MIDDLEBURG COMMUNITIES

Middleburg Markets Report

Q4 2023

Middleburg Communities is pleased to present our Middleburg Markets Report for the 4th quarter of 2023. 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

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

Introduction

The fourth quarter of 2023 was the quarter during which the view that Middleburg Communities originally expressed in our Middleburg Markets Report for 2022Q1—that "overall economic conditions are likely to remain favorable"—finally became the dominant view among macroeconomic forecasters after having been correct, but not widely shared, during the previous two years.

The U.S. macro situation continues to face a daunting variety of risks, from continued war in Ukraine and a potentially widening war in the Middle East to the possibility of significantly weakening household balance sheets. Probably the most significant ongoing macroeconomic risk is that the Federal Reserve's aggressive rate-hike regime will have gone "too far, too fast" and will end up choking consumer spending and business investment, perhaps by stimulating a resurgence of credit and/or liquidity problems in the banking sector. Current empirical evidence, however, reinforces that the most likely outcome is, after all, a macroeconomic "soft landing."

This 2023Q4 Middleburg Markets Report begins by considering whether and when the "rate pause" that has held since July can transform into actual rate cuts. We also review the economic indicators that have kept the probability of recession at a still-elevated level—especially permitting and construction of multifamily units—before focusing on the implications for supply/demand balance and operating conditions in the rental housing market. 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 Durham NC, Melbourne FL, Myrtle Beach SC, Port St. Lucie FL, and Savannah GA.

Mission University Pines, Durham, North Carolina

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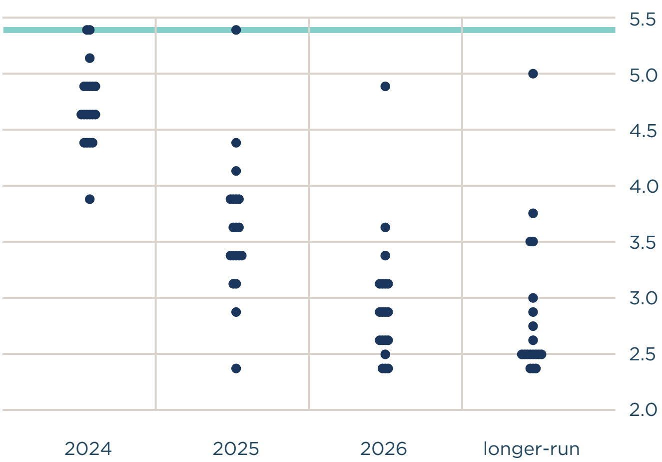
U.S. Overview

After what has widely been described as "the year of the Fed pivot," one of the most important questions facing the U.S. economy during 2024 is... 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.

Trading in options tied to overnight interest rates implies absolute certainty, according to the CME's FedWatch Tool, that 2024 will see (1) zero additional hikes and (2) at least one cut in the key Federal Funds Rate. Very few occurrences in finance or macroeconomics have legitimate 100% or 0% probabilities, so it is worth questioning whether market participants' implied certainty is well-founded.

FOMC Dot Plot Last Vote: 12/13/2023



The "dot plot" published by the Federal Open Market Committee after its December meeting certainly supports the market's implied forecast of zero additional rate hikes: not a single meeting participant assessed that the appropriate range for the Federal Funds Rate during 2024 would be above its current range of 5¼–5½ percent. Two participants, however, assessed that the current range would remain appropriate through 2024, and one even assessed that rate stability would remain appropriate through 2025 before declines would finally be appropriate in 2026. Clearly the possibility that policy interest rates may not be cut during 2024 should be accorded a likelihood greater than 0%.

What could cause FOMC members to hold off on the widely anticipated rate cuts? Simply put, the very real possibility that persistently strong macroeconomic conditions could reignite inflation. The minutes of the December FOMC meeting emphasized this risk:

- Among Federal Reserve staff, the minutes reported, *"risks around the inflation forecast were seen as skewed to the upside, given that inflation was still elevated and the possibility that inflation might prove to be more persistent than expected or that adverse shocks to supply conditions might occur."*

- Among meeting participants (that is, Federal Reserve Board members and Federal Reserve Bank Presidents), *"as an upside risk to both inflation and economic activity, participants noted that the momentum of economic activity may be stronger than currently assessed, possibly on account of the continued balance sheet strength of many households."*

- Participants *"also noted other sources of upside risks to inflation, including possible effects on global energy and food prices of geopolitical developments, a potential rebound in core goods prices following the period of supply chain improvements, or the effects of nearshoring and onshoring activities on labor demand and inflation."*

Of course the FOMC meeting also included discussion of downside risks to the economy, although no participant projected a recession or even economic stagnation:

- Among staff, *"The risks around the* (positive) *forecast for economic activity were viewed to be tilted to the downside."*
- *"Downside risks to economic activity noted by participants included the possibility that effects of past policy tightening may be larger than expected, the risk of a marked weakening of household balance sheets, possible negative spillovers from lower growth in some foreign economies, geopolitical risks, and lingering risks of further tightening in bank credit."*
- Finally, *"a number of participants…pointed to the downside risks to the economy that would be associated with an overly restrictive* (monetary policy) *stance."*

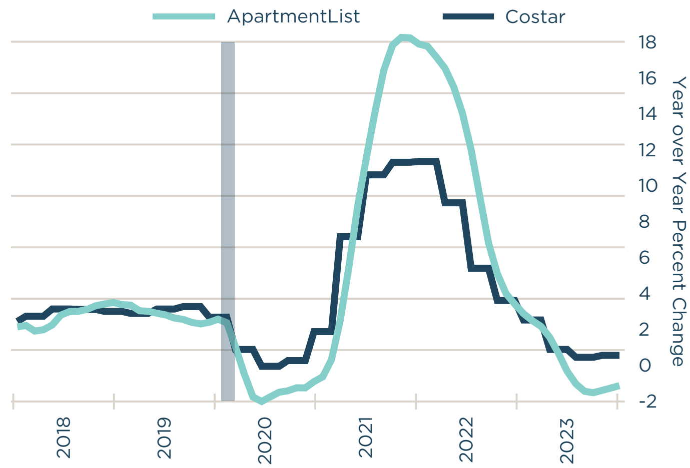
The range of possibilities summarized in the FOMC minutes provides a useful framework for reviewing overall conditions in the U.S. macroeconomy and housing market.

STUBBORN STRENGTH AND THE POSSIBILITY OF RENEWED INFLATION

Inflation as measured by the Consumer Price Index (CPI) or the Fed-preferred Personal Consumption Expenditures (PCE) price index remains above the Fed's long-term target of about two percent: the November 2023, reports, for example, showed year-over-year inflation at 3.1% (CPI) or 2.6% (PCE) for headline inflation, and at 4.0% (CPI) or 3.2% (PCE) for "core inflation" excluding food and energy.

Those widely-discussed headline inflation figures are relevant for many purposes, but for monetary policy-making purposes they suffer from the fact that shelter costs—which constitute about one-third of the total index—are measured using data on all rental contracts currently in effect, rather than newly signed rental contracts reflecting current market prices. This temporal disconnect between the data incorporated in published inflation figures and the data most important for monetary policy-making is quite well understood, and FOMC meeting participants make use of several alternate sources of data to understand both current inflation in shelter costs and the current overall inflation implied by them.

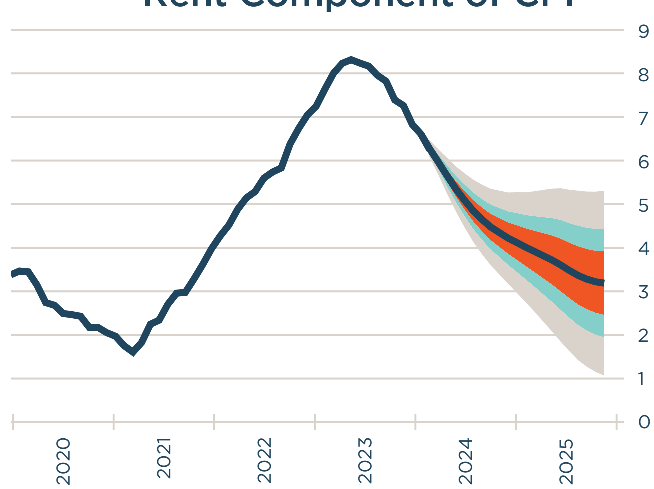
New-Lease Rent Indices



Publicly available indices computed monthly by Apartment List and quarterly by CoStar show that year-over-year inflation in rents on newly signed leases peaked at more than 11% in late 2021 and early 2022 but then declined very sharply to a low point in the second half of 2023 that was measured at +0.6 percent by CoStar and actually negative at -1.4 percent by Apartment List.

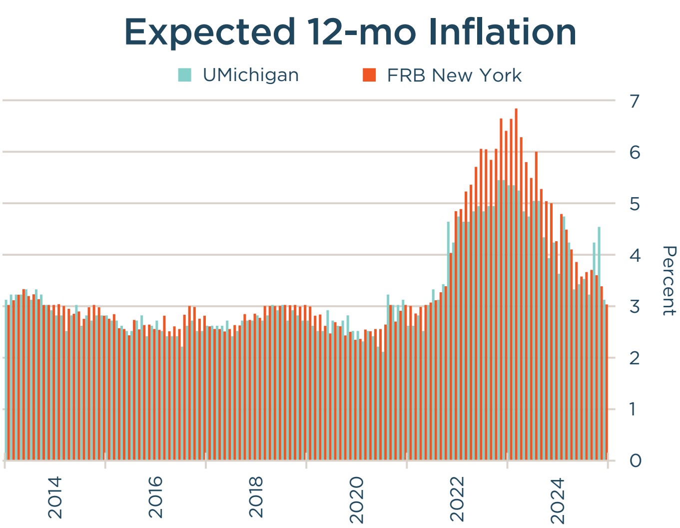
The sharp decline in new-lease rent inflation will reliably translate into a sharp decline in the shelter component of the CPI and PCE index, and will accordingly bring down reported overall inflation (unless the effect is counteracted by price increases in other components). That process has been slower than we at Middleburg Communities expected, however,

Rent Component of CPI



owing to the surprising resilience of new-lease rents. We now expect year-over-year inflation in the rent component of the CPI to remain above 4% through October 2024, on its way to stabilizing at about 3% (the level that prevailed from late 1992 through mid-2005) during 2025.

The pace of reduction in the shelter component (and therefore the overall CPI) is relevant because persistently high reported inflation, even though it would not likely fool the FOMC meeting participants, might cause consumers to revise upward their expectations for future inflation—which in turn could stimulate a reignition of actual inflation. Consumer surveys such as those conducted by the University of Michigan and the New York Fed suggest that inflation expectations have declined dramatically from their 2021 and 2022 peaks but have not yet fallen to the sub-3% levels that prevailed before the pandemic-era spike in actual inflation.



The Consumer Credit (G.19) report released on January 8 added fuel to the concerns expressed by FOMC meeting participants “that the momentum of economic activity may be stronger than currently assessed, possibly on account of the continued balance sheet strength of many households.” Total revolving consumer credit increased in November at a seasonally adjusted annual rate of 17.7 percent, the third-strongest monthly increase in revolving consumer credit since the start of the covid pandemic. The growth of revolving consumer credit has averaged 4.86% per year since the pre-pandemic month of February 2020, very slightly less than the average growth rate over the past three decades (as well as the four pre-pandemic years).

As we noted in our previous Middleburg Markets Report, both household debt service ratios and credit card delinquency rates remain well below their historical norms, suggesting that the continuing strong growth in real (after-inflation) personal consumption expenditures—2.5% per year since February 2020, only slightly greater than the average growth over the previous eight years—is unlikely to be constrained by access to revolving credit. Nor is consumption likely to be constrained substantially by growth in real disposable personal income, which has averaged 1.28 percent per year since February 2020, only slightly less than its average over the preceding two decades. In short, the Fed’s concerns that economic activity may continue to be strong enough to reignite inflation rest on a solid empirical basis.

THREATS AND THE POSSIBILITY OF MACROECONOMIC WEAKENING

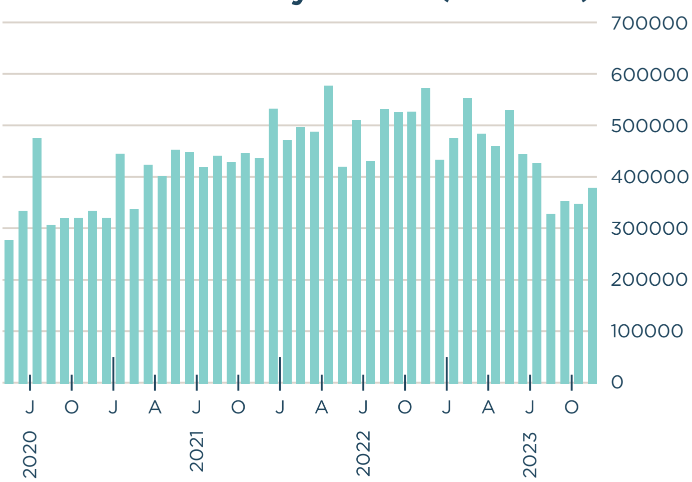
On the other hand, of course, the FOMC minutes discussed downside risks to continued economic growth. Middleburg’s internal recession forecasting model suggests that the probability of a recession in the next 12 months more than tripled from just 14 percent based on data from August to 44 percent based on data from November, before receding to 31 percent based on more-positive data from December. Two key variables in our recession forecasting model—the near-term forward spread and multifamily housing starts—seem to be primarily responsible for this increase in recession probability (and, in the case of multifamily housing starts, for the subsequent improvement in December).

The near-term forward spread (NTFS) is similar to measures of the slope of the yield curve: while the slope of the yield curve may be measured by, for example, the difference between current yields on 10-year and 3-month Treasury securities, the NTFS is measured as the difference between the 3-month yield that is expected 18 months in the future and the current yield on the same security. While the NTFS has been negative since November 2022, more recently it deteriorated from an average value of -0.92% in August 2023 (and a recent high of -0.46% in mid-October 2023) to an average value of -1.37% in December 2023 (and an end-of-year value of -1.56%).

The recent decline in the NTFS certainly accords well with the sharp decline in the Federal Funds Rate implied by the FOMC's dot plot. That is, investors believe that the 3-month yield is likely to be lower 18 months from now than it is today primarily because the FOMC has said that outcome is likely; thus, it would be a mistake to interpret the deterioration as necessarily a sign of an impending recession. The historical nexus between periods of declining NTFS and subsequent recessions (as the FOMC responds to weakening economic conditions), however, makes the recent decline in the NTFS a meaningful source of concern as to whether a recession may indeed materialize.

The other variable in our recession forecasting model pointing to an increased probability of recession is the change in multifamily housing starts. The average number of multi-family units started during September-November declined by -26.4 percent relative to the average during June-August, the largest decline since the pandemic spring of 2020 and, before that, the housing market crash of 2009. The number of multifamily housing starts recovered sharply in October-December, however, pulling back down the estimated probability of recession.

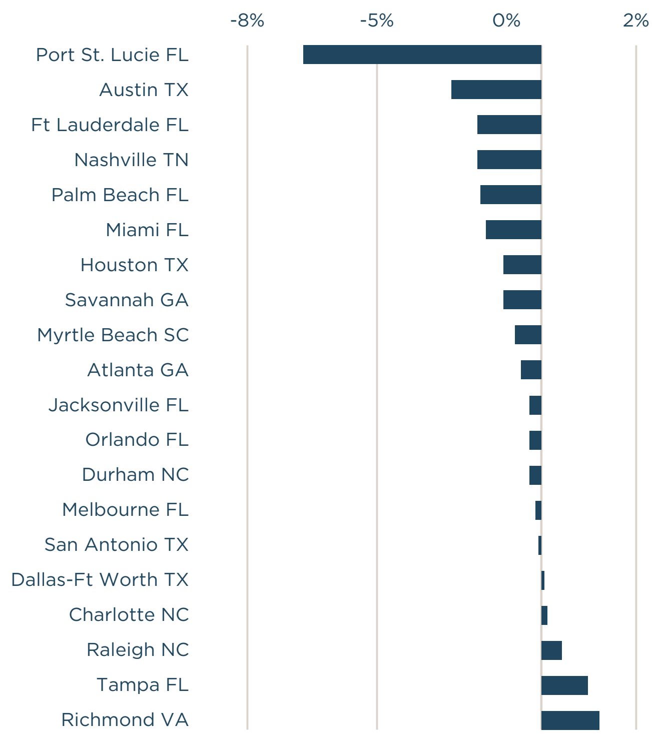
Multifamily Starts (annualized)



IMPROVED RENTAL HOUSING MARKET CONDITIONS

Trends in both starts and permits for new housing construction are, of course, of critical importance for evaluating fundamental conditions in the rental housing market. As noted, year-over-year inflation in rents on newly signed leases declined from greater than 11 percent in late 2021 and early 2022 to around zero in the second half of 2023. Surprisingly, new-lease rents stabilized very quickly following that decline in their rate of inflation, and showed improvement over the last several months of 2023. Likely the reason for this quick recovery in rent growth is attributable to improvement in both demand and supply conditions.

Change in Forecast Supply Growth 2023Q3 to 2023Q4

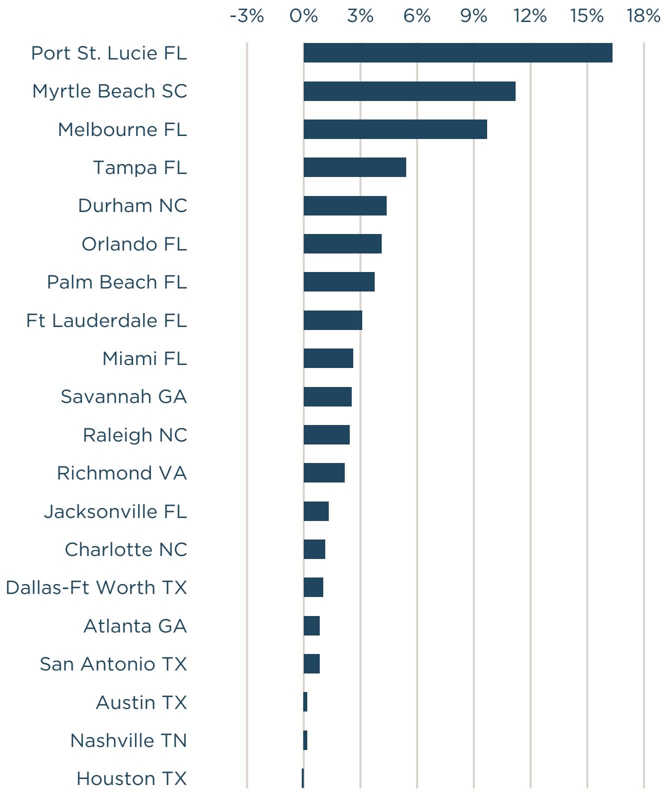


We commented in our previous Middleburg Markets Report on the reasons for surprisingly robust growth in demand for rental housing, especially in Middleburg's part of the country, including continued growth in the headship rate (number of households per adult) as well as continued migration of both young adults and jobs toward Middleburg's arc.

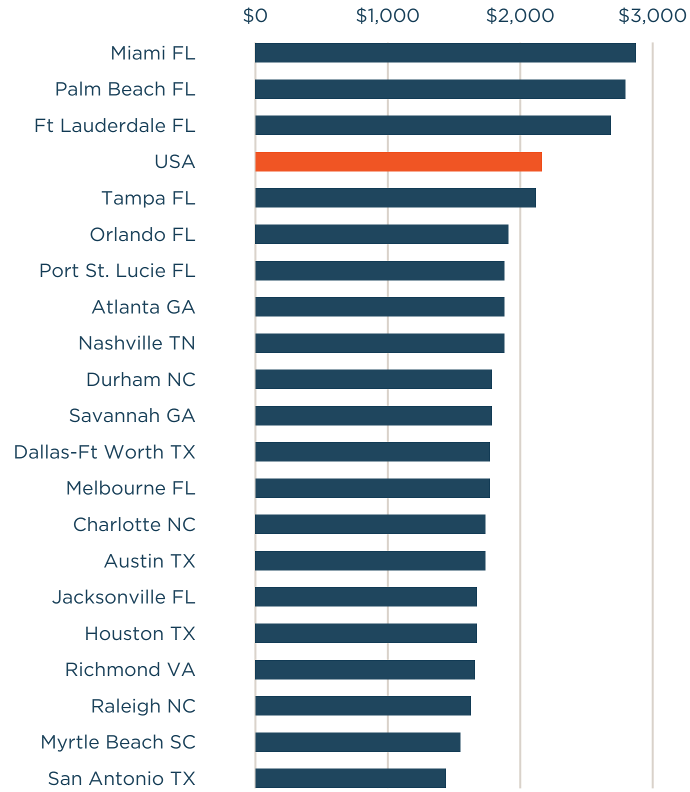
On the supply side of the market, the surge in multifamily housing starts that lasted from March 2021 through August 2023 absolutely raised concerns that excessive growth in rental housing inventory would continue to depress rents. The more recent reduction in both multifamily housing starts and multifamily permits, however, has materially reduced our forecast for growth in the rental housing inventory in most of the metro areas in Middleburg's part of the country. Oversupply risks are still elevated, especially in certain high-visibility markets such as Austin and Nashville, but those risks have dissipated somewhat as rate increases have forced both developers and capital providers to examine market demand-supply balances more carefully.

We at Middleburg continue to be especially proud of our expertise in exactly that critical skill: evaluating both supply and demand growth for individual markets (and their submarkets) to identify the best opportunities for our development, acquisition, and other activities. 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."

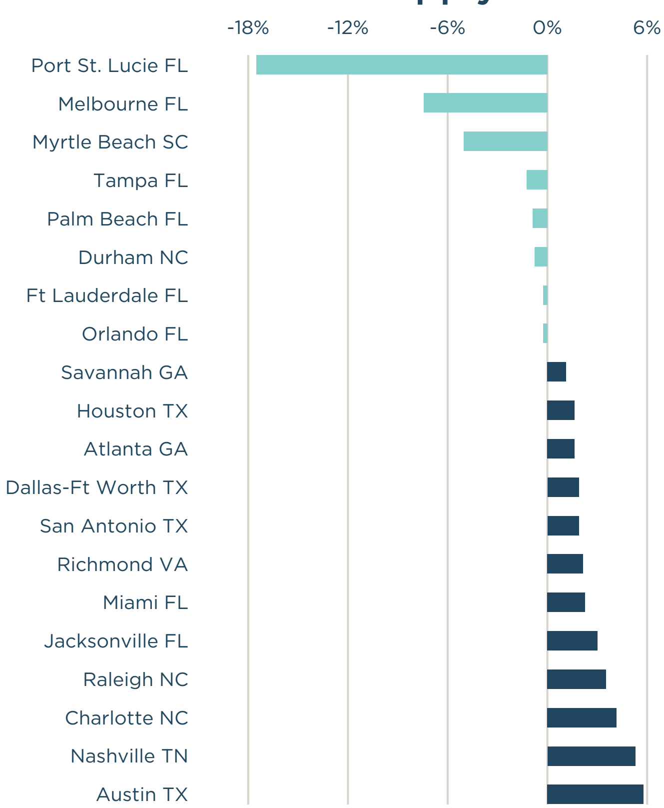
Forecast Demand Growth



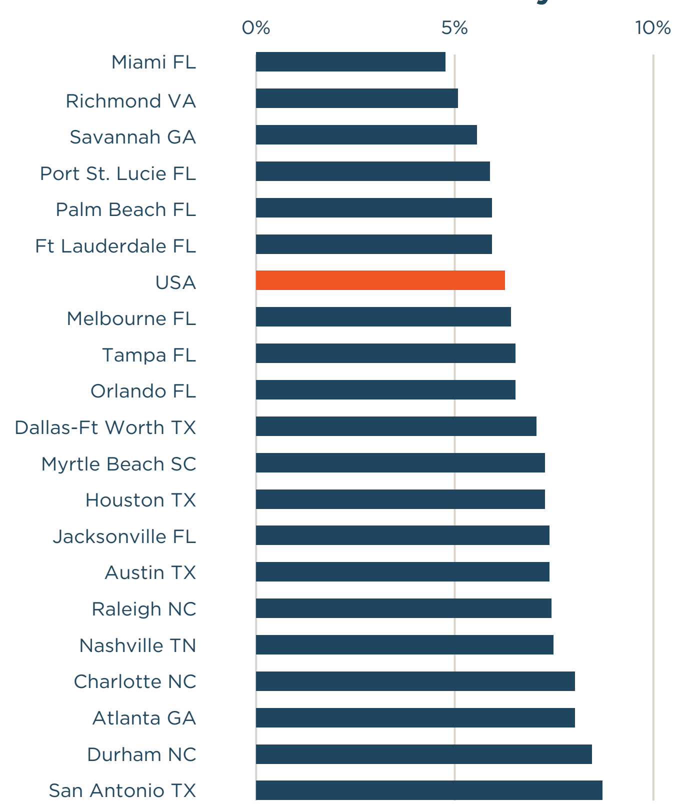
Class A Effective Rent per Unit



Forecast Oversupply Risk



Stabilized Class A Vacancy Rate



Dallas / Fort Worth, TX

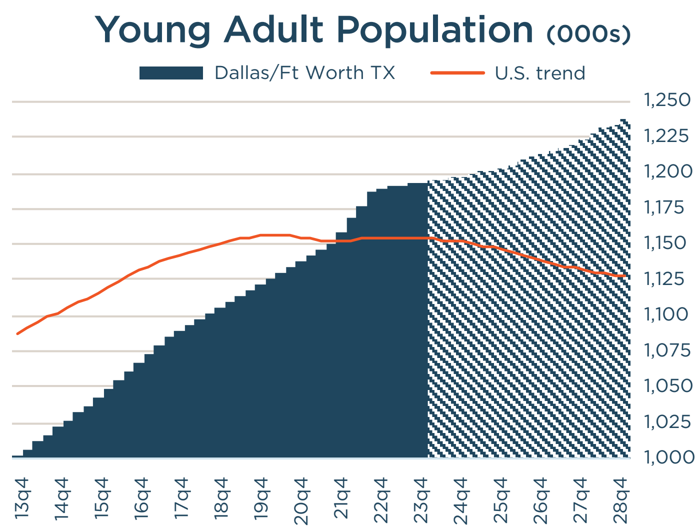
The largest metro area in Middleburg's territory, Dallas/Fort Worth is already recognized as a "near-gateway" market and is likely to continue leading a long-term shift away from older gateway markets such as New York and San Francisco. Current indicators suggest that near-suburban counties and Tarrant County (Fort Worth) likely offer better opportunities than Dallas County itself.

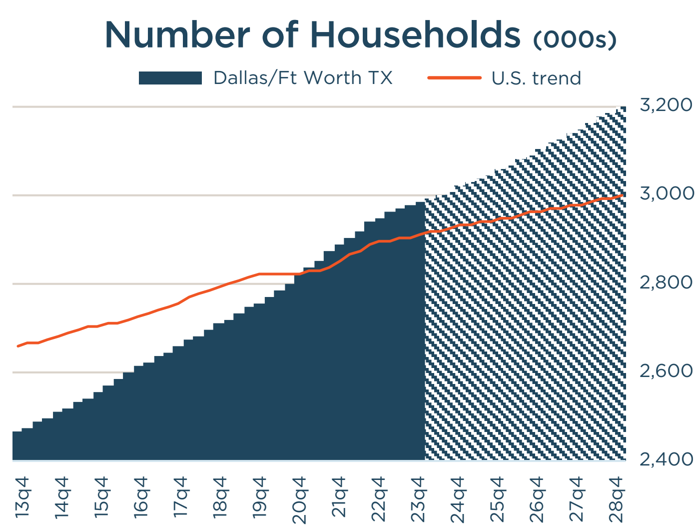
MIDDLEBURG'S RANK #7 AMONG 15 LARGEST METROS

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 45 thousand **Young Adults** (0.7 percent per year), 219 thousand new employees (1.0 percent per year) and 213 thousand new **Households** (1.4 percent per year) all total numbers that lead every other metro area in Middleburg's part of the country.

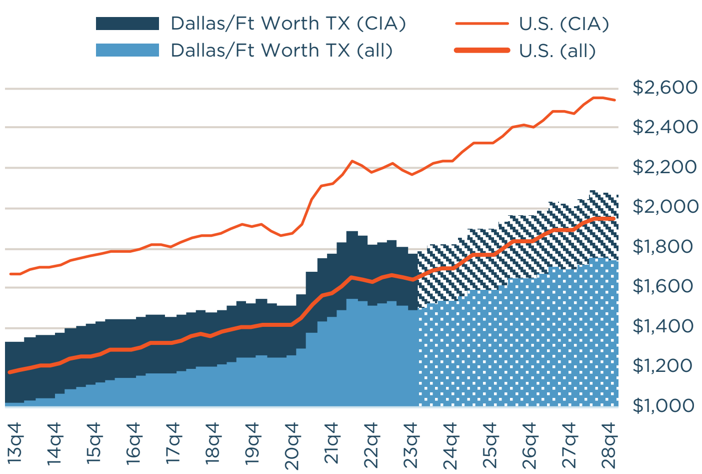
Effective Rent per Unit and **Net Operating Income** are expected to continue growing robustly, both at 3.1 percent per year, although both are expected to lag slightly behind the national averages (3.2 and 3.3 percent respectively). Middleburg estimates that the supply of rental housing units will grow by 2.8 percent over the next three years while demand will grow by 1.0 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 4.3 percent per year.



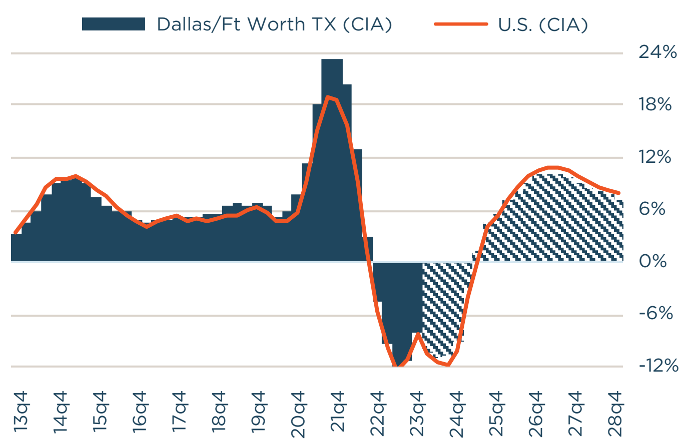


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
260,177	25,530	$231,384	2,803
↑ 1.2%	↓ 3.2%	↓ 1.2%	↓ 33%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
+1.1%	$86,600	7.1%	+18 bps
↓ 0.4%	↑ 0.1%	↑ 0 .4%	above US avg

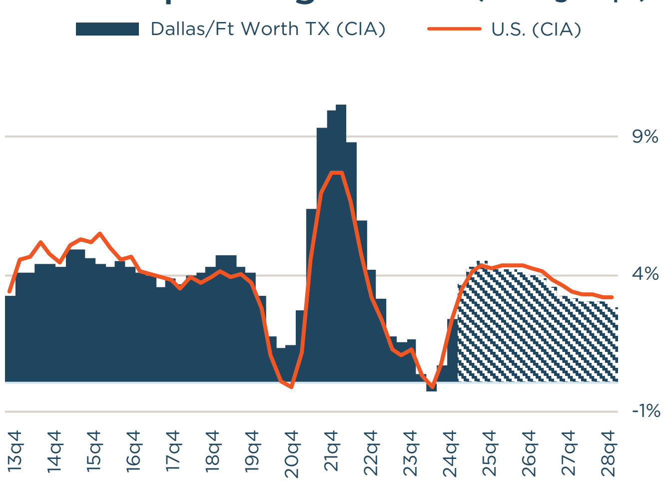
Effective Rent per Unit



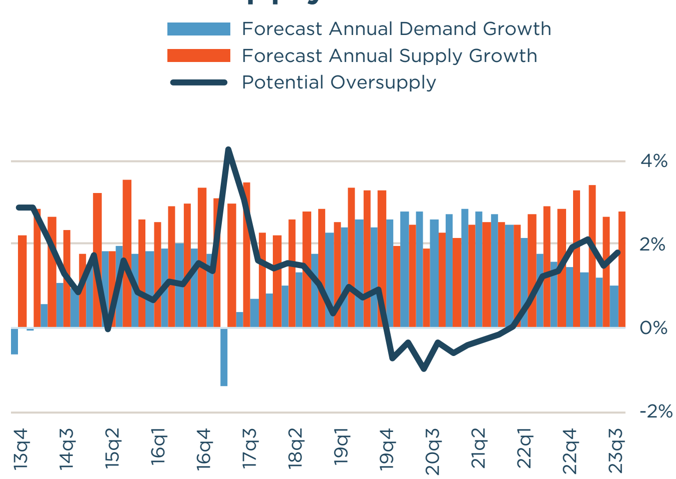
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply - Demand



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

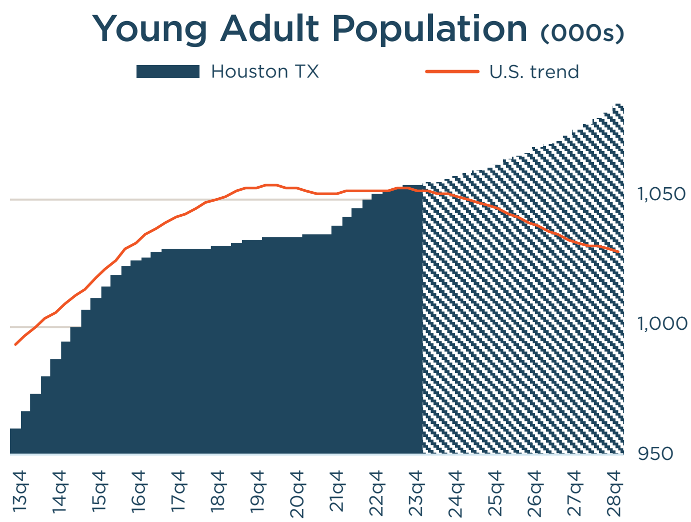
Houston, TX

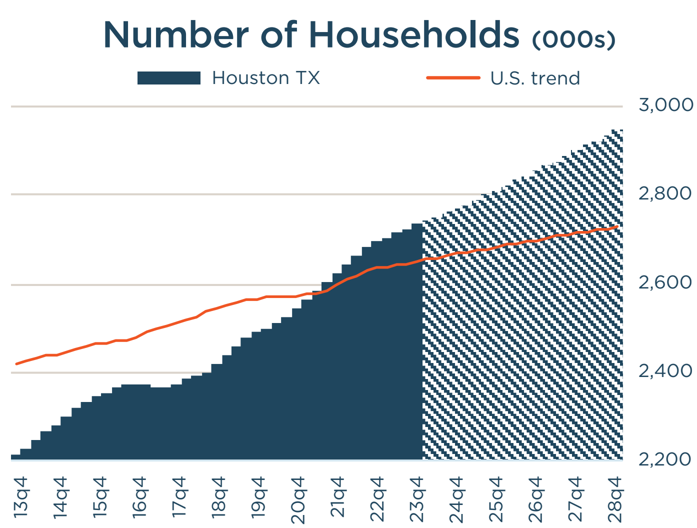
Houston's reduced exposure to the oil & gas industry makes what was already a strong market more appealing to long-term investors, although forecast rental housing fundamentals will likely continue to shine more brightly in Austin and Dallas. Current conditions suggest that the coastal and near-suburban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

MIDDLEBURG'S RANK #15 AMONG 15 LARGEST METROS

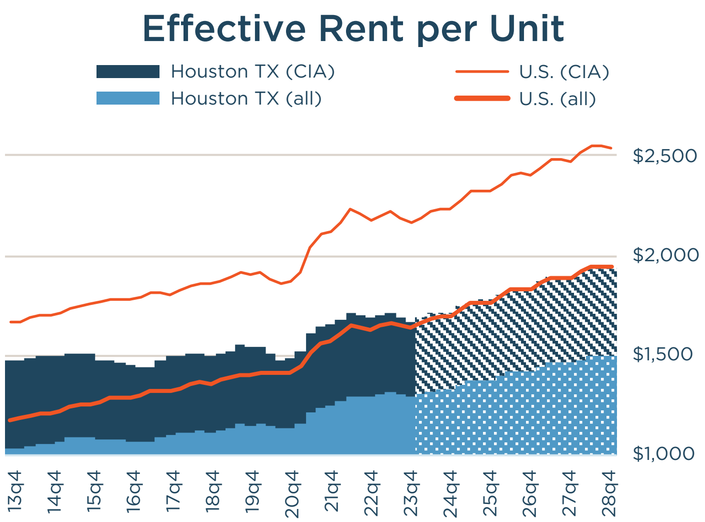
The demographic drivers of rental housing demand in Houston should continue to be strong: for example, Oxford Economics forecasts that growth in the city's **Young Adult Population**, **Number of Households** and total employment should lead all other metro areas in Middleburg's arc except Dallas/Fort Worth at 32 thousand (0.6 percent per year), 212 thousand (1.5 percent per year) and 126 thousand (0.7 percent per year) respectively. Rental housing demand should also get a slight boost from house price appreciation that is expected to exceed the national average over the next five years (2.7 percent per year vs 2.6 percent), although the change in the house price to income ratio should about equal the national average at -0.6 percent.

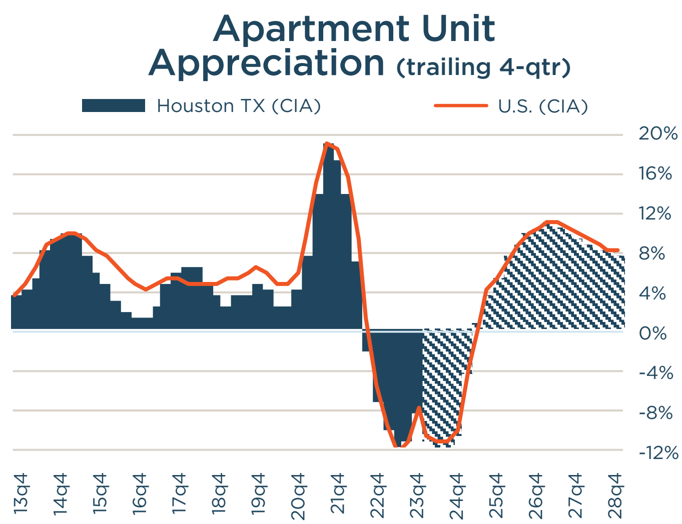
CoStar forecasts that Houston's rental housing fundamentals will be adequate but not as strong as in other metro areas along Middleburg's arc: for example, **Effective Rent per Unit** is forecast to grow by 2.9 percent per year (vs a national average of 3.2 percent), **Net Operating Income** by 3.0 percent per year (vs 3.3 percent), and market sale price per unit by 4.2 percent per year (vs 4.5 percent). Perhaps the most promising aspect of Houston's rental housing market is that Middleburg forecasts its inventory to grow by only 1.5 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 flat demand growth.

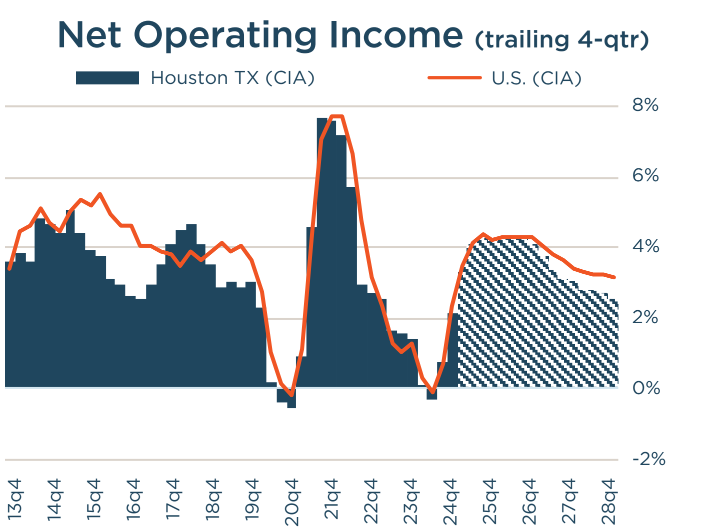


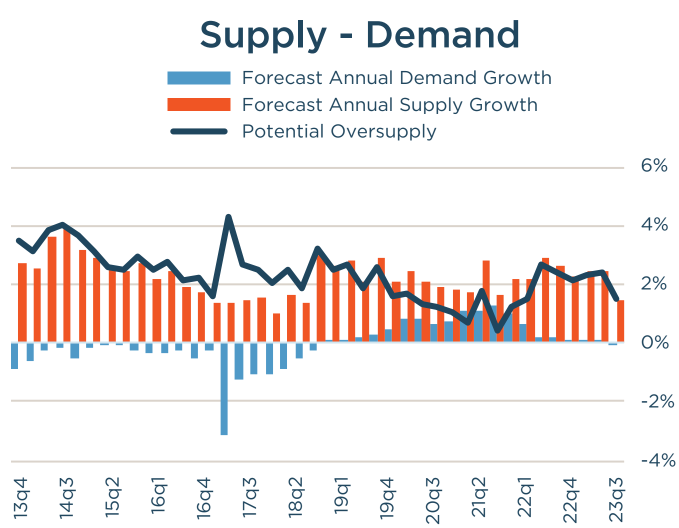


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
202,057	5,871	$211,738	760
↑ 0.9%	↓ 23%	↓ 1.0%	↓ 66%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
1.8%	$77,480	7.3%	+39 bps
↓ 1.9%	↓ 0.1%	↑ 0.3%	above US avg









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

Atlanta, GA

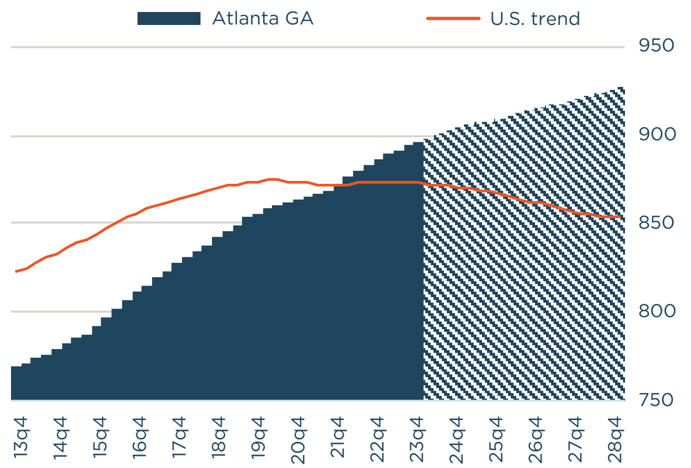
Atlanta is similar in many respects to the Dallas / Fort Worth metro area, but at a slightly smaller and slightly less dynamic scale. The large number of counties and diversity of local market conditions in the Atlanta metro area offers a premium for more disaggregated location evaluation, with certain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

MIDDLEBURG'S RANK #10 AMONG 15 LARGEST METROS

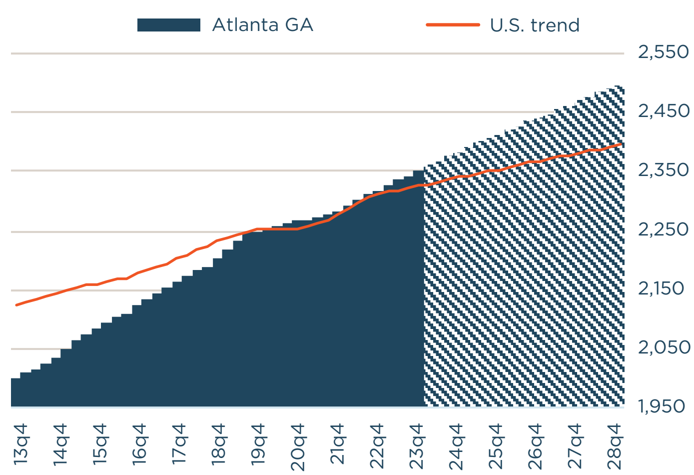
The largest market in Middleburg's territory outside of Texas, Atlanta is projected to see growth over the next five years of 0.7 percent per year in the number of **Young Adults** (30 thousand), 1.2 percent per year in the **Number of Households** (146 thousand) and 0.7 percent per year in total employment (105 thousand), all substantially better than the national rate. Other metro areas in Middleburg's arc are likely to see an additional boost in rental housing demand from increases in house purchase prices, but a slight -0.5 percent easing in Atlanta's price-to-income ratio is forecast only barely to beat the national pace of -0.6 percent.

Rental housing fundamentals are forecast to show moderate improvement, with growth in **Effective Rent per Unit** averaging 3.1 percent per year, growth in **Net Operating Income** averaging 3.2 percent per year, and growth in market sale price per unit averaging 4.5 percent per year. Middleburg forecasts both supply of and demand for rental housing units to grow slowly by the standards of large metro areas in our part of the country at 2.4 and 0.8 percent per year, respectively, putting our estimate of the risk of oversupply at an equally moderate 1.6 percent per year.

Young Adult Population (000s)

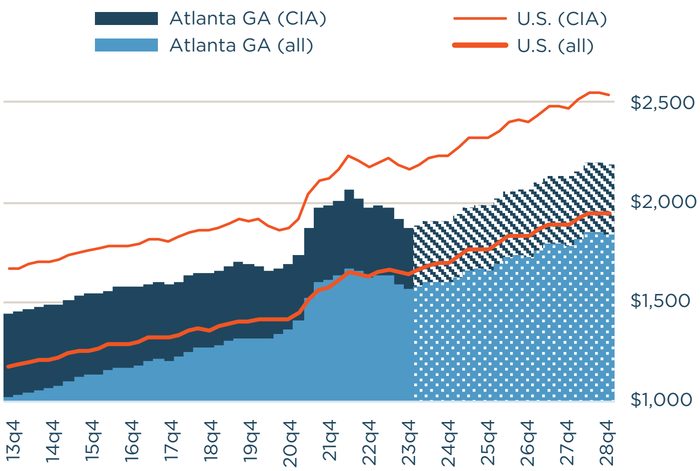


Number of Households (000s)

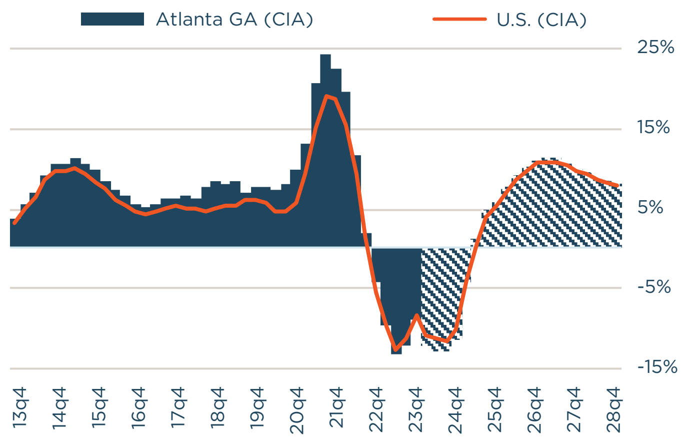


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
145,936	17,799	$296,213	4,038
↑ 2.9%	↓ 13%	↓ 0.9%	↑ 39%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
3.4%	$86,280	8.0%	-3 bps
↓ 1.5%	↑ 0.5%	↑ 0.4%	below US avg

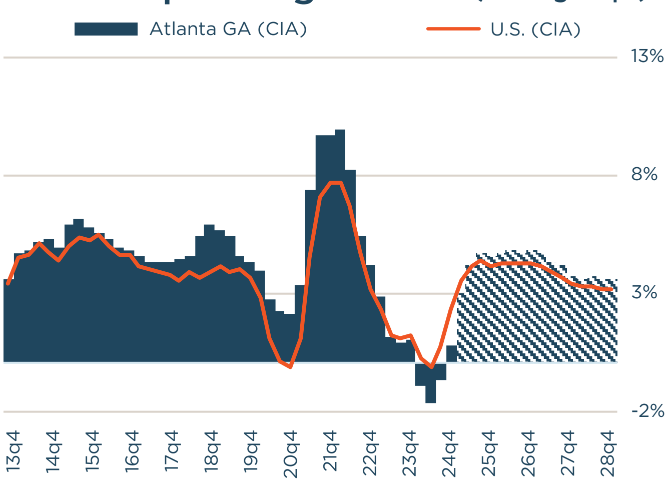
Effective Rent per Unit



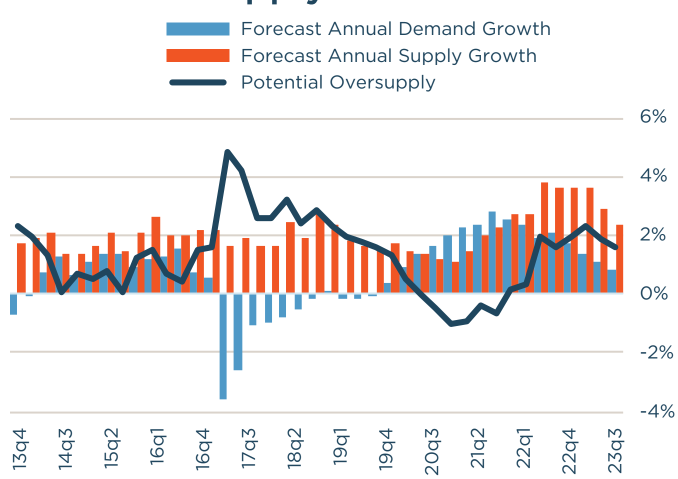
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply - Demand



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

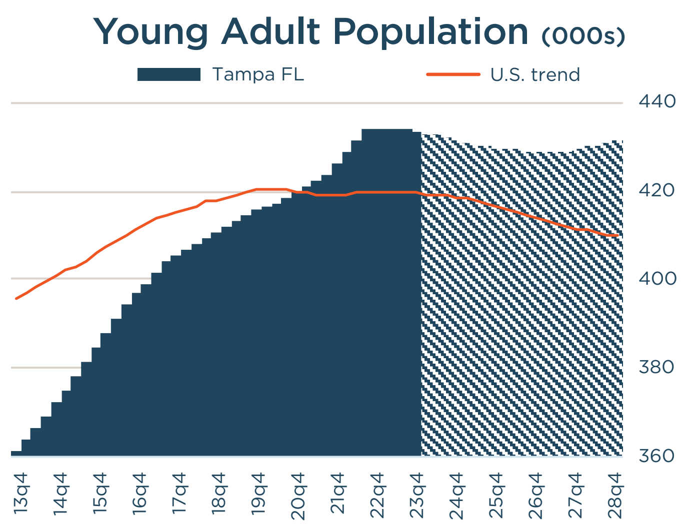
Tampa, FL

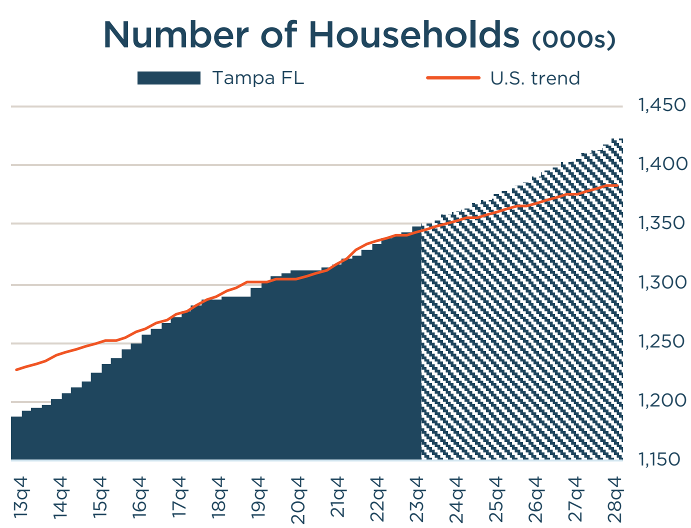
Fundamentals in the Tampa market have shown notable recent improvements, pushing it higher on Middleburg's list of favored markets even though demographic drivers continue to be relatively weak by the standards of large metros in our part of the country.

MIDDLEBURG'S RANK #11 AMONG 15 LARGEST METROS

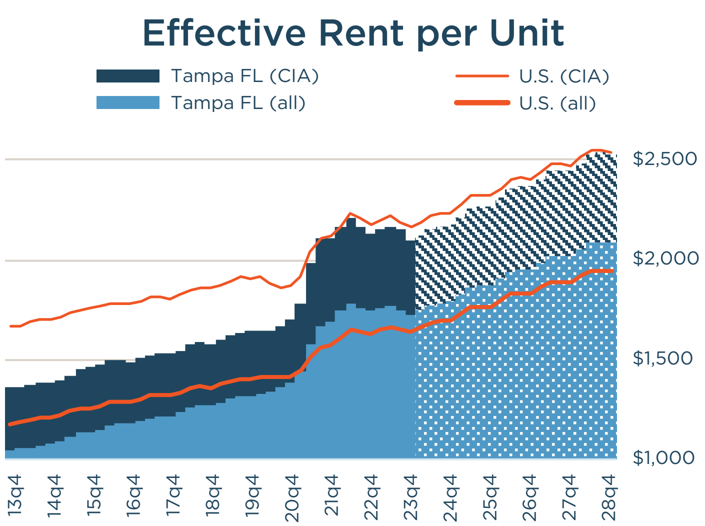
Oxford Economics forecasts that over the next five years Tampa will beat the national average in all key demand drivers. Tampa's **Young Adult Population** is expected to shrink by -0.1 percent per year (still better than the national average of -0.5 percent per year) while **Number of Households** and total employment are expected to grow at 1.1 percent per year (74 thousand) and 0.6 percent per year (44 thousand) compared with national averages of 0.6 and 0.4 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 -0.9 percent, slightly more than the national rate of -0.6 percent.

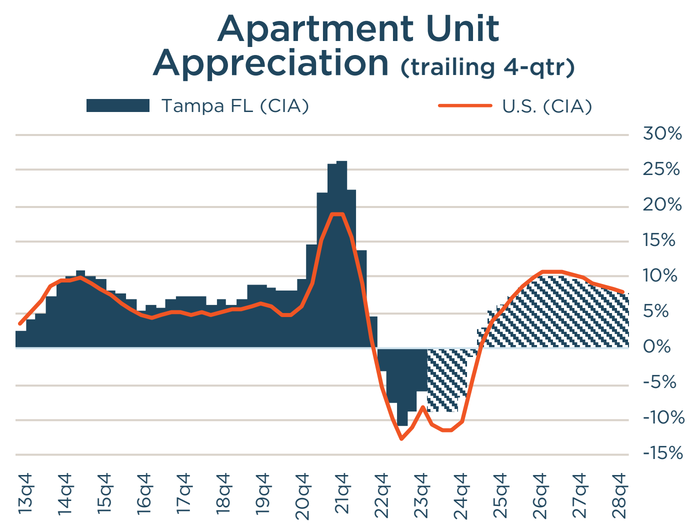
Nevertheless, CoStar projects that **Effective Rent per Unit** will grow by 3.7 percent per year, higher than in any other large metro area in Middleburg's arc and comfortably better than the national average rate of 3.2 percent per year. Similarly, CoStar expects **Net Operating Income** to grow at 3.8 percent per year, exceeding all large metros in our territory except Jacksonville, while growth in Tampa's market sale price per unit will trail only Jacksonville and Palm Beach at 5.1 percent per year. Finally, Middleburg projects that demand for rental housing units will outpace all rival cities at 5.4 percent per year over the next three years, while supply growth projected at just 4.2 percent per year implies the greatest undersupply of any large metro area in Middleburg's arc.

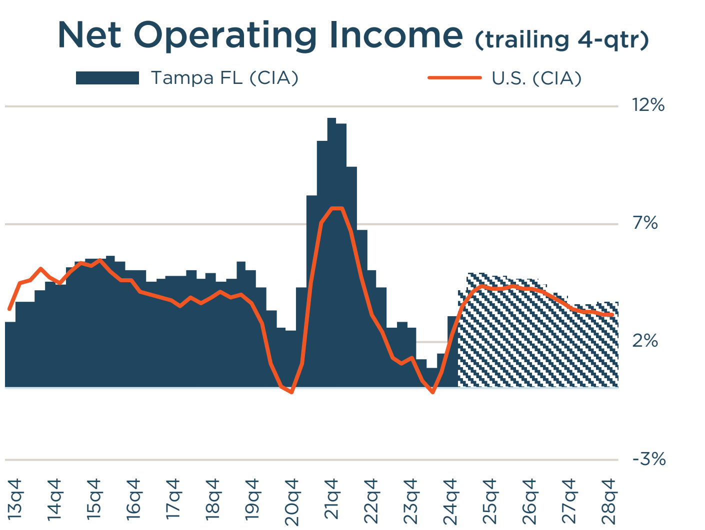


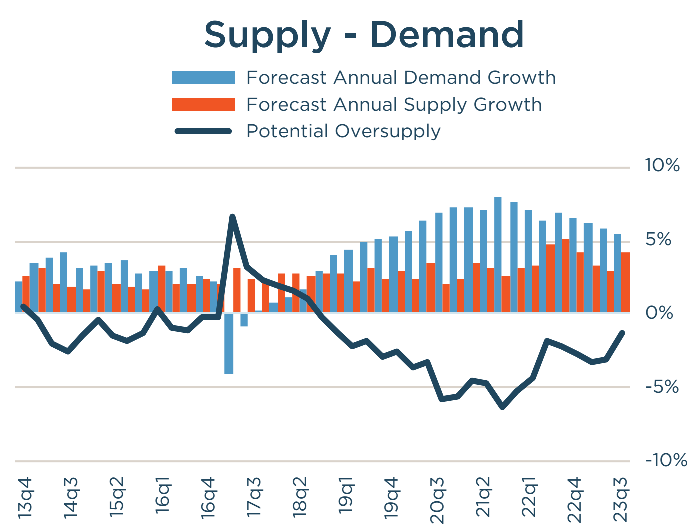


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
59,125	7,285	$290,239	432
↑ 0.8%	↑ 0.3%	↓ 0.7%	↓ 81%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
3.1%	$74,200	6.5%	+1 bps
↓ 2.2%	↑ 0.4%	↑ 0.2%	above US avg









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

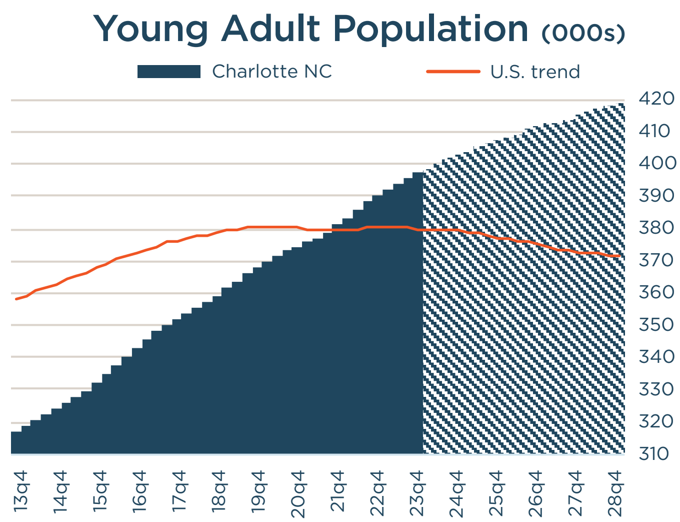
Charlotte, NC

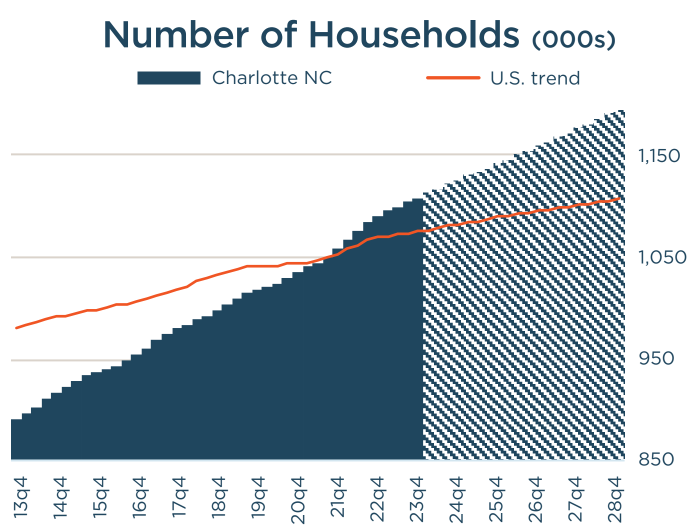
Charlotte's strong demand drivers have attracted even stronger supply growth, raising oversupply concerns despite what is likely to remain a strong growth trajectory. Conditions remain especially favorable, however, in Mecklenburg County and its southern near neighbors, Union and (across the state border)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

MIDDLEBURG'S RANK #8 AMONG 15 LARGEST METROS

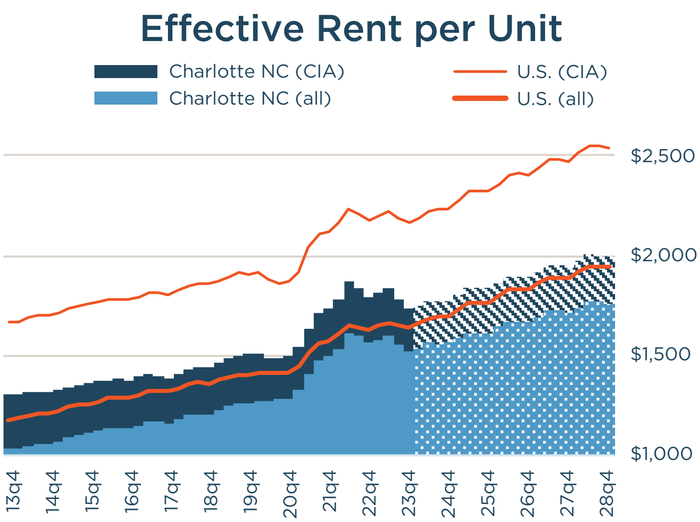
The uncommonly strong demographic drivers of demand growth in Charlotte should not falter over the next five years: Oxford Economics forecasts, for example, that Charlotte's **Young Adult Population** will grow at 1.1 percent per year (22 thousand), trailing only Austin, while growth in the **Number of Households** trails only Austin and Orlando at 1.5 percent per year (86 thousand) and growth in total employment also comfortably exceeds both the national average and the median of large metros in Middleburg's territory at 0.9 percent per year (64 thousand). Moreover, rental housing demand is likely to get an additional boost as house price appreciation outpaces the national average (3.2 vs 2.6 percent per year) while median household income growth slightly lags the national average (2.9 vs 3.2 percent per year).

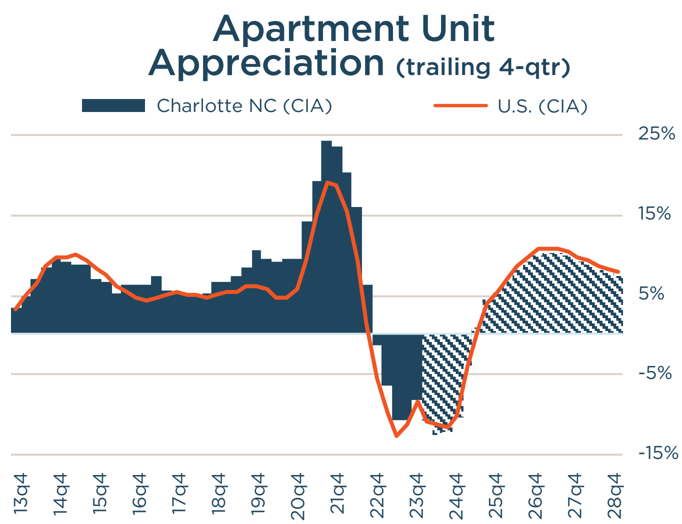
The strength of the demand drivers, however, is likely to be countered by the strength of the supply response. CoStar forecasts, for example, that **Effective Rent per Unit** and **Net Operating Income** are likely to grow less rapidly over the next five years in Charlotte than in many other markets in Middleburg's territory—and the national average—at just 2.7 and 3.0 percent per year respectively, compared with the national paces of 3.2 and 3.3 percent per year. Middleburg estimates that the supply of rental housing units will grow by 5.1 percent per year over the next three years while demand grows by just 1.1 percent per year, creating an oversupply concern that trails only Nashville and Austin among large metro areas in Middleburg's part of the country.

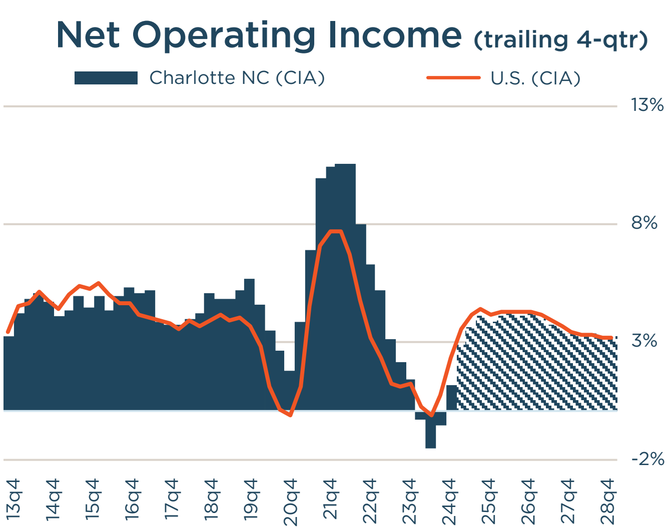


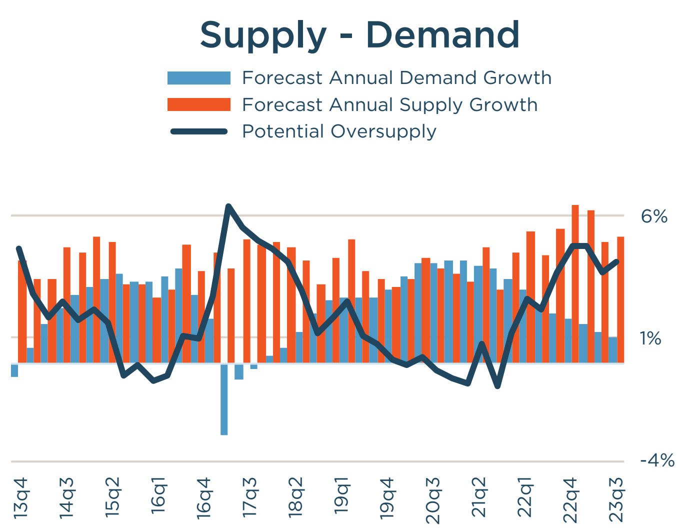


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
65,296	10,605	$283,519	739
↑ 0.5%	↑ 5.9%	↓ 1.2%	↑ 0.8%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
3.8%	$81,000	7.4%	-13 bps
↓ 1.2%	↑ 0.4%	↑ 0.7%	below US avg









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

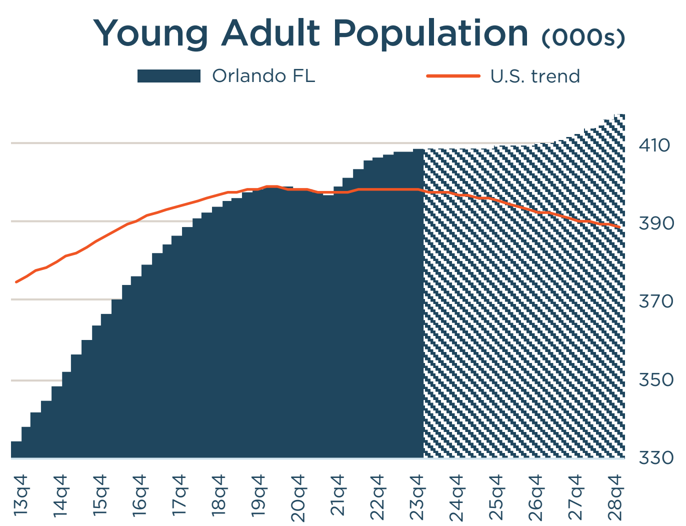
Orlando, FL

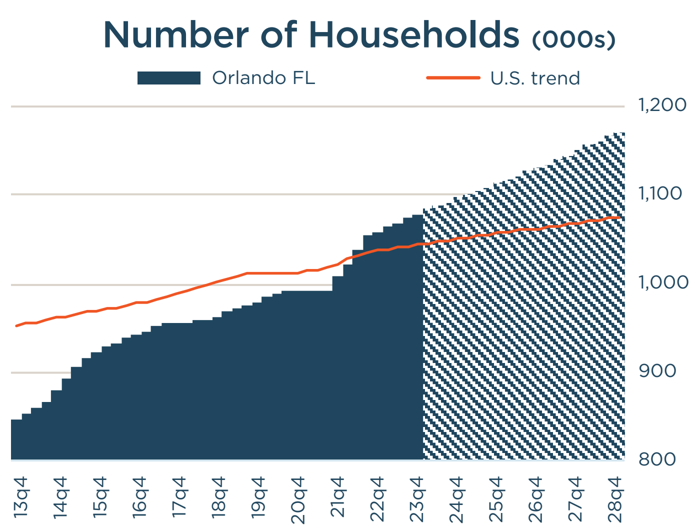
Orlando has become one of the most appealing rental housing markets in the country, but the rancor marking the state of Florida's continuing efforts to exercise control over the Reedy Creek Improvement District introduces an unwelcome degree of uncertainty.

MIDDLEBURG'S RANK #2 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 1.1 and 1.7 percent per year, respectively, adding 79 thousand jobs and 93 thousand households. Oxford also expects above-average growth in Orlando's **Young Adult Population** at 0.4 percent per year (9 thousand) while the young adult population of the U.S. shrinks by -0.5 percent per year. Orlando's homebuying affordability problem, however, is expected to ease more markedly than the national average over the next five years.

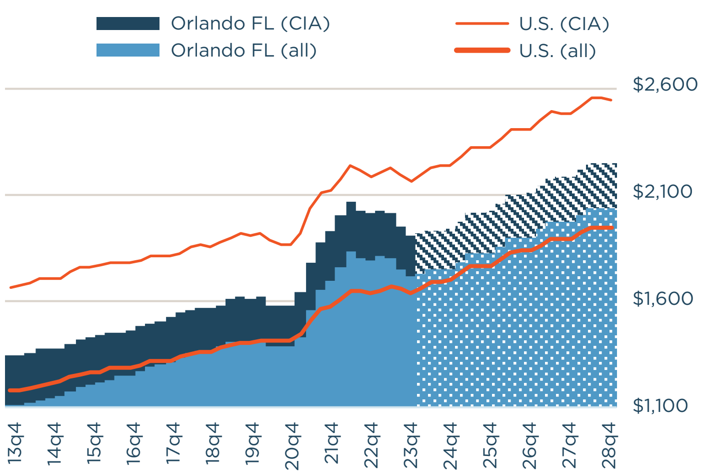
CoStar forecasts that rental housing fundamentals will remain stronger in Orlando than in most other large metro areas in Middleburg's part of the country: for example, CoStar expects **Effective Rent per Unit** and **Net Operating Income** each to grow at 3.3 percent per year, and market sale price per unit to grow at 4.7 percent per year. Middleburg's internal forecasting puts growth in demand for rental housing units at an average of 4.0 percent per year over the next three years, slightly outpacing our forecast of supply growth averaging 3.7 percent per year. The threat posed to these robust forecasts by an ordinarily pro-growth state government remains uncomfortably high, though it seems possible that genuine threats may have started giving way to merely face-saving actions.



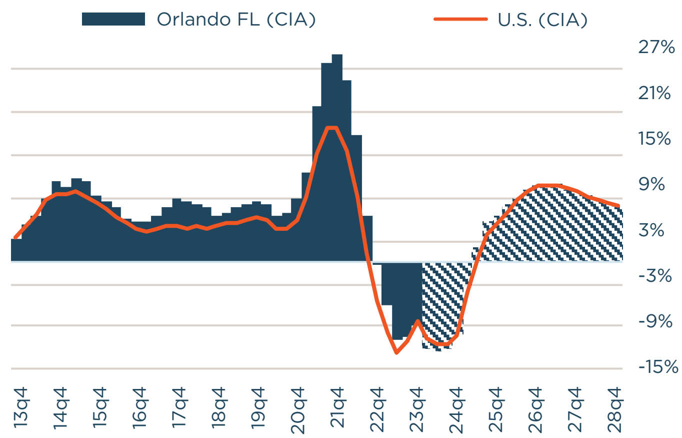


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
70,402	7,803	$287,474	842
↑ 3.4%	↓ 11%	↓ 0.8%	↓ 50%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
2.3%	$75,280	6.6%	-8 bps
↓ 2.8%	↑ 0.6%	↓ 0.6%	below US avg

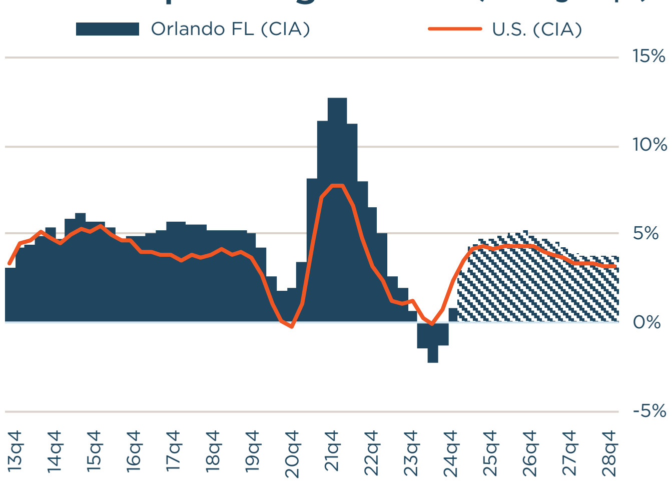
Effective Rent per Unit



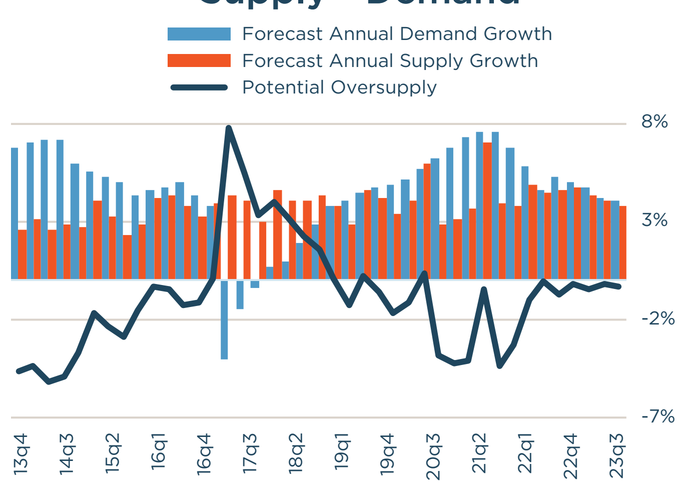
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply - Demand



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

Austin, TX

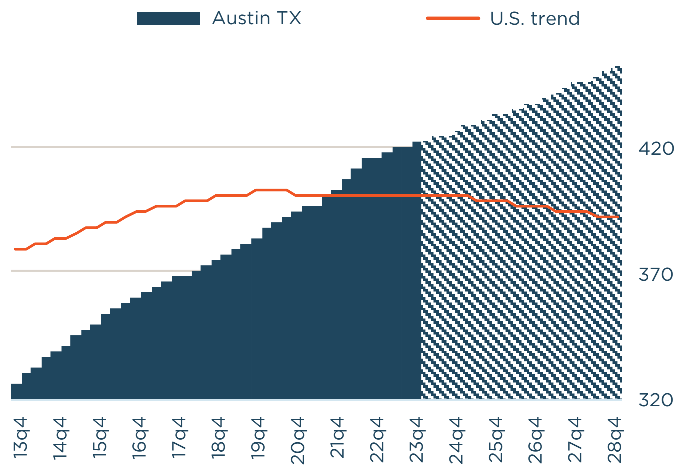
Austin's appeal as a rental housing market should surprise nobody, as the Texas capital has become known as a favorite among young professionals, thanks in large part to the University of Texas and the city's music scene. As in Nashville and Charlotte, however, the strong market supply response to obviously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

MIDDLEBURG'S RANK #4 AMONG 15 LARGEST METROS

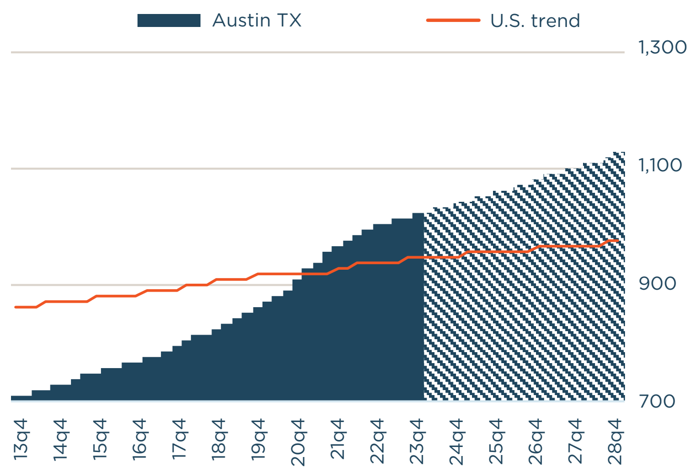
Over the next five years Oxford Economics forecasts that growth in Austin's **Young Adult Population**, **Number of Households**, and total employment will outpace every other metro area in Middleburg's footprint in percentage terms at 1.5, 1.9, and 1.5 percent per year, respectively. The absolute numerical growth in young adults is expected to trail only the much larger Dallas and Atlanta at 32 thousand; growth in the number of new households and total employment is expected to trail only Dallas, Houston, and Atlanta at 102 thousand each.

Homeownership affordability is forecast to remain both a very serious and a growing problem in Austin, with house price appreciation continuing at 4.0 percent per year—well above the national average of 2.6 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 5.8 percent per year over the next three years—more than in any other primary market in our part of the country—while demand grows by just 0.2 percent per year. In short, Austin faces a more serious oversupply threat than any other market in our territory.

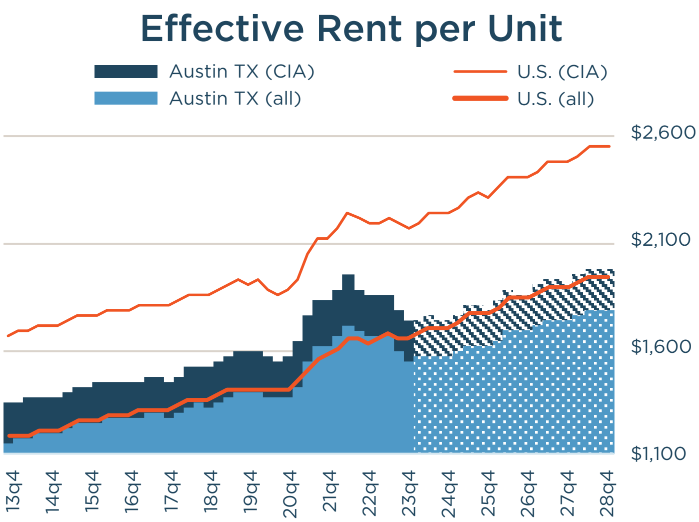
Young Adult Population (000s)

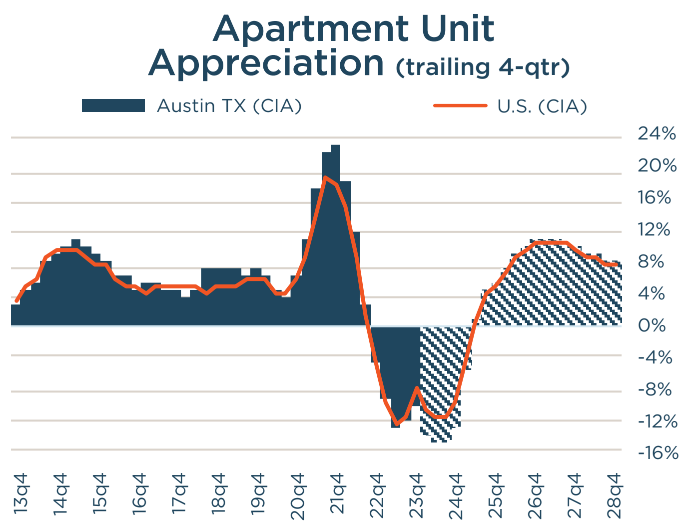


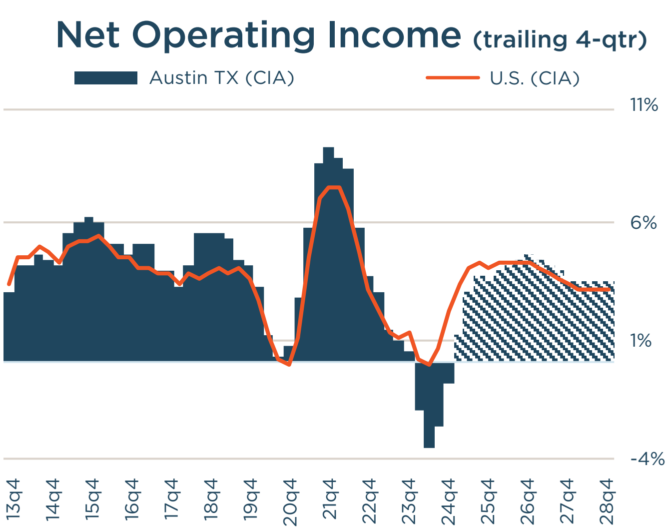
Number of Households (000s)

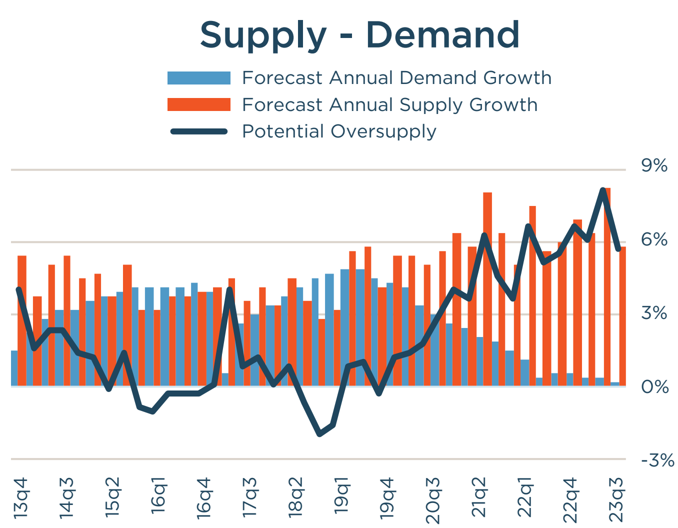


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
100,760	15,507	$270,093	640
↑ 2.4%	↓ 13%	↓ 1.5%	↓ 60%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
-5.0%	$97,880	7.4%	-16 bps
↑ 2.8%	↑ 0.2%	↑ 0.3%	below US avg









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

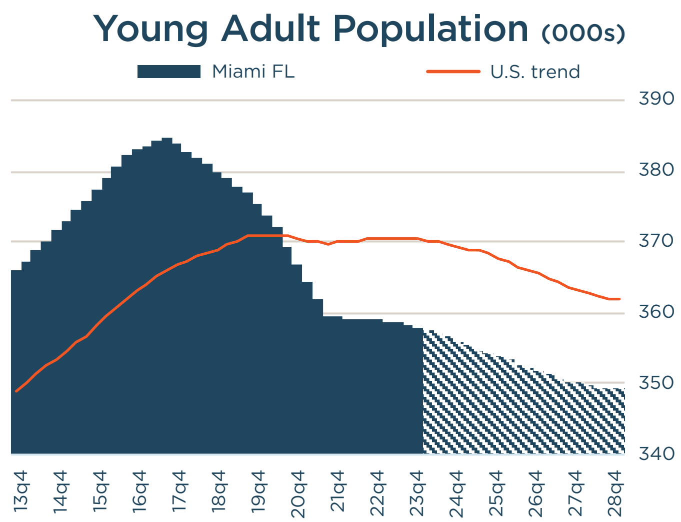
Miami, FL

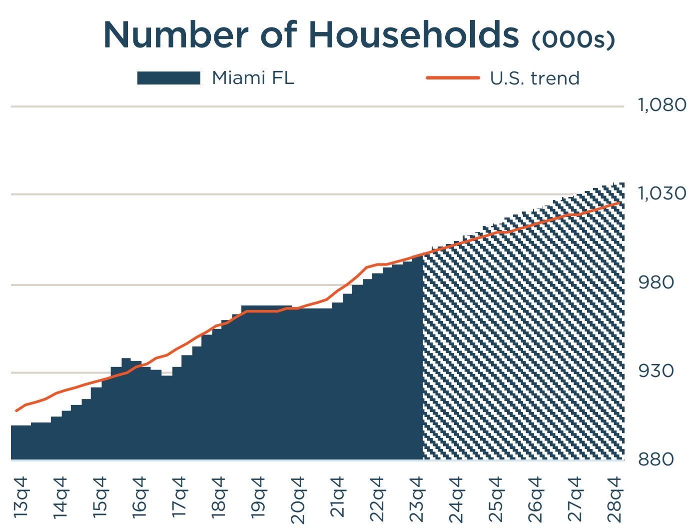
Miami is a market with some solid rental housing fundamentals—but one that, ultimately, is more likely to appeal to developers and investors other than Middleburg.

MIDDLEBURG'S RANK #5 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 -0.5 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 0.5 and 0.8 percent per year respectively.

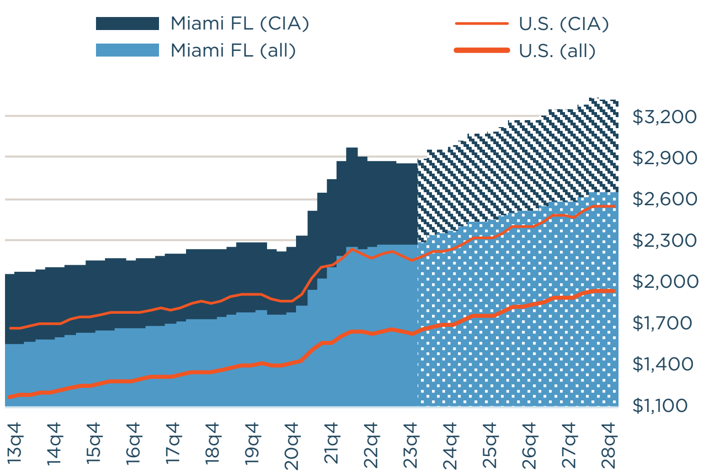
Demand for rental housing will receive a push from Miami's continuing homebuyer affordability problem, which is expected to worsen substantially as house price appreciation continues to outpace the national average at 3.0 percent per year while median household income growing at 2.6 percent per year 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 $2,862, easily the highest among markets in Middleburg's part of the country, is 7 percent higher than in neighboring Fort Lauderdale and 3 percent higher than in Palm Beach, but Miami's median household income is 5 percent lower than in Fort Lauderdale and 13 percent lower than in Palm Beach.



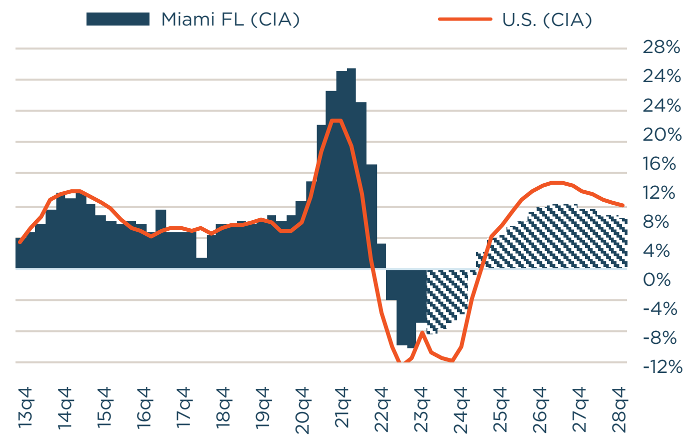


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
47,156	16,498	$418,282	0
↑ 1.5%	↑ 1.4%	↓ 0.3%	↓ 100%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
6.1%	$69,920	4.8%	-9 bps
↓ 4.8%	↓ 0.2%	↓ 0.2%	below US avg

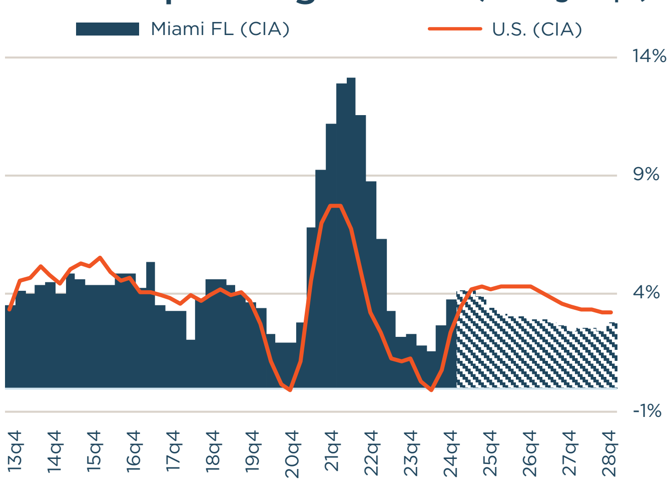
Effective Rent per Unit



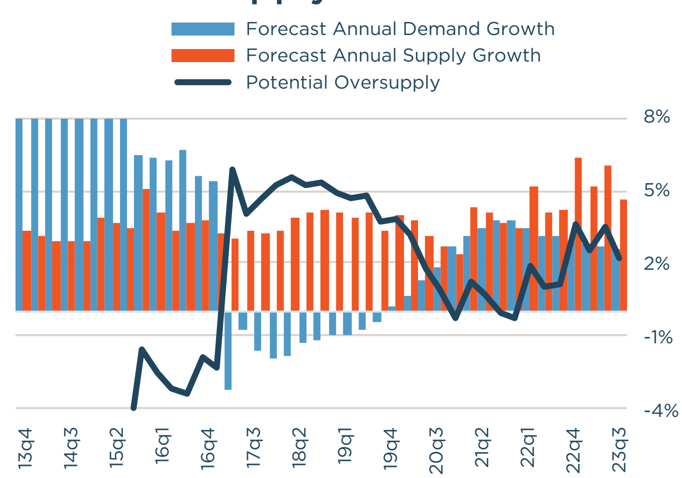
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply - Demand



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

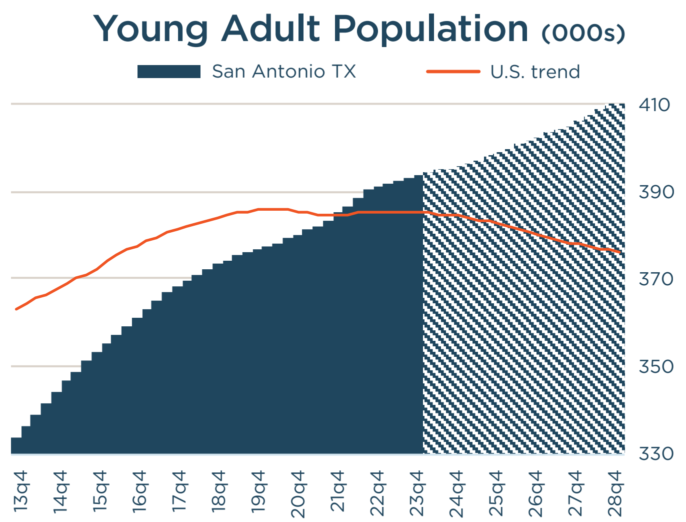
San Antonio, TX

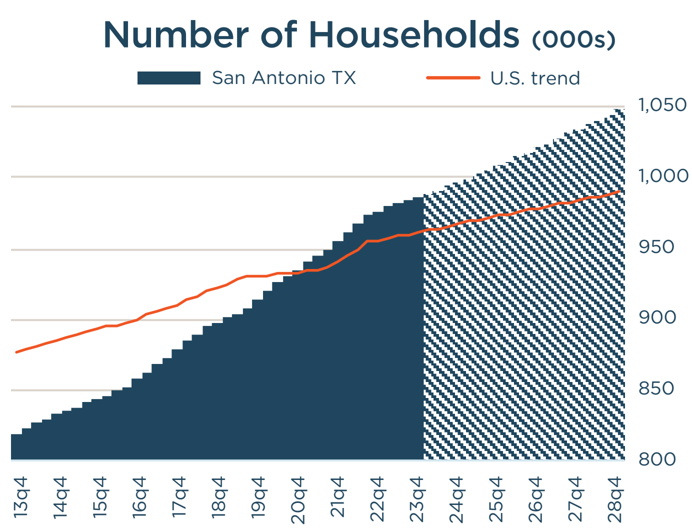
San Antonio has become an interesting market, though perhaps more for acquisition than for development. Only 80 miles from Austin, it is already seeing in-migration from its increasingly unaffordable neighbor, so it is no surprise that its northeastern suburban areas should be especially appealing.

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 18 thousand at 0.9 percent per year, trailing only Austin, Charlotte, and Nashville), **Number of Households** (up 60 thousand at 1.2 percent per year), and total employment (up 50 thousand at 0.8 percent per year.

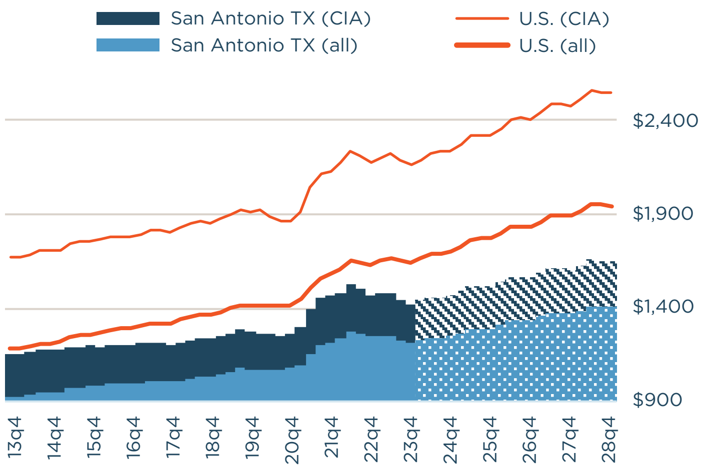
Homebuyer affordability problems are likely to provide a very slight boost to rental housing demand over the next few years as house price appreciation nearly keeps pace with the national average while growth in median household income trails slightly. The main drawback of San Antonio as a development 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 $1,434 but also forecast to increase more sluggishly than most of them at just 2.8 percent per year. Middleburg's internal forecasts put supply growth at a moderate pace of 2.7 percent per year over the next three years, but we expect demand growth to be even weaker at just 0.8 percent per year.



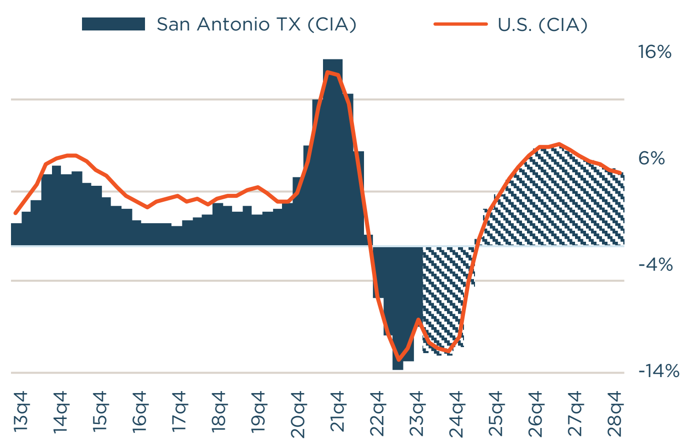


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
63,907	4,232	$176,373	0
no change	↑ 7.6%	↓ 0.3%	↓ 100%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
-0.4%	$73,000	8.7%	25 bps
↓ 1.9%	↑ 0.2%	↑ 0.3%	above US avg

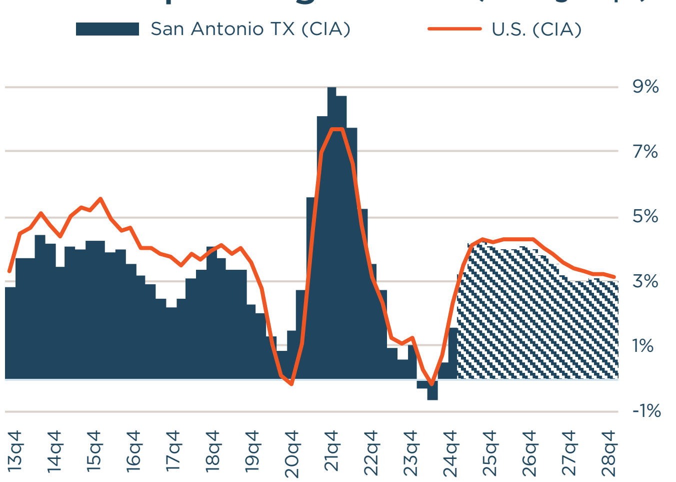
Effective Rent per Unit



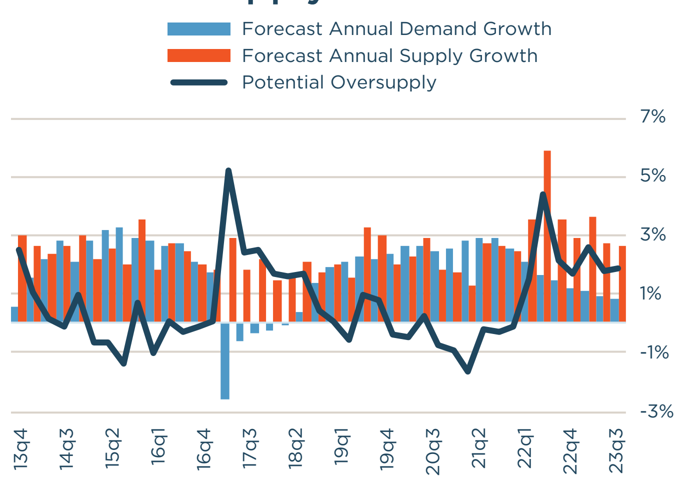
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply - Demand



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

Nashville, TN

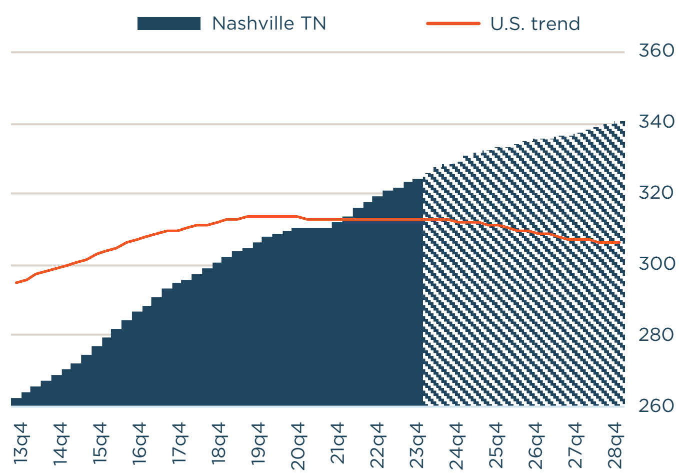
Nashville has overtaken its cousin Austin: while weaknesses are difficult to find in both markets—and while wide recognition of their strengths has created oversupply concerns in both—Middleburg now rates Nashville very slightly higher than Austin. The eastern-ish arc of suburban counties from Sumner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

MIDDLEBURG'S RANK #3 AMONG 15 LARGEST METROS

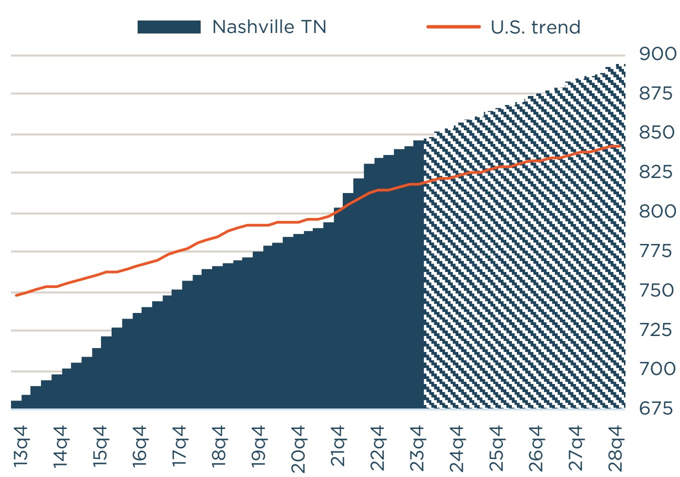
Nashville has clearly benefited from its appeal to young professionals and their corporate employers, but the pace of improvement in its housing demand drivers has slowed. True, Oxford Economics expects that growth in Nashville's **Young Adult Population** will continue to trail only Austin and Charlotte at 1.0 percent per year (16 thousand). And true, growth in the **Number of Households** (1.1 percent per year or 49 thousand) and total employment (0.8 percent per year or 45 thousand) should continue to exceed the national averages comfortably (0.6 and 0.4 respectively)—but those paces are decidedly more middle-of-the-road than they used to be by the standards of other 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 5.3 percent per year over the next three years, easily outpacing demand growth of 0.1 percent per year. In keeping with this forecast, CoStar predicts that growth in **Effective Rent per Unit** will trail most other metro areas in Middleburg's arc at just 2.8 percent per year (compared with a national average of 3.2 percent per year) while growth in **Net Operating Income** and market sale price per unit are also forecast to be middle-of-the-road at just 3.2 and 4.4 percent per year respectively compared with national averages of 3.3 and 4.5.

Young Adult Population (000s)



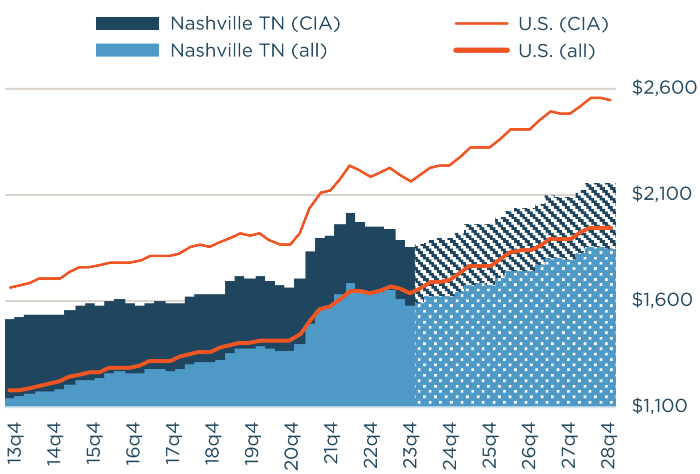
Number of Households (000s)



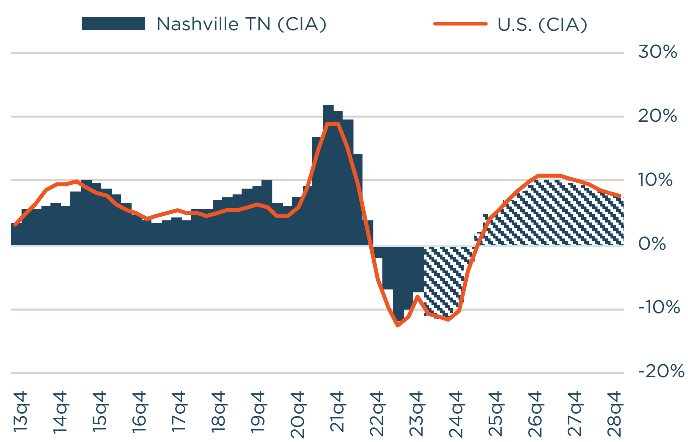
CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
52,381	12,351	$306,156	1,485
↑ 1.6%	↓ 6.3%	↓ 0.7%	↑ 244%

12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
0.5%	$84,080	7.5%	+19 bps
↓ 0.2%	no change	↑ 0.2%	above US avg

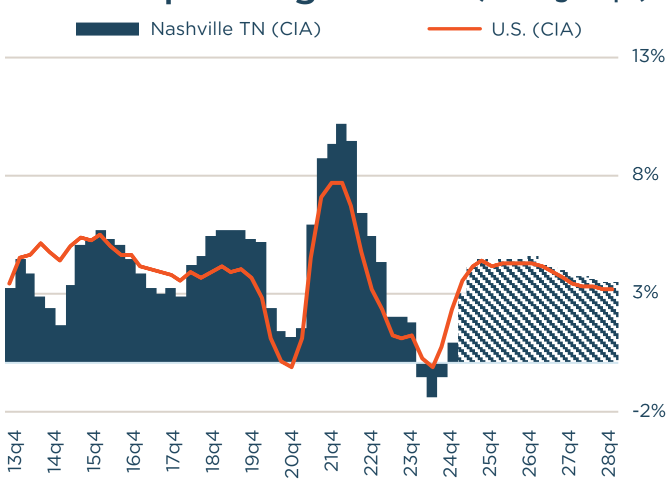
Effective Rent per Unit



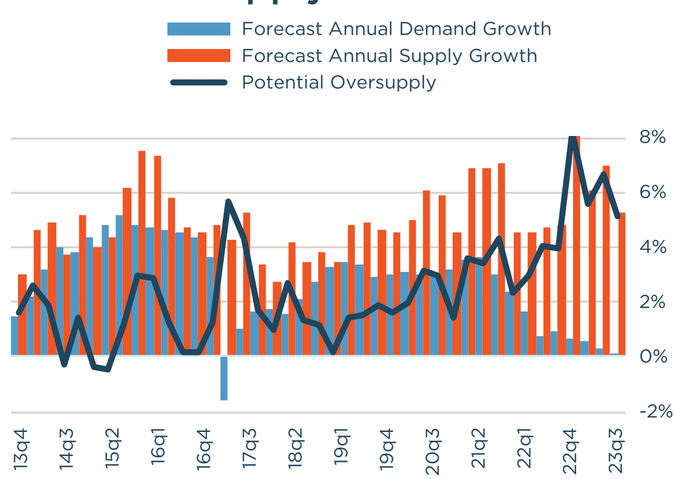
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply - Demand



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

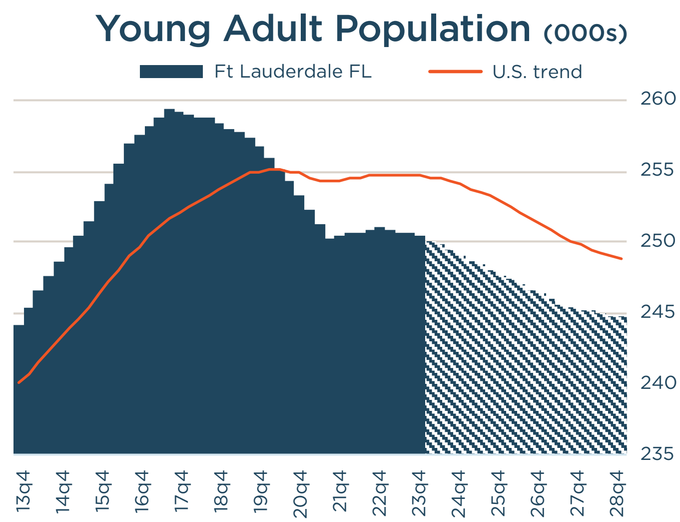
Fort Lauderdale, FL

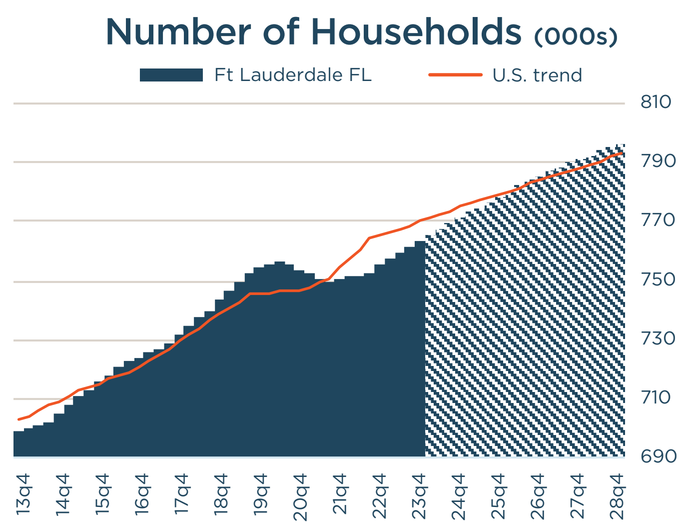
The Fort Lauderdale market shares much in common with its near neighbors Miami and Palm Beach—but those shared traits are the ones most likely to make them appeal more to other developers and investors than to Middleburg.

MIDDLEBURG'S RANK #9 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 $2,684 average **Effective Rent per Class A Unit** trails only Miami's $2,862 and Palm Beach's $2,787. The transaction market fully reflects that strength, with Class A apartments selling at an average price of $379,007 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 be anemic by the standards of primary metro areas in our part of the country.

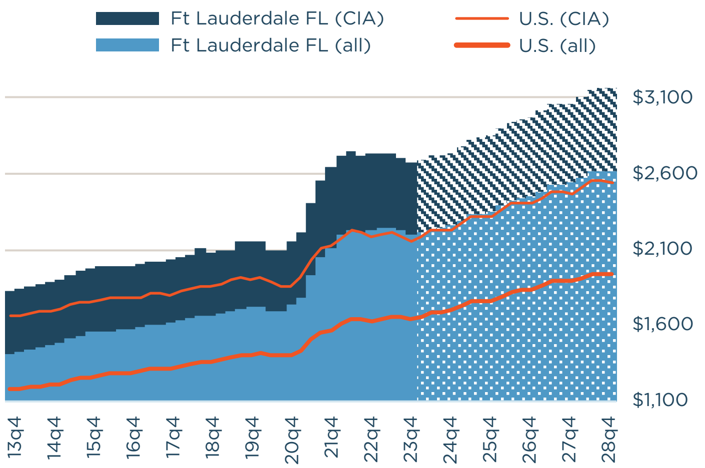
For example, Oxford Economics forecasts that the **Young Adult Population** will contract by 6 thousand over the next five years at -0.5 percent per year, identical to the national average, while total employment will grow by just 29 thousand at 0.6 percent per year and the **Number of Households** will grow by just 33 thousand at 0.8 percent per year. On the other hand, Middleburg forecasts the average growth rate of demand (3.0 percent per year) actually to outpace the average growth rate of supply (2.8 percent per year), reversing the oversupply concern in more dynamic markets--and Costar's forecasts for the expected growth rates of **Effective Rent per Unit** (3.4 percent per year), **Net Operating Income** (3.4 percent per year), and market sale price per unit (4.9 percent per year) are comfortably above average for our part of the country, making Fort Lauderdale impossible to ignore.



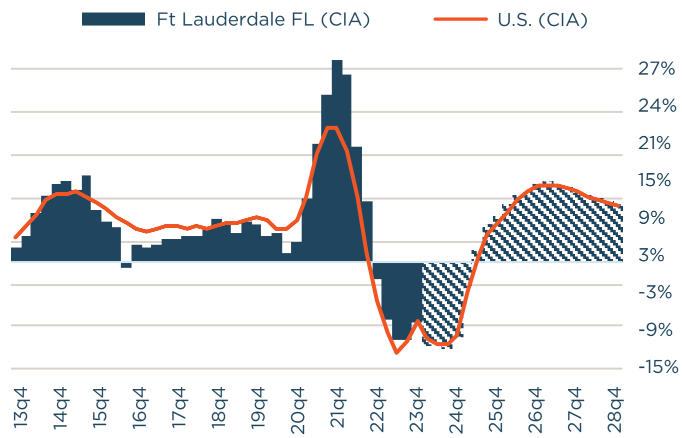


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	APARTMENT UNITS SOLD
33,532	5,165	$379,007	1,266
↑ 1.8%	↓ 10%	↓ 0.9%	↓ 20%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
3.9%	$73,840	6.0%	4 bps
↓ 1.8%	↑ 0.1%	↑ 0.2%	above US avg

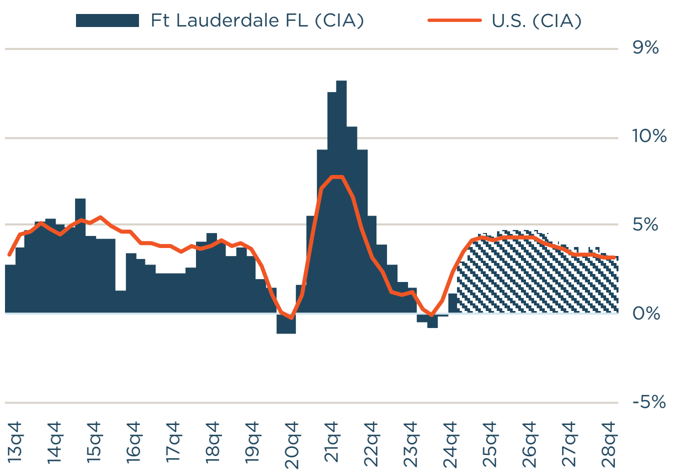
Effective Rent per Unit



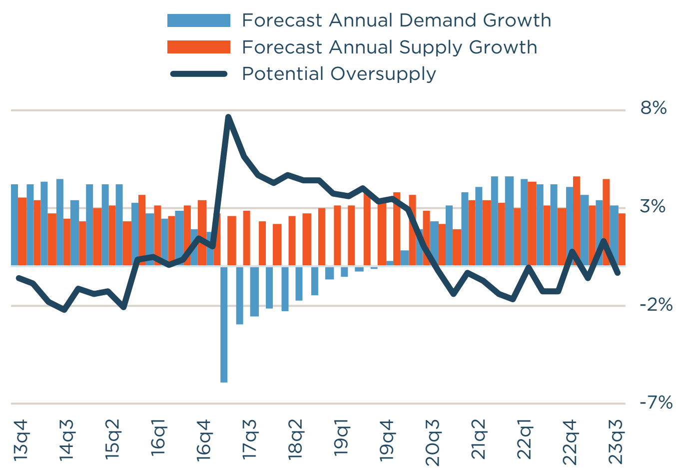
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply - Demand



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

Jacksonville, FL

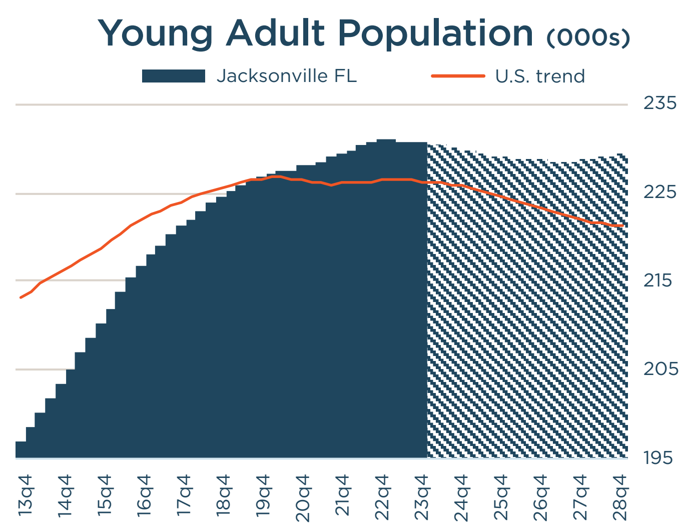
Jacksonville's economy is continuing to diversify beyond its former over-reliance on the cruise industry and other port activities, especially with growth in financial services. Current conditions make Duval County's coastal neighbors, Nassau and St. Johns, especially appealing.

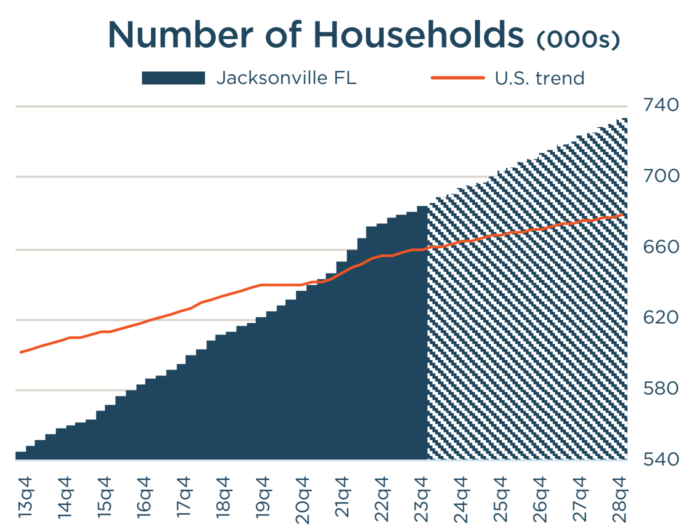
MIDDLEBURG'S RANK #12 AMONG 15 LARGEST METROS

Oxford Economics forecasts that the **Number of Households** in Jacksonville will increase by 49 thousand over the next five years at 1.4 percent per year, comfortably above the national pace of 0.6 percent per year and higher than in most primary metro areas in Middleburg's part of the country, while total employment will grow at 0.7 percent per year, resulting in 27 thousand additional jobs. The **Young Adult Population**, however, is expected to shrink slightly at -0.1% per year, better than the national average of -0.5% per year but worse than most other large metro areas in Middleburg's arc.

Neither is a homeownership affordability problem likely to drive apartment demand, as house prices are expected to grow at substantially less than the national pace (1.6 vs 2.6 percent per year) while growth in median household income comes closer to the national average (2.7 vs 3.2 percent per year). And Middleburg's own analysis suggests that supply growth over the next three years will exceed demand growth by 2.9 percent per year, giving rise to a moderate oversupply concern.

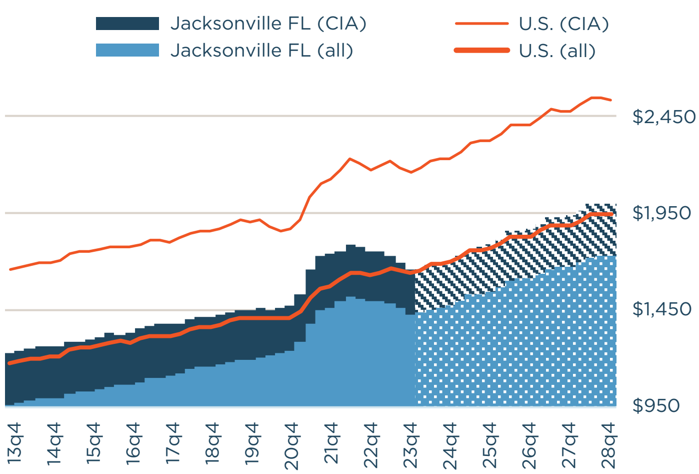
Despite these warning signs, CoStar expects that Jacksonville's rental housing fundamentals are likely to remain favorable. **Effective Rent per Unit**, for example, is forecast to grow by 3.6 percent per year, trailing only Tampa and Palm Beach among large metro areas in Middleburg's arc, while growth in **Net Operating Income** and market sale price per unit are forecast to lead all rivals at 4.2 and 5.4 percent per year respectively.



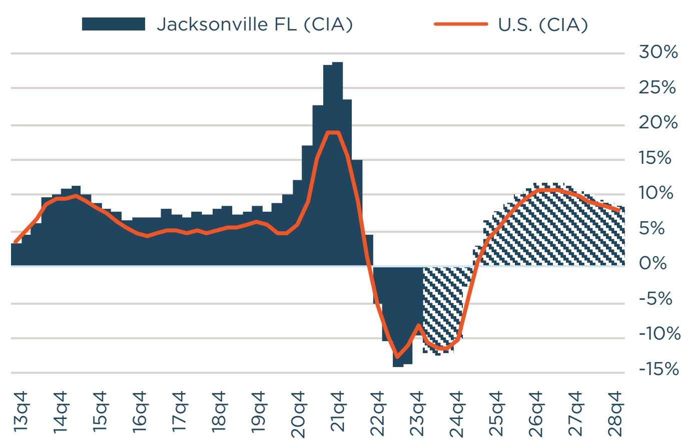


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
22,051	4,419	$226,071	291
no change	↑ 11%	↓ 0.9%	↓ 58%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
2.3%	$82,120	7.4%	-5 bps
↑ 0.1%	↑ 0.1%	↑ 0.3%	below US avg

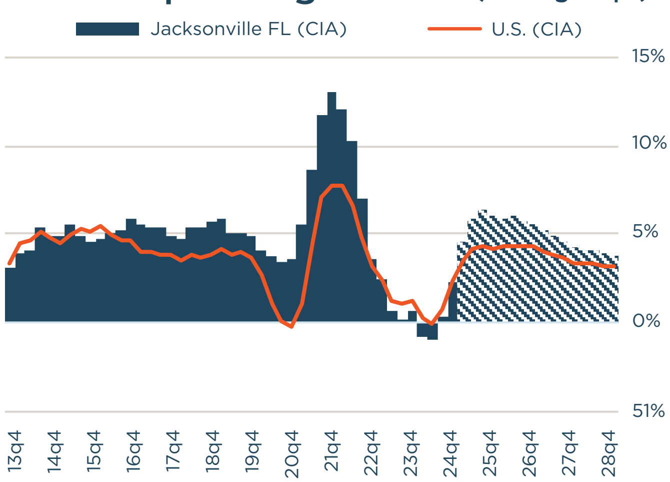
Effective Rent per Unit



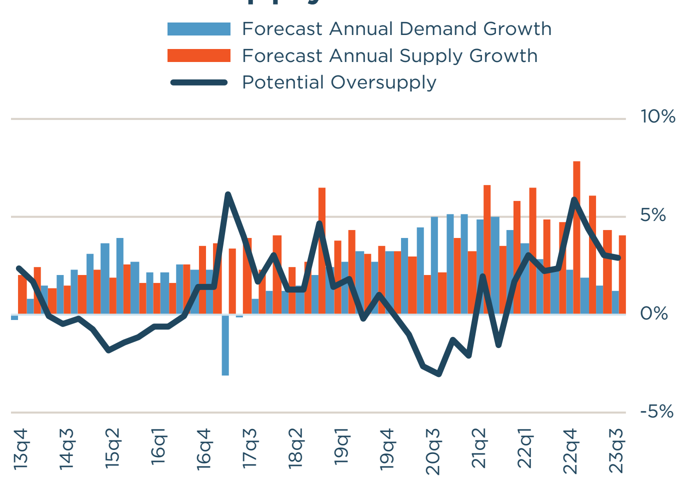
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply - Demand



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

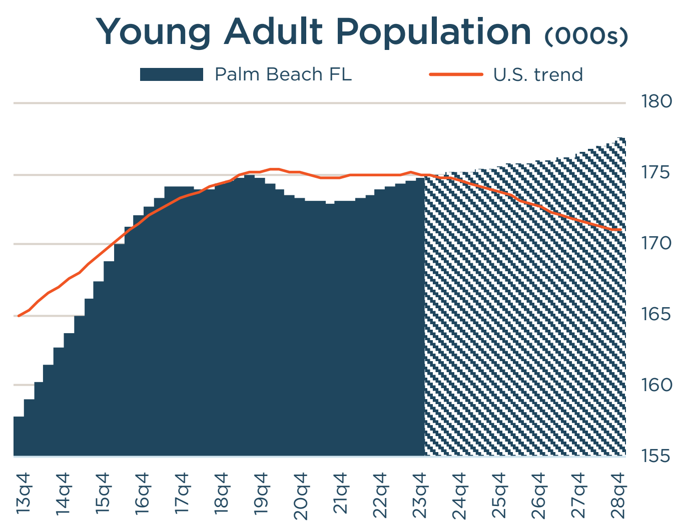
Palm Beach, FL

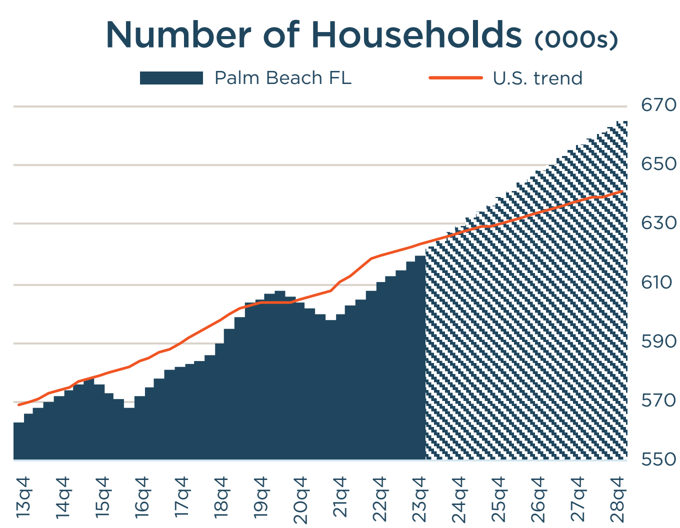
The rental housing market in Palm Beach—expensive and skewed toward wealthy retirees, like its near neighbors Miami and Fort Lauderdale, except with more promising demographic trends—will generally appeal to developers other than Middleburg but is absolutely worth continuing to surveil.

MIDDLEBURG'S RANK #1 AMONG 15 LARGEST METROS

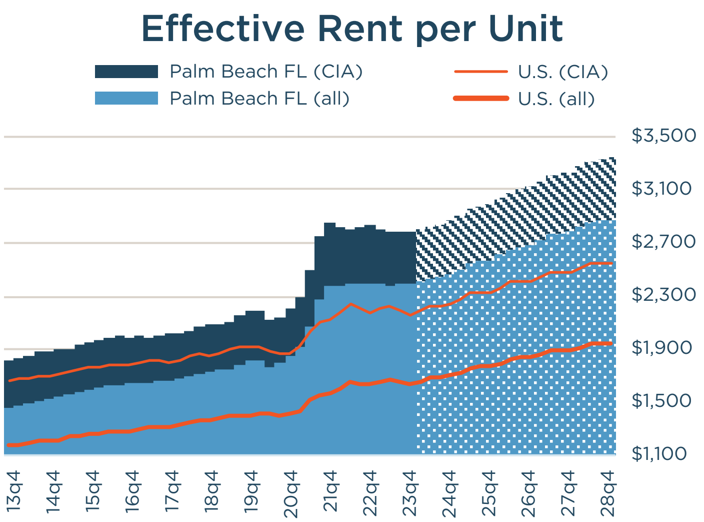
Chief among the signs of a niche housing market is effective market rent per Class A unit of $2,787 which is second only to Miami at $2,862 despite a median household income that is low by the standards of large metro areas in Middleburg's arc at just $80,120 (compared with $77,280 for the country as a whole). Nevertheless, the **Young Adult Population** is expected to grow over the next five years at 0.3 percent per year, which is certainly good news relative to the -0.5% expected for the nation as a whole, and Palm Beach is expected to see reasonable growth in both the **Number of Households** (1.4 percent per year, or 45 thousand) and total employment (0.7 percent per year, or 24 thousand).

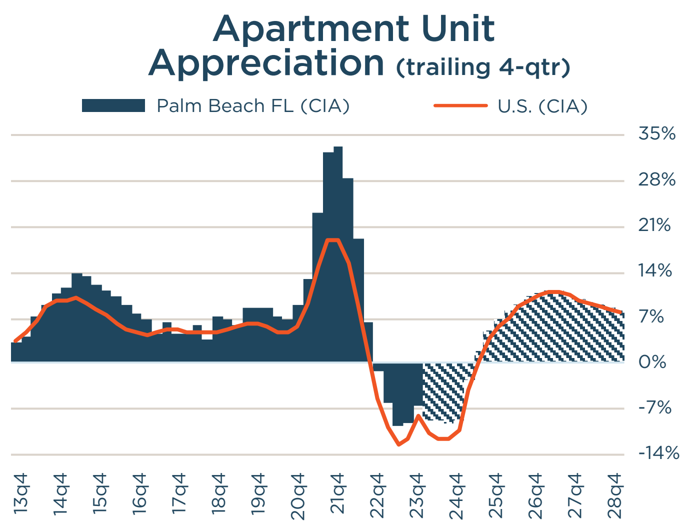
Homeownership affordability problems should provide an additional boost to rental housing demand, with anticipated growth in house prices nearly keeping pace with the national average at 2.5 percent per year while median household income lags the national average at just 2.8 percent per year. Partly for this reason, CoStar expects growth in **Effective Rent per Unit** to outpace every other metro in Middleburg's arc except Tampa at 3.4 percent per year while growth in **Net Operating Income** and market sale price per unit are forecast to trail only Tampa, Richmond, and Jacksonville at 3.7 percent per year. Middleburg's own analysis suggests that demand growth is likely to outpace supply growth by 0.9 percent per year over the next three years—the most favorable supply-demand balance among primary markets in our territory other than Tampa.

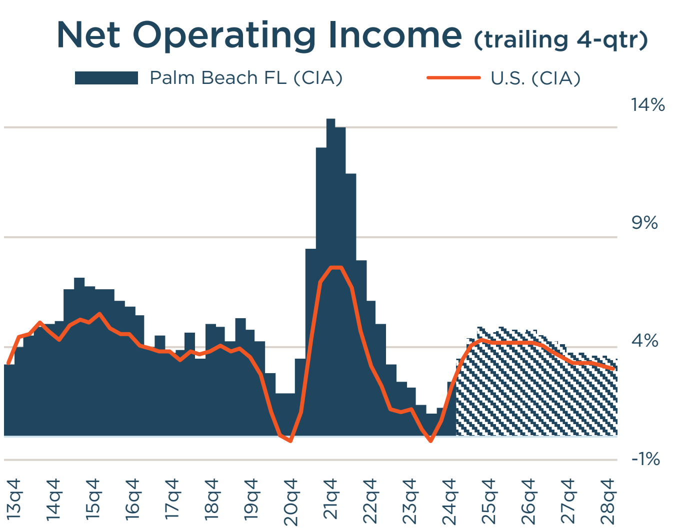


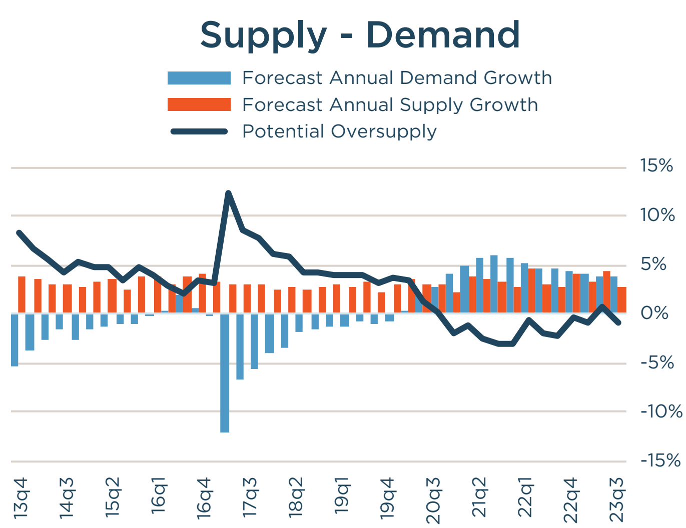


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	APARTMENT UNITS SOLD
26,536	2,897	$388,592	432
↑ 1.2%	↓ 9.9%	↓ 0.1%	↓ 24%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
2.7%	$80,120	5.9%	-55 bps
↓ 3.4%	↓ 0.5%	↓ 0.4%	below US avg









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

Raleigh, NC

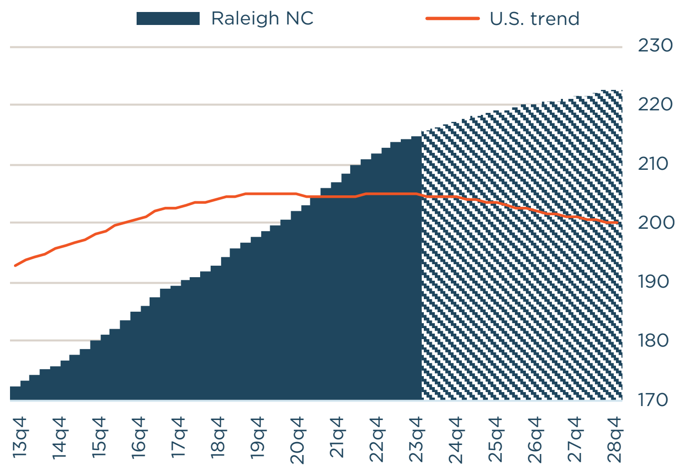
In terms of its attractiveness as a rental housing market, Raleigh can perhaps best be described as a somewhat smaller and much more affordable version of Austin or Nashville. As in those markets—but not quite as severely—oversupply concerns have arisen in Raleigh.

MIDDLEBURG'S RANK #6 AMONG 15 LARGEST METROS

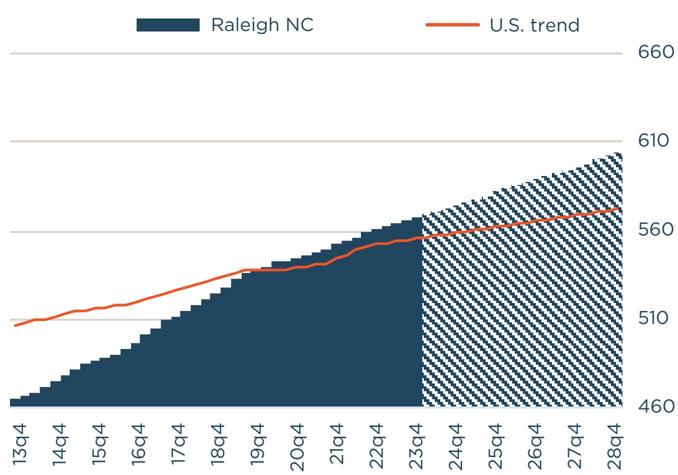
Raleigh has a diverse economic base and an uncommonly high-education, high-income population—a characteristic that it is likely to retain given its reputation as "the low-cost tech hub" and decisions by a large number of tech and life-sciences companies such as IBM, GlaxoSmithKline, and SAS to expand 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 0.7 percent per year (8 thousand), its **Number of Households** by 1.2 percent per year (36 thousand), and its total employment by 1.0 percent per year (37 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 5.7 percent per year over the next three years—a pace trailing only that in 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 about average for large metro areas in Middleburg's arc at 3.0 percent per year, 3.4 percent per year, and 4.5 percent per year respectively.

Young Adult Population (000s)

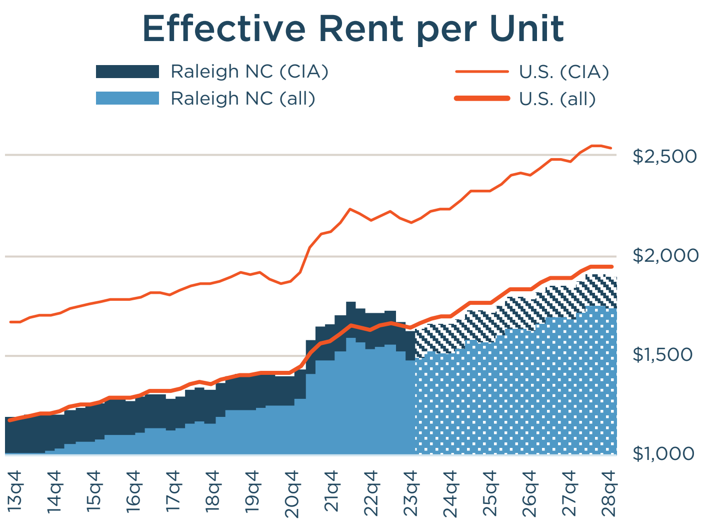


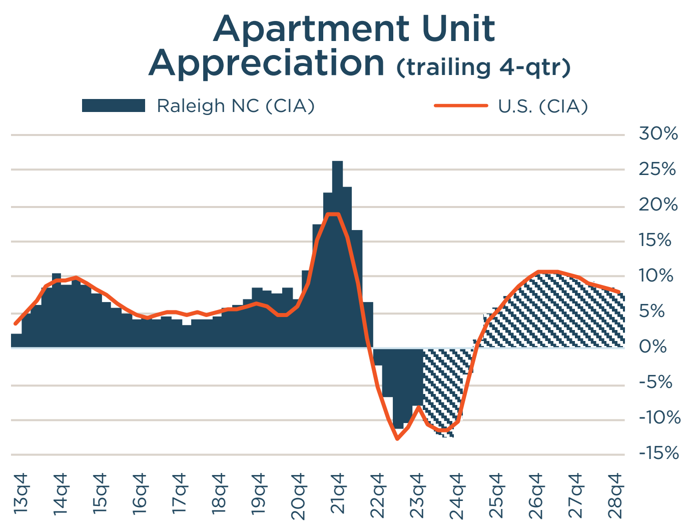
Number of Households (000s)

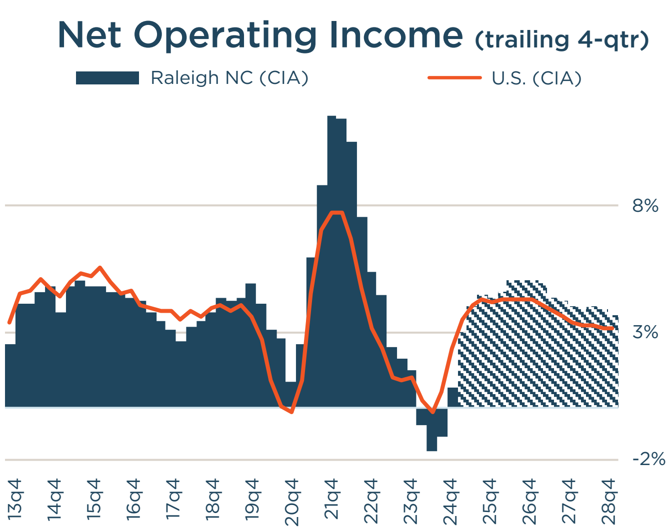


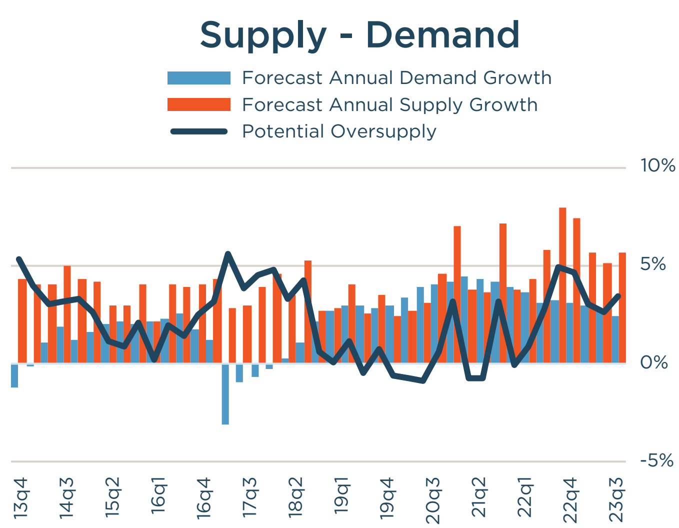
CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	APARTMENT UNITS SOLD
32,782	5,304	$277,833	616
↑ 3.8%	↓ 13%	↓ 1.7%	↓ 75%

12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
3.2%	$97,200	7.5%	-21 bps
↑ 1.4%	↑ 0.4%	↑ 0.1%	below US avg









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

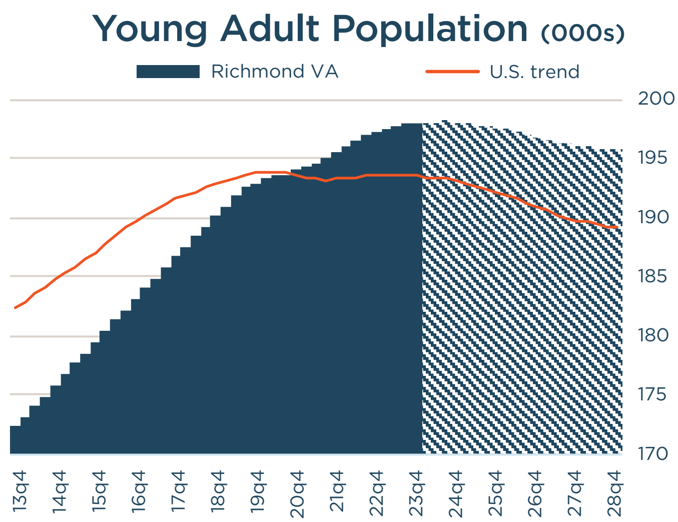
Richmond, VA

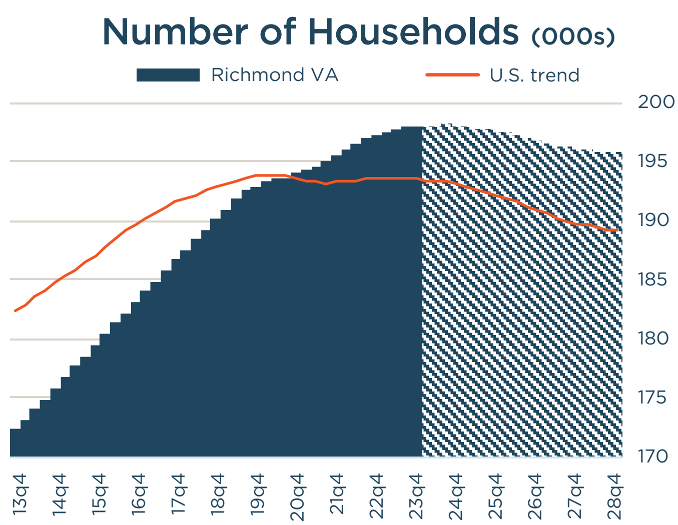
Not only has Richmond transformed itself into a diversified regional hub with particular strength in financial services, but it has also transformed its rental housing market into a collection of genuinely strong fundamentals.

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 -0.5 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 0.5 and 0.8 percent per year, respectively. Moreover, homeownership affordability is not anticipated to provide any additional boost to rental housing demand, with house prices expected to grow at an anemic 1.4 percent per year, falling well short of median household income growth of 3.0 percent per year.

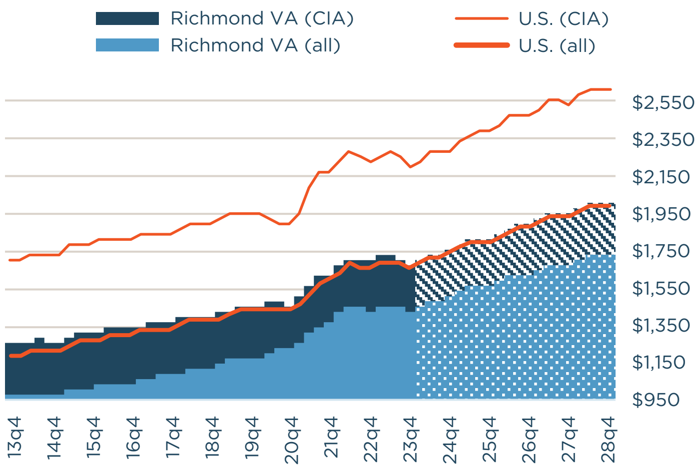
The moderate demand drivers have stimulated an equally moderate supply response. Middleburg's internal modeling suggests that supply growth in Richmond over the next three years will average 4.1 percent per year, about average for large cities in Middleburg's part of the country, while demand growth will fall slightly short at 2.1 percent per year. This relatively balanced supply-demand situation should be good news for rental housing fundamentals: CoStar forecasts growth in both **Effective Rent per Unit** and **Net Operating Income** at 3.5 percent per year, leading every other large metro in Middleburg's territory except Tampa, Jacksonville, and Palm Beach, while growth in market sale price per unit should be similarly strong at 4.5 percent per year.



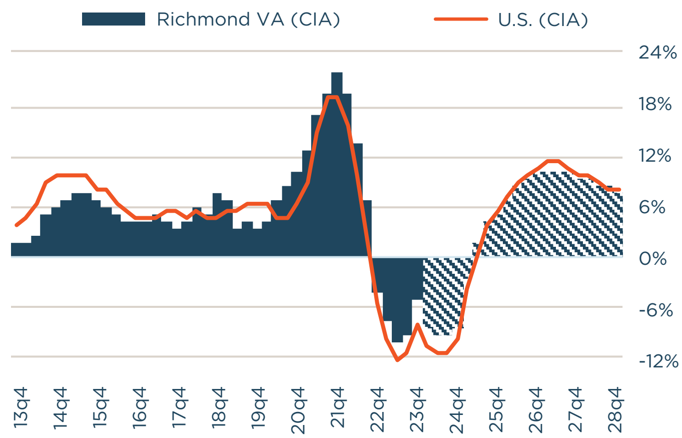


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	APARTMENT UNITS SOLD
26,450	3,517	$255,188	283
↑ 8.0%	↓ 33%	↓ 0.2%	↓ 29%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
6.0%	$84,520	5.1%	+78 bps
↓ 1.5%	↑ 0.2%	↑ 0.2%	above US avg

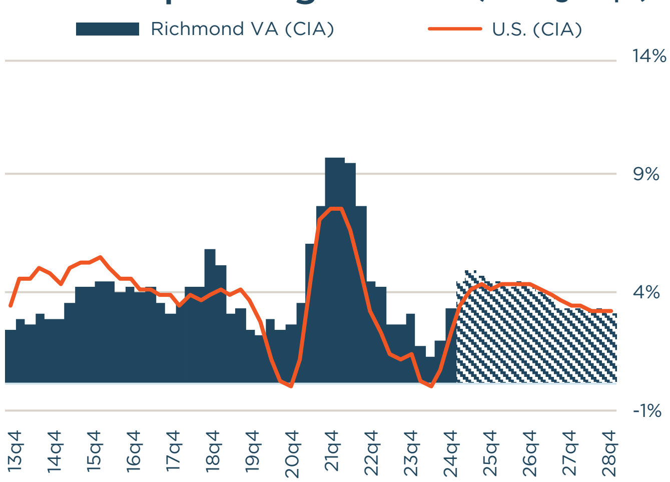
Effective Rent per Unit



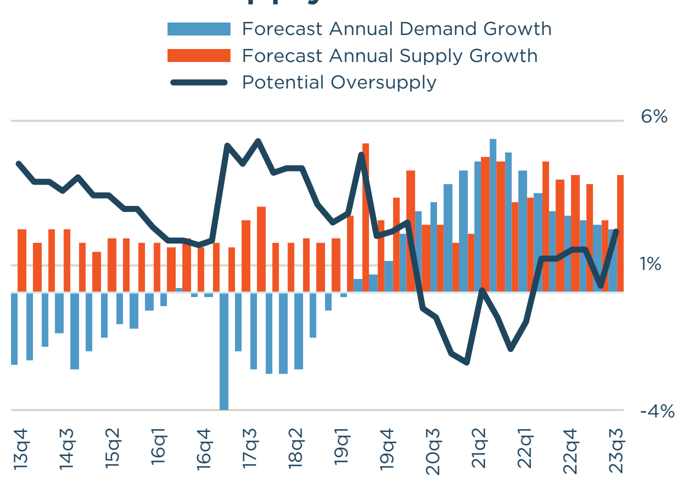
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply - Demand



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

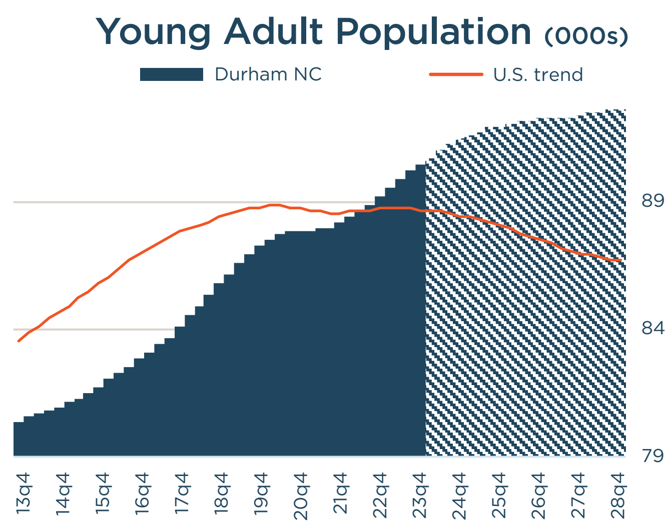
ALSO ON OUR RADAR

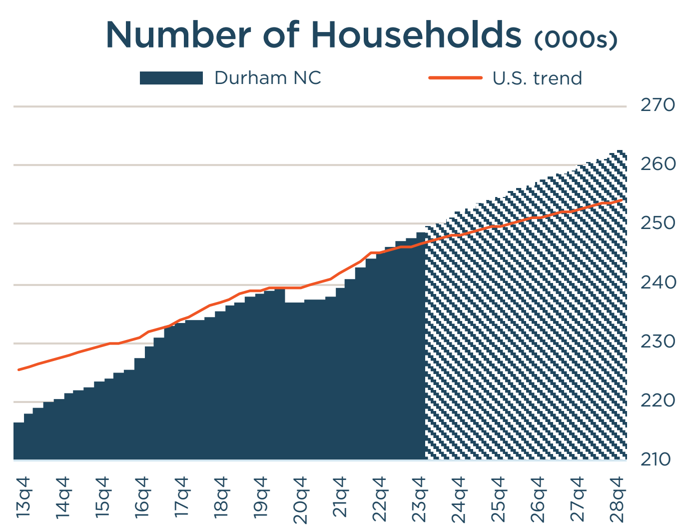
Durham, NC

Durham has become an excellent example of the opportunity in smaller markets, with rental housing market fundamentals that compare closely to larger cities in Middleburg's arc but without the strong supply response seen in more-visible metros.

The likely growth of Durham's rental housing market is real, supported in part by Duke University and their Health System and IBM. Oxford Economics forecasts that, over the next five years, the **Young Adult Population** in this university town will expand by 0.5 percent per year (compared with contraction at -0.5 percent per year nationally), while growth in both the **Number of Households** and total employment will be even stronger at 1.1 percent per year (14 thousand households) and 0.7 percent per year (12 thousand jobs). Rental housing demand should be boosted by house prices growing at 3.4 percent per year, solidly exceeding growth in median household incomes at just 2.9 percent per year.

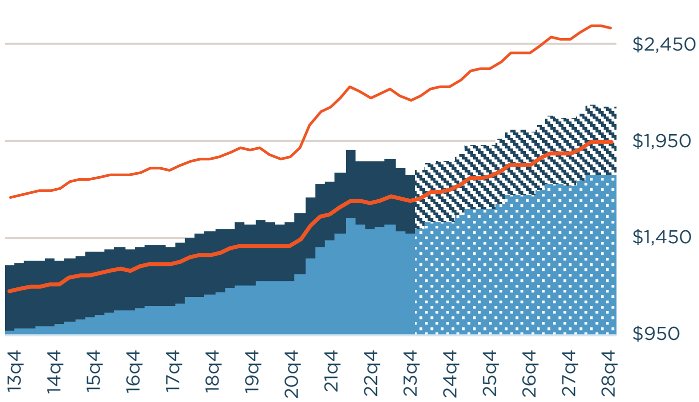
The demographic forces are likely to provide some boost to the rental housing market, with CoStar forecasting above-average growth of **Effective Rent per Unit** at 3.4 percent per year, **Net Operating Income** at 3.6 per year, and market sale price per unit at 4.8 percent per year. Perhaps most importantly, Middleburg forecasts that demand growth averaging 4.4 percent per year over the next three years will comfortably exceed supply growth averaging just 3.6 percent per year.



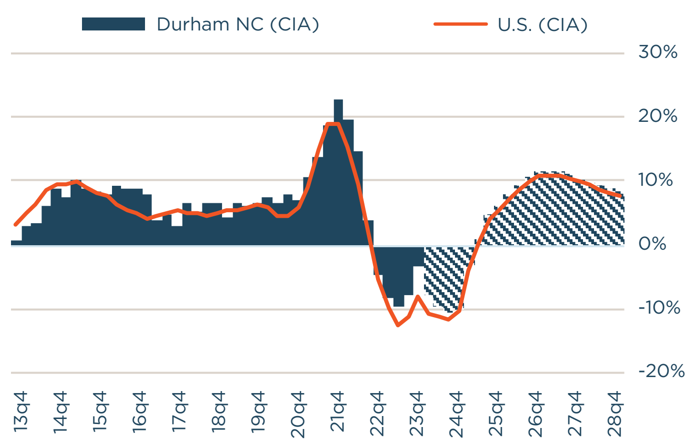


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT UNITS SOLD
58,787 ↑ 1.1%	5,665 ↑ 5.2%	$213,580 ↑ 0.4%	929 ↑ 7.8%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**STABILIZED APARTMENT VACANCY RATE**	**CLASS A APARTMENT CAP RATE GUIDANCE**
2.4% ↓ 0.1%	$82,640 ↑ 0.4%	7.5% ↑ 0.2%	-6 bps below US avg

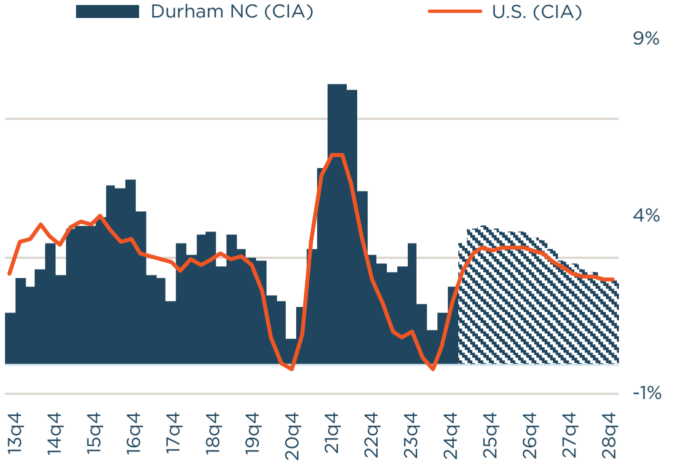
Effective Rent per Unit



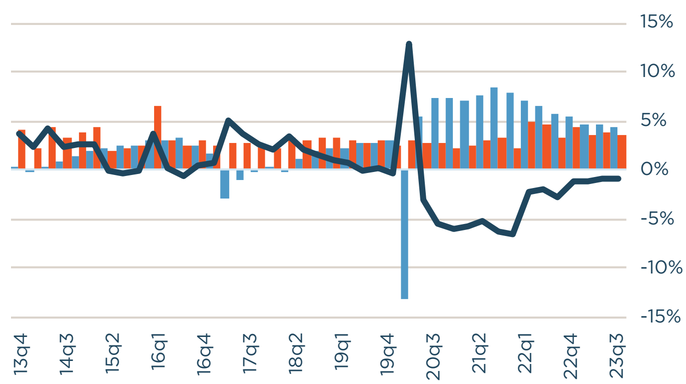
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply - Demand



Representative large employers: Duke University, IBM, Durham Public Schools, GlaxoSmithKline, Blue Cross & Blue Shield of NC

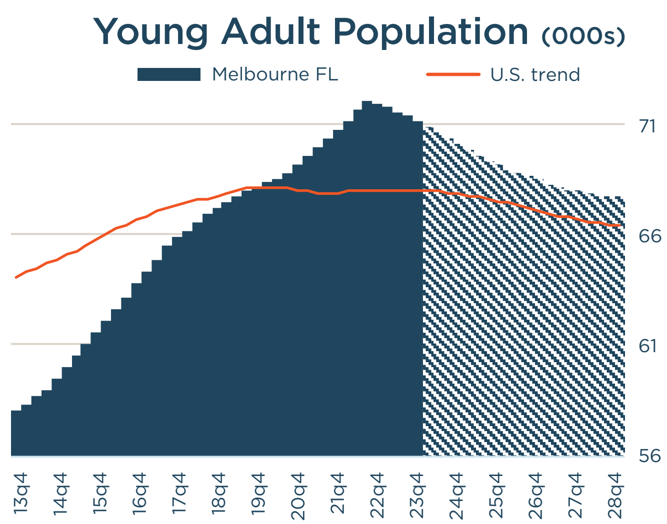
ALSO ON OUR RADAR

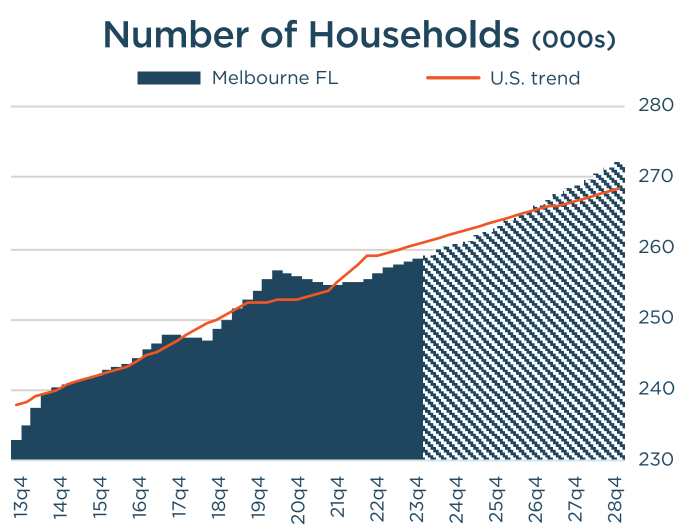
Melbourne, FL

The Palm Bay-Melbourne metro area has a surprisingly diverse economic base and has seen a strong influx of young adults over the past decade. As in many other coastal metro areas, though, Melbourne's future growth seems likely to reflect its appeal as an alternative to other retirement destinations.

Oxford Economics forecasts that the **Number of Households** will grow at 1.0 percent per year over the next five years, comfortably above the national average of 0.6 percent per year. Total employment, however, is expected to grow at a below-average pace of just 0.3 percent per year. The big loser is expected to be Melbourne's **Young Adult Population**, which is expected to continue declining by -1.0 percent per year, twice the national rate of contraction. Relatively weak growth in median household income at 2.8 percent per year—again, a sign of its growing appeal among retirees—along with fairly strong continued growth in house prices (2.7 percent per year) means that the house price to income ratio is likely to soften only very slightly while it falls more notably at the national level.

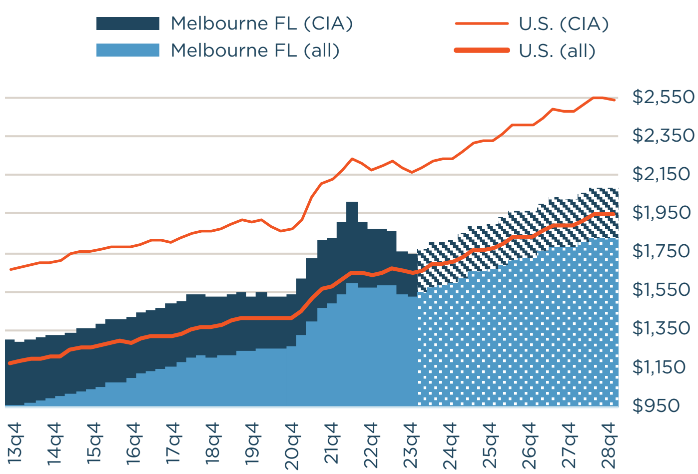
The twin boosts from growth in the number of households and exacerbated homeownership affordability are expected to grow demand for Melbourne's rental housing by 9.7 percent per year over the next three years, far above average for metro areas in Middleburg's part of the country and far exceeding the growth in supply, which we estimate at a much more moderate 3.6 percent per year. Partly as a result of this undersupply situation, CoStar projects that **Effective Rent per Unit**, **Net Operating Income**, and market sale price per unit will grow at strong paces of 3.5, 3.6 and 4.8 percent per year respectively over the next five years.



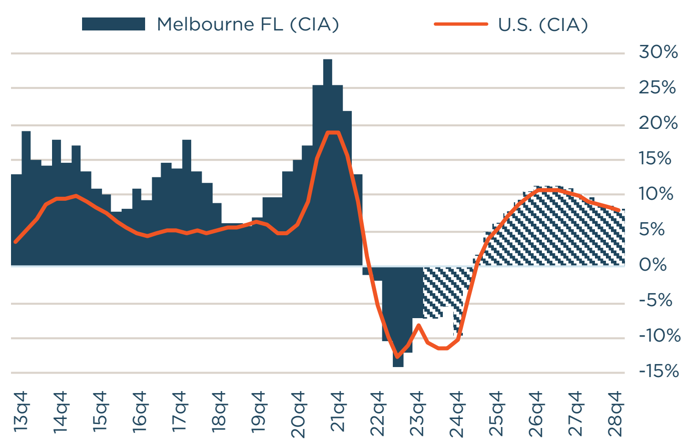


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT UNITS SOLD
27,813	2,758	$192,848	905
↑ 0.4%	↑ 5.3%	↑ 4.3%	↑ 965%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**STABILIZED APARTMENT VACANCY RATE**	**CLASS A APARTMENT CAP RATE GUIDANCE**
1.4%	$80,640	7.5%	-14 bps
↓ 1.9%	↑ 0.3%	no change	below US avg

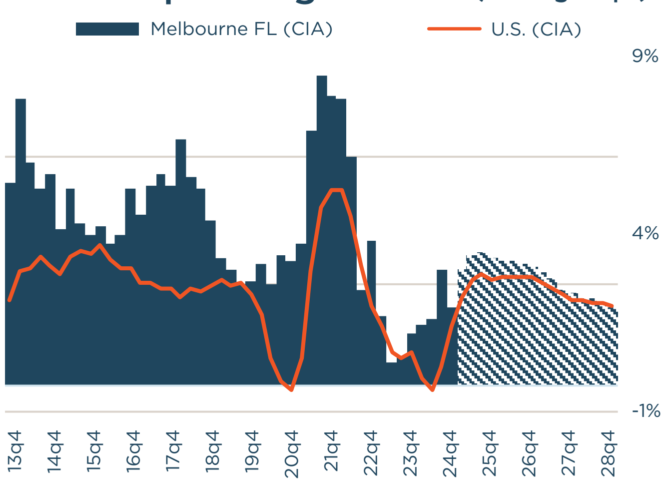
Effective Rent per Unit



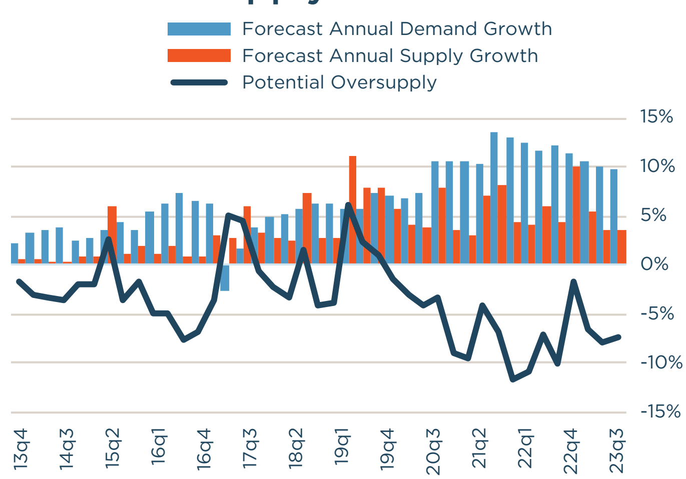
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply - Demand



Representative large employers: DRS Optronics, Harris Corporation, United Space Alliance, IntersilCorporation, MC Assembly

ALSO ON OUR RADAR

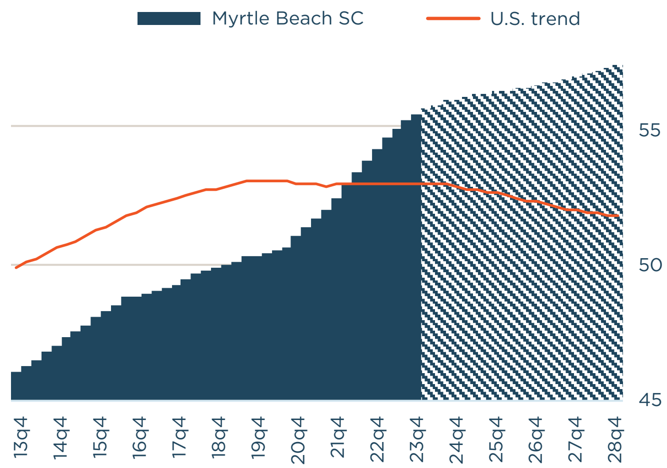
Myrtle Beach, SC

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

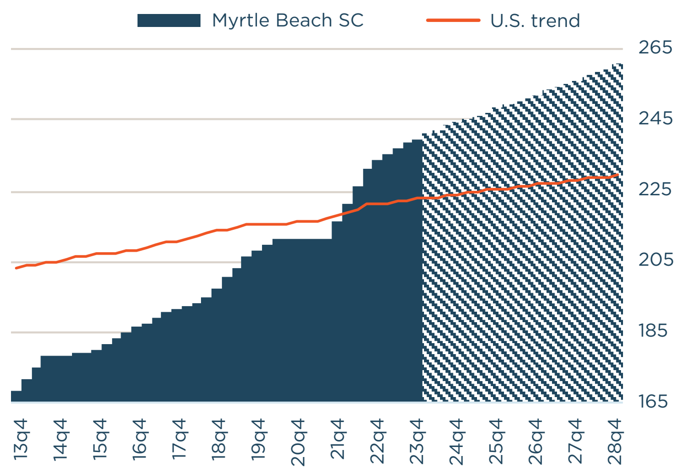
Yes, the economy is still oriented heavily toward vacationers and retirees, yet Oxford Economics forecasts that Myrtle Beach will far surpass most other metro areas in growth over the next five years in the primary drivers of rental housing demand. In particular, the **Young Adult Population** is expected to grow by 0.7 percent per year, the **Number of Households** by 1.7 percent per year, and total employment by 0.9 percent per year. Myrtle Beach's main weakness, from the point of view of underlying demand fundamentals, is median household income, which is low by national standards at just $67,440 but is expected to grow at a solid 3.3 percent per year over the next five years.

Myrtle Beach has remained stubbornly off-the-radar for most developers and capital sources, which has had two effects: supply growth has been persistently below demand growth while the rentership rate has been persistently below what would be normal in other cities with the same demographic and housing-market conditions. As a result, Middleburg projects rental housing demand to grow much more strongly than supply over the next three years, with undersupply averaging 5.1% per year. In keeping with that undersupply situation, CoStar forecasts strong growth for Myrtle Beach over the next five years in **Effective Rent per Unit** (3.4 percent per year), **Net Operating Income** (3.6 percent per year), and market sale price per unit (4.7 percent per year).

Young Adult Population (000s)



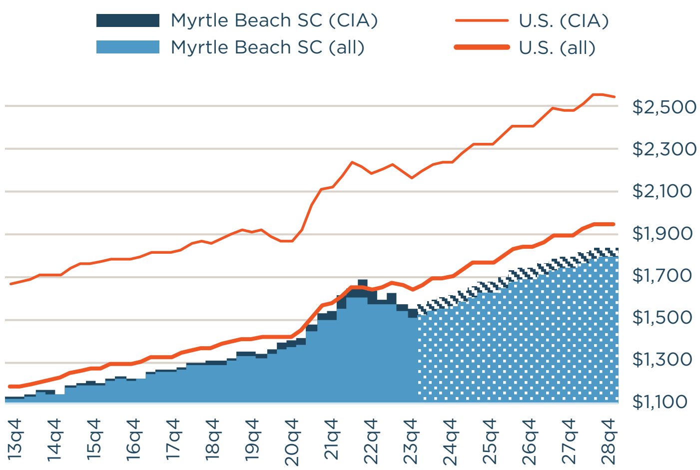
Number of Households (000s)



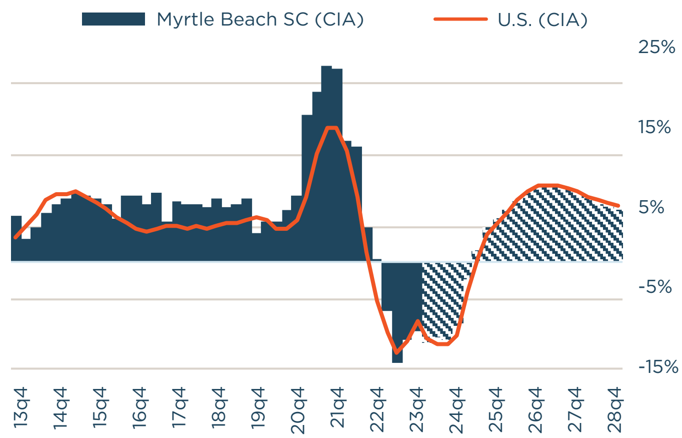
TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT UNITS SOLD
21,593	4,290	$181,649	134
↑ 3.0%	↓ 8.2%	↓ 2.0%	↓ 61%

12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	STABILIZED APARTMENT VACANCY RATE	CLASS A APARTMENT CAP RATE GUIDANCE
5.2%	$67,440	7.7%	+43 bps
↓ 0.7%	↑ 0.5%	↑ 0.2%	above US avg

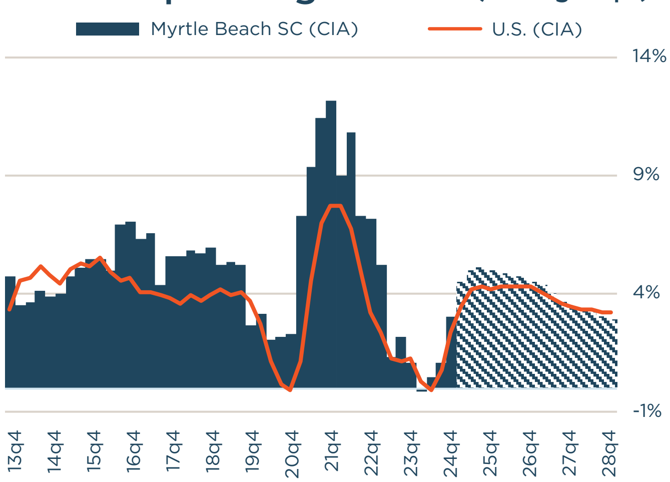
Effective Rent per Unit



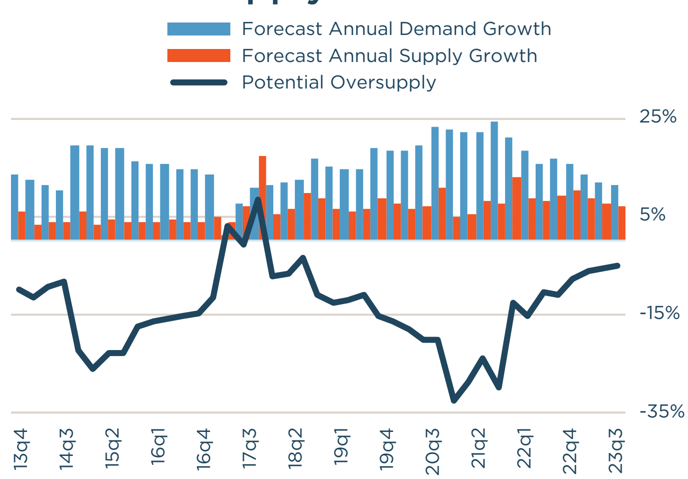
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply - Demand



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

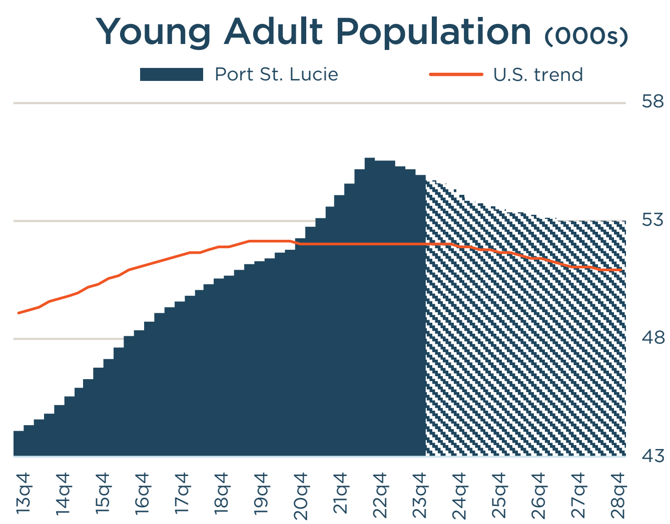
ALSO ON OUR RADAR

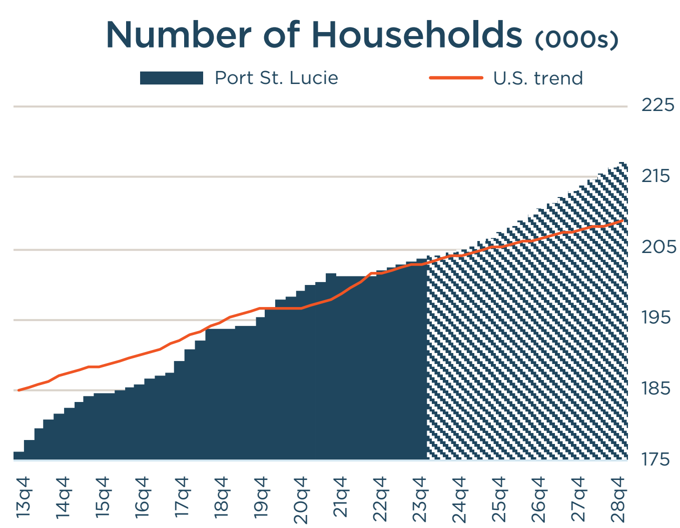
Port St. Lucie, FL

Port St Lucie's housing market increasingly resembles its southern neighbor Palm Beach, but its economy and demographics better fit Middleburg's focus on middle-market renter households—and its decidedly off-radar position has meant that its growth prospects have met a decidedly inadequate supply response.

Rental housing demand is not going to be driven in Port St Lucie by the **Young Adult Population**, which is expected to contract over the next five years at -0.7 percent per year, even worse than the national average of -0.5 percent per year. Perhaps surprisingly, however, Oxford Economics forecasts that the **Number of Households** will grow at 1.3 percent per year, well above the national average of 0.6 percent per year, while growth in total employment will also be slightly better than average at 0.8 percent per year. Moreover, the forecast for poor growth in median household incomes—a product primarily of Port St Lucie's proximity to other retirement destinations—means that homeownership affordability problems are likely to provide a slight additional stimulus to rental housing demand.

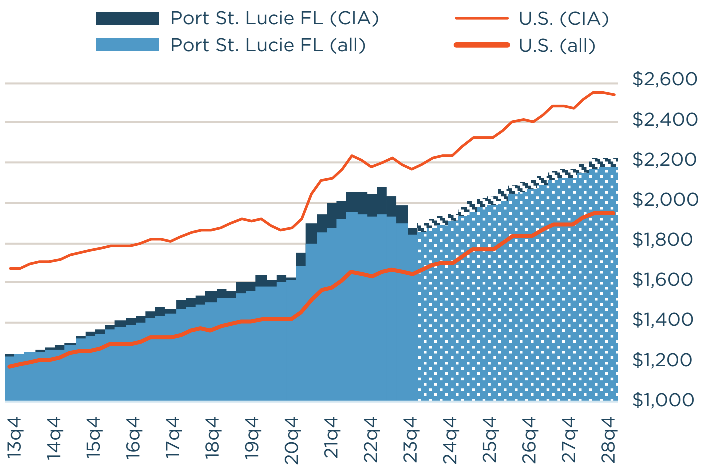
As in Myrtle Beach, however, Port St. Lucie has remained stubbornly outside the circle of "acceptable" metro areas for most developers and capital providers, resulting in a persistent shortage of rental housing. As a result, Middleburg forecasts that growth in demand for rental housing units in Port St. Lucie will far exceed growth in supply, supporting CoStar's forecasts for strong growth in **Effective Rent per Unit** (3.3 percent per year), **Net Operating Income** (3.7 percent per year), and market sale price per unit (4.7 percent per year)—all quite comparable to the forecast growth rates for Myrtle Beach.



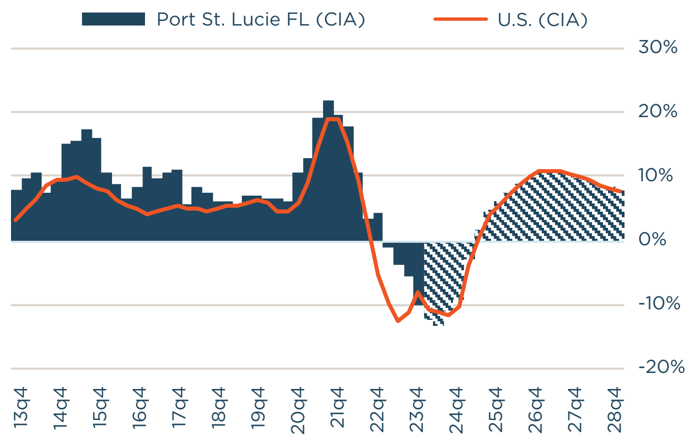


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT UNITS SOLD
14,181 ↑ 5.2%	1,158 ↓ 30%	$186,947 ↓ 0.6%	41 ↓ 88%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**STABILIZED APARTMENT VACANCY RATE**	**CLASS A APARTMENT CAP RATE GUIDANCE**
4.1% ↓ 0.4%	$72,800 ↓ 0.2%	7.7% ↓ 0.2%	-45 bps below US avg

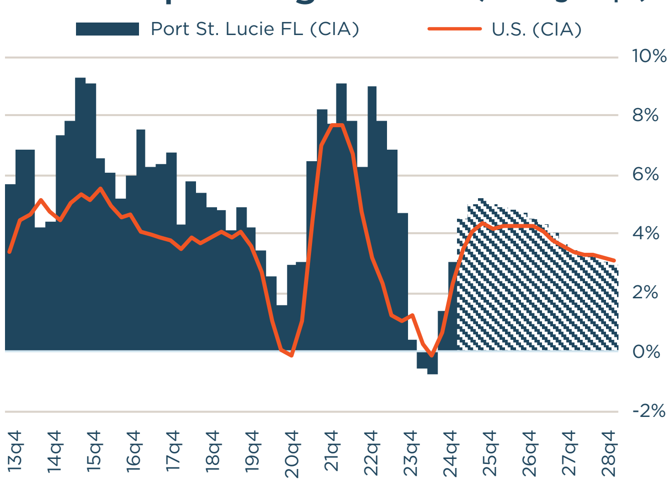
Effective Rent per Unit



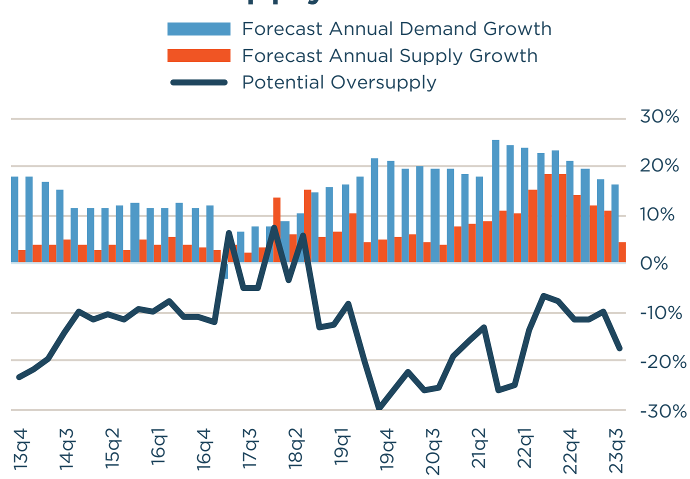
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply - Demand



Representative large employers: *Lawnwood Medical Center, Teleperformance, Walmart, Florida Power & Light, Maverick Boat Group*

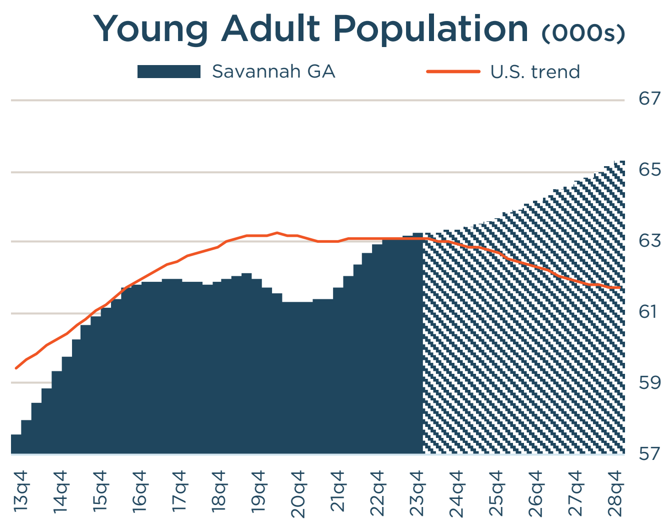
ALSO ON OUR RADAR

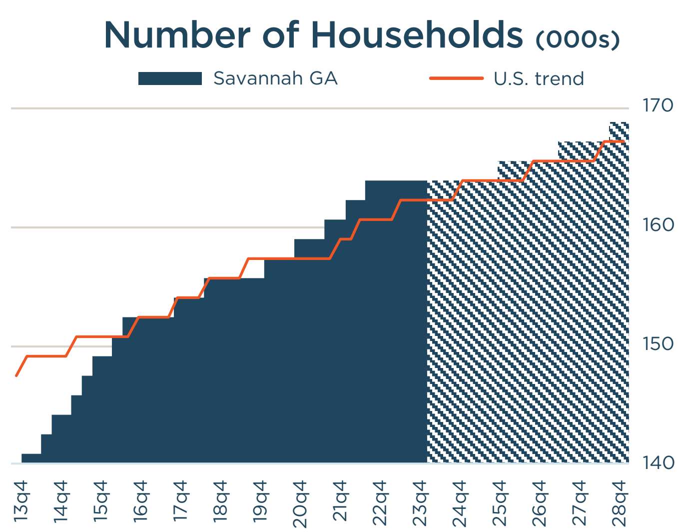
Savannah, GA

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

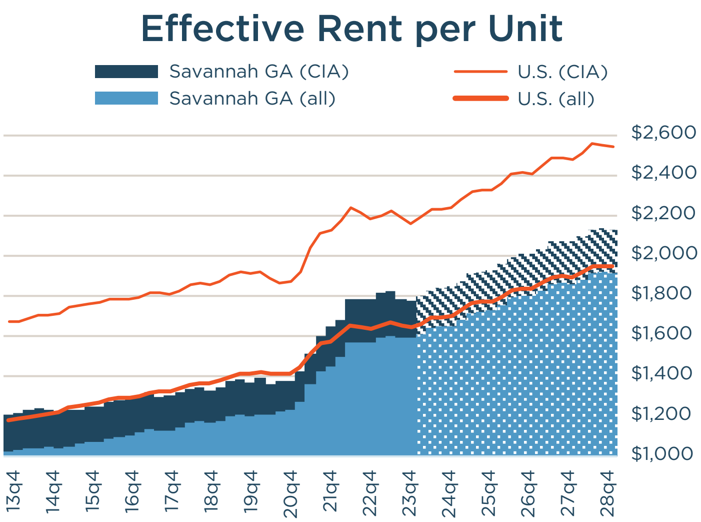
Savannah has a diversified economic base with two contrasting anchors: its visitor industry, and its port along with the manufacturing, distribution, and logistics activities closely tied to it. Oxford Economics forecasts that the **Young Adult Population**, **Number of Households**, and total employment will each grow over the next five years at about 0.6 percent per year—about equal to the national average growth in the number of households, but considerably better for jobs and especially young adults. Homeownership affordability has not been a particular issue in Savannah over the past decade, but demand for rental housing should get a small additional boost from above-average house price appreciation.

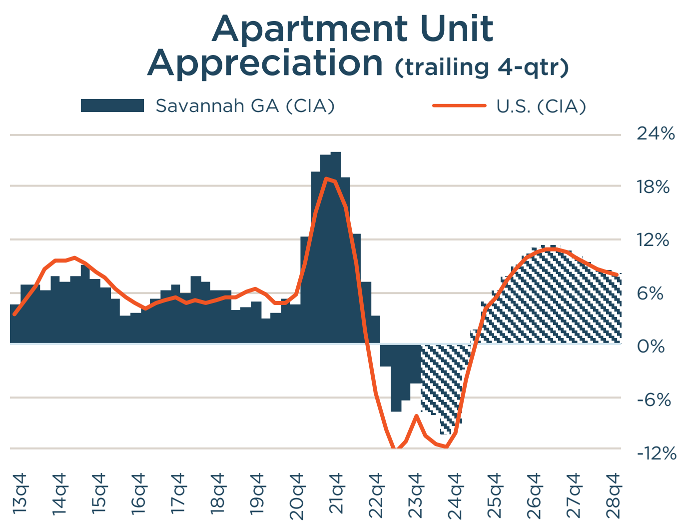
Middleburg forecasts growth in rental housing demand to fall only marginally short of supply growth over the next three years, with oversupply averaging perhaps 1 percent per year, but CoStar forecasts especially strong market fundamentals with **Effective Rent per Unit** set to grow by 3.6 percent per year, **Net Operating Income** by 3.9 percent per year, and market sale price per unit by 5.1 percent per year.

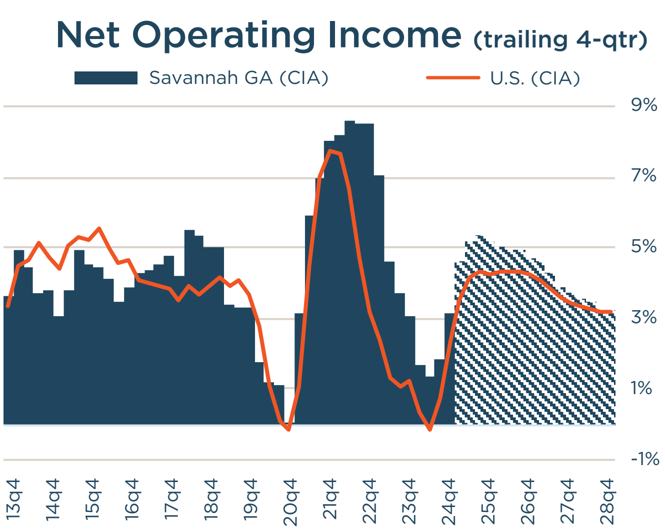


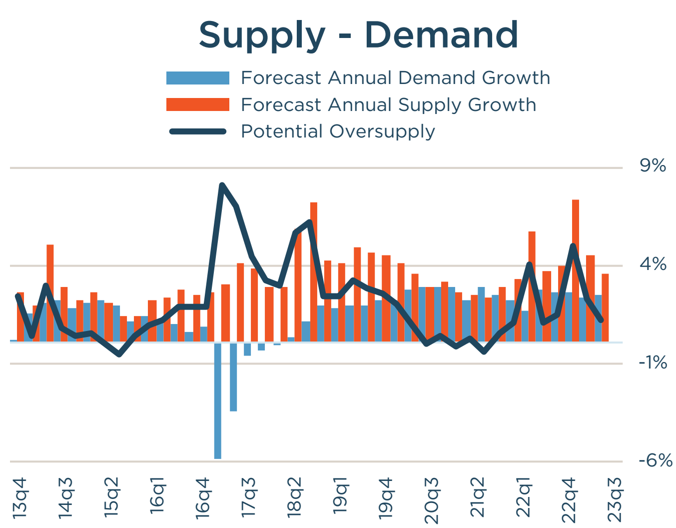


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT UNITS SOLD
32,676	3,305	$190,686	758
no change	no change	↓ 0.3%	↓ 54%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**STABILIZED APARTMENT VACANCY RATE**	**CLASS A APARTMENT CAP RATE GUIDANCE**
7.9%	$75,040	5.6%	+71 bps
↓ 1.9%	↑ 0.7%	↓ 0.3%	above US avg









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