MIDDLEBURG
COMMUNITIES

Middleburg Markets Report

Q1
2022

Middleburg Communities is pleased to present our Middleburg Markets Report for the 1st quarter of 2022. This report summarizes our current thinking about the rental housing market both nationally and in those markets that we most closely evaluate for development, acquisition, or other forms of investment.

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

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

Christopher C. Finlay
CO-MANAGING PARTNER AND
CHIEF EXECUTIVE OFFICER

Kory Geans
CO-MANAGING PARTNER AND
CHIEF INVESTMENT OFFICER

Introduction

Amidst a macroeconomic environment buffeted by war, sanctions, inflation, rising interest rates, the continuing pandemic, and now economic contraction, we at Middleburg Communities feel almost guilty to report uncommonly healthy rental housing markets.

In our Quarterly Markets Report for the 4th quarter of 2021 we noted that "attention has been shifting from coping with extraordinary market situations toward responding to ordinary market forces." One week later Russia invaded Ukraine, ushering in an entirely new set of extraordinary market situations.

The dominant theme of 2022Q1 has been the essential question to what extent the massive disruptions in the overall environment have affected, are affecting, and will affect our core mission: to develop, build, acquire, finance, and manage rental housing communities that provide unquestioned value both to our residents and to our investors. Certainly the events of the past quarter have challenged all of us, but Middleburg Communities remains committed to being among the first to recognize how rapid changes affect the rental housing industry—as well as when, as now, they fundamentally don't affect the health of our industry.

Our 2022Q1 Middleburg Markets Report begins with a careful, thoughtful consideration of the full range of those challenges—but we are heartened by the undeniable resilience of demand and supply conditions in our segment of the market. We then focus attention to an updated analysis of conditions in the 15 largest housing markets in "our" part of the country before highlighting five more in a rotating set of smaller markets, this time Auburn, AL, Charlottesville, VA, Clarksville, TN, Port St. Lucie, FL, and Sarasota, FL.

Mosby Ingleside, Charleston, SC

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ALSO ON OUR RADAR

U.S. Overview

Very little about the current market environment is pleasant. Populations in developed countries had thankfully become unused to the idea of populations being trapped in archaic sieges where cities that look like ours are pounded into rubble. Heavy financial sanctions and retaliatory trade disruptions have exacerbated supply constraints and already-high inflation, and the U.S. economy contracted for the first time since the onset of the covid pandemic. Is it in poor taste to note the good fortune of investors in Middleburg's rental housing markets in times like this?

But there you have it: current supply and demand conditions have rarely been more supportive for our business. And while the horizon includes genuine risks to the health of the overall economy, higher-probability future developments seem likely to reward our long-term focus and strategic preparations.

The Macroeconomic Outlook

U.S. gross domestic product (GDP) declined by 1.4 percent during 2022Q1, after adjusting for inflation. The continuing war in Ukraine had already introduced substantial risk to the economic health of our European trading partners even before Russia blocked natural gas sales to Poland and Bulgaria. At the same time, a substantial covid upsurge and what some regard as a draconian government response introduced similarly substantial risk to the Chinese economy.

The Federal Open Market Committee has begun a program of monetary tightening—in response to both continuing high U.S. inflation and a judgment that U.S. labor markets are resilient enough to withstand it—but the possibility is real that such actions could choke off the economy and send us into genuine recession, especially if European and Asian economies weaken at the same time.

Indeed, a few economists, most prominently those at Deutsche Bank, have already forecast a U.S. recession in 2023. And the DB economists have been anything but timid in their forecast: in a late-April report they said, "It's remarkable that our official house view call(ing) for a U.S. recession in late-2023 is the outlier rather than the consensus. If anything, we think the risks are skewed towards a much more significant recession." The fundamental reason for DB's pessimism is their belief that the FOMC has not acted early enough to restrain inflationary forces and will have to force a recession to bring them back under control:

> *The combined effect will be to push the US economy into a significant recession by late 2023, with unemployment ultimately rising several percentage points. As we found in the 1970s and 1980s, this will be tough, but the only way to minimize the economic, financial, and societal damage of prolonged inflation is to err on the side of doing too much. Otherwise, inflation will only become more entrenched, inflicting further damage, and requiring even tougher action to remove.*[1]

To be clear, we at Middleburg Communities do not share Deutsche Bank's pessimism, although we take very seriously the undeniable downside risks. The DB view is, as they note, an outlier: for example, the most pessimistic forecast put forth by any of the participants at the most recent FOMC meeting predicted a low of +1.5 percent real GDP growth in 2024; the most recent International Monetary Fund forecast called for nothing less than +1.4 percent in any of the next five years, and the Conference Board forecasts quarterly growth through 2023 reaching its minimum annual rate of +1.3 percent in 2022Q2 before strengthening again.

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[1] "Why the coming recession will be worse than expected" by David Folkerts-Landau, Peter Hooper and Jim Reid, April 29, 2022.

Things can change—but let's turn to the reasons why Middleburg Communities keeps company with most other forecasters in maintaining a more sanguine outlook for economic conditions. Three related sources of strength suggest that overall economic conditions are likely to remain favorable: labor markets, personal incomes, and consumer spending.

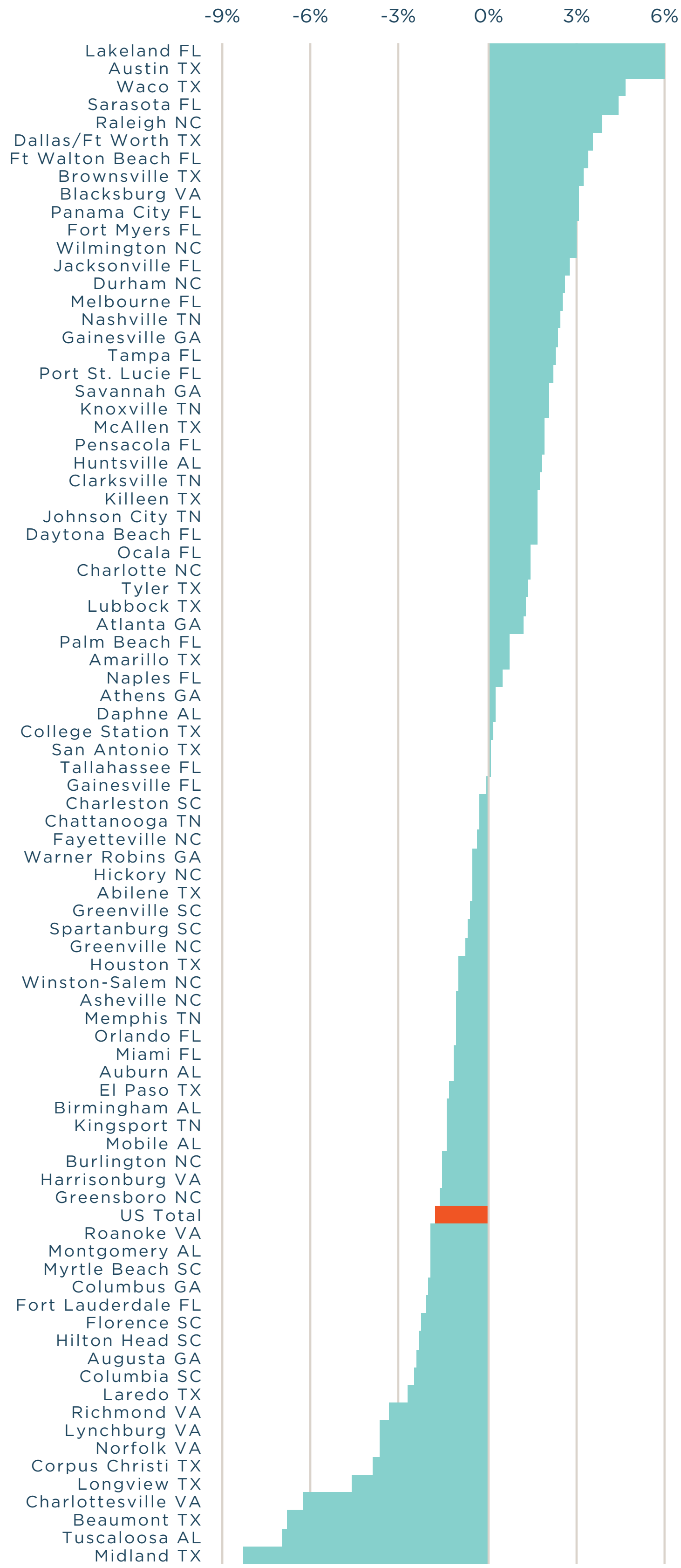
Total nonfarm employment grew by 1.7 million during the first quarter of this year, an increase of 1.13 percent. Perhaps it's too easy to miss the power of that number: before the pandemic hit, the last three-month period when employment grew by as much as 1.13 percent was early 1984—a time when the NFL's Colts were still in Baltimore and primary election candidate Walter Mondale had not yet asked "where's the beef?"

The last time total nonfarm employment grew this strongly was early 1984, when the NFL's Colts were still in Baltimore.

Strength in the labor market has been remarkably widespread. For example, the median unemployment duration is now just 7.5 weeks, a level last seen in 2001, and one of the most vulnerable populations—women who maintain families without a spouse present—has seen its unemployment rate drop to just 4.8 percent, a level that we saw just before the pandemic but otherwise hadn't glimpsed since June 1970, when "The Long and Winding Road" was near the top of the pop charts.

As has been true for some time, the strength of the labor market continues to be concentrated particularly in metro areas in Middleburg's part of the country. Total nonfarm employment remains 2.2 percent below its pre-pandemic peak in the country as a whole, but employment has recovered more strongly than that in 65 of the 84 largest metro areas in Middleburg's states, and has surpassed its pre-pandemic levels in 41 of them.

Employment Growth, Pre-Covid to Now



While a low unemployment rate typically signals that further job creation will be difficult, the number of people who left the labor force during the covid pandemic suggests that job growth still has plenty of runway. In February 2020 the labor force participation rate was 63.4 percent, still down sharply from its 2000 high of 67.3 percent even though it had been climbing for more than four years. During the pandemic a stunning 8.3 million workers left the labor force, sending the participation rate plummeting to 60.2 percent. During the first quarter of this year the size of the labor force surged by 1.3 percent, the biggest increase in 22 years—but even that brought the participation rate back only as far as 62.4 percent. Simply moving the labor force participation rate back to its pre-pandemic level promises to add another 1.6 million workers, while a recovery to its 2000 level—even if that may be unrealistic—would see the size of the labor force increase by eight million.

In short, there still appears to be considerable slack in labor markets even though job growth has been remarkably robust and unemployment rates have reached remarkably low levels. This is the most likely reason why the Bureau of Labor Statistics reported that average weekly earnings increased by only 0.5 percent during the first quarter, the weakest quarterly increase since 2019Q2.

That doesn't mean the second major source of economic strength has faded, however: in fact, the Bureau of Economic Analysis reported that overall personal income increased at a very strong annualized rate of 5.2 percent, with wages and salaries rising by an even more impressive annualized rate of 8.9 percent. Even after taking into account significant increases in personal taxes and declines in government financial assistance, disposable personal income rose at a robust annual rate of 4.8 percent.

Private domestic investment has been robust, with spending on intellectual property products and equipment especially strong at 8.1% and 15.3%.

Again, there doesn't appear to be reason to suspect any weakening in income growth. One of the strong components of overall GDP growth during the first quarter was gross private domestic investment, with spending on intellectual property products (such as computer software) and equipment especially strong at inflation-adjusted annualized rates of 8.1 percent and 15.3 percent, respectively. These investments signal that businesses believe demand for their goods is likely to expand. Perhaps more important, the resulting increase in productivity should boost employee incomes (as well as corporate profits) AND mitigate inflationary pressures from the labor markets.

The final leg supporting a robust economy, consumer spending, appears to be equally resilient. Not only did personal consumption expenditures increase at an after-inflation annualized pace of 2.7 percent during the first quarter, stronger even than private domestic investment, but essentially the sole reason why real GDP declined during the quarter was because the trade deficit—that is, net purchases by Americans of goods and services from other countries—surged by 17.7 percent (annualized) to set a new record at $125 billion.

As with labor markets and incomes, it appears that there is room for consumer spending to increase even beyond what is likely to be supported by income growth. The Bureau of Economic Analysis reports that the personal saving rate—that is, the portion of disposable personal income that didn't go toward consumption spending, interest payments, and transfers such as money sent to relatives overseas—remained at 6.2 percent during the first quarter of this year. The personal saving rate had skyrocketed during the covid pandemic—part of the reason that consumer spending is likely to remain robust—but the current level is still higher than the levels that prevailed during almost all of the period from 1999 through 2009, an 11-year period when personal savings averaged just 4.6 percent. We don't have to predict that personal savings rates will remain low to understand that consumers will likely feel comfortable dipping, if necessary, into the savings they built up during the pandemic.

In short, we at Middleburg Communities remain confident that the U.S. economy is likely to remain strong even if continued war in Europe, and continued pandemic in China, sap those trading partners of their own economic strength.

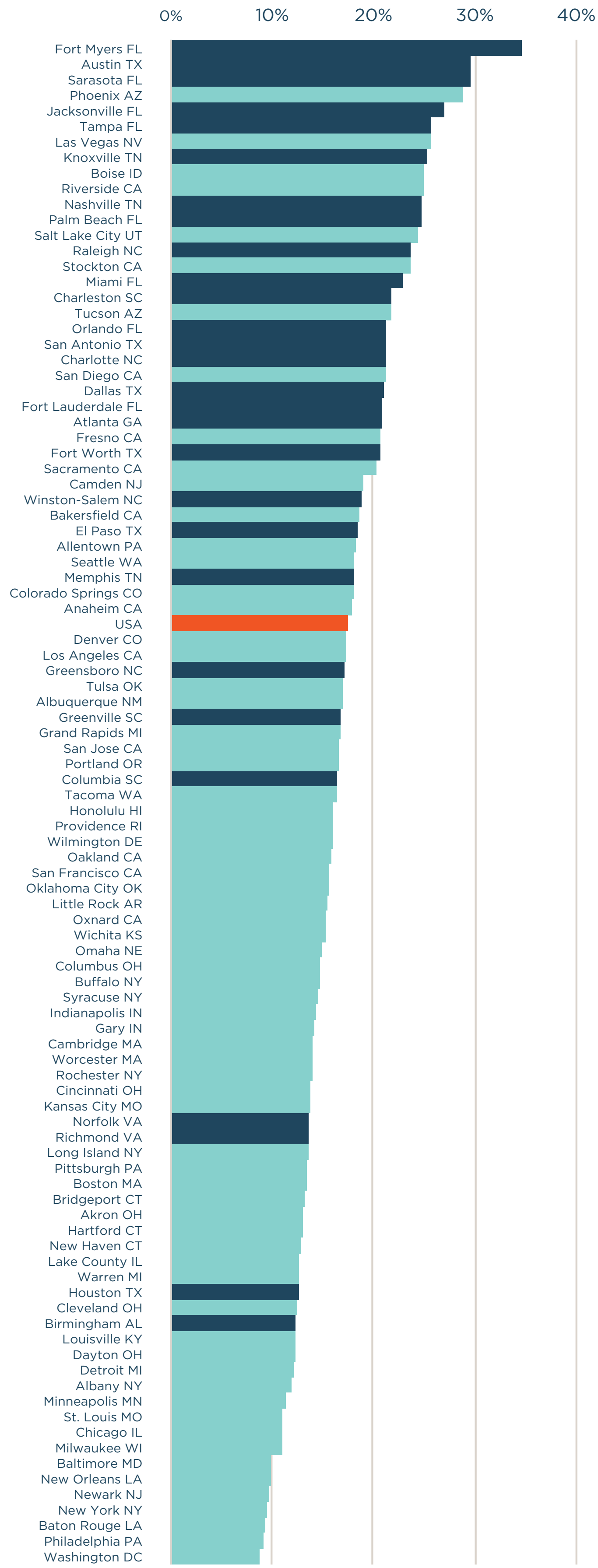
Housing Market Conditions

One of the most consequential developments during the first quarter of this year—apart from the tragic war in Europe, of course—has been a dramatic shift in housing market conditions, specifically in a way that enhances the outlook for Middleburg's business.

The increase in house prices over the past few years has been staggering. House prices nationwide increased by an average of 17.5 percent during 2021, according to the Federal Housing Finance Agency, and by 9.8 percent per year over the past four years—meaning that house prices were more than 45 percent higher at the end of 2021 than they were are the end of 2017.

As with many other indicators of economic strength, however, the massive **Increase in House Prices** has been concentrated to a great extent in Middleburg's eight states. Thirty-seven of the largest 100 metro areas saw house price increases exceeding the national average during 2021, and more than half of them are in Middleburg's Virginia-to-Texas arc while 89 percent of the metro areas seeing relatively poor house price increases—including leading markets such as New York City, San Francisco, Los Angeles, Boston, and Washington DC—are located outside our territory.

Through 2021, low interest rates had helped make it possible for households to purchase houses even after the run-up in prices. The average interest rate on 30-year fixed-rate mortgages, according to Freddie Mac, increased during 2021 by 44 basis points, from 2.67 percent to 3.11 percent—but during the first 16 weeks of 2022 they increased by another 200 basis points to a level not seen since early 2010.

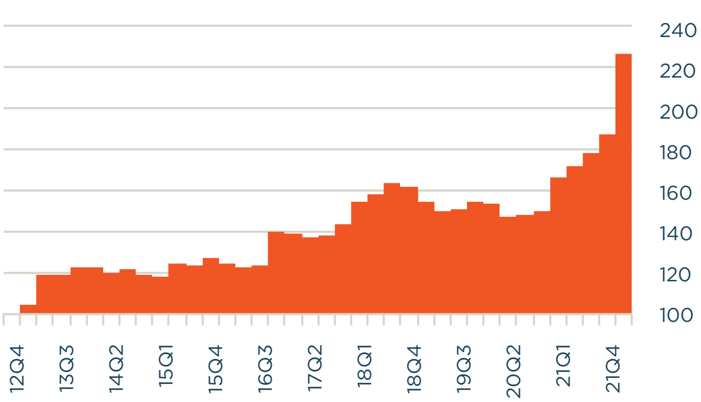


Average Mortgage Interest Rate (%) 30-year Fixed-Rate Mortgage

The confluence of increased house prices and increased mortgage interest rates have changed the demand conditions for rental housing, implying an increase in the monthly payment on a 30-year fixed-rate mortgage on the average house by an astonishing 58 percent (combining the 2021 increase in house prices and the increase in mortgage rates from the beginning of 2021 through mid-April 2022).

In fact, the implied monthly mortgage payment was essentially the same at the end of 2012 as it had been at the end of 1990, thanks to a protracted decline in interest rates. Over the past 10 years, however, it had increased by 87 percent—an average increase of 7.2 percent per year—even before mortgage rates increased by 64 percent during the first 16 weeks of 2022.

Average Mortgage Payment (2012Q4=100)

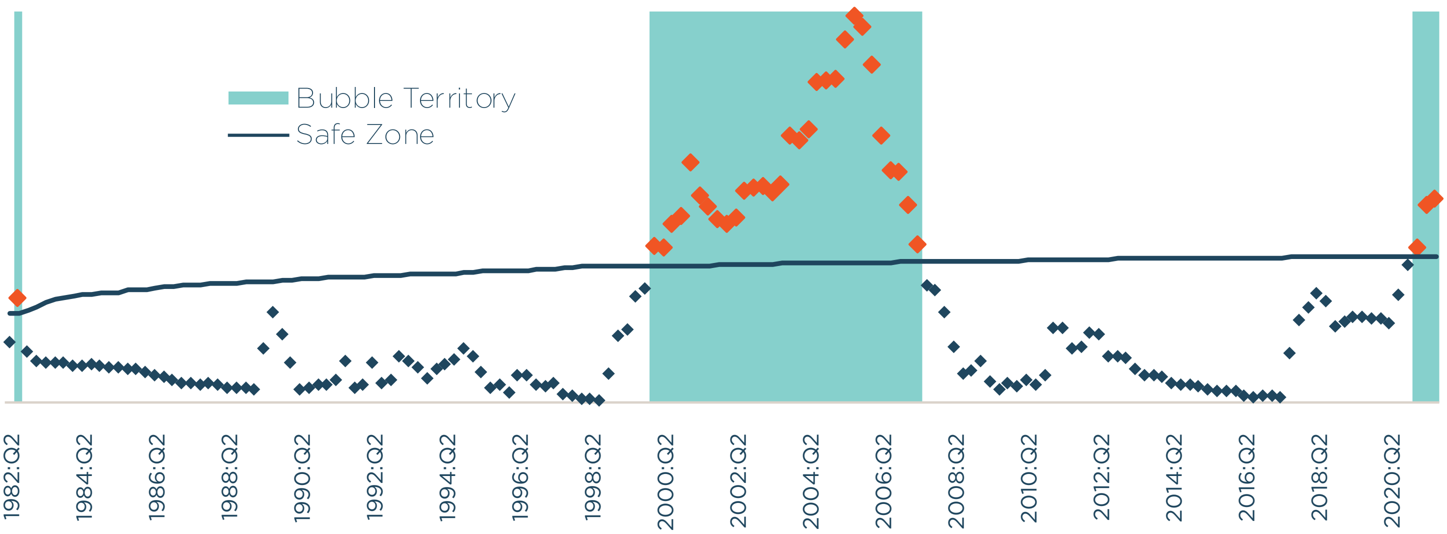


The rapid increase in house prices, even in generally low-volatility markets such as Dallas and Nashville, has raised fear that the U.S. may have entered the first stage of a housing bubble. To evaluate this danger, economists at the Federal Reserve Bank of Dallas (with academic partners) have developed a sophisticated "Exuberance Index" that considers, in part, whether the normal relationship between house prices and rents has become distorted. In particular, the Dallas Fed team calculates what the "fundamental" value of the house-price-to-rent ratio should be, and then applies an advanced statistical method to assess whether the actual price-to-rent ratio has deviated enough from its fundamental value to provide evidence of a bubble mentality among homebuyers. The message from the exuberance model is sobering: the Dallas Fed team concludes that the U.S. housing market is, indeed, in a bubble, with the house-price-to-rent ratio having exceeded its "safe zone" and entered its "danger zone" for the first time since the disastrous house price bubble of the early 2000s.

The development of a bubble mentality in house prices is likely to have two effects on demand for Middleburg's rental housing communities. In the near term there is a tension between the elevated house-price-to-rent ratio, which makes renting more appealing relative to owning, and the cognitive/behavioral tendency of investors to rely on momentum: that is, to believe that recent returns will persist—in which case owning appears more appealing relative to renting on the assumption that strong house price appreciation will continue.

For most households making a decision between owning and renting, however, the ability to purchase will eventually be constrained by an increasing house-price-to-income ratio. To date personal incomes have continued to grow strongly, enabling households to continue making a choice between owning and renting: for example, over the two years from 2020Q1 through 2022Q1 income grew 7.0 percent per year according to the Bureau of Economic Advisors, more than covering growth in effective rent per unit at just 7.0 percent per year according to CoStar although falling far short of parity with house prices that grew at 14.9 percent per year.

Home-Price-to-Rent Ratios Have Moved Into Bubble Territory



Indeed, the latest available statistics from the Dallas Fed's exuberance analysis concluded that the house-price-to-income ratio did "not yet display evidence of explosiveness" (that is, bubble mentality) as of 2021Q3, although the economists cautioned that "U.S. real house prices may soon become untethered from" income growth. If the house-price-to-income ratio continues to surge, the budget constraint is likely to outweigh the lure of continued asset price inflation and encourage an increasing share of households to elect the safer rental housing market.

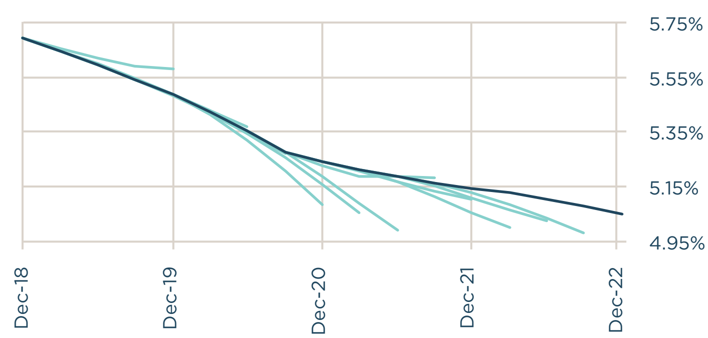
The University of Michigan's Consumer Surveys indicate that has already started to happen. The share of consumers who believe that now is a "good time to buy" a house fell in March 2022 to just 31 percent, down from 38 percent in December 2021 and 63 percent a year ago, while the share calling this a "bad time to buy" increased from just 36 percent in March 2021 to 60 percent at the end of 2021 and 68 percent in March.

Capital Market Conditions

The cost of owner-occupied housing is not the only financial consideration affected by rising interest rates. The Federal Open Market Committee (FOMC) has initiated a general monetary tightening, including the first in what are expected to be a series of several hikes in the Federal Funds Rate target. From the end of 2020 to the end of April 2022 the benchmark yield on 10-year U.S. Treasuries from 0.93 percent to 2.89 percent while the yield on Baa-rated corporate securities increased from 3.11 percent to 4.94 percent.

Capitalization rates on income-producing properties—that is, stabilized yields—are commonly, but incorrectly, supposed to have a meaningful relationship with other interest rates (typically called a "cap rate spread"). This is neither an accurate nor a useful way to describe the yield on stabilized properties, which is more closely related to expected growth in net operating income (NOI) and in mortgage lending by institutional investors such as defined-benefit retirement plans, life insurance companies, and governments or government-sponsored enterprises (GSEs).

4-qtr-ahead Cap Rate Forecast



Middleburg Communities employs a family of forecasting models to shed light on the range of reasonably likely future market conditions, including prevailing cap rates. The national-average cap rate for Class A apartments has declined in every quarter since 2013Q3, and in almost every quarter since 2009Q2, but we cannot simply assume that cap rates will continue to decline (resulting in property values that continue to increase even more rapidly than NOI).

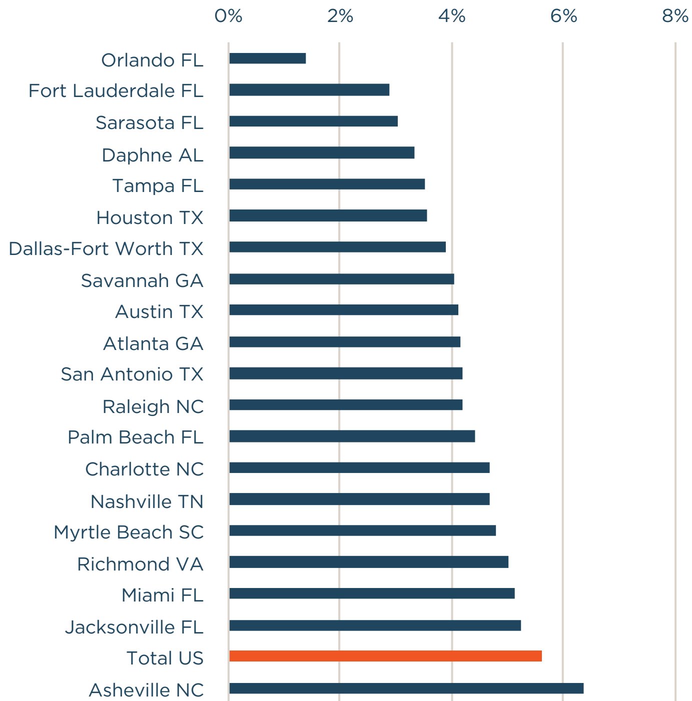
To illustrate our surveillance, one of our forecasting models indicates that the national average apartment cap rate is likely to continue declining over the next year, falling by about 10 basis points. We are attentive, however, to the fact that our forecasts for cap rates prevailing during individual quarters have risen during most of the past two years: for example, our initial forecast for the national average cap rate during 2022Q1 was 5.00 percent, but that forecast increased to 5.07 percent, 5.08 percent, and finally 5.13 percent—still representing a decline from the 5.14 percent that prevailed during 2021Q4, but a noticeable movement toward flattening.

Of course real estate investment depends on local market conditions, including local variation in capital market conditions as well as demand and supply conditions. We will continue to analyze not just current deviations in local cap rates from the national average but also factors that enable us to forecast changes in local variations.

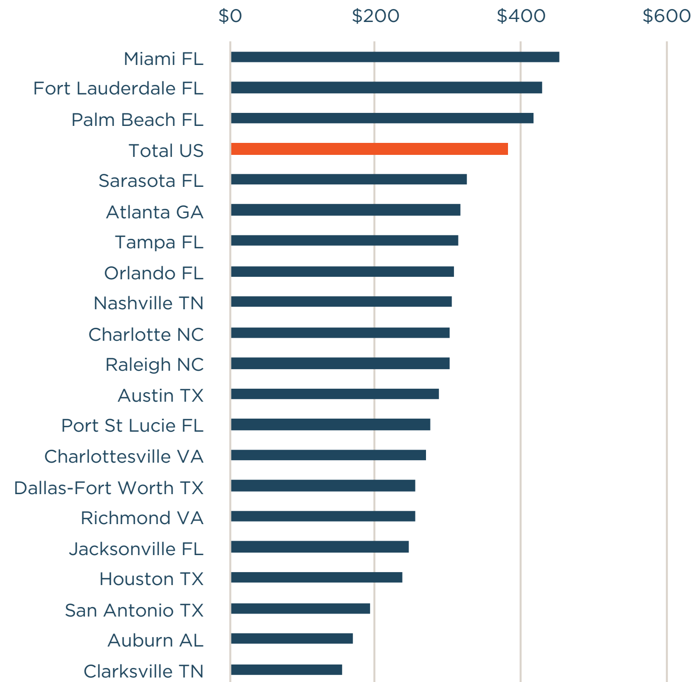
As we transition from an environment of relentlessly declining cap rates to one of little change—and an eventual increase (although one that we do not yet forecast)—we believe that our analytical capabilities encompassing not only localized targeting of areas with superior growth prospects but also early warning of changes in capital market conditions give us an important advantage over developers and investors who simply let market conditions happen to them.

To summarize Middleburg's view of the macroeconomic situation as it affected investments in rental housing during 2022Q1, we remain attentive to the downside risks confronting both the global and the U.S. economy, but we also remain confident that the challenges confronting the U.S. economy are outweighed by the strength of the country's labor markets, household incomes, and consumer spending, especially in our region. In the following pages we review demand, supply, and capital market conditions in each of the 15 largest metro areas in Middleburg's arc, along with a sample of five smaller markets from among those that are "also on our radar."

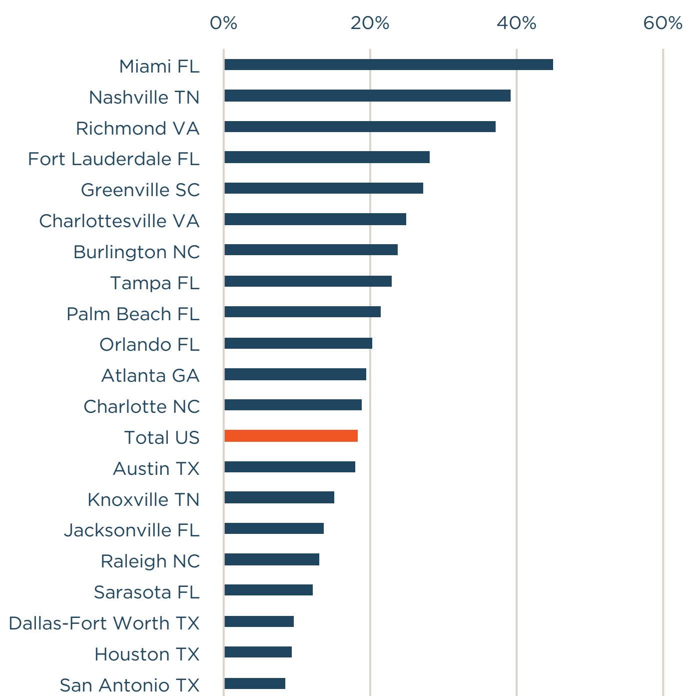
Stabilized Class A Vacancy Rate



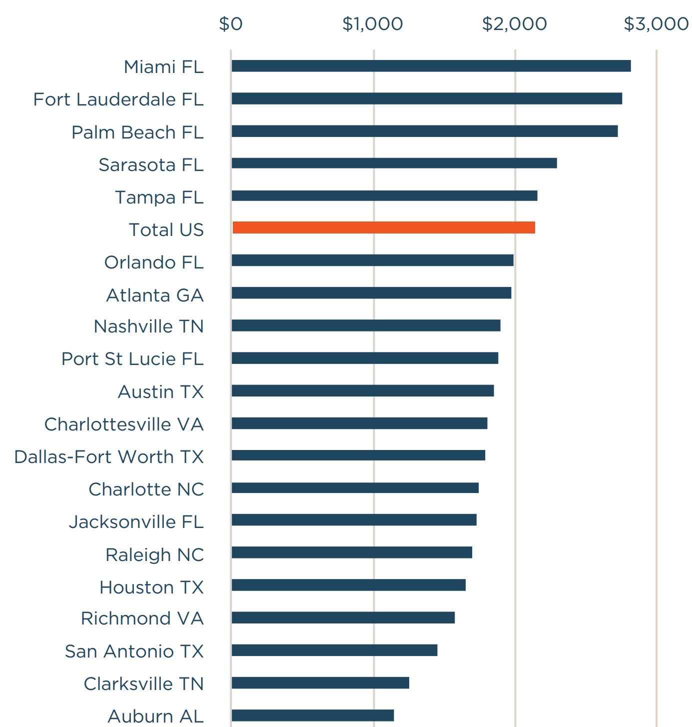
Class A Sale Price Per Unit (000)



Class A Delivered & Under Const as % of Inventory



Class A Effective Rent/Unit



*data as of 2022Q1

Dallas / Fort Worth, TX

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

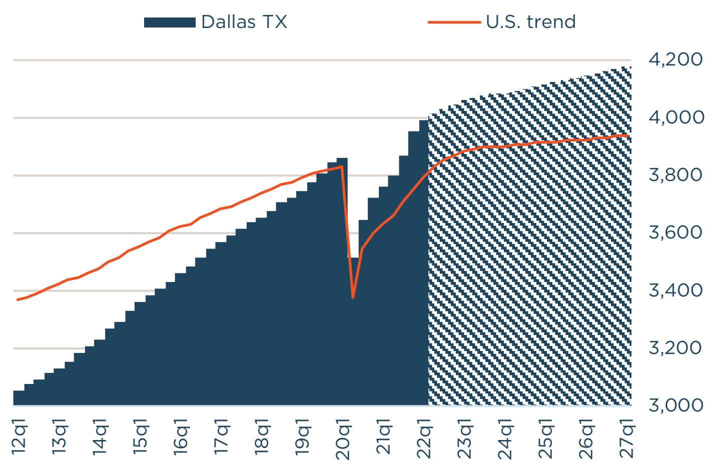
MIDDLEBURG'S RANK #4 AMONG 15 LARGEST METROS

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

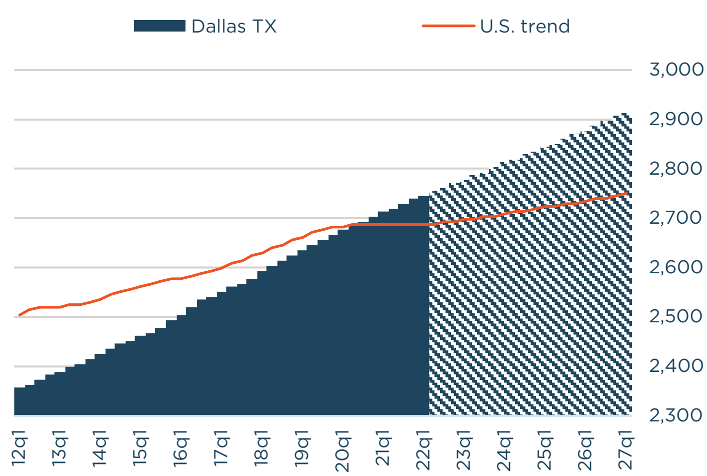
Dallas's population already skews young, but Oxford Economics forecasts that over the next five years the metro area will grow by an additional 60 thousand young adults (1.2 percent per year), 182 thousand new **Employees** (1.0 percent per year) and 167 thousand new **Households** (1.1 percent per year) all total numbers that are expected to trail only Houston.

Median household incomes in Dallas / Fort Worth are expected to keep pace with the rest of the country, growing at 3.1 percent per year in nominal terms over the next five years, but the house price to income ratio is expected to ease as house prices grow less rapidly (2.8 percent per year) than in the nation as a whole (3.6 percent per year). The influx of new households, however, leads CoStar to forecast that growth in **Demand** for Class A rental housing units will surpass that in any other market at 50 thousand (4.3 percent per year), driving similarly strong growth in **Effective Rent per Unit** (4.3 percent per year, higher than any other large metro area in Middleburg's territory) as well as **Net Operating Income** (4.6 percent per year, higher than any other large metro area in Middleburg's territory except Miami). **New Construction and Net Deliveries** have been persistently lower, relative to existing Class A inventory, than in the nation as a whole, providing some assurance that oversupply problems are unlikely.

Total Employment (000s)



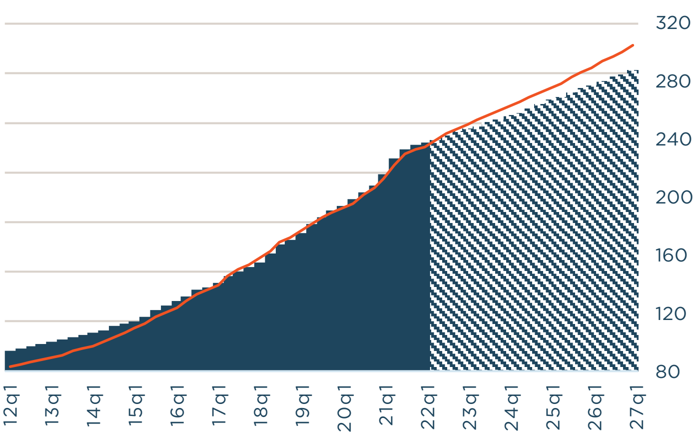
Number of Households (000s)



CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
254,013	13,253	$256,377	$2,205 million
↑ 0.7%	↓ 5%	↑ 2.4%	↓ 54%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
20.9%	$80,960	5.2%	-24 bps
↓ 0.3%	↑ 1.4%	↑ 0.4%	below US avg

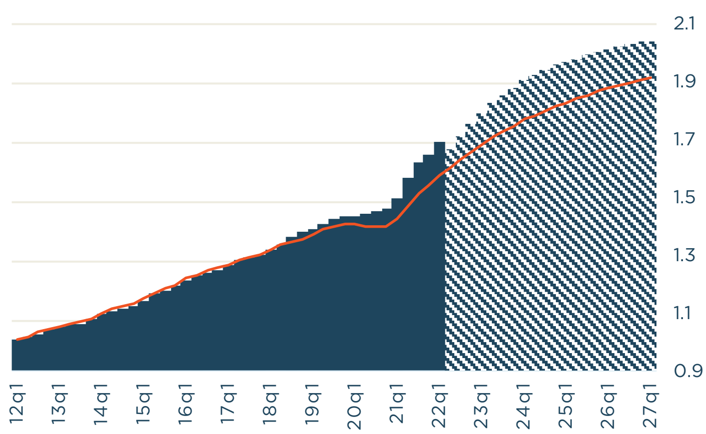
Units in Demand (000s)

Dallas TX (cl. A) U.S. trend



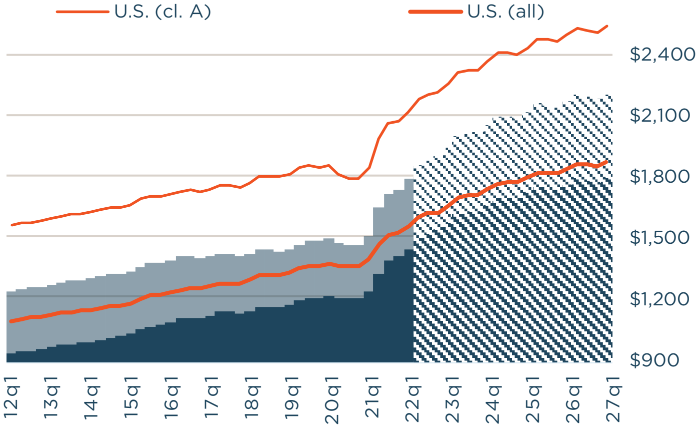
Net Operating Income (2011q4=1.0)

Dallas TX (all) US (all)



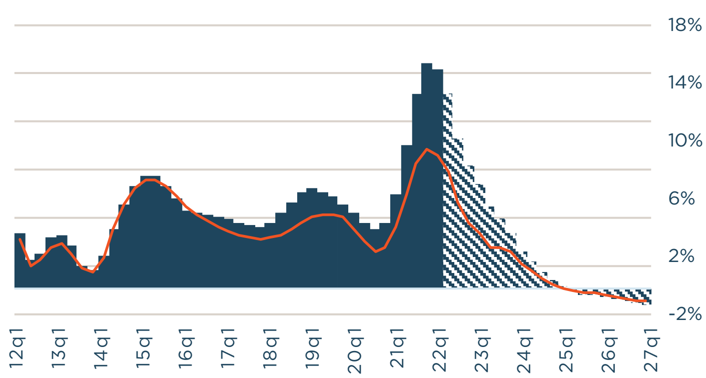
Effective Rent per Unit

Dallas TX (cl. A) Dallas TX (all)
U.S. (cl. A) U.S. (all)



Apartment Property Value Appreciation (annualized)

Dallas TX (all) U.S. (all)



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

Houston, TX

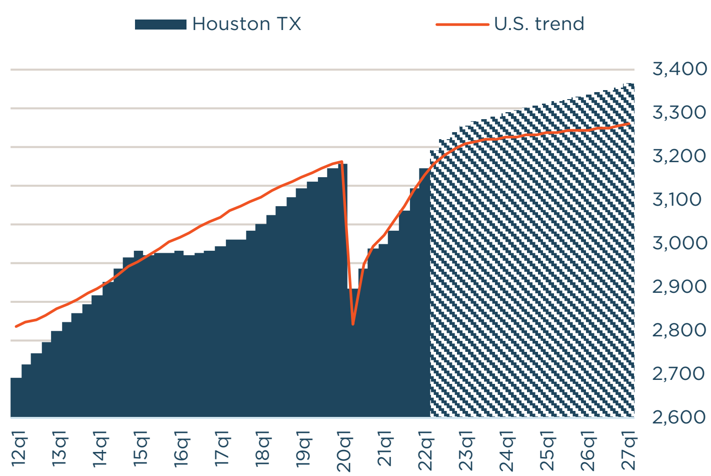
Houston's reduced exposure to the oil & gas industry makes what was already a strong market more appealing to long-term investors.

MIDDLEBURG'S RANK #10 AMONG 15 LARGEST METROS

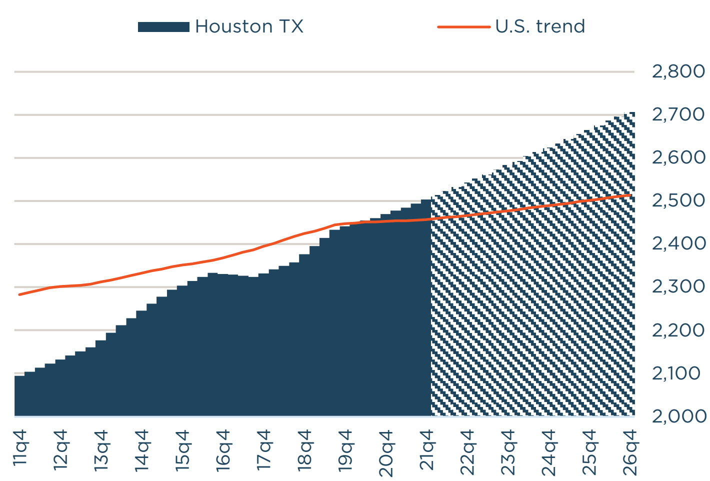
The demographic drivers of rental housing demand in Houston should continue to be strong: for example, Oxford Economics forecasts that the city's young adult population will grow by 60 thousand over the next five years (1.2 percent per year), and growth in **Number of Households** and **Total Employment** should lead all other metro areas in Middleburg's arc at 196 thousand each (1.5 percent per year and 1.3 percent per year respectively). Moreover, employment growth is expected to be concentrated among higher-paying jobs, with median household income growing by 3.4 percent per year, faster than the national average of 3.2 percent per year.

Partly as a result of an easing homeownership affordability issue, CoStar forecasts that Houston's rental housing fundamentals will not keep up with those in other metro areas along Middleburg's arc: for example, growth in the number of **Units in Demand**, **Effective Rent per Unit** and apartment property appreciation are expected to be slightly lower than average for large metros in Middleburg's territory (as well as for the country as a whole) at 3.7, 2.8, and 1.0 percent per year, respectively, while growth in **Net Operating Income** for Class A properties is expected to trail every other large metro at 3.2 percent per year. Subdued **Construction and Net Deliveries** of Class A properties over the past six years suggest that no oversupply problems are on the horizon.

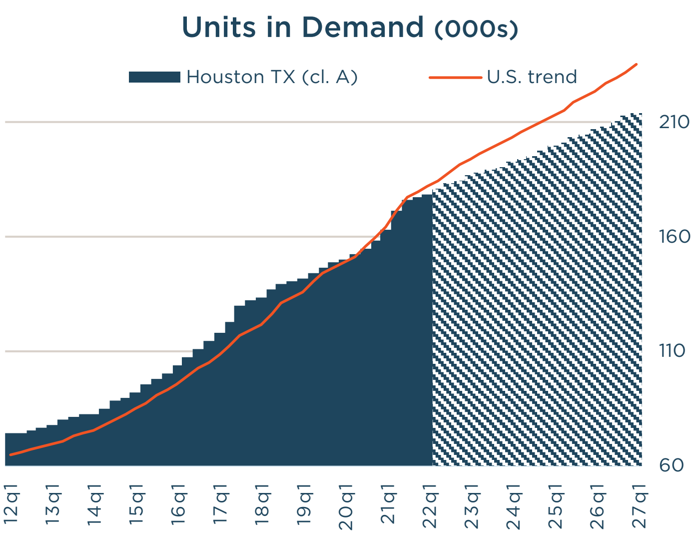
Total Employment (000s)

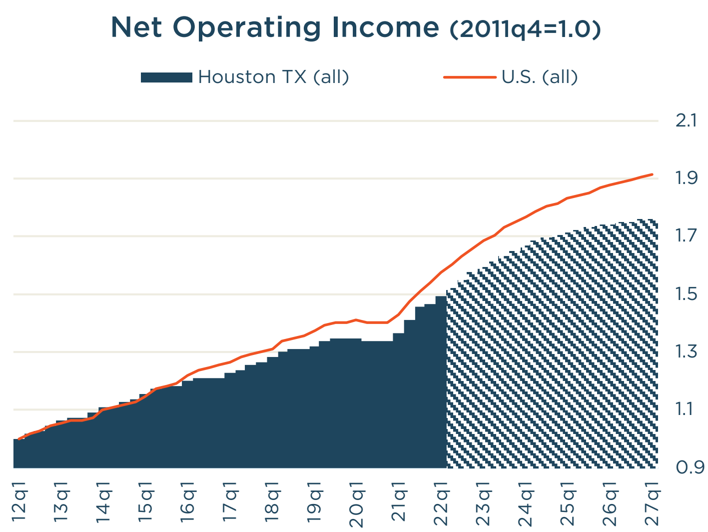


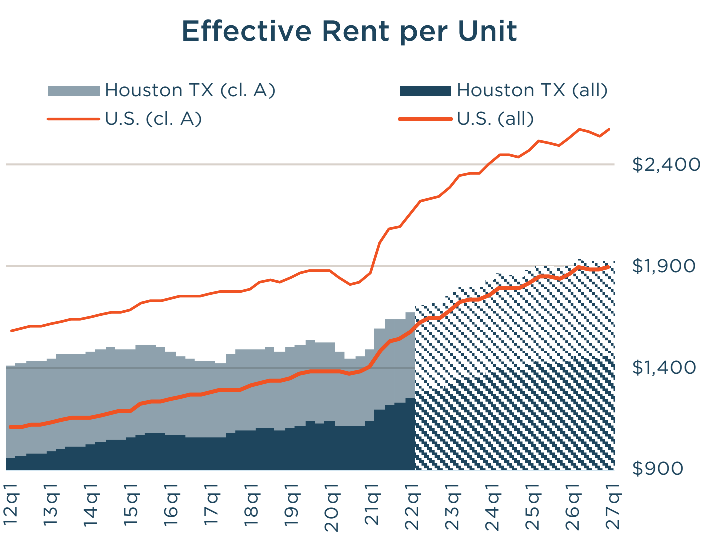
Number of Households (000s)

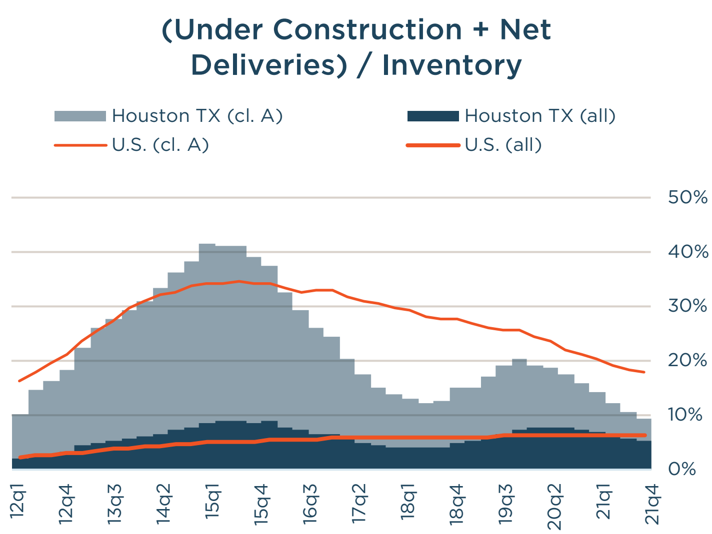


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
196,915	7,566	$237,369	$1,619 million
↑ 1.3%	↓ 24%	↑ 1.5%	↓ 60%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
15.1%	$74,880	6.4%	+25 bps
↑ 1.1%	↑ 1.1%	↑ 0.4%	above US avg









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

Atlanta, GA

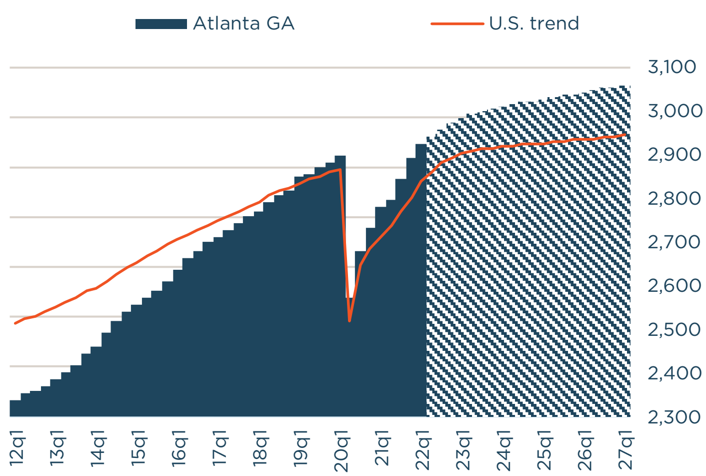
Atlanta is similar in many respects to the Dallas / Fort Worth metro area, but at a slightly smaller and slightly less dynamic scale.

MIDDLEBURG'S RANK #9 AMONG 15 LARGEST METROS

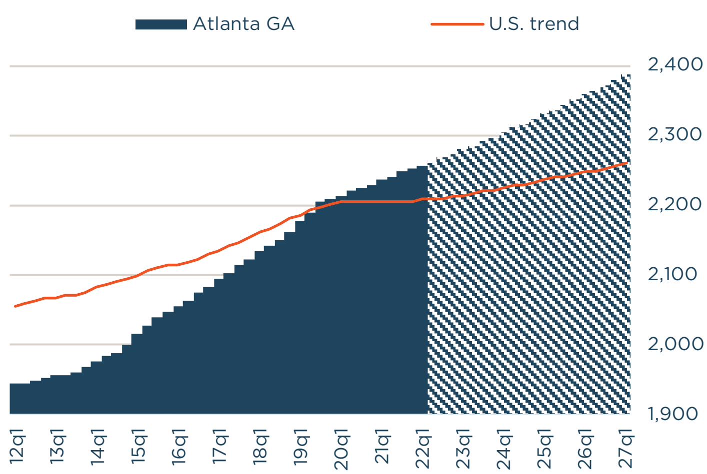
The largest market in Middleburg's territory outside of Texas, Atlanta is projected to see growth over the next five years of 0.8 percent per year in the number of young adults (33 thousand), 1.0 percent per year in the **Number of Households** (125 thousand) and 0.9 percent per year in **Total Employment** (134 thousand), all well above average for metro areas in Middleburg's territory. Homebuyer affordability is expected to worsen slightly more rapidly in Atlanta than in the rest of the country, with house prices increasing more rapidly at 3.8 percent per year (compared with 3.6 percent for the nation as a whole) while median household incomes rise at the same pace as the rest of the country.

In the rental housing market, the number of **Units in Demand** is expected to grow at 5.2 percent per year, essentially the same as the national pace, implying 36 thousand new units. Similarly, **Effective Rent per Unit** caught up to the rest of the country over the last decade and is expected to keep pace with the national average. CoStar forecasts that **Net Operating Income** will grow more slowly than the average for metro areas in Middleburg's arc but that apartment property value appreciation will surpass that in any other metro area in Middleburg's territory, implying a relative decline in cap rates from a current guidance already lower than the national average.

Total Employment (000s)

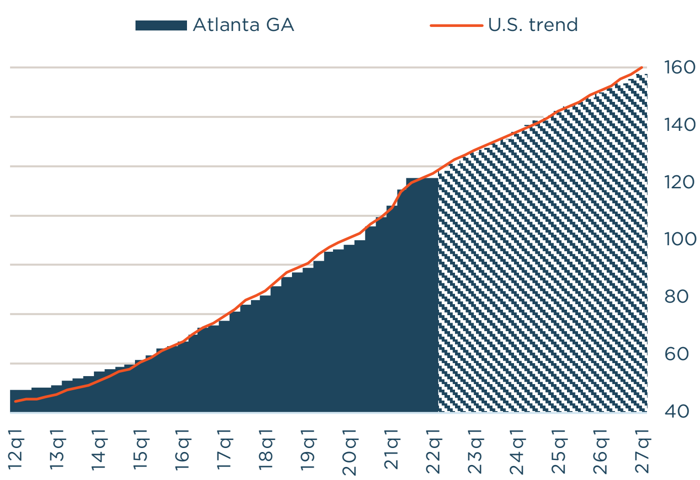


Number of Households (000s)

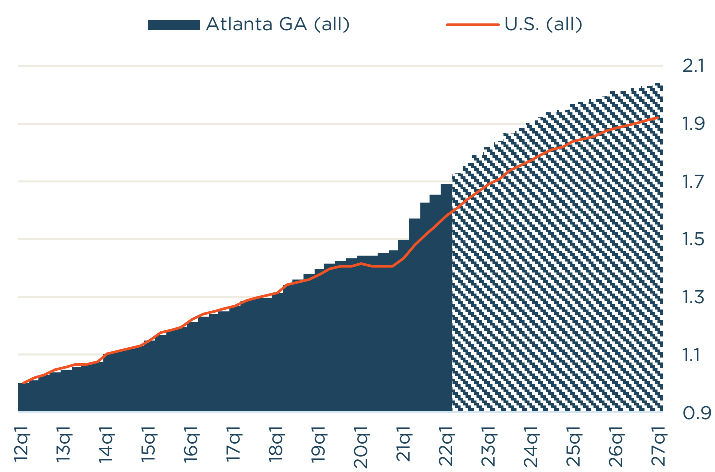


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
130,553	20,680	$317,585	$3,528 million
↑ 0.8%	↑ 12%	↑ 2.5%	↓ 66%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
21.2%	$80,600	5.6%	-62 bps
↓ 0.6%	↑ 2.4%	↑ 0.7%	below US avg

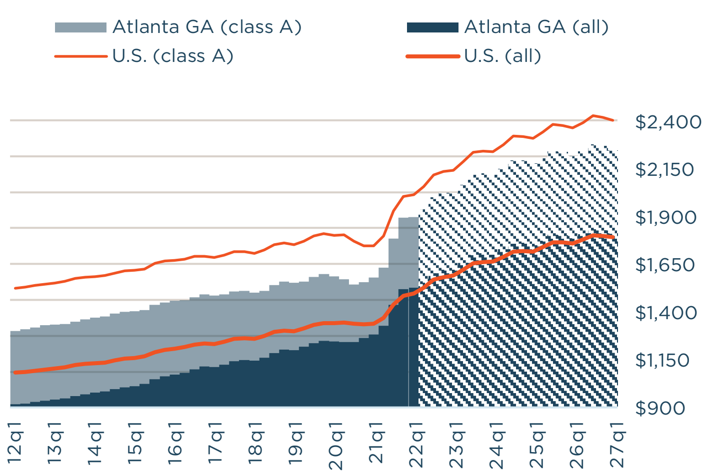
Units in Demand (000s)



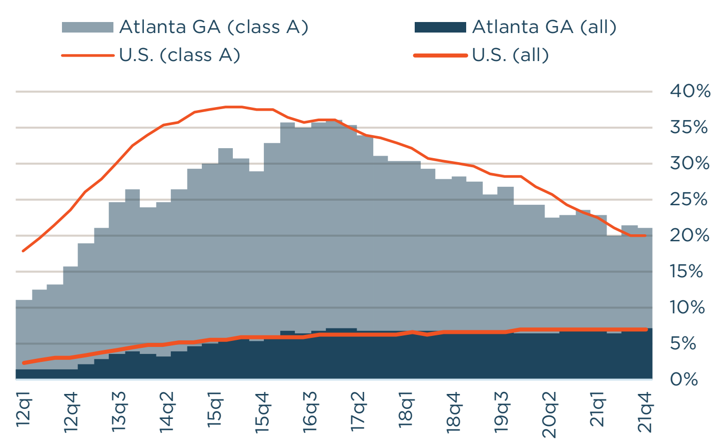
Net Operating Income (2011q4=1.0)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory



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

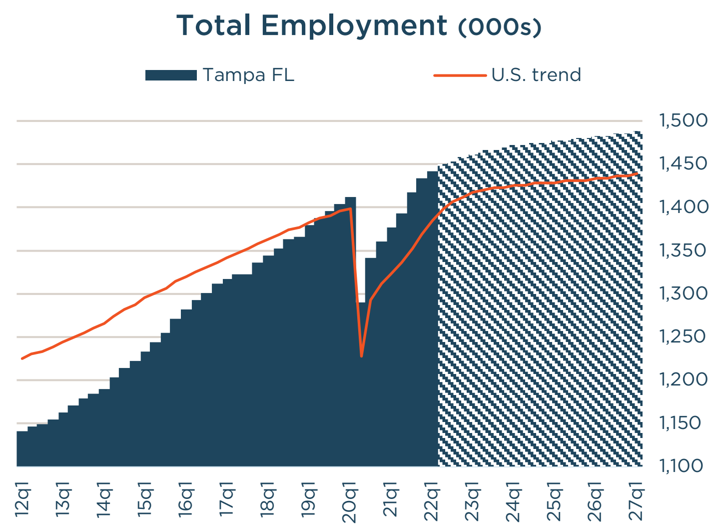
Tampa, FL

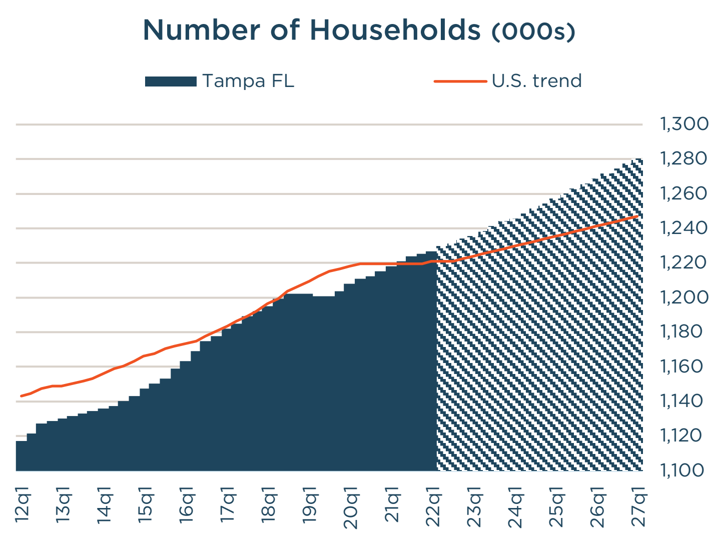
The Tampa market should continue to present appealing opportunities even though underlying demographic fundamentals are not as strong as in other metros in the area.

MIDDLEBURG'S RANK #13 AMONG 15 LARGEST METROS

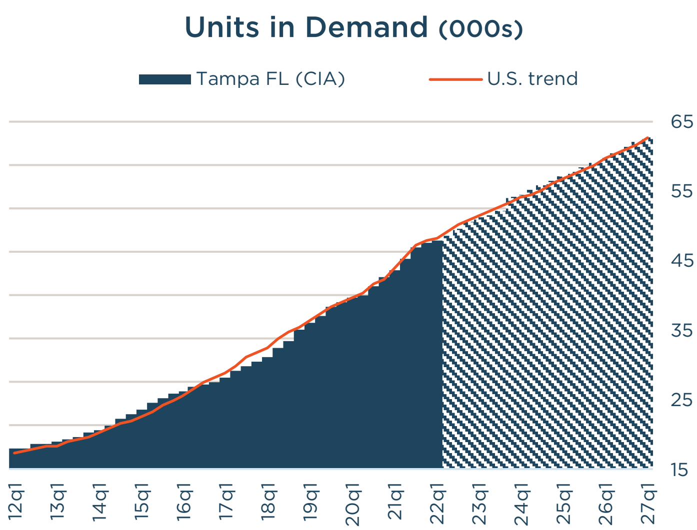
Tampa is not expected to grow as dynamically as other markets in Middleburg's arc. For example, Oxford Economics forecasts that over the next five years Tampa's young adult population will grow at a disappointingly average 0.2 percent per year, its **Number of Households** just slightly above average at 0.8 percent per year, and its **Total Employment** below average at just 0.6 percent per year. On top of that, Tampa's median household income is projected to grow well below average at just 2.5 percent per year, reflecting its increasing appeal among retirees.

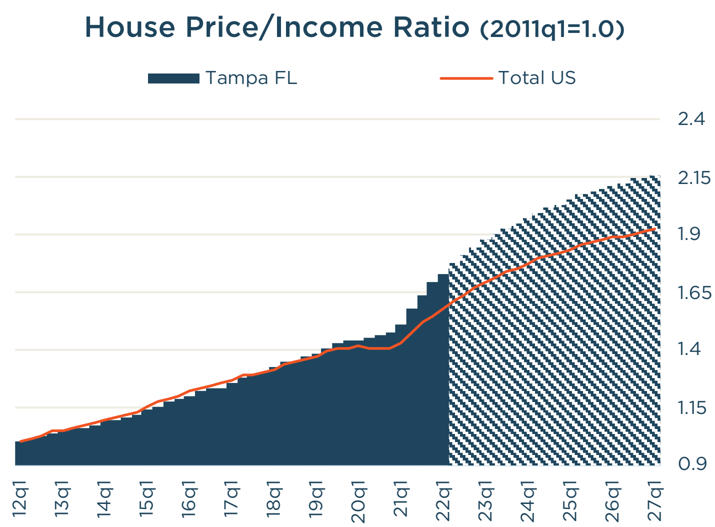
Tampa's increasing homebuyer affordability problems will encourage some of its new households to prefer the rental housing market: even though house price appreciation is forecast to remain slightly below average for Middleburg's region at 3.5 percent per year, the anticipated slow growth of median household income means that the **House Price to Income Ratio** is expected to worsen over the next five years. Partly as a result, CoStar projects that the number of **Units in Demand** will rise by 5.4 percent per year (15 thousand), very slightly above average for metro areas in Middleburg's region. And CoStar believes that this will push **Net Operating Income** to grow by 4.4 percent per year, well above average for metro areas in Middleburg's territory. **Construction and Net Deliveries** continuing to remain within manageable ranges even though the prevailing cap rate on Class A properties appears to be well under the national average.

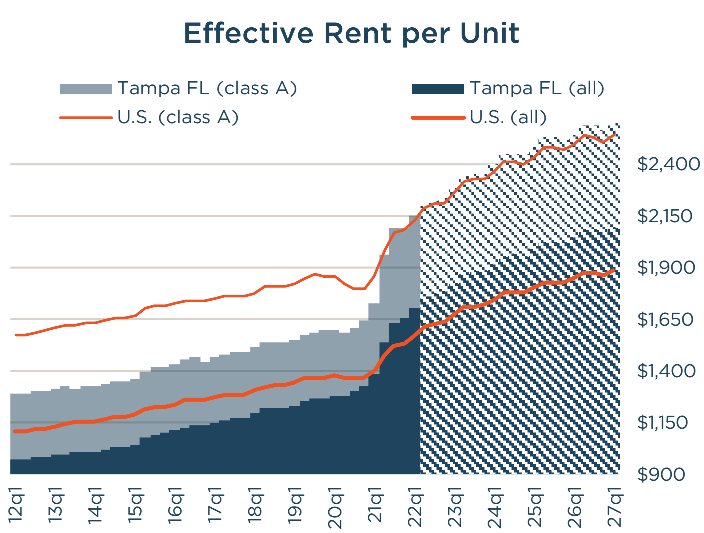


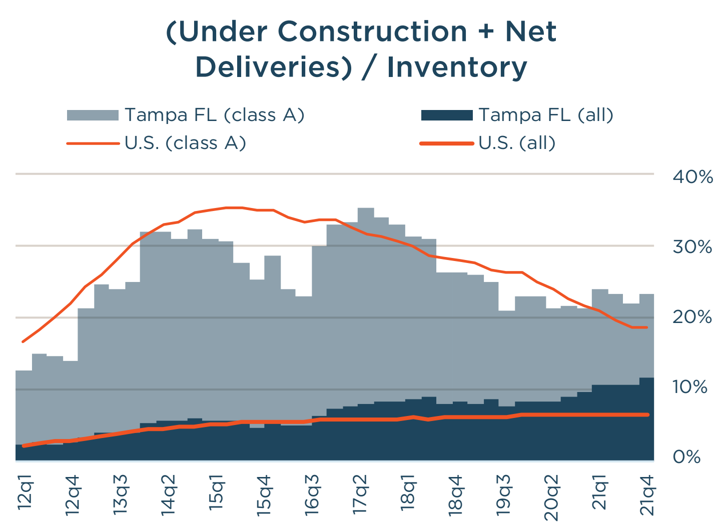


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
51,424	7,506	$312,996	$296 million
↑ 1.2%	↑ 11%	↑ 2.0%	↓ 93%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
25.5%	$66,560	4.1%	-112 bps
↓ 0.7%	↑ 1.8%	↑ 0.4%	below US avg









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

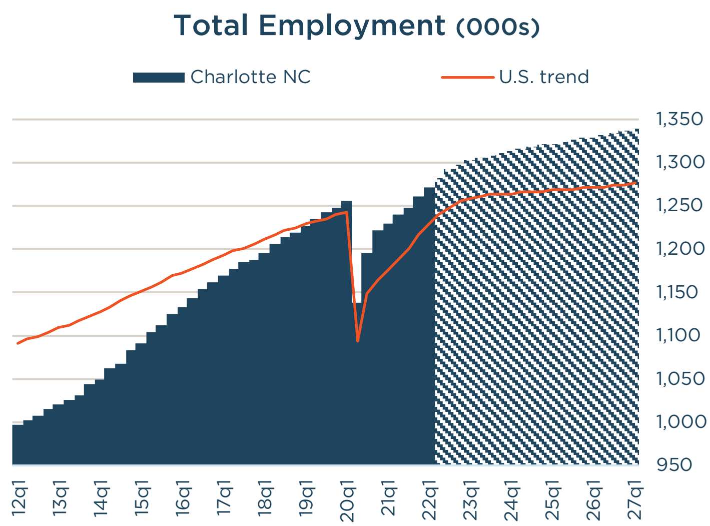
Charlotte, NC

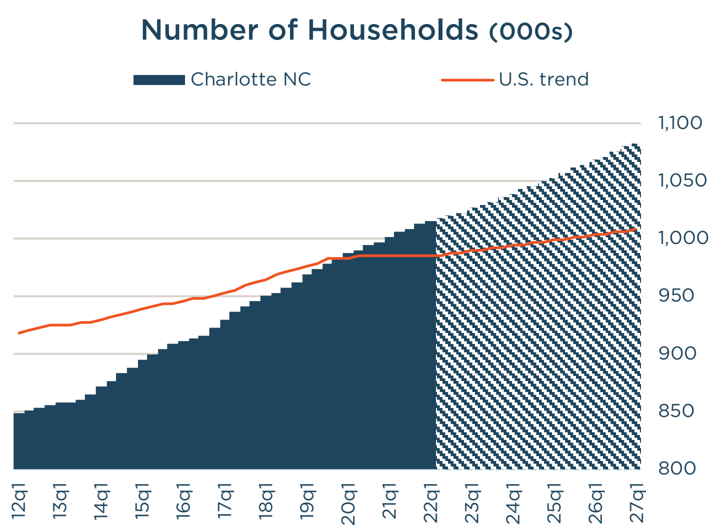
We expect demand for rental housing in Charlotte to be supported by very strong growth in all key demand drivers as it continues its fascinating transformation from a textile manufacturing hub to a diversified hub for finance and high-value manufacturing.

MIDDLEBURG'S RANK 7 AMONG 15 LARGEST METROS

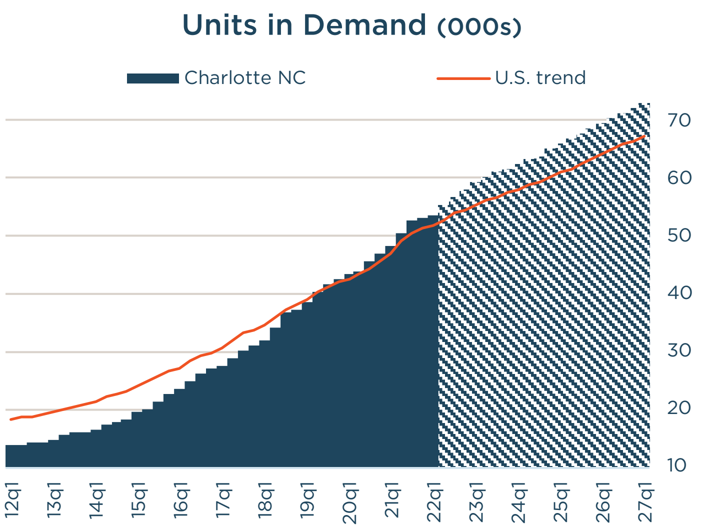
Charlotte's economy has successfully shed its dependence on low-value textiles with its nationally prominent finance sector and the growth of advanced non-textile manufacturing. As a result, over the next five years Oxford Economics forecasts that its young adult population will grow by 17 thousand (0.8 percent per year), its **Number of Households** by 68 thousand (1.3 percent per year), and its **Total Employment** by 67 thousand (1.0 percent per year)—all well above the average for metros in Middleburg's arc.

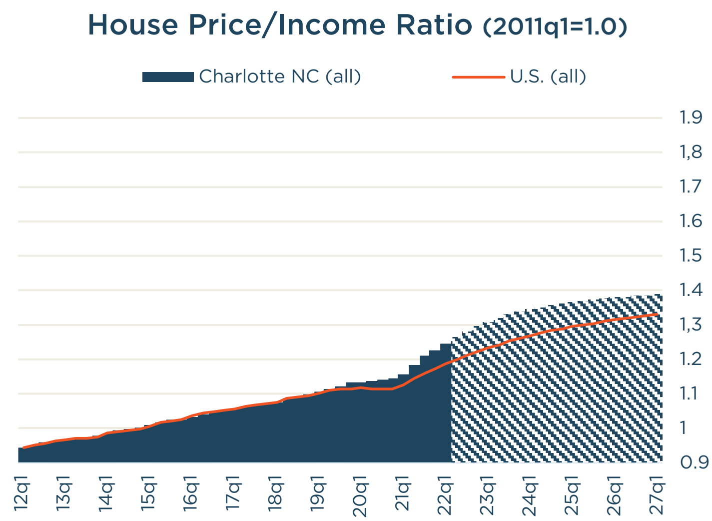
Homebuyer affordability is expected to worsen twice as badly as for the nation as a whole, with relatively slow growth in median household income (2.9 percent per year) lagging behind growth in house prices (3.7 percent per year). This and the area's demographics are expected to add 19 thousand to the number of rental **Units in Demand**, a comfortably above-average rate of 8.2 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.

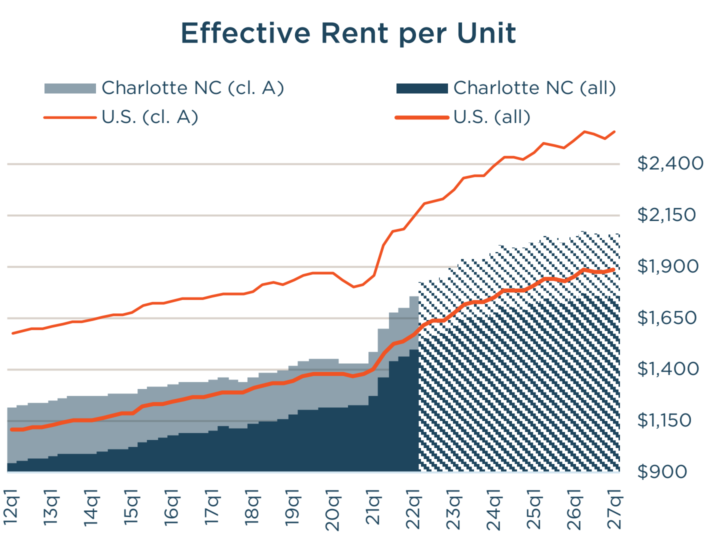


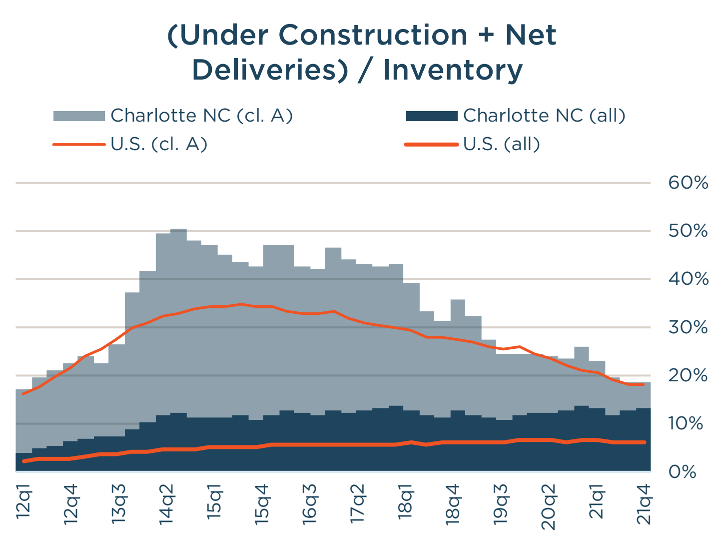


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
57,333	7,435	$304,063	$2,267 million
↑ 0.5%	↑ 9%	↑ 3.2%	↓ 44%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
21.3%	$74,600	5.1%	-76 bps
↓ 0.7%	↑ 1.7%	↑ 0.8%	below US avg









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

Orlando, FL

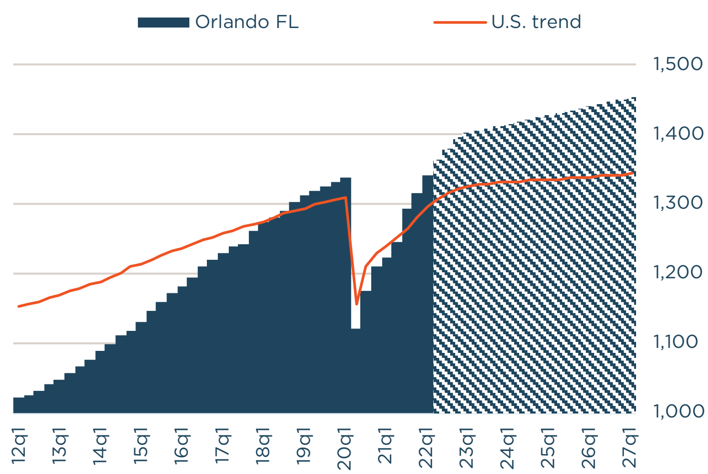
Orlando has become one of the most appealing rental housing markets in the country—but the state of Florida's initial move to disband the Reedy Creek Improvement District introduces an unwelcome degree of uncertainty.

MIDDLEBURG'S RANK #2 AMONG 15 LARGEST METROS

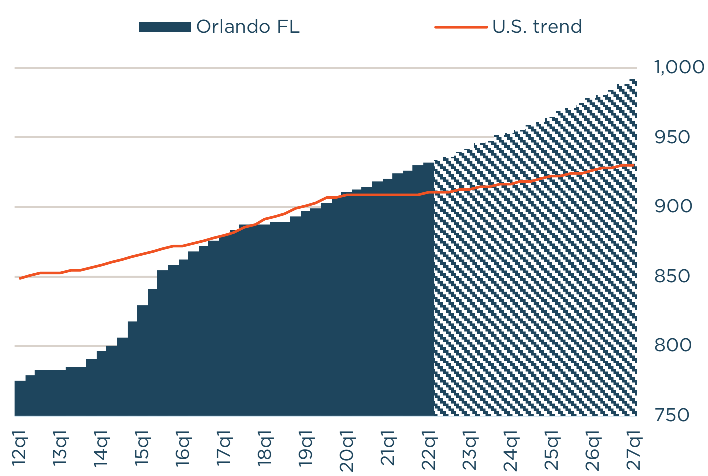
Orlando has broadened its economy to encompass much more than its roots as a pure tourist destination, and the most likely path forward is one that builds on that breadth as well as its best-in-class resorts. Oxford Economics forecasts that **Total Employment** in Orlando will grow by 1.6 percent per year over the next five years, resulting in 114 thousand additional workers. Oxford also expects above-average growth in Orlando's **Young Adult Population** (14 thousand, or 0.7 percent per year) and **Number of Households** (60 thousand, 1.2 percent per year. Orlando's homebuying affordability problem is expected to worsen more than twice as badly as the national average, with expected growth in house prices among the highest in Middleburg's area at 4.0 percent per year.

Continuing with this likeliest scenario, CoStar forecasts that **Effective Rent per Unit** will grow by 4.1 percent per year and **Net Operating Income** by 5.0 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. The massive success of the Orlando economy makes it beyond surprising that an ordinarily pro-growth state government would eradicate the Reedy Creek Improvement District, which encompasses much of Orange and Osceola counties and is the unquestioned driver of the area's economic growth. There is plenty of time for cooler heads to prevail, but Middleburg will of course monitor the situation against the possibility that the state will persist in its policy.

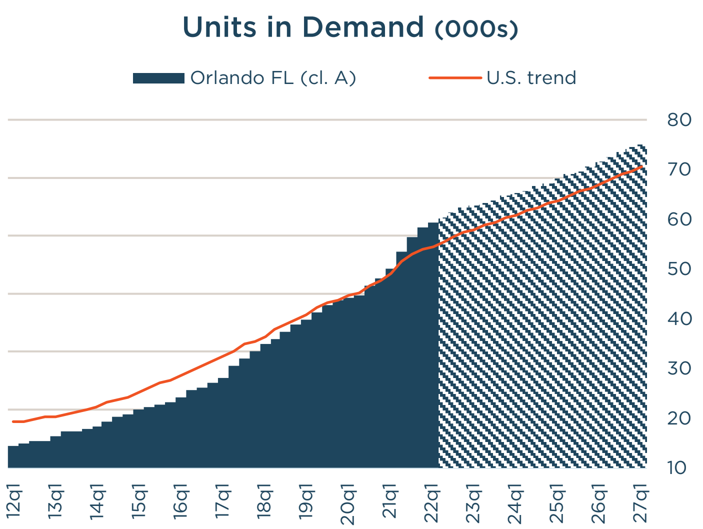
Total Employment (000s)

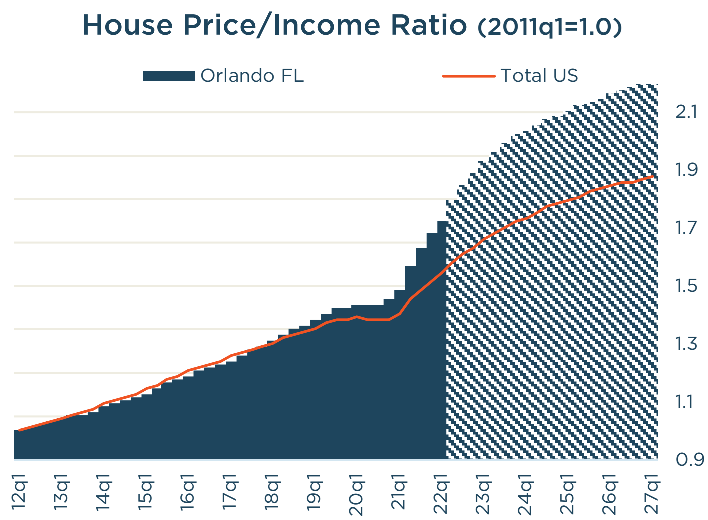


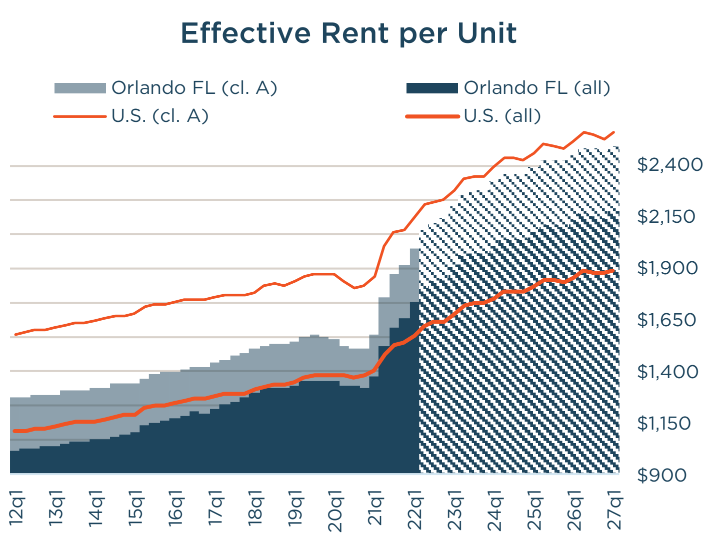
Number of Households (000s)

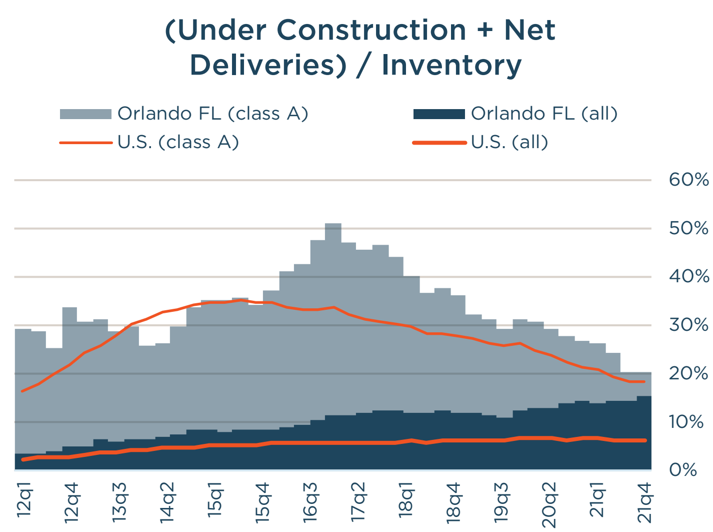


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
60,528 no change	6,322 ↑ 17%	$309,446 ↑ 3.4%	$461 million ↓ 92%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
21.5% ↑ 1.0%	$71,920 ↑ 2.0%	4.1% ↑ 0.1%	-136 bps below US avg









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

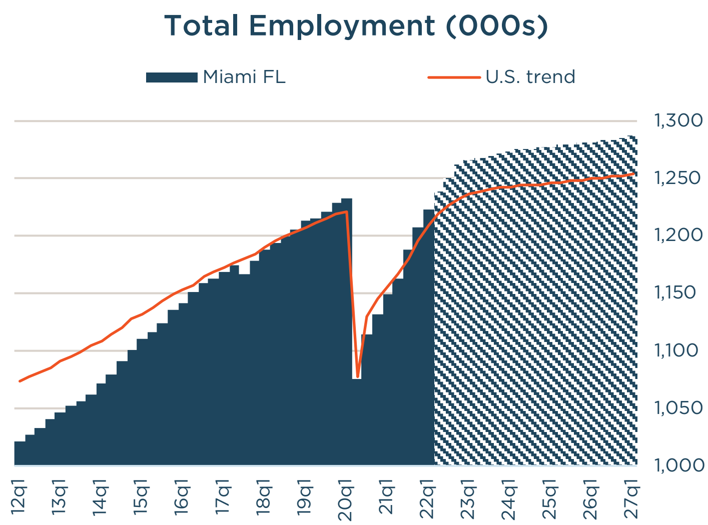
Miami, FL

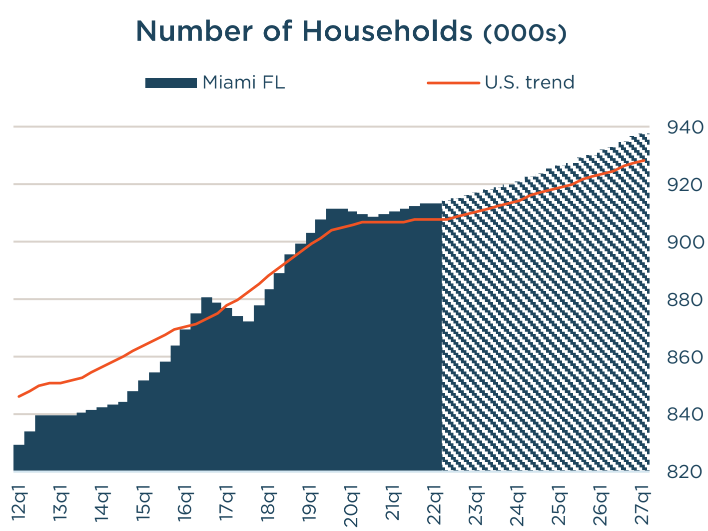
Miami is a market with some solid demand drivers—but one that, ultimately, is more likely to appeal to developers and investors other than Middleburg.

MIDDLEBURG'S RANK #8 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 very slightly 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) 24 thousand, or just 0.5 percent per year.

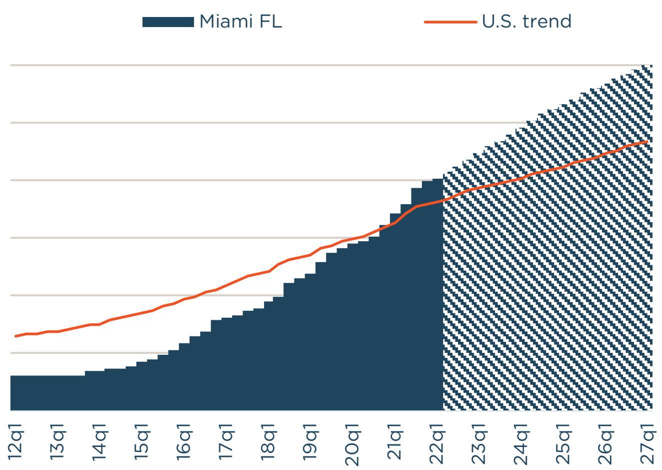
Demand for rental housing will receive a push from Miami's continuing homebuyer affordability problem, which is expected to worsen very substantially as house prices increase by about 4.9 percent per year while median household incomes increase by just 2.9 percent per year. But Miami's rental housing market tends to be dominated by wealthy retirees in high-end apartments, rather than the younger professional households in middle-market Class A apartments that form the greatest share of Middleburg's resident base. As an example, Miami's current average Class A **Effective Rent per Unit** of $2,835, easily the highest among markets in Middleburg's part of the country, is 13 percent higher than in Naples—often considered another community for wealthy retirees—but Miami's median household income is 30 percent lower than in its cross-Florida neighbor.



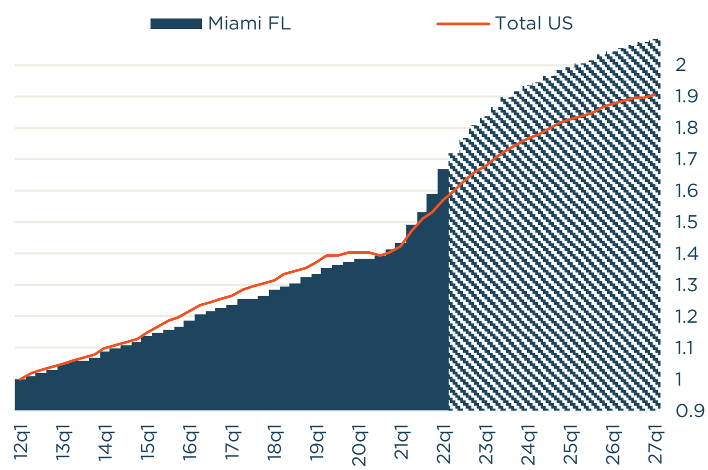


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
41,781	14,489	$453,527	$1,728 million
no change	↑24%	↑ 8%	↓ 52%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
22.6%	$62,360	3.6%	-109 bps
↑ 1.5%	↑ 1.8%	↓ 0.4%	below US avg

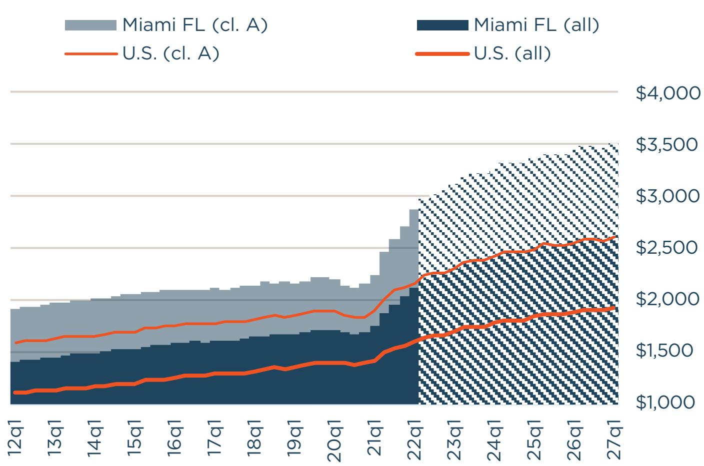
Units in Demand (000s)



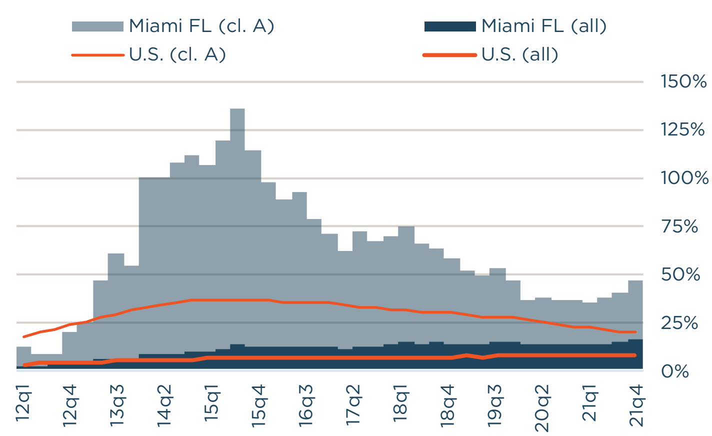
Net Operating Income (2011q4=1.0)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory



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

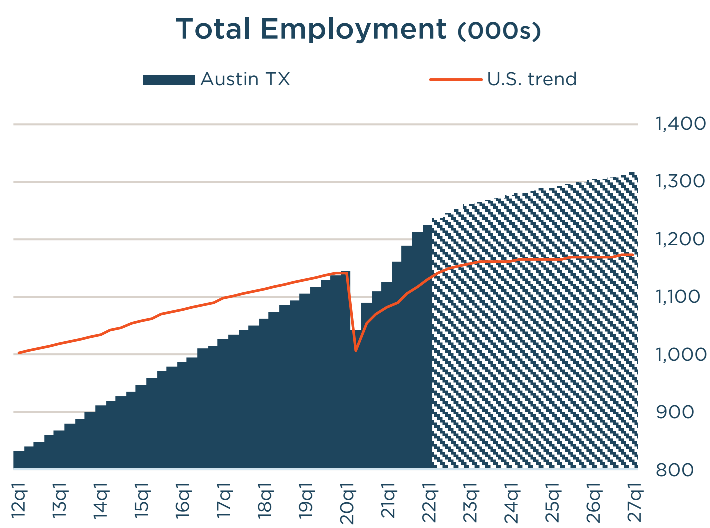
Austin, TX

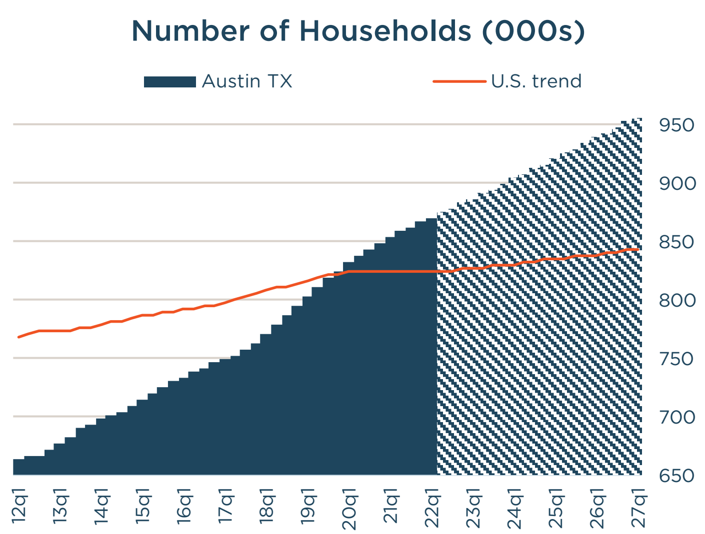
Austin's appeal as a rental housing market should surprise nobody, as the Texas capital has become known as a favorite among young professionals, thanks in large part to the University of Texas and the city's music scene.

MIDDLEBURG'S RANK #1 AMONG 15 LARGEST METROS

Over the next five years Oxford Economics forecasts that growth in Austin's young adult population, **Number of Households**, and **Total Employment** will outpace every other metro area in Middleburg's footprint in percentage terms at 1.7, 1.8, and 1.5 percent per year, respectively. The absolute numerical growth in young adults is expected to trail only the much larger Houston and Dallas at 34 thousand, while the number of new households is expected to trail only Houston, Dallas, and Atlanta at 87 thousand.

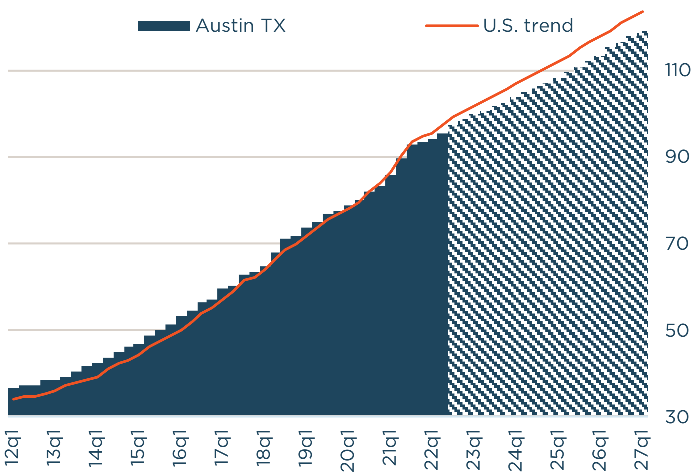
Homeownership affordability remains a problem in Austin, though the next five years are expected to see marginal improvement as the increase in median household incomes slightly outpaces the increase in house prices. As a result of the expected inflows, however, CoStar forecasts that rental housing **Demand** will grow by 24 thousand units over the next five years (4.0 percent per year), trailing only Dallas / Fort Worth, Houston, and Atlanta. **Effective Rent per Unit, Net Operating Income**, and apartment property value appreciation will also outpace most other markets in the region, while **Construction and Deliveries** maintain a reasonable pace relative to the existing Class A inventory. Class A cap rates appear to have declined to about 87 basis points below the national average.



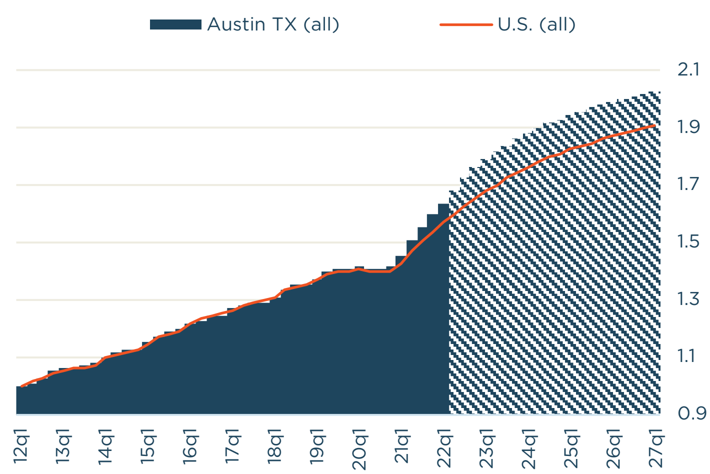


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
101,116	11,072	$287,400	$1,974 million
↑ 2.6%	↓ 3%	↑ 2.3%	↓ 67%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
32.3%	$92,560	5.0%	-87 bps
↓ 0.1%	↑ 1.8%	↑ 0.4%	below US avg

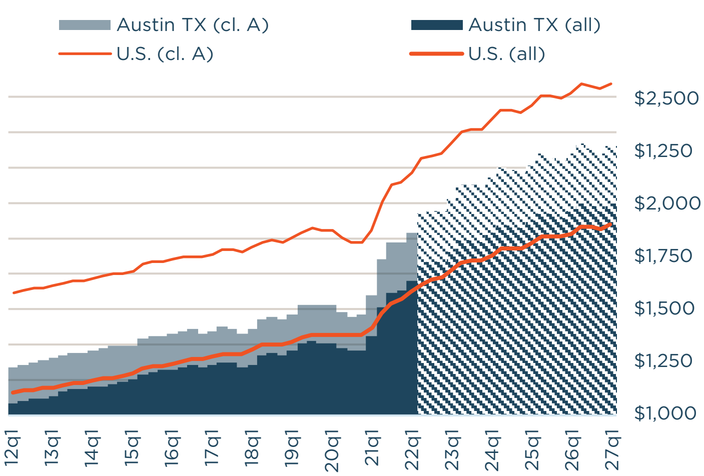
Units in Demand (000s)



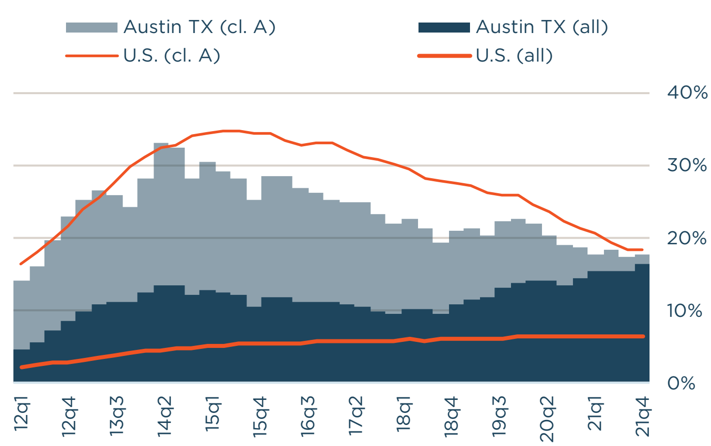
Net Operating Income (2011q4=1.0)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory



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

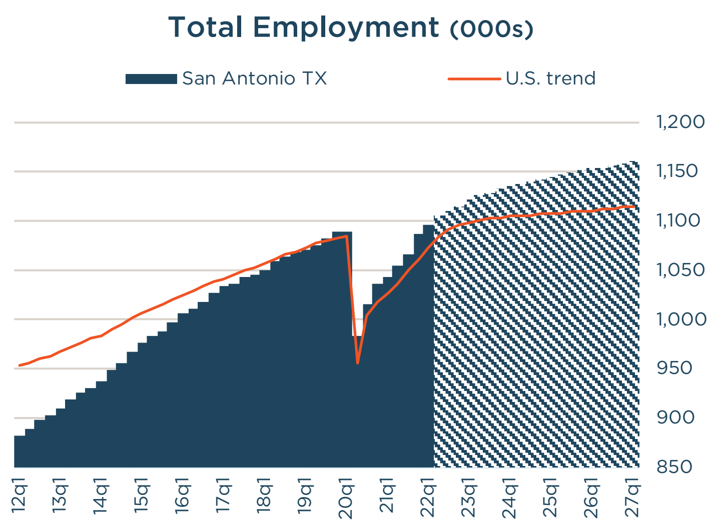
San Antonio, TX

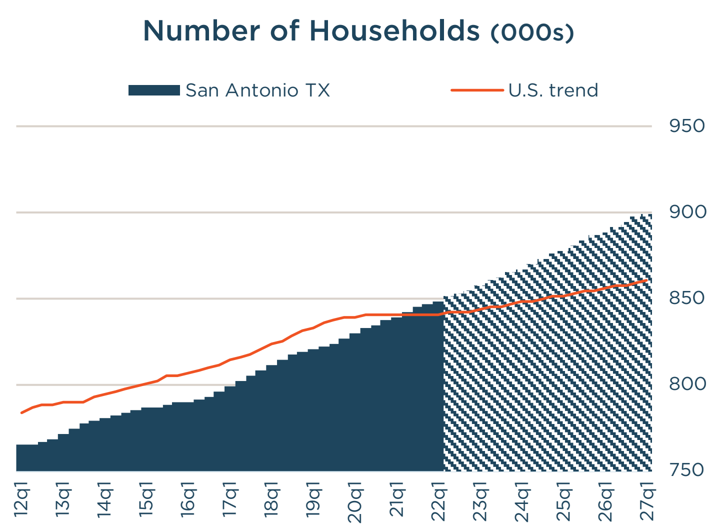
San Antonio has become an interesting market, though perhaps more for acquisition than for development. Only 80 miles from Austin, it is already seeing in-migration from its increasingly unaffordable neighbor, especially among young adults.

MIDDLEBURG'S RANK #12 AMONG 15 LARGEST METROS

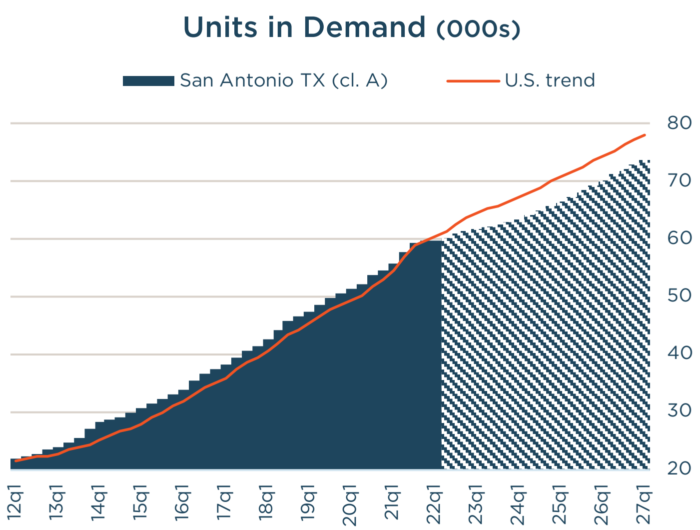
San Antonio's economic base, long dominated by nearby military installations, has diversified impressively in financial services (USAA, JP Morgan Chase), digital technologies (Rackspace Technology, TaskUs), medical care, grocery retailing, and other industries. Oxford Economics forecasts that, over the next five years, San Antonio will experience especially strong growth in all three key demographic drivers of rental housing demand: young adult population (up 26 thousand at 1.4 percent per year, second only to Austin), **Number of Households** (up 51 thousand at 1.1 percent per year), and **Total Employment** (up 64 thousand at 1.2 percent per year).

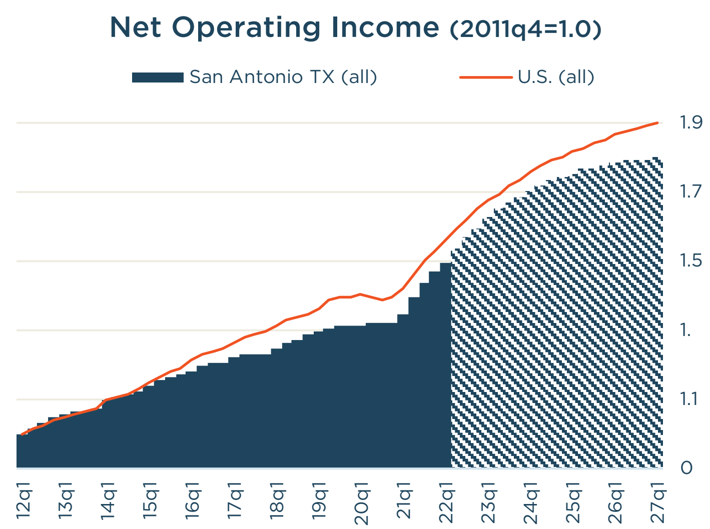
San Antonio has seen an increase in homebuyer affordability problems, but that is not likely to be the driver of apartment demand going forward as house prices are expected to grow very slightly less rapidly than incomes. The demographic growth is expected to drive above-average increases in **Demand** for rental housing and Class A **Effective Rent per Unit** by 5.9 and 3.3 percent per year, respectively, over the next five years. The main drawback of San Antonio as a development market are its prevailing rents for Class A properties, which are lower than in most other cities in Middleburg's region at just $1,467 per unit. Moreover, although **Construction and Deliveries** have remained subdued relative to the Class A inventory, current construction activity suggests that may change.

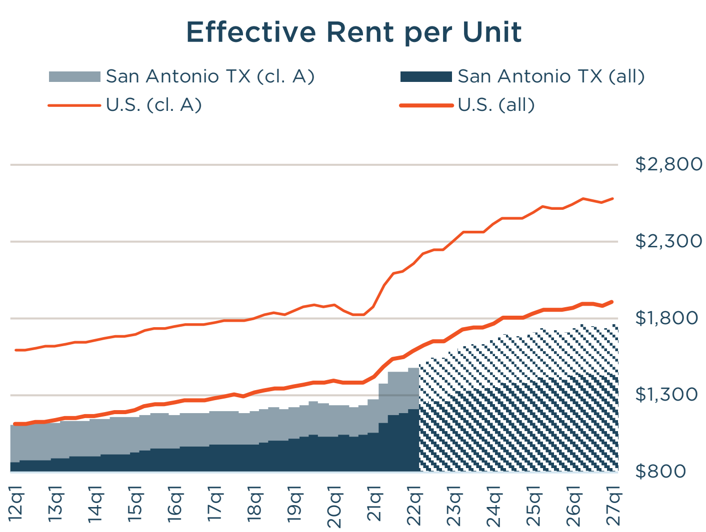


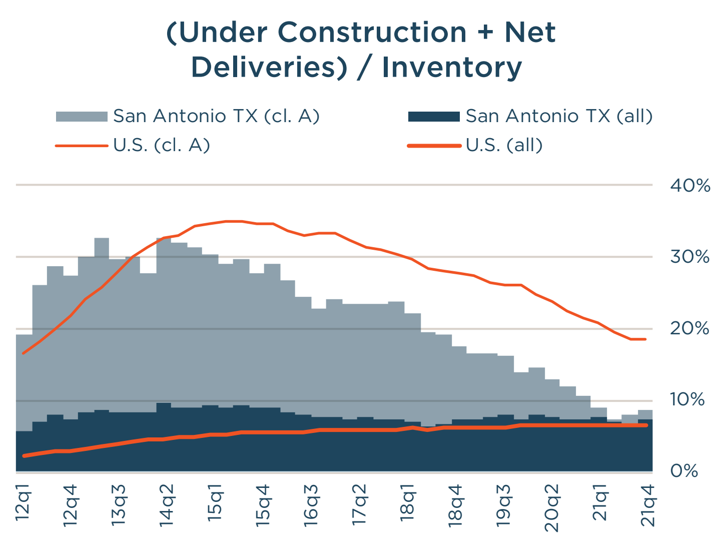


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
63,072	3,716	$193,267	$244 million
↑ 0.2%	↑ 41%	↑ 1.9%	↓ 96%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
19.1%	$69,280	4.8%	-21 bps
↑ 0.1%	↑ 1.8%	↑ 0.3%	below US avg









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

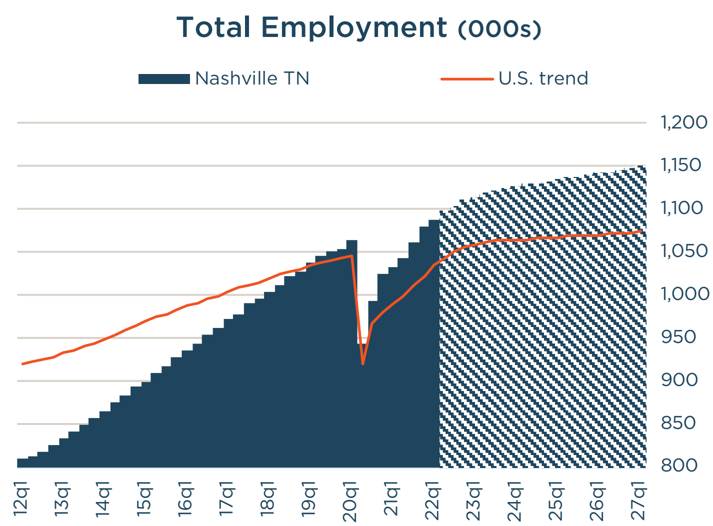
Nashville, TN

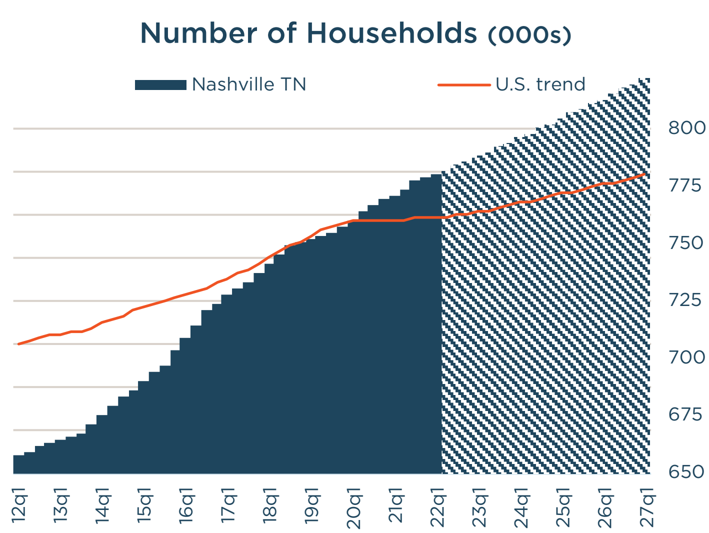
Nashville may as well be called "The New Austin." As in Austin, it's hard to find weak aspects of the Nashville rental housing market; also as in Austin, however, the strength of the Nashville market is widely recognized.

MIDDLEBURG'S RANK #3 AMONG 15 LARGEST METROS

Like Austin, Nashville seems to be a growing favorite of young professionals, based partly on its music scene. Also like Austin, Nashville has seen high-profile recent corporate relocations including AllianceBernstein. As a result, the key demographic drivers of rental housing demand are all expected to grow strongly in Nashville over the next five years. Oxford Economics expects that Nashville's young adult population will grow by 12 thousand over the next five years (0.8 percent per year), that the **Number of Households** will grow by 38 thousand (0.9 percent per year), and that **Total Employment** will grow by 62 thousand (1.2 percent per year).

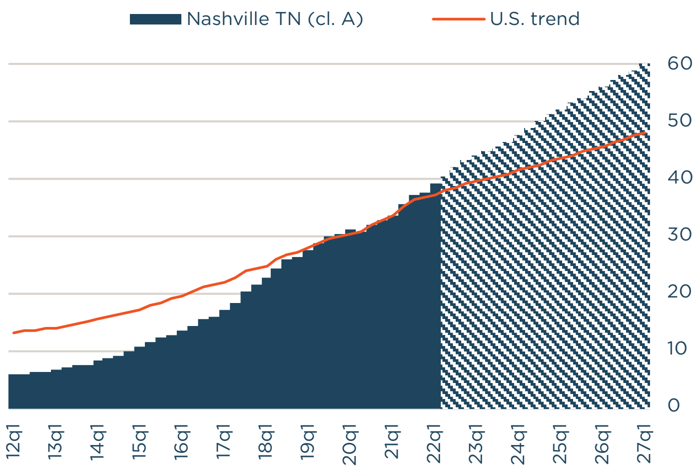
Nashville's homebuyer affordability problem is expected to catch up with Austin's over the next five years, with the highest rate of growth for house prices (5.1 percent per year) for any metro area in Middleburg's region while median household incomes grow at just 3.3 percent per year. The demographic and affordability pressures are expected to increase apartment **Demand** by 21 thousand units (7.5 percent per year) over the next five years. Nashville is expected to continue outpacing most other metros in Middleburg's arc in terms of **Effective Rent per Unit** (3.7 percent per year), and **Net Operating Income** (3.8 percent per year). The main risk in the Nashville market is likely to be the pace of **Construction and Deliveries**, which have persistently been quite high, relative to Class A and total inventory, for most of the past decade.



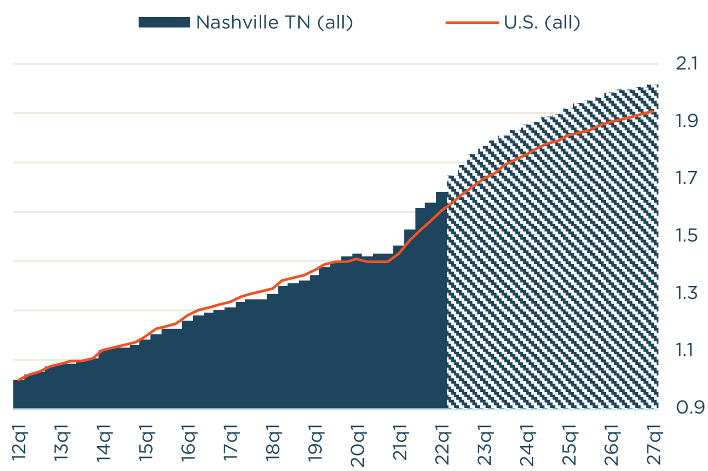


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
42,772	11,809	$305,410	$2,366 million
↑ 3.5%	↓ 4%	↑ 2.7%	↓ 10%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
23.4%	$77,720	4.2%	-46 bps
↓ 0.3%	↑ 1.8%	↓ 0.2%	below US avg

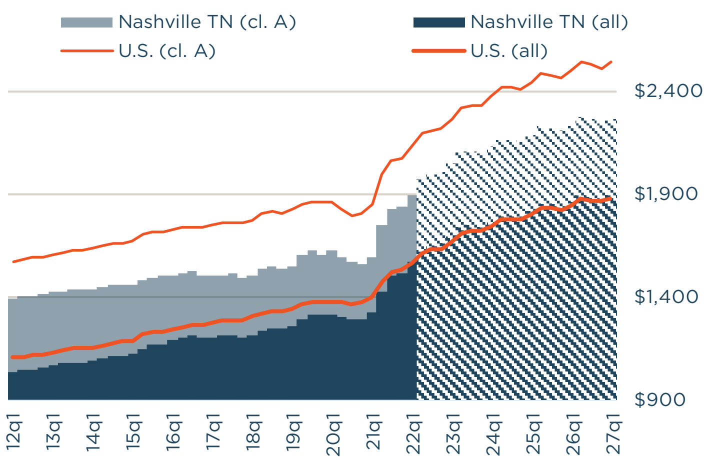
Units in Demand (000s)



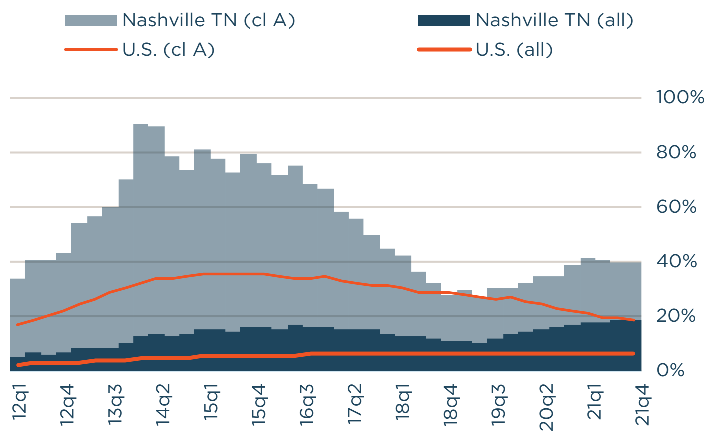
Net Operating Income (2011q4=1.0)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory



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

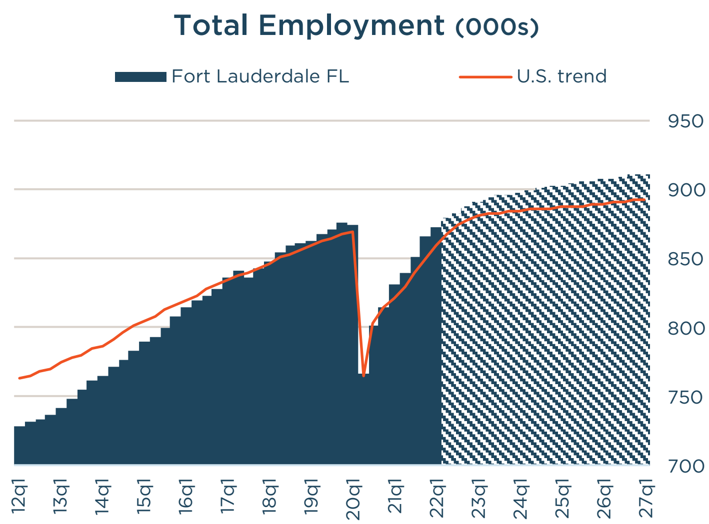
Fort Lauderdale, FL

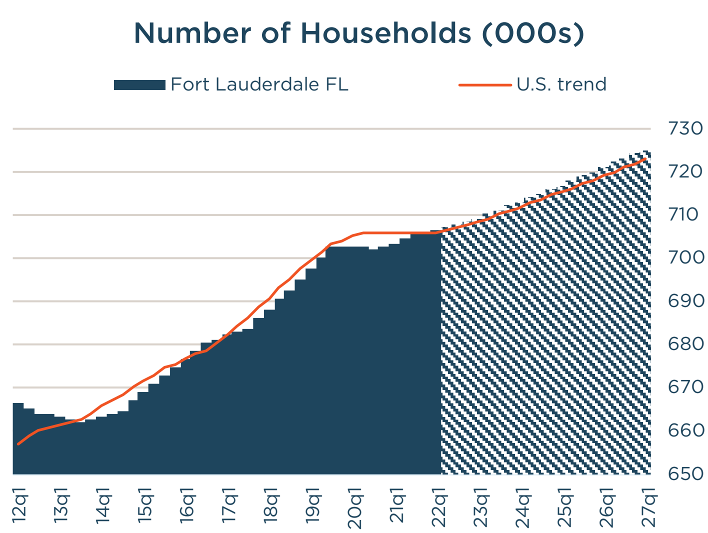
The Fort Lauderdale market shares much in common with its near neighbors Miami and Palm Beach—but those shared traits are the ones most likely to make them appeal more to other developers and investors than to Middleburg.

MIDDLEBURG'S RANK #11 AMONG 15 LARGEST METROS

The most appealing aspect of the Fort Lauderdale market is the market rents that it can support: the metro area's $2,772 average effective rent per Class A unit is second only to Miami's and greater even than Palm Beach's at $2,723. The transaction market fully reflects that strength, with Class A apartments selling at an average price of $429,559 per unit and a prevailing cap rate around 92 basis points below the national average. On top of that, Oxford Economics forecasts that the house-price-to-income ratio will worsen over the next five years at a rate surpassed only by Miami and Palm Beach, with house prices rising at 4.5 percent per year while the median household income increases by just 2.7 percent per year.

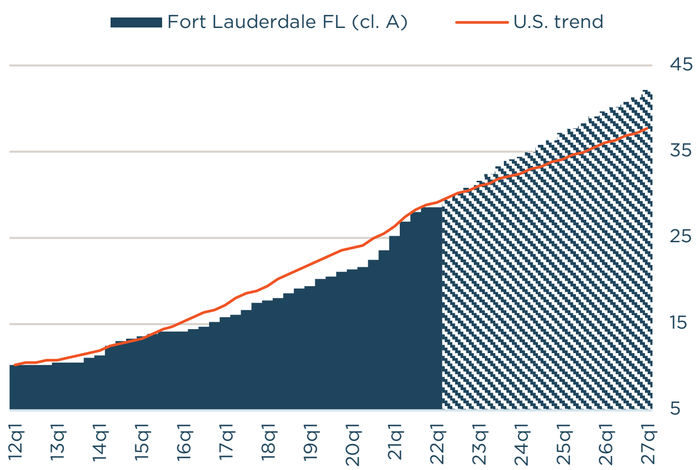
Those numbers are not really enough to make Fort Lauderdale especially appealing to Middleburg, though, given that we don't typically compete at the highest end of the rental housing market. More important to us is the fact that growth in the key demographic drivers is expected to be anemic: Oxford Economics forecasts, for example, that the young adult population will expand by just three thousand over the next five years at 0.2 percent per year, trailing Palm Beach (though better than Miami) while **Total Employment** is will grow by just 38 thousand at 0.9 percent, trailing Miami (though better than Palm Beach). The kicker is the **Number of Households**, which is forecast to grow by just 18 thousand at 0.5 percent per year—not only below average in Middleburg's part of the country but also trailing both Palm Beach and Miami.



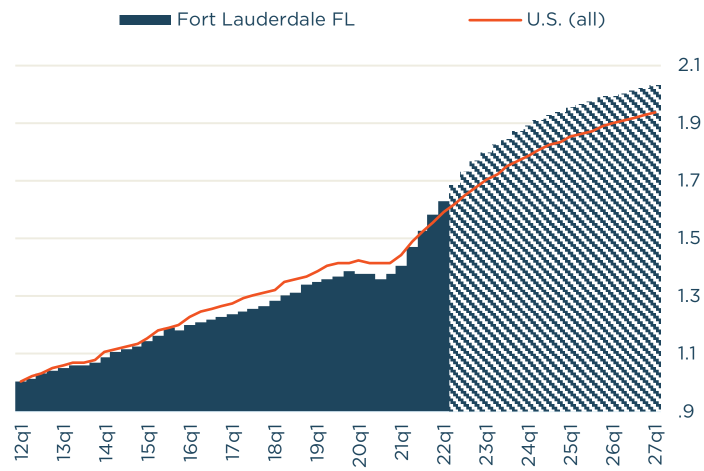


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
29,317	6,745	$429,559	$960 million
↑ 2.1%	↑ 4.5%	↑ 3.8%	↓ 75%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
23.9%	$69,760	4.2%	-92 bps
↑ 2.0%	↑ 1.9%	↑ 0.2%	below US avg

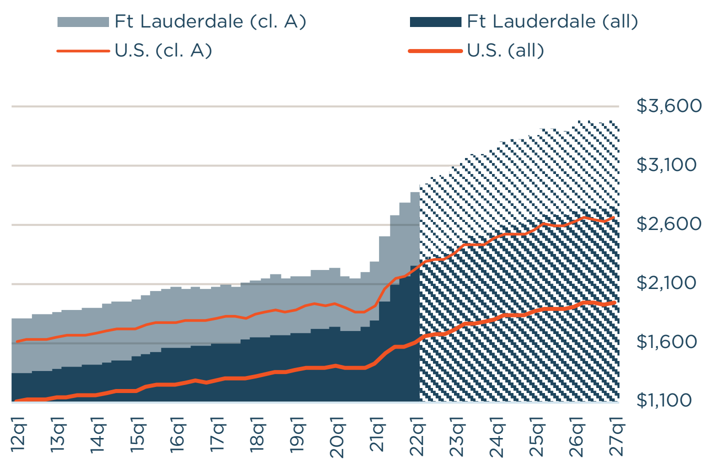
Units in Demand (000s)



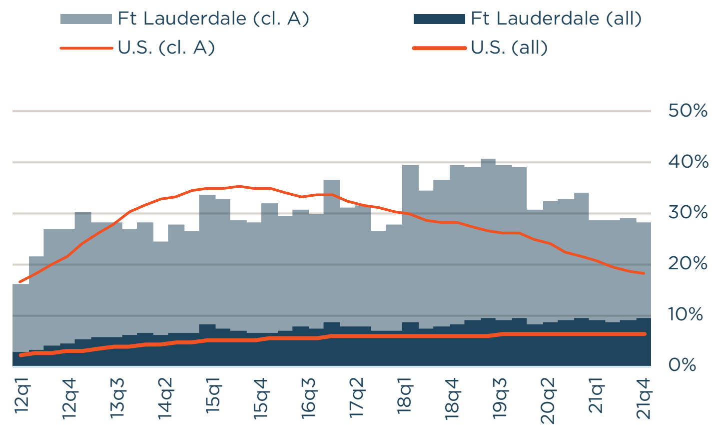
Net Operating Income (2011q4=1.0)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory



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

Jacksonville, FL

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

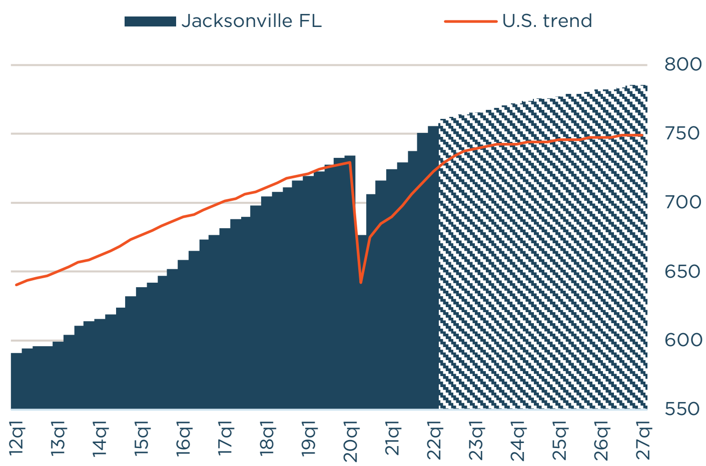
MIDDLEBURG'S RANK #14 AMONG 15 LARGEST METROS

The growth rate of GDP in the Jacksonville metro area has exceeded the national average for several years and is expected to continue. And Oxford Economics forecasts that the **Number of Households** in Jacksonville will increase by 37 thousand over the next five years at 1.1 percent per year, comfortably above average for metro areas in Middleburg's part of the country. Strong growth in the number of households, however, is not likely to be matched by equally strong growth in other drivers of rental housing demand, with both **Total Employment** and young adult population forecast to grow only slightly more rapidly than average at 0.9 and 0.4 percent per year respectively, resulting in 30 thousand additional jobs and just three thousand more young adults.

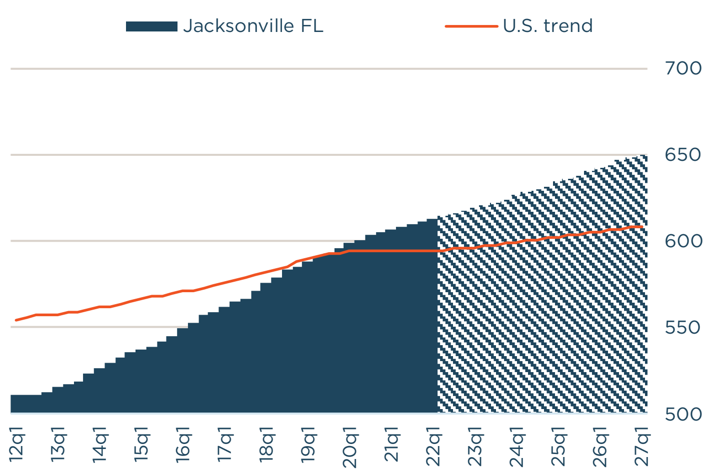
Neither is a homeownership affordability problem likely to drive apartment demand, as house prices are expected to grow substantially less than in the rest of the country at just 2.8 percent per year, only slightly greater than the growth rate of median household income at 2.4 percent per year.

Given the weakness in demographic and affordability drivers, CoStar expects that **Demand** for rental housing units will grow by just 2,700 over the same period, at a below-average pace of 2.9 percent per year. **Effective Rent per Unit**, **Net Operating Income**, and price appreciation for Class A apartment properties are all expected to be near or below average at 3.5, 3.6, and 2.0 percent per year respectively. The pace of **Construction and Deliveries**, though, has remained consistently reasonable as a share of Class A inventory.

Total Employment (000s)

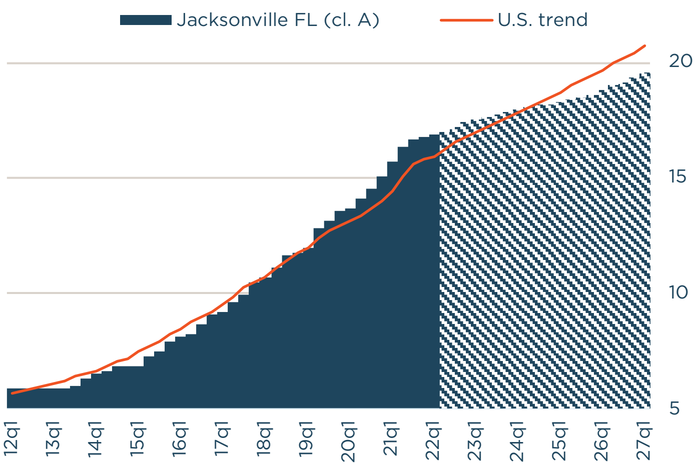


Number of Households (000s)

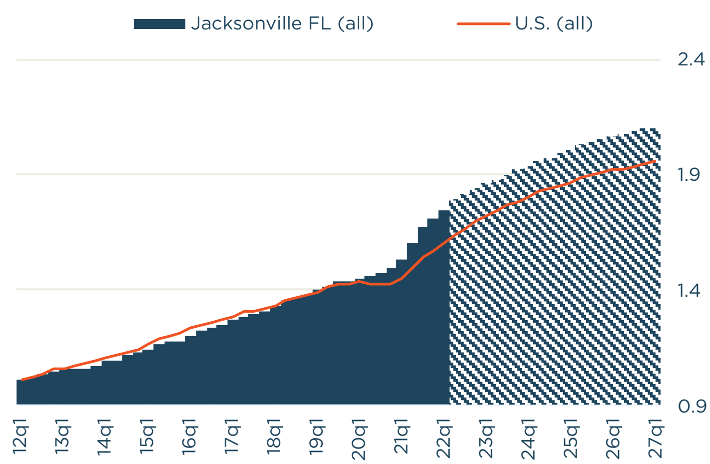


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
17,997	1,371	$246,295	$540 million
↑ 2.4%	↑23%	↑ 2.1%	↓ 61%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
21.5%	$74,600	4.4%	-98 bps
↓ 2.7%	↑ 1.6%	↓ 0.2%	below US avg

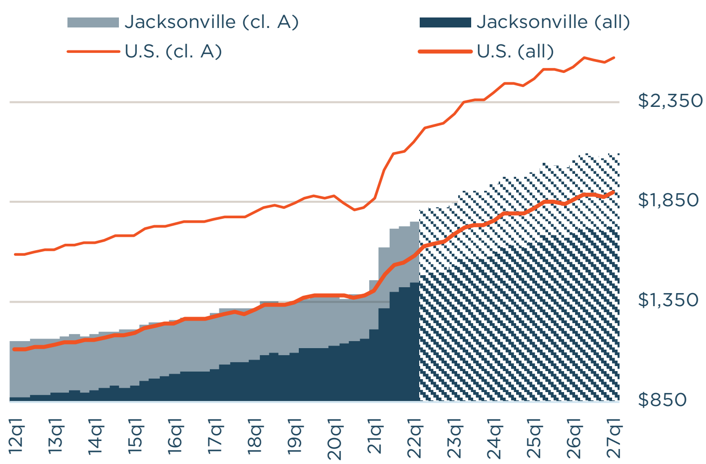
Units in Demand (000s)



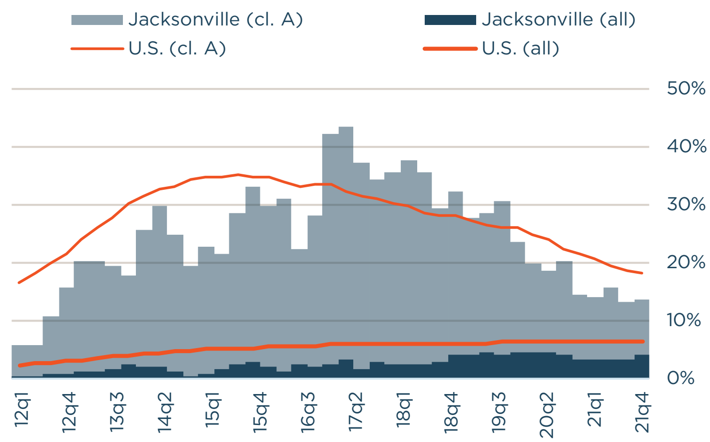
Net Operating Income (2011q4=1.0)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory



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

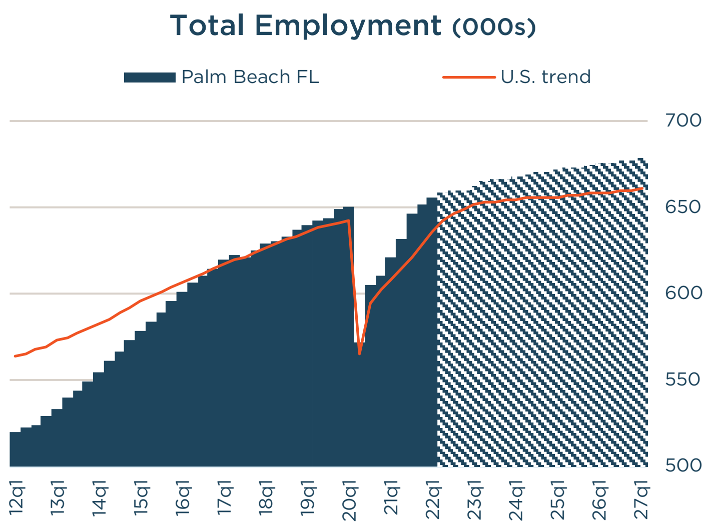
Palm Beach, FL

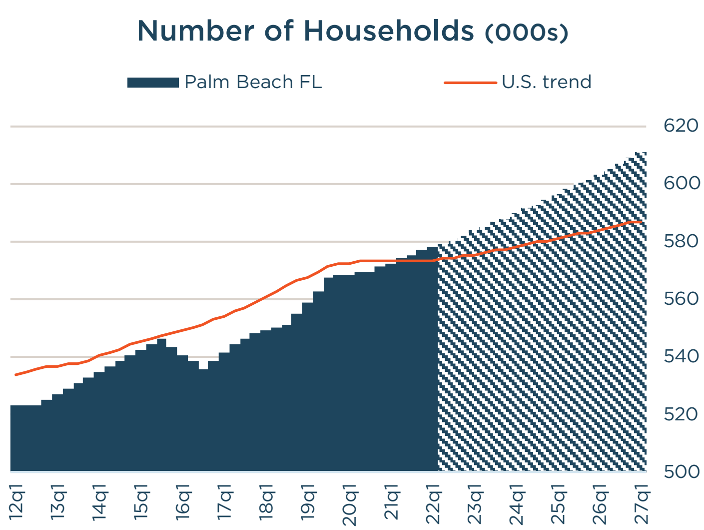
The rental housing market in Palm Beach—expensive and skewed toward wealthy retirees, like its near neighbors Miami and Fort Lauderdale, except with more promising demographic trends—will generally appeal more to developers other than Middleburg.

MIDDLEBURG'S RANK #5 AMONG 15 LARGEST METROS

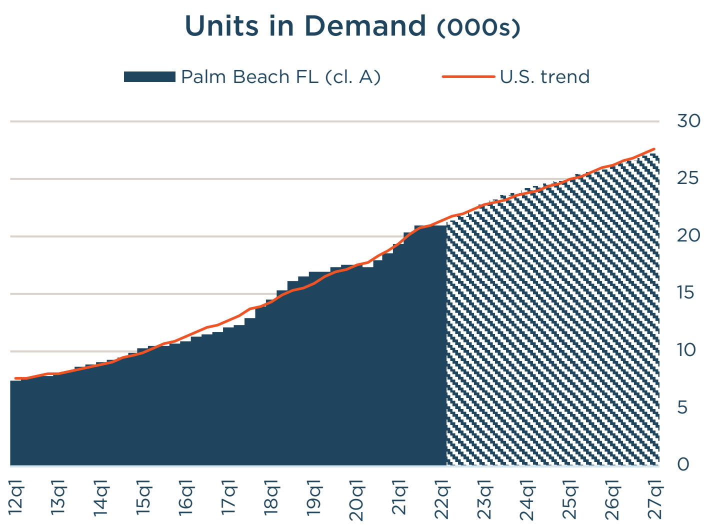
Chief among the positive trends for Palm Beach is growth in its young adult population, which is expected to outpace most other large metro areas in Middleburg's part of the country at 1.0 percent per year over the next five years—but adding just nine thousand young adults, given the small starting base. The **Number of Households** is also expected to growth relatively rapidly at 1.1 percent per year, though growth in **Total Employment** is expected to be less impressive at 0.7 percent per year, lower than average for this region. Howeownership affordability problems should also increase demand for rental housing, with anticipated growth in house prices (4.3 percent per year) substantially exceeding the national average while median household incomes lag at just 2.3 percent per year, the lowest of any metro area in Middleburg's arc aside from its near neighbor Port St. Lucie.

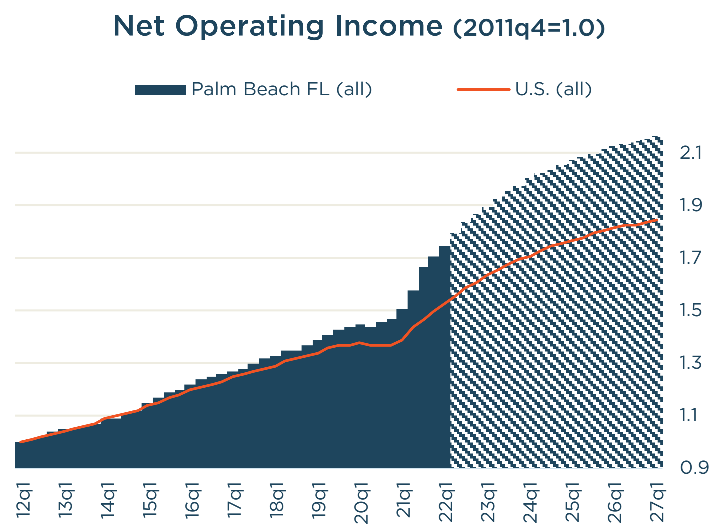
CoStar expects **Demand and Effective Rent per Unit** to increase at 5.1 and 3.9 percent per year, respectively, both slightly above average for metro areas in Middleburg's part of the country, while growth in **Net Operating Income** for Class A properties is expected to surpass every metro except Orlando and Dallas at 4.5 percent per year. What makes Palm Beach most interesting for developers are its cap rates averaging almost two full percentage points below the national average—by far the lowest in Middleburg's region—as well as effective rents averaging $2,729 per unit, by far the highest. **Construction and Deliveries** showed slight bursts in 2013, 2016, and 2021, but generally the pace of new construction has given no sign of any oversupply issue.

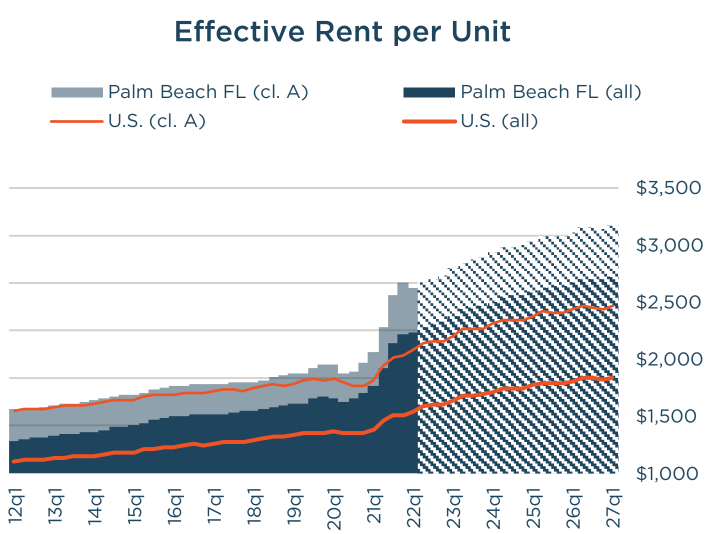


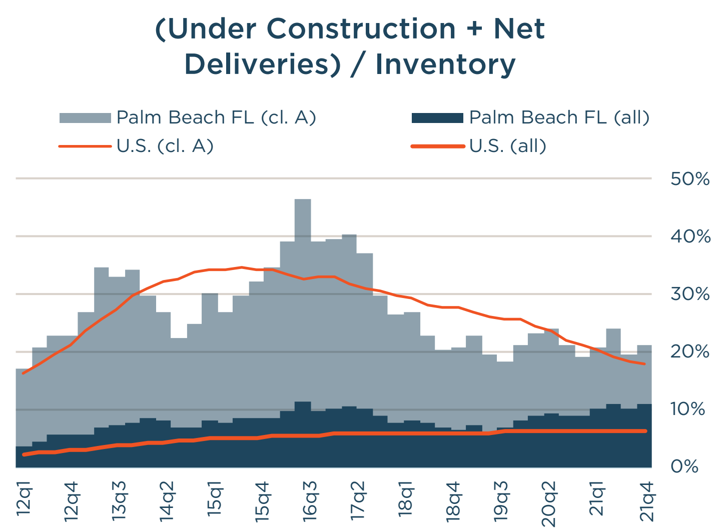


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
73,266	6,345	$324,904	$423 million
↑ 1.3%	↑ 5%	↑ 5%	↑ 21%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
21.2%	$68,712	3.6%	-197 bps
↑ 1.5%	↑ 2.1%	↑ 0.5%	below US avg









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

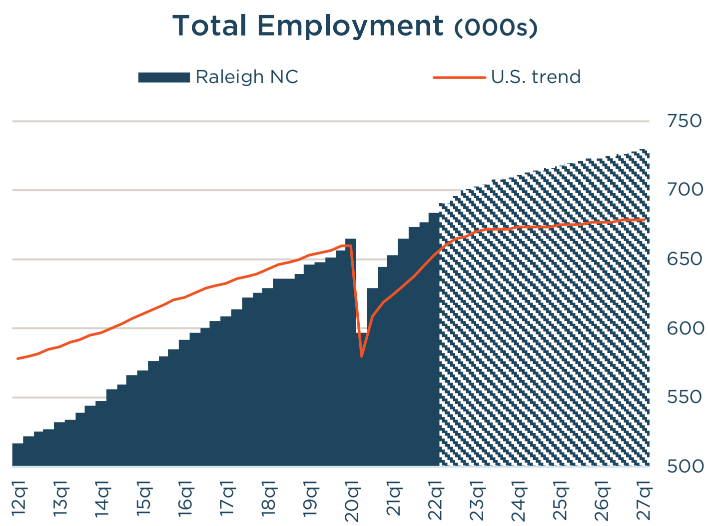
Raleigh, NC

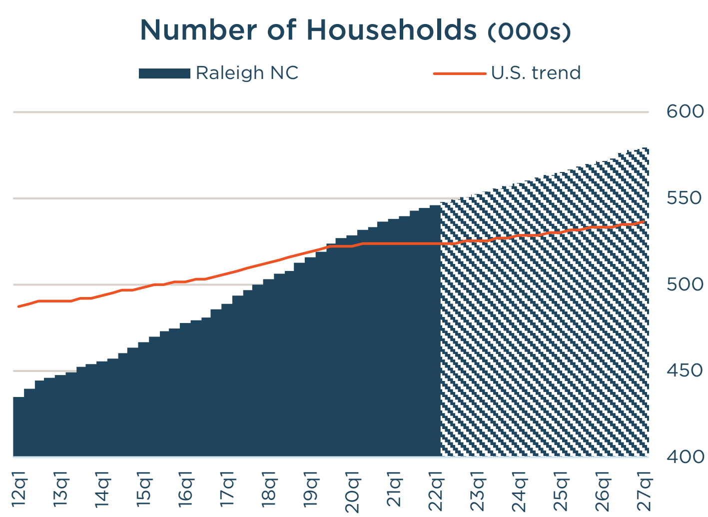
In terms of its attractiveness as a rental housing market, Raleigh can perhaps best be described as a somewhat smaller and much more affordable version of Austin or Nashville.

MIDDLEBURG'S RANK #6 AMONG 15 LARGEST METROS

Raleigh has a diverse economic base and an uncommonly high-education, high-income population—a characteristic that it is likely to retain given its reputation as "the low-cost tech hub" and decisions by a large number of tech and life-sciences companies such as IBM, GlaxoSmithKline, and SAS to expand their operations here. Oxford Economics forecasts above-average growth in Raleigh over the next five years for all three key apartment demand drivers with its young adult population growing by 0.7 percent per year, its **Number of Households** by 1.2 percent per year, and its **Total Employment** by 1.3 percent per year.

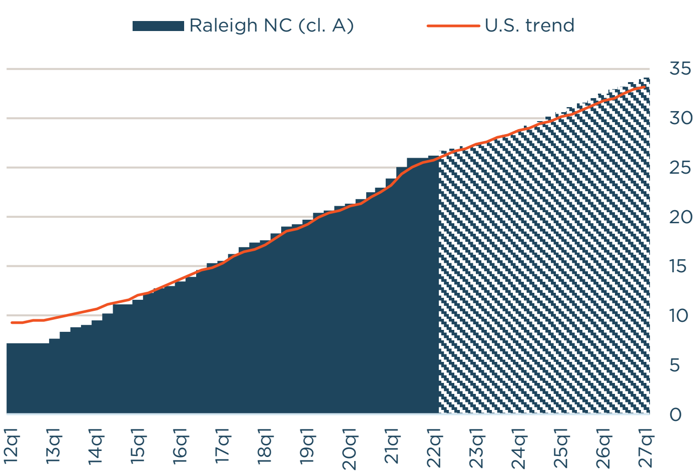
Homebuyer affordability should worsen only slightly in Raleigh over the next five years, with house prices slightly outpacing the national average (3.8 percent per year vs 3.6 percent) while median household income growth matches the national average. Even without an affordability driver, the strong demographic trends are likely to drive equally strong demand for rental housing: CoStar expects **Demand** for rental housing units to expand by eight thousand over the next five years at 6.4 percent per year. Growth in **Effective Rent per Unit** should also slightly outpace the rest of Middleburg's territory at 3.6 percent per year, helped in part by **Construction and Deliveries** that have been persistently reasonable over the past seven years. Raleigh has become a darling of investors with a prevailing cap rate about 94 basis points below the national average, making it very appealing for new development.



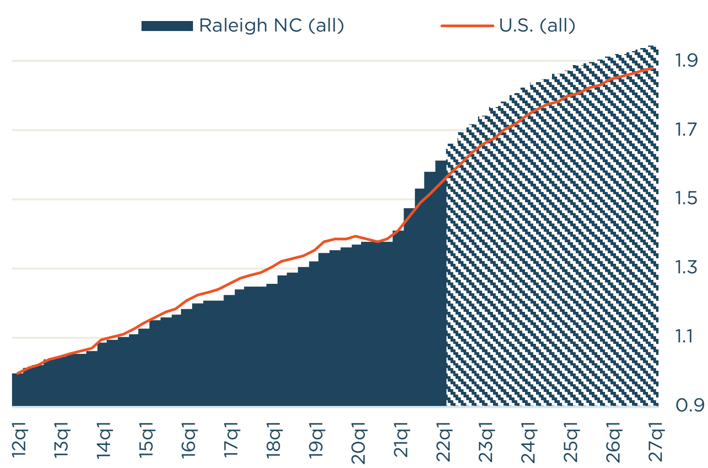


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
28,062	2,549	$302,116	$636 million
↑ 2.7%	↑ 4%	↑ 2.3%	↓ 31%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
24.0%	$90,480	4.7%	-94 bps
↓ 0.7%	↑ 1.5%	↑ 0.3%	below US avg

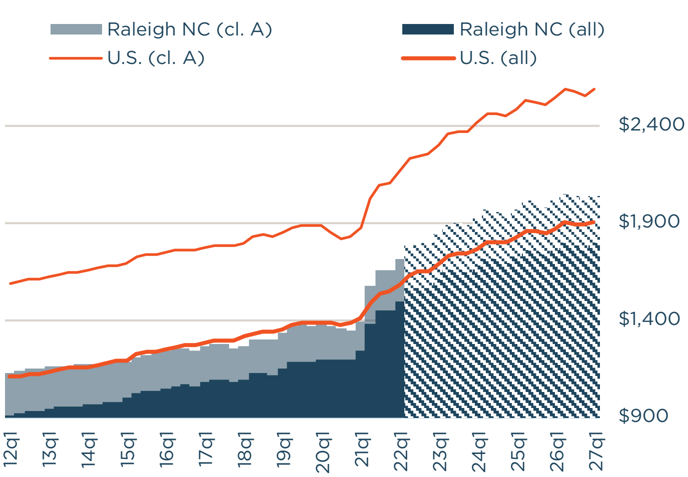
Units in Demand (000s)



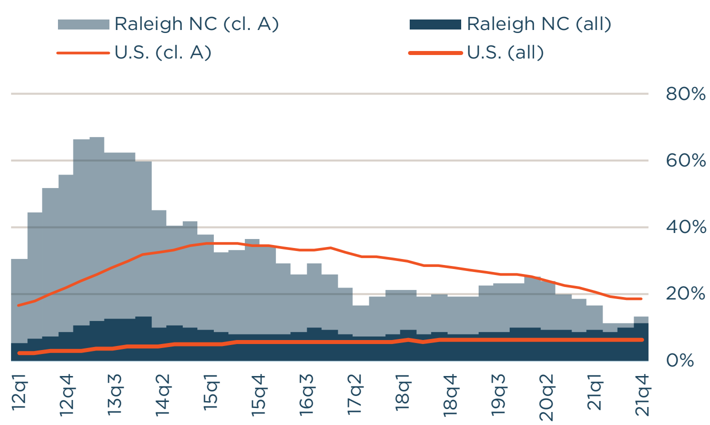
Net Operating Income (2011q4=1.0)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory



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

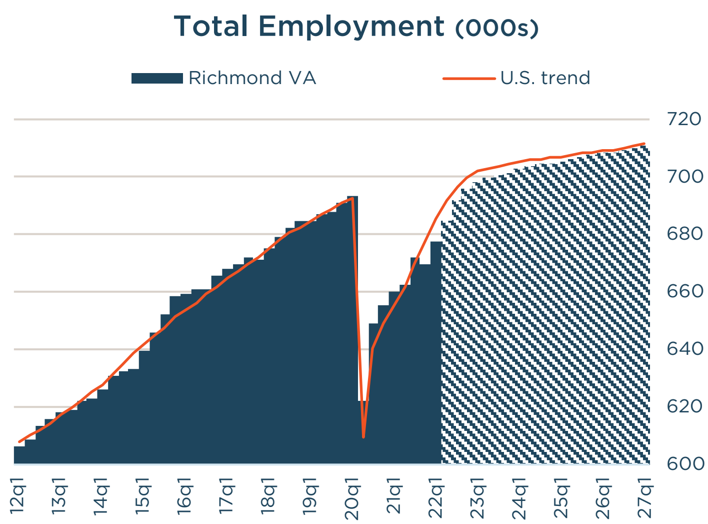
Richmond, VA

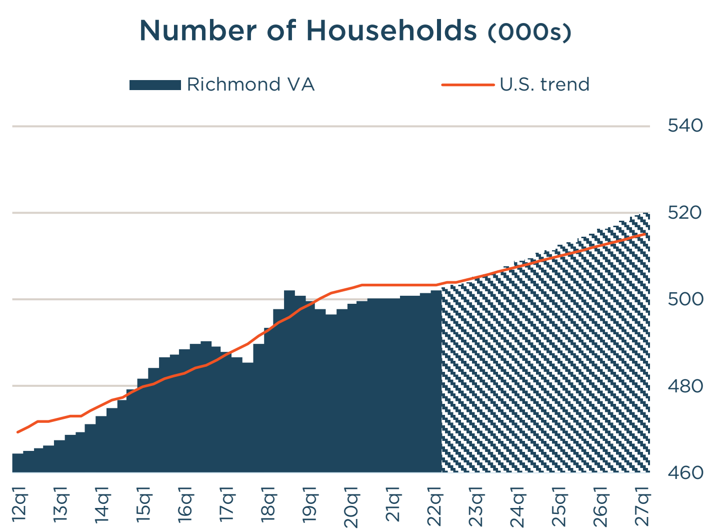
Richmond has successfully shed its over-reliance on the tobacco industry and transformed itself into a diversified regional hub with particular strength in financial services.

MIDDLEBURG'S RANK #15 AMONG 15 LARGEST METROS

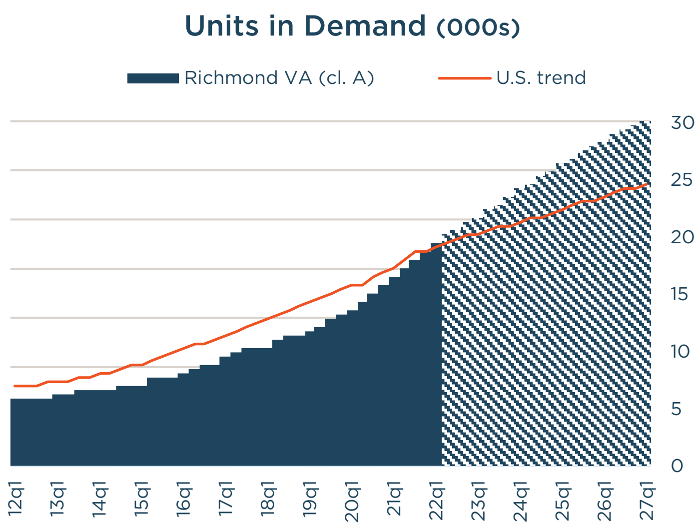
Growth in young adult population, **Number of Households**, and **Total Employment** are expected to slightly outpace other metro areas in Middleburg's arc over the next five years at 0.3, 0.7, and 1.0 percent per year respectively, implying two thousand additional young adults as well as 18 thousand new households and 33 thousand new jobs. Homeowner affordability, however, is not anticipated to be a significant driver of rental housing demand, with house prices expected to grow at an anemic 2.6 percent per year, falling short of median household income growth of 3.1 percent per year.

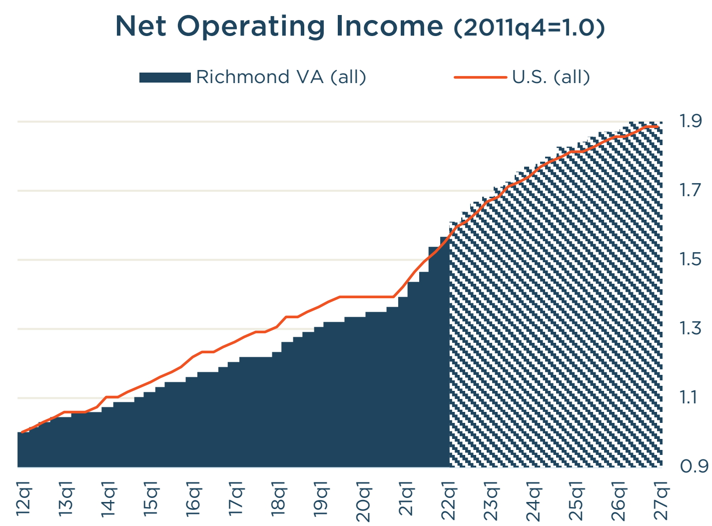
The demographic drivers should be enough to push growth in **Units in Demand** by 11 thousand units over the next five years at a pace of 6.4 percent per year, comfortably above average for Middleburg's part of the country, while **Effective Rent per Unit** and **Net Operating Income** are expected to grow at slightly-above-average paces of 3.4 and 3.9 percent per year respectively. One of the most appealing aspects of the Richmond housing market for investors, though, is that it simply hasn't yet been discovered by institutional investors: cap rates have tended to be about 73 basis points above the national average, a property value discount that doesn't seem to be justified by its market conditions and that therefore may signal abnormal appreciation over the coming years.

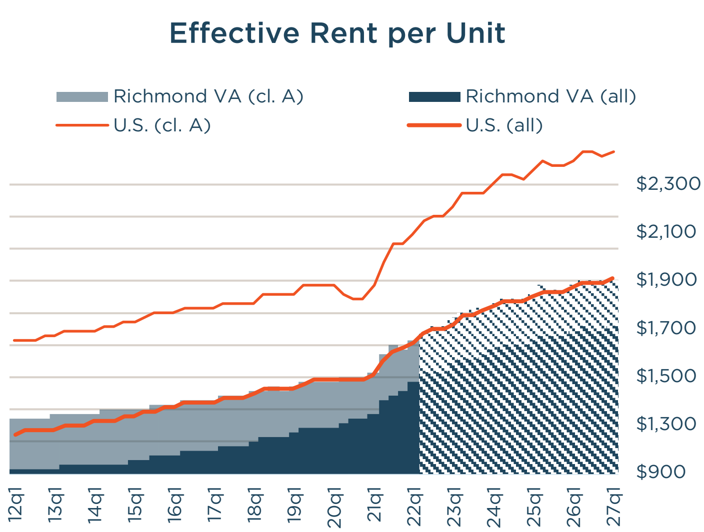


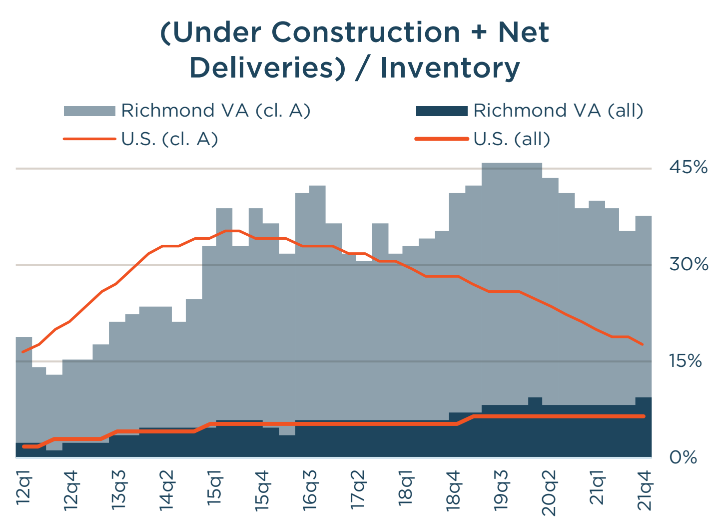


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
21,016	4,956	$255,784	$178 million
↑ 2.3%	↑ 21%	↑ 2.9%	↓ 78%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
15.9%	$75,560	3.5%	+73 bps
↑ 0.4%	↑ 1.6%	↓ 0.4%	above US avg









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

ALSO ON OUR RADAR

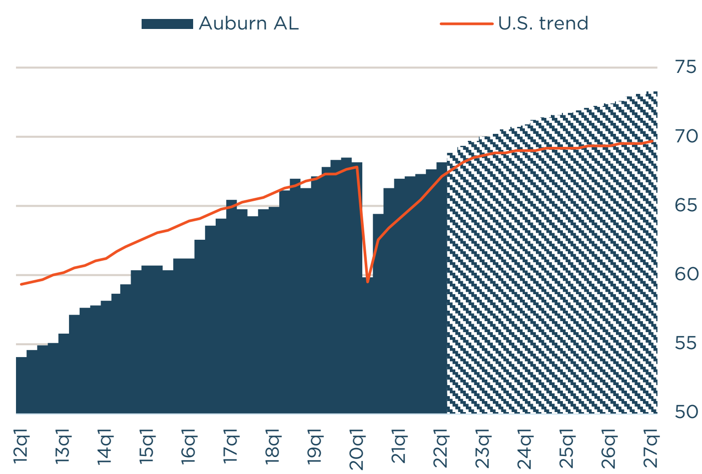
Auburn, AL

With relatively low incomes and rents, Auburn is not an obvious place for development opportunities. It is off the radar for most developers, though, and its predicted growth makes it worth exploring at least for acquisition, if not also development.

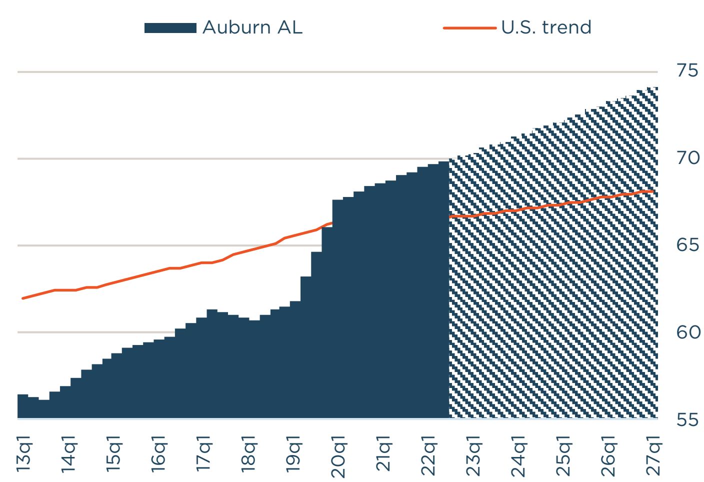
The likely growth of Auburn's rental housing market is real, supported in part by manufacturing, especially for the automotive industry. Oxford Economics forecasts that, over the next five years, the young adult population in this university town will expand by 0.7 percent per year, comfortably above the average for metro areas in Middleburg's part of the country. Growth in both the **Number of Households** and **Total Employment**, however, will be even stronger at 1.2 and 1.4 percent per year, respectively. And, although housing is not particularly expensive in Auburn, expected growth in house prices at 4.1 percent per year should put pressure on median household incomes growing at just 2.9 percent per year.

The demographic forces are likely to provide some boost to the rental housing market, with CoStar forecasting about-average growth of **Demand** at 4.6 percent per year but slightly-above-average growth in **Effective Rent per Unit** and **Net Operating Income** at 3.8 and 4.0 percent per year respectively. With an average Class A effective rent of just $1,122 it will be difficult to see Auburn as an appealing market for development, but with prevailing cap rates around 129 basis points above the national average it may well be an attractive market for property acquisitions.

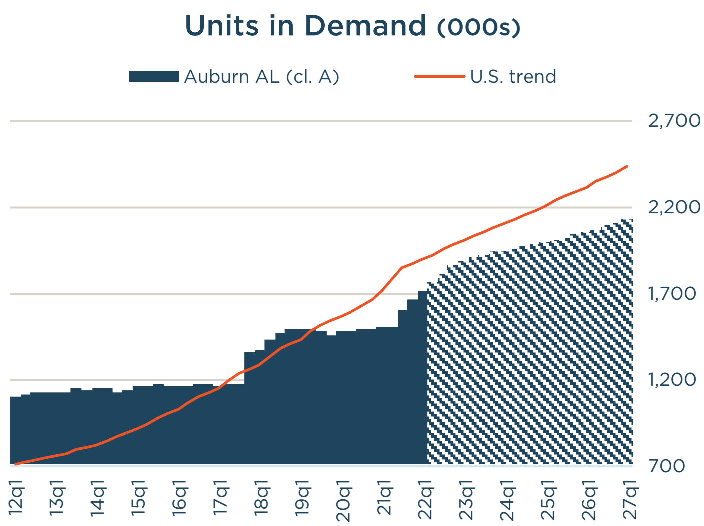
Total Employment (000s)

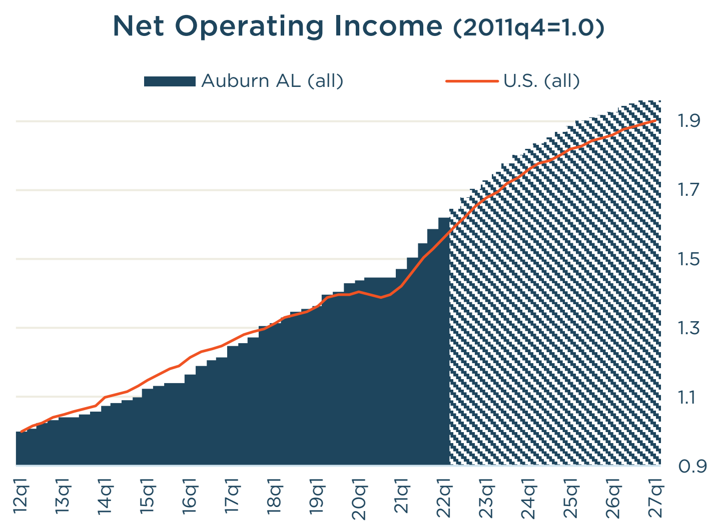


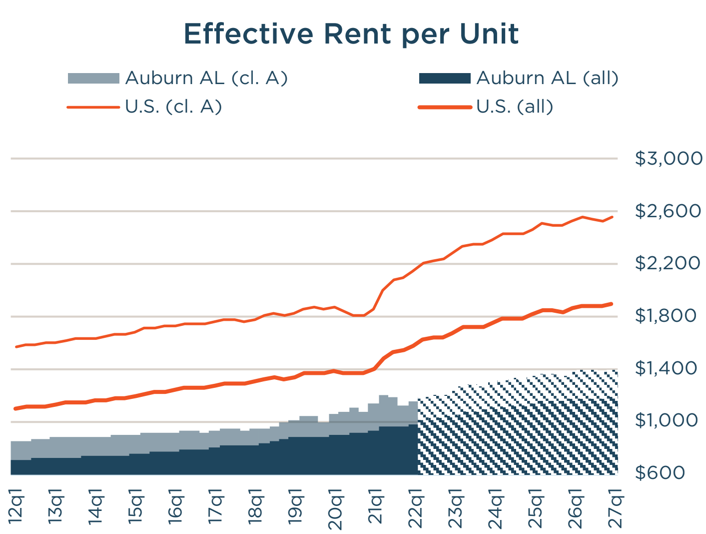
Number of Households (000s)



CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
1,778	0	$169,275	0
↑ 2.6%	--	↑ 1.5%	--
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
16.1%	$57,920	3.0%	+129 bps
↑ 1.1%	↑ 2.0%	↓ 1.8%	above US avg







Representative large employers: Auburn University, Mando America, Baxter Healthcare, Briggs & Stratton

ALSO ON OUR RADAR

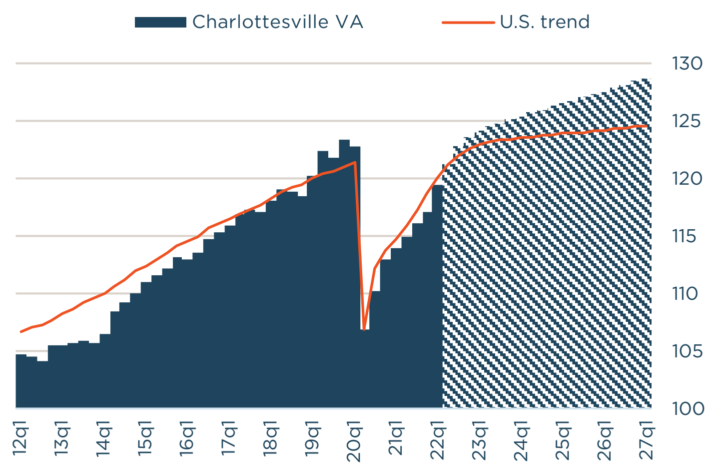
Charlottesville, VA

Charlottesville's housing market differs from that of its university-town cousin Auburn primarily by its much higher incomes, house prices and rents, and therefore bears attention for possible development opportunities as well as acquisitions.

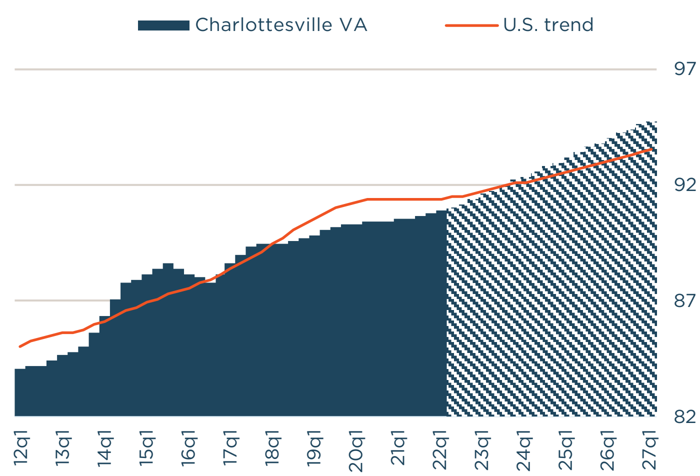
Growth in the underlying demographic drivers of rental housing demand in Charlottesville is expected to be comparable to the growth in Auburn, though perhaps not quite as strong. Oxford Economics expects **Total Employment** in Charlottesville to grow by 1.5 percent per year in Charlottesville (slightly ahead of Auburn's 1.4 percent pace). Growth in the **Number of Households** the the young adult population will be slightly slower at 0.9 and 0.3 percent per year respectively (compared with 1.2 and 0.7 for Auburn), but both numbers are still above average for metro areas in Middleburg's territory. Moreover, Charlottesville is forecast to see lower house price appreciation (3.0 percent per year versus 4.1) and higher median income growth (3.3 percent per year versus 2.9), meaning that the house-price-to-income ratio is forecast actually to ease in Charlottesville over the next five years.

Nevertheless, CoStar predicts that rental housing **Demand** in Charlottesville is likely to grow at a very robust pace averaging 9.2 percent per year—making up for five years of decidedly languid growth preceding the covid pandemic. Growth in **Effective Rent per Class A Unit** is expected to be relatively slow at just 2.8 percent per year—but at $1,815 per unit it already compares favorably not just to Auburn ($1,152) but also to many other metro areas in Middleburg's part of the country, including nearby Richmond ($1,583). And the current stabilized vacancy rate on Class A properties in Charlottesville is extraordinarily low at just 1.4 percent.

Total Employment (000s)

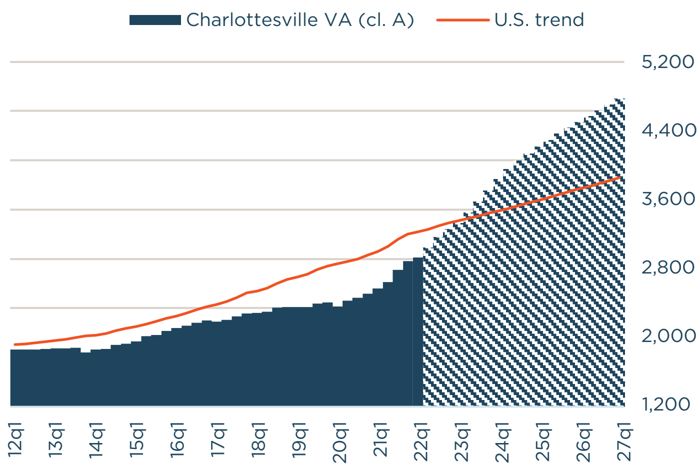


Number of Households (000s)

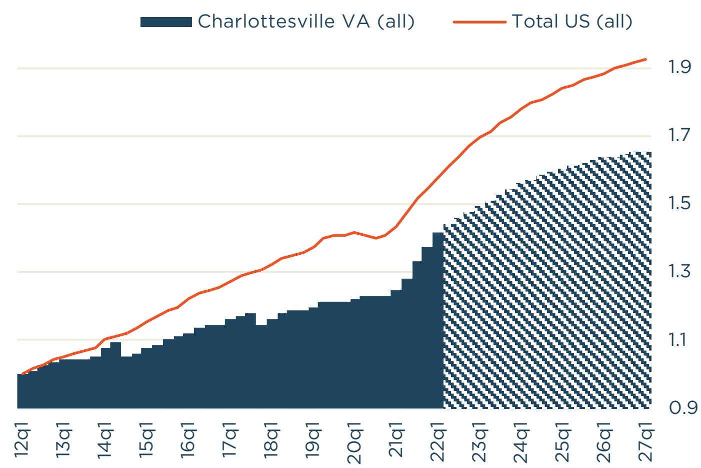


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
3,304	500	$271,118	0
↑ 2.9%	↓ 47%	↑ 2.9%	--
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
14.5%	$83,080	1.4%	+60 bps
↑ 0.8%	↑ 1.7%	↓ 0.1%	above US avg

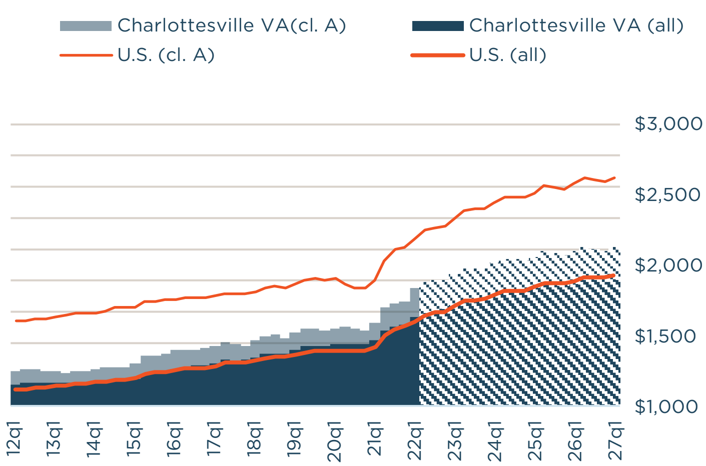
Units in Demand (000s)



Net Operating Income (2011q4=1.0)



Effective Rent per Unit



Representative large employers: University of Virginia, Sentara Healthcare, State Farm Mutual Auto Insurance, Worldstrides, Defense Intelligence Agency

ALSO ON OUR RADAR

Clarksville, TN

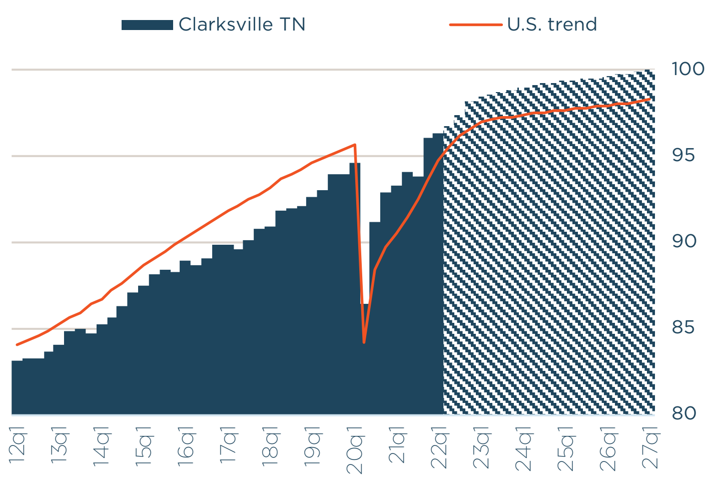
Previously recognized primarily as the home of the 101st Airborne Division based at nearby Fort Campbell, Clarksville has seen growth rivaled only by Nashville among metro areas in Tennessee, driven increasingly by nondefense employers.

Growth in the primary drivers of rental housing demand is expected to remain well above average over the next five years: Oxford Economics forecasts that Clarksville will see annual growth averaging 1.1 percent in its young adult population, 1.3 percent in the **Number of Households**, and 1.0 percent in **Total Employment**. House prices are also expected to increase at a slightly-above-average pace of 3.7 percent per year, which should put pressure on owner-affordability as growth in median household incomes is expected to lag at just 2.7 percent per year.

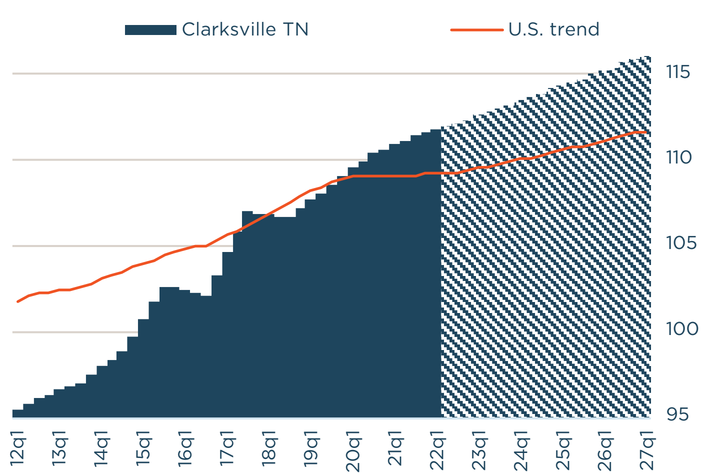
As a result, CoStar forecasts that **Demand** for rental housing units will increase at an above-average pace of 8.0 percent per year, and that growth in Class A **Effective Rent per Unit** will be higher than in any other metro area in Middleburg's part of the country at 4.3 percent per year. **Net Operating Income** and property value appreciation are also expected to see well-above-average growth at 4.3 and 3.5 percent per year respectively.

As in Auburn, with a current average Class A effective rent of just $1,260 it will be difficult to see Clarksville as an appealing market for development, but with prevailing cap rates around 202 basis points above the national average it does seem to be an attractive property acquisition opportunity.

Total Employment (000s)

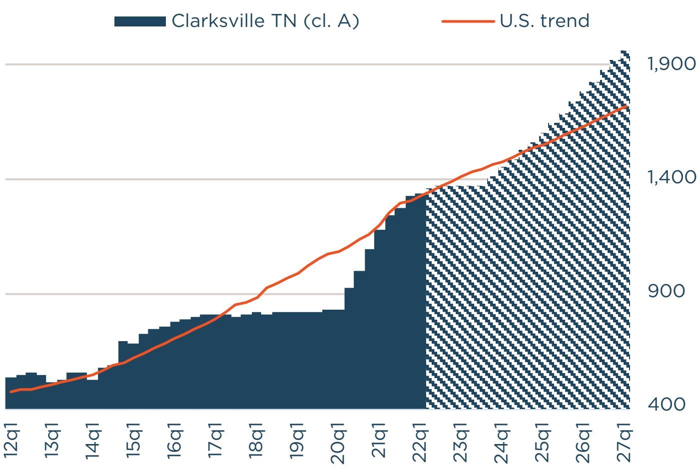


Number of Households (000s)

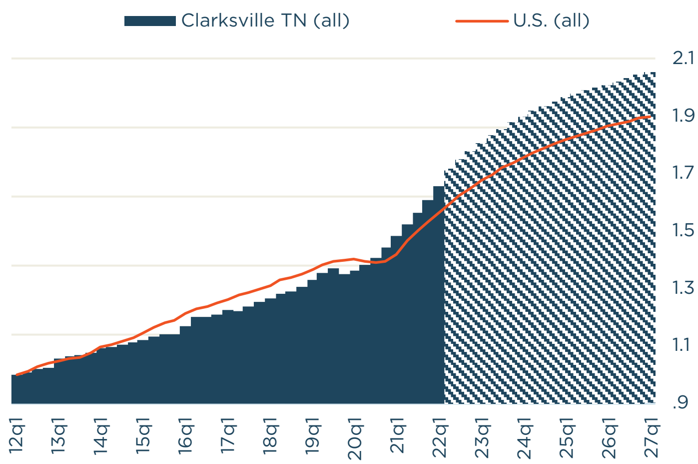


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
1,344	130	$154,827	0
↑ 1.4%	no change	↑ 3.1%	--
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
22.5%	$60,800	2.9%	+202 bps
↓ 0.9%	↑ 1.7%	↓ 0.3%	above US avg

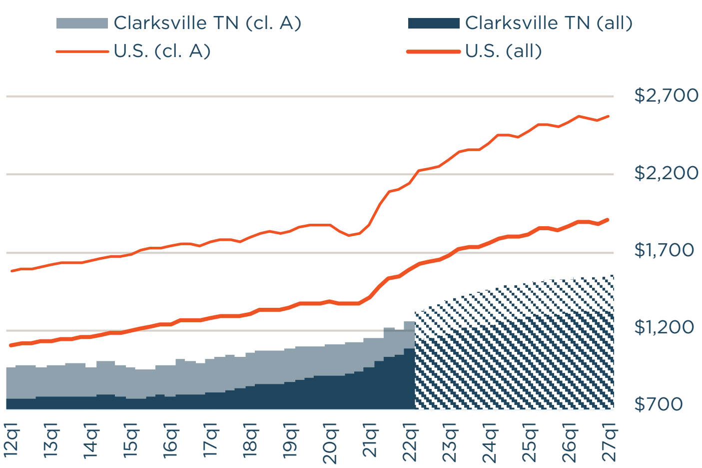
Units in Demand (000s)



Net Operating Income (2011q4=1.0)



Effective Rent per Unit



Representative large employers: Trane, Tennova Healthcare, Hankook Tire Manufacturing, Jostens, Fort Campbell

ALSO ON OUR RADAR

Port St. Lucie, FL

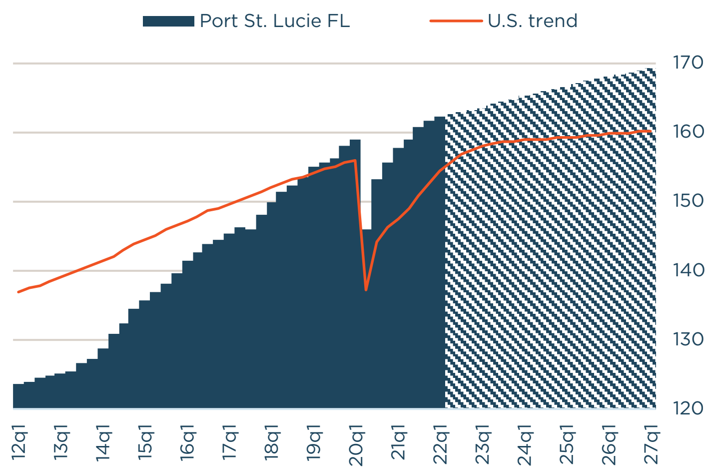
Port St. Lucie's housing market increasingly resembles its southern neighbor Palm Beach, but its economy and demographics better fit Middleburg's focus on middle-market renter households.

Rental housing demand is not going to be driven in Port St. Lucie by the young adult population, which is expected to grow over the next five years at a disappointing rate of 0.1 percent per year, slightly below average for Middleburg's part of the country (though higher than the national pace, which is expected to be negative). Nor will it be supported by growth in median household income, which is expected to lag behind every other metro in Middleburg's arc at just 2.3 percent per year (mirroring Palm Beach). Perhaps surprisingly, however, Oxford Economics forecasts that the **Number of Households** will grow at a well-above-average pace of 1.3 percent per year while growth in **Total Employment** will also be slightly better than average at 0.9 percent per year.

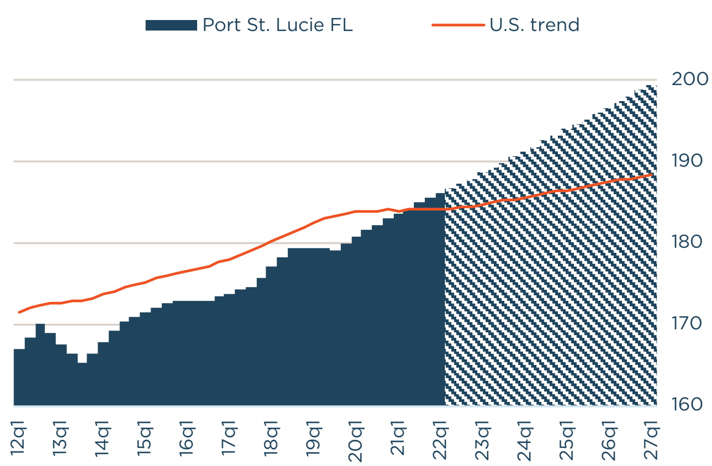
Moreover, the forecast for poor growth in median household incomes—a product primarily of Port St. Lucie's proximity to other retirement destinations—means that worsening home-ownership affordability is likely to provide an additional stimulus to rental housing **Demand**, which CoStar forecasts to grow at 5.4 percent per year, slightly above average for Middleburg's part of the country after a long period of languid growth.

Low prevailing cap rates—almost a full percentage point below the U.S. average for Class A properties—provide an additional reason to look closely at development opportunities in the area. In the end, however, Port St. Lucie's increasing transformation into a retirement destination make it unlikely to be of primary interest to Middleburg.

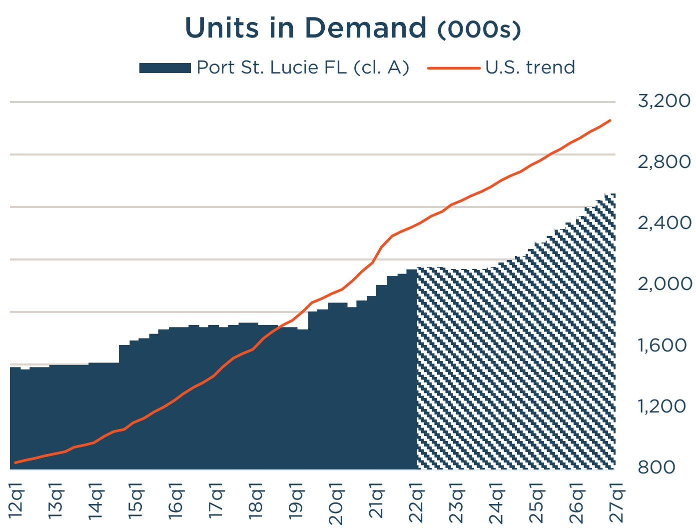
Total Employment (000s)

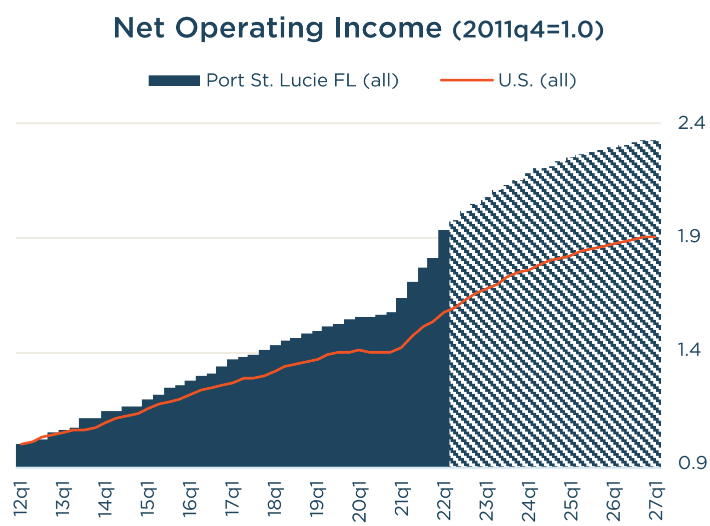


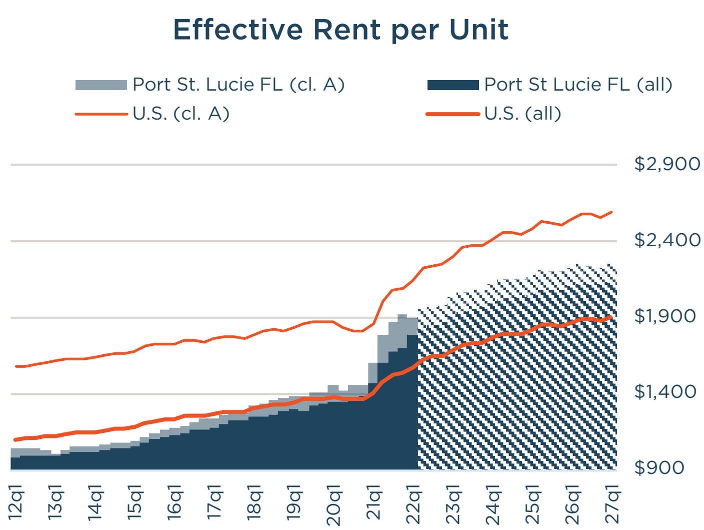
Number of Households (000s)



CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
2,107	0	$276,703	$284 million
↑ 1.2%	--	↑ 13.5%	--
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
28.3%	$68,440	3.3%	-98 bps
↓ 0.2%	↑ 1.2%	↑ 0.3%	below US avg







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

ALSO ON OUR RADAR

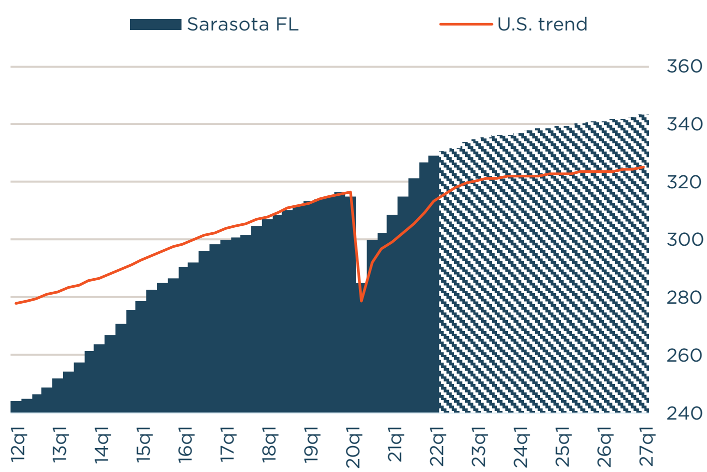
Sarasota, FL

The Sarasota metro area has grown strongly in recent years, supported by surprisingly diverse economic drivers and cultural amenities. Although that growth is forecast to continue, a significant share is likely to reflect its appeal as an alternative to other retirement destinations.

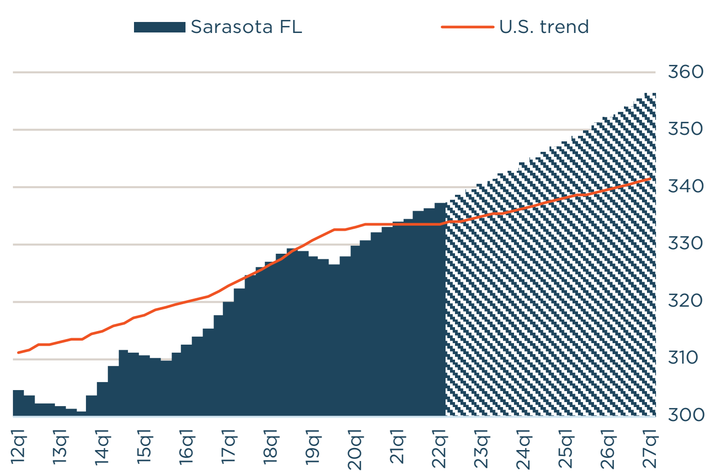
Oxford Economics forecasts that the **Number of Households** will grow at 1.1 percent per year over the next five years, comfortably above average for metro areas in Middleburg's part of the country, while **Total Employment** will grow at a more moderate but still slightly-above-average pace of 0.9 percent per year. The young adult population, however, is expected to shrink slightly, and growth in median household income is expected to be among the lowest in Middleburg's arc at just 2.4 percent per year, reflecting Sarasota's continued appeal as a retirement destination. The combination of the weak growth in median household income with fairly strong continued growth in house prices (3.8 percent per year) means that the **House Price to Income Ratio** is likely to worsen more than in most other metro areas.

Although CoStar forecasts growth in **Demand** and **Effective Rent per Unit** to lag slightly over the next five years, this is somewhat misleading as both have grown very strongly in recent years and the rental housing market seems likely to remain quite strong. Indeed, CoStar predicts that rental property appreciation in Sarasota will outpace every other metro area except Atlanta at 3.5 percent per year. This appetite for rental housing properties in Sarasota is reflected by the area's prevailing cap rate, which appears to be the lowest of any metro area in Middleburg's part of the country at more than two full percentage points below the national average.

Total Employment (000s)



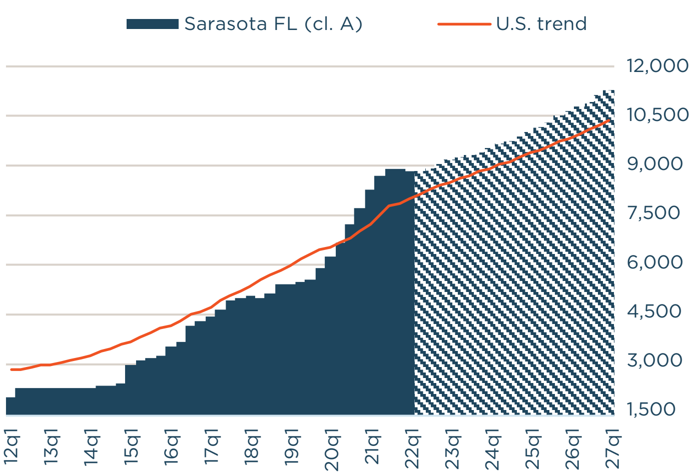
Number of Households (000s)



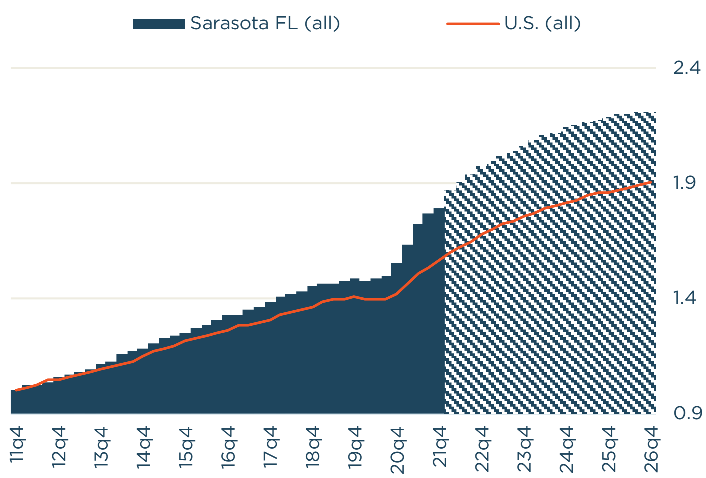
CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
8,849	563	$325,381	0
↓ 0.8%	↑ 45%	↑ 0.8%	--

12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
30.7%	$72,840	3.9%	-213 bps
↑ 1.5%	↑ 1.4%	↑ 0.7%	below US avg

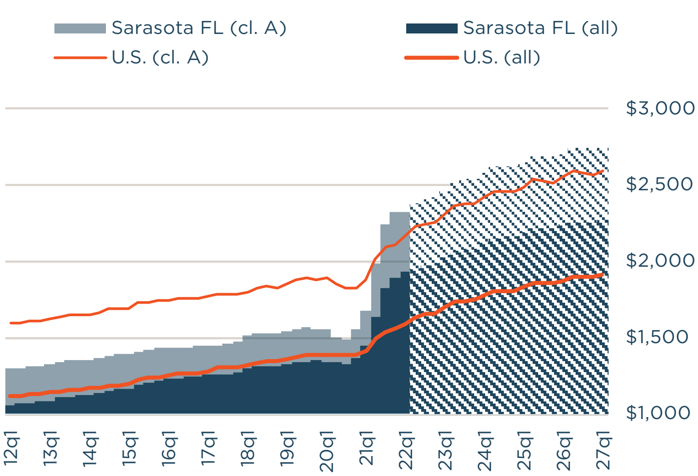
Units in Demand (000s)



Net Operating Income (2011q4=1.0)



Effective Rent per Unit



Representative large employers: PGT Innovations, Helios Technologies, Sun Hydraulics, Ringling College of Art & Design, IMG Academy