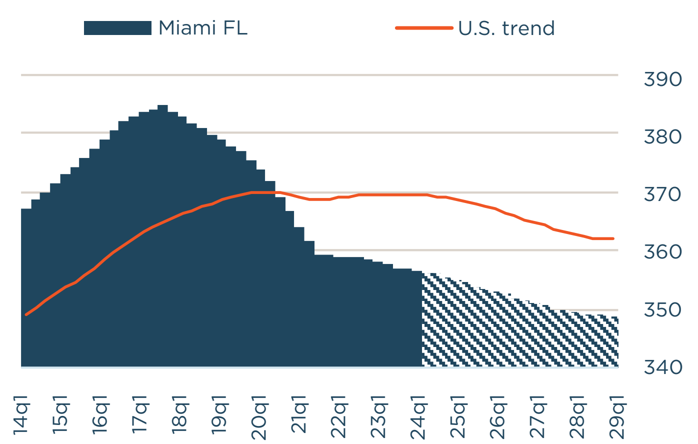
Miami is a market with some solid rental housing fundamentals—but one that, ultimately, is more likely to appeal to developers and investors other than Middleburg.

MIDDLEBURG'S RANK #10 AMONG 15 LARGEST METROS

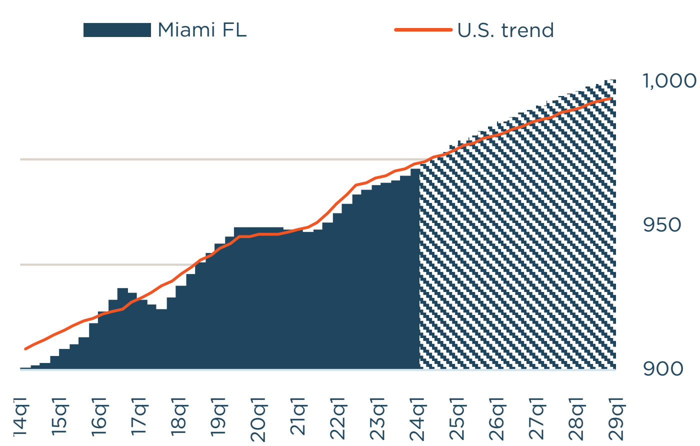
Miami has attracted (or perhaps sought) attention as a new home for tech firms relocating away from the San Francisco Bay area as well as finance firms relocating away from New York City. Even if that happens, it's probably not enough to make the Miami area especially appealing to Middleburg. Oxford Economics forecasts that the area's **Young Adult Population**—a key demographic driver of non-niche rental housing demand—will continue to shrink over the next five years at -0.4 percent per year, essentially mirroring the national average, while employment and the **Number of Households** are expected to grow at anemic (for this part of the country) rates of just 0.9 and 0.8 percent per year respectively.

Demand for rental housing will receive a push from Miami's continuing homebuyer affordability problem, which is expected to worsen substantially as house price appreciation continues to outpace the national average at 3.4 percent per year while median household income growing at 2.7 percent per year falls short of the national average. But Miami's rental housing market 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. As an example, Miami's current average Class A **Effective Rent per Unit** of $2,859, easily the highest among markets in Middleburg's part of the country, is 5 percent higher than in neighboring Fort Lauderdale and 2 percent higher than in Palm Beach, but Miami's median household income is 5 percent lower than in Fort Lauderdale and 14 percent lower than in Palm Beach.

Young Adult Population (000s)



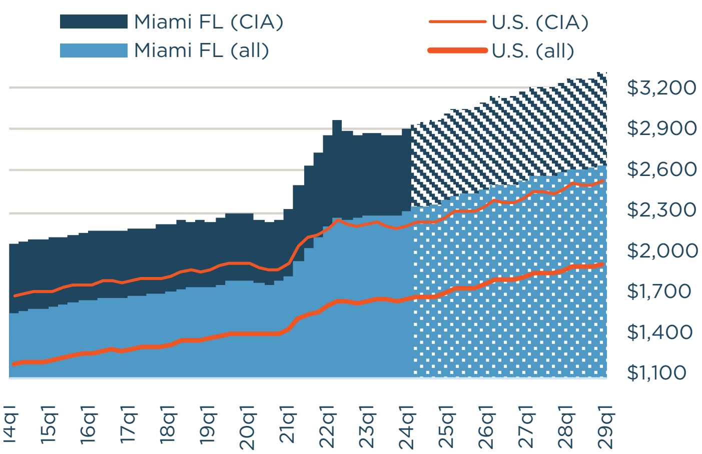
Number of Households (000s)



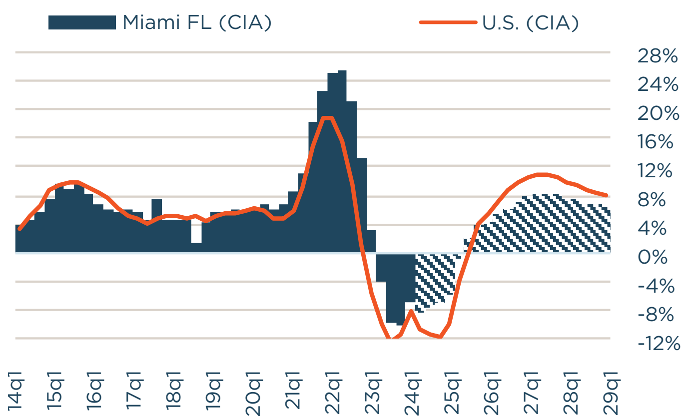
CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
47,532	14,636	$421,091	0
↑ 2.6%	↓ 2.4%	↑ 0.8%	no change

12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
7.8%	$70,240	4.8%	-9 bps
↓ 2.4%	↓ 0.3%	↓ 0.5%	below US avg

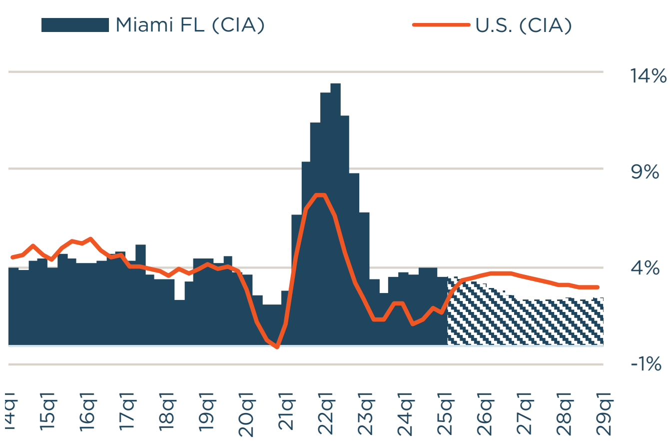
Effective Rent per Unit



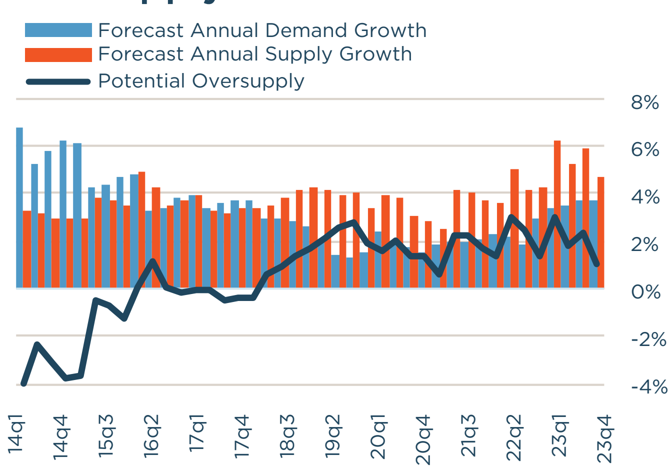
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



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

San Antonio, TX

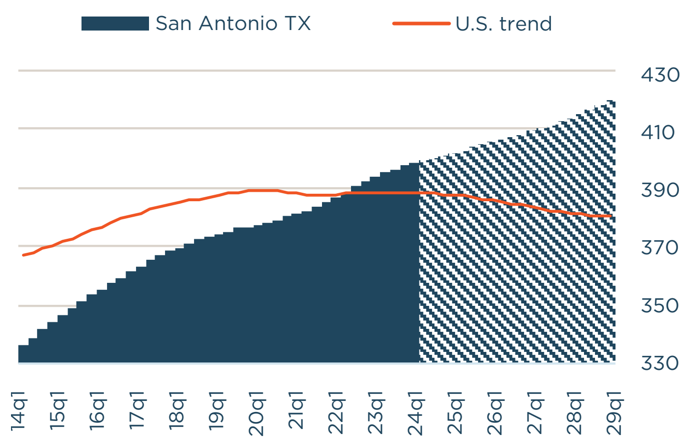
San Antonio has become an interesting market, though perhaps more for acquisition than for development. Only 80 miles from Austin, it is already seeing in-migration from its increasingly unaffordable neighbor, so it is no surprise that its northeastern suburban areas should be especially appealing.

MIDDLEBURG'S RANK #14 AMONG 15 LARGEST METROS

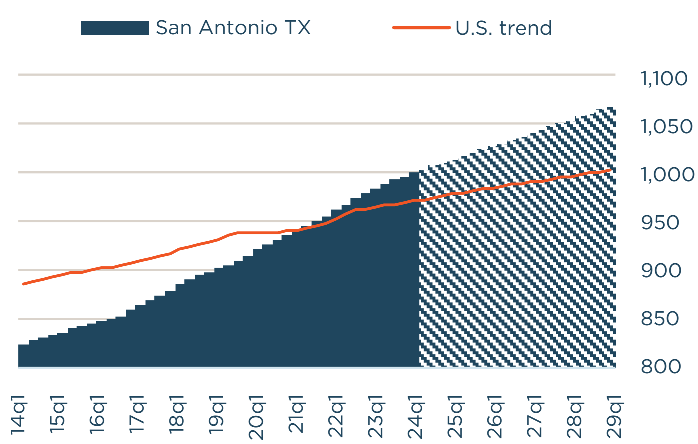
San Antonio's economic base, long dominated by nearby military installations, has diversified impressively in financial services (USAA, JP Morgan Chase), digital technologies (Rackspace Technology, TaskUs), medical care, grocery retailing, and other industries. Oxford Economics forecasts that, over the next five years, San Antonio will experience relatively strong growth in all three key demographic drivers of rental housing demand: **Young Adult Population** (up 20 thousand at 1.0 percent per year), **Number of Households** (up 68 thousand at 1.3 percent per year), and total employment (up 67 thousand at 1.1 percent per year.

Homebuyer affordability problems are likely to provide a boost to rental housing demand only relative to the national average, as house price appreciation averages 2.7 percent per year while median household income grows by 2.9 percent per year. The main drawback of San Antonio as a development market is prevailing rents, with **Effective Rent per Unit** for Class A properties not only lower than for every other metro area in Middleburg's region at just $1,428 but also forecast to increase more sluggishly than most of them at just 2.1 percent per year. Middleburg's internal forecasts put supply growth at a moderate pace of 2.6 percent per year over the next three years, but we expect demand growth to be slightly weaker at just 2.3 percent per year.

Young Adult Population (000s)

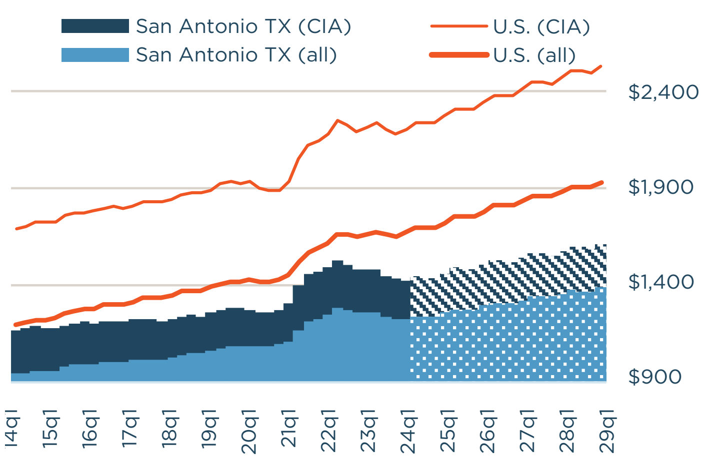


Number of Households (000s)

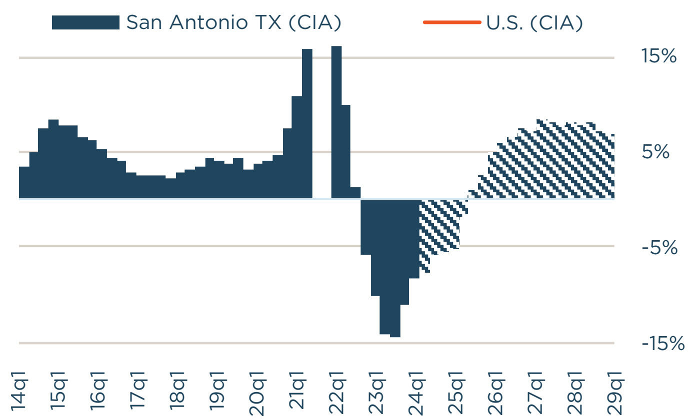


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
65,193	3,484	$171,047	961
↑ 2.0%	↓ 27%	↓ 0.8%	from zero
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
2.7%	$72,880	8.8%	25 bps
↑ 0.1%	↓ 0.1%	↑ 0.2%	above US avg

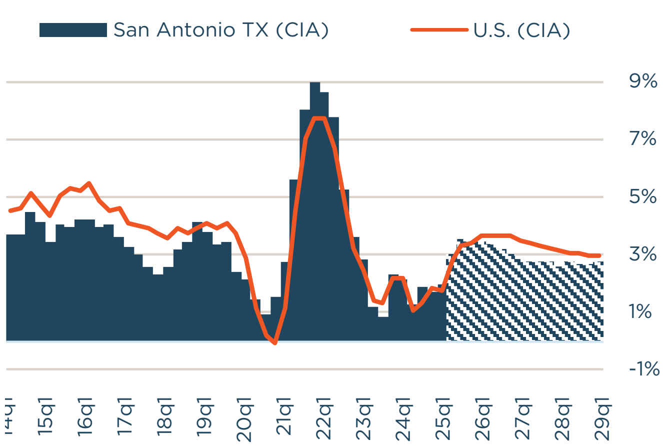
Effective Rent per Unit



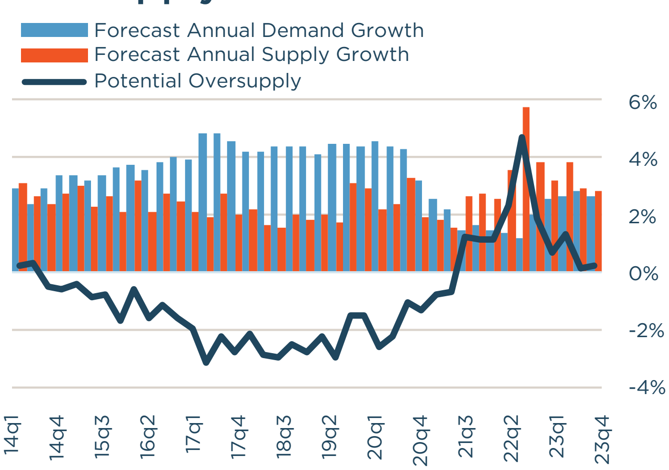
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



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

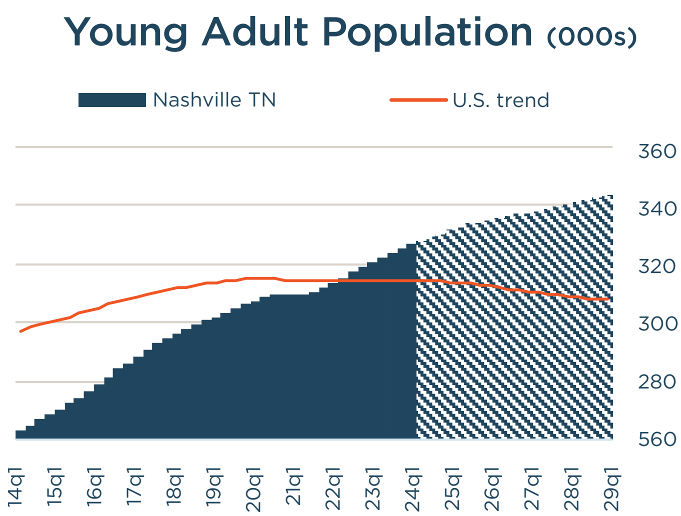
Nashville, TN

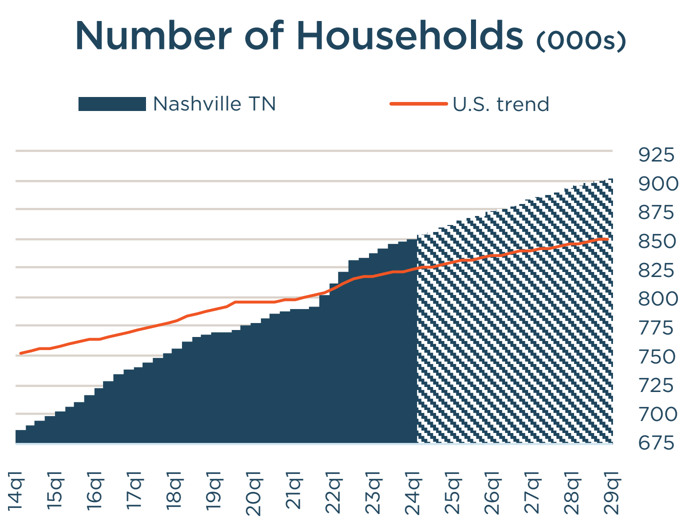
Nashville has overtaken its cousin Austin: while weaknesses are difficult to find in both markets—and while wide recognition of their strengths has created oversupply concerns in both—Middleburg now rates Nashville very slightly higher than Austin. The eastern-ish arc of suburban counties from Sumner to Williamson is especially appealing.

MIDDLEBURG'S RANK #2 AMONG 15 LARGEST METROS

Nashville has clearly benefited from its appeal to young professionals and their corporate employers, but the pace of improvement in its housing demand drivers has slowed. Oxford Economics expects that growth in Nashville's **Young Adult Population** will trail only Austin, Charlotte, and Raleigh at 1.0 percent per year (17 thousand), but growth in the **Number of Households** (1.2 percent per year or 52 thousand) and total employment (1.0 percent per year or 61 thousand), while continuing to exceed the national averages comfortably (0.6 and 0.8 respectively), have fallen into the decidedly middle-of-the-road range by the standards of large cities in Middleburg's part of the country. More ominously, wide recognition over the past few years of its strong demand drivers has delivered an even stronger supply response to the Nashville rental housing market.

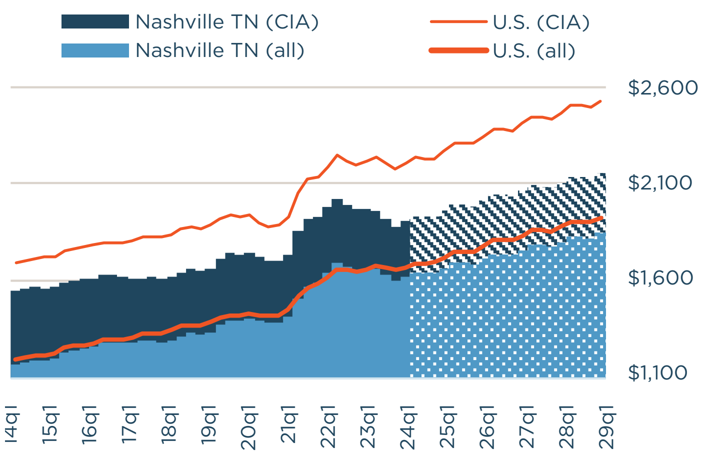
Middleburg's own analysis suggests that rental housing inventory will grow by 5.6 percent per year over the next three years (exceeding every other primary market), easily outpacing demand growth of 2.5, creating an oversupply concern second only to Austin. In keeping with this forecast, CoStar predicts that growth in **Effective Rent per Unit** and **Net Operating Income** will trail most other metro areas in Middleburg's arc at just 2.5 percent and 2.9 percent per year respectively (compared with national averages of 2.7 and 3.0 percent) while growth in market sale price per unit is forecast to be middle-of-the-road at 4.1 percent per year, very slightly trailing the national average of 4.2 percent.



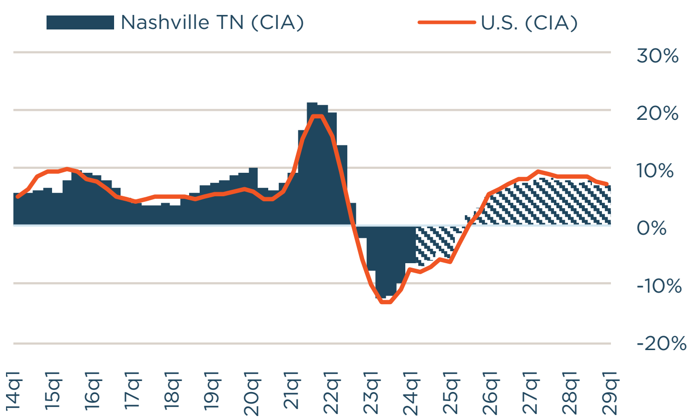


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
53,487	11,332	$304,521	312
↑ 5.4%	↓ 15%	↑ 0.6%	↓ 79%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
2.4%	$84,680	8.6%	+19 bps
↓ 1.1%	↑ 0.3%	↑ 0.6%	above US avg

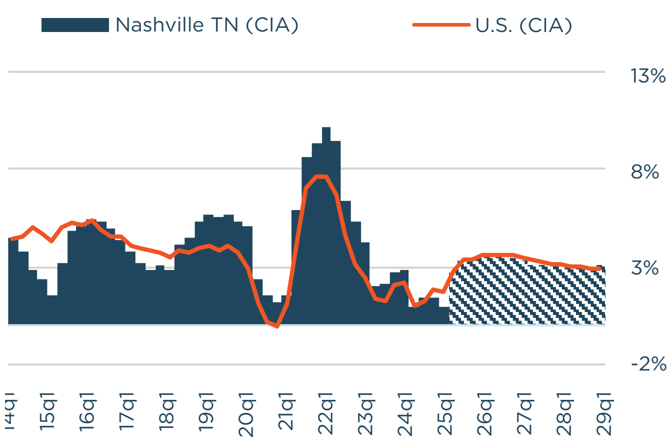
Effective Rent per Unit



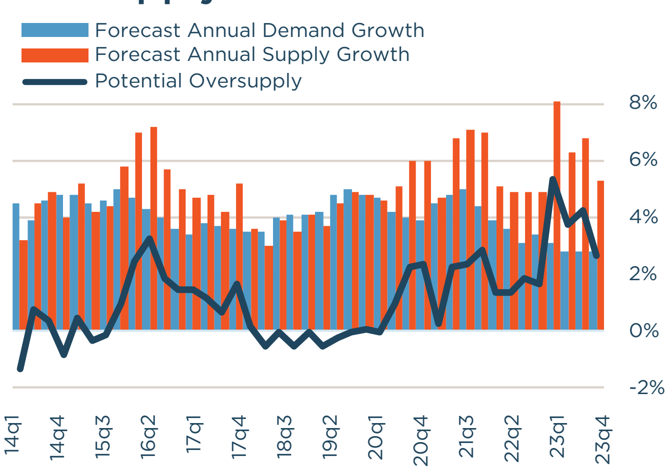
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



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

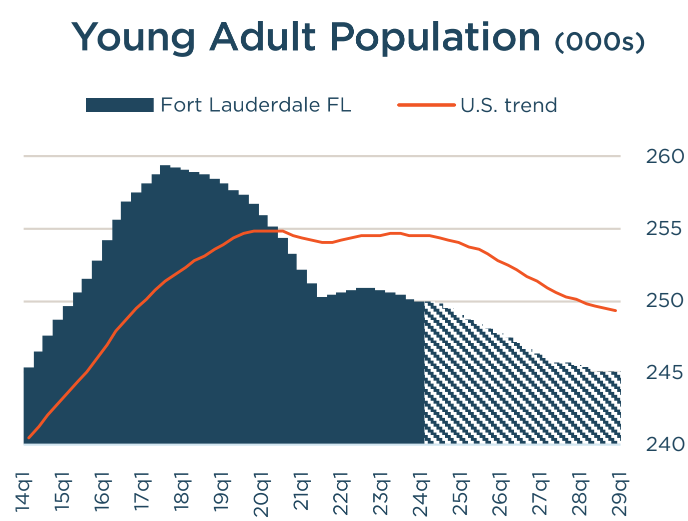
Fort Lauderdale, FL

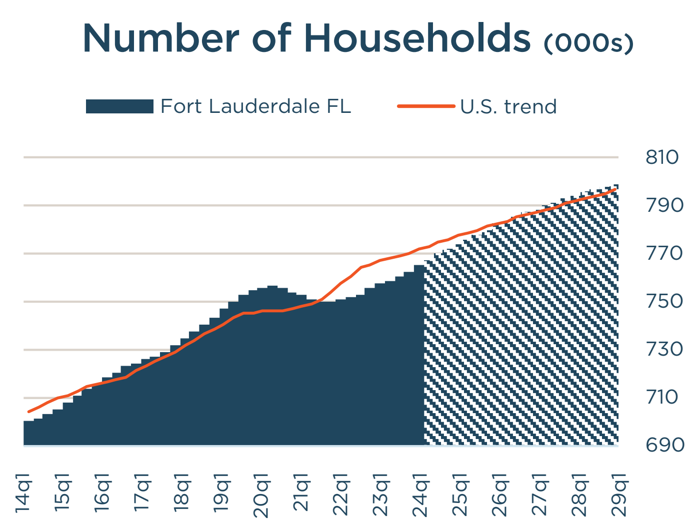
The Fort Lauderdale market shares much in common with its near neighbors Miami and Palm Beach—but those shared traits are the ones most likely to make them appeal more to other developers and investors than to Middleburg.

MIDDLEBURG'S RANK #11 AMONG 15 LARGEST METROS

The most appealing aspect of the Fort Lauderdale market is the market rents that it can support: the metro area's $2,721 average **Effective Rent per Class A Unit** trails only Miami's $2,859 and Palm Beach's $2,797. The transaction market fully reflects that strength, with Class A apartments selling at an average price of $378,123 per unit. Those numbers are not necessarily enough to make Fort Lauderdale especially appealing to Middleburg, though, 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 anemic by the standards of primary metro areas in our part of the country.

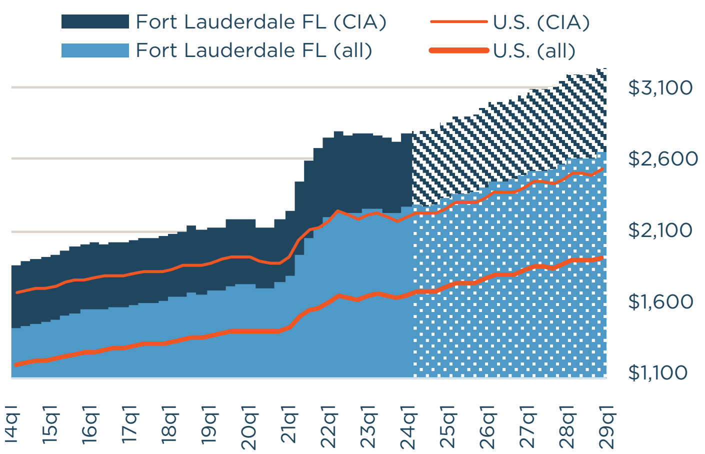
For example, Oxford Economics forecasts that the **Young Adult Population** will contract by 5 thousand over the next five years at -0.4 percent per year, identical to the national average, while total employment will grow by just 41 thousand and the **Number of Households** by just 35 thousand at identical rates of 0.9 percent per year. Middleburg forecasts the average growth rate of demand (2.2 percent per year) to fall short of the average growth rate of supply (2.9 percent per year). Still, Costar's forecasts for the expected growth rates of **Effective Rent per Unit** (3.2 percent per year), **Net Operating Income** (3.5 percent per year), and market sale price per unit (4.7 percent per year) are comfortably above average for our part of the country, making Fort Lauderdale impossible to ignore.



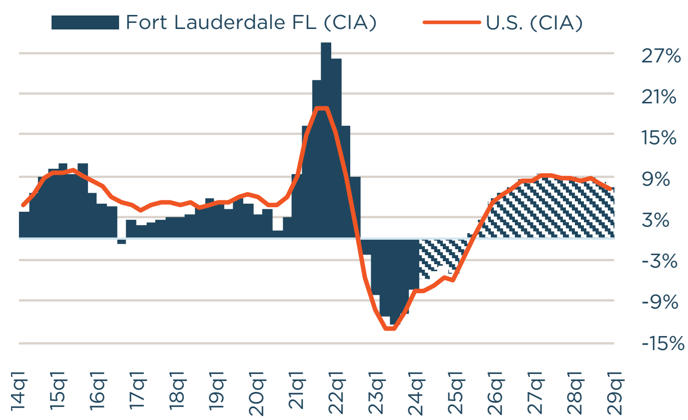


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	APARTMENT UNITS SOLD
33,321 ↑ 1.2%	5,150 ↓ 7.0%	$378,123 ↑ 0.6%	519 ↓ 59%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
6.3% ↓ 1.2%	$74,160 ↑ 0.1%	5.8% ↓ 0.3%	4 bps above US avg

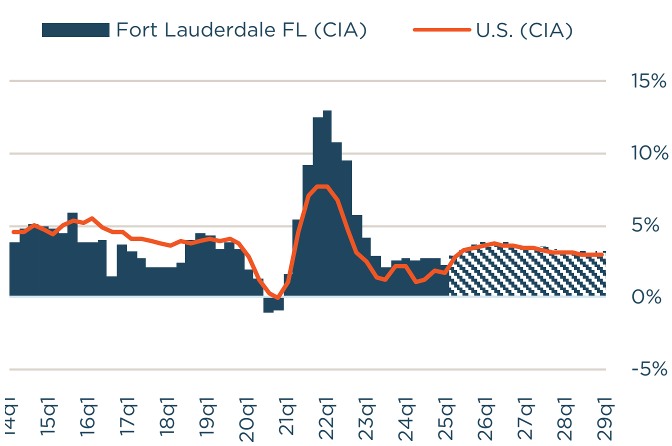
Effective Rent per Unit



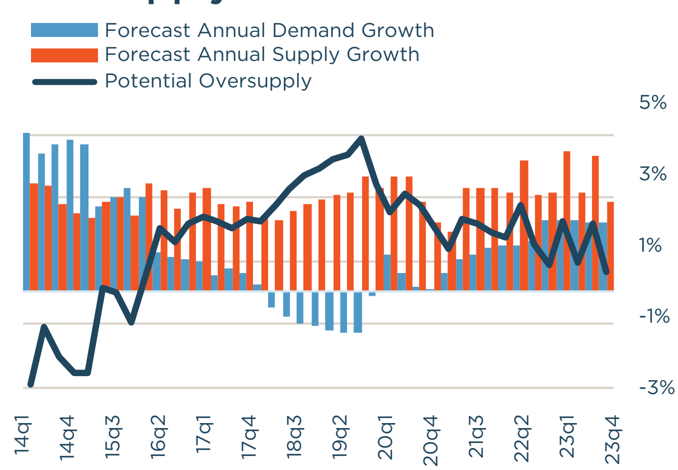
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



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

Jacksonville, FL

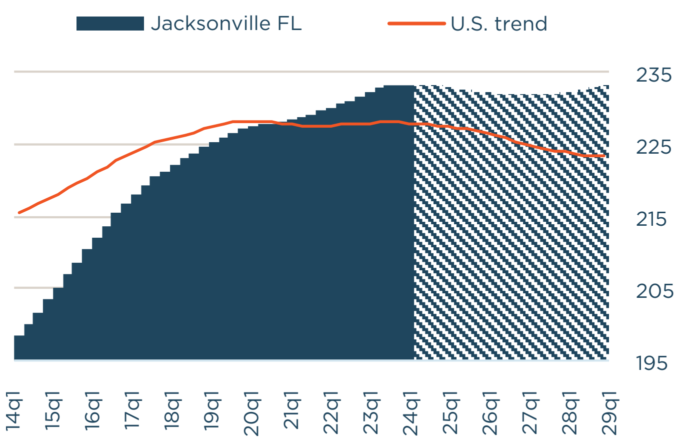
Jacksonville's economy is continuing to diversify beyond its former over-reliance on the cruise industry and other port activities, especially with growth in financial services. Current conditions make Duval County's coastal neighbors, Nassau and St. Johns, especially appealing.

MIDDLEBURG'S RANK #7 AMONG 15 LARGEST METROS

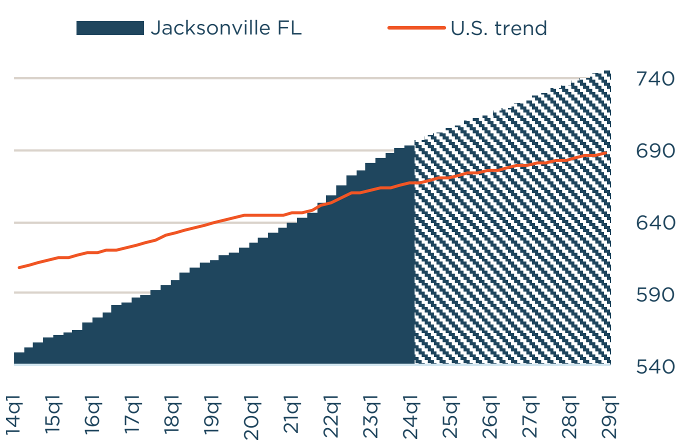
Oxford Economics forecasts that the **Number of Households** in Jacksonville will increase by 52 thousand over the next five years at 1.5 percent per year, comfortably above the national pace of 0.6 percent per year, while total employment will grow at 0.9 percent per year, resulting in 38 thousand additional jobs. The **Young Adult Population**, however, is expected only to remain stable, better than the national average of -0.4% per year but worse than most other large metro areas in Middleburg's arc. Homeownership affordability is unlikely to drive apartment demand as the house-price-to-income ratio is expected to ease slightly more in Jacksonville than in the nation at large (-0.7 percent vs -0.5 percent).

Middleburg's own analysis suggests that supply growth averaging 3.2 percent per year over the next three years has largely come into balance with demand growth forecast at 2.9 percent per year. Even more positively, CoStar expects that Jacksonville's rental housing fundamentals are likely to remain favorable with growth in **Effective Rent per Unit** averaging 2.7 percent per year, growth in **Net Operating Income** trailing only Palm Beach at 3.7 percent per year, and growth in market sale price per unit leading all other primary markets in Middleburg's arc at 5.1 percent per year.

Young Adult Population (000s)



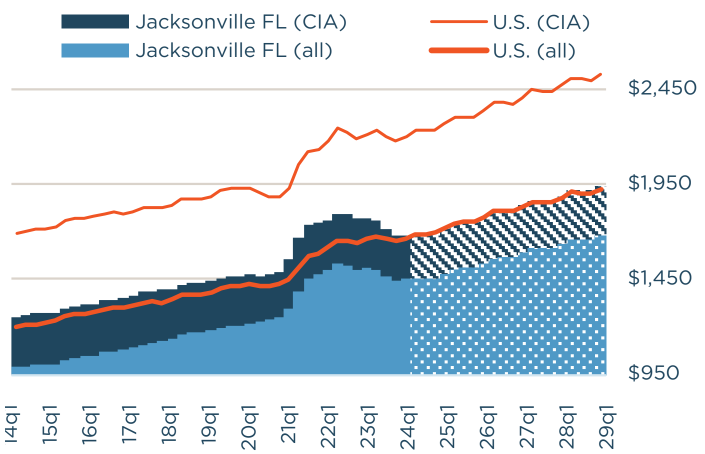
Number of Households (000s)



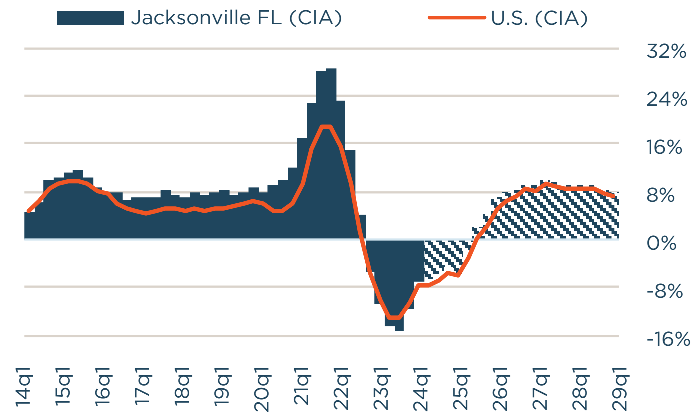
CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
22,756	3,281	$229,121	322
↑ 5.4%	↓ 26%	↑ 0.8%	↑ 11%

12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
0.9%	$80,920	7.9%	-5 bps
↓ 2.7%	no change	↑ 0.6%	below US avg

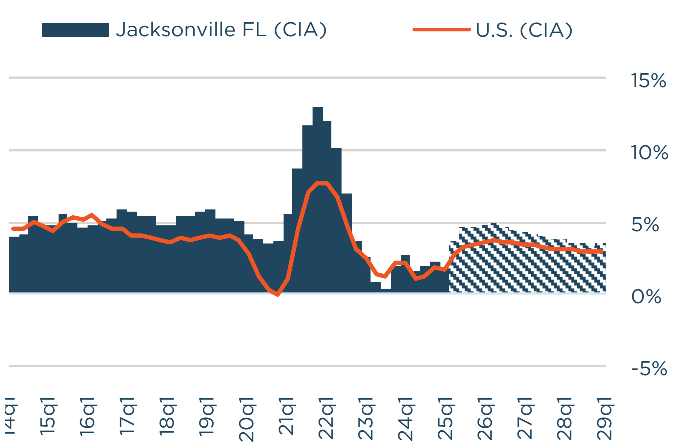
Effective Rent per Unit



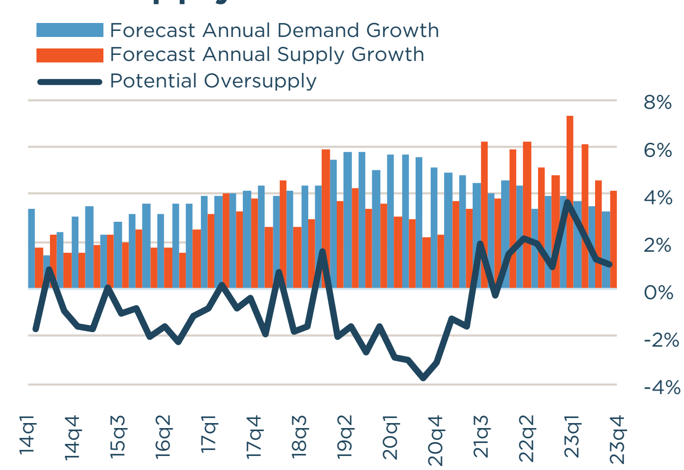
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



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

Palm Beach, FL

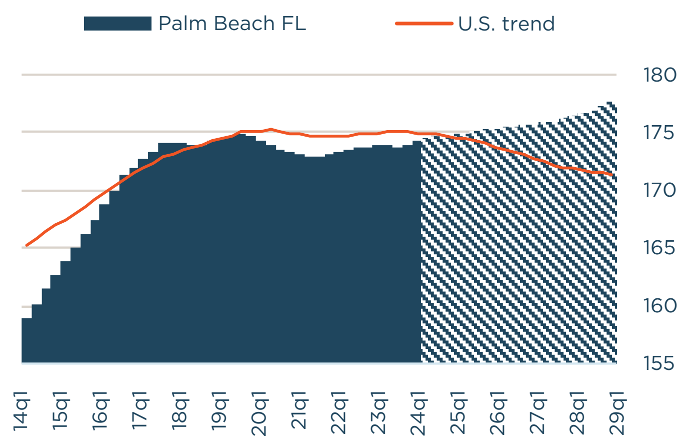
The rental housing market in Palm Beach—expensive and skewed toward wealthy retirees, like its near neighbors Miami and Fort Lauderdale, except with more promising demographic trends—will generally appeal to developers other than Middleburg but is absolutely worth continuing to surveil.

MIDDLEBURG'S RANK #1 AMONG 15 LARGEST METROS

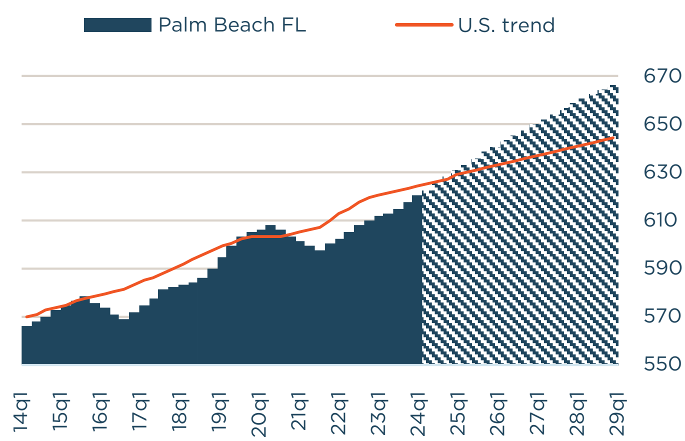
Chief among the signs of a niche housing market is effective market rent per Class A unit of $2,797 which is second only to Miami at $2,859 despite a median household income that is low by the standards of large metro areas in Middleburg's arc at just $81,480 (compared with $77,400 for the country as a whole). Nevertheless, the **Young Adult Population** is expected to grow over the next five years at 0.4 percent per year, which is certainly good news relative to the -0.4% expected for the nation as a whole, and Palm Beach is expected to see reasonable growth in both the **Number of Households** (1.5 percent per year, or 47 thousand) and total employment (1.0 percent per year, or 34 thousand).

Homeownership affordability problems should continue to provide a slight additional boost to rental housing demand, with anticipated growth in house prices keeping pace with the national average at 2.9 percent per year while median household income growth lags the national average at just 2.8 percent per year. Partly for this reason, CoStar expects growth in **Effective Rent per Unit** and **Net Operating Income** to outpace every other metro in Middleburg's arc at 3.1 and 3.7 percent per year respectively while growth in market sale price per unit trails only Jacksonville at 5.0 percent per year. Middleburg's own analysis suggests that demand growth is likely to fall short of supply growth by only 0.1 percent per year over the next three years, a more favorable supply-demand balance than among all primary markets in our territory except Tampa, Orlando, and Atlanta.

Young Adult Population (000s)

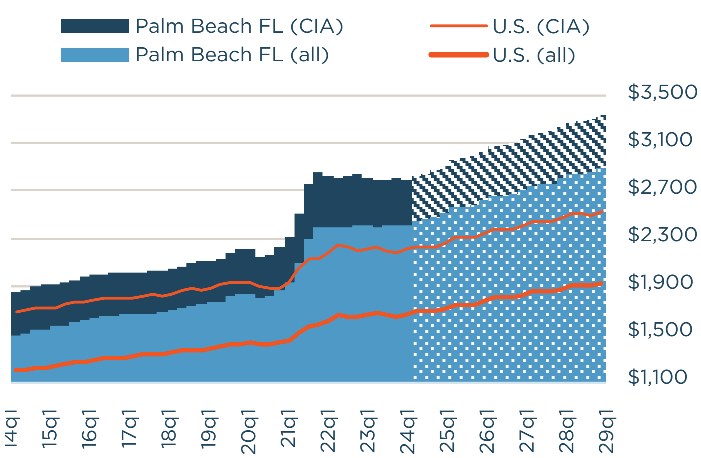


Number of Households (000s)

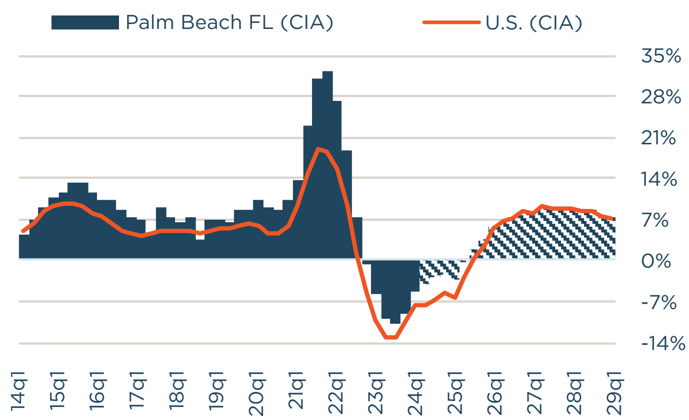


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	APARTMENT UNITS SOLD
26,317 ↑ 2.5%	4,401 ↑ 3.7%	$397,566 ↑ 0.5%	441 ↓ 5.8%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
8.0% ↓ 0.8%	$81,120 ↓ 0.4%	5.9% no change	-55 bps below US avg

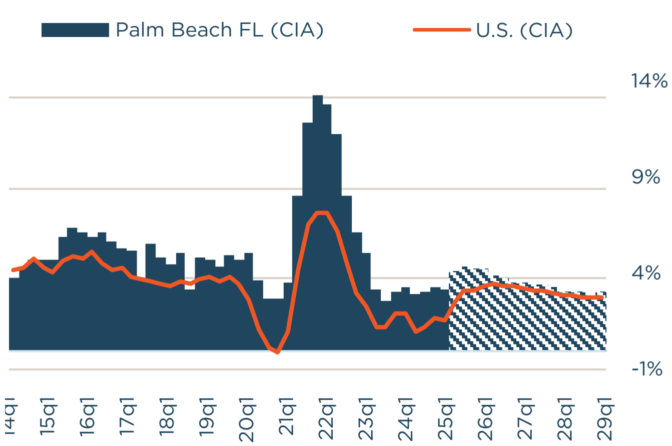
Effective Rent per Unit



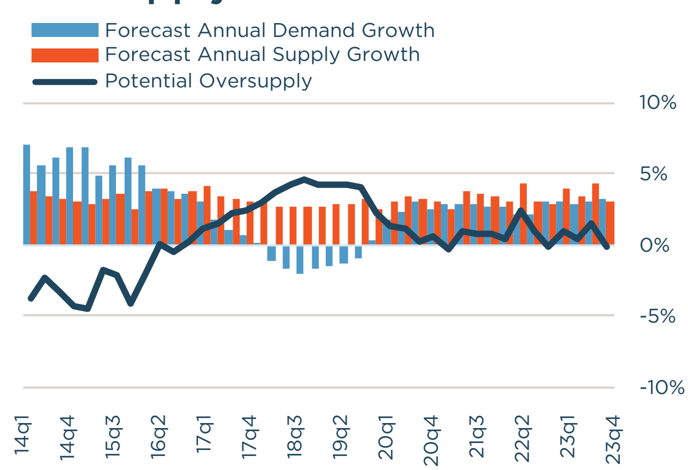
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



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

Raleigh, NC

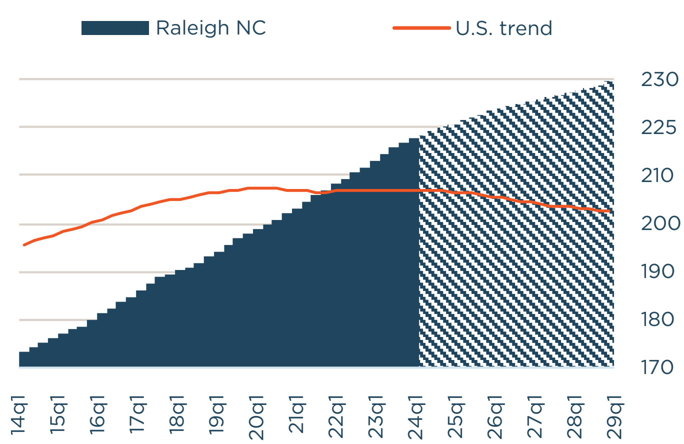
In terms of its attractiveness as a rental housing market, Raleigh can perhaps best be described as a somewhat smaller and much more affordable version of Austin or Nashville. As in those markets—but not quite as severely—oversupply concerns have arisen in Raleigh.

MIDDLEBURG'S RANK #6 AMONG 15 LARGEST METROS

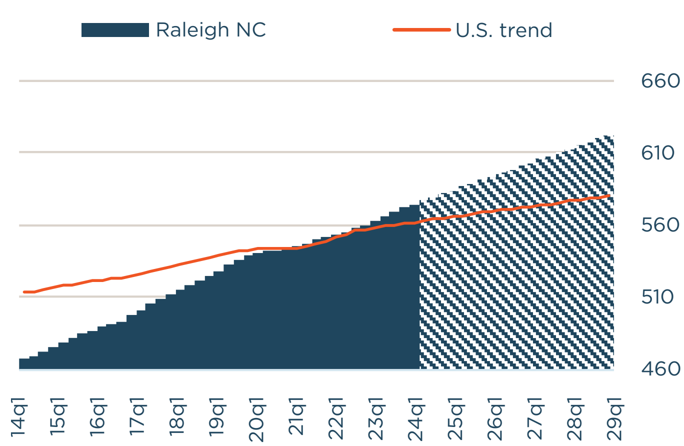
Raleigh has a diverse economic base and an uncommonly high-education, high-income population—a characteristic that it is likely to retain given its reputation as "the low-cost tech hub" and decisions by a large number of tech and life-sciences companies such as IBM, GlaxoSmithKline, and SAS to expand 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 1.1 percent per year (12 thousand), its **Number of Households** by 1.6 percent per year (48 thousand), and its total employment by 1.2 percent per year (46 thousand).

The biggest concern in Raleigh—as in Austin, Nashville, and Charlotte—is a supply-demand imbalance: Middleburg's analysis indicates that rental housing inventory will grow by 5.1 percent per year over the next three years—a pace trailing only those in Nashville and Austin—while demand growth will be decidedly more moderate at just 2.4 percent per year. This fits with CoStar's forecasts for rental housing fundamentals: for example, CoStar expects growth in **Effective Rent per Unit**, **Net Operating Income**, and market sale price per unit to be below average for large metro areas in Middleburg's arc at 2.0 percent per year, 2.9 percent per year, and 4.0 percent per year respectively.

Young Adult Population (000s)

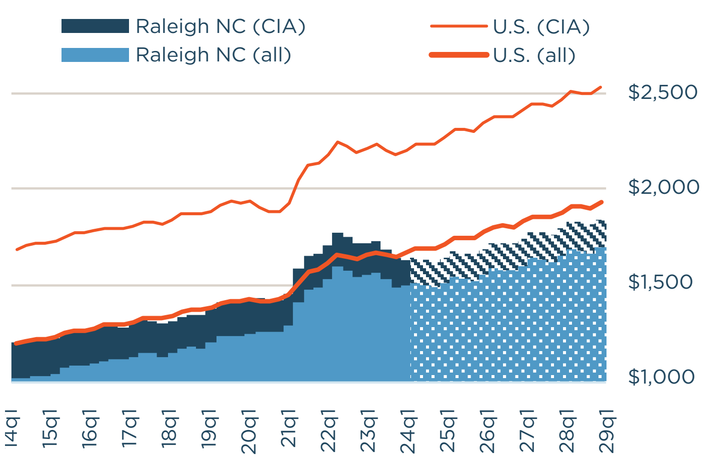


Number of Households (000s)

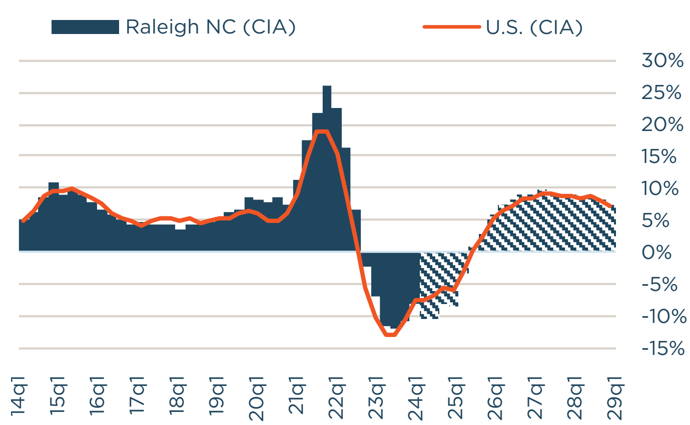


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	APARTMENT UNITS SOLD
33,190	5,085	$270,549	1,274
↑ 2.1%	↓ 12%	↓ 0.1%	↑ 107%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
4.0%	$95,560	8.7%	-21 bps
↓ 1.4%	↑ 0.3%	↑ 0.3%	below US avg

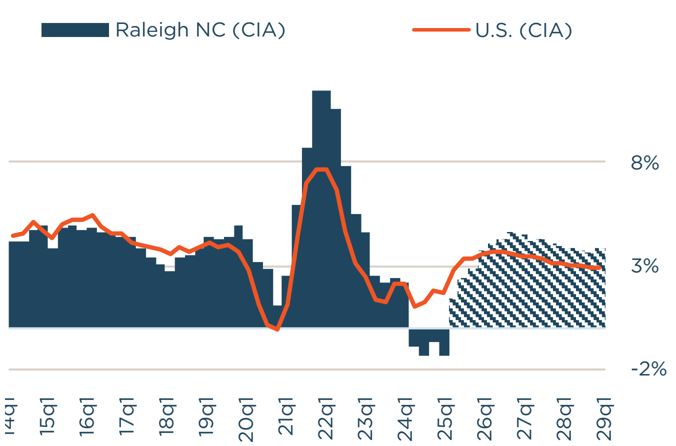
Effective Rent per Unit



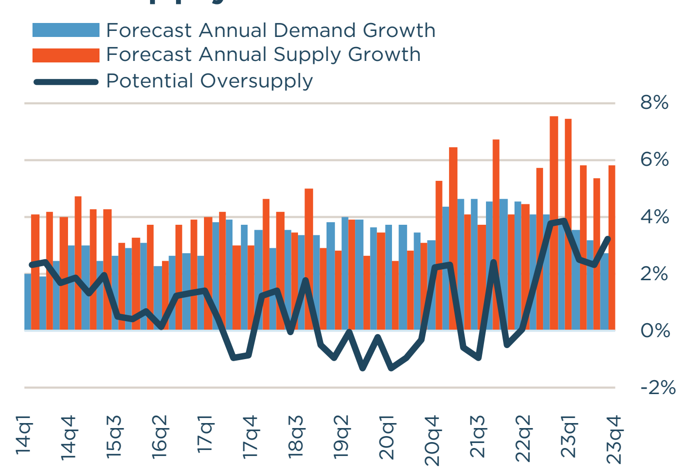
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



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

Richmond, VA

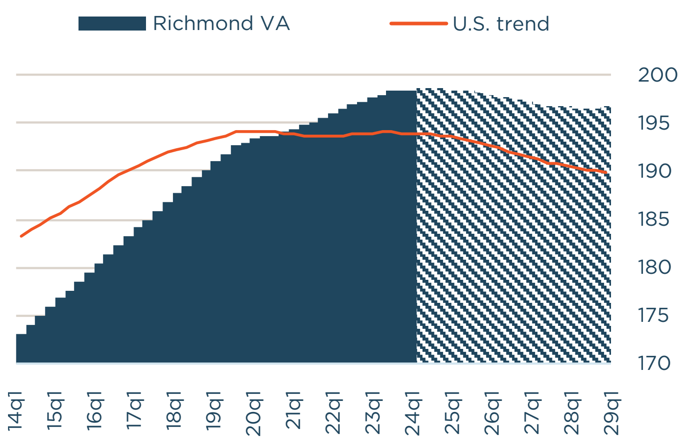
Not only has Richmond transformed itself into a diversified regional hub with particular strength in financial services, but it has also transformed its rental housing market into a collection of genuinely strong fundamentals.

MIDDLEBURG'S RANK #13 AMONG 15 LARGEST METROS

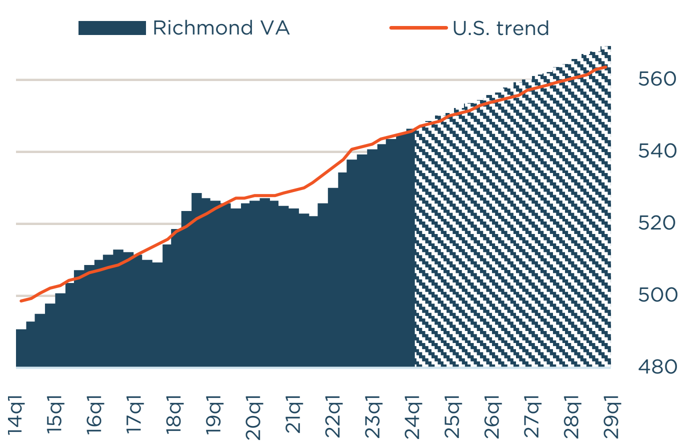
The current strength in Richmond's market fundamentals does not come from the classic demand drivers. Oxford Economics, for example, forecasts that the **Young Adult Population** will shrink over the next five years at a pace of -0.2 percent per year—better than the national average of -0.4 percent per year, but worse than all other primary markets in Middleburg's territory except Miami and Fort Lauderdale. Growth in total employment and **Number of Households** are expected to be positive but trail all other large metros in Middleburg's arc at 0.7 and 0.8 percent per year, respectively. Moreover, homeownership affordability is anticipated to ease over the next five years as house appreciation averages an anemic 1.5 percent per year while median household income grows at 3.0 percent per year, almost equal to the national average.

The moderate demand drivers have stimulated an equally moderate supply response. Middleburg's internal modeling suggests that supply growth in Richmond over the next three years will average 3.1 percent per year, about average for large cities in Middleburg's part of the country, while demand growth will fall slightly short at 2.0 percent per year. This relatively balanced supply-demand situation should be good news for rental housing fundamentals: CoStar forecasts growth in **Effective Rent per Unit** (3.1 percent per year), **Net Operating Income** (3.3 percent per year), and market sale price per unit (4.4 percent per year) to outpace almost all other primary markets in Middleburg's territory.

Young Adult Population (000s)



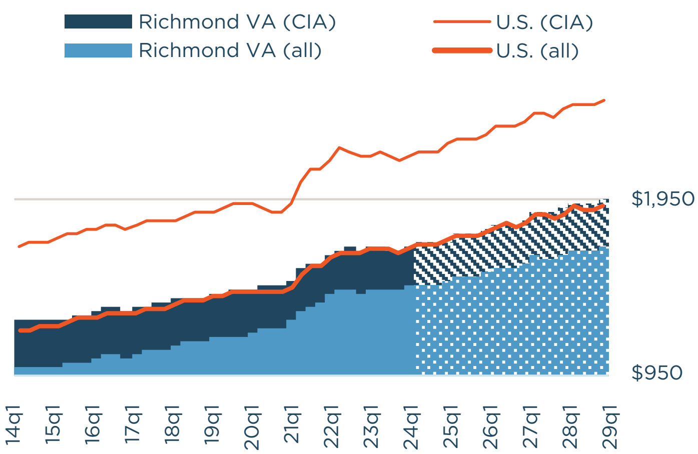
Number of Households (000s)



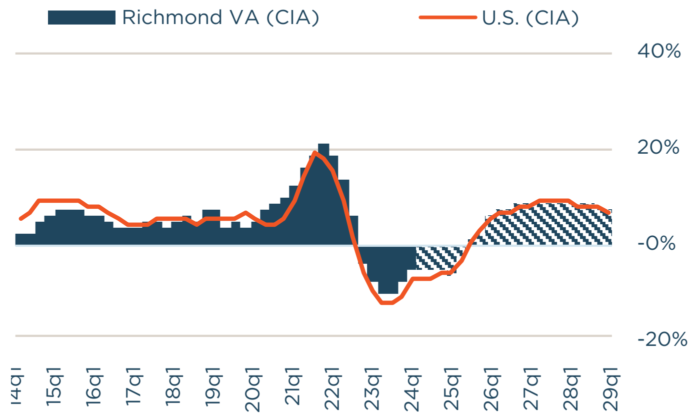
CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	APARTMENT UNITS SOLD
24,986	4,110	$247,046	139
no change	↑ 5.7%	↑ 0.5%	↓ 93%

12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
6.0%	$85,480	7.2%	+78 bps
↓ 2.9%	↑ 0.2%	↑ 1.8%	above US avg

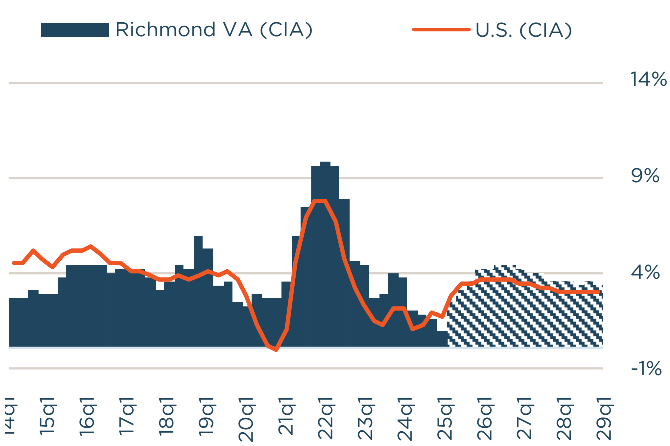
Effective Rent per Unit



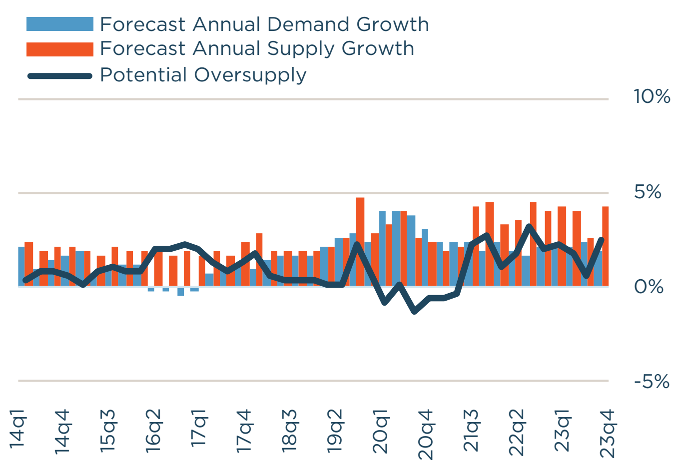
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



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

ALSO ON OUR RADAR

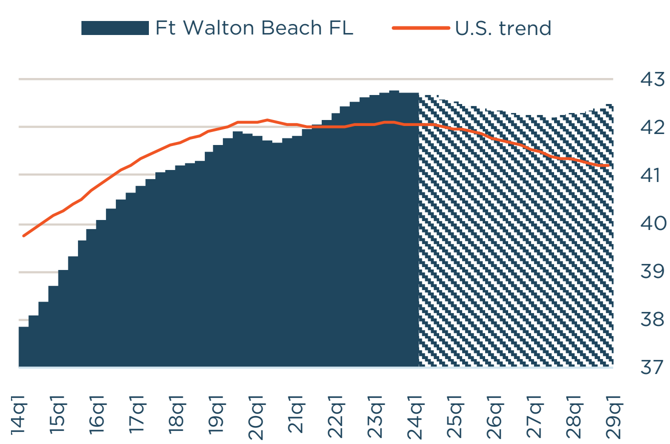
Ft Walton Beach, FL

The housing market at Fort Walton Beach is small with just 126 thousand households, but anticipated strong demand growth and absorption give it appeal similar to that of secondary Florida markets such as Fort Myers, Lakeland, and Sarasota.

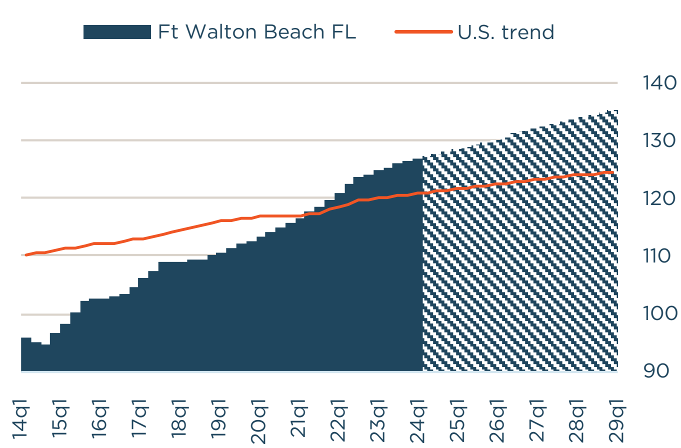
As with many other smaller markets in Florida, Ft Walton Beach is expected to see **Number of Households** (+9 thousand) and employment (+8 thousand) grow moderately at 1.3 and 1.1 percent per year, respectively, even as its **Young Adult Population** is expected to shrink slightly at -0.2 percent per year. That moderate growth in its employed population should boost its median household income by 2.9 percent per year, causing homeownership affordability to ease very slightly with house price appreciation forecast at just 2.8 percent per year.

The important story in Fort Walton Beach is demand growth: CoStar forecasts that absorption will increase by an astonishing 2.9% of the existing stock per year over the next five years, and Middleburg's internal forecast calls for growth in demand for rental housing to average an equally astonishing 11.8 percent per year based on the forecast growth in both employment and the number of households. Even with supply expected to grow at almost 10 percent per year, that gives Fort Walton Beach an extraordinarily favorable supply/demand balance, explaining CoStar's forecasts for relatively strong five-year growth in **Net Operating Income** (3.1 percent per year) and market sale price per unit (4.5 percent per year).

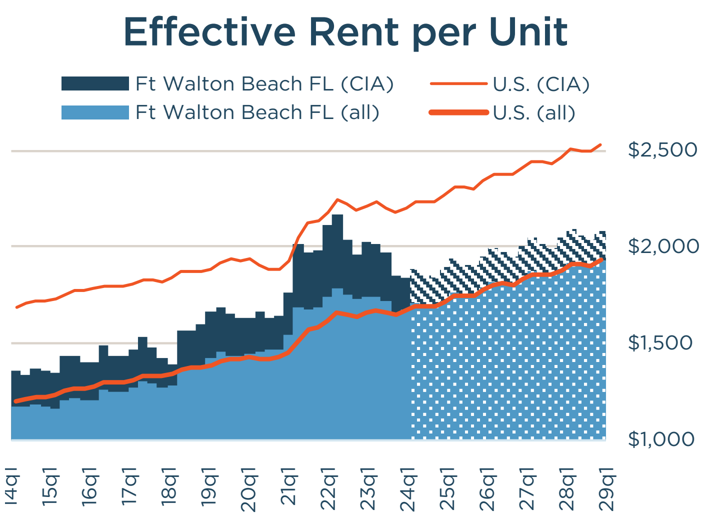
Young Adult Population (000s)

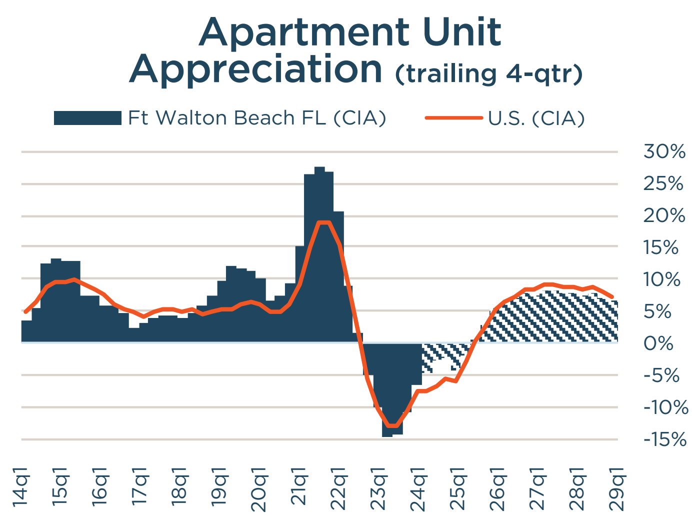


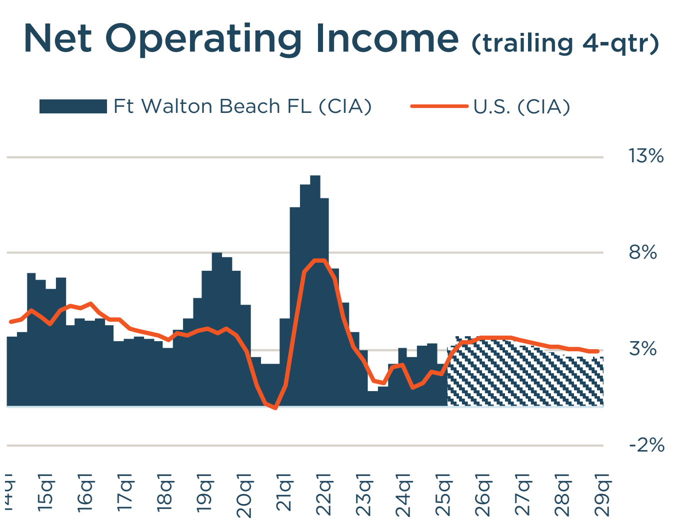
Number of Households (000s)

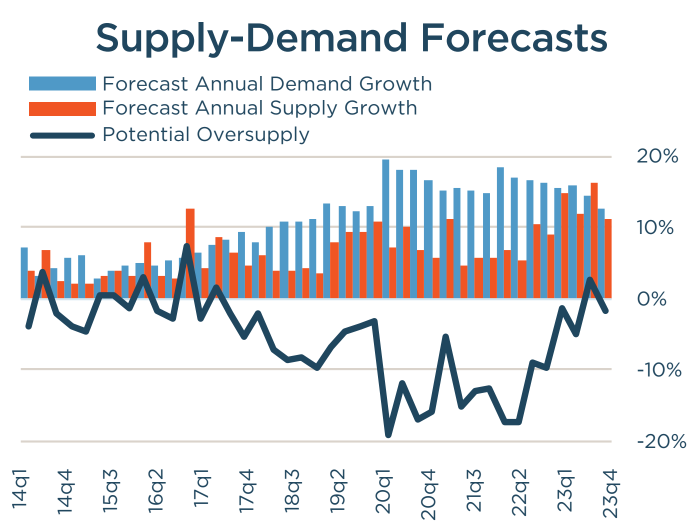


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT UNITS SOLD
11,540 ↑ 5.2%	1,170 ↓ 17%	$196,638 ↑ 3.6%	351 ↑ 13%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**STABILIZED APARTMENT VACANCY RATE**	**CLASS A APARTMENT CAP RATE GUIDANCE**
-0.5% ↓ 1.9%	$80,640 ↓ 0.3%	14.9% ↑ 2.6%	+70 bps above US avg









Representative large employers: *Okaloosa County School District, Fort Walton Beach Medical Center, Publix, Okaloosa County BCC, Lockheed Martin*

ALSO ON OUR RADAR

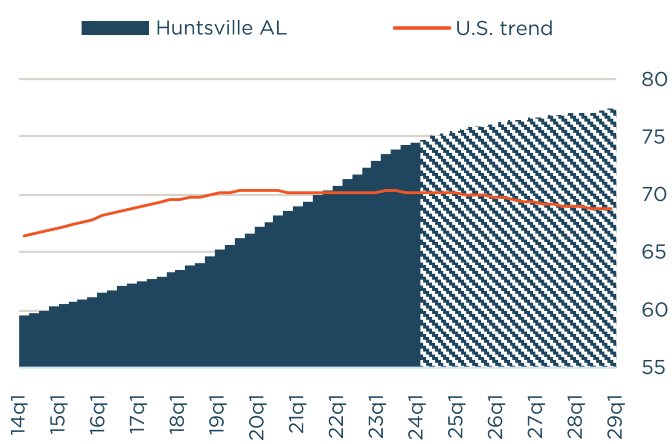
Huntsville, AL

Huntsville's very strong rental housing fundamentals have not gone unnoticed, resulting in a formidable supply response. The long-term power of the broadening of its economic base, however, give it strong appeal in spite of its recent construction spurt.

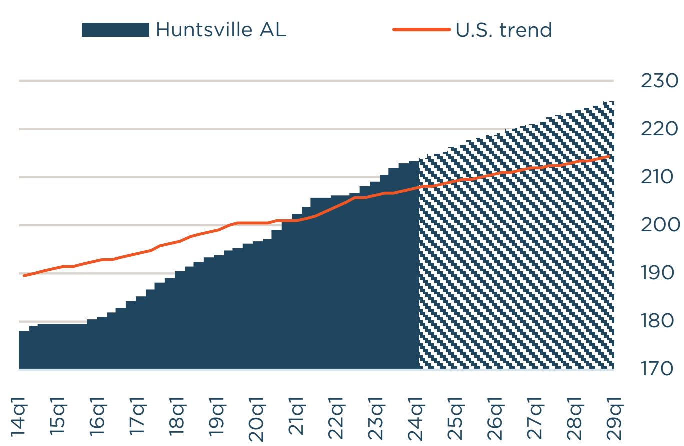
Median household income already compares very strongly to the national average at $84,880 in Huntsville compared with just $77,400 nationwide. Employment is expected to growth at 0.8 percent per year, slightly exceeding the national average—but that growth is expected to be dwarfed by growth the **Number of Households** (1.1 percent per year, nearly twice the national average) while the **Young Adult Population** is expected to grow at 0.8 percent per year compared with the national-level contraction at -0.4 percent per year.

That demand growth will be needed to keep up with supply, with CoStar pegging the number of units recently delivered or currently under construction at 42 percent of current inventory and Middleburg's internal forecasts now suggesting that supply growth over the next three years will outpace demand growth by 6.6 percent per year. Still, CoStar expects that demand growth will bring down the stabilized vacancy rate by -2.4 percentage points, generate 3.0 percent per year growth in **Net Operating Income**—equal to the national average—and cause average sale price per unit to grow by 4.0 percent per year.

Young Adult Population (000s)

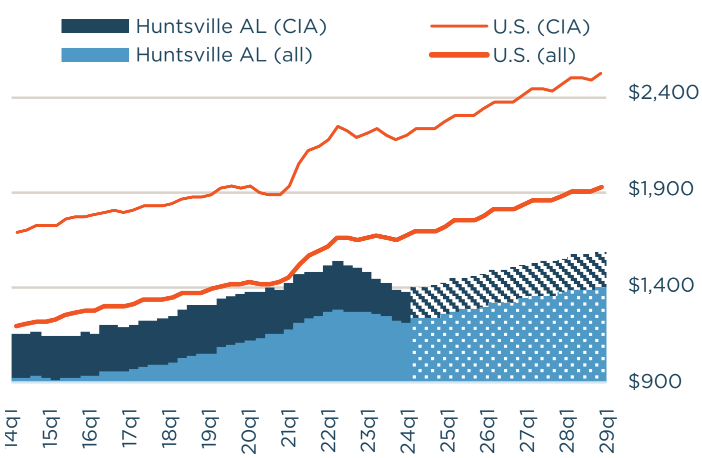


Number of Households (000s)

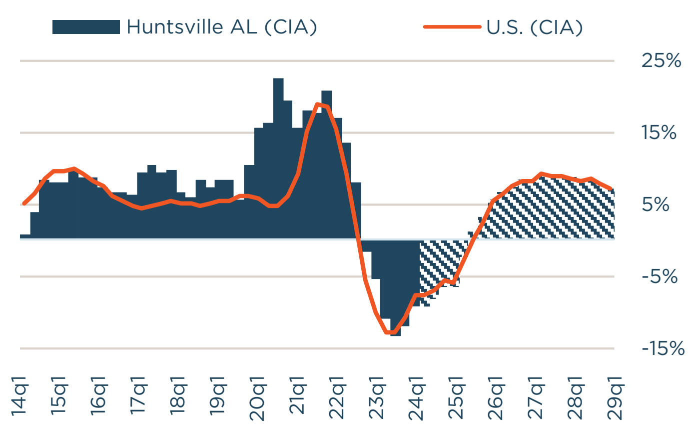


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT UNITS SOLD
42,606 ↑ 5.0%	4,903 ↓ 29%	$169,151 ↓ 0.3%	110 from zero
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**STABILIZED APARTMENT VACANCY RATE**	**CLASS A APARTMENT CAP RATE GUIDANCE**
2.3% ↓ 1.9%	$85,360 ↑ 0.6%	8.6% ↓ 0.4%	+14 bps above US avg

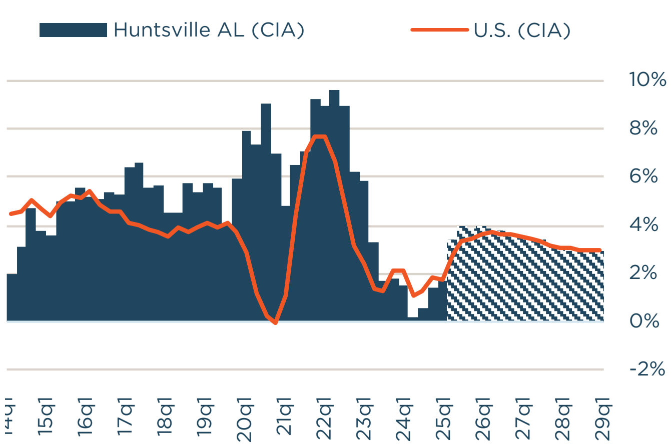
Effective Rent per Unit



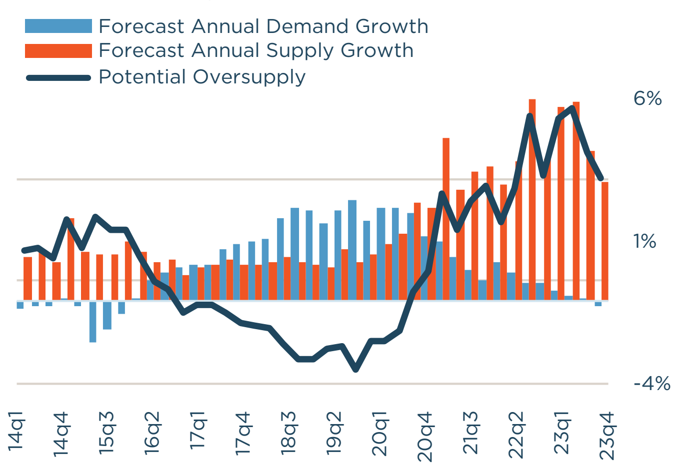
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



Representative large employers: U.S. Army/Redstone Arsenal, Huntsville Hospital, NASA/Marshall Space Flight Center, Huntsville City Schools, The Boeing Company

ALSO ON OUR RADAR

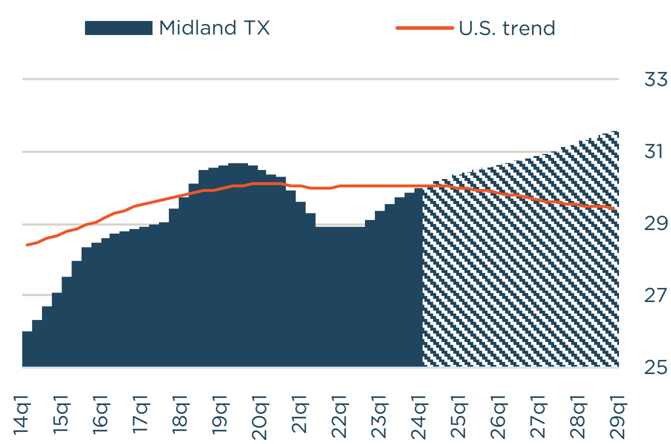
Midland, TX

No market as small as Midland and with as undiversified a economic base is likely to be appealing to Middleburg, but Midland's demographic drivers continue to make it worth keeping on the radar.

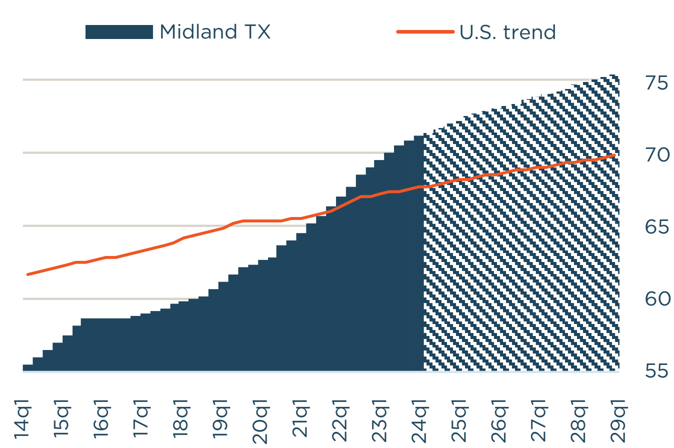
The economy of Midland is utterly dominated by oil and gas, a notoriously volatile industry with questionable long-term prospects. What continues to make Midland potentially interesting is its above-average growth in the key demographic drivers of rental housing demand. Oxford Economics forecasts that Midland's **Young Adult Population** will grow by 1.1 percent per year over the next five years, exceeding all of Middleburg's primary markets except Austin and Charlotts and keeping pace with Raleigh. Midland's employment and **Number of Households** are expected to grow at more moderate paces of 1.0 and 1.2 percent per year—both strongly outpacing their respective national averages.

Median household income is projected to grow very strongly at 4.6 percent per year, comfortably exceeding house price appreciation and making homeownership more affordable, yet CoStar expects **Effective Rent per Unit** to grow by 3.3 percent per year, outpacing every primary market in Middleburg's arc aside from Palm Beach, while **Net Operating Income** and average market sale price per unit increase at relatively strong rates of 3.2 and 4.3 percent per year respectively. With current average **Effective Rent per Unit** at just $1,615 and demand growth at 2.0 percent per year over the next three years expected to fall slightly short of supply growth at 2.4 percent per year, Midland is unlikely to attract serious interest from Middleburg.

Young Adult Population (000s)

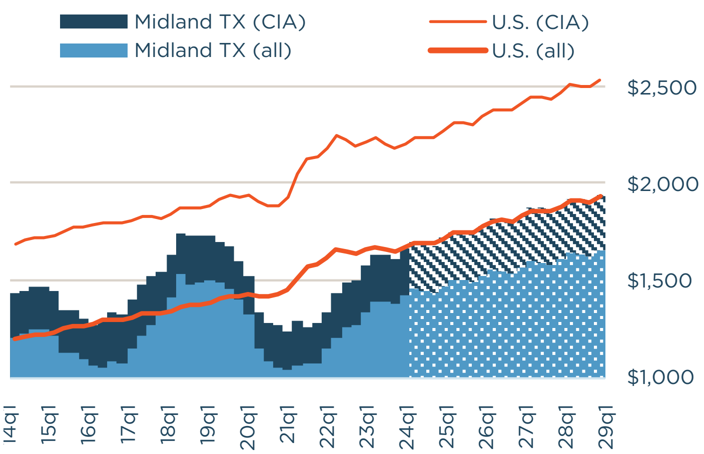


Number of Households (000s)

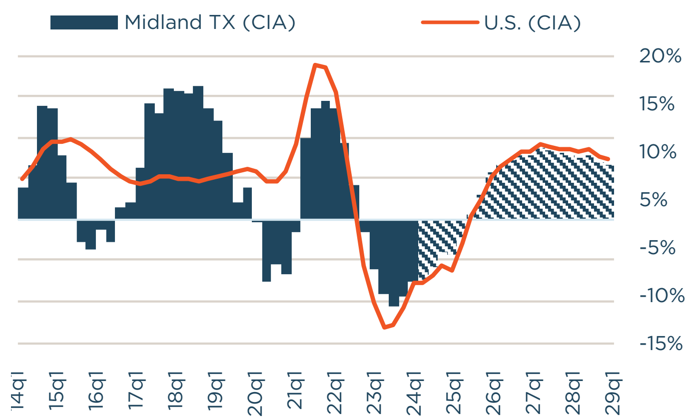


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT UNITS SOLD
16,930 no change	0 no change	$147,860 ↓ 0.2%	0 no change
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**STABILIZED APARTMENT VACANCY RATE**	**CLASS A APARTMENT CAP RATE GUIDANCE**
8.5% ↓ 1.7%	$85,120 ↑ 1.0%	6.7% ↓ 0.4%	+179 bps above US avg

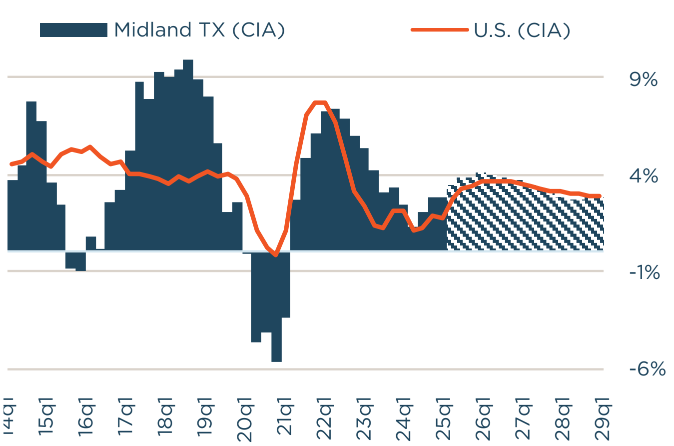
Effective Rent per Unit



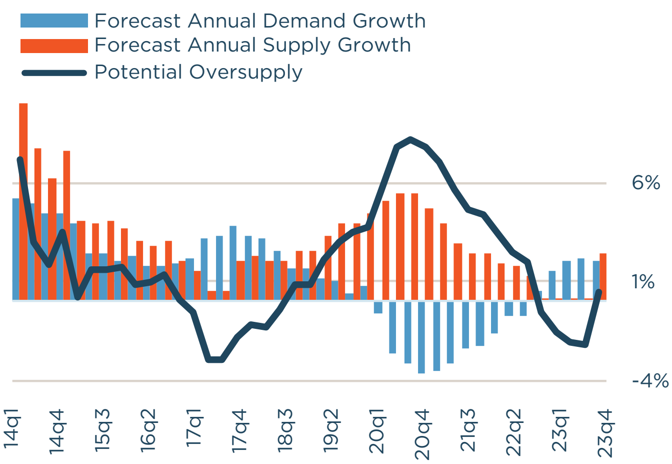
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



Representative large employers: Warren Equipment, West Texas Gas, BCCK Engineering, Dawson Geophysical, Midland Hospital

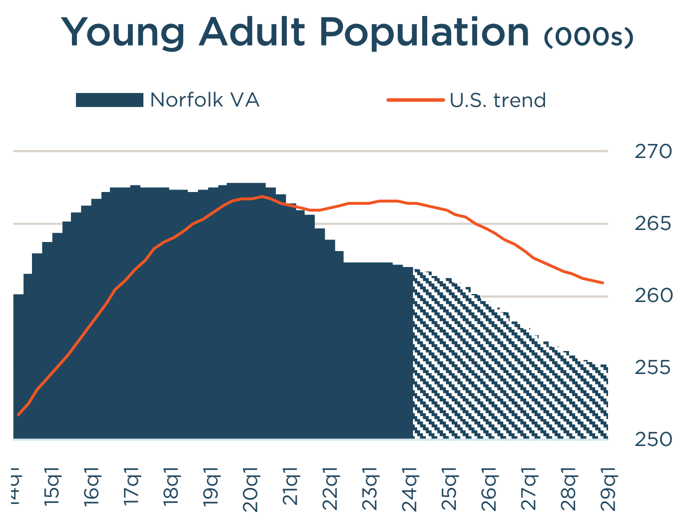
ALSO ON OUR RADAR

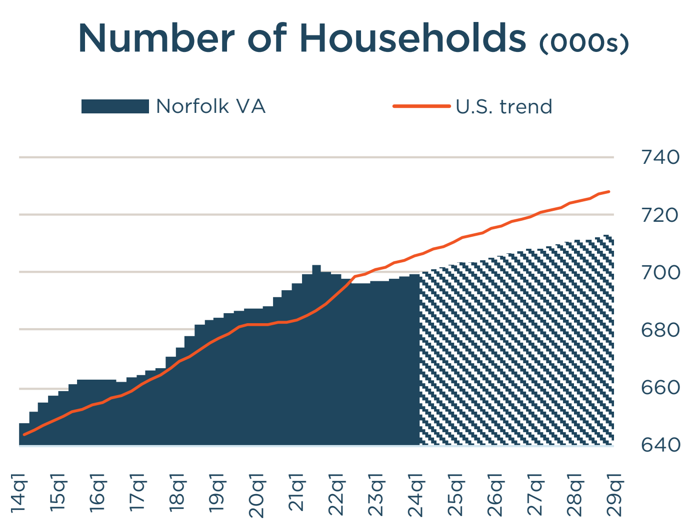
Norfolk, VA

The Hampton Roads area, encompassing Norfolk, Virginia Beach, Newport News, and other cities and counties, is known for its heavy U.S. government—and especially Navy—presence, but has a broader economic base that includes education, health care, tourism, and even finance. Rental housing demand drivers continue to be weak, but anticipated improvement in fundamentals make it deserve closer attention.

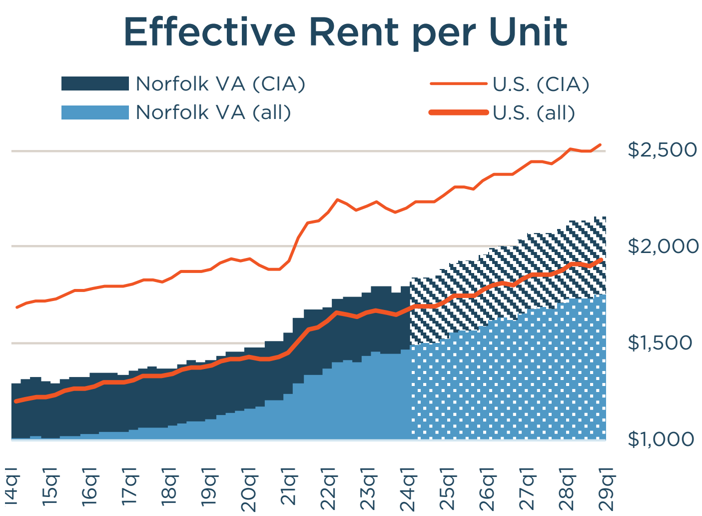
Growth in the key demographic drivers is expected to remain relatively weak by the standards of primary markets in Middleburg's arc. The Norfolk market's **Young Adult Population**, for example, is expected to contract slightly more sharply than the national average (-0.5 percent per year vs -0.4%), while growth in employment and the **Young Adult Population** are expected to lag the national averages at 0.5 and 0.4 percent per year respectively. Furthermore, homeownership affordability is expected to ease in the Norfolk market as median household income is expected to grow strongly (by 3.3 percent per year, from $79,320 to $93,200) while house prices appreciate slowly at just 1.9 percent per year.

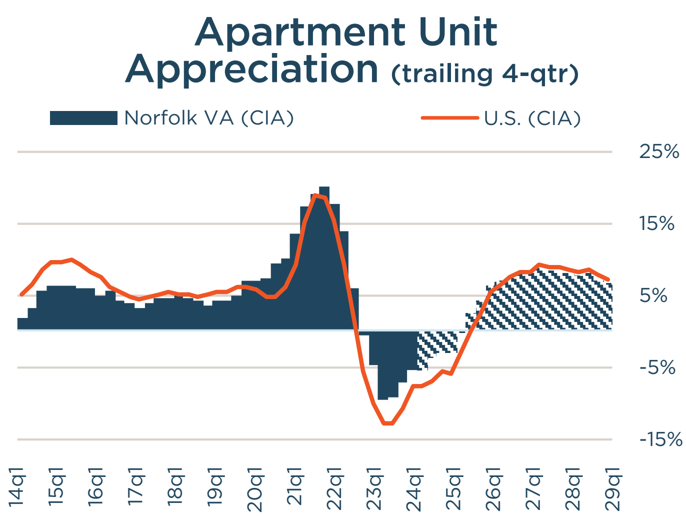
What makes the Norfolk metro area worth attention is contrarian: the fact that most developers and capital providers have failed to pay attention to it. As a result, CoStar forecasts growth in **Effective Rent per Unit** at an outsized 3.8 percent per year—exceeding not merely the national average (2.7 percent) but also every primary market in Middleburg's part of the country—along with equally outsized improvement in its stabilized vacancy rate from 6.1 to 4.0 percent. CoStar also expects growth in **Net Operating Income** (3.8 percent per year) to outpace all primary markets, and growth in market sale price per unit (4.8 percent per year) to outpace all primary markets except Jacksonville and Palm Beach.

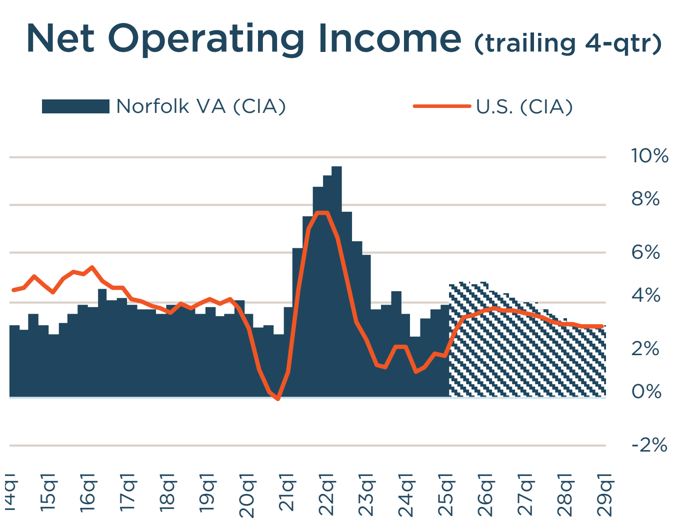


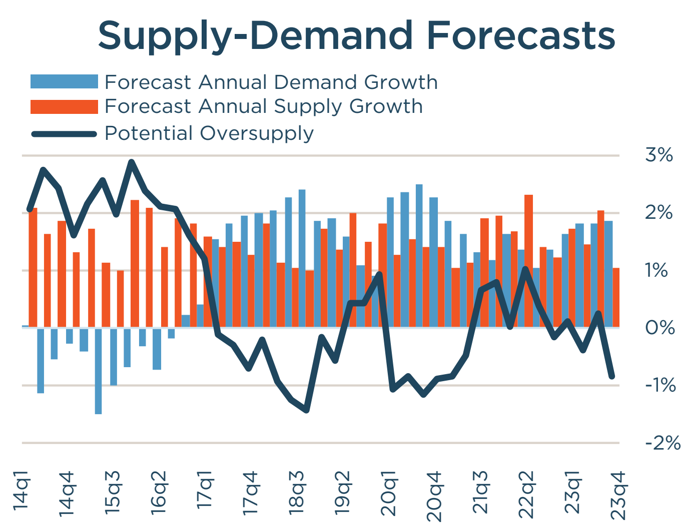


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	APARTMENT UNITS SOLD
20,707 ↑ 1.7%	1,705 ↑ 4.0%	$233,061 ↑ 0.1%	125 ↓ 59%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
5.9% ↓ 0.4%	$79,640 ↑ 0.4%	5.3% ↓ 0.9%	+23 bps above US avg









Representative large employers: *U.S. Department of Defense, Huntington-Ingalls Industries, Sentara Healthcare, Dominion Enterprises, Old Dominion University*

ALSO ON OUR RADAR

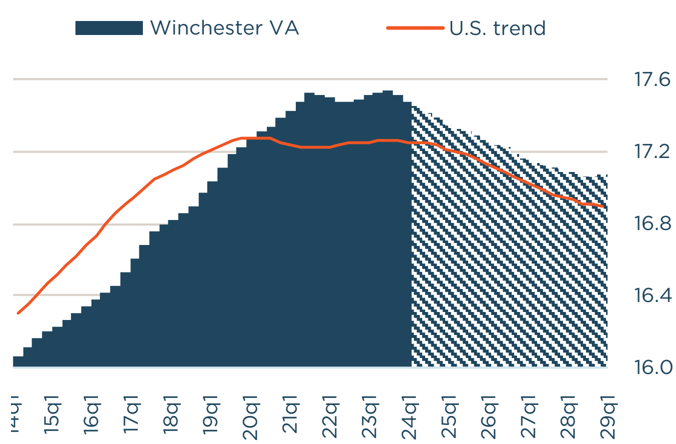
Winchester, VA

The increasingly realistic prospect of commuting from Winchester to the outer suburban employment centers of the Washington DC metro area make it essential to pay close attention to rental housing demand drivers and fundamentals in this small market.

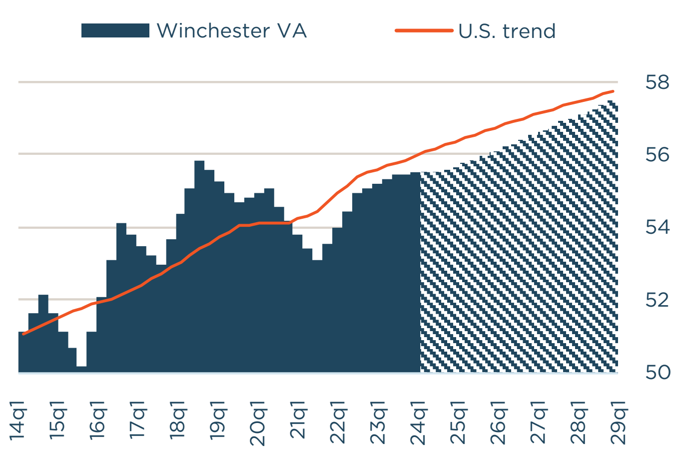
Oxford Economics forecasts that employment within the Winchester market will grow by 1.1 percent per year over the next five years, comfortably exceeding the national average, but growth in the **Number of Households** is expected only slightly to outpace the national average at 0.7 percent per year while Winchester's **Young Adult Population** is expected to contract by -0.5 percent per year, slightly worse than the national average. And a combination of strong growth in median household income (3.6 percent per year) with slow growth in house prices (1.5 percent per year) means that the house-price-to-income ratio is unlikely to boost demand for rental housing.

The commuting angle is the strongest factor driving growth in rental housing in the Winchester market. Middleburg's internal forecasting suggests that the number of rental housing units demanded will grow by more than 9 percent per year over the next three years, easily exceeding otherwise strong growth in supply averaging 5 percent per year over the same period. Separately, CoStar forecasts that **Net Operating Income** and average market sale price per unit will grow by 3.1 and 4.1 percent per year respectively over the next five years, both equal to the median for primary markets in Middleburg's part of the country.

Young Adult Population (000s)

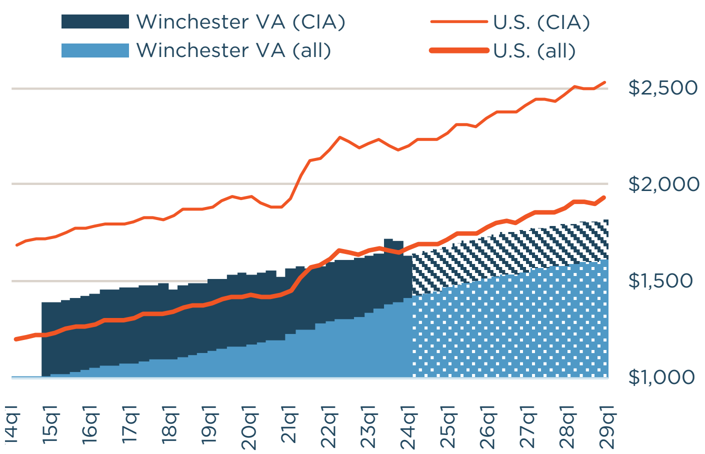


Number of Households (000s)

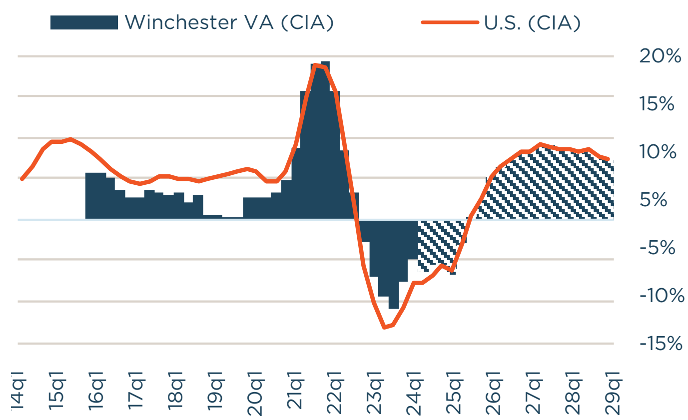


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT UNITS SOLD
4,708 no change	440 no change	$169,510 ↑ 0.9%	95 from zero
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**STABILIZED APARTMENT VACANCY RATE**	**CLASS A APARTMENT CAP RATE GUIDANCE**
5.4% ↓ 1.1%	$87,800 ↑ 0.5%	5.5% ↑ 0.7%	+104 bps above US avg

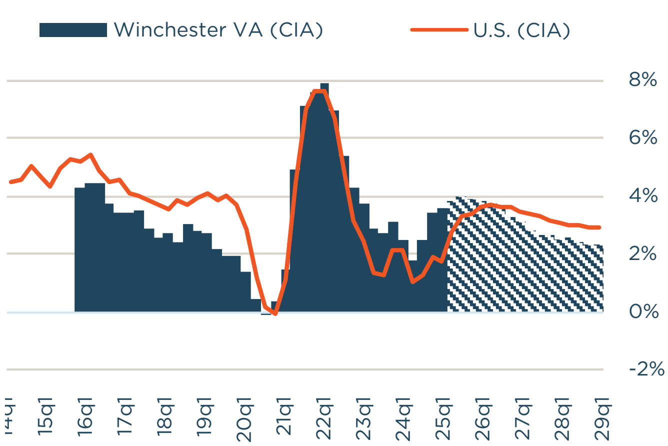
Effective Rent per Unit



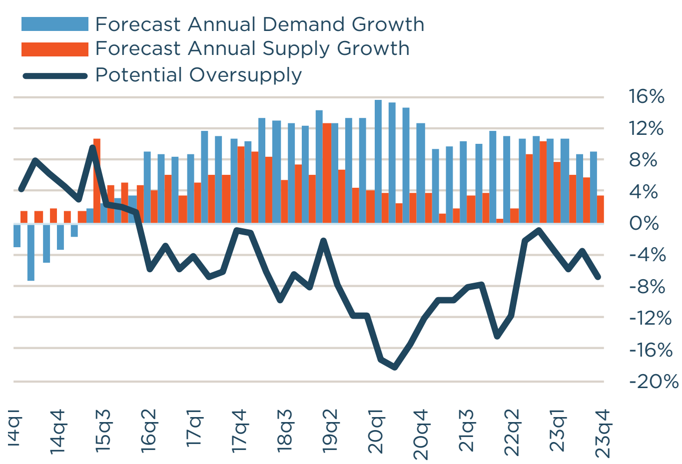
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



Representative large employers: *Valley Health System, Frederick Co. Public Schools, Navy Federal Credit Union, Amazon, Trex*