

Middleburg Markets Report



Q3
2021

Middleburg Communities is pleased to present our Middleburg Markets Report for the 3rd quarter of 2021. This report summarizes our current thinking about the rental housing market both nationally and in those markets that we most closely evaluate for development, acquisition, or other forms of investment.

Especially at a time like this when the largest real estate investors in the country—and increasingly from overseas as well—have trained their attention on the Southeast and Southwest states, 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. You will see that 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.

With this report we would like to introduce its principal author, Middleburg's new Chief Economist and Director of Research. Dr. Brad Case, PhD, CFA, CAIA has been studying housing and housing finance—both single-family and multifamily, and both owner- and renter-occupied—for more than 30 years. His career has included a PhD from Yale University, where he worked with Nobel prize-winning economist Dr. Robert Shiller, as well as positions as an economist with Fannie Mae, Nareit, and the Federal Reserve Board. We hope you will consider Dr. Case a resource as you make your own decisions regarding investment in the rental housing asset class.

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
MANAGING PARTNER AND
CHIEF EXECUTIVE OFFICER



Kory Geans
MANAGING PARTNER AND
CHIEF INVESTMENT OFFICER

Introduction

At times the rental housing market moves slowly, even sleepily, and it can truly be said that having an equity interest in a multifamily community is “like owning a bond.” The past seven quarters have not been one of those periods.

When this year began, the average occupancy rate on apartment properties nationwide had spent more than 18 years within a comfortable range of between 92.3% and 94.1%. During the second quarter of this year it jumped to 94.9%, the highest nationwide average ever reported by CoStar, but today it stands even higher at an incredible 95.5%—and RealPage has reported that the apartment vacancy rate nationwide averages just 2.7%.

Such tight market conditions should stimulate construction of additional units, but the pandemic has created supply-chain problems that have prevented the market from supplying enough new housing units. In fact, the number of housing units for which construction has been authorized but not yet started is now at its all-time high, especially for multifamily units in the South region.

At the time that the covid pandemic hit, owners of apartment communities had enjoyed a decade of appreciation averaging 10 percent per year. During the first few months of the shutdown, a well-founded fear of widespread rent defaults knocked the annualized appreciation rate down to just 4.7%—but over the past year it has surged to 14.7%, just short of the highest 12-month appreciation rate ever recorded by Real Capital Analytics.

In April 2020 the nationwide unemployment rate surged from 4.4 percent to an astonishing 14.4 percent, but by September 2021 it had dropped back down to just 4.8 percent. Meanwhile, the Bureau of Labor Statistics announced that 3.0 percent of American workers had voluntarily quit their jobs during



Mosby at RiverLights

September, the highest nationwide quit rate ever recorded. Many of those ex-employees will choose to move to cities with better weather and better housing stock, while others will look for roomier housing to accommodate working from home.

The past seven quarters reinforce two of Middleburg Communities’ core business principles. The first is that rental housing is not a “set it and forget it” proposition—that is, it is not like a bond. Providing housing requires us to understand and value the families who live in our communities, and to respond with wisdom and compassion to changes in their circumstances. Managing apartment communities is active management. It requires the same surveillance that we use, actively, to identify opportunities and developments in the

market; it requires the same responsiveness that we practice, actively, in acquiring, developing, renovating, financing, and selling our assets.

The second core business principle is the value of research in guiding our strategic, tactical, and everyday management decisions. In this quarterly report we offer not just a summary of data pertaining to the markets we're most likely to act in; we also offer our thoughts as to how we expect our investors to benefit from our intensely data-driven approach to investing in rental housing markets.

Our Q32021 Middleburg Markets Report begins with an overview of the current national macroeconomic and housing market environment. We then present our analysis of conditions in the 15 largest housing markets in "our" part of the country. While we expect to provide quarterly updates of conditions in those 15 large markets, we also summarize the environment in five smaller markets that are "also on our radar"—locations where we think we may find favorable opportunities that others are likely to overlook. We plan to highlight a different set of five smaller markets every quarter, starting this quarter with Charleston SC, Fort Myers FL, Gainesville GA, Midland TX, and Wilmington NC.



Mosby University City

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U.S. Overview

Our market surveillance focuses on time and location: identifying times and places when market conditions are ripe for particular tactical moves, and other times and places when those same moves would distract from our goals or even destroy value.

We consider “our” territory to be roughly the arc from Virginia south through the Carolinas and Georgia to Florida, and west through Tennessee and Alabama to Texas. We do look for—and find—tactical opportunities outside that core territory. Strategically, though, we believe that our states offer compelling long-term advantages over the rest of the country.

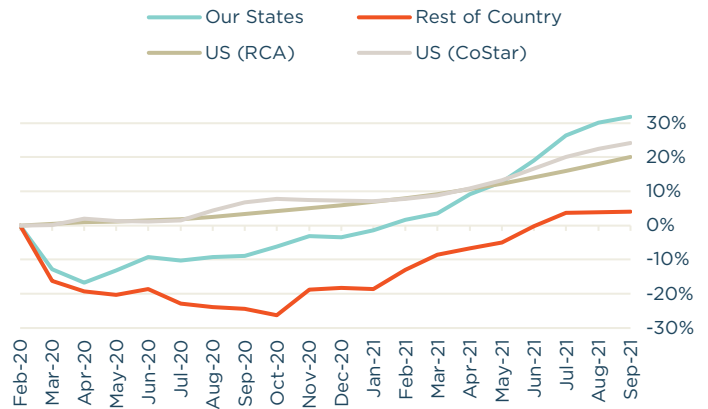
Within that strategic footprint we also believe that there are particular times when individual markets become more attractive before others have noticed—or, conversely, when risks arise that others haven’t recognized yet. Identifying favorable times for buying, selling, developing, and financing rental housing communities requires attention to current conditions as well as long-term trends.

The increase in the market values of apartment properties since the covid pandemic began has been astounding. Real Capital Analytics (RCA) and CoStar estimate that apartment property values nationwide increased by 20.1% or 24.1%, respectively, from February 2020 through September 2021.

Apartment property appreciation totaled **almost 32%** from February 2020 through September 2021 specifically within Middleburg’s states

Both RCA and CoStar estimate property appreciation by observing the price change in repeat transactions of the same properties, a method that generates otherwise good estimates but with two problems: (1) their information is

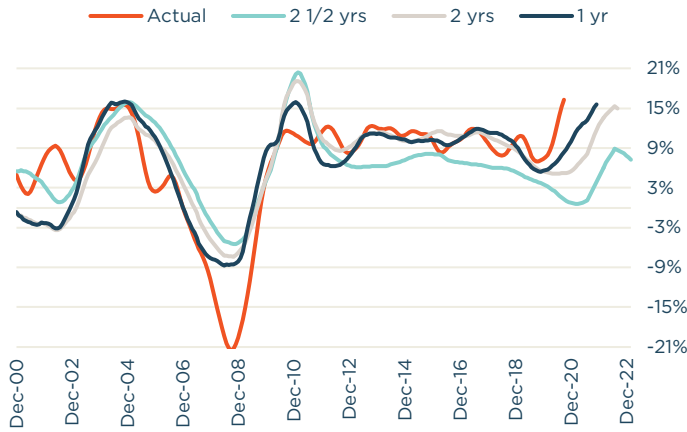
Apartment Property Appreciation
(Feb 20 = 0)



lagged because they have to wait for property transactions to close before they see what happened to their values, and (2) they have trouble measuring true declines in property values because transactions aren’t as likely to take place when values decline. (Also, the fact that the RCA and CoStar indices fail to measure apartment property value declines accurately makes it impossible for them to measure recoveries accurately.)

At Middleburg we combine data from sources like RCA and CoStar with proprietary information that comes from observing changes in the stock prices of publicly traded REITs that own apartment properties in our part of the country—a method that is more accurate, more timely, and more focused geographically. Our analysis indicates that **Apartment Property Appreciation** totaled almost 32% from

Predicted 12-mo Price Growth



February 2020 through September 2021 specifically within Middleburg’s states.

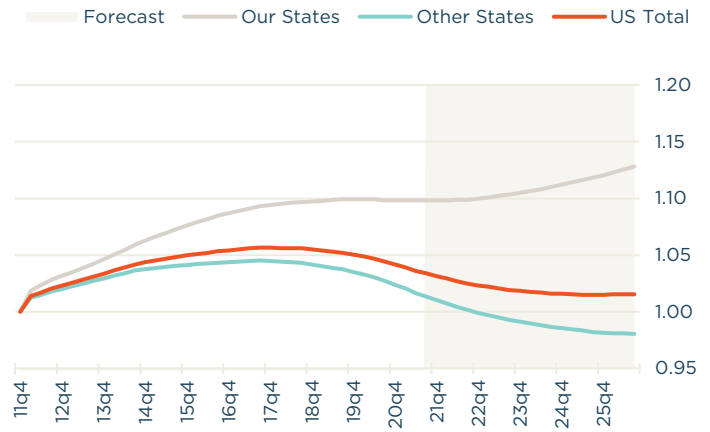
Apartment property values in other parts of the country continued to decline for six months after they started to recover in Middleburg’s states, ultimately bottoming at 26% below their pre-pandemic values. As a result, apartment property values in other states remain far behind the mark in Middleburg’s area, although the pace of recovery has been the same since October 2020.

It is especially important, with property values having increased so strongly, to evaluate whether the market’s assessment of property values is at risk of softening. At Middleburg we have developed a proprietary set of models based on market-based indicators that provide early signals of future changes in apartment property values.

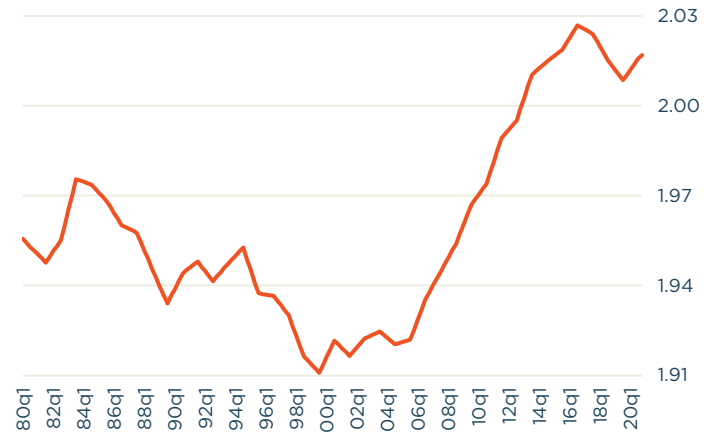
Our farthest-horizon (but least certain) model of **Predicted 12-mo Price Growth**, for example, predicts the nationwide increase in apartment property transaction prices 2½ years into the future; another focuses on the two-year horizon, a third on the one-year horizon, etc. All of those models signal continued strong appreciation in apartment property prices over the next two-plus years.

While market-based early indicators are helpful in reducing the risk that we will be exposed to softening in overall market perceptions, we place greater confidence in establishing whether fundamental conditions in each specific rental housing market will continue to justify such strong valuations. Current

Young Adult Population (2011q4=1)



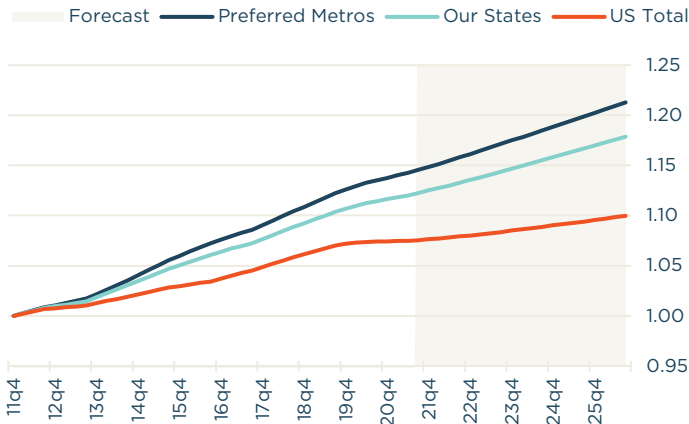
Adults per Household



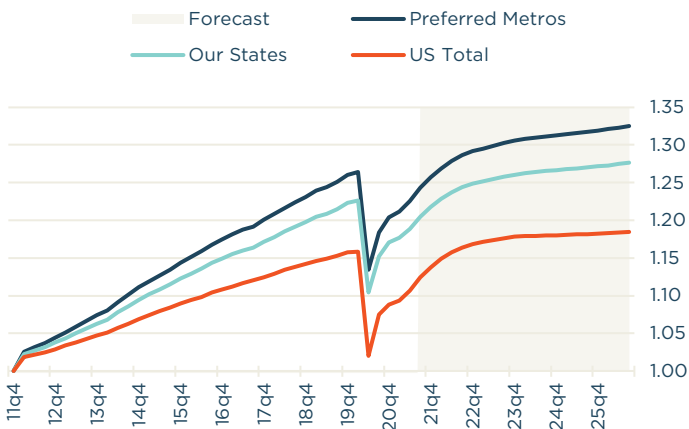
fundamental conditions in both demand and supply are likely to continue supporting strong rental housing performance for some time. That judgment is based not only on market conditions specifically for apartment properties as provided by one of our data partners, CoStar, but also on longer-term demographic trends as forecast by another data partner, Oxford Economics.

The fundamental long-term building block of demand for rental housing is growth in the **Young Adult Population**. Only about one-fifth of 20-year-olds head a household, but the share rises quickly to about half of all 30-year-olds. The young adult population peaked nationally in 2017, and is expected to stagnate over the next decade. Within Middleburg’s footprint, however, Oxford Economics expects the young adult population to grow by almost seven percent over the same period.

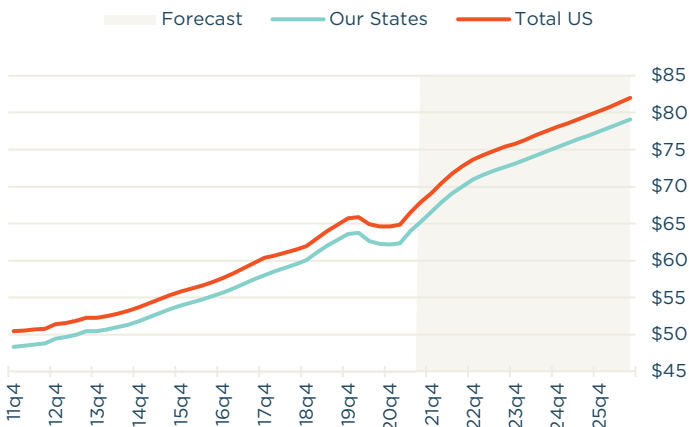
Number of Households (2011q4=1.0)



Total Employment (2011q4=1.0)



Median Household Income (000s)



Young adults are the primary drivers of *household formation*: every time a person or couple—most frequently young adults—makes the decision to stop living with their parents, in a dorm, or in their sorority or fraternity house, they form a new household. During most of the 1980s and 1990s the number of **Adults per Household** declined from 1.98 in 1983 to 1.91 in 1999, meaning that the number of households—and therefore the number of occupied housing units—was increasing more rapidly than the adult population. We believe this was a function of growing prosperity. After 1999, however, the number of adults per household increased sharply to 2.03 in 2016, perhaps reflecting stagnation in the economic situation for a large share of the population.

From 2016 until the onset of the covid pandemic the number of adults per household reverted to its downward trajectory—and we believe it will resume its decline as the pandemic recedes. We forecast that a return to increasingly normal household formation behavior will drive nationwide growth in the **Number of Households** by about 7 million over the next eight years, with a disproportionate share of that growth coming in Middleburg’s territory. In fact, while our states account for only 29 percent of total population nationwide, we expect that they will account for more than 42 percent of growth in the number of households, adding about three million households to housing demand.

Strength in local employment is a third crucial driver of rental housing demand, partly through its effect on near-term increases in household formation. **Total Employment** nationwide remains 4.5 percent lower nationwide than before the covid shutdown, and is not forecast to recover fully until about the third quarter of 2022. In Middleburg’s states, though, total employment is just 2.8 percent short of its pre-shutdown level and is expected to recover fully during the first quarter of 2022.

A final fundamental driver of long-term demand for housing is growth in **Median Household Income**. While real median income is forecast to return to steady growth rates soon, households in Middleburg’s region saw growth in their median incomes outpace the rest of the nation markedly during 2017-2020 and are forecast to maintain that position over the next decade.

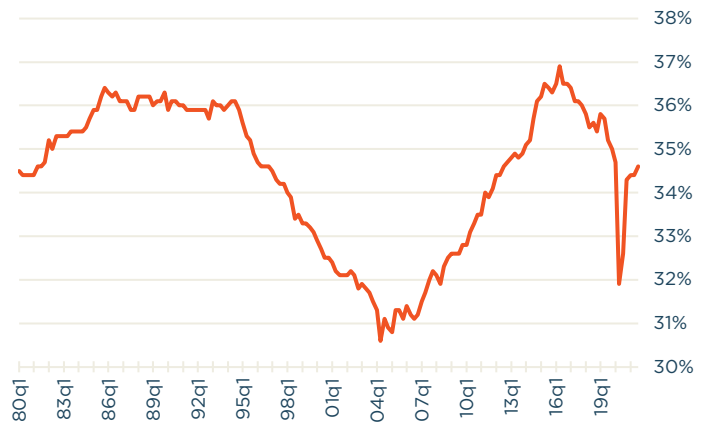
The past two years have seen house price appreciation spike to a year-over-year rate of almost 15 percent in all parts of the country, including Middleburg’s states. This extraordinary increase in the cost of purchasing a home has been mentioned as a driver of rental housing demand. Our own forecast, however, is that the rate of house price appreciation will quickly revert to a more normal pace. We believe that a much more important driver of rental housing demand is a long-term shift in the appeal of rental housing—that is, a tenure choice shift from homeownership to rental housing as a preference.

Until very recently, households faced a limited set of housing choices: rent a professionally managed apartment, rent a non-professionally managed house, or buy a house and take responsibility for management tasks. Many households became homeowners simply to get access to amenities associated with a house without having to deal with the shortcomings of non-professional property management.

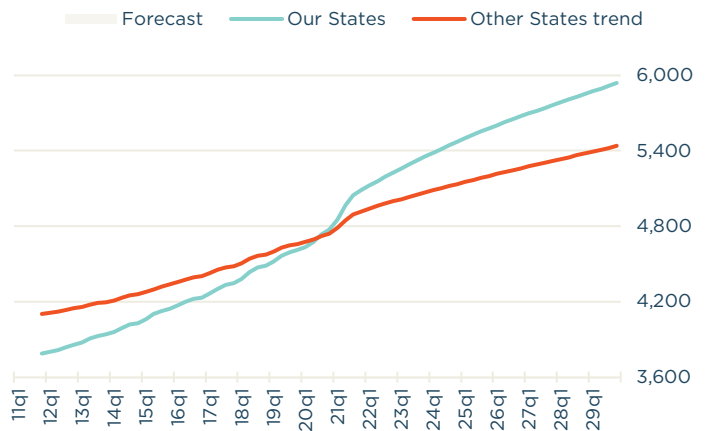
Put simply, for years our country misconstrued preferences for neighborhood and yard as a preference for homeownership, and implemented policies that pushed the nationwide **Rentership Rate** down to an artificially low 31 percent. We expect that the rentership rate will rebound to about 37, percent if not higher, with that increase occurring disproportionately in Middleburg’s part of the country; as a result, we forecast an increase of around 1.2 million new rental households in our states over the next five years. The combination of disproportionate growth in young adult population, number of households, and rental preference should drive growth in the number of **Rental Units in Demand** by about 12 percent over the next five years, compared with just 7.2 percent in the rest of the country.

As noted, **Occupancy Rates** for multifamily properties have reached record highs nationwide. In Middleburg’s part of the country, average occupancy rates have long tended to be about 1.4 percentage points lower than in the rest of the country. That gap suddenly narrowed by about half during the covid pandemic, and is forecast to widen only slightly over the next decade as new construction responds to demand signals.

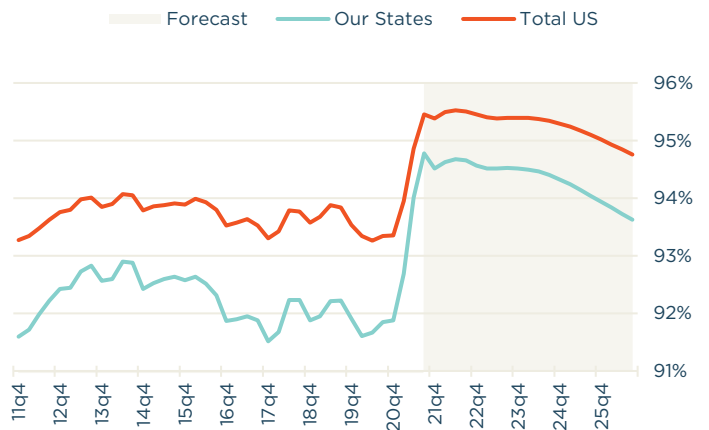
Rentership Rate



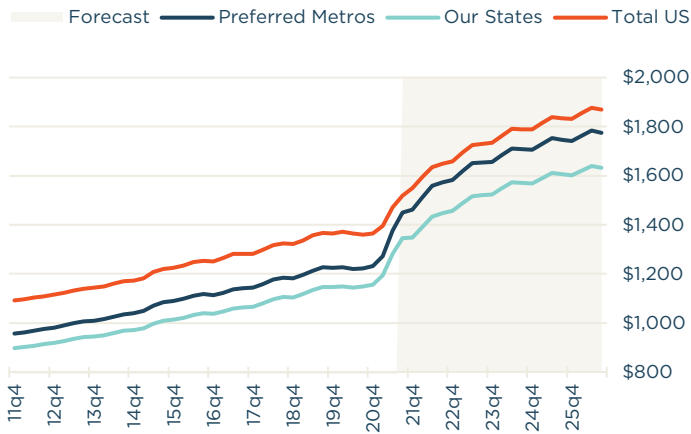
Rental Units in Demand (000s)



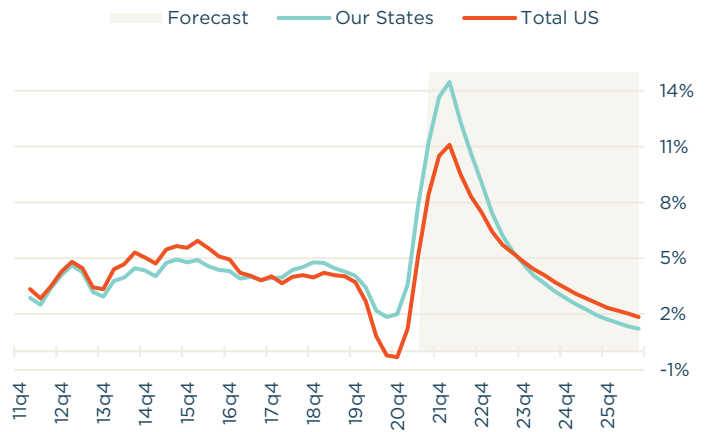
Occupancy Rate



Effective Rent per Unit

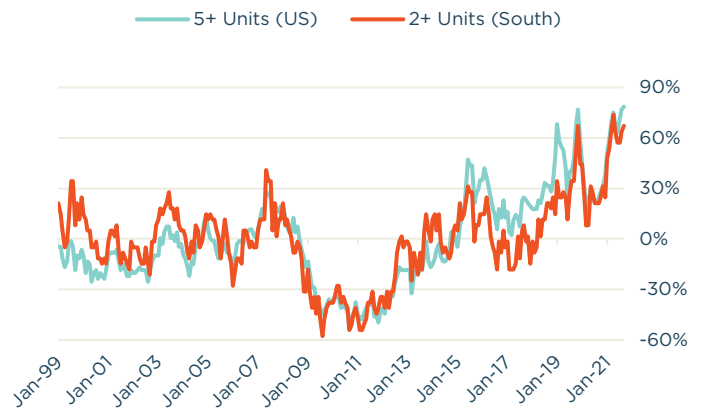


NOI Growth (annualized)



Similarly, **Effective Rents per Unit** have typically been about \$208 less in Middleburg’s states than in the rest of the country, and about \$137 less specifically in Middleburg’s preferred metro areas. That gap narrowed considerably, however, during the covid shutdown: effective rents are only about \$175 less in Middleburg’s states than in the rest of the country, and only about \$69 less specifically in our preferred metros. Even if that gap reappears over the next decade in most of Middleburg’s territory, the narrowing is forecast to persist in those metro areas that we have identified as our preferred markets. That persistence provides additional support for investment in multifamily properties in our part of the country.

Units Authorized but Not Started (relative to average)



Housing market conditions in Middleburg’s territory lead us to have confidence in our ability to find and benefit from high-quality rental housing investment opportunities

Growth in **Net Operating Income (NOI)**, which fundamentally supports the steady stream of income from multifamily property investments, was steady nationwide (and in Middleburg’s region) at slightly more than four percent per year until the onset of the pandemic. NOI actually declined during the early part of the shutdown for the nation as a whole—though it continued to post positive growth in Middleburg’s markets—but then suddenly surged during 2021 as households became confident that their incomes would continue to support their housing needs.

Taken together, the forecast for continued strength in key drivers supports our sense that we are well positioned to benefit from growth in demand for rental housing communities. Current supply conditions also support our expectation for continued strong performance. Foremost among those conditions is a pandemic-induced set of supply-chain problems that have made it difficult for many builders to respond to demand conditions by constructing new housing units. In fact, in September the number of housing **Units Authorized but Not Started**, a measure of supply problems in the housing construction industry, reached the highest levels ever recorded, including 78% above average for buildings with 5+ units nationwide and 67% above average for multifamily units in the South. Middleburg is fortunate to have built an integrated process encompassing all phases of the real estate process—land acquisition, permitting, development, construction, and property management—that we believe will help us

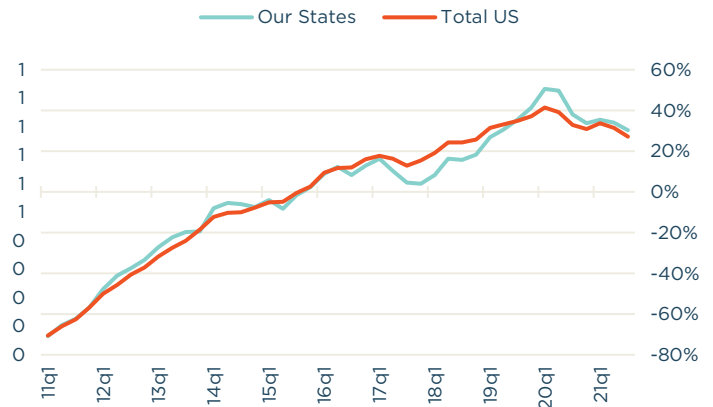
maintain our ability to continue developing new units in the face of these supply-chain issues.

CoStar data show that the number of rental housing **Units Under Construction** had risen steadily over the last several years until peaking in the first quarter of 2020 at 42% above its average over the past ten years (and 52% above average in Middleburg’s states). Since then the number of units under construction has declined, especially in Middleburg’s part of the country.

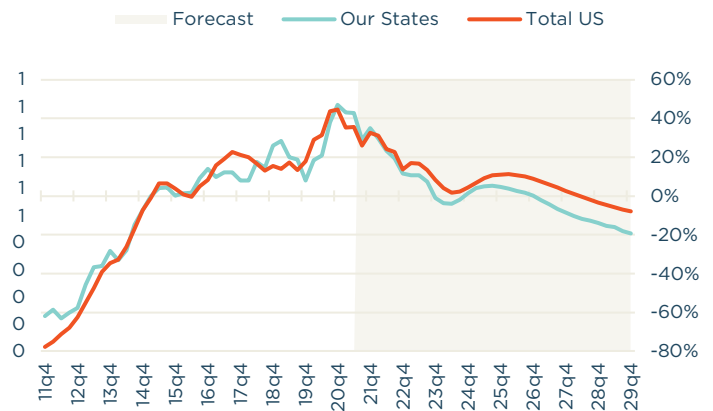
Similarly, **Net Deliveries** of new multifamily housing units peaked during 2020 at 46% higher than the average number over the past decade (and 50% higher in Middleburg’s states), and had drawn closer to a normal pace even before supply constraints suppressed construction activity. CoStar expects that net deliveries will recede to average levels by 2023 in Middleburg’s part of the country, but not until 2027 nationwide.

In short, our view of aggregate housing market conditions in the states that make up Middleburg’s territory leads us to have confidence in our ability to find and benefit from high-quality rental housing investment opportunities. Conditions differ, however, in every market. In the following pages we review the available data at the market level to evaluate each of the 15 largest metro areas in our part of the country, along with a sample of five smaller areas where market conditions are interesting enough to keep them “also on our radar.”

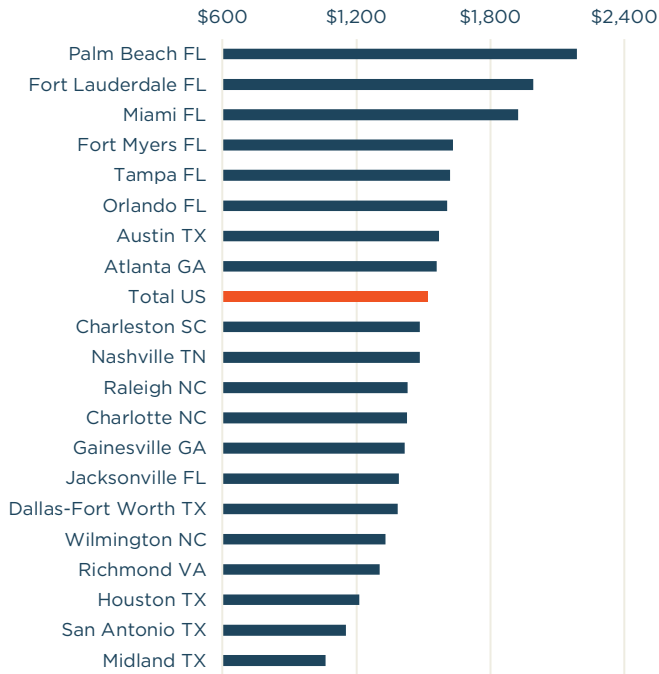
Units Under Construction
(relative to average)



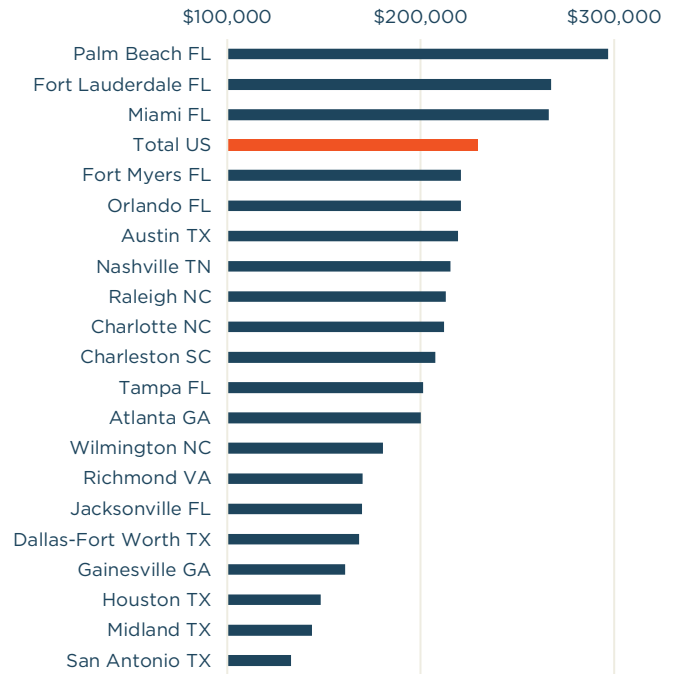
Net Deliveries
(4-qtr rolling sum, relative to average)



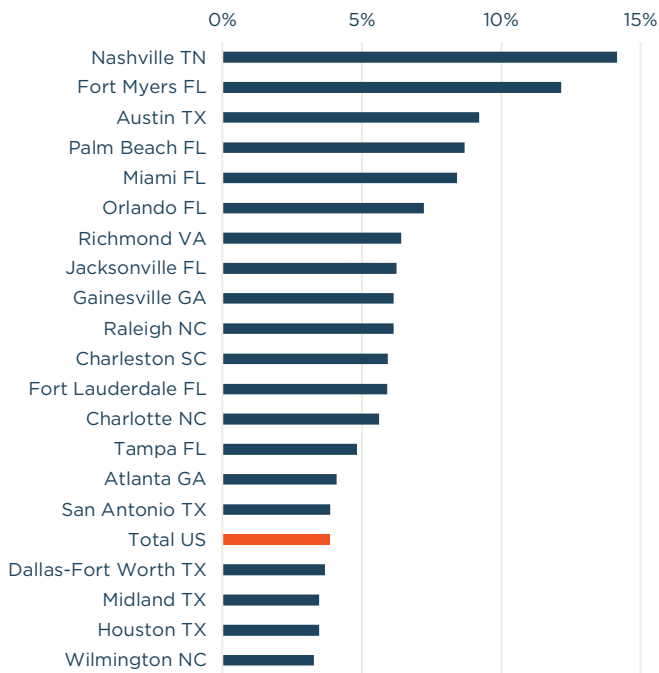
Market Effective Rent per Unit



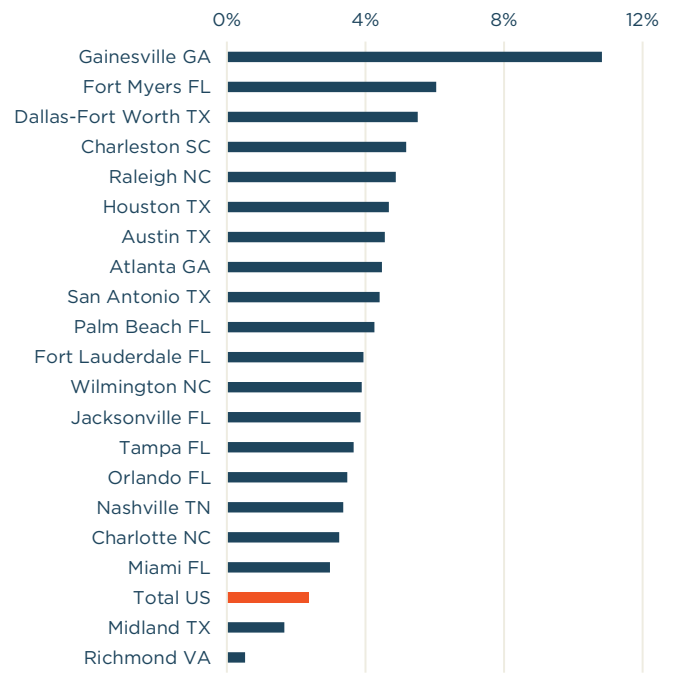
Market Sale Price Per Unit



Under Construction as % of Inventory



Units Sold as % of Inventory



Dallas / Fort Worth, TX

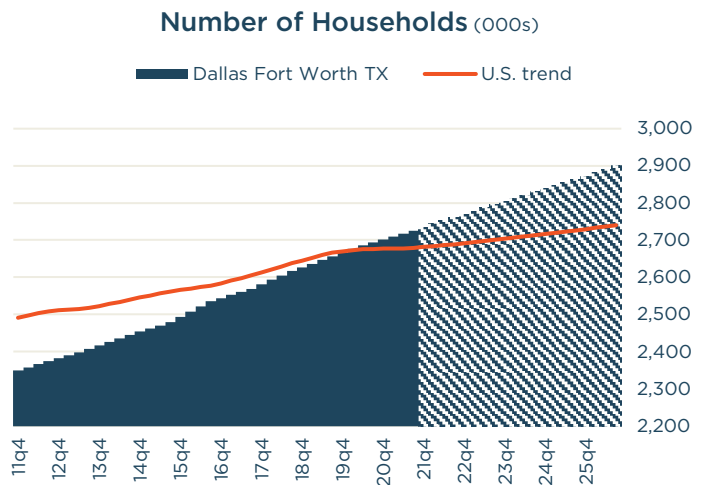
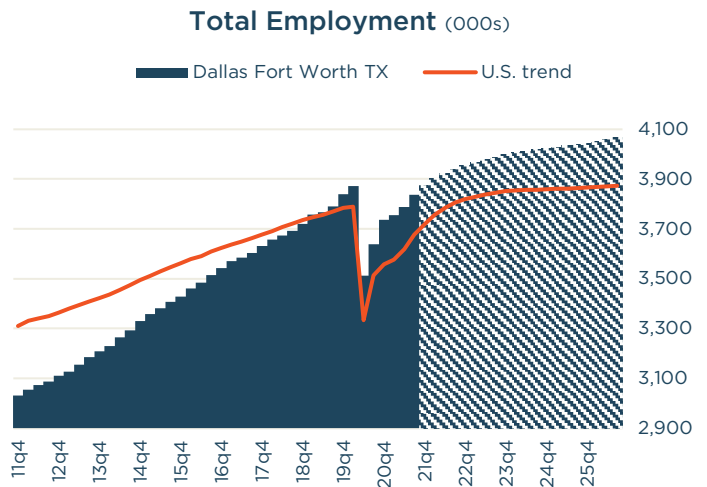
The largest metro area in Middleburg’s territory, Dallas/Fort Worth is already recognized as a “near-gateway” market and is likely to continue leading a long-term shift away from older gateway markets such as New York and San Francisco.

MIDDLEBURG’S RANK #3 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.

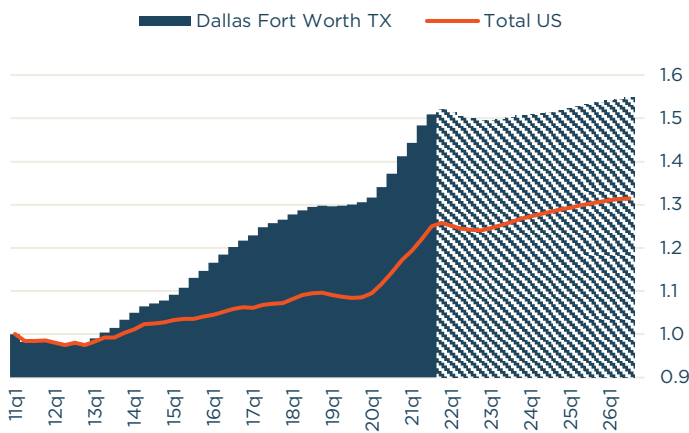
Dallas’s population already skews young, but Oxford Economics forecasts that over the next five years the metro area will grow by an additional 58 thousand young adults (1.0 percent per year), a number rivaled only by Houston. Its 174 thousand new **Households** and 230 thousand new **Employees** (1.2 percent per year each) are expected to trail only Houston.

Dallas / Fort Worth has seen an escalation in homebuyer affordability problems, as its median **House Price to Income Ratio** has increased 26 percent more over the last decade than it has in the nation as a whole. Those continuing home affordability concerns, along with the metro area’s expected demographic and economic growth, lead CoStar to forecast growth in **Demand** for rental housing to surpass that in any other market at 97 thousand (2.5 percent per year), driving similarly strong growth in **Effective Rent per Unit** (4.4 percent per year) and net operating income (4.8 percent per year). New construction and **Net Deliveries** are forecast essentially to keep pace with the growth in demand, but are not likely to ease substantially the demand pressure on rental housing.

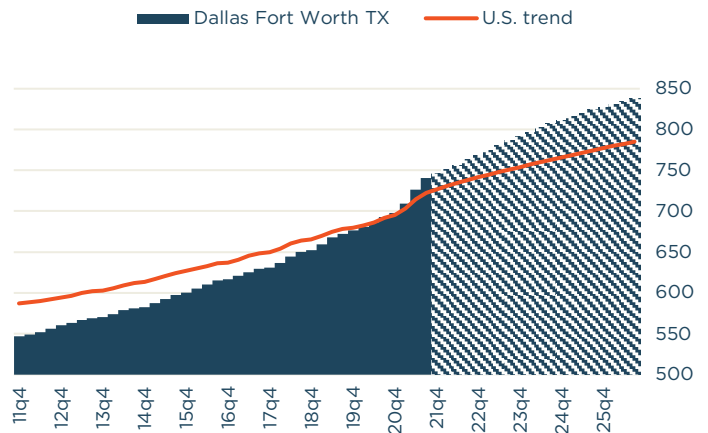


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT VACANCY RATE
786,005	31,036	\$168,543	5.7%
↑ 0.5%	↓ 8.2%	↑ 4.3%	↑ 1.4%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	MEDIAN SINGLE-FAMILY HOUSE LIST PRICE	APARTMENT SALES VOLUME
15.0%	\$73,539	\$396,480	\$895 million
↑ 2.4%	↑ 2.0%	↑ 2.4%	↓ 35%

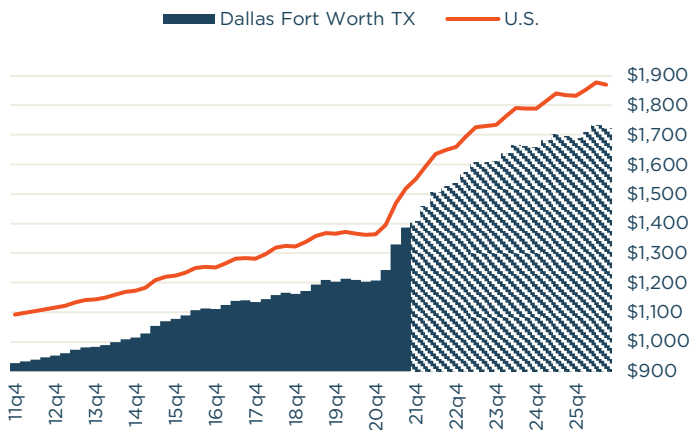
House Price to Income Ratio (11q1=1.0)



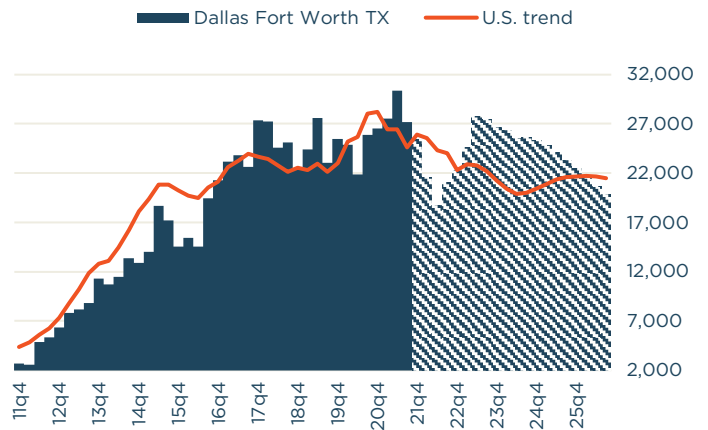
Units in Demand (000s)



Effective Rent per Unit



Net Deliveries (rolling 4-qtr sum)



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

Houston, TX

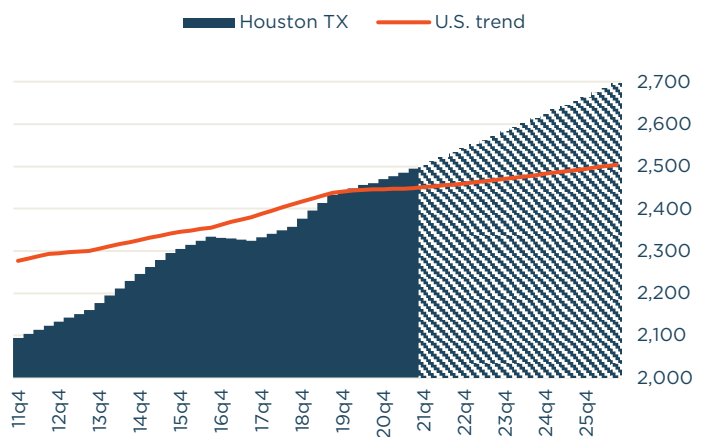
Houston’s reduced exposure to the oil & gas industry makes what was already a strong market more appealing to long-term investors.

MIDDLEBURG’S RANK #5 AMONG 15 LARGEST METROS

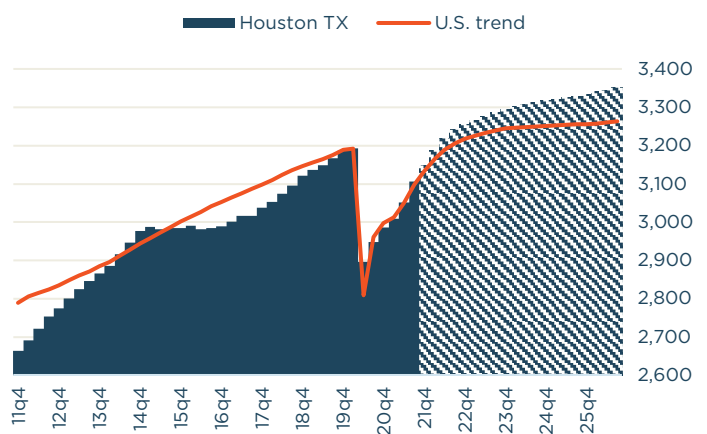
The demographic drivers of rental housing demand in Houston should continue to be strong: for example, Oxford Economics forecasts that the city’s young adult population will grow by 57 thousand over the next five years (1.1 percent per year), and growth in **Number of Households** and **Total Employment** should lead all other metro areas in Middleburg’s arc at 202 thousand (1.6 percent per year) and 245 thousand (1.5 percent per year) respectively. Moreover, employment growth is expected to be concentrated among higher-paying jobs, with real median household income growing by 1.0 percent per year.

CoStar, however, forecasts that Houston’s rental housing fundamentals will not quite keep up with those in other metro areas along Middleburg’s arc: for example, growth in the number of **Units in Demand** is expected to be no better than average at 2.0 percent per year. Similarly, Houston’s occupancy rate is expected to decline to 91.8 percent, growth in **Effective Rent per Unit** is expected to be only very slightly above average at 3.7 percent per year, growth in net operating income is expected to be below average at 3.9 percent per year, and appreciation in apartment property values is forecast to be no better than the national average.

Number of Households (000s)

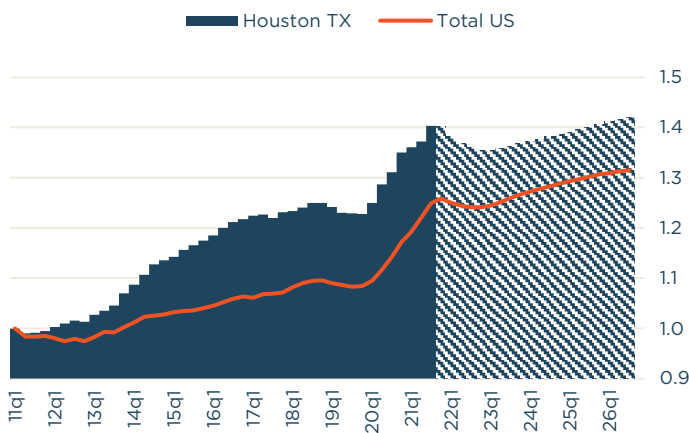


Total Employment (000s)

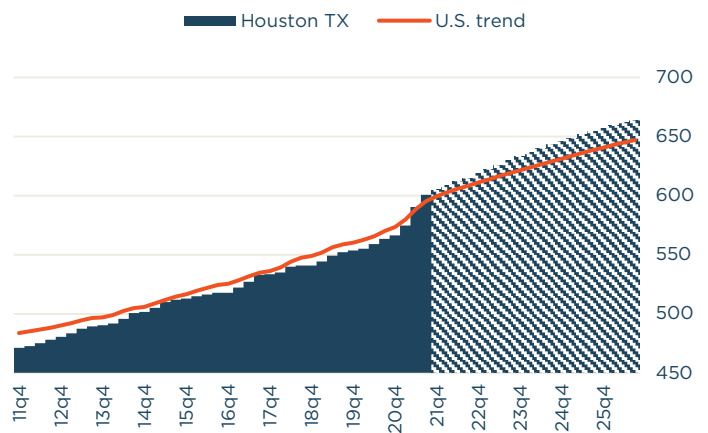


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT VACANCY RATE
645,621	23,351	\$147,314	7.0%
↑ 0.6%	↓ 7.8%	↑ 2.6%	↓ 1.1%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	MEDIAN SINGLE-FAMILY HOUSE LIST PRICE	APARTMENT SALES VOLUME
11.5%	\$69,400	\$396,480	\$369 million
↑ 4.2%	↑ 2.3%	↑ 2.4%	↓ 37%

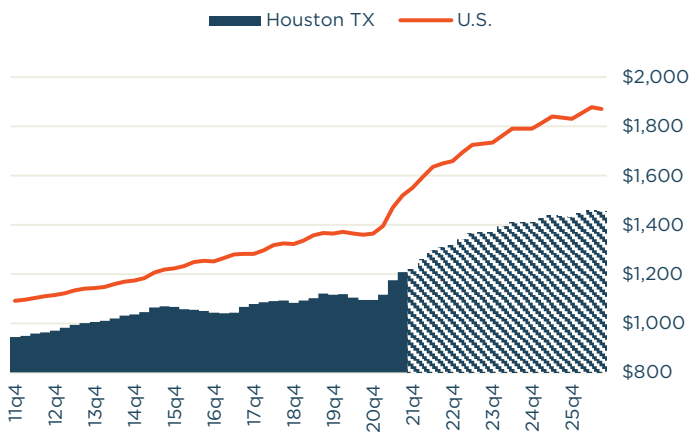
House Price to Income Ratio (11q1=1.0)



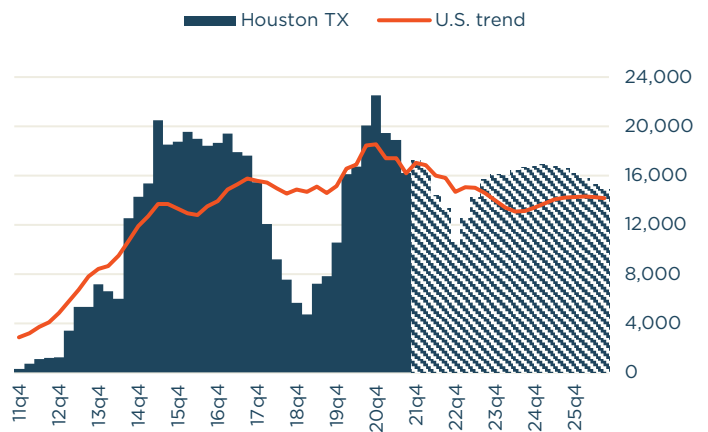
Units in Demand (000s)



Effective Rent per Unit



Net Deliveries (rolling 4-qtr sum)



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

Atlanta, GA

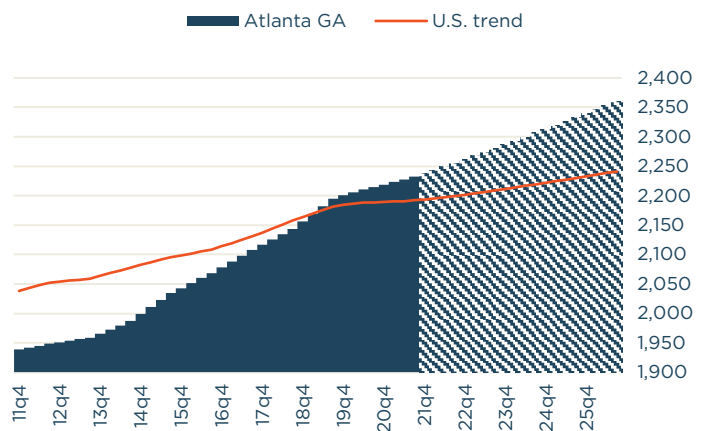
Atlanta is similar in many respects to the Dallas / Fort Worth metro area, but at a slightly smaller and slightly less dynamic scale.

MIDDLEBURG'S RANK #8 AMONG 15 LARGEST METROS

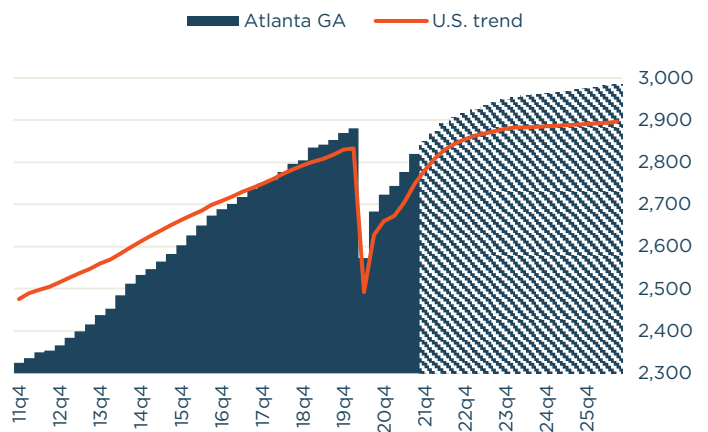
The largest market in Middleburg's territory outside of Texas, Atlanta is projected to add 33 thousand young adults over the next five years (0.8 percent per year), along with 127 thousand **Households** and 165 thousand in **Total Employment** (both averaging 1.1 percent per year). Those are solid and appealing underlying demographic fundamentals, but it seems reasonable to wonder whether Atlanta has been "over-loved" by institutional investors, especially relative to other metro areas in Middleburg's arc. For example, ten years ago the typical cap rate on apartment properties in Atlanta was 20 basis points greater than the national number; now it is 43 basis points less—a larger decline than in any other large city in Middleburg's area except Jacksonville.

While homebuying affordability has become an increasing problem in many Southeastern metro areas, in Atlanta it has essentially simply kept pace with the nation as a whole: house prices have increased by 14.5 percent over the past 12 months in Atlanta (compared with 15.0 for the U.S.) while median household incomes have increased by 5.6 percent (compared with 5.0 percent). In the rental housing market, **Units in Demand** is expected to grow by 36 thousand over the next five years—large in absolute numbers, but at a pace (1.6 percent per year) that is slower than average for metro areas in Middleburg's region. Similarly, **Effective Rent per Unit** caught up to the rest of the country over the last decade and is expected to grow only slightly more rapidly over the next five years than in other cities in Middleburg's area, as is net operating income. There is no doubt that Atlanta will continue to offer favorable opportunities for development and/or acquisition, but it will be fair to ask whether apartment properties in the area have become overpriced.

Number of Households (000s)

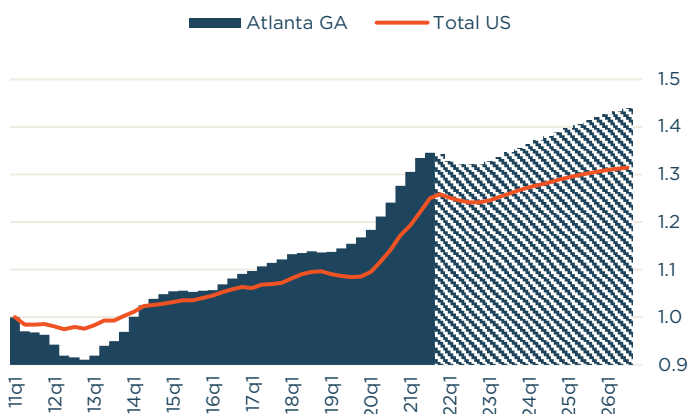


Total Employment (000s)

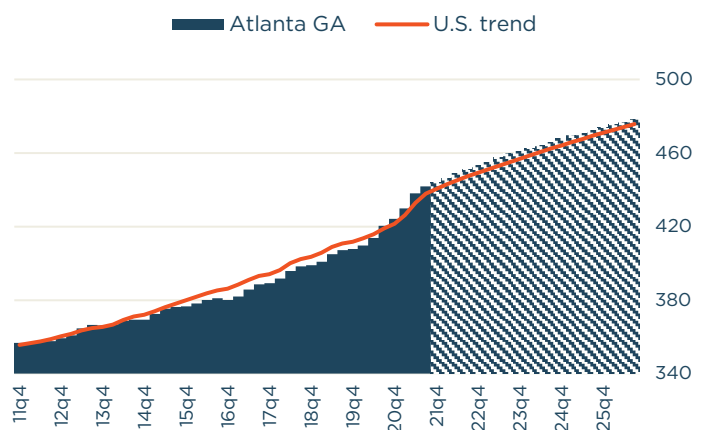


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT VACANCY RATE
466,582	15,268	\$200,043	5.3%
↑ 0.2%	↑ 10.8%	↑ 5.1%	↓ 0.6%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	MEDIAN SINGLE-FAMILY HOUSE LIST PRICE	APARTMENT SALES VOLUME
14.5%	\$73,994	\$325,700	\$4,306 million
↑ 1.3%	↑ 2.3%	↑ 3.4%	↑ 30%

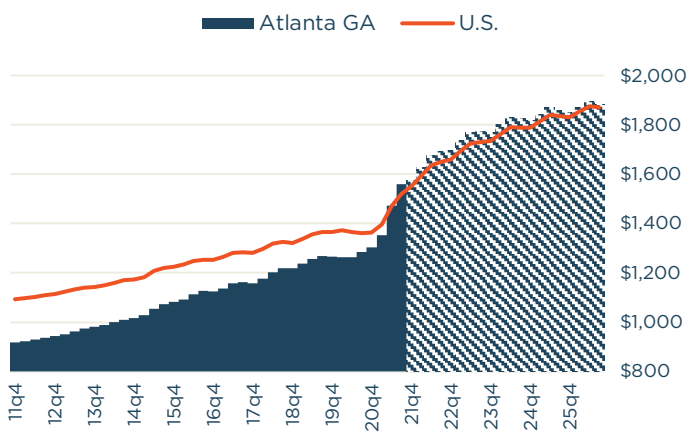
House Price to Income Ratio (11q1=1.0)



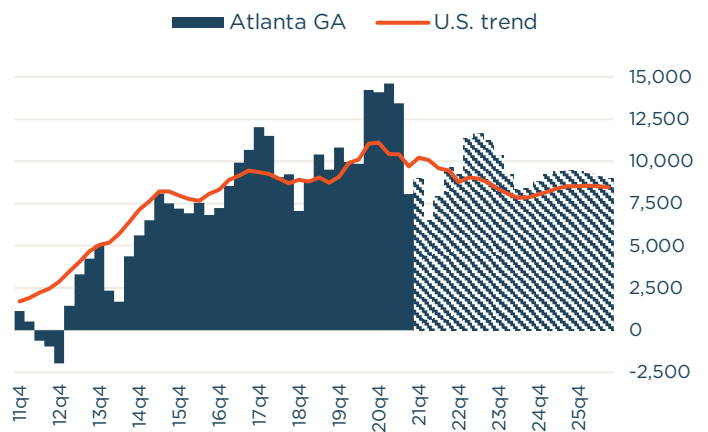
Units in Demand (000s)



Effective Rent per Unit



Net Deliveries (rolling 4-qtr sum)



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

Tampa, FL

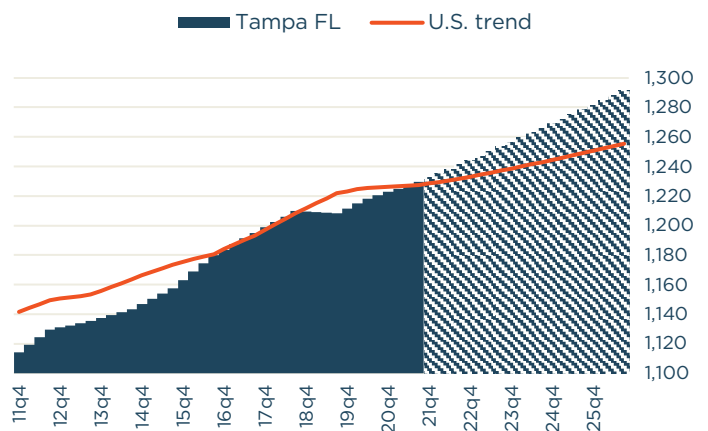
The Tampa market should continue to present appealing opportunities even though underlying demographic fundamentals are not as strong as in other metros in the area.

MIDDLEBURG'S RANK #13 AMONG 15 LARGEST METROS

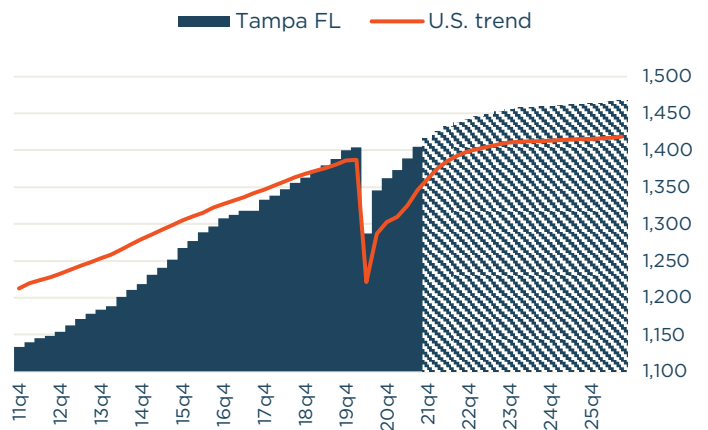
Tampa is not expected to grow as dynamically as other markets in Middleburg's arc. For example, Oxford Economics forecasts that over the next five years Tampa's young adult population will grow at a disappointingly average 0.3 percent per year, its **Number of Households** just slightly above average at 1.0 percent per year, and its **Total Employment** below average at just 0.9 percent per year. On top of that, Tampa's median household income is projected to stagnate, reflecting its increasing appeal among retirees. The metro area's size, however, mean that the absolute increases in households and jobs—62 thousand each—will support continued apartment investment opportunities.

Tampa's increasing homebuyer affordability problems will encourage some of its new households to prefer the rental housing market: over the past decade house prices have increased by 10.2 percent per year (compared with 6.2 percent per year for the nation) while median household incomes have gained just 3.7 percent per year (3.3 for the nation), so the house price to income ratio has risen nearly three times as much in Tampa as for the country as a whole. Partly as a result, CoStar projects that the number of **Units in Demand** will rise by 21 thousand (2.1 percent per year), very slightly above average for metro areas in Middleburg's region. This should push **Effective Rent per Unit** to grow by 4.9 percent per year and net operating income by 5.6 percent per year, both well above the average for Tampa's peers. With the number of units under construction and **Net Deliveries** both expected to remain within manageable ranges, Tampa should also offer solid appreciation in apartment property values.

Number of Households (000s)

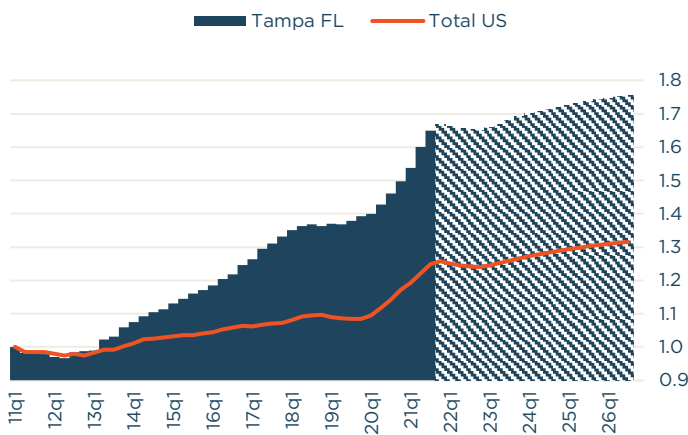


Total Employment (000s)

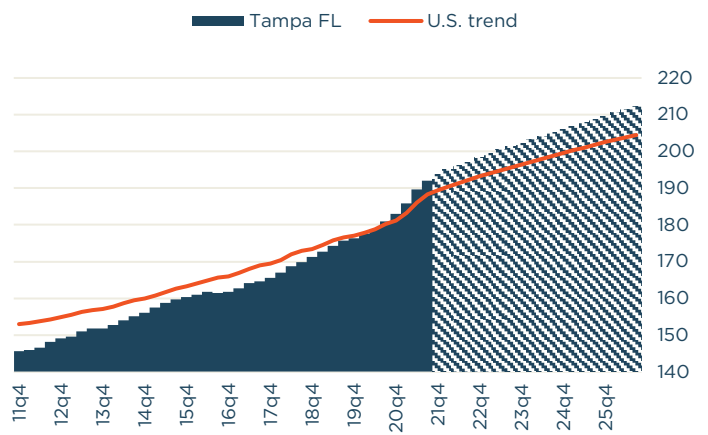


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT VACANCY RATE
201,329	10,659	\$200,888	4.7%
↑ 1.4%	↓ 3.0%	↑ 4.5%	↑ 1.4%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	MEDIAN SINGLE-FAMILY HOUSE LIST PRICE	APARTMENT SALES VOLUME
18.8%	\$61,049	\$341,000	\$1,536 million
↑ 2.6%	↑ 1.7%	↑ 6.2%	↑ 56%

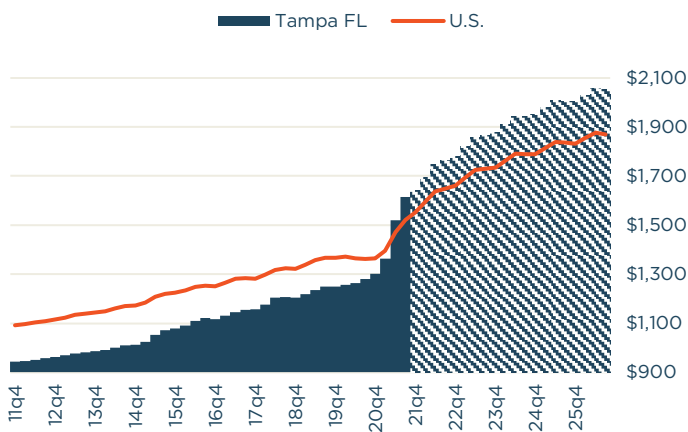
House Price to Income Ratio (11q1=1.0)



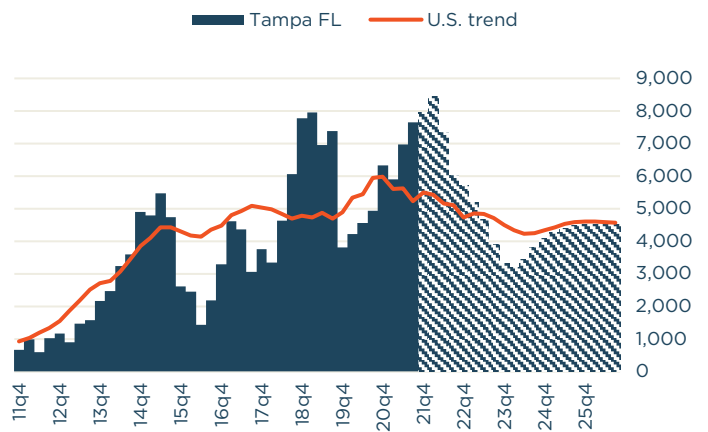
Units in Demand (000s)



Effective Rent per Unit



Net Deliveries (rolling 4-qtr sum)



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

Charlotte, NC

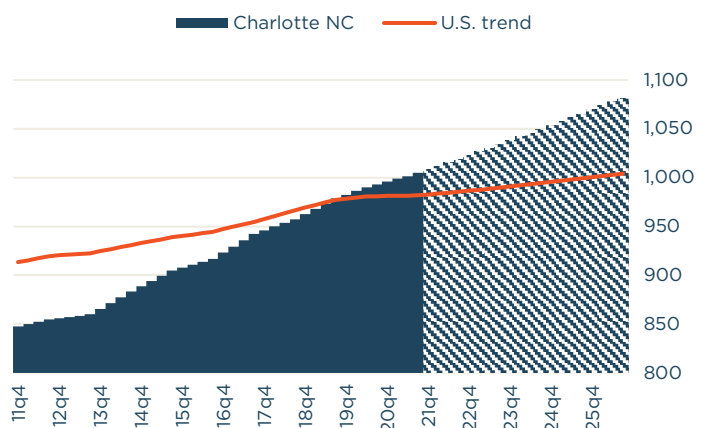
We expect demand for rental housing in Charlotte to be supported by very strong growth in all key demand drivers as it continues its fascinating transformation from a textile manufacturing hub to a diversified hub for finance and high-value manufacturing.

MIDDLEBURG'S RANK #6 AMONG 15 LARGEST METROS

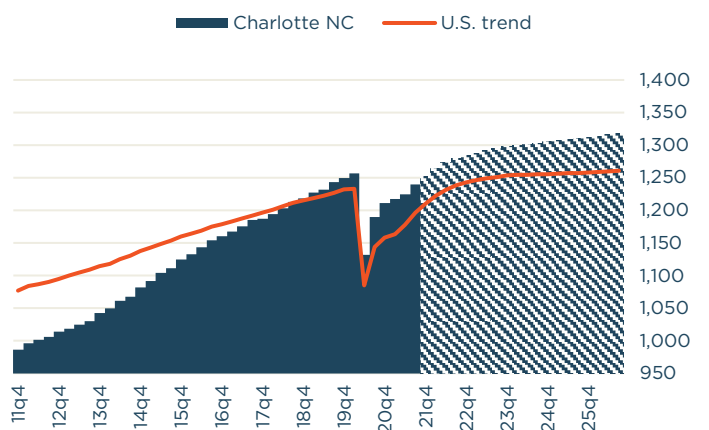
Charlotte's economy has successfully shed its dependence on low-value textiles with its nationally prominent finance sector and the growth of advanced non-textile manufacturing. As a result, over the next five years Oxford Economics forecasts that its young adult population will grow by 19 thousand (1.1 percent per year), its **Number of Households** by 77 thousand (1.5 percent per year), and its **Total Employment** by 78 thousand (1.2 percent per year)—all well above the average for metros in Middleburg's arc.

Homebuyer affordability hasn't yet been as much of a problem in Charlotte as in many other metro areas in Middleburg's region, but the area's demographics are expected to add 34 thousand to the number of **Units in Demand**, a comfortably above-average rate of 3.6 percent per year. If Charlotte has any weakness relative to its peer markets, it is that CoStar expects **Effective Rent per Unit** and net operating income to grow less rapidly over the next five years than in other markets in Middleburg's territory.

Number of Households (000s)

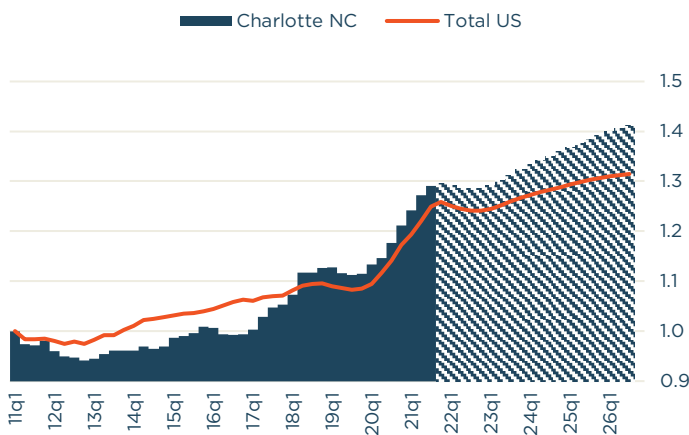


Total Employment (000s)

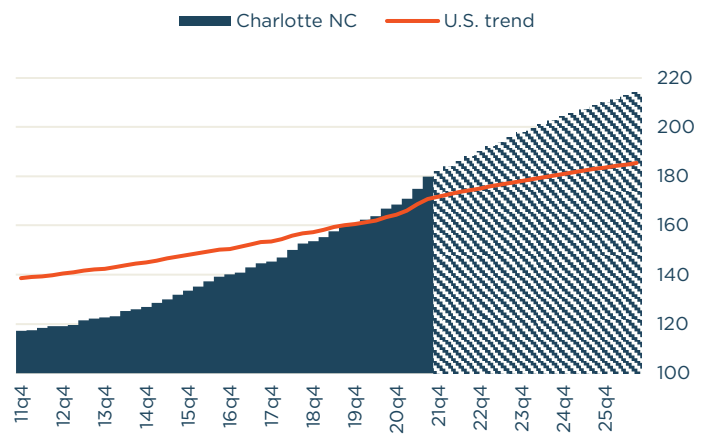


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT VACANCY RATE
191,913	13,019	\$211,690	6.3%
↑ 2.0%	↓ 5.3%	↑ 6.4%	↓ 0.6%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	MEDIAN SINGLE-FAMILY HOUSE LIST PRICE	APARTMENT SALES VOLUME
15.3%	\$69,010	\$363,500	\$1,482 million
↑ 1.1%	↑ 1.8%	↑ 3.1%	↑ 46%

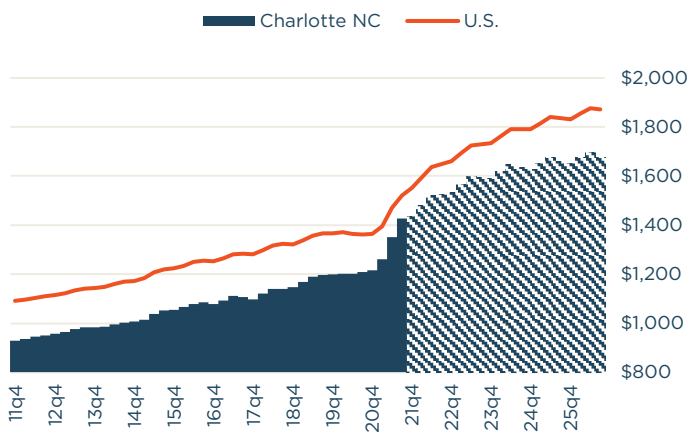
House Price to Income Ratio (11q1=1.0)



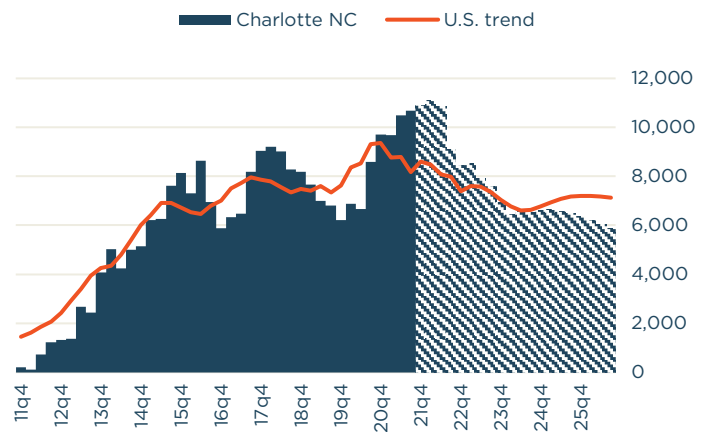
Units in Demand (000s)



Effective Rent per Unit



Net Deliveries (rolling 4-qtr sum)



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

Orlando, FL

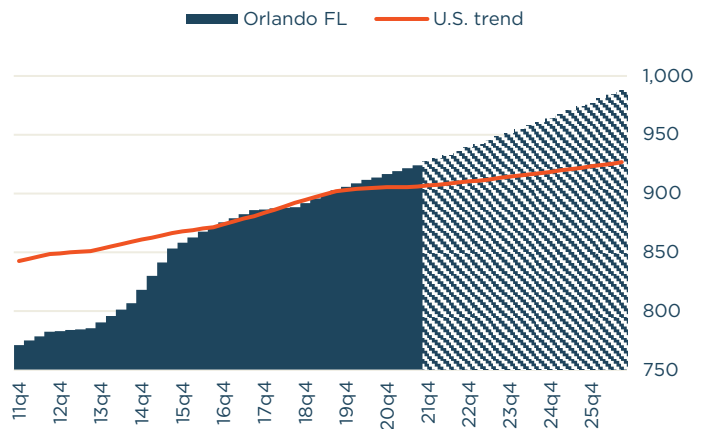
It's easy to underestimate the appeal of Orlando as a rental housing market—and it is tremendously appealing, as Orlando's economic base is more robust than many realize.

MIDDLEBURG'S RANK #2 AMONG 15 LARGEST METROS

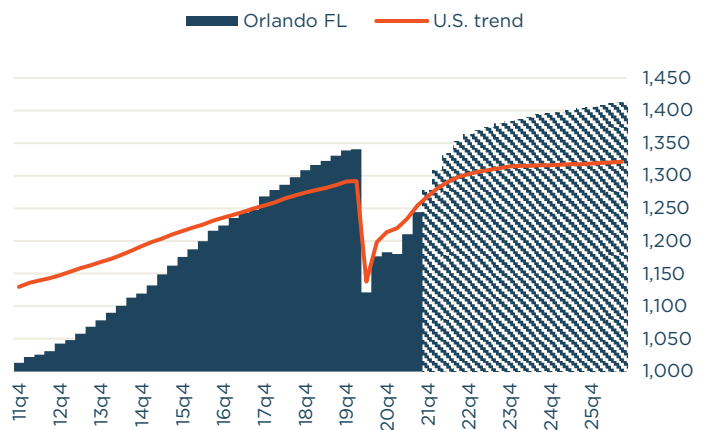
Of course Orlando's hospitality sector, anchored by its famous theme parks, accounts for the largest share of employment, but the interconnectedness of any economy means that employment is also strong in sectors such as construction, finance/real estate, wholesale/retail, and education/health. Oxford Economics forecasts that **Total Employment** in Orlando will grow by 2.6 percent per year over the next five years, resulting in 169 thousand additional workers along with above-average growth in **Median Household Income**. Oxford also expects above-average growth in Orlando's **Young Adult Population** (58 thousand, or 1.0 percent per year) and **Number of Households** (63 thousand, also 1.0 percent per year).

The fact that Orlando has a homebuying affordability problem may come as a surprise: house prices in Orlando have increased by an average of 9.4 percent per year over the past 8½ years while median household incomes have grown by just 3.6 percent per year, so the increase in Orlando's **House Price to Income Ratio** has more than doubled the national average. Partly as a result, CoStar forecasts that **Demand** for rental housing will grow by 32 thousand units over the next five years (3.4 percent per year). CoStar also expects that **Effective Rent per Unit** will grow by 4.8 percent per year and net operating income by 5.4 percent per year over the same period, resulting in one of the highest rates of apartment property value appreciation of any metro area in Middleburg's part of the country. In short, it's difficult to identify any weakness in Orlando rental housing market conditions over the next five years.

Number of Households (000s)



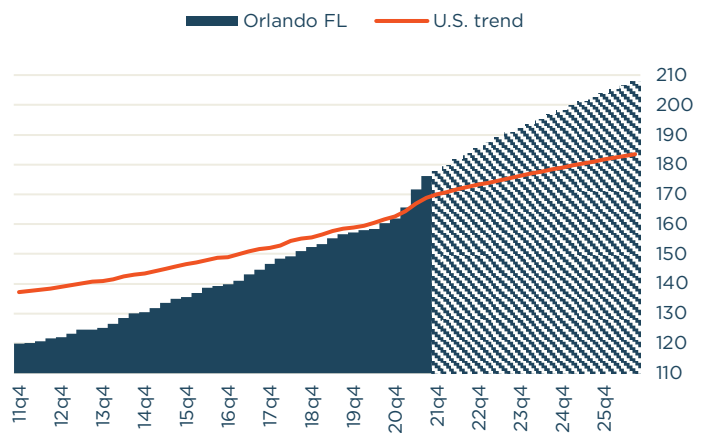
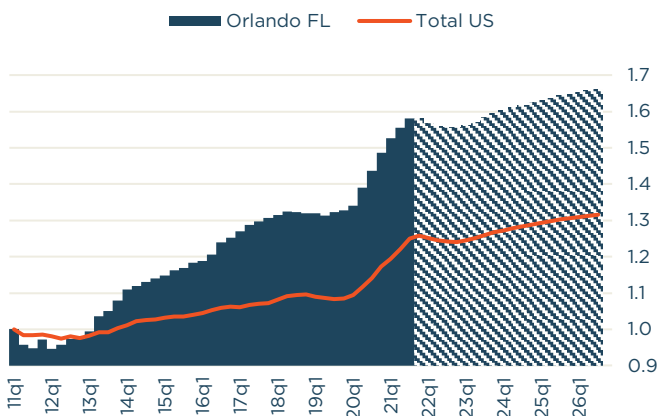
Total Employment (000s)



TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT VACANCY RATE
185,369	13,331	\$220,854	5.0%
↑ 1.3%	↑ 0.2%	↑ 6.5%	↓ 1.2%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	MEDIAN SINGLE-FAMILY HOUSE LIST PRICE	APARTMENT SALES VOLUME
15.3%	\$62,242	\$365,000	\$1,255 million
↑ 3.0%	↑ 2.8%	↑ 3.5%	↑ 13%

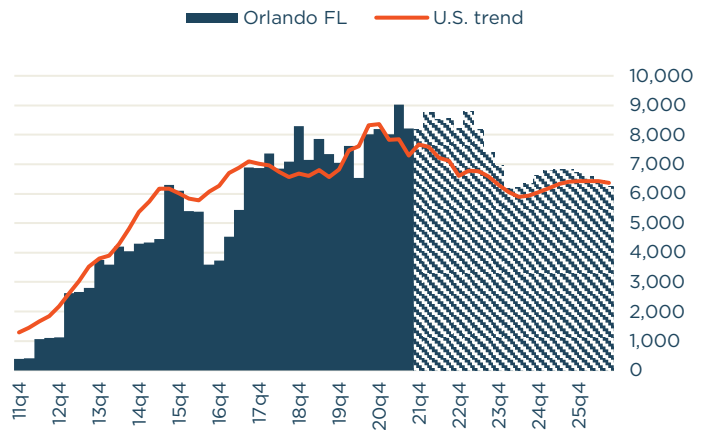
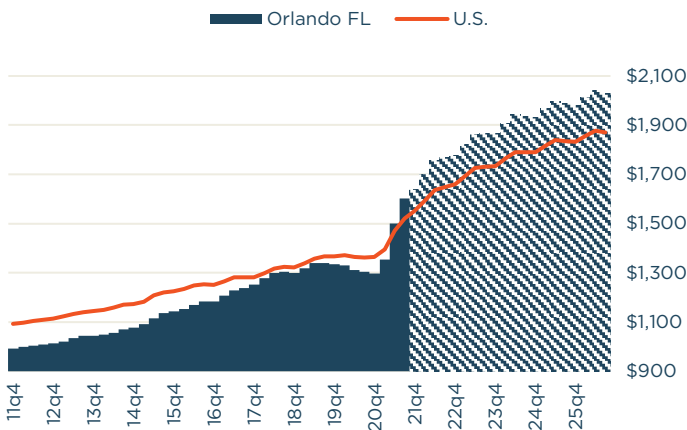
House Price to Income Ratio (11q1=1.0)

Units in Demand (000s)



Effective Rent per Unit

Net Deliveries (rolling 4-qtr sum)



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

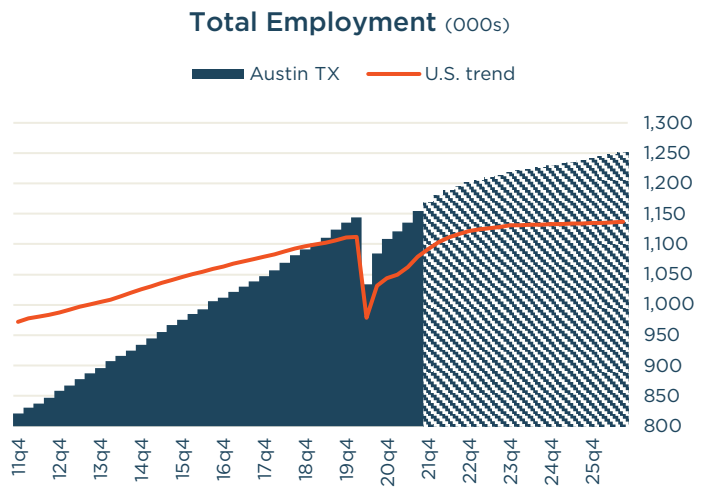
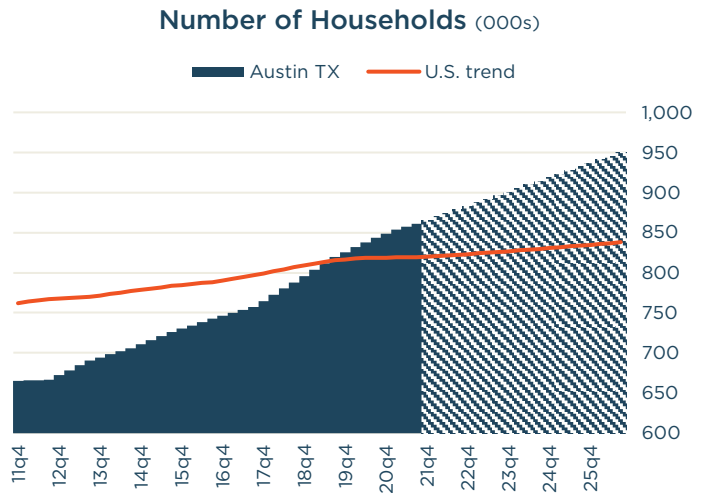
Austin, TX

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

MIDDLEBURG’S RANK #1 AMONG 15 LARGEST METROS

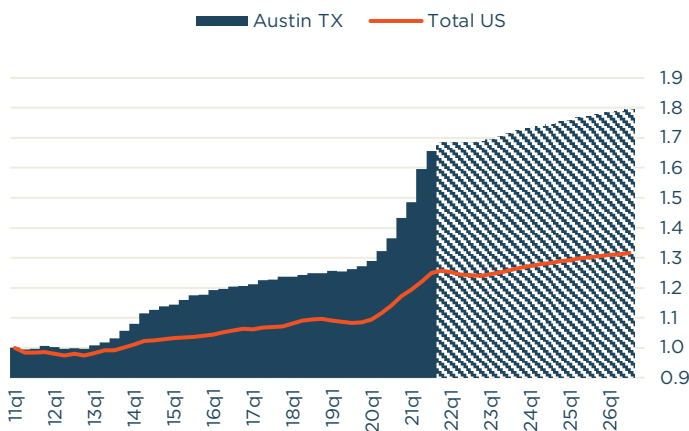
Over the next five years Oxford Economics forecasts that growth in Austin’s young adult population and **Number of Households** will outpace every other metro area in Middleburg’s footprint in percentage terms (1.8 percent per year and 2.0 percent per year respectively) and trail only the much larger Dallas / Fort Worth, Houston, and Atlanta in absolute numbers at 33 thousand and 89 thousand respectively. Growth in **Total Employment** is also expected to remain well above average, especially with recent corporate relocations including Oracle and Tesla.

Homeownership affordability has become a tremendous problem in Austin, as house prices have risen an astounding 26.4 percent over the past 12 months while median household incomes have increased by just 4.2 percent; the comparable national figures are 15.0 percent and 5.0 percent over the past year. As a result, CoStar forecasts that rental housing **Demand** will grow by 44 thousand units over the next five years (3.6 percent per year), trailing only Dallas / Fort Worth and Houston. **Effective Rent per Unit**, net operating income, and apartment property value appreciation will also outpace most other markets in the region. The main reason for caution about investing in Austin’s rental housing market stems from the fact that its underlying strengths have become so well known: the number of apartments under construction has increased dramatically over the past several years and currently stands at 8.6 percent of total apartment inventory, and the market will continue to see strong **Net Deliveries** over the next two to three years.

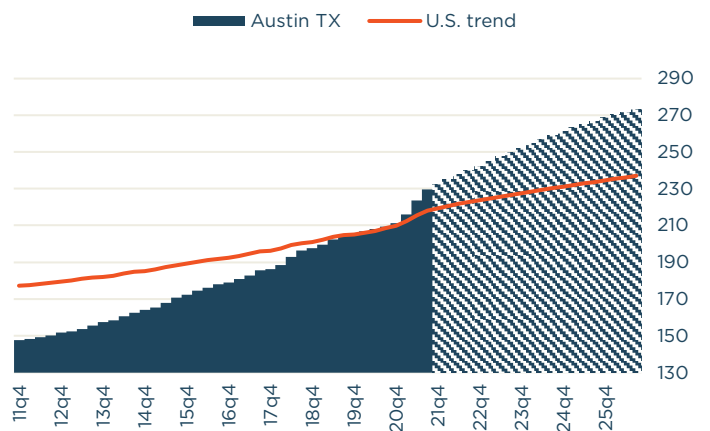


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT VACANCY RATE
242,799	20,967	\$219,846	5.5%
↑ 1.1%	↑ 3.4%	↑ 4.0%	↓ 1.4%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	MEDIAN SINGLE-FAMILY HOUSE LIST PRICE	APARTMENT SALES VOLUME
26.4%	\$81,906	\$498,400	\$1,135 million
↑ 4.2%	↑ 2.0%	↓ 3.2%	↑ 74%

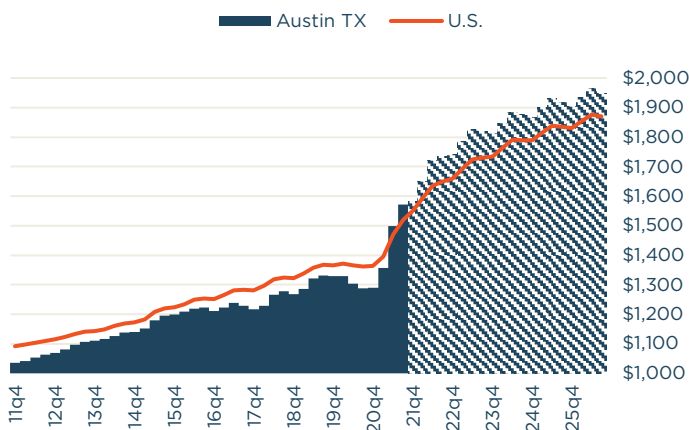
House Price to Income Ratio (11q1=1.0)



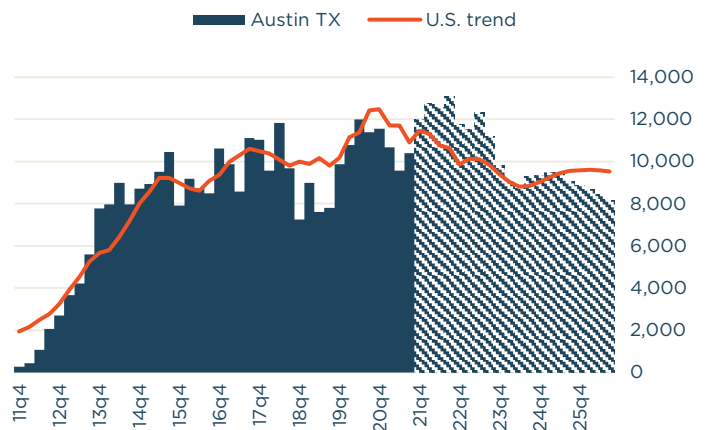
Units in Demand (000s)



Effective Rent per Unit



Net Deliveries (rolling 4-qtr sum)



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

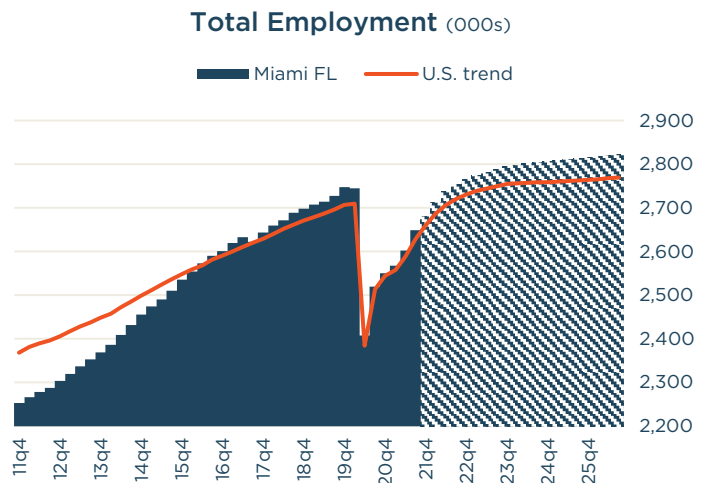
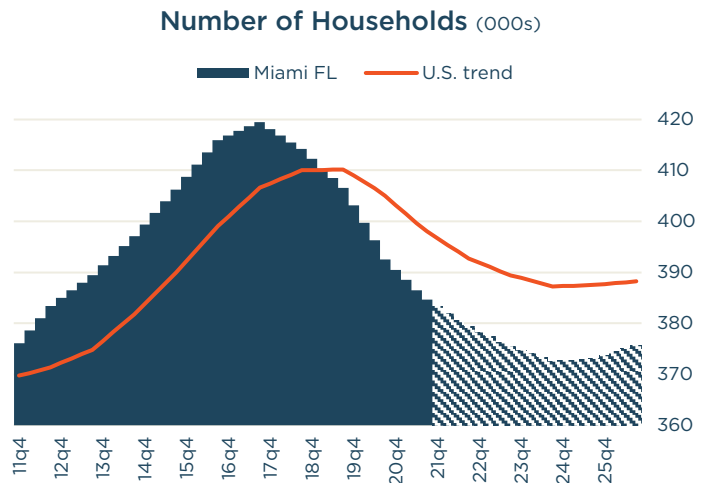
Miami, FL

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

MIDDLEBURG'S RANK #11 AMONG 15 LARGEST METROS

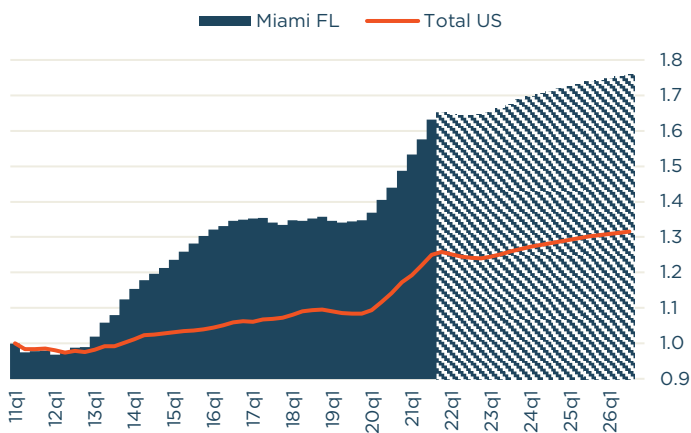
Miami has attracted (or perhaps sought) attention as a new home for tech firms relocating away from the San Francisco Bay area as well as finance firms relocating away from New York City. Even if that happens, it's probably not enough to make the Miami area especially appealing to Middleburg. Oxford Economics forecasts that the area's young adult population—a key demographic driver of non-niche rental housing demand—will actually shrink by seven thousand over the next five years (-0.4 percent per year), while the **Number of Households** is expected to grow by an anemic (for this part of the country) 28 thousand, or just 0.6 percent per year.

Demand for rental housing will receive an added push from Miami's homebuyer affordability problem, which has worsened almost three times as much as for the rest of the nation over the past nine years as house prices have increased by 9.5 percent per year while median household incomes have risen by just 3.5 percent per year. But Miami's rental housing market is not like those in other cities: for example, its current average **Effective Rent per Unit** of \$1,669 trails only Palm Beach among markets in Middleburg's part of the country even though the metro area's median household income is low by national standards at just \$55,668. In short, rental housing demand in Miami tends to be dominated by wealthy retirees, rather than the younger professional households that form Middleburg's resident base. Miami will continue to be a niche market, with only occasional opportunities for Middleburg.

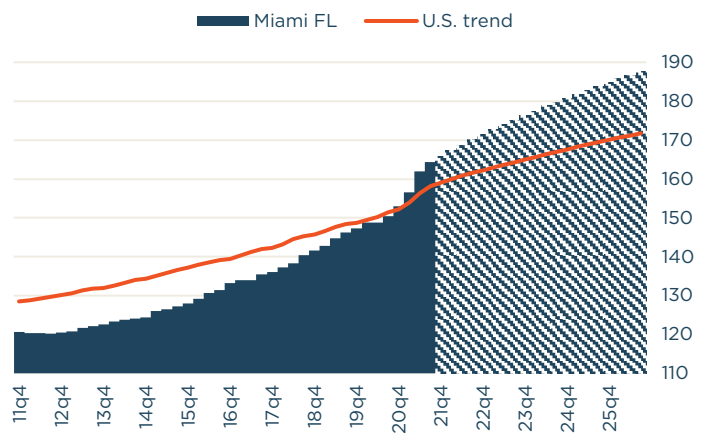


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT VACANCY RATE
170,445	13,435	\$266,418	3.5%
↑ 0.6%	↑ 2.1%	↑ 3.7%	↓ 0.9%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	MEDIAN SINGLE-FAMILY HOUSE LIST PRICE	APARTMENT SALES VOLUME
17.5%	\$55,668	\$490,000	\$1,245 million
↑ 4.8%	↑ 2.1%	↑ 1.0%	↑ 51%

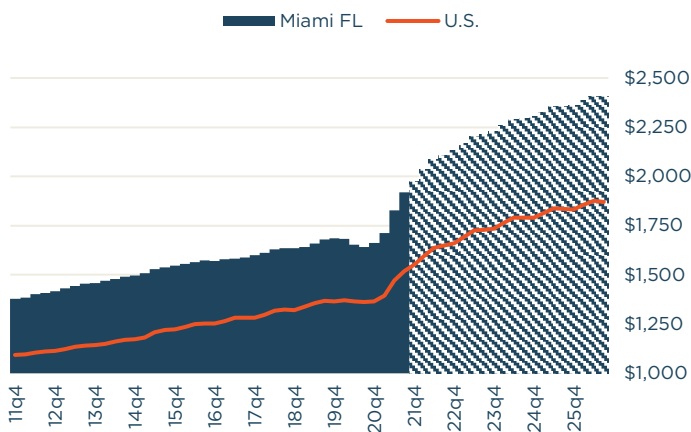
House Price to Income Ratio (11q1=1.0)



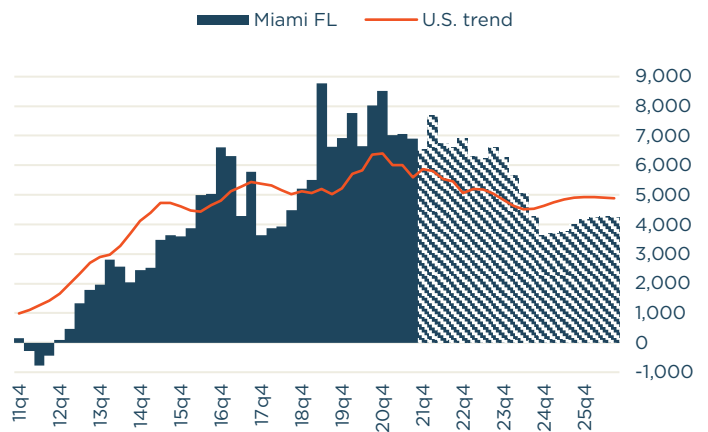
Units in Demand (000s)



Effective Rent per Unit



Net Deliveries (rolling 4-qtr sum)



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

San Antonio, TX

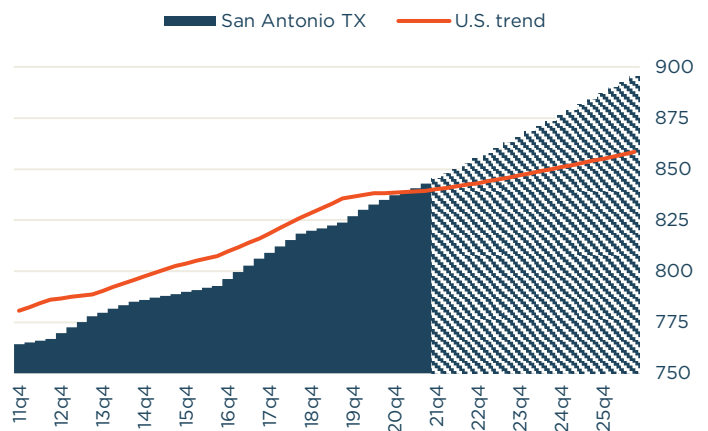
San Antonio has become an interesting market. Only 80 miles from Austin, it is already seeing in-migration from its increasingly unaffordable neighbor.

MIDDLEBURG'S RANK #7 AMONG 15 LARGEST METROS

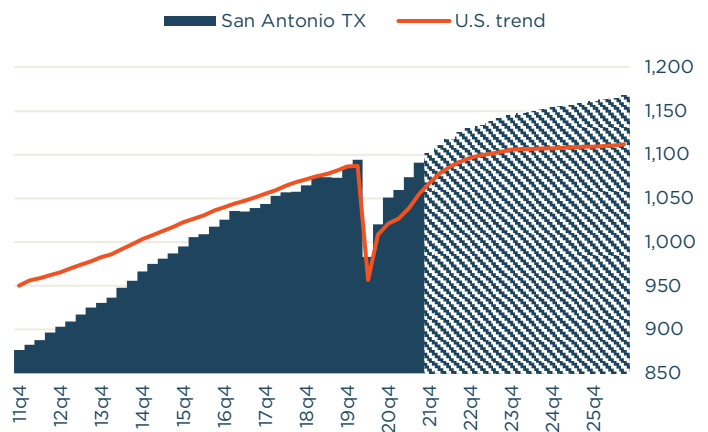
San Antonio's economic base, long dominated by nearby military installations, has diversified impressively in financial services (USAA, JP Morgan Chase), digital technologies (Rackspace Technology, TaskUs), medical care, grocery retailing, and other industries. Oxford Economics forecasts that, over the next five years, San Antonio will experience especially strong growth in all three key demographic drivers of rental housing demand: young adult population (up 25 thousand at 1.3 percent per year), **Number of Households** (up 52 thousand at 1.2 percent per year), and **Total Employment** (up 76 thousand at 1.4 percent per year). As a bonus, San Antonio's median household income, currently 6.8 percent less than the national median, is expected to grow slightly more rapidly at 4.9 percent per year.

San Antonio has seen an increase in homebuyer affordability problems, as house prices have increased over the last eight years by 7.0 percent per year while median household income has increased by only 2.5 percent per year. The demographic and affordability drivers are expected to increase **Demand** for rental housing by 19,500 over the next five years (2.0 percent per year), and CoStar forecasts above-average growth in both **Effective Rent per Unit** (up 4.2 percent per year) and net operating income (up 4.7 percent per year). San Antonio's major weakness is that prevailing rents are quite a bit lower than in most other cities in Middleburg's region at just \$1,156 per unit—4.3 percent less than the next-lowest large metro area, Houston at \$1,208.

Number of Households (000s)

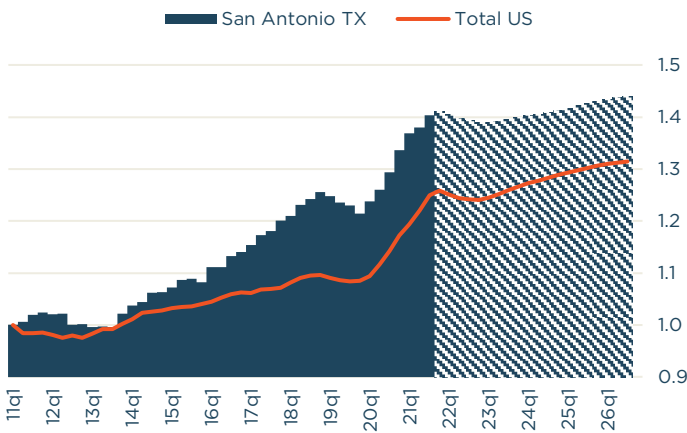


Total Employment (000s)

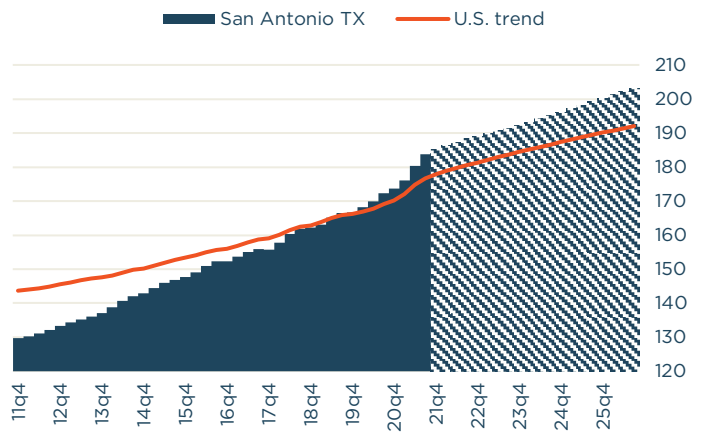


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT VACANCY RATE
195,655	7,658	\$132,696	6.1%
↑ 1.0%	↓ 2.6%	↑ 3.9%	↓ 0.8%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	MEDIAN SINGLE-FAMILY HOUSE LIST PRICE	APARTMENT SALES VOLUME
13.4%	\$63,239	\$300,900	\$289 million
↑ 2.7%	↑ 2.3%	↑ 5.0%	↑ 36%

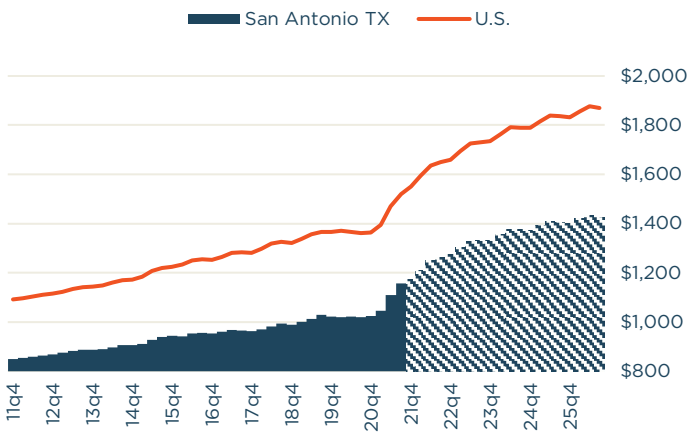
House Price to Income Ratio (11q1=1.0)



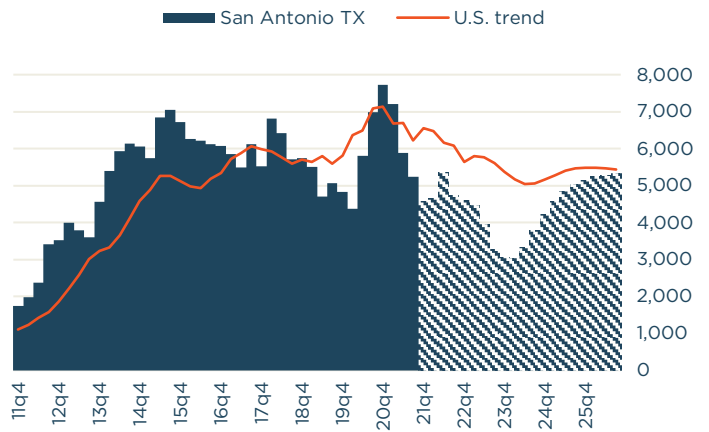
Units in Demand (000s)



Effective Rent per Unit



Net Deliveries (rolling 4-qtr sum)



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

Nashville, TN

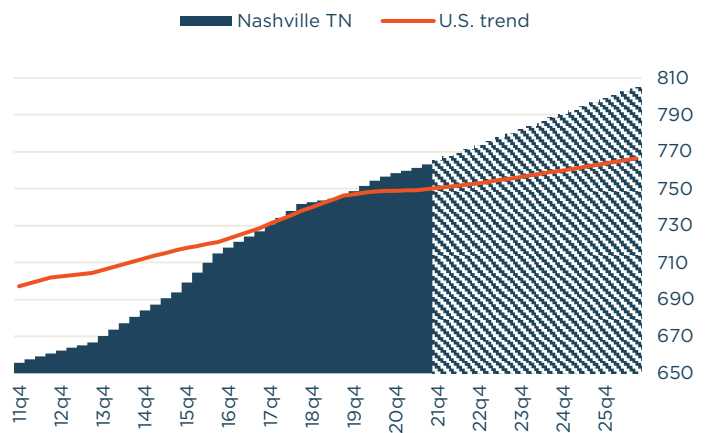
Nashville may as well be called “The New Austin.” As in Austin, it’s hard to find weak aspects of the Nashville rental housing market; also as in Austin, however, the strength of the Nashville market is widely recognized.

MIDDLEBURG’S RANK #4 AMONG 15 LARGEST METROS

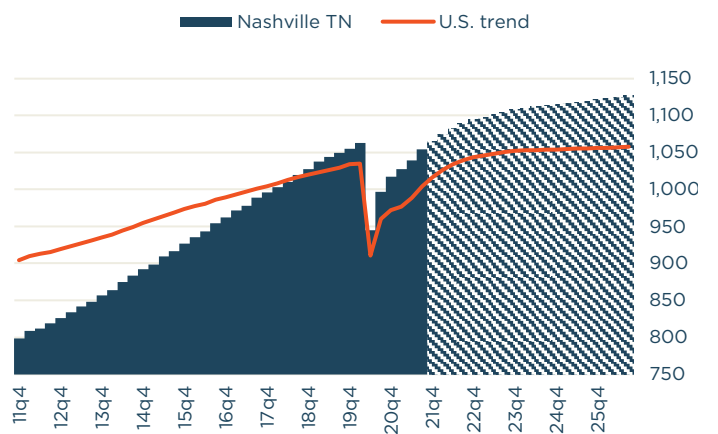
Like Austin, Nashville seems to be a growing favorite of young professionals, based partly on its music scene. Also like Austin, Nashville has seen high-profile recent corporate relocations including AllianceBernstein. As a result, the key demographic drivers of rental housing demand are all expected to grow strongly in Nashville over the next five years. Oxford Economics expects that Nashville’s young adult population will grow by 13 thousand over the next five years (0.9 percent per year), that the **Number of Households** will grow by 42 thousand (1.1 percent per year), and that **Total Employment** will grow by 72 thousand (1.3 percent per year).

Nashville’s homebuyer affordability problem has not increased nearly to the same extent as Austin’s: the **House Price to Income Ratio** has risen by 59 percent over the last eight years compared with 149 percent in Austin. Still, CoStar expects apartment **Demand** to grow by 31 thousand units (4.4 percent per year) over the next five years. The pace of construction has reacted to the underlying demand fundamentals—**Net Deliveries** are expected to remain relatively high for the next three years—and as a result occupancy, currently 95.7%, is forecast to decline to 93.1%. **Effective Rent per Unit** and net operating income, though, are expected to grow strongly by 4.2 percent per year and 4.6 percent per year respectively, supporting continued appreciation in apartment property values. The main difficulty in the Nashville market is likely to be scouring for opportunities that haven’t been recognized and bid up too high by other participants.

Number of Households (000s)

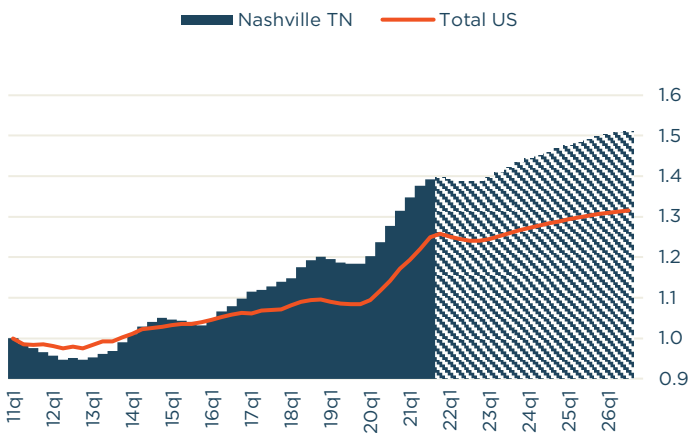


Total Employment (000s)

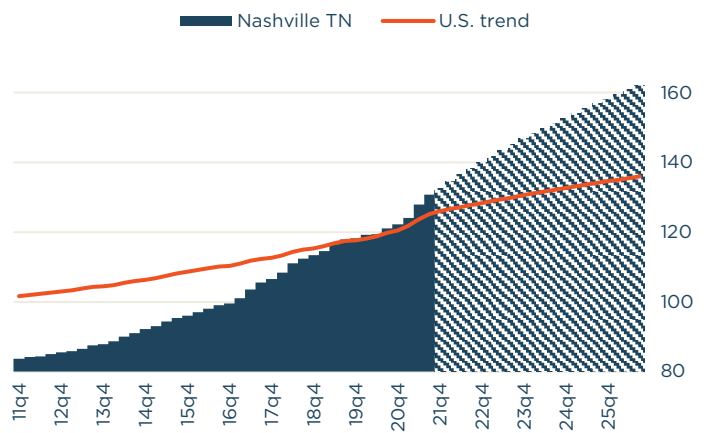


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT VACANCY RATE
136,878	16,676	\$215,413	4.3%
↑ 0.2%	↑ 10.7%	↑ 7.1%	↓ 2.0%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	MEDIAN SINGLE-FAMILY HOUSE LIST PRICE	APARTMENT SALES VOLUME
14.4%	\$71,450	\$355,400	\$1,151 million
↑ 1.3%	↑ 2.2%	↓ 1.7%	↑ 67%

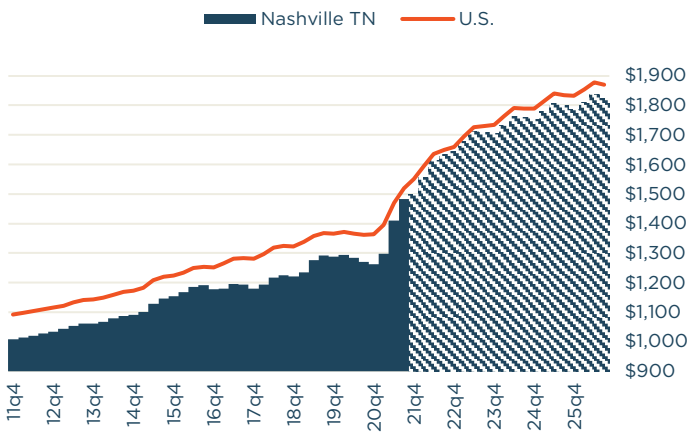
House Price to Income Ratio (11q1=1.0)



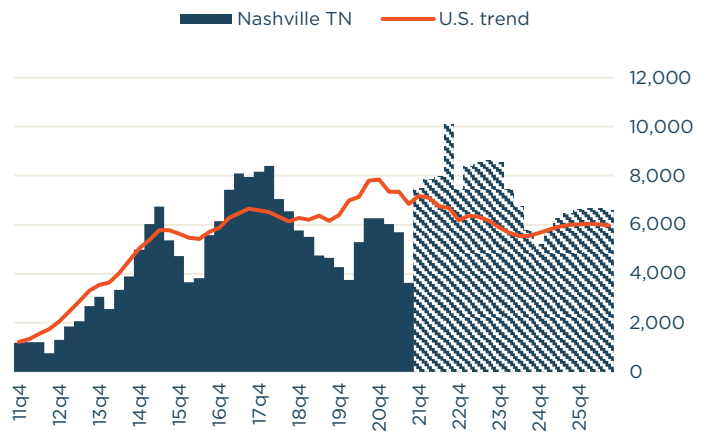
Units in Demand (000s)



Effective Rent per Unit



Net Deliveries (rolling 4-qtr sum)



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

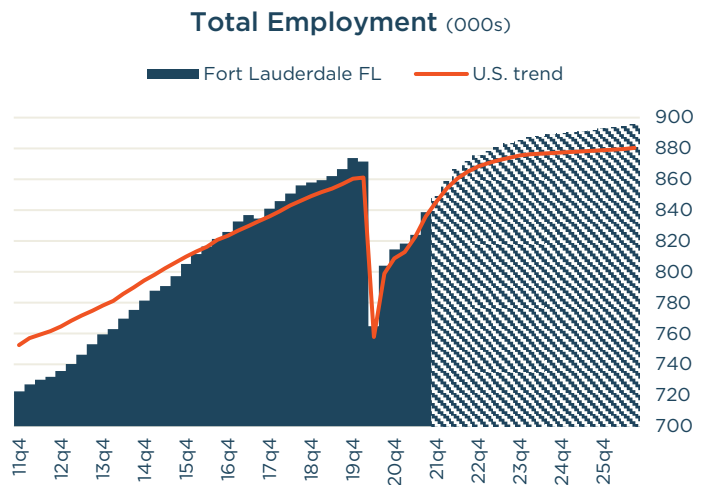
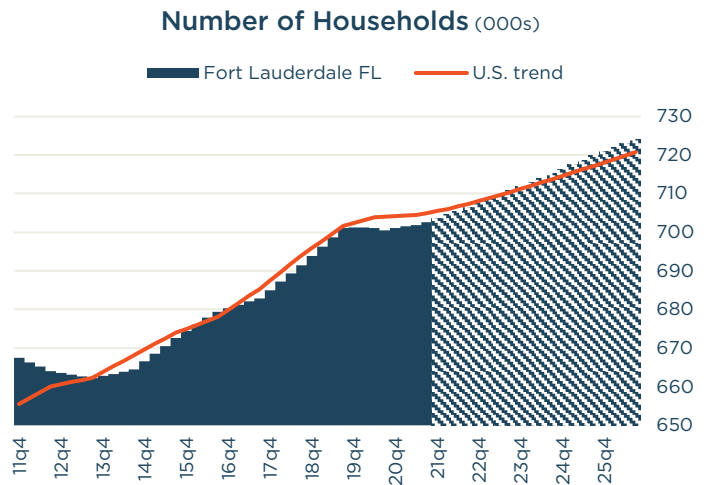
Fort Lauderdale, FL

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

MIDDLEBURG'S RANK #14 AMONG 15 LARGEST METROS

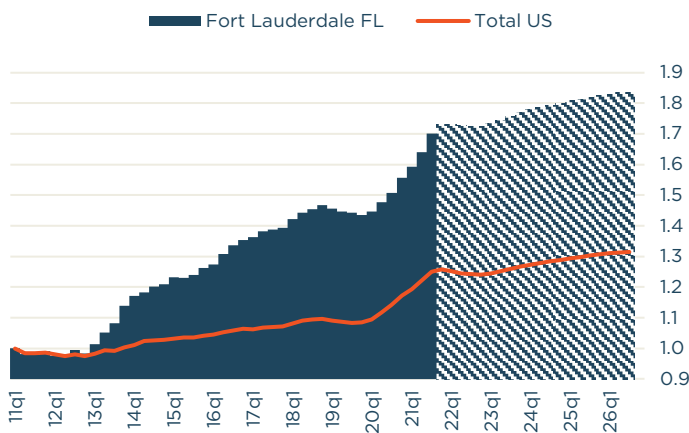
At 96.7%, Fort Lauderdale's current occupancy rate is higher than in any other large metro area in Middleburg's territory other than Norfolk. Similarly, its average **Effective Rent per Unit** of \$1,900 trails only the Palm Beach and Naples markets, and the \$519 growth that CoStar forecasts over the next five years trails only Palm Beach at \$587. That's not really enough to make it especially appealing to Middleburg, given that we don't typically compete at the highest end of the rental housing market. More important to us is the fact that growth in the key demographic drivers is expected to be anemic: Oxford Economics forecasts, for example, that the young adult population will expand by just three thousand (0.2 percent per year) over the next five years, while the **Number of Households** will grow by just 22 thousand (0.6 percent per year).

The rental housing market is likely to be boosted by Fort Lauderdale's growing homebuyer affordability problem: the **House Price to Income Ratio** has expanded 162 percent more rapidly in Fort Lauderdale over the past nine years than in the country as a whole as house price appreciation has averaged 9.1 percent per year (well above the national average of 6.1 percent) while median household income has increased by just 2.8 percent per year (well below the national average of 3.3 percent). As in Miami, that reflects Fort Lauderdale's continuing appeal as an alternative to Miami for relatively wealthy retirees—not so much as a favored destination for the young professionals that are Middleburg's core resident base.

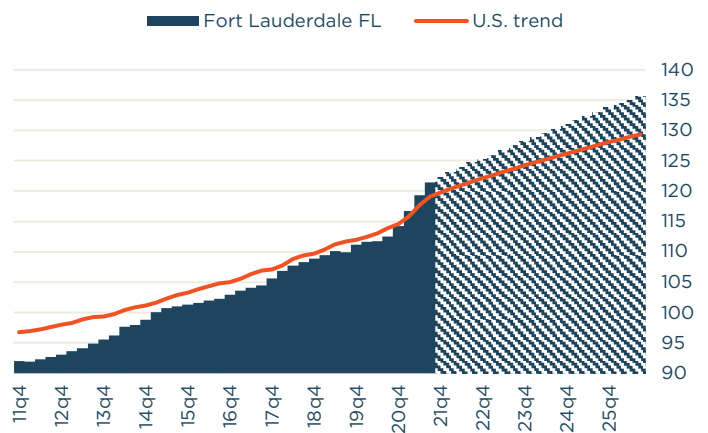


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT VACANCY RATE
125,923	6,049	\$265,009	3.3%
↑ 0.7%	↓ 7.0%	↑ 4.7%	↓ 0.9%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	MEDIAN SINGLE-FAMILY HOUSE LIST PRICE	APARTMENT SALES VOLUME
17.6%	\$63,248	\$490,000	\$893 million
↑ 4.8%	↑ 2.0%	↑ 1.0%	↓ 16%

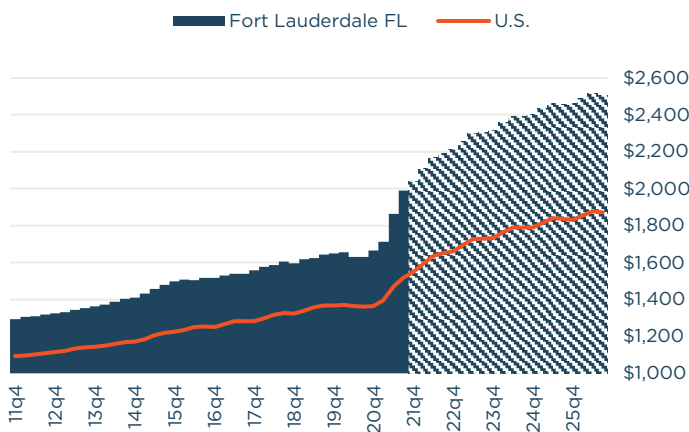
House Price to Income Ratio (11q1=1.0)



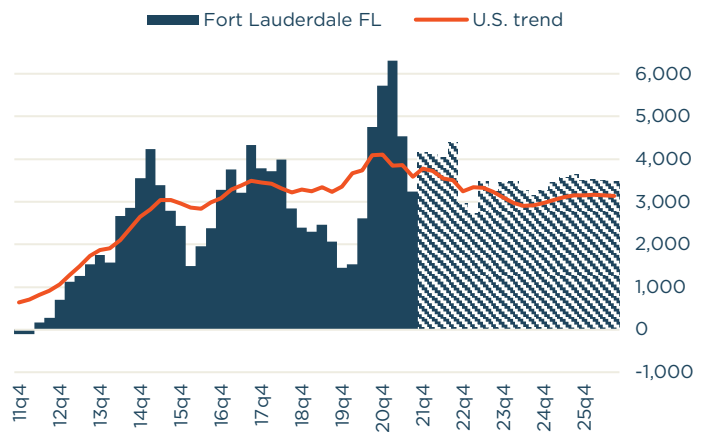
Units in Demand (000s)



Effective Rent per Unit



Net Deliveries (rolling 4-qtr sum)



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

Jacksonville, FL

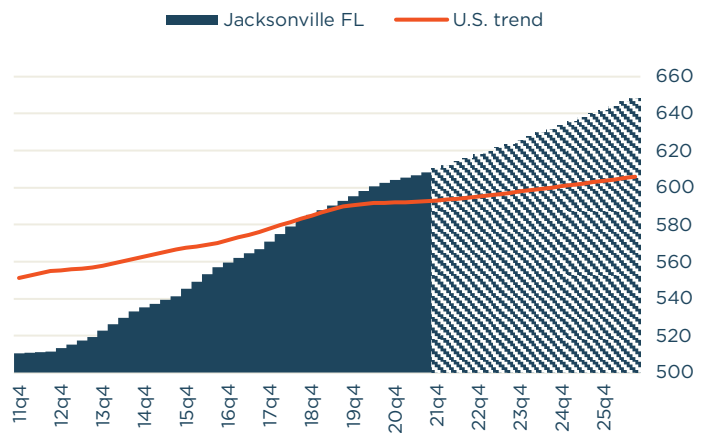
Jacksonville’s economy is continuing to diversify beyond its former over-reliance on the cruise industry and other port activities, especially with growth in financial services.

MIDDLEBURG’S RANK #12 AMONG 15 LARGEST METROS

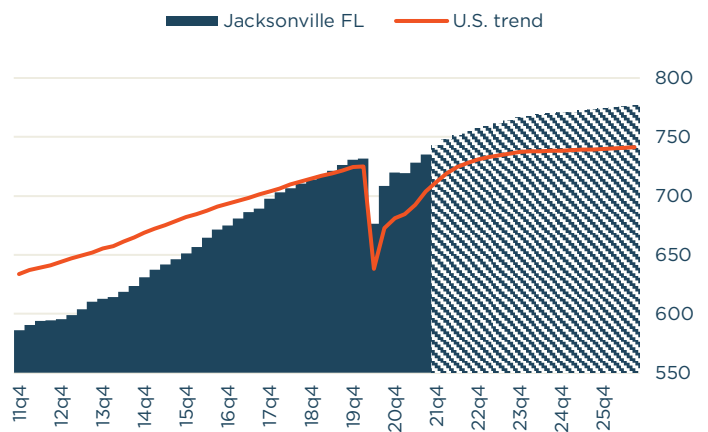
The growth rate of GDP in the Jacksonville metro area has exceeded 27e national average for several years and is expected to continue, although rental housing demand may not expand quite as strongly. For example, although the **Number of Households** is expected to increase by 40 thousand over the next five years (1.3 percent per year), Oxford Economics forecasts **Total Employment** to grow by just 41 thousand jobs (1.1 percent per year, low by the standards of Middleburg’s territory). And its young adult population is expected to grow by a measly three thousand (0.2 percent per year).

Despite the weakness in demographic drivers, CoStar expects that **Demand** for rental housing units will grow by about 13 thousand over the same period, at a slightly-above-average pace of 2.6 percent per year. Part of the reason is Jacksonville’s growing homebuyer affordability problem: its **House Price to Income Ratio** has worsened 57 percent more over the past 7½ years than for the nation as a whole as house prices have increased by 8.4 percent per year while median household incomes have risen by only 3.9 percent per year. CoStar expects this pressure to result in above-average growth in **Effective Rent per Unit**, net operating income, and price appreciation for apartment properties.

Number of Households (000s)

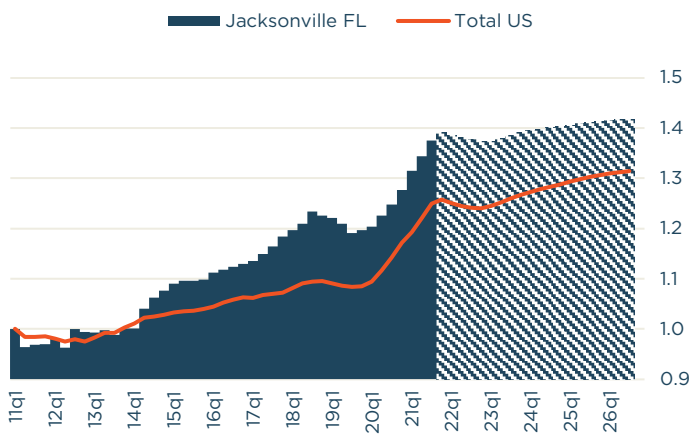


Total Employment (000s)

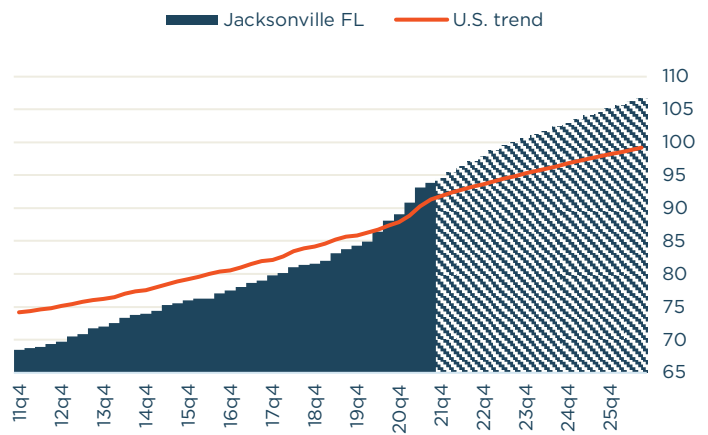


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT VACANCY RATE
98,269	5,044	\$169,549	4.5%
↑ 0.6%	↑ 8.5%	↑ 7.5%	↓ 0.1%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	MEDIAN SINGLE-FAMILY HOUSE LIST PRICE	APARTMENT SALES VOLUME
15.8%	\$68,855	\$339,000	\$626 million
↑ 2.5%	↑ 1.6%	↑ 5.9%	↑ 12%

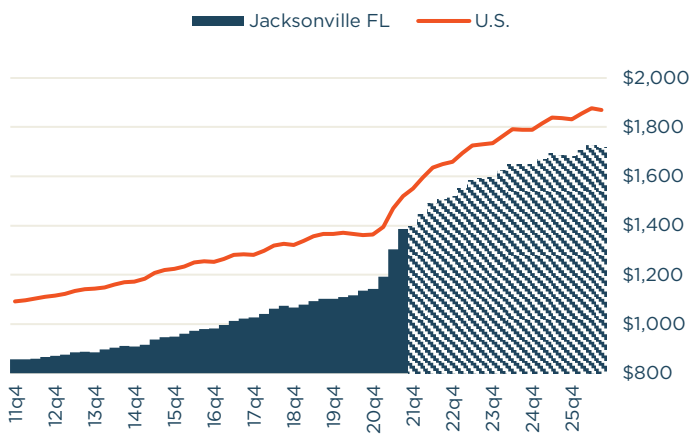
House Price to Income Ratio (11q1=1.0)



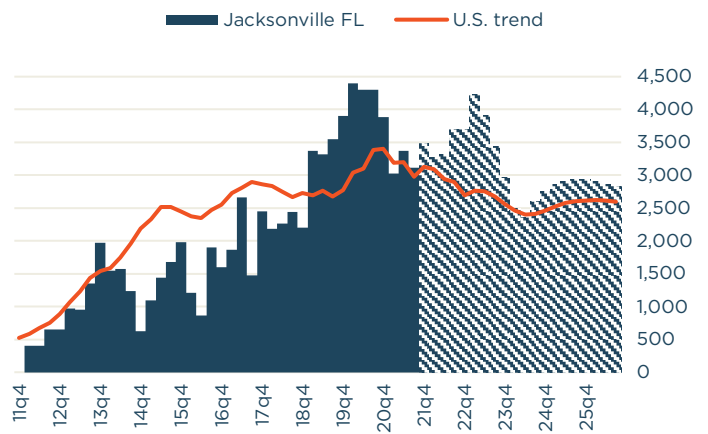
Units in Demand (000s)



Effective Rent per Unit



Net Deliveries (rolling 4-qtr sum)



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

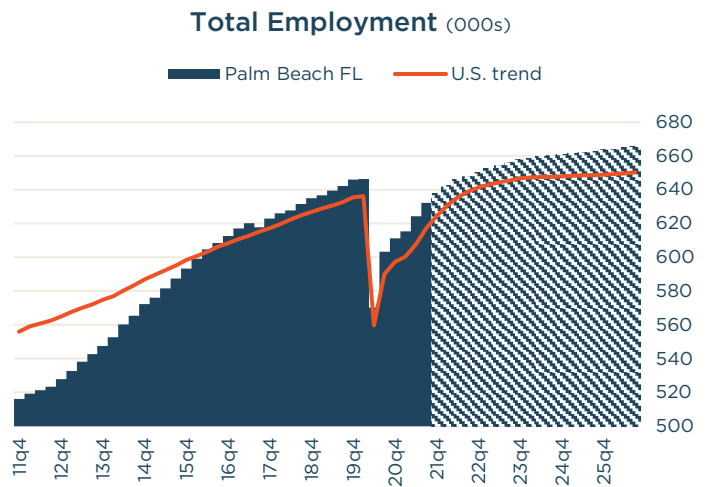
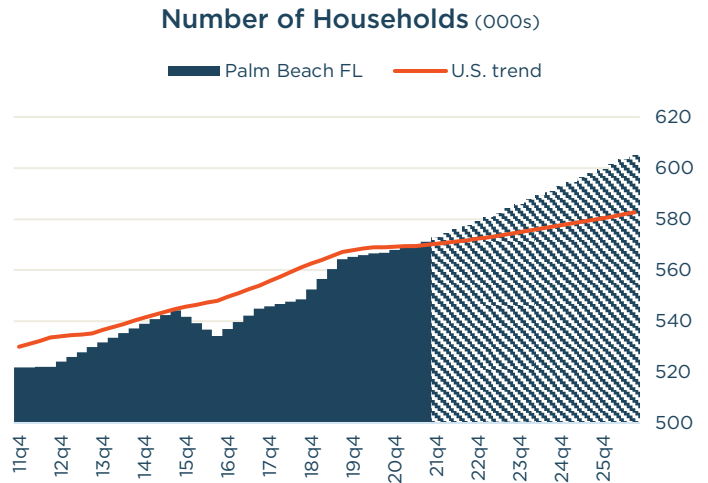
Palm Beach, FL

The rental housing market in the Palm Beach metro area is smaller than its near neighbors Miami and Fort Lauderdale, but slightly more appealing to Middleburg.

MIDDLEBURG'S RANK #10 AMONG 15 LARGEST METROS

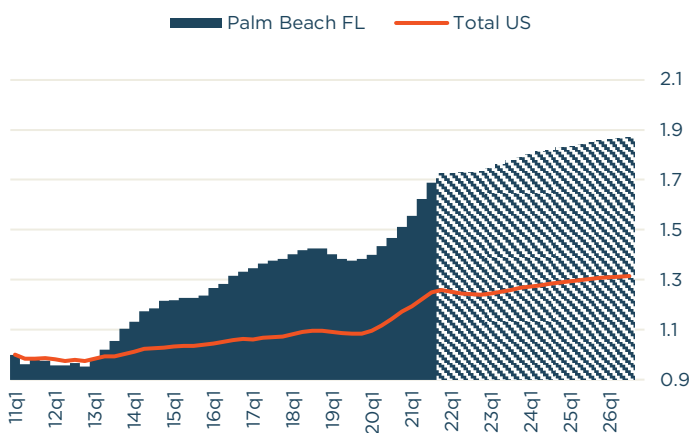
The rental housing market in Palm Beach is likely to benefit from slightly stronger demographic trends coupled with pressure from a growing homebuyer affordability problem. In particular, Oxford Economics forecasts that Palm Beach's young adult population will grow by an average of 1.0 percent per year over the next five years, well above average for metros in Middleburg's territory. The **Number of Households** and **Total Employment** are also expected to show above-average growth, though less impressive (relative to regional peers) at 1.2 percent per year and 1.0 percent per year respectively.

Demand for rental housing in Palm Beach will receive an additional boost from frustrated homebuyers, as the metro area's **House Price to Income Ratio** has increased 164 percent more rapidly in Palm Beach than in the rest of the country over the past 8½ years. Partly as a result, CoStar expects the number of **Units in Demand** to increase by 13 thousand over the next five years at an above-average pace of 3.5 percent per year. **Effective Rent per Unit** is expected to grow at 4.9 percent per year—the highest growth rate of any metro area in Middleburg's part of the country—with net operating income and apartment property value appreciation seeing similar growth. The main question in Palm Beach, from Middleburg's point of view, is whether too much of the new rental housing demand will be concentrated in the most expensive segment of the market, as the Palm Beach metro area is forecast five years from now to see effective rent per unit averaging \$2,768—easily the highest of any metro area in Middleburg's arc.

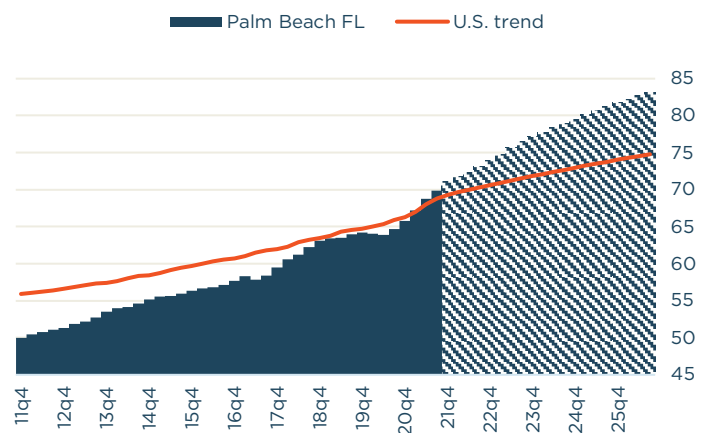


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT VACANCY RATE
72,379	4,894	\$295,920	3.7%
↑ 0.3%	↑ 2.6%	↑ 7.8%	↓ 1.3%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	MEDIAN SINGLE-FAMILY HOUSE LIST PRICE	APARTMENT SALES VOLUME
18.7%	\$67,476	\$490,000	\$962 million
↑ 4.5%	↑ 1.5%	↑ 1.0%	↑ 98%

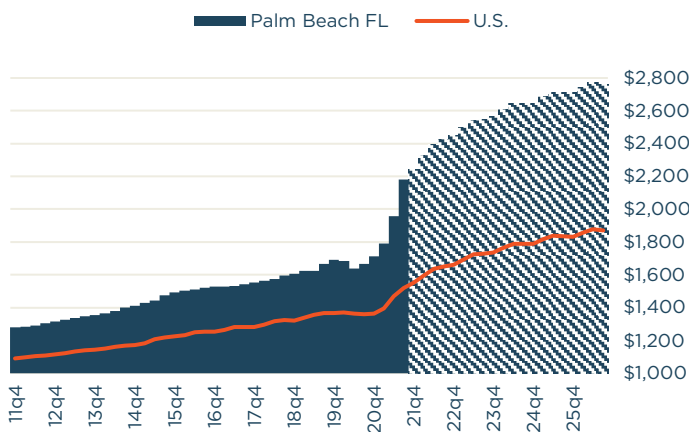
House Price to Income Ratio (11q1=1.0)



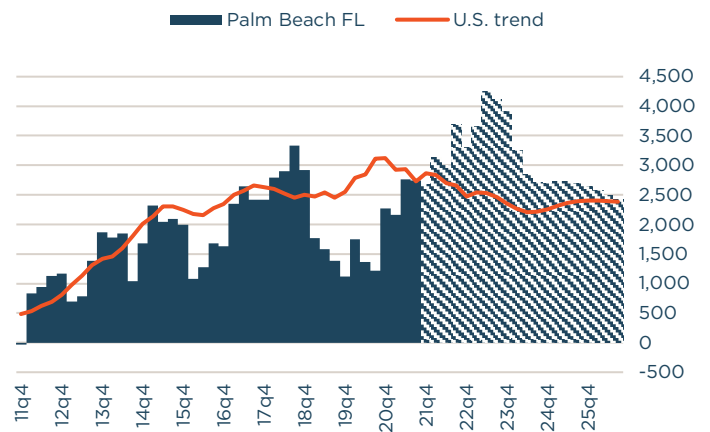
Units in Demand (000s)



Effective Rent per Unit



Net Deliveries (rolling 4-qtr sum)



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

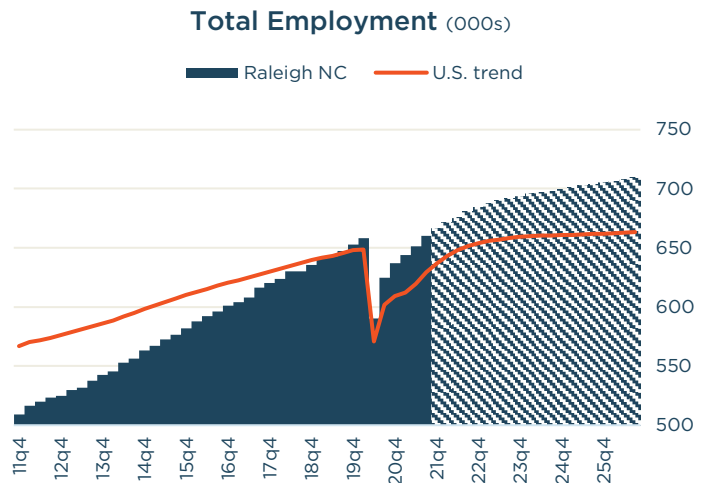
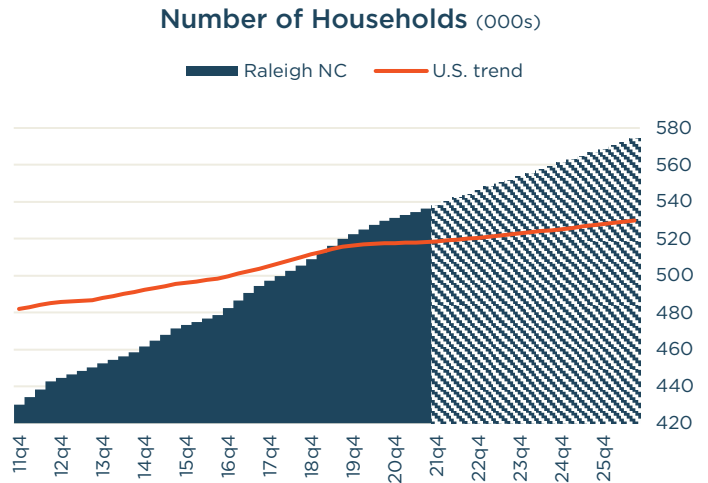
Raleigh, NC

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.

MIDDLEBURG'S RANK #9 AMONG 15 LARGEST METROS

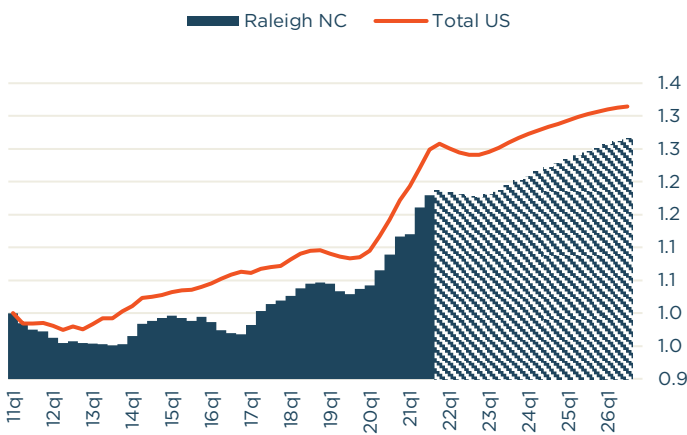
Raleigh has a diverse economic base and an uncommonly high-education, high-income population—a characteristic that it is likely to retain given its reputation as “the low-cost tech hub” and decisions by a large number of tech and life-sciences companies such as IBM, GlaxoSmithKline, and SAS to expand their operations here. Oxford Economics forecasts above-average growth in Raleigh over the next five years for all three key apartment demand drivers with its young adult population growing by 0.9 percent per year, its **Number of Households** by 1.4 percent per year, and its **Total Employment** by 1.5 percent per year.

Raleigh has not yet been plagued by the homebuyer affordability problems affecting many other cities, but the strong demographic trends are likely to drive equally strong demand for rental housing. CoStar expects **Demand** for rental housing units to expand by 19 thousand over the next five years at 3.5 percent per year, and net operating income to grow at an above-average 4.6 percent per year. **Effective Rent per Unit**, which had generally lagged the national average by about \$200 per month, increased more sharply this year in Raleigh than in the rest of the country and now lags by just \$93—and, even if it doesn't maintain its position relative to the national average, Raleigh is expected to continue seeing above-average growth in both rents (3.7 percent per year) and net operating income (4.6 percent per year) over the next five years.

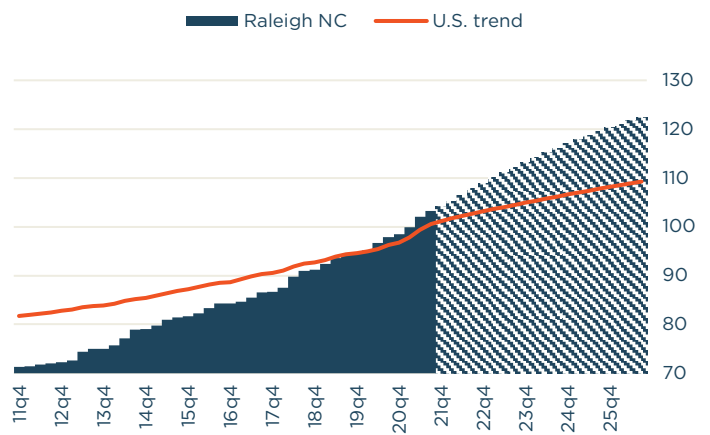


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT VACANCY RATE
108,739	5,721	\$214,940	4.7%
↑ 0.7%	↑ 4.5%	↑ 6.2%	↓ 0.6%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	MEDIAN SINGLE-FAMILY HOUSE LIST PRICE	APARTMENT SALES VOLUME
14.3%	\$83,003	\$403,500	\$1,192 million
↑ 2.1%	↑ 2.1%	↑ 2.6%	↑ 121%

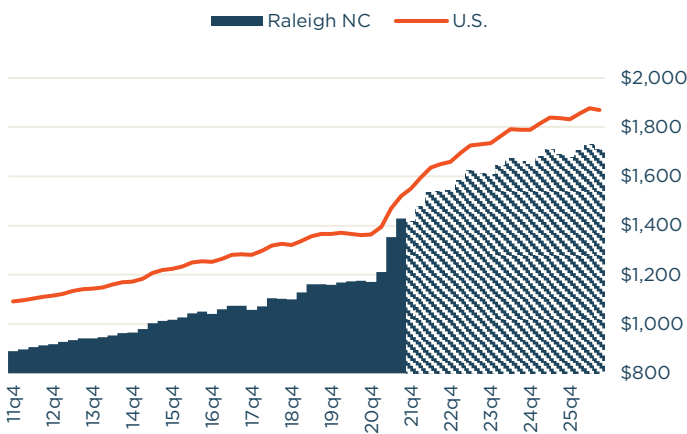
House Price to Income Ratio (11q1=1.0)



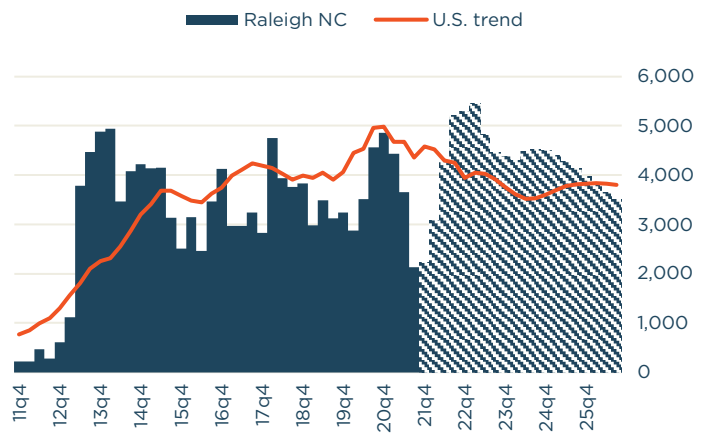
Units in Demand (000s)



Effective Rent per Unit



Net Deliveries (rolling 4-qtr sum)



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

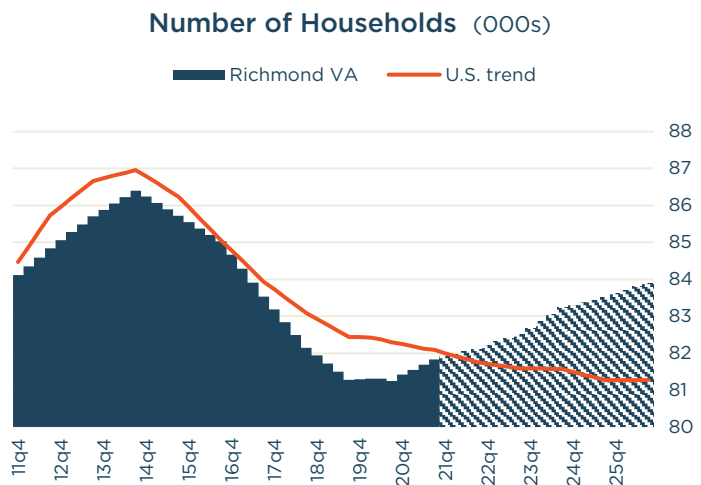
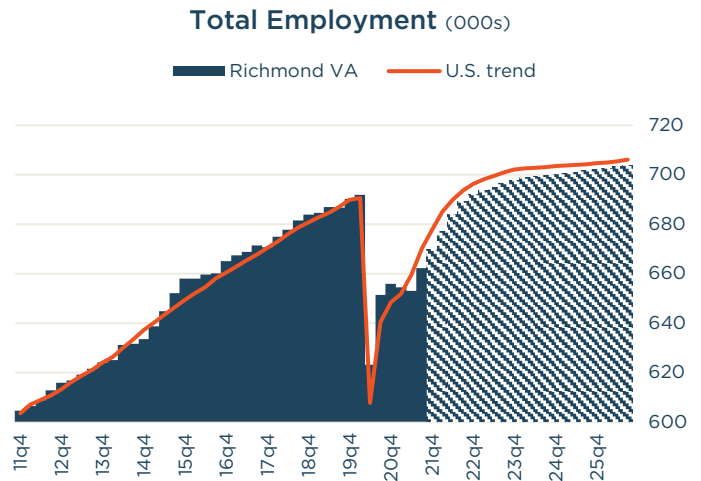
Richmond, VA

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

MIDDLEBURG'S RANK #15 AMONG 15 LARGEST METROS

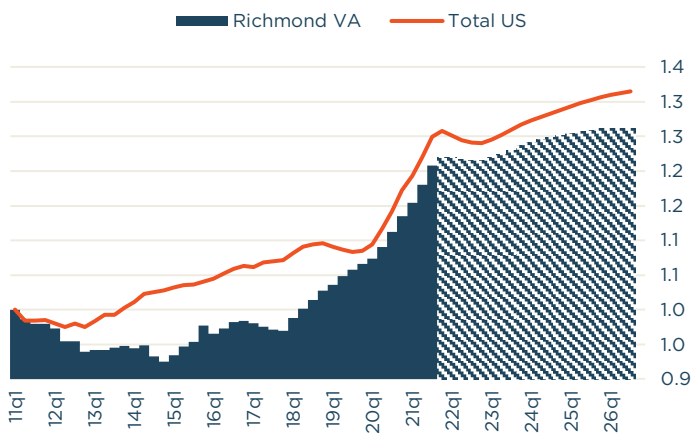
Growth in Total Employment and Number of Households in Richmond are expected to slightly outpace other metro areas in Middleburg's arc over the next five years at 42 thousand (1.2 percent per year) and 18 thousand (0.7 percent per year) respectively, while growth in median household income is forecast to keep pace with its peers at 0.5 percent per year. Moreover, while affordability had not been a significant barrier to homebuyers in the Richmond area, that started to change in 2014 and, over the last four years, the House Price to Income Ratio has increased one-third more rapidly in Richmond than in the country as a whole.

As a result, CoStar forecasts that the number of rental housing Units in Demand will grow slightly more rapidly in Richmond than in other cities in Middleburg's arc, by 11,500 units over the next five years at a pace of 2.5 percent per year, while Effective Rent per Unit and net operating income will grow even more rapidly at 4.0 percent per year and 4.5 percent per year respectively.

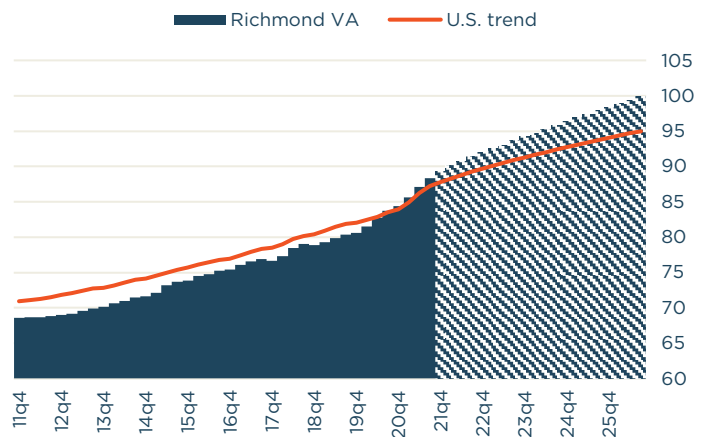


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT VACANCY RATE
92,219	5,209	\$169,936	4.2%
↑ 0.7%	↑ 5.8%	↑ 2.2%	↓ 0.7%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	MEDIAN SINGLE-FAMILY HOUSE LIST PRICE	APARTMENT SALES VOLUME
13.7%	\$71,094	\$396,480	\$107 million
↑ 2.1%	↑ 1.5%	↑ 2.4%	↓ 30%

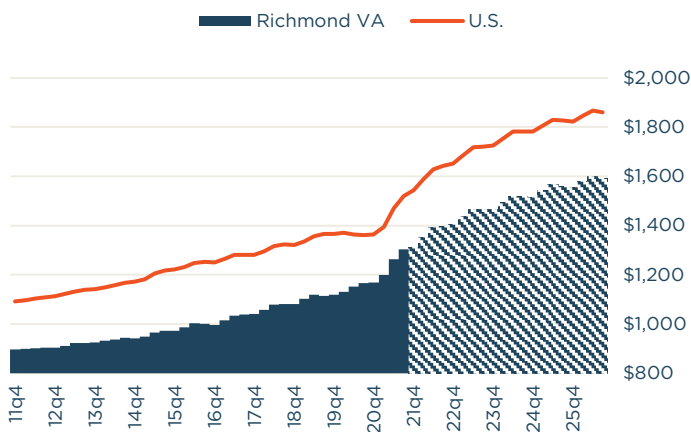
House Price to Income Ratio (11q1=1.0)



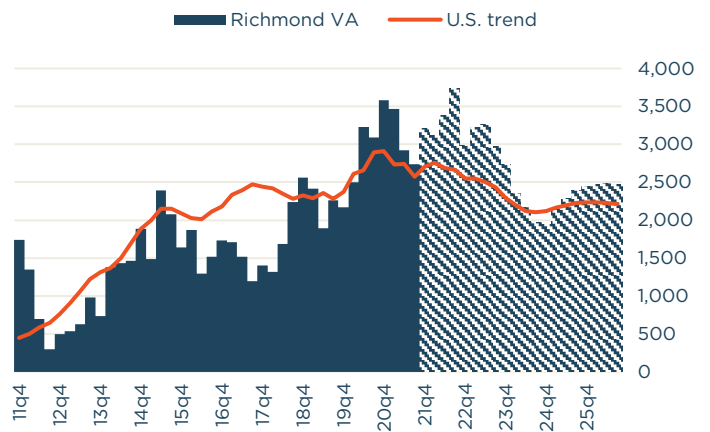
Units in Demand (000s)



Effective Rent per Unit



Net Deliveries (rolling 4-qtr sum)



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

ALSO ON OUR RADAR

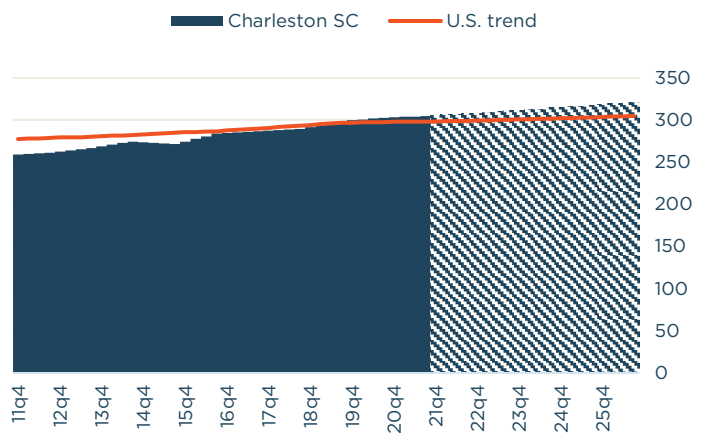
Charleston, SC

Strong house price growth is likely to be the major driver of rental housing demand in the Charleston metro area.

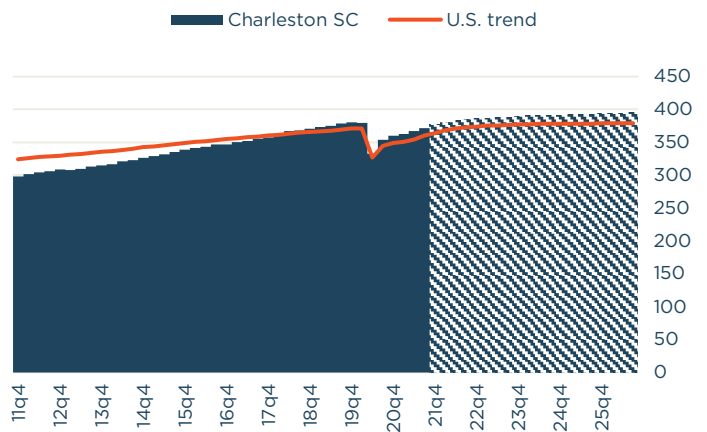
Charleston's economy, once over-reliant on its naval base, has become more diversified than the national average, and both manufacturing and tourism are expected to drive continued economic growth. Oxford Economics forecasts that the **Number of Households**, **Total Employment**, and median household income will grow at 0.5 percent per year each over the next five years, very slightly more rapidly in Charleston than the average for metro areas in Middleburg's arc. Charleston's total population is expected to grow by a robust 1.1 percent per year over the next five years; unfortunately, almost none of that will be among young adults, the key demographic driver of household formation. Instead, the 65+ population is forecast to swell by 3.9 percent per year.

In short, Charleston seems to be emerging as a favored alternative to more-expensive retiree destinations such as the Miami and Palm Beach metro areas. That emergence is expected to have a significant effect on the owner-occupied housing market: in fact, CoStar expects that house prices will increase in Charleston by 6.6 percent per year over the next five years (compared with 4.9 percent for the country as a whole) and the **House Price to Income Ratio** will worsen by 13.6 percent per year (compared with 5.2 percent). As a result, CoStar expects rental housing **Demand** to grow at 3.7 percent per year, higher than average among Middleburg's metro areas.

Number of Households (000s)

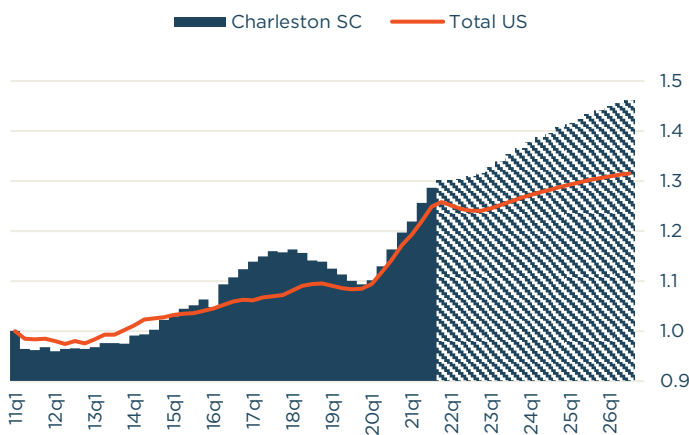


Total Employment (000s)

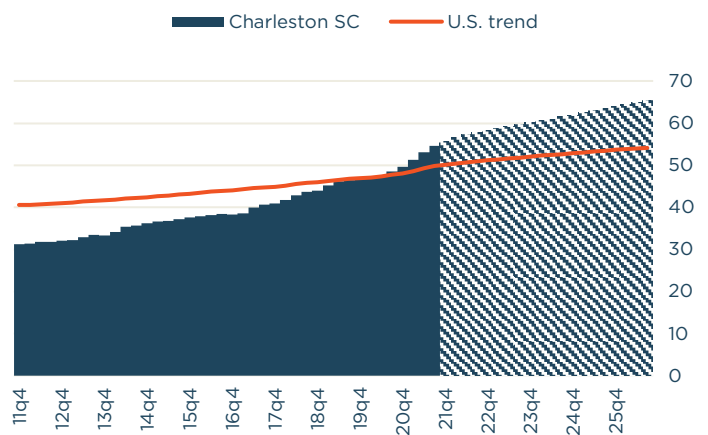


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT VACANCY RATE
59,086	4,532	\$206,627	7.5%
↑ 2.7%	↓ 11.1%	↑ 11.0%	↓ 0.2%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	MEDIAN SINGLE-FAMILY HOUSE LIST PRICE	APARTMENT SALES VOLUME
15.6%	\$72,019	\$375,100	\$731 million
↑ 2.8%	↑ 2.2%	↓ 0.9%	↑ 30%

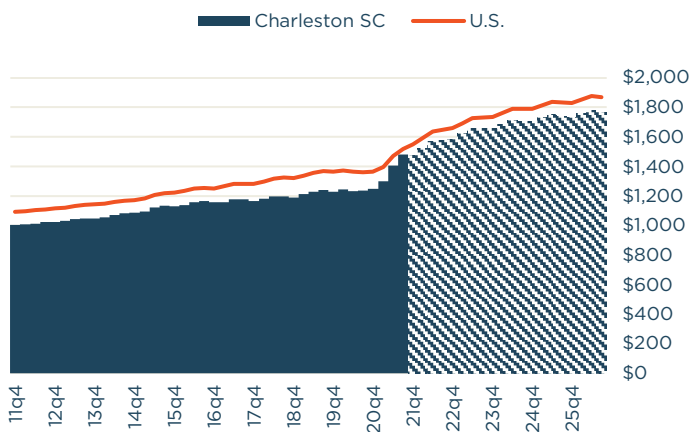
House Price to Income Ratio (11q1=1.0)



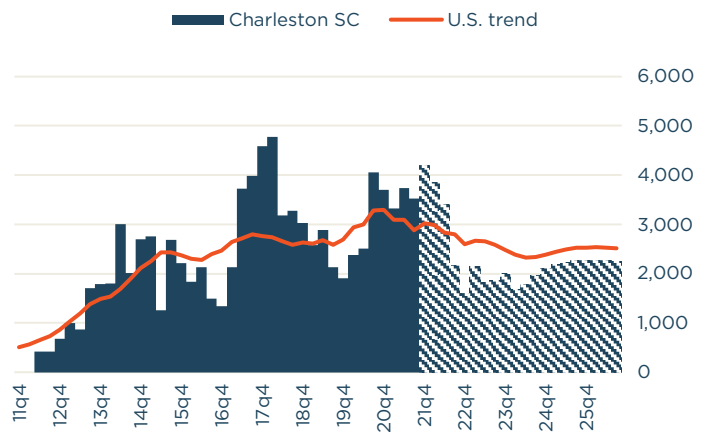
Units in Demand (000s)



Effective Rent per Unit



Net Deliveries (rolling 4-qtr sum)



Representative large employers: Joint Base Charleston, Medical University of South Carolina, Boeing, Walmart, Robert Bosch

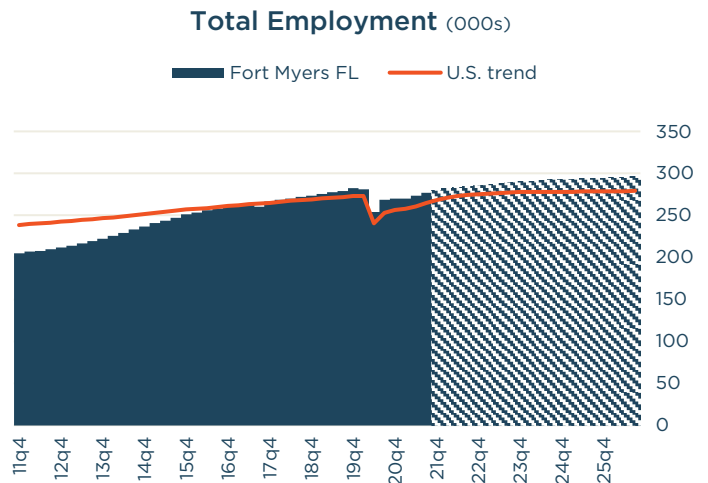
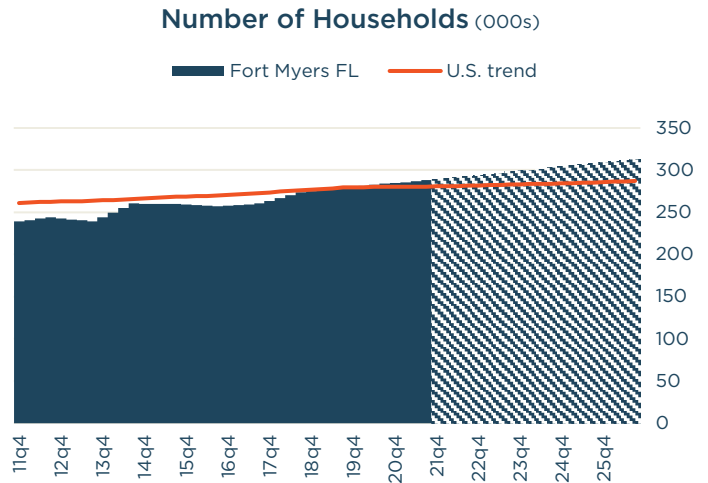
ALSO ON OUR RADAR

Fort Myers, FL

The Fort Myers metro area is an interesting counterpoint to Charleston: in Fort Myers, rental housing demand is likely to come from its growing profile as a destination for *non-retirees*.

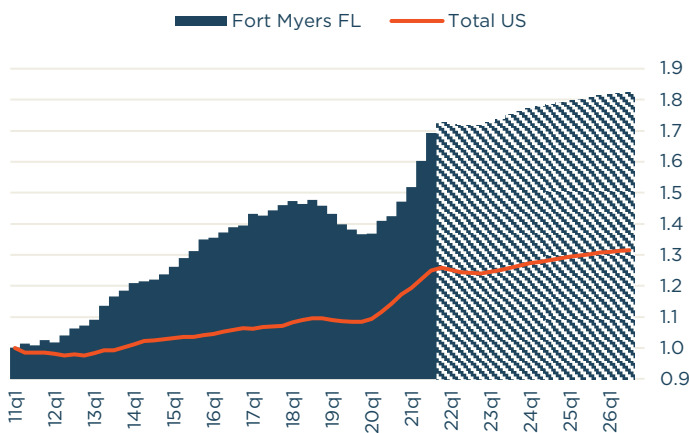
The population of the Fort Myers metro area (which includes Cape Coral) currently skews older than the national average, but Oxford Economics expects its young adult population to grow by 0.4 percent per year over the next five years—more than eight times as rapidly as in the Charleston metro area. The **Number of Households** is forecast to grow by 1.7 percent per year, and **Total Employment** by 1.4 percent per year, both higher than the average among metro areas in Middleburg’s arc. In other words, Fort Myers seems to be transforming from a small metro area that didn’t really present the kinds of opportunities that are most appealing to Middleburg into one that does.

The **House Price to Income Ratio** has worsened 175 percent more in Fort Myers over the past decade than in the country as a whole, as house prices have increased 9.2 percent per year (compared with 5.5 percent for the country) while median household incomes have increased just 3.7 percent per year (compared with 3.0 percent). Partly as a result, CoStar predicts that the number of rental housing **Units in Demand** will increase by 6.6 percent per year over the next five years, the highest rate of any metro area in Middleburg’s arc. The average occupancy rate and **Effective Rent per Unit** are expected to improve marginally as **Net Deliveries** are projected to remain moderate.

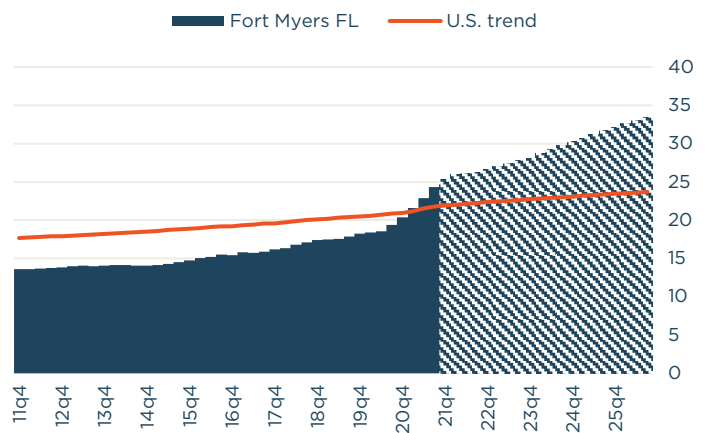


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT VACANCY RATE
26,316	2,866	\$224,082	7.6%
↑ 3.3%	↓ 9.0%	↑ 5.0%	↓ 2.5%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	MEDIAN SINGLE-FAMILY HOUSE LIST PRICE	APARTMENT SALES VOLUME
23.0%	\$64,294	\$360,000	\$221 million
↑ 6.8%	↑ 1.3%	no change	↓ 38%

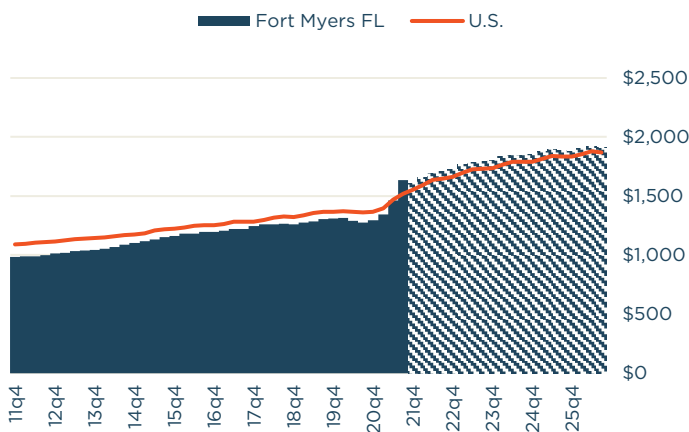
House Price to Income Ratio (11q1=1.0)



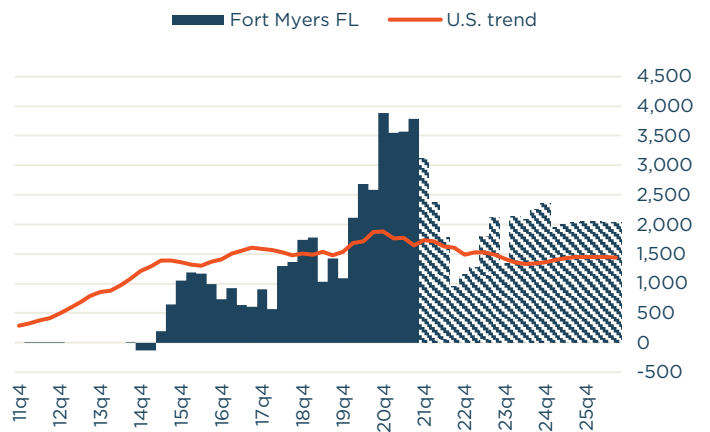
Units in Demand (000s)



Effective Rent per Unit



Net Deliveries (rolling 4-qtr sum)



Representative large employers: Publix Super Market, NCH Healthcare, Walmart, Arthrex, US Sugar

ALSO ON OUR RADAR

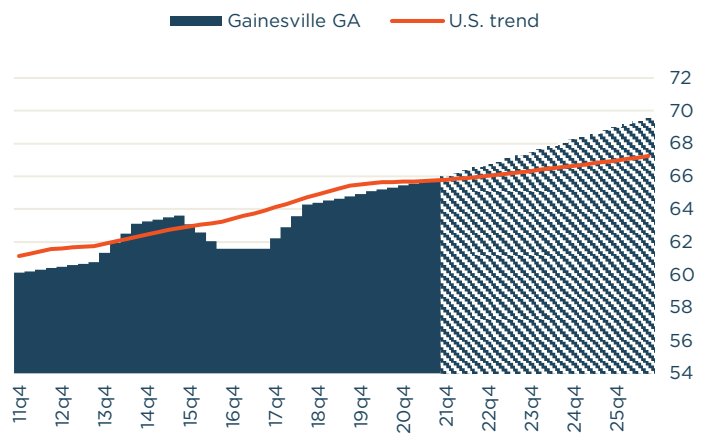
Gainesville, GA

Gainesville may be too small and undiversified for Middleburg to find opportunities that meet our risk criteria, but its expected growth will bear continued attention.

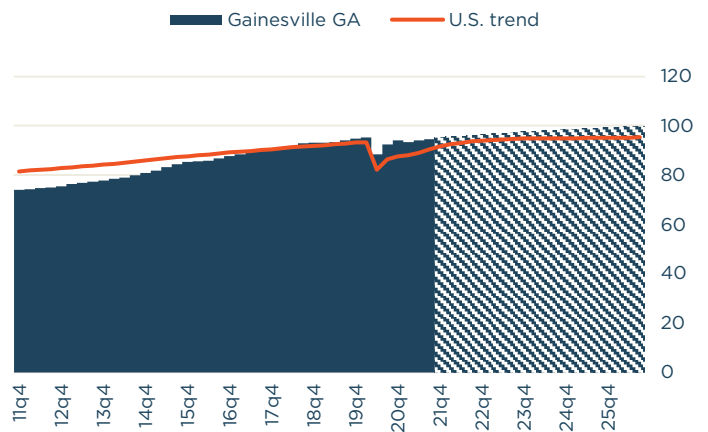
The economy of Gainesville—in Georgia, not Florida—is utterly dominated by poultry processing: a “diversified” economy here means that there are a multitude of processors and support services, not just one. What makes Gainesville worth keeping on Middleburg’s radar is its location at the edge of Lake Lanier about 75 minutes’ drive from downtown Atlanta. That location is expected to cause a hefty (considering its size) increase in Gainesville’s young adult population: by 0.9 percent per year over the next five years, according to Oxford Economics, with an accompanying increase of 1.1 percent per year in the **Number of Households**.

As a result of that robust growth in underlying demographics, CoStar forecasts that the number of rental housing **Units in Demand** will grow by 3.7 percent per year over the same period, considerably higher than the average for metro areas in Middleburg’s part of the country, along with growth of 4.8 percent per year in net operating income. Any market as small as Gainesville is inherently risky, but the demographic drivers certainly make this a market worth continuing to notice.

Number of Households (000s)

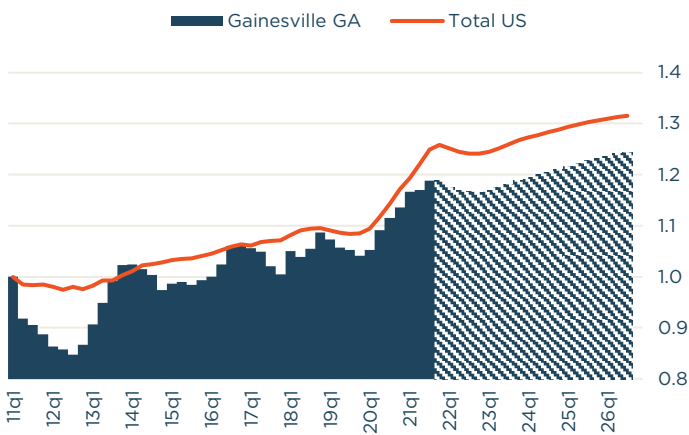


Total Employment (000s)

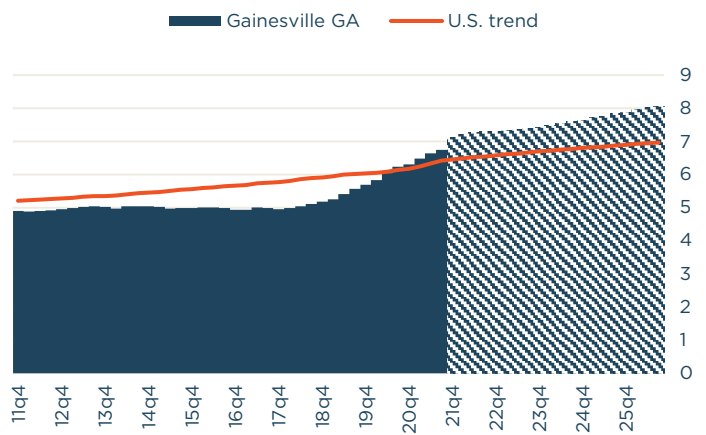


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT VACANCY RATE
7,183	657	\$160,750	6.0%
↑ 4.6%	↓ 7.7%	↑ 1.9%	↑ 2.7%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	MEDIAN SINGLE-FAMILY HOUSE LIST PRICE	APARTMENT SALES VOLUME
12.9%	\$70,606	\$348,000	\$61 million
↑ 1.5%	↑ 1.9%	↑ 7.1%	↑ 55%

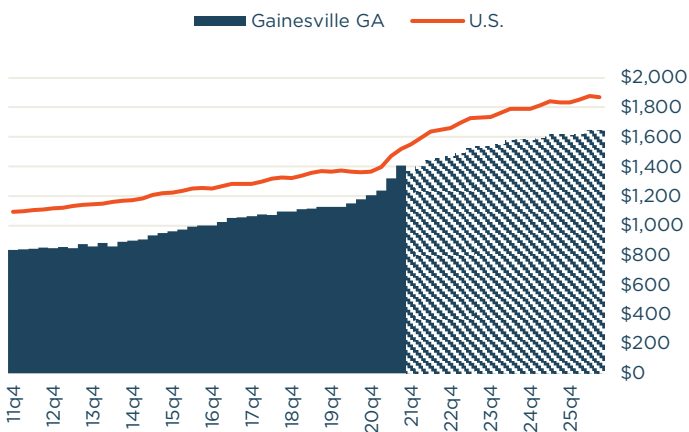
House Price to Income Ratio (11q1=1.0)



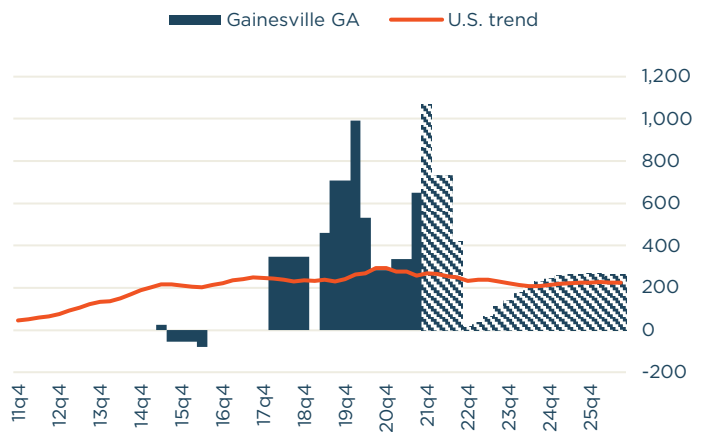
Units in Demand (000s)



Effective Rent per Unit



Net Deliveries (rolling 4-qtr sum)



Representative large employers: Northeast Georgia Medical Center, Fieldale Farms, Victory Processing, Kubota Manufacturing, Pilgrims

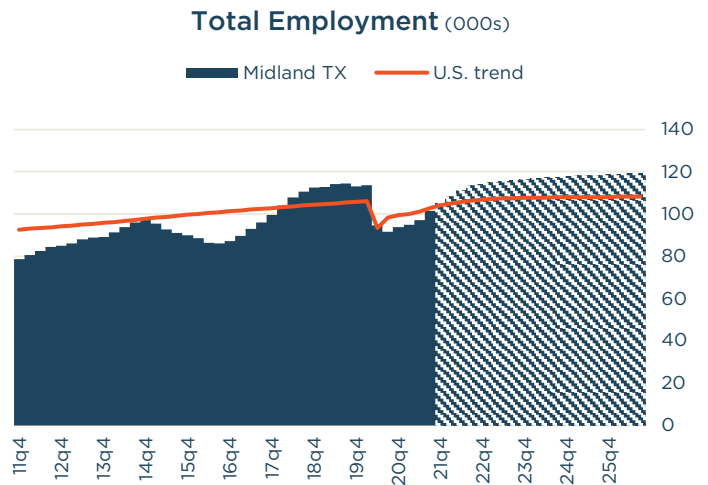
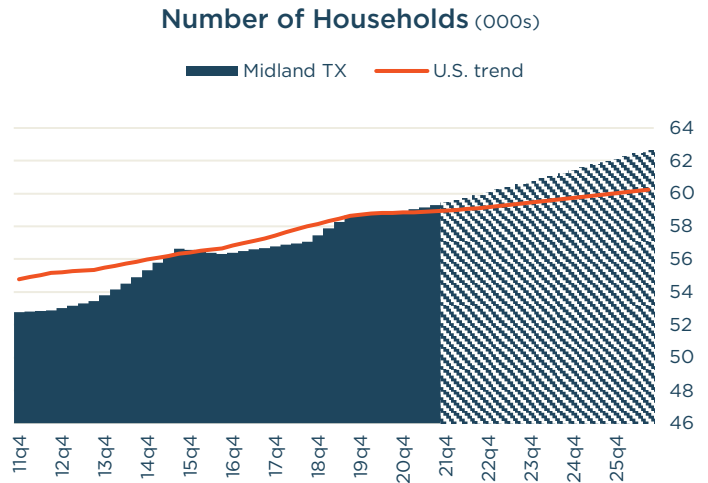
ALSO ON OUR RADAR

Midland, TX

Midland is similar to Gainesville: a small, undiversified market whose demographic drivers make it worth continuing to evaluate despite its risks.

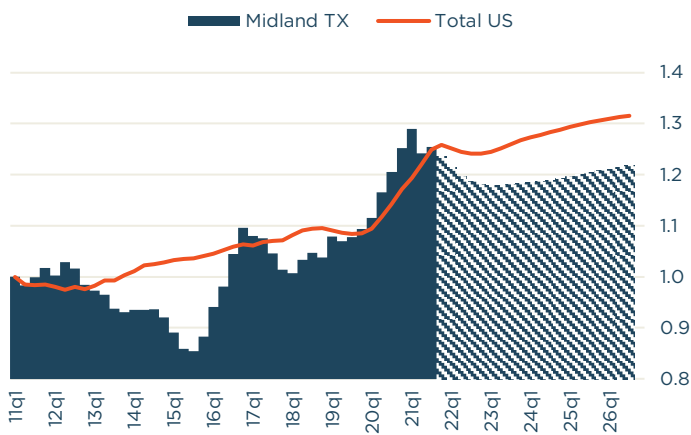
The economy of Midland is utterly dominated by oil and gas the way the economy of Gainesville, GA is utterly dominated by chickens. What makes Midland potentially interesting is the same as what makes Gainesville worth paying attention to: above-average growth in the key demographic drivers of rental housing demand. Oxford Economics forecasts that Midland’s young adult population will grow by 1.2 percent per year over the next five years, that its **Number of Households** will grow by 1.1 percent per year, and that its **Total Employment** will grow at 3.3 percent per year—the highest of any metro area in Middleburg’s part of the country.

That is likely not enough to call Midland “appealing” as a rental housing market. Homeownership is expected actually to become more affordable in Midland over the next five years as house prices increase by less than median household income (5.7 percent per year compared with 6.3 percent per year). And, while **Demand** for rental housing units is expected to grow rapidly at 4.3 percent per year, Midland’s current average **Effective Rent per Unit** of \$1,061 is lower than in almost any other metro area that we consider “on our radar”—and is expected to see below-average growth over the next five years, to boot.

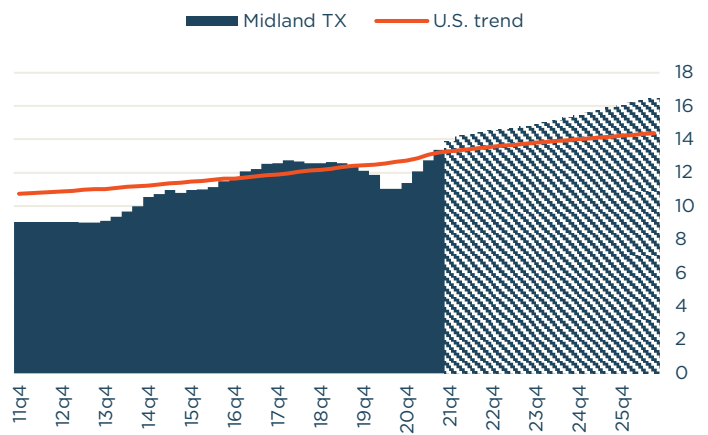


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT VACANCY RATE
15,924	841	\$143,079	16.2%
no change	↓ 21.2%	↑ 1.1%	↓ 3.8%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	MEDIAN SINGLE-FAMILY HOUSE LIST PRICE	APARTMENT SALES VOLUME
7.9%	\$77,047	\$317,000	\$0
↑ 5.7%	↑ 4.2%	↑ 0.6%	no change

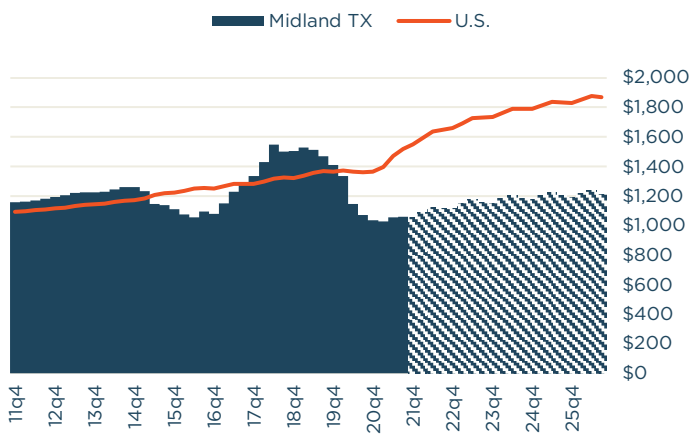
House Price to Income Ratio (11q1=1.0)



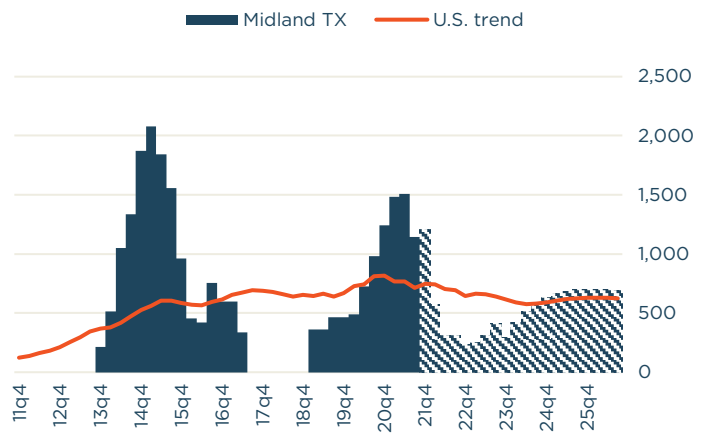
Units in Demand (000s)



Effective Rent per Unit



Net Deliveries (rolling 4-qtr sum)



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

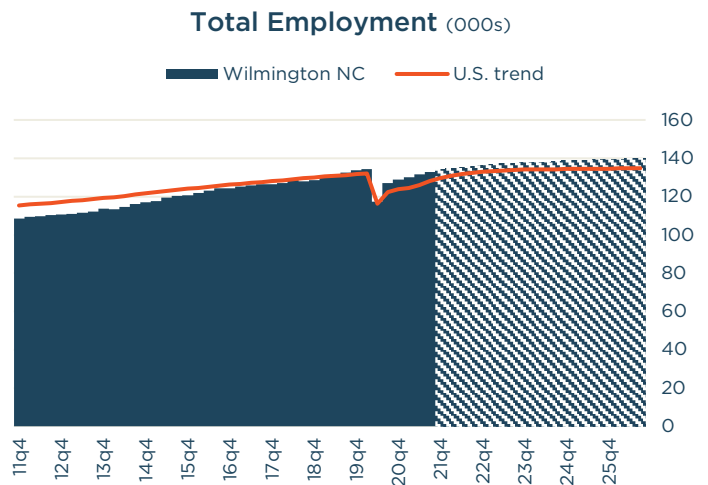
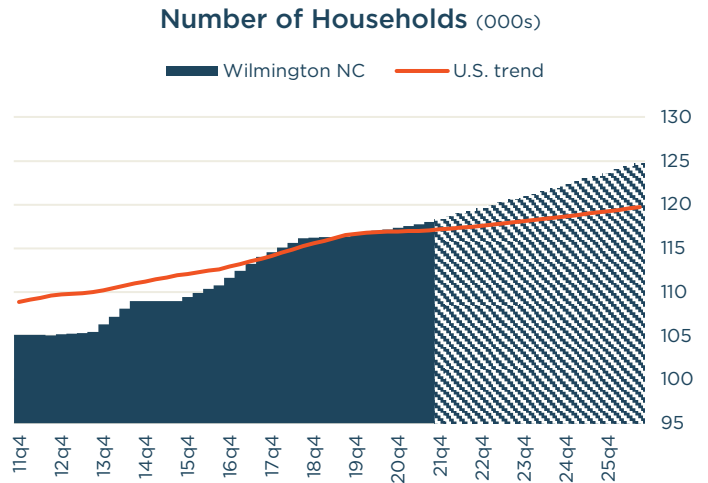
ALSO ON OUR RADAR

Wilmington, NC

Though smaller than the Fort Myers area, Wilmington is appealing for essentially the same reason: expected in-migration of younger, employed households driving demand for rental housing.

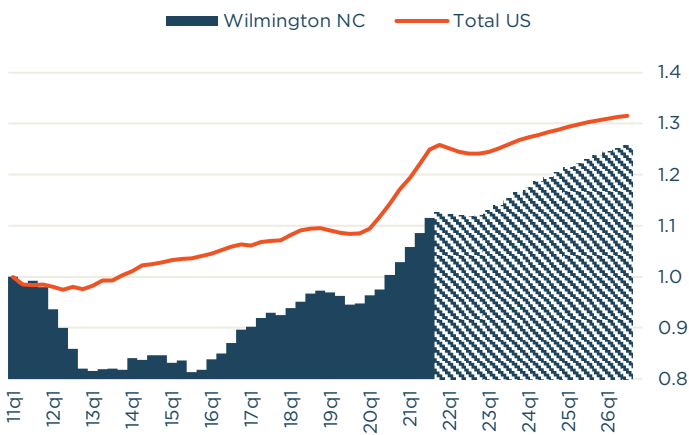
The Wilmington metro area, like Fort Myers, currently skews a little bit older than the national average, but the young adult population in Wilmington is expected to grow at a rate of 0.6 percent per year over the next five year, higher than average for metros in Middleburg’s arc. As a result the **Number of Households** is forecast to grow by 1.1 percent per year over the same period; its economy, already more diversified than the national average, is expected to support the same rate of growth in **Total Employment**.

Wilmington has not faced the same homebuyer affordability problems as the rest of the country over the past decade, but CoStar predicts that its **House Price to Income Ratio** will worsen twice as badly over the next five years as in the country as a whole as house prices increase by 5.9 percent per year while median household income increases by just 3.4 percent per year. As a result of in-migration and home price pressure, CoStar expects the number of rental housing **Units in Demand** to grow over the same period by 2.4 percent per year, slightly more rapidly than in other cities in Middleburg’s part of the country.

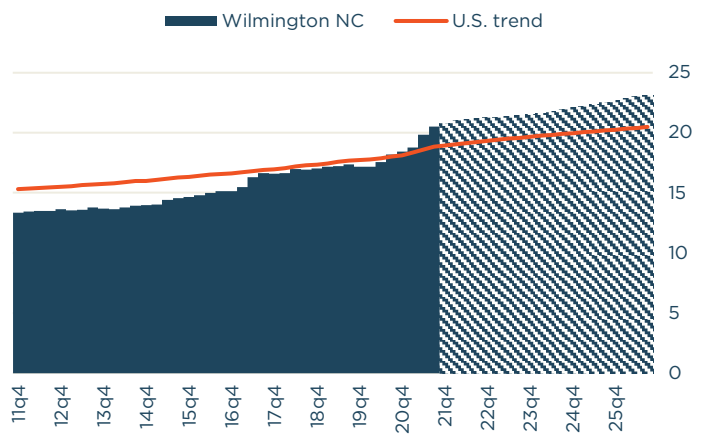


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT VACANCY RATE
21,449	852	\$173,892	4.3%
↑ 0.1%	↓ 28.9%	↑ 6.9%	↓ 3.1%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	MEDIAN SINGLE-FAMILY HOUSE LIST PRICE	APARTMENT SALES VOLUME
16.2%	\$59,414	\$370,900	\$206 million
↑ 2.5%	↑ 1.8%	↑ 6.9%	↑ 196%

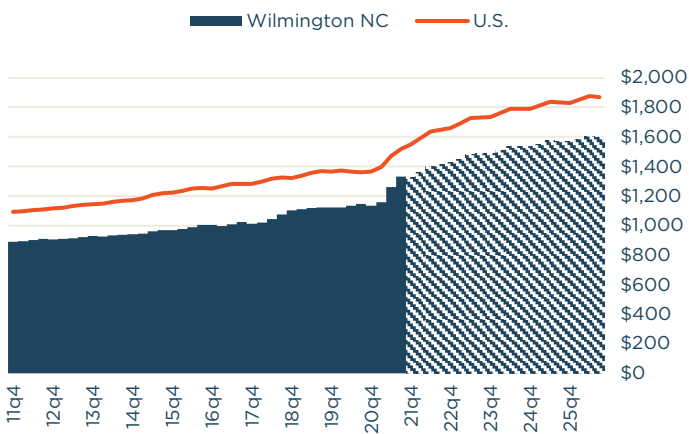
House Price to Income Ratio (11q1=1.0)



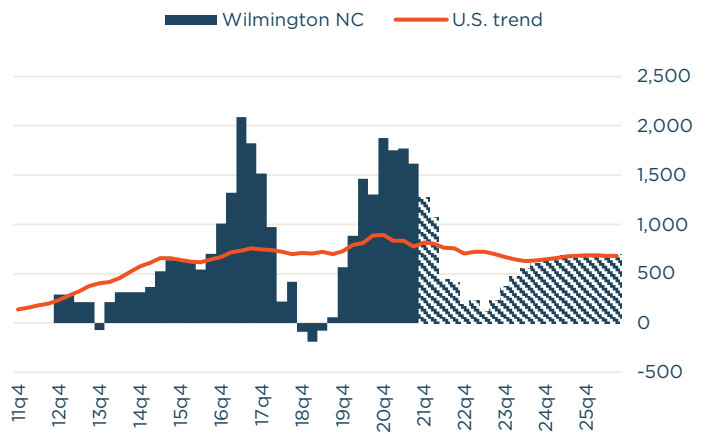
Units in Demand (000s)



Effective Rent per Unit



Net Deliveries (rolling 4-qtr sum)



Representative large employers: New Hanover Regional Medical Center, GE Hitachi Nuclear Energy, GE Aviation, UNC-Wilmington, PPD Development