



MIDDLEBURG
COMMUNITIES

Middleburg Markets Report

Q2
2022



Middleburg Communities is pleased to present our Middleburg Markets Report for the 2nd 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.

With this report we are proud to introduce a contributing author, Middleburg's new Director of Research. Mitch Bollinger, MBA, CFA, CAIA has earned a reputation within the real estate industry for providing deeply insightful research informed by his experience as an asset manager and real estate fund manager, including his role as Head of Research for Courtland Partners and its acquirer, StepStone Real Estate.

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



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CHIEF INVESTMENT OFFICER

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Introduction

The 2nd Quarter of 2022 continued the theme that had also characterized the first quarter: a pronounced “uncertainty imbalance” between the forces causing turmoil in overall global and national macroeconomic conditions and the comparative surety of strong rental housing demand in Middleburg’s markets.

Indeed, it makes sense to talk of 2022H1, since there was so little to differentiate the first and second quarters of the year. Ukraine still suffers from the plodding and brutal invasion that began in February, disrupting commodity markets and threatening famine. The stock market continues the slide that began on the second trading day of the year, weighing down capital markets. Real GDP growth in the U.S. seems likely to post its second consecutive negative quarter—a recessionary false front on what remain strong underlying economic conditions. And persistently high price inflation has continued to force the Federal Reserve toward aggressive interest rate hikes.

Yet demand conditions in the rental housing market continue to be uncommonly strong, especially in Middleburg’s Virginia-to-Texas arc. We begin this 2022Q2 Middleburg Markets Report by diving more deeply into the uncertainty imbalance, then update our discussion of conditions in the 15 largest housing markets in “our” part of the country. As always, we also highlight five more in a rotating set of smaller markets, this time Asheville NC, Athens GA, Lakeland FL, Northern Virginia, and Tuscaloosa AL.



Mosby Ingleside, Charleston, SC



Table of Contents

U.S. Overview	5
Dallas / Fort Worth, TX	13
Houston, TX	15
Atlanta, GA	17
Tampa, FL	19
Charlotte, NC	21
Orlando, FL	23
Miami, FL	25
Austin, TX	27
San Antonio, TX	29
Nashville, TN	31
Fort Lauderdale, FL	33
Jacksonville, FL	35
Palm Beach, FL	37
Raleigh, NC	39
Richmond, VA	41

ALSO ON OUR RADAR

Asheville, NC	43
Athens, GA	45
Lakeland, FL	47
Northern, VA	49
Tuscaloosa, AL	51

U.S. Overview

Head fakes: a sports metaphor that serves well to summarize the macroeconomic situation underlying rental housing markets in the second quarter.

Macroeconomic head fakes have been more of a plague than a nuisance since the start of the covid pandemic. One of the reasons is because multiple and varied disruptions in the normal operations of trading systems have made it difficult to interpret the importance of new data. For example, total vehicle sales declined by 32 percent over a period of five months, from 18.8 million in April 2021 to 12.7 million in September 2021. Ordinarily such a precipitous decline in vehicle sales would be evidence that households are extraordinarily concerned about their ability to take on a car payment obligation, signaling a catastrophic recession (as in November 2007, when vehicle sales started a 44 percent decline that played out through February 2009). This time, though, the drop had everything to do with supply-chain disruption and nothing to do with demand, as the inventory-to-sales ratio at auto dealers plummeted from its normal level of 2 or 3 to less than 0.4.

Continuing supply-chain disruptions in car sales have made it more difficult than usual to evaluate whether the three pillars of the macroeconomic situation—personal consumption along with employment and income growth—remain healthy. A typical business headline on June 15 was “U.S. retail sales stumble as inflation bites,” since the Census Bureau’s Advance Retail Trade Report that morning showed a decline of 0.1 percent in total retail sales, equivalent to -1.5 percent on an annualized basis. Not counting motor vehicles and parts, however, retail sales had actually expanded by a very healthy 0.6 percent (7.0 percent annualized), painting a much more positive picture of consumption growth.

Other head fakes have resulted from the normally benign and helpful statistical process of seasonal adjustments. In September 2021, total employment in state government education increased by 15.0 percent from the month before. At the start of a normal school year, however, state government education employment would be expected to increase by about 14.9 percent—and, as a result of this correction for normal seasonality, the employment figure was reported as a seasonally-adjusted increase of just 0.1 percent, a significant reason that the overall growth in employment was described as disappointing at just 0.3 percent that month.

A recession involves a significant decline in economic activity that is spread across the economy and lasts more than a few months.

Seasonal adjustments go both ways, of course. In June of this year state government education employment declined by 9.4 percent—but of course that’s normal for the end of a school year, so the seasonally adjusted figure was quoted as +0.2 percent, contributing to what was described (accurately) as unexpectedly healthy growth in overall employment.

Year-to-year changes are not subject to seasonal-adjustment head fakes, and the 4.2 percent growth in total nonfarm employment over the past year has been uncommonly strong by historical standards—but that merely highlights another type of head fake, since it reflects the tremendous loss of jobs

during the earlier part of the covid pandemic. Over the past three years (since June 2019) nationwide employment has grown at just 0.2 percent per year, uncommonly weak by historical standards, perhaps reflecting that strong employment growth still lies ahead if the labor force participation rate continues to expand. (Middleburg's region of the country has grown much more robustly than the rest of the country over the past three years at 1.1 percent per year.)

In such a disrupted environment, there's no reason to believe that data can't be trusted—but there is every reason to recognize that interpreting the data correctly requires deeper investigation than usual. What are the defenses against head fakes? Whether in basketball or in real estate, there are three: vision, balance, and discipline. Don't watch the head, or the headlines: look instead at the underlying foundation. Don't lunge at what seems like an opportunity: protect instead against the worst that can happen. Follow the game plan, based on what has worked well in a full range of other game situations.

ARE WE ALREADY IN A RECESSION?

A June 30 article from a widely-read source of business news started with this statement: "The Federal Reserve's key real-time model for tracking U.S. economic activity has turned negative, signaling that the nation could already have entered a recession." That "key real-time model" is GDPNow, a tool published by the Atlanta Fed that continually uses key data releases to predict GDP for that quarter (until roughly four weeks after the end of the quarter, when the Bureau of Economic Analysis releases its official estimate). As of July 15 the updated GDPNow prediction for second-quarter real GDP growth was -1.5 percent.

The last part of the sentence references a common but incorrect supposition: that a recession is defined as two consecutive quarters of negative real GDP growth. The article, for example, described it as "the technical criteria for a recession," noting that the figure for 2022Q1 was -1.6 percent.

Recessions have no "technical criteria" at all. Instead, a select body known as the Business Cycle Dating Committee of the National Bureau of Economic Research (NBER) uses data and, yes, judgment to determine when the economy shifts from an

expansion to a recession and back. The NBER is no casual club: its Affiliated Scholars, selected through a difficult peer-review process, include 38 economists who have been awarded the Nobel Prize as well as 13 who have chaired the President's Council of Economic Advisers.

We simply are not in a recession, technical or otherwise, notwithstanding even two quarters of negative growth in real GDP.

The NBER's Business Cycle Dating Committee focuses on three criteria in determining whether a recession has begun: depth (severity), diffusion (across many regions and industries), and duration. In particular, the NBER says, a recession is marked by

a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales.

Three types of economic activity are more important than all others. The first is employment: the simple fact that people have something to do for which somebody else has shown a willingness to pay. The second is income, which gives people the ability to buy goods and services. And the third is consumption (or sales): their demonstrated willingness actually to use their incomes to buy. Of course the three are closely interdependent and reinforcing, with consumption generating additional employment and increased employment supporting higher income growth.

The fact that all three pillars of macroeconomic strength remain firm means that we simply are not in a recession, technical or otherwise, even if the Bureau of Economic Analysis ends up reporting two quarters of negative growth in real GDP.

For example, the GDP contraction in the first quarter of this year provided no indication of any "significant decline in economic activity." In fact, almost the sole reason for the decline in real GDP growth was a surge in imports with no corresponding surge in exports. While a severe deterioration in the balance of trade can lead to a weakening economy, its cause is typically much more sanguine: it simply reveals that

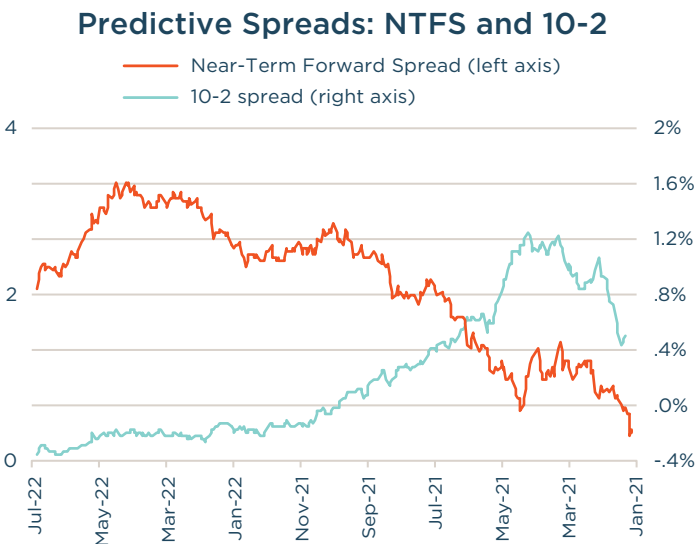
what Americans are buying from other countries (because employment, income, and consumption conditions are strong for Americans) exceed what other countries are buying from Americans (perhaps because their macro conditions are not as strong as ours).

The NBER's discussion mentions a fourth important type of economic activity: industrial production. In fact, the largest adjustments in the Atlanta Fed's GDPNow prediction for 2nd-quarter real GDP growth came in this category on July 1, when the Census Bureau's Value of Construction Put in Place Survey reported a decline of -0.4 percent in the value of construction activity during May on nonresidential structures.

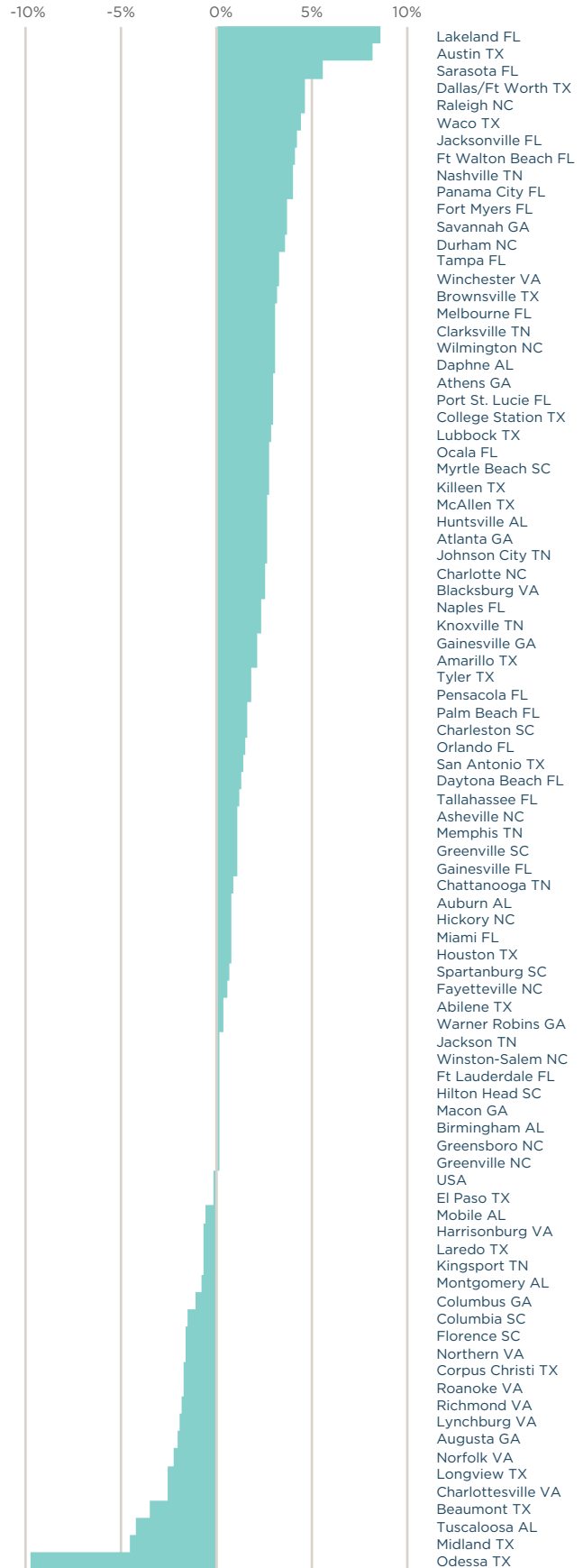
As with so many other statistics, though, it seems as though the July 1 report may prove to have been a head fake, caused either by supply disruptions or by inappropriate seasonal adjustments. Indeed, the data showed that nonresidential construction activity during May actually increased in value by +1.6 percent, before the seasonal adjustment pulled it negative.

A different data source has also generated significant discussion as a sign of impending recession: the yield curve has inverted. For example, the widely cited 10-2 spread—that is, the difference in market yields between U.S. Treasury securities with 10-year and two-year maturities—has closed below zero on every market trading day since the 4th of July holiday.

While commentators attribute significant predictive power to the 10-2 spread, the decidedly mixed empirical track record



Employment Growth Pre-Covid to Now



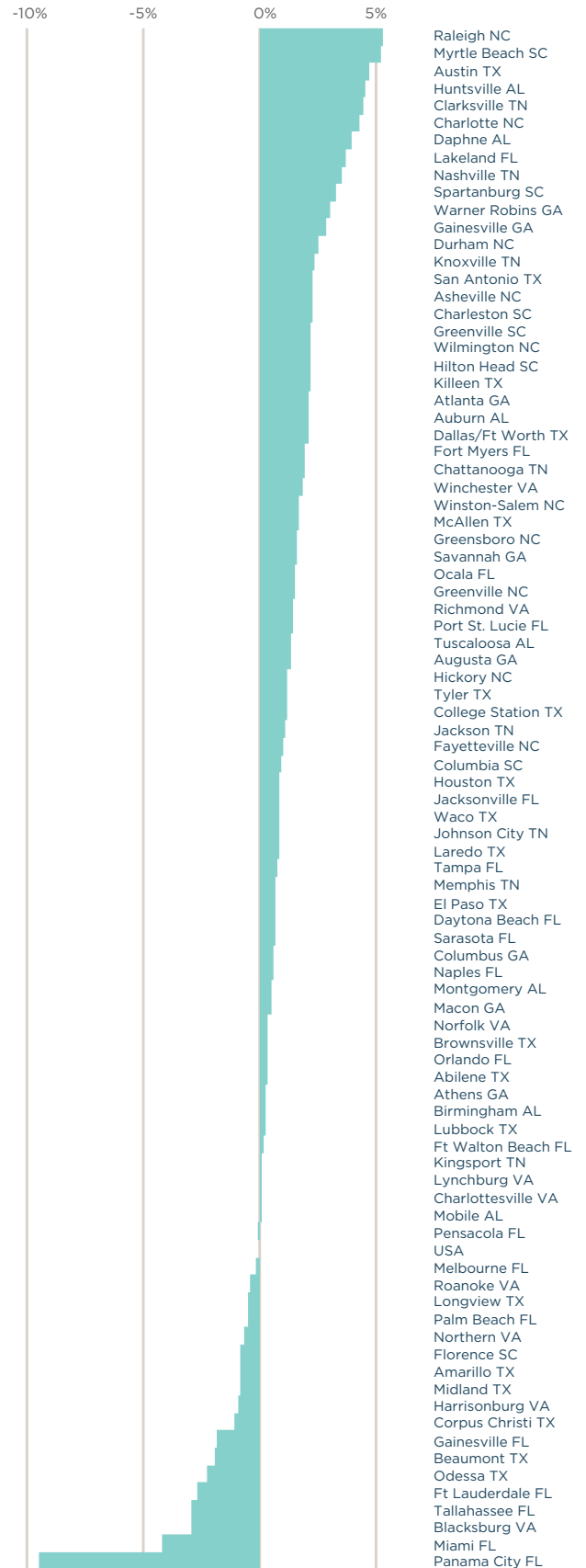
of it and other “long-term spreads” have prompted several attempts to identify data that show better empirical reliability and are more securely grounded in economic principles. Federal Reserve economists Eric Engstrom and Steven Sharpe showed empirically in 2018—and reiterated this year—that

measures of a “long-term spread”—the spread in yields between a far-off maturity such as 10 years and a shorter maturity such as 1 or 2 years—are statistically dominated by a more economically intuitive alternative, a “near-term forward spread.” This spread can be interpreted as a measure of the market’s expectations for the direction of conventional near-term monetary policy. When negative, it indicates the market expects monetary policy to ease, reflecting market expectations that policy will respond to the likelihood or onset of a recession.

The near-term forward spread (NTFS) was very close to zero at the beginning of 2021, then climbed rapidly from August 2021 as market participants sensed that the FOMC would raise policy interest rates sharply. It peaked at a value of +2.7 in early April of this year, at exactly the same time that the 10-2 spread moved briefly negative. Going back to 1990, the only other times when the NTFS reached such a high value were in 1992, 1994, and 2002—roughly nine years, seven years, and six years, respectively, before the onset of the next recession. In other words, such strong readings on the NTFS have, historically, suggested quite a long time before the next recession begins.

Since early April the NTFS has moved sharply lower, indicating a sharp decline in the predicted likelihood that the Federal Open Market Committee would continue to raise interest rates. At +1.4, however, it remains higher than 78 percent of historical values, and far from the negative value that would imply a prediction of “the likelihood or onset of a recession.” In short, while the decline in the NTFS reflects market sentiment that much of the current rising-rate environment is likely behind us, it currently provides little indication of a coming recession or rate cut.

Young Adult Population Growth
Pre-Covid to Now



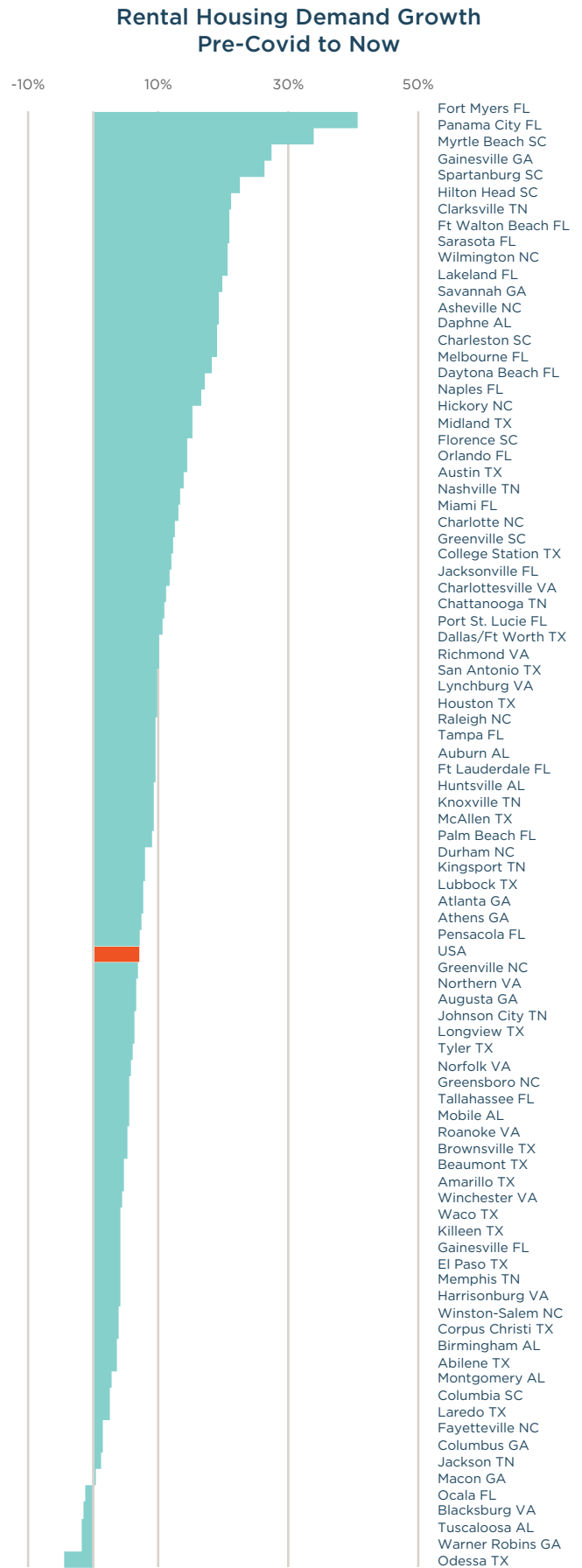
DEMAND CONDITIONS

The most fundamental strategic decision that we at Middleburg have made is to maintain our focus primarily on metro areas in our eight states: Alabama, Florida, Georgia, North Carolina, South Carolina, Tennessee, Texas, and Virginia. We believe that those states offer significant advantages over many other parts of the country. The first is that major employers have taken advantage of the favorable business environment in our region to move or expand operations in the Southeast, providing a strong base of **Employment Growth**. While the country as a whole has not quite recovered the full number of jobs lost during the covid pandemic, three-quarters of the 88 largest metro areas in Middleburg’s part of the country now boast higher employment than at their pre-pandemic peak, led by Lakeland FL with a +8.6 percent employment gain.

That shift in employment from other parts of the country has driven growth in population for Middleburg’s metro areas, especially among the young adults (those roughly 25-34 years old) who constitute the foundation of rental housing demand. **Young Adult Population Growth** for the country as a whole has been negative at -0.1 percent since 2020Q1; more than three-quarters of the 88 largest metro areas in Middleburg’s region, however, have seen positive young adult population growth, led by Raleigh at +5.4 percent.

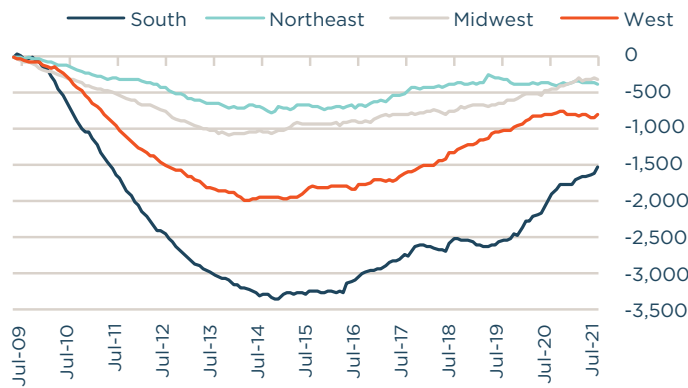
Rental housing demand has also been driven by a nationwide recovery in household formation among individuals who—in some cases because of the covid pandemic, but in many other cases dating back to the 2007-09 housing crisis—had been sharing housing with friends or family members long after they would otherwise have preferred to establish independent living arrangements. As a result of this recovery in household formation, the country as a whole has seen a small +0.2 percent **Growth in the Number of Households** since the pre-pandemic peak. Again, however, demand conditions in Middleburg’s chosen states have outpaced those in the rest of the country: three-quarters of the 88 largest metro areas in our region have exceeded the national rate, led by Myrtle Beach at +6.2 percent.

One additional factor driving demand for new rental housing units has often been overlooked: the ongoing transition from what may be called “casual” rental housing situations—such



as basement apartments; small rental properties with one to four units; or scattered-site, non-professionally-managed single-family rental units—toward the thoughtfully designed, amenitized, professionally managed rental housing communities that are Middleburg’s focus. The combined strength of employment growth, young adult population growth, growth in the number of households, and the shift toward larger, professionally managed communities has resulted in an even more marked increase in demand for units in what may be called “professional” (that is, other than “casual”) rental housing communities. Over the period since the pandemic started in 2020Q1, demand for such units has increased nationwide by

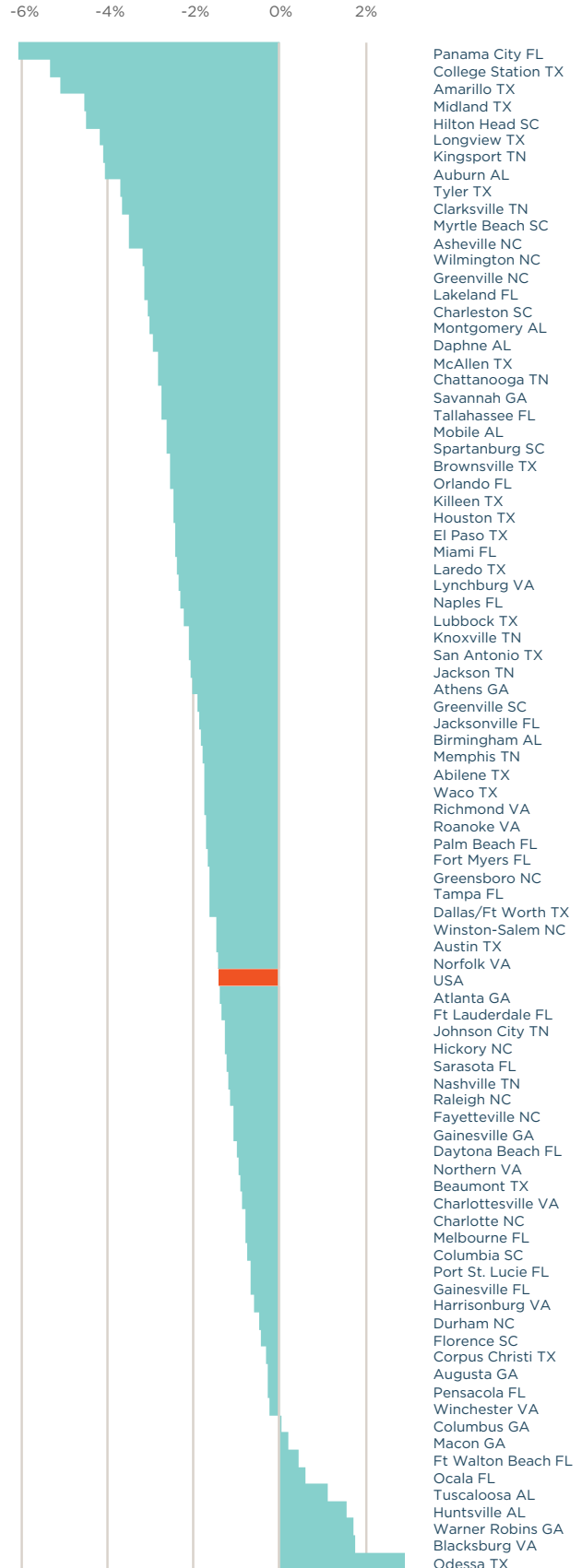
Multifamily Units Completed Relative to Long-Term Trend



7.0 percent, according to CoStar. Almost 60 percent of the 88 largest metro areas in Middleburg’s region, however—including 14 of the 15 largest—have seen **Rental Housing Demand Growth** among “professional” rental housing communities outpace the national average.

Notwithstanding its strong demand fundamentals, the pace of new multifamily housing construction has remained surprisingly moderate. Since the beginning of 1999, the number of housing units completed in the South region, according to the Census Bureau, has averaged 120 per month with no long-term trend. The aftermath of the 2007-09 housing crisis saw housing completions plummet throughout the country, but nowhere more than in the South. By May 2015 there were 3.4 million fewer housing units in the South than there would have been if long-term trends had held up; in fact, the shortage

Change in Vacancy Rates Pre-Covid to Now



of **Multifamily Units Completed** in the South (relative to trend) almost equaled the rest of the country combined: the comparable figures for other regions were 2.0 million in the West, 1.1 million in the Midwest, and 775 thousand in the Northeast.

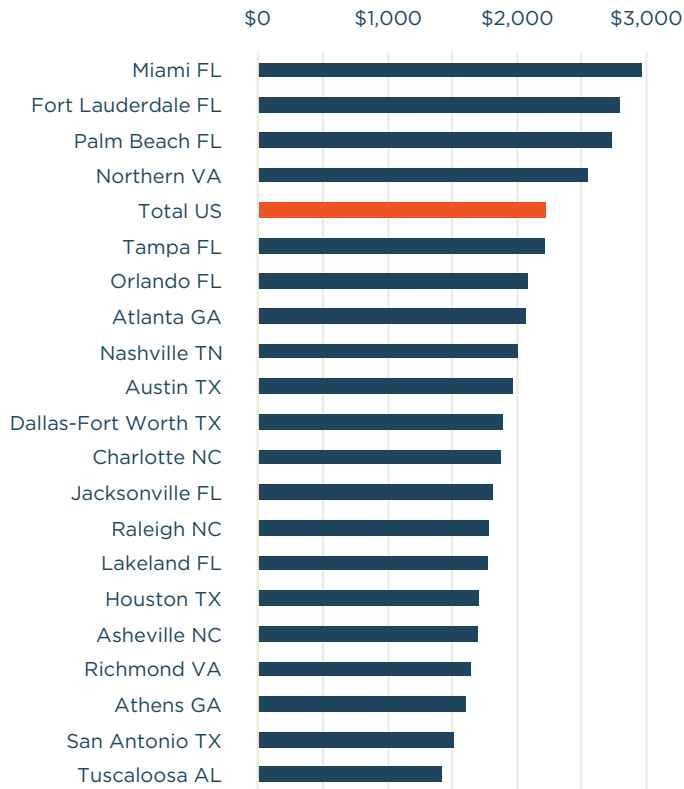
As a result of the sustained shortage in housing construction, the number of housing units nationwide remains far short of the number that would be expected based on long-term trends. Again, however, the shortage of housing units in the South far outstrips the comparable numbers in other regions: there are still some 1.6 million fewer housing units in the South than there would have been under the long-term trend, compared with a remaining shortage of just 825 thousand in the West, 305 thousand in the Midwest, and 360 thousand in the Northeast.

The persistent shortage of new housing construction has suppressed rental vacancy rates throughout the country: in fact, the stabilized vacancy rate was just 4.2 percent in 2022Q2, a full 1.2 percentage points lower than it was just before the pandemic started. Again, though, the housing construction shortfall has been especially pronounced in Middleburg's territory, where 79 of the 88 largest metro areas have seen an overall **Decline in Vacancy Rates** and more than 60 percent have seen a larger decline than the national average.

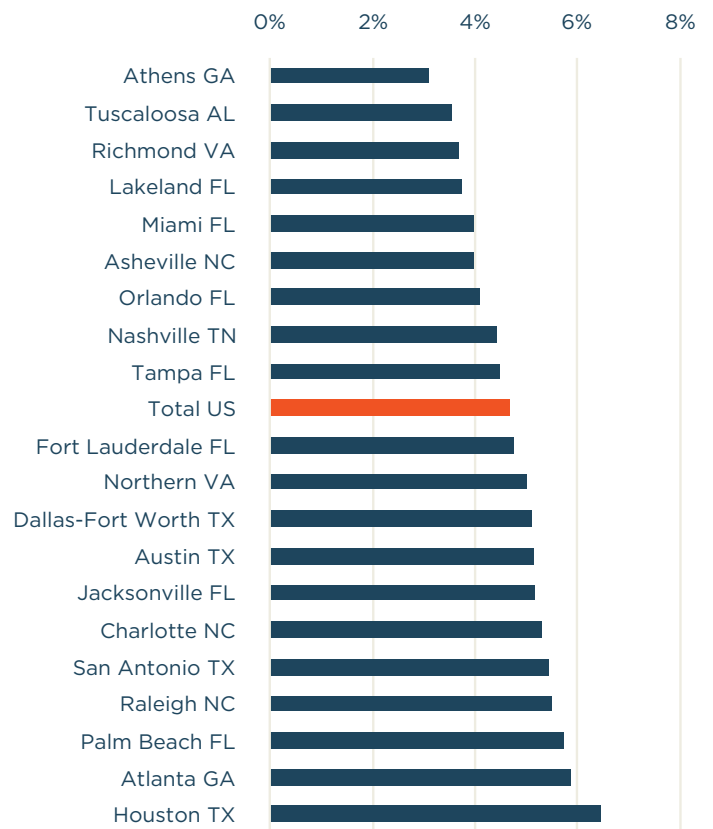
We can summarize Middleburg's view of the overall market environment in two parts. With respect to the macroeconomic environment generally, we do not yet see any clear evidence that a recession is imminent, but we remain cognizant of the substantial risk of conditions deteriorating over the next few quarters. With respect to supply and demand conditions for rental housing, however, we cannot help but be aware that the operating environment—especially in Middleburg's part of the country—remains one that is likely to reward continued investment even in the event that macro conditions weaken.

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."

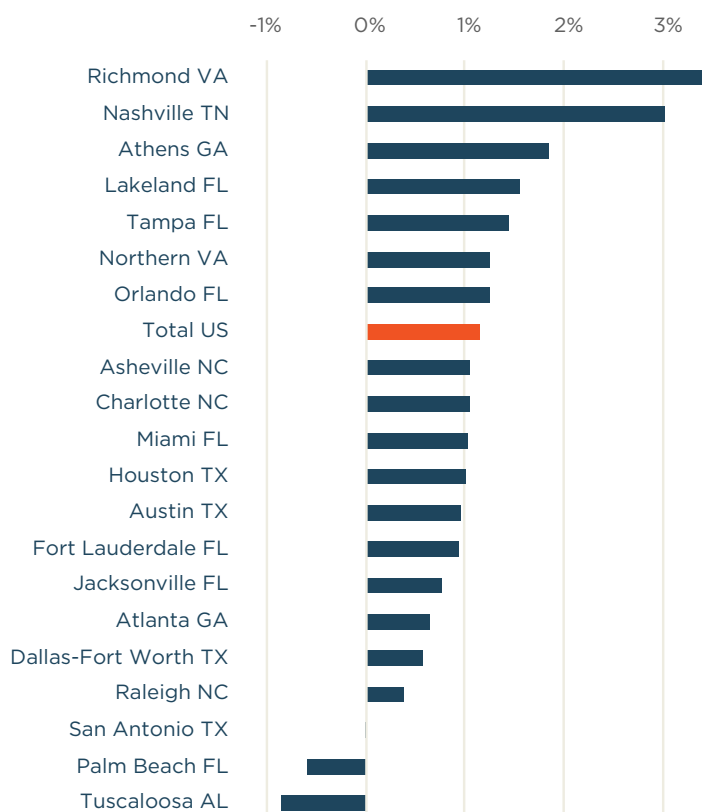
Class A Effective Rent/Unit



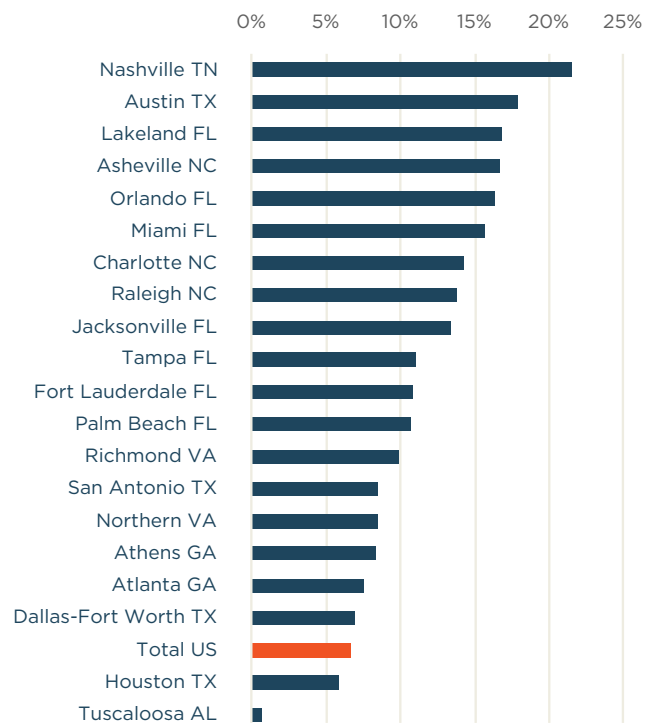
Stabilized Class A Vac Rate



Class A Net Absorption



Delivered & Under Const as % of Inventory



*data as of 2022Q2

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.

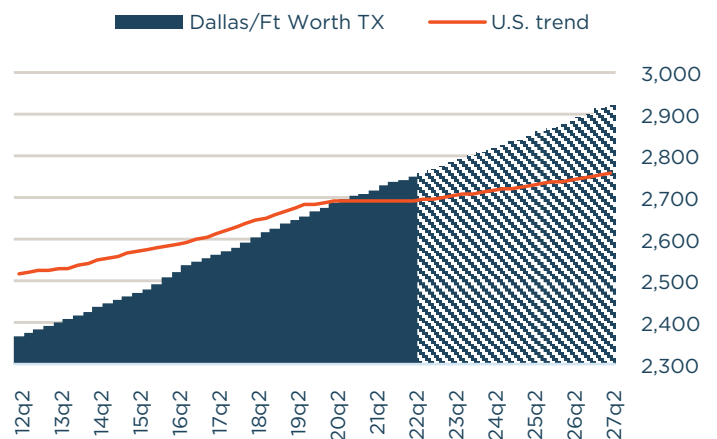
MIDDLEBURG’S RANK #4 AMONG 15 LARGEST METROS

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 AECOM, Charles Schwab, CBRE, Raytheon, Kubota, Liberty Mutual, and McKesson.

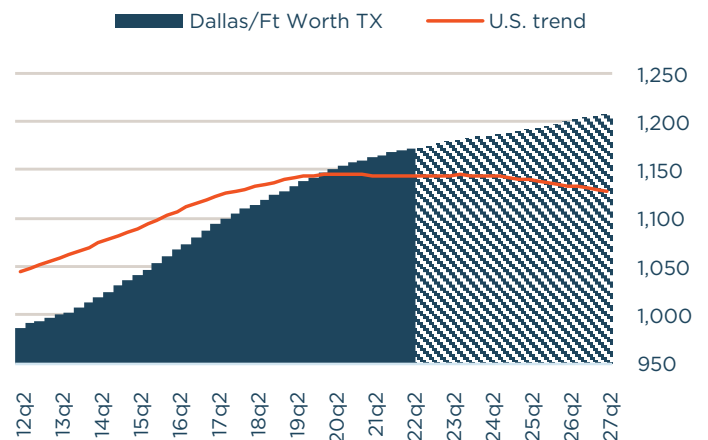
Dallas's population already skews young, but Oxford Economics forecasts that over the next five years the metro area will grow by an additional 60 thousand **Young Adults** (1.2 percent per year), 167 thousand new **Households** (1.1 percent per year), and 182 thousand new **Employees** (1.0 percent 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 2.8 percent per year in nominal terms over the next five years, and the house price to income ratio is expected to ease as house prices grow less rapidly (3.6 percent per year) than in the nation as a whole (4.3 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 units over 5 years (5.1 percent per year), driving similarly strong growth in **Effective Rent per Unit** (3.8 percent per year, higher than any other large metro area in Middleburg's territory) as well as **Net Operating Income** (5.0 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.

Number of Households (000s)

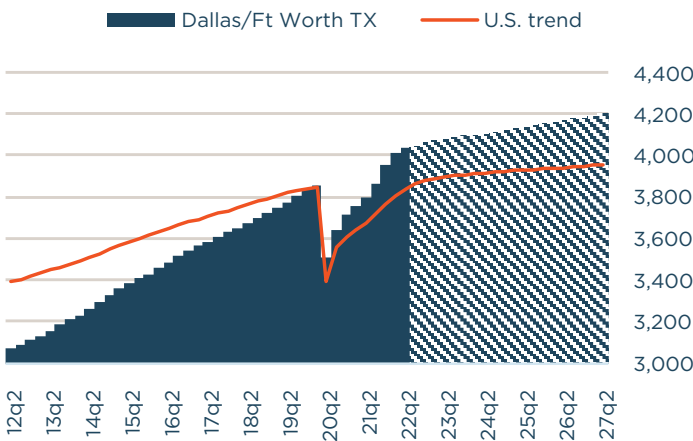


Young Adult Population (000s)

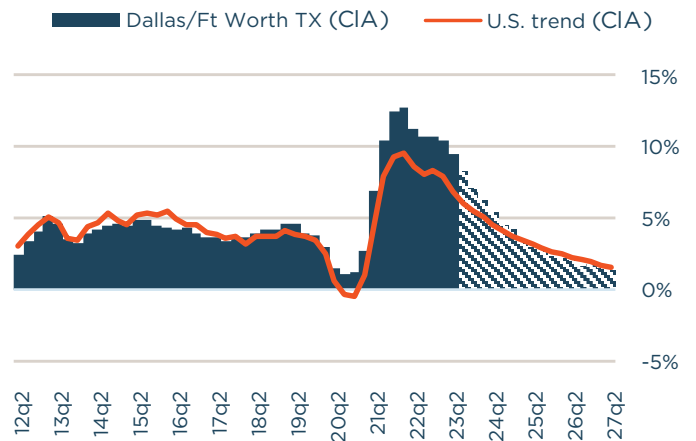


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
801,943	36,905	\$195,298	\$7,052
0.4%	-3.6%	2.8%	-13%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
19.4%	\$82,960	5.0%	10 bps
-5.6%	↑1.3%	0.1%	above US avg

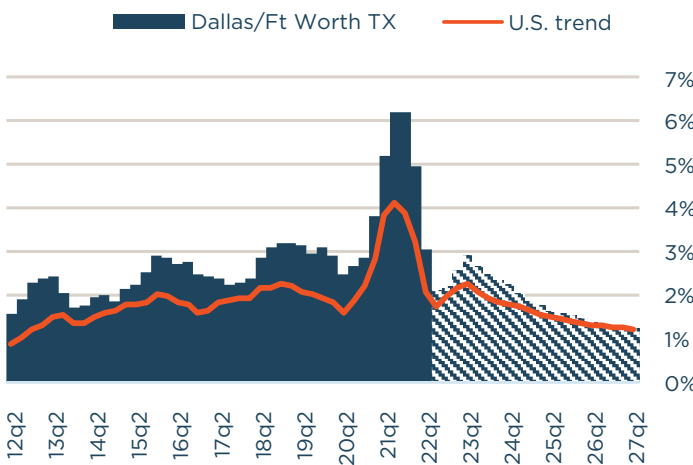
Total Employment (000s)



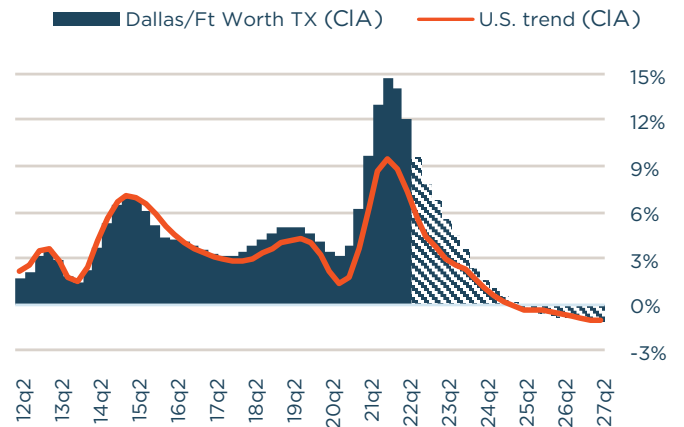
Net Operating Income (trailing 4-qtr)



Net Absorption (trailing 4-qtr sum)



Apartment Property Value Appreciation (trailing 4-qtr)



Representative large employers: American Airlines, Bank of America, Texas Health Resources, Dallas ISD, Baylor Health Care System, AT&T, Lockheed Martin, JP Morgan, UTDallas Medical Center, City of Dallas

Houston, TX

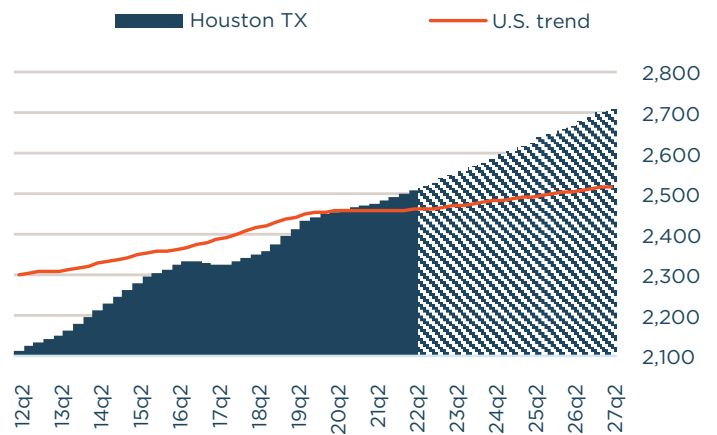
Houston’s reduced exposure to the oil & gas industry makes what was already a strong market more appealing to long-term investors.

MIDDLEBURG’S RANK #10 AMONG 15 LARGEST METROS

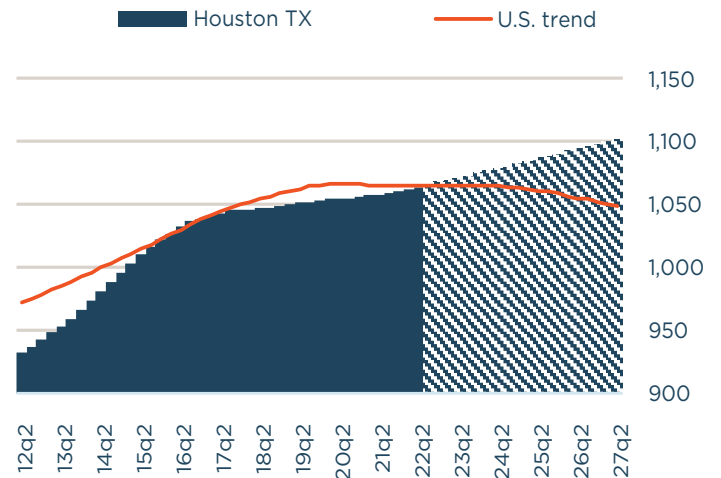
The demographic drivers of rental housing demand in Houston should continue to be strong: for example, Oxford Economics forecasts that the city's young adult population will grow by 38 thousand over the next five years (0.7 percent per year), and growth in **Number of Households** and **Total Employment** should lead all other metro areas in Middleburg's arc at 200 and 159 thousand each (1.6 percent per year and 1.0 percent per year respectively). Moreover, employment growth is expected to be concentrated among higher-paying jobs, with median household income growing by 3.1 percent per year, faster than the national average of 3.0 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 class A **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 3.2, 2.2, and -0.1 percent per year, respectively, while growth in **Net Operating Income** for Class A properties is expected to trail every other large metro at 2.9 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.

Number of Households (000s)

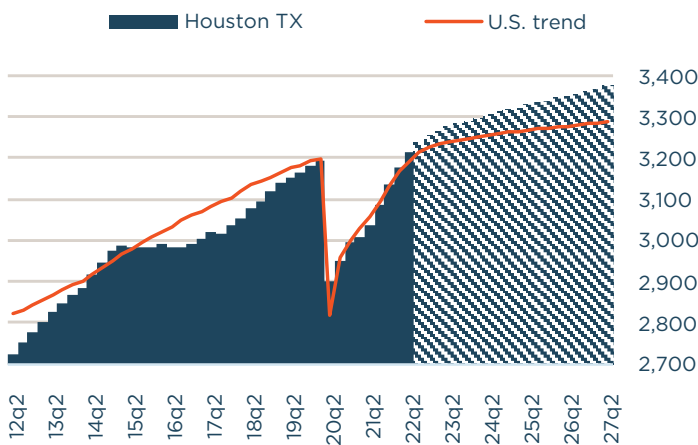


Young Adult Population (000s)

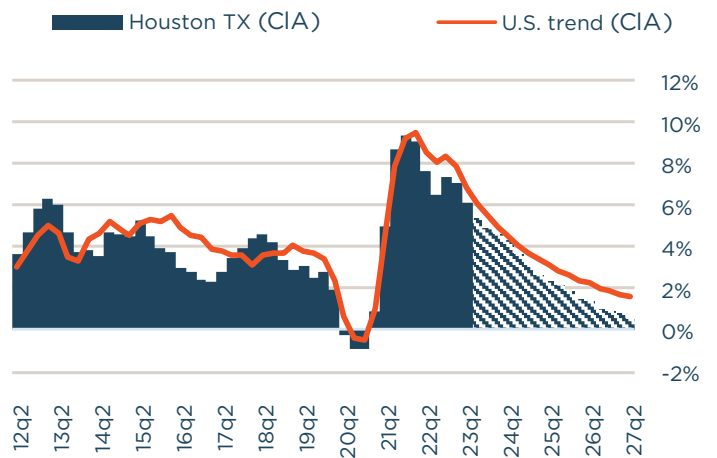


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
196,455	9,385	\$245,272	\$9,997 million
0.1%	8.4%	1.9%	+50%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
14.1%	\$76,960	6.4%	+41 bps
-3.7%	1.8%	0.0%	above US avg

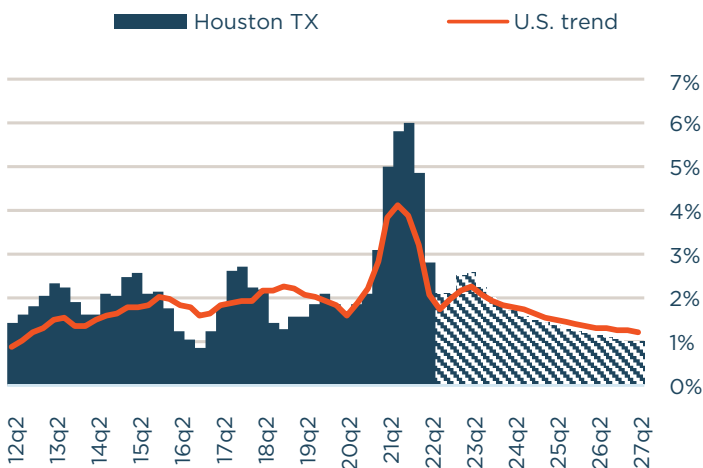
Total Employment (000s)



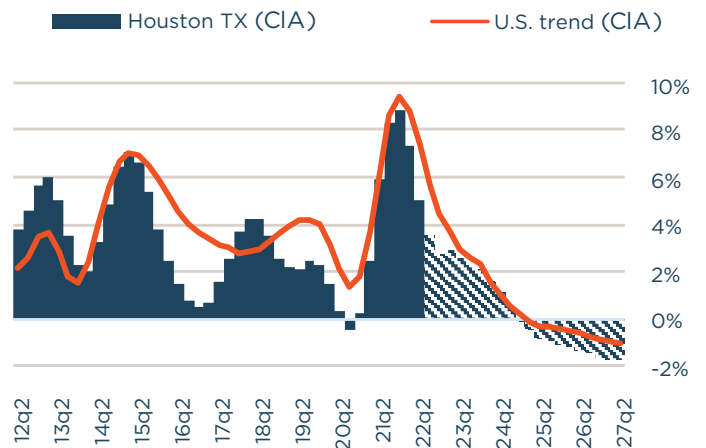
Net Operating Income (trailing 4-qtr)



Net Absorption (trailing 4-qtr sum)



Apartment Property Value Appreciation (trailing 4-qtr)



Representative large employers: Houston ISD, Memorial Hermann Hosp., City of Houston, UTHealth, MD Anderson, Harris County, NASA Johnson Space Center, United Airlines, Houston Methodist, Kroger, Shell Oil Company

Atlanta, GA

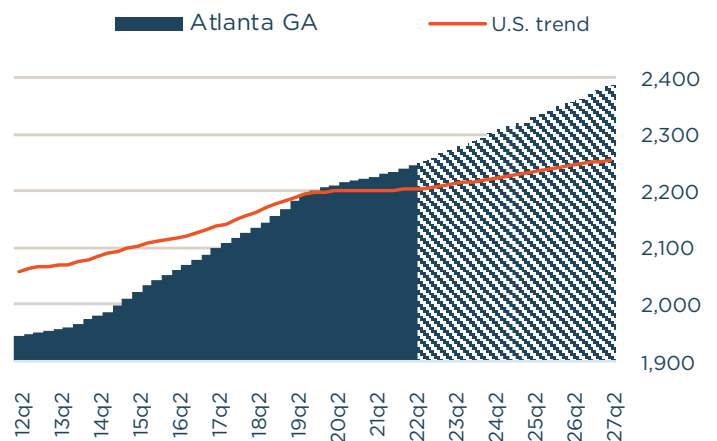
Atlanta is similar in many respects to the Dallas / Fort Worth metro area, but at a slightly smaller and slightly less dynamic scale.

MIDDLEBURG'S RANK #9 AMONG 15 LARGEST METROS

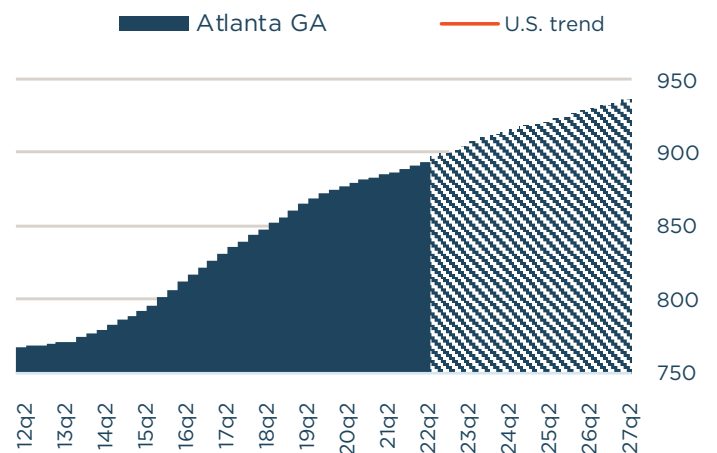
The largest market in Middleburg's territory outside of Texas, Atlanta is projected to see growth over the next five years of 0.9 percent per year in the number of young adults (42 thousand), 1.2 percent per year in the **Number of Households** (139 thousand) and 0.8 percent per year in **Total Employment** (116 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 4.5 percent per year (compared with 4.2 percent for the nation as a whole) while median household incomes rise slightly lower than the rest of the country at 2.9% versus 3.0%.

In the rental housing market, the number of class A **Units in Demand** is expected to grow at 5.0 percent per year, slightly lower than the national rate of 5.1 percent, implying 33 thousand new units over the next 5 years. 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.

Number of Households (000s)

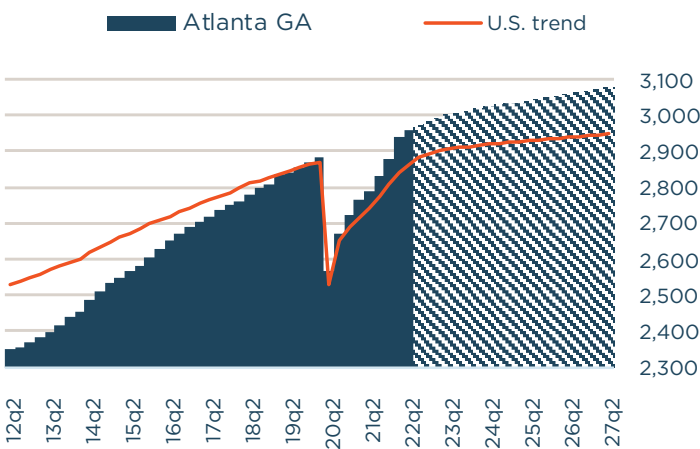


Young Adult Population (000s)

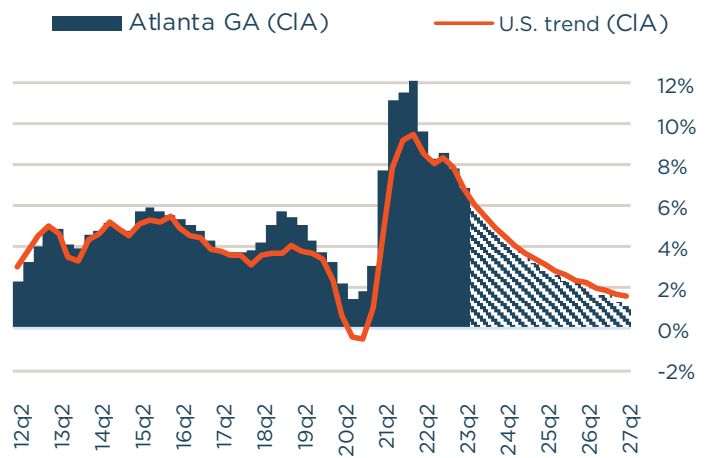


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
130,065	22,110	\$331,208	\$7,151 million
1.7%	3.3%	2.9%	+171%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
19.5%	\$82,760	5.8%	-8 bps
-5.2%	1.7%	0.2%	below US avg

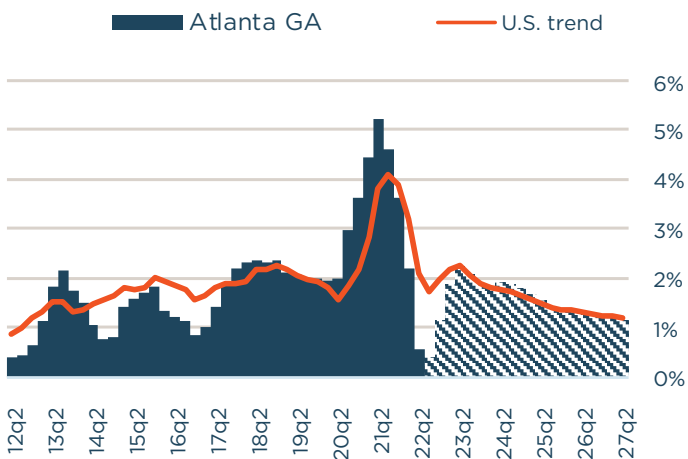
Total Employment (000s)



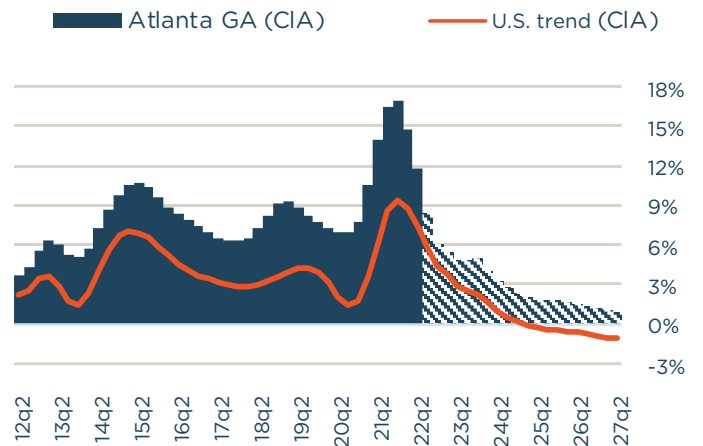
Net Operating Income (trailing 4-qtr)



Net Absorption (trailing 4-qtr sum)



Apartment Property Value Appreciation (trailing 4-qtr)



Representative large employers: Delta, Emory University & Healthcare, The Home Depot Northside Hospital, Piedmont Healthcare, Publix Super Markets, WellStar Health System, The Kroger Co., AT&T, UPS

Tampa, FL

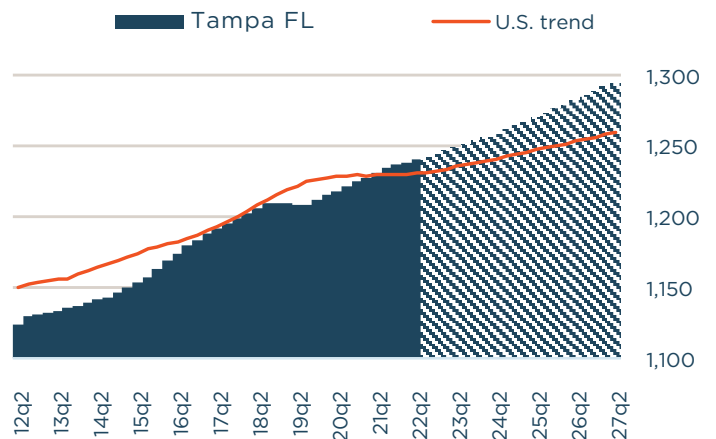
The Tampa market should continue to present appealing opportunities even though underlying demographic fundamentals are not as strong as in other metros in the area.

MIDDLEBURG'S RANK #13 AMONG 15 LARGEST METROS

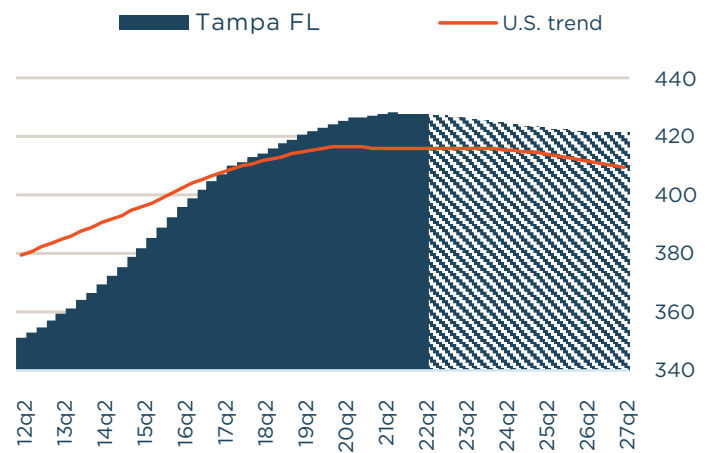
Tampa is not expected to grow as dynamically as other markets in Middleburg's arc. For example, Oxford Economics forecasts that over the next five years Tampa's **Young Adult Population** will grow at a disappointingly average -0.3 percent per year, its **Number of Households** just slightly above average at 0.9 percent per year, and its **Total Employment** below average at just 0.5 percent per year. On top of that, Tampa's median household income is projected to grow well below average at just 2.3 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 4.6 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 5.0 percent per year (14 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.

Number of Households (000s)

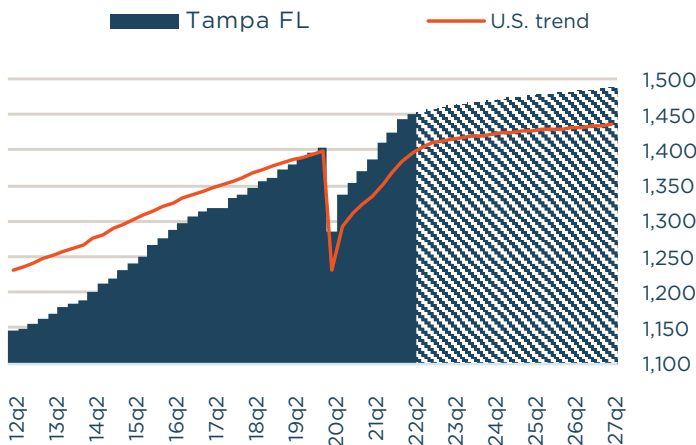


Young Adult Population (000s)

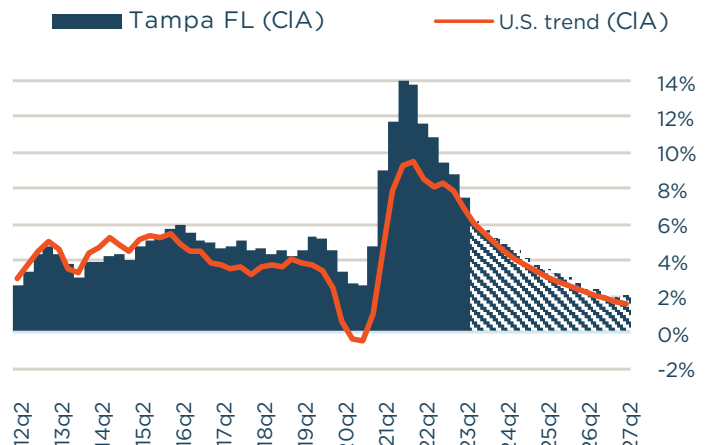


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
53,765	6,937	\$327,941	\$3,546 million
3.3%	-8.1%	2.9%	+1,098%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
22.7%	\$68,400	4.6%	-15 bps
-6.3%	1.1%	0.0%	below US avg

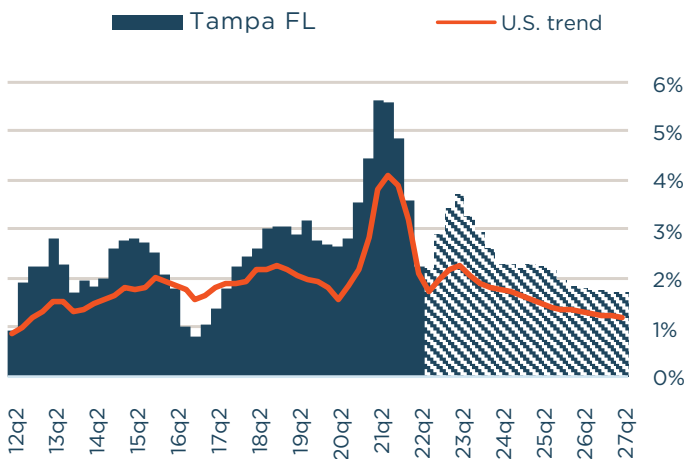
Total Employment (000s)



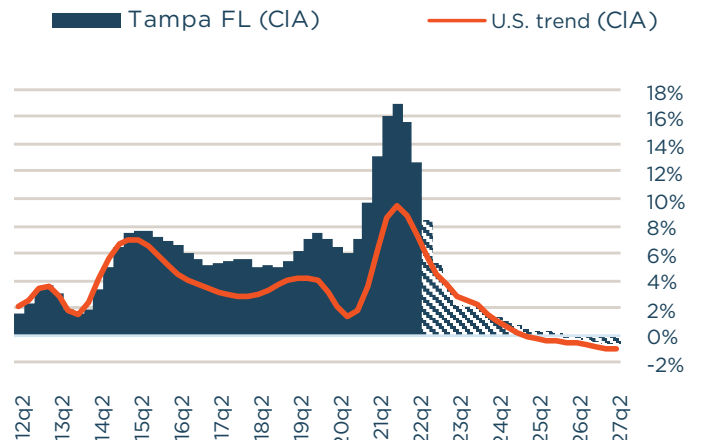
Net Operating Income (trailing 4-qtr)



Net Absorption (trailing 4-qtr sum)



Apartment Property Value Appreciation (trailing 4-qtr)



Representative large employers: Publix Super Markets, Baycare Health System, Hillsborough Cty Public Schools, MacDill Air Force Base, HCA, West Florida Pinellas County School District, WellCare, Tampa International Airport, Tampa General Hospital, University of South Florida

Charlotte, NC

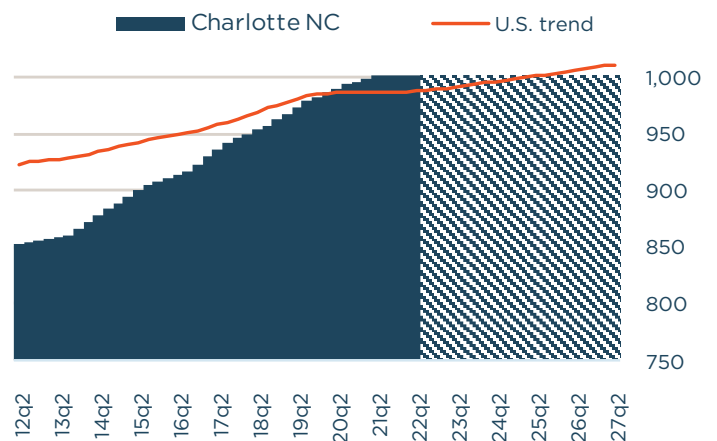
We expect demand for rental housing in Charlotte to be supported by very strong growth in all key demand drivers as it continues its fascinating transformation from a textile manufacturing hub to a diversified hub for finance and high-value manufacturing.

MIDDLEBURG'S RANK #7 AMONG 15 LARGEST METROS

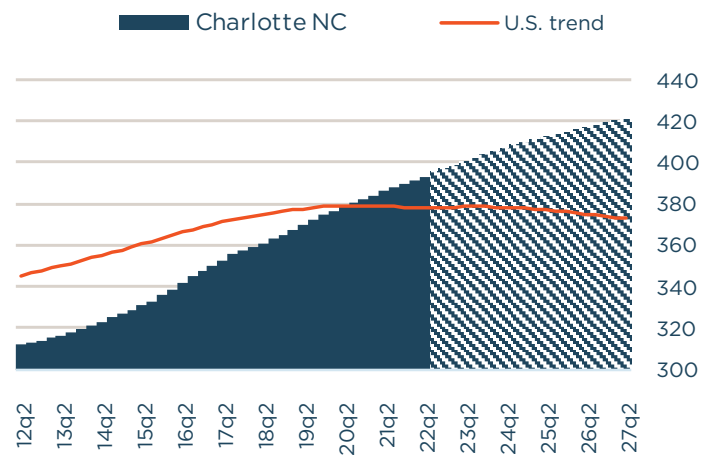
Charlotte's economy has successfully shed its dependence on low-value textiles with its nationally prominent finance sector and the growth of advanced non-textile manufacturing. As a result, over the next five years Oxford Economics forecasts that its **Young Adult Population** will grow by 26 thousand (1.4 percent per year), its **Number of Households** by 69 thousand (1.4 percent per year), and its **Total Employment** by 64 thousand (1.1 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 (2.7 percent per year) lagging behind growth in house prices (4.4 percent per year). This and the area's demographics are expected to add 17 thousand to the number of rental **Units in Demand**, a comfortably above-average rate of 6.1 percent per year. If Charlotte has any weakness relative to its peer markets, it is that CoStar expects **Effective Rent per Unit** and **Net Operating Income** to grow less rapidly over the next five years than in other markets in Middleburg's territory.

Number of Households (000s)

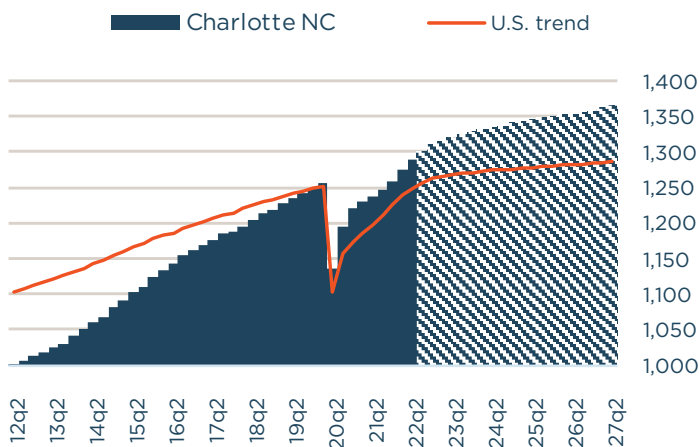


Young Adult Population (000s)

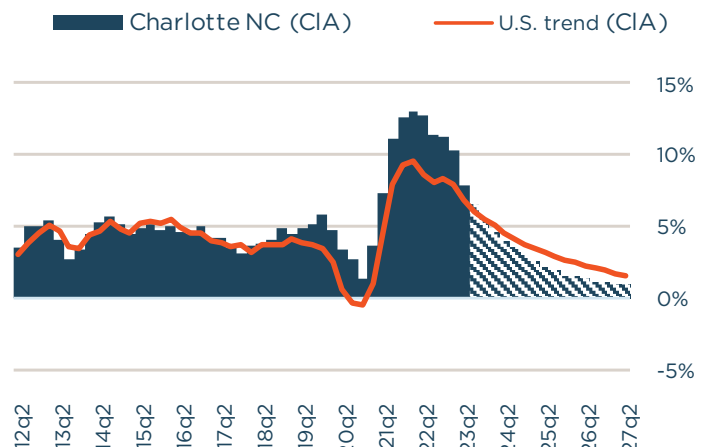


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
58,014	7,268	\$327,266	\$2,824 million
1.6%	-4.2%	5.0%	+25%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
19.5%	\$76,960	5.3%	-30 bps
-5.6%	1.8%	0.0%	below US avg

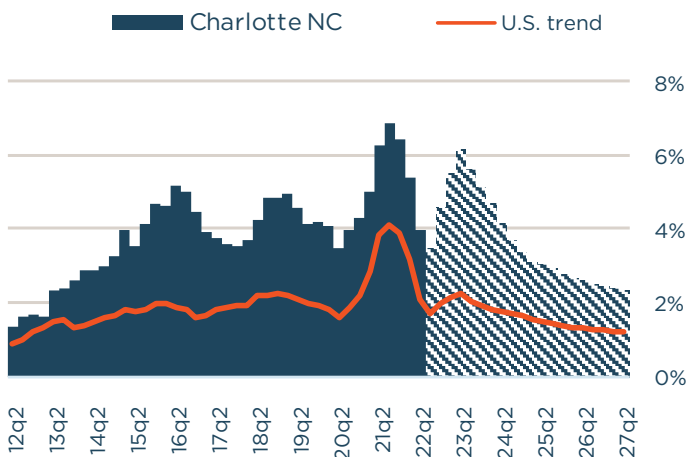
Total Employment (000s)



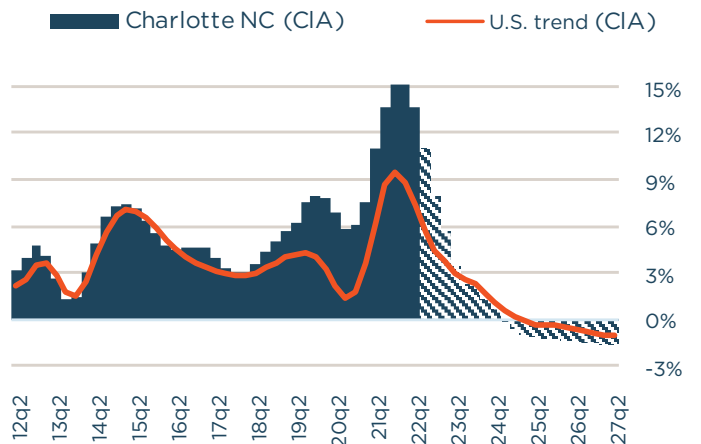
Net Operating Income (trailing 4-qtr)



Net Absorption (trailing 4-qtr sum)



Apartment Property Value Appreciation (trailing 4-qtr)



Representative large employers: Atrium, Wells Fargo, Charlotte-Mecklenburg Schools, Bank of America, Novant Health, American Airlines, Harris Teeter, Duke Energy, State of North Carolina, City of Charlotte

Orlando, FL

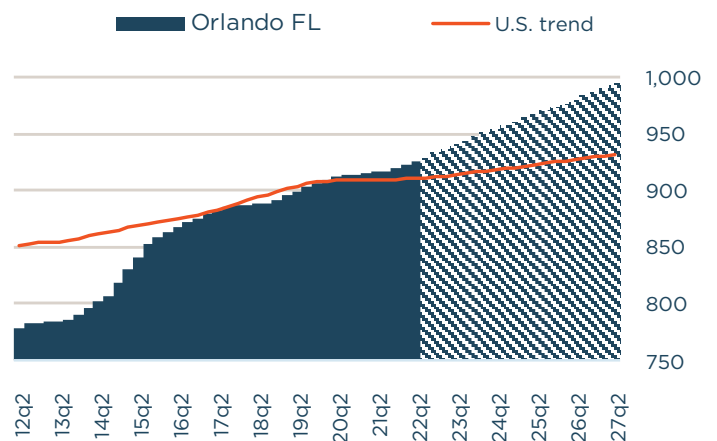
Orlando has become one of the most appealing rental housing markets in the country—but the state of Florida’s initial move to disband the Reedy Creek Improvement District introduces an unwelcome degree of uncertainty.

MIDDLEBURG’S RANK #2 AMONG 15 LARGEST METROS

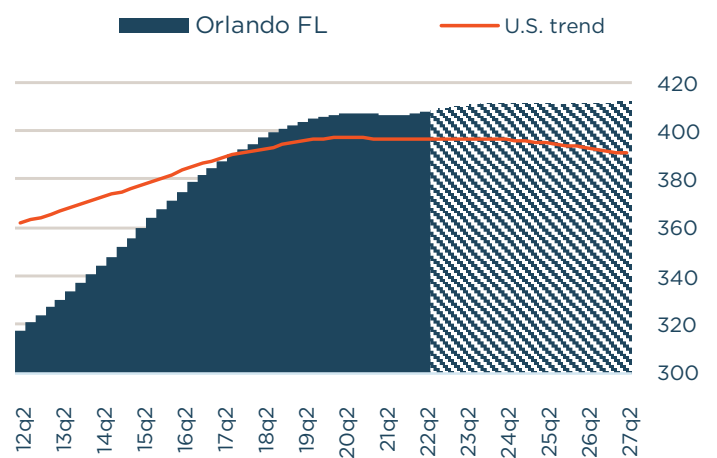
Orlando has broadened its economy to encompass much more than its roots as a pure tourist destination, and the most likely path forward is one that builds on that breadth as well as its best-in-class resorts. Oxford Economics forecasts that **Total Employment** in Orlando will grow by 1.3 percent per year over the next five years, resulting in 91 thousand additional workers. Oxford also expects above-average growth in Orlando's **Young Adult Population** (5 thousand, or 0.2 percent per year) and **Number of Households** (68 thousand, 1.4 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.

Number of Households (000s)

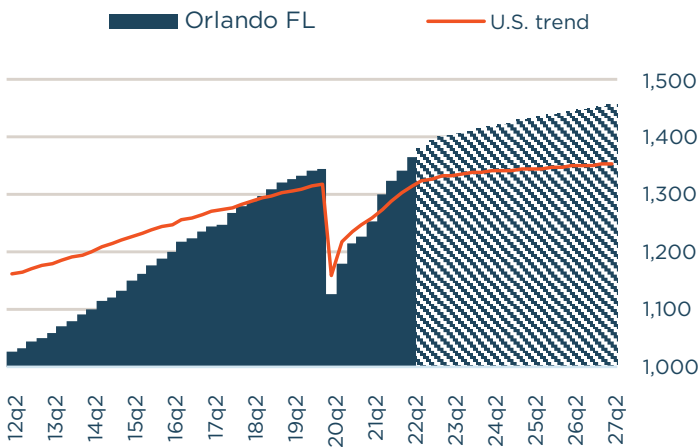


Young Adult Population (000s)

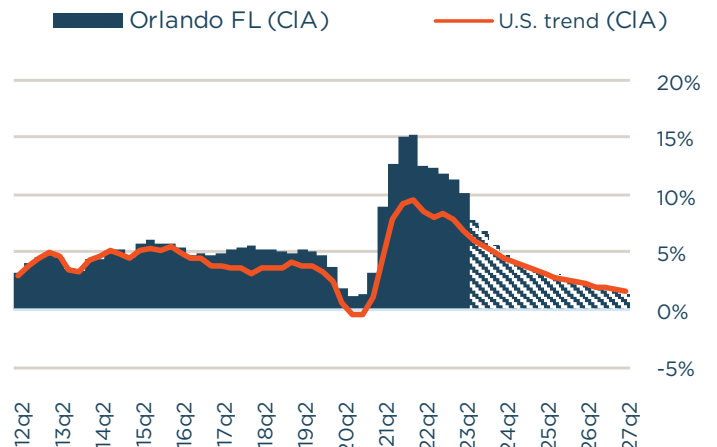


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
61,429	8,580	\$323,515	\$461 million
1.0%	19.1%	3.4%	↓92%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
20.1%	\$74,680	4.0%	-26 bps
-4.0%	1.9%	0.1%	below US avg

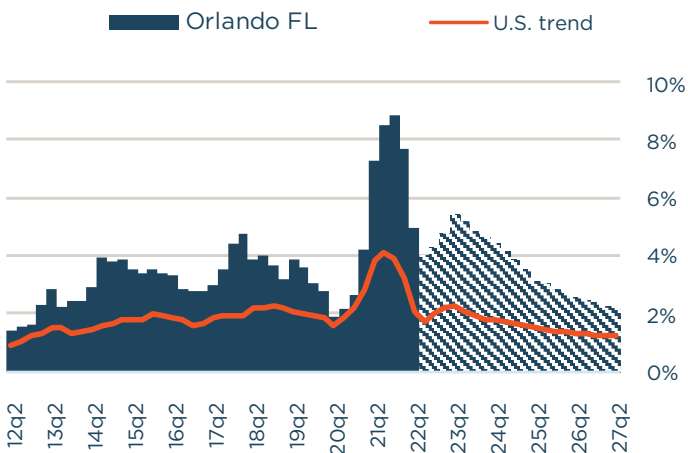
Total Employment (000s)



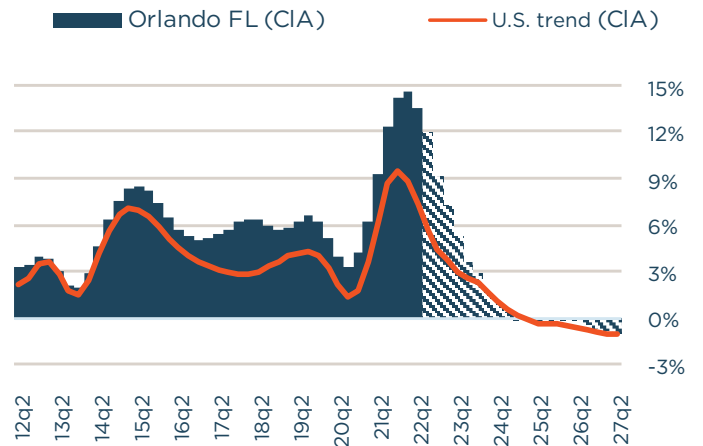
Net Operating Income (trailing 4-qtr)



Net Absorption (trailing 4-qtr sum)



Apartment Property Value Appreciation (trailing 4-qtr)



Representative large employers: Walt Disney World Resort, Orange County Public Schools, Universal Orlando Resort, AdventHealth, Publix Super Markets, Orlando International Airport, Orlando Health, University of Central Florida, Orange County Government, Lockheed Martin

Miami, FL

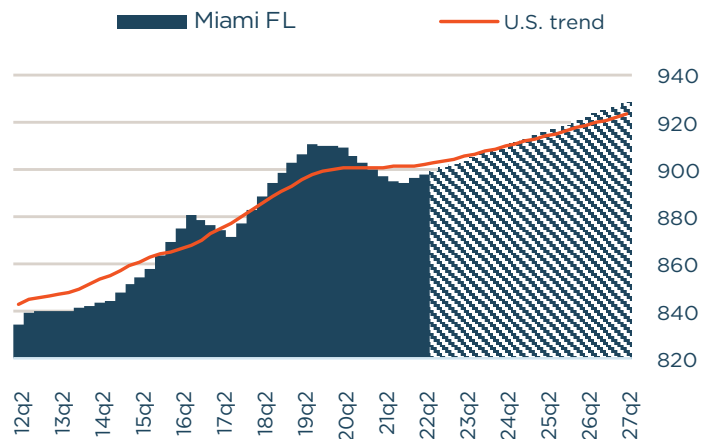
Miami is a market with some solid demand drivers—but one that, ultimately, is more likely to appeal to developers and investors other than Middleburg.

MIDDLEBURG'S RANK #8 AMONG 15 LARGEST METROS

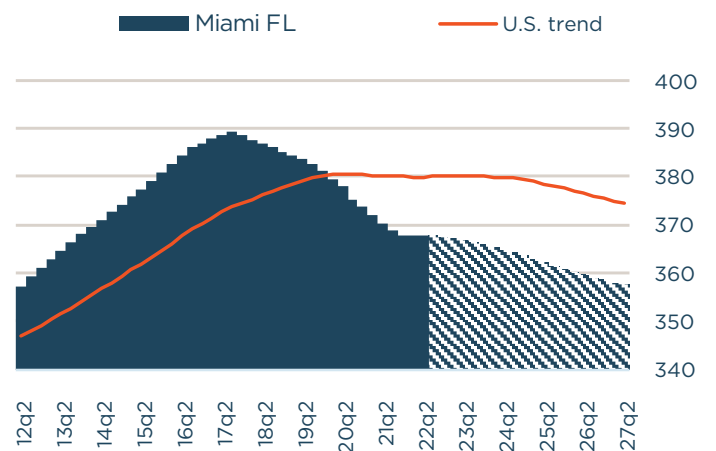
Miami has attracted (or perhaps sought) attention as a new home for tech firms relocating away from the San Francisco Bay area as well as finance firms relocating away from New York City. Even if that happens, it's probably not enough to make the Miami area especially appealing to Middleburg. Oxford 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 (-0.6 percent per year), while the **Number of Households** is expected to grow by an anemic (for this part of the country) 30 thousand, or just 0.7 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 5.9 percent per year while median household incomes increase by just 2.5 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 \$2,951, 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.

Number of Households (000s)

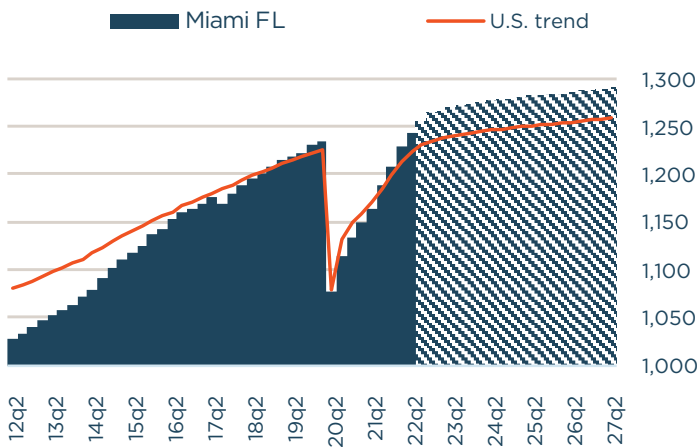


Young Adult Population (000s)

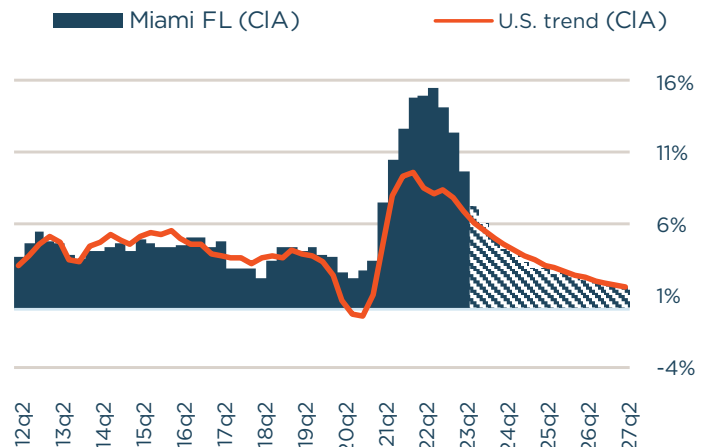


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
43,955	15,225	\$465,770	\$1,728 million
1.9%	9.1%	6.3%	↓52%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
20.7%	\$64,920	4.1%	-31 bps
-2.9%	1.5%	0.5%	below US avg

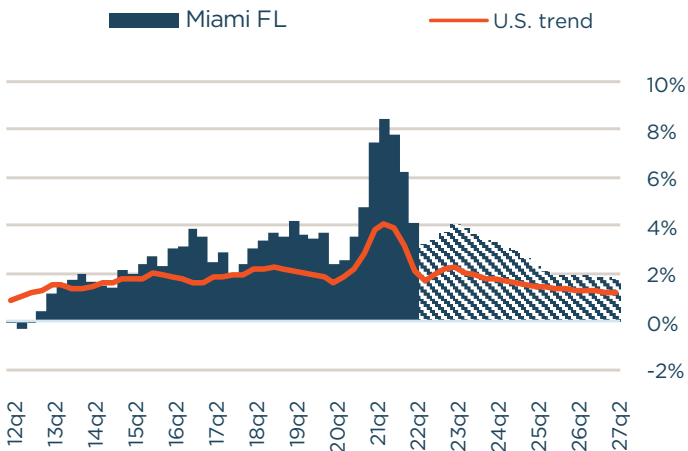
Total Employment (000s)



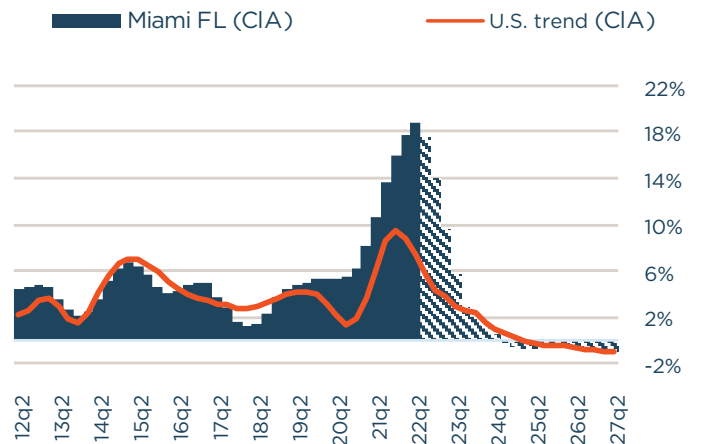
Net Operating Income (trailing 4-qtr)



Net Absorption (trailing 4-qtr sum)



Apartment Property Value Appreciation (trailing 4-qtr)



Representative large employers: Publix Super Markets, Miami-Dade County Public Schools, Federal Government, Florida State Government, University of Miami, Baptist Health South, Florida Memorial Healthcare System, American Airlines, Jackson Health System, Florida International University

Austin, TX

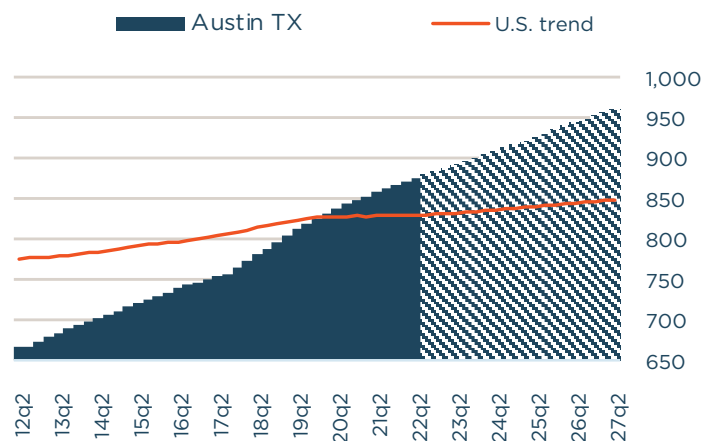
Austin’s appeal as a rental housing market should surprise nobody, as the Texas capital has become known as a favorite among young professionals, thanks in large part to the University of Texas and the city’s music scene.

MIDDLEBURG’S RANK #1 AMONG 15 LARGEST METROS

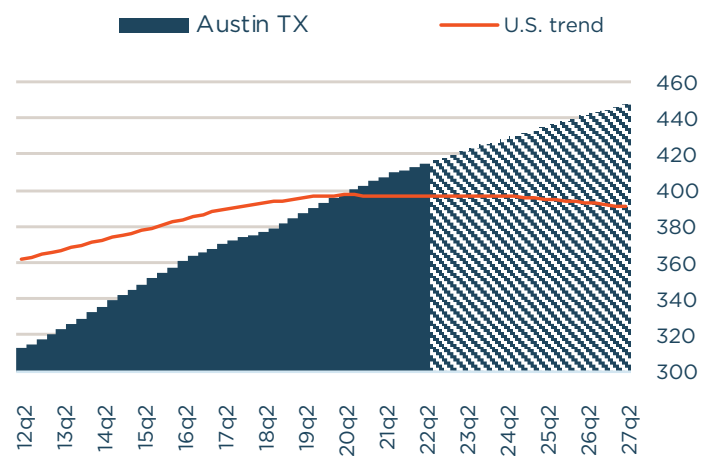
Over the next five years Oxford Economics forecasts that growth in Austin's **Young Adult Population**, **Number of Households**, and **Total Employment** will outpace every other metro area in Middleburg's footprint in percentage terms at 1.5, 1.9, and 1.5 percent per year, respectively. The absolute numerical growth in young adults is expected to trail only the much larger Houston and Dallas at 33 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 21 thousand units over the next five years (4.2 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 23 basis points below the national average.

Number of Households (000s)

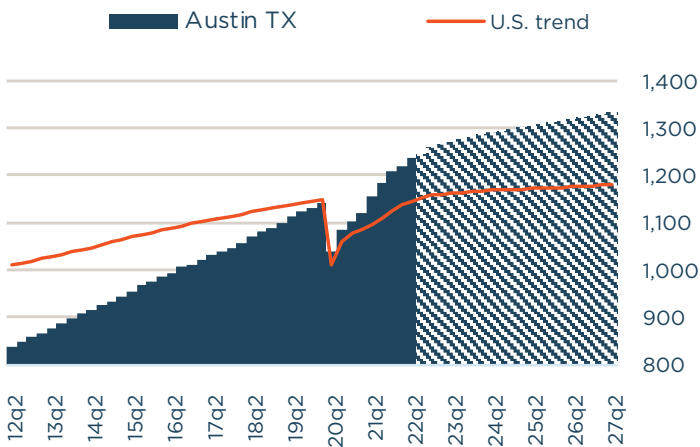


Young Adult Population (000s)

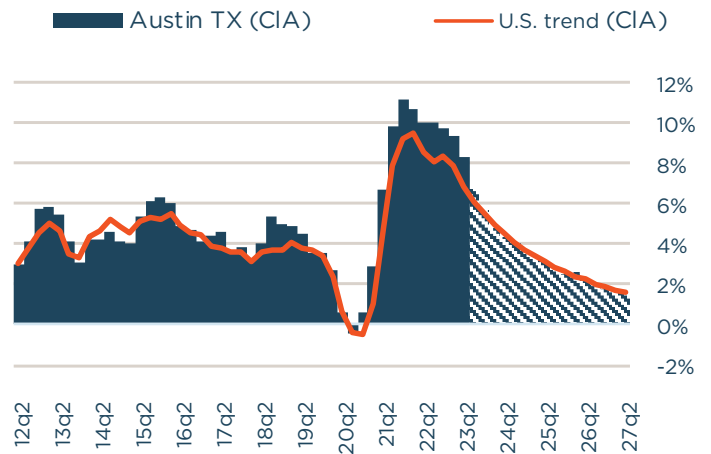


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
98,441	12,068	\$302,697	\$244 million
0.3%	7.3%	2.8%	↓96%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
23.1%	\$94,720	5.3%	-23 bps
-10.2%	1.6%	0.2%	below US avg

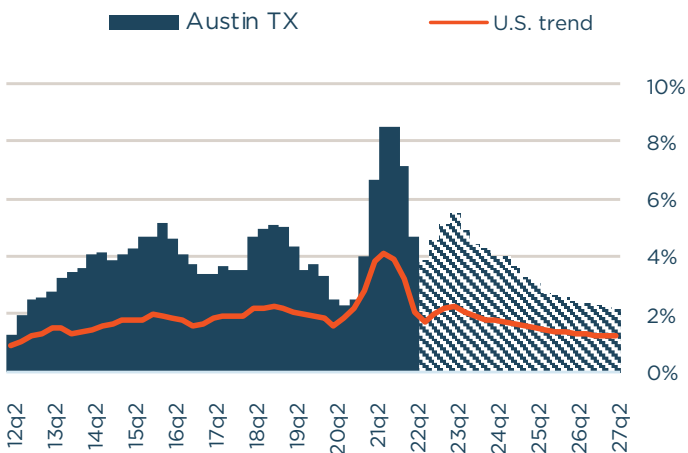
Total Employment (000s)



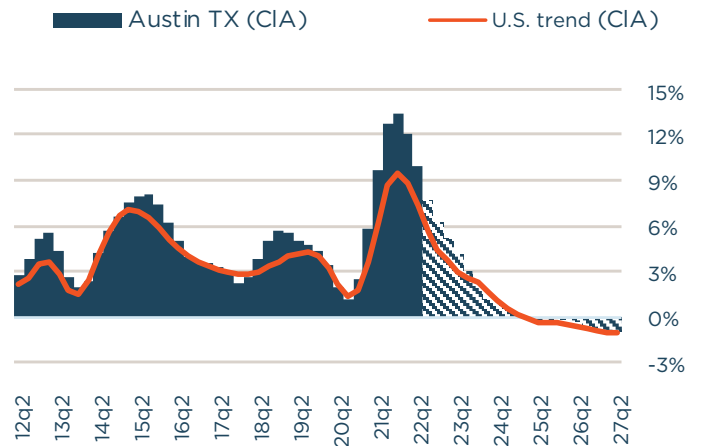
Net Operating Income (trailing 4-qtr)



Net Absorption (trailing 4-qtr sum)



Apartment Property Value Appreciation (trailing 4-qtr)



Representative large employers: State of Texas, UT Austin, HEB Grocery, Dell Technologies, Austin ISD, Seton Healthcare Family, Walmart, St. David's HealthCare, Samsung Austin Semiconductor, Apple

San Antonio, TX

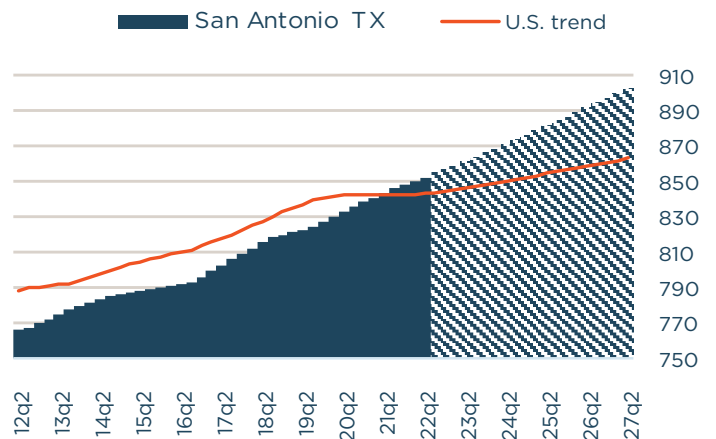
San Antonio has become an interesting market, though perhaps more for acquisition than for development. Only 80 miles from Austin, it is already seeing in-migration from its increasingly unaffordable neighbor, especially among young adults.

MIDDLEBURG'S RANK #12 AMONG 15 LARGEST METROS

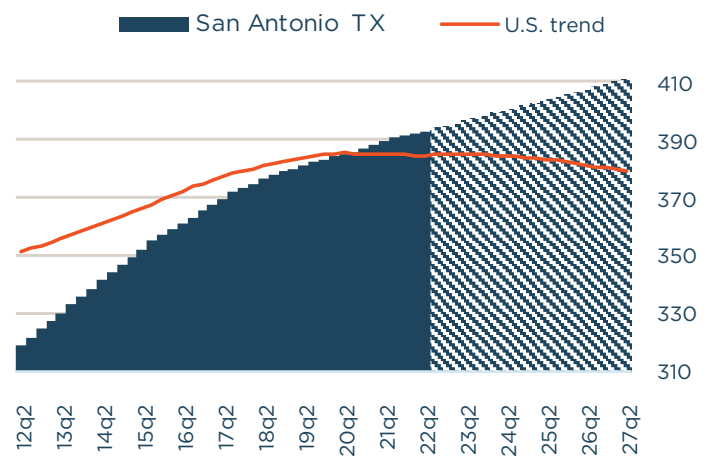
San Antonio's economic base, long dominated by nearby military installations, has diversified impressively in financial services (USAA, JP Morgan Chase), digital technologies (Rackspace Technology, TaskUs), medical care, grocery retailing, and other industries. Oxford Economics forecasts that, over the next five years, San Antonio will experience especially strong growth in all three key demographic drivers of rental housing demand: **Young Adult Population** (up 33 thousand at 1.6 percent per year, second only to Austin), **Number of Households** (up 87 thousand at 1.9 percent per year), and **Total Employment** (up 97 thousand at 1.5 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 4.2 and 2.4 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 \$1,951 per unit. Moreover, although **Construction and Deliveries** have remained subdued relative to the Class A inventory, current construction activity suggests that may change.

Number of Households (000s)

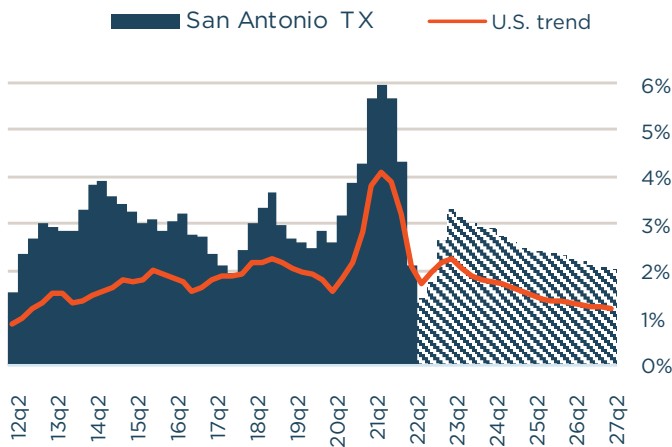


Young Adult Population (000s)

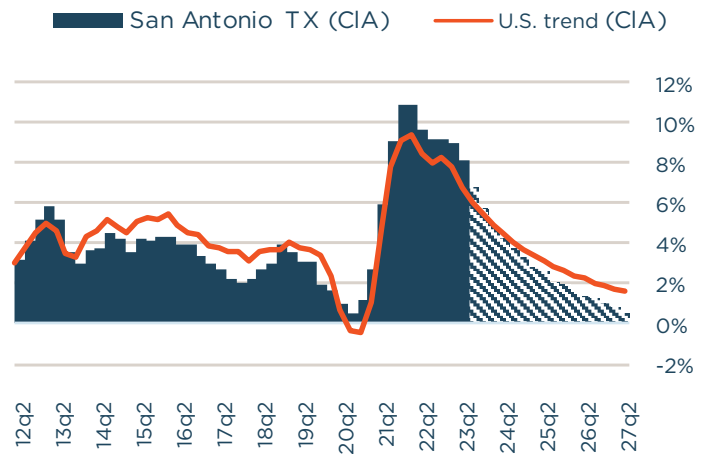


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
98,441	12,068	\$302,697	\$244 million
0.3%	7.3%	2.8%	↓96%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
23.1%	\$94,720	5.3%	-23 bps
-10.2%	1.6%	0.2%	below US avg

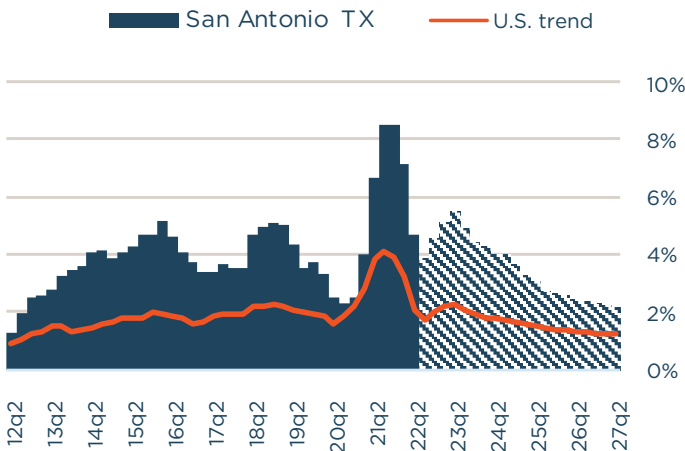
Total Employment (000s)



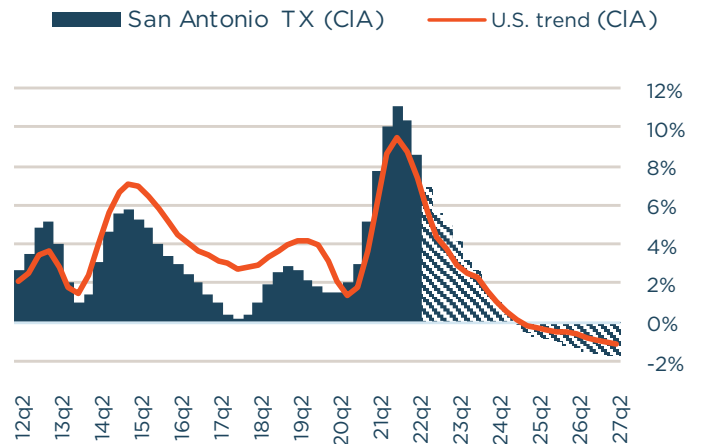
Net Operating Income (trailing 4-qtr)



Net Absorption (trailing 4-qtr sum)



Apartment Property Value Appreciation (trailing 4-qtr)



Representative large employers: Lackland Air Force Base, Fort Sam Houston, H-E-B, USAA, Northside ISD, Randolph Air Force Base, Methodist Healthcare System, City of San Antonio, Baptist Health System, Wells Fargo

Nashville, TN

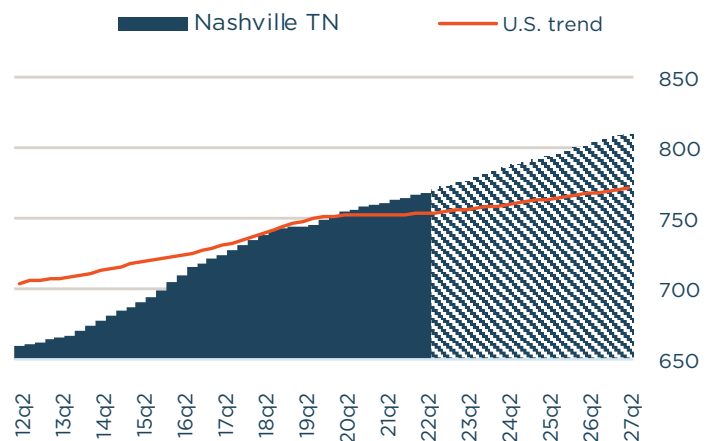
Nashville may as well be called "The New Austin." As in Austin, it's hard to find weak aspects of the Nashville rental housing market; also as in Austin, however, the strength of the Nashville market is widely recognized.

MIDDLEBURG'S RANK #3 AMONG 15 LARGEST METROS

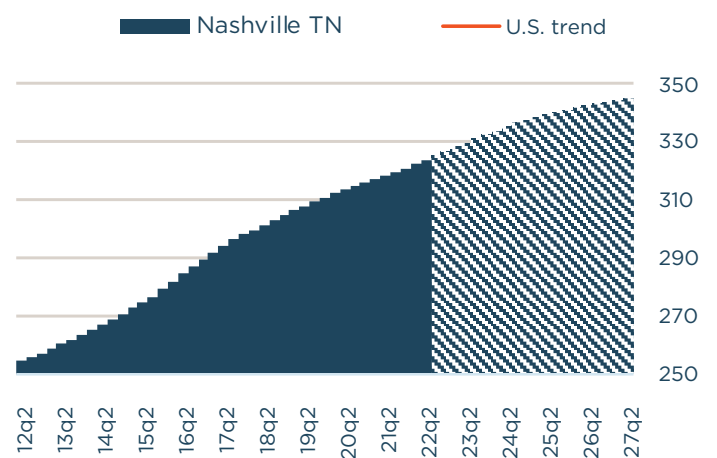
Like Austin, Nashville seems to be a growing favorite of young professionals, based partly on its music scene. Also like Austin, Nashville has seen high-profile recent corporate relocations including AllianceBernstein. As a result, the key demographic drivers of rental housing demand are all expected to grow strongly in Nashville over the next five years. Oxford Economics expects that Nashville's **Young Adult Population** will grow by 21 thousand over the next five years (1.3 percent per year), that the **Number of Households** will grow by 42 thousand (1.0 percent per year), and that **Total Employment** will grow by 53 thousand (0.9 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 (5.9 percent per year) for any metro area in Middleburg's region while median household incomes grow at just 3.1 percent per year. The demographic and affordability pressures are expected to increase apartment **Demand** by 20 thousand units (8.5 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** (2.6 percent per year), and **Net Operating Income** (4.2 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.

Number of Households (000s)

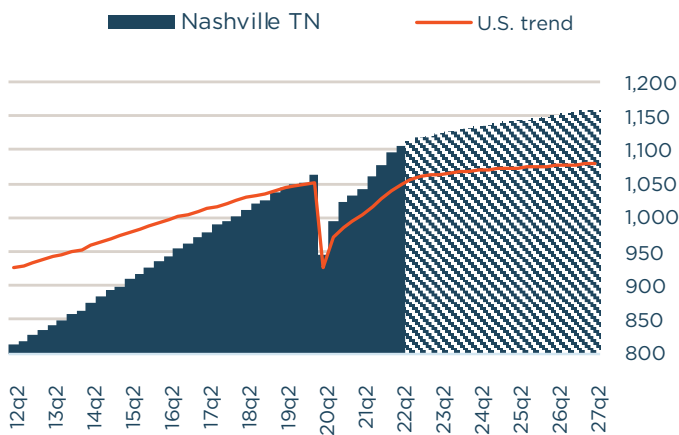


Young Adult Population (000s)

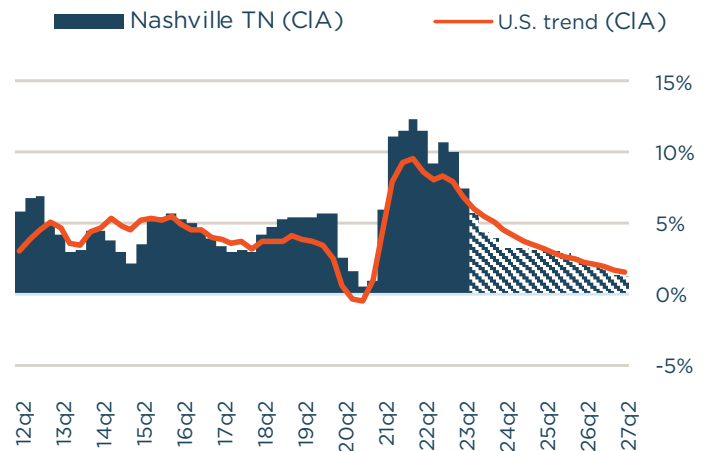


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
44,116	12,462	\$340,961	\$2,366 million
3.7%	-4.8%	4.8%	↓10%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
21.4%	\$80,480	4.4%	7 bps
-5.3%	1.9%	0.2%	above US avg

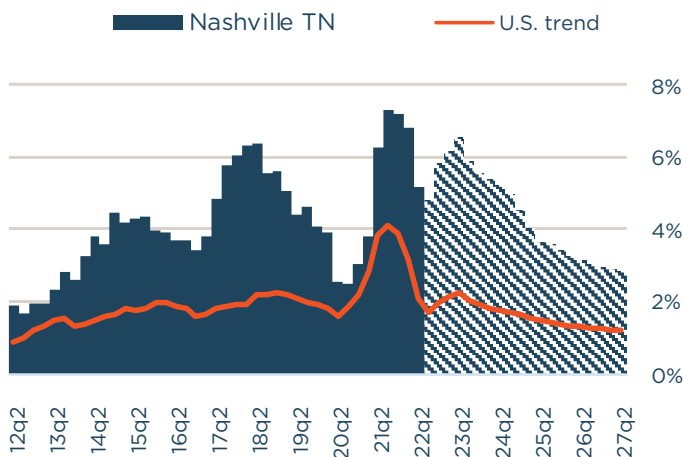
Total Employment (000s)



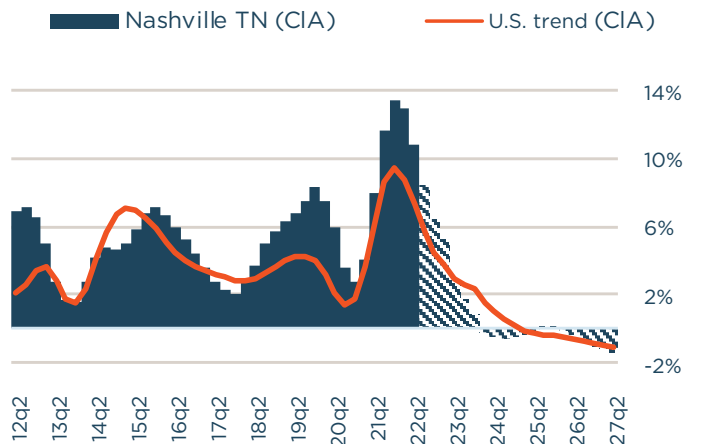
Net Operating Income (trailing 4-qtr)



Net Absorption (trailing 4-qtr sum)



Apartment Property Value Appreciation (trailing 4-qtr)



Representative large employers: Vanderbilt University Medical, Nissan, HCA, Vanderbilt University, Saint Thomas Health, Community Health Systems, Randstad, Asurion, Kroger, National Healthcare Corp

Fort Lauderdale, FL

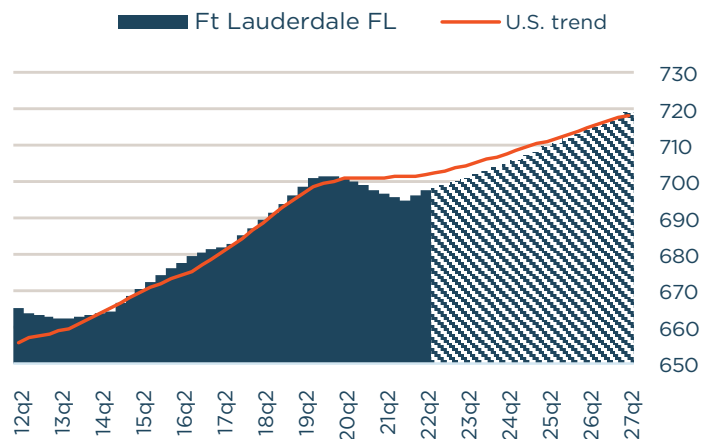
The Fort Lauderdale market shares much in common with its near neighbors Miami and Palm Beach—but those shared traits are the ones most likely to make them appeal more to other developers and investors than to Middleburg.

MIDDLEBURG'S RANK #11 AMONG 15 LARGEST METROS

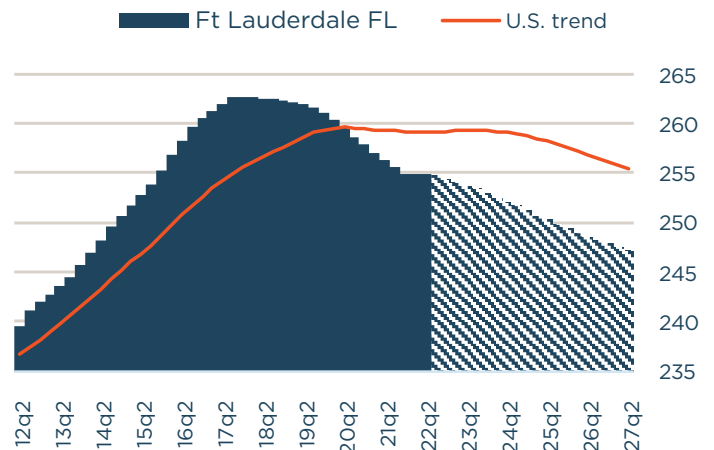
The most appealing aspect of the Fort Lauderdale market is the market rents that it can support: the metro area's \$2,772 average effective rent per Class A unit is second only to Miami's and greater even than Palm Beach's at \$2,723. The transaction market fully reflects that strength, with Class A 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 -0.6 percent per year, trailing Palm Beach (though better than Miami) while **Total Employment** 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 32 thousand at 0.7 percent per year—not only below average in Middleburg's part of the country but also trailing both Palm Beach and Miami.

Number of Households (000s)

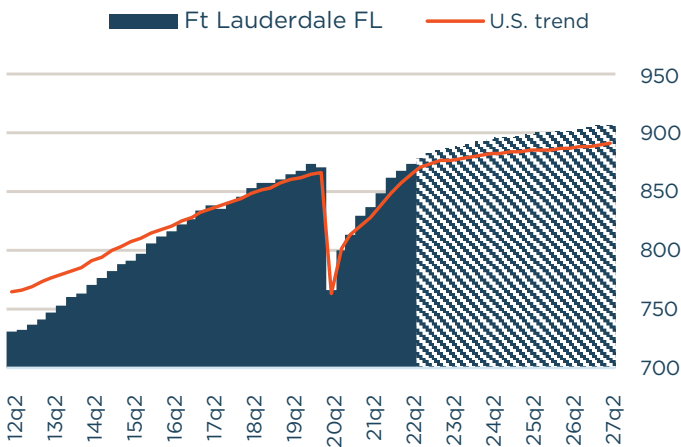


Young Adult Population (000s)

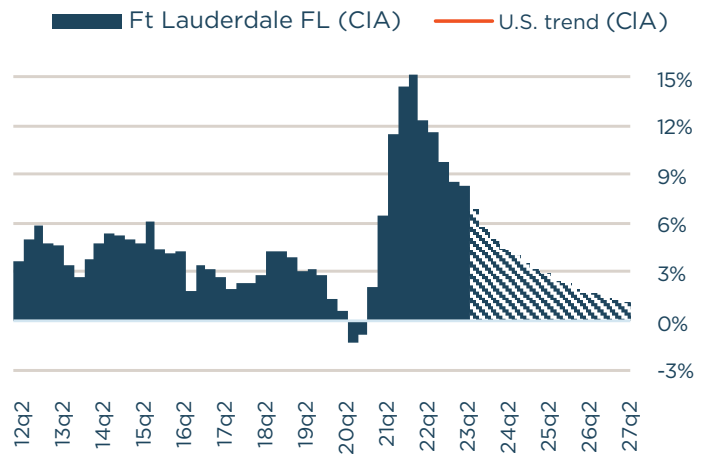


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
29,772	6,526	\$432,588	\$773 million
1.5%	7.1%	1.3%	-19.5%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
20.5%	\$72,160	4.8%	-17 bps
-3.8%	1.3%	0.6%	below US avg

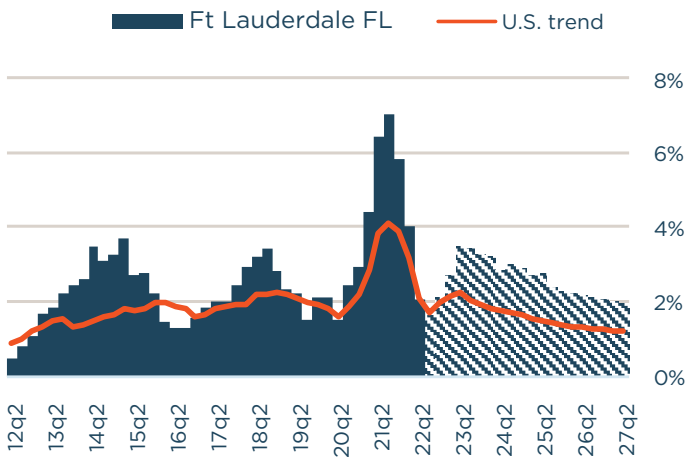
Total Employment (000s)



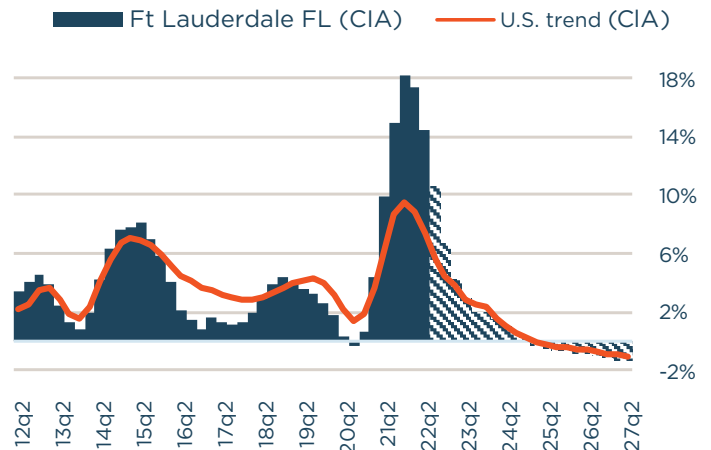
Net Operating Income (trailing 4-qtr)



Net Absorption (trailing 4-qtr sum)



Apartment Property Value Appreciation (trailing 4-qtr)



Representative large employers: Broward County Public Schools, Memorial Healthcare System, Broward County Government, Broward Health, Nova Southeastern University, Broward College, AutoNation, American Express, Spirit Airlines, Citrix

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.

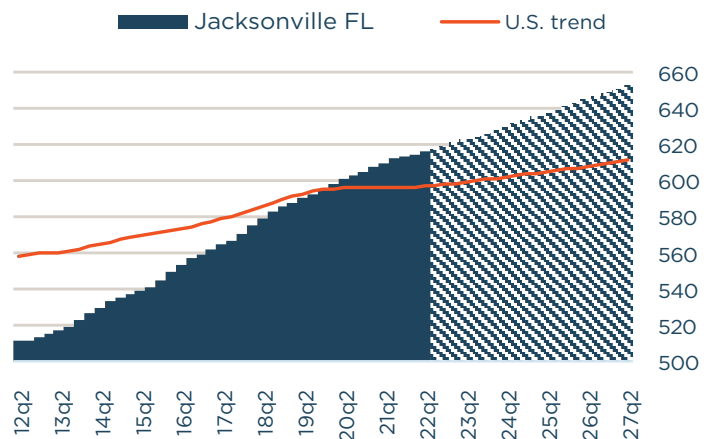
MIDDLEBURG’S RANK #14 AMONG 15 LARGEST METROS

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 1.2 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 0.7 and -0.3 percent per year respectively, resulting in 28 thousand additional jobs and three thousand fewer young adults.

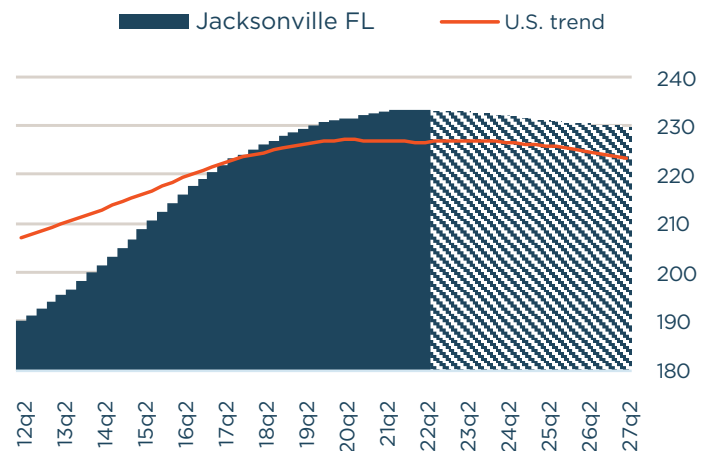
Neither is a homeownership affordability problem likely to drive apartment demand, as house prices are expected to grow substantially less than in the rest of the country at just 3.4 percent per year, only slightly greater than the growth rate of median household income at 2.3 percent per year.

Given the weakness in demographic and affordability drivers, CoStar expects that Demand for rental housing units will grow by just 3,400 over the same period, at a modest pace of 3.8 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 3.1, 3.8, and 0.7 percent per year respectively. The pace of **Construction and Deliveries**, though, has remained consistently reasonable as a share of Class A inventory.

Number of Households (000s)

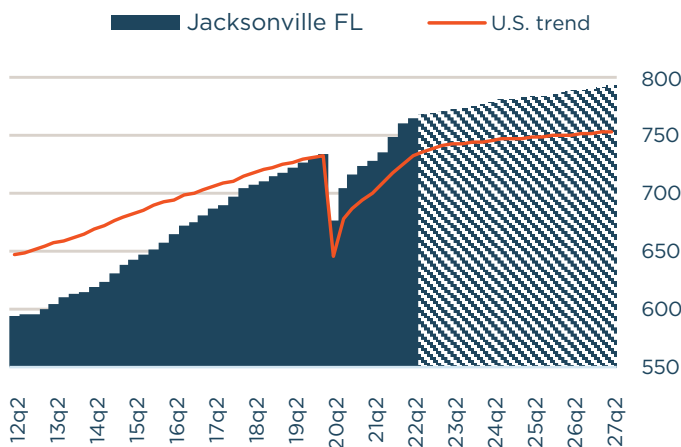


Young Adult Population (000s)

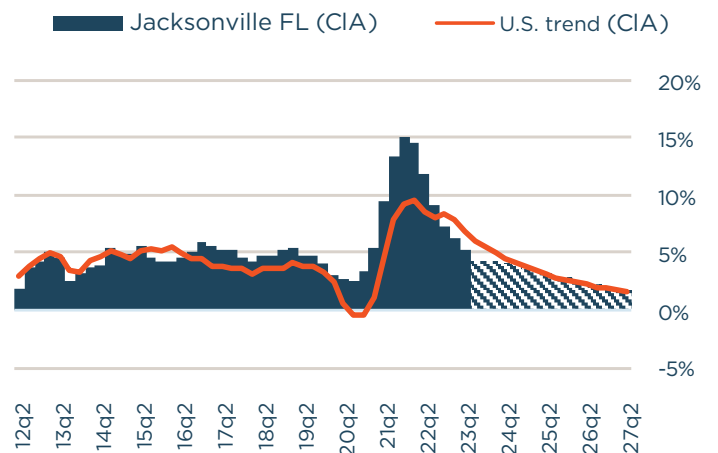


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
18,326	2,269	\$255,244	\$1,401 million
0.0%	0.0%	1.8%	357.8%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
21.2%	\$76,560	5.1%	-24 bps
-3.9%	0.9%	0.2%	below US avg

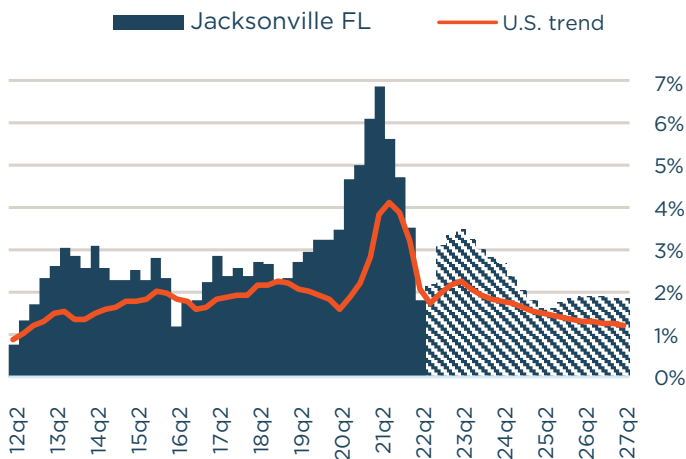
Total Employment (000s)



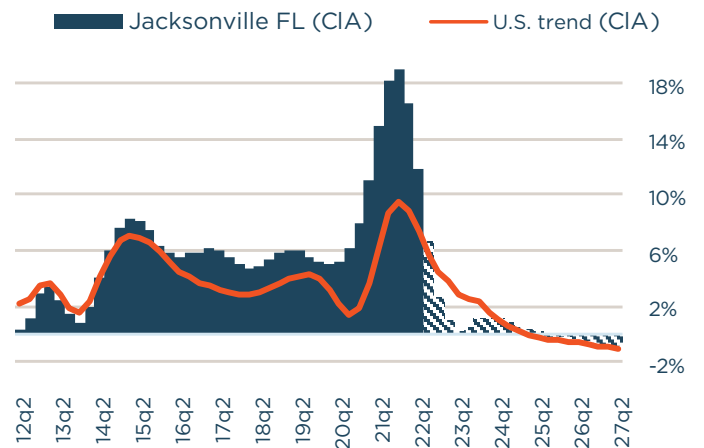
Net Operating Income (trailing 4-qtr)



Net Absorption (trailing 4-qtr sum)



Apartment Property Value Appreciation (trailing 4-qtr)



Representative large employers: Naval Air Station Jacksonville, Duval County Public Schools, Baptist Health, Naval Station Mayport, Bank of America Merrill Lynch, City of Jacksonville, Florida Blue, Mayo Clinic, Southeastern Grocers, St. Vincent's HealthCare

Palm Beach, FL

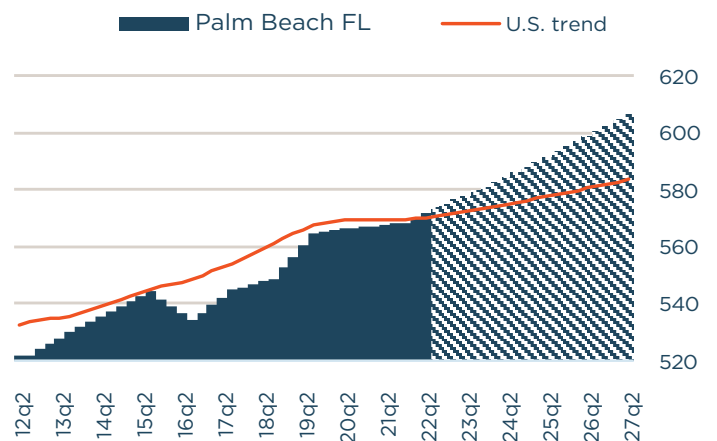
The rental housing market in Palm Beach—expensive and skewed toward wealthy retirees, like its near neighbors Miami and Fort Lauderdale, except with more promising demographic trends—will generally appeal more to developers other than Middleburg.

MIDDLEBURG'S RANK #5 AMONG 15 LARGEST METROS

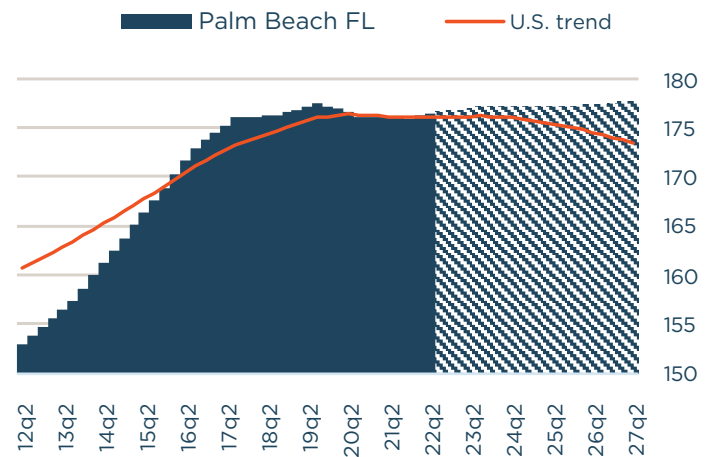
Chief among the less attractive trends for Palm Beach is its slow growth in its young adult population, which is expected to lag most other large metro areas in Middleburg's part of the country at 0.1 percent per year over the next five years—adding just one thousand young adults, given the small starting base. The **Number of Households** is expected to grow more rapidly at 1.2 percent per year, though growth in **Total Employment** is expected to be less impressive at 0.7 percent per year, lower than average for this region. Homeownership affordability problems should also increase demand for rental housing, with anticipated growth in house prices (5.4 percent per year) substantially exceeding the national average while median household incomes lag at just 2.1 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 3.8 and 3.5 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 4.0 percent per year. What makes Palm Beach most interesting for developers are its cap rates averaging almost one full percentage point below the national average—by far the lowest in Middleburg's region—as well as effective rents averaging \$2,725 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.

Number of Households (000s)

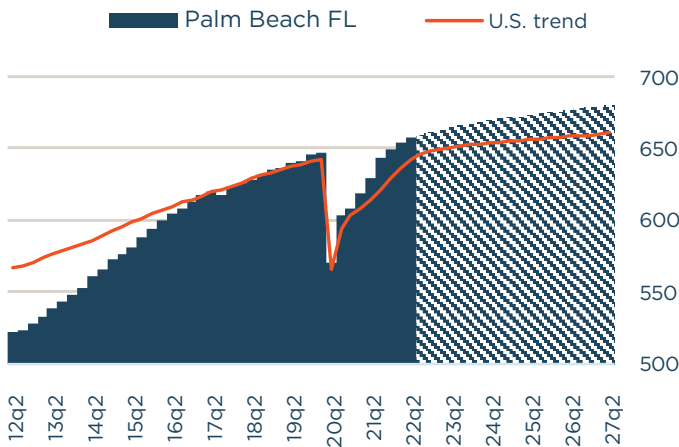


Young Adult Population (000s)

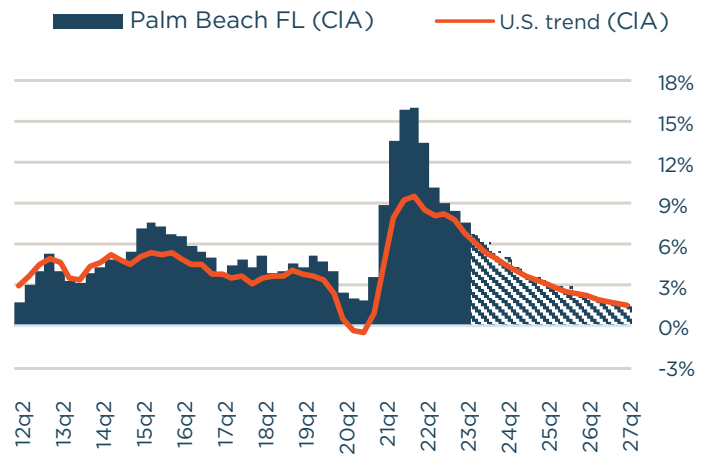


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
22,569	4,552	\$431,591	\$499 million
-1.0%	6.8%	2.7%	↑266.7%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
22.6%	\$73,520	5.7%	-75 bps
-5.0%	0.9%	1.2%	below US avg

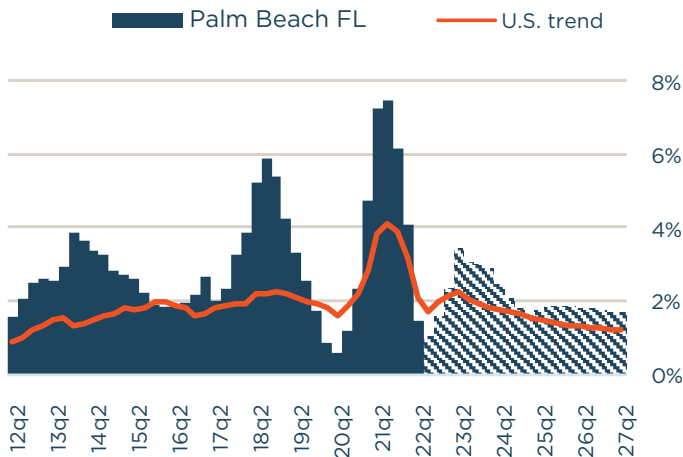
Total Employment (000s)



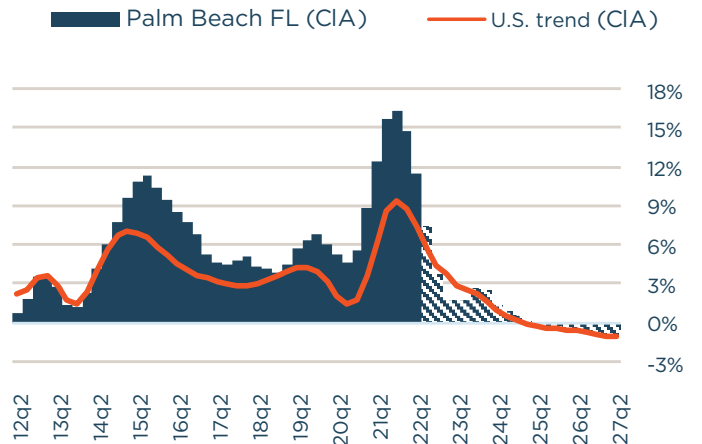
Net Operating Income (trailing 4-qtr)



Net Absorption (trailing 4-qtr sum)



Apartment Property Value Appreciation (trailing 4-qtr)



Representative large employers: Palm Beach County School District, Palm Beach City Government, Tenet Healthcare, NextEra Energy, HCA, Boca Raton Regional Hospital, Florida Atlantic University, Veterans Health Administration, Bethesda Memorial Hospital, Office Depot

Raleigh, NC

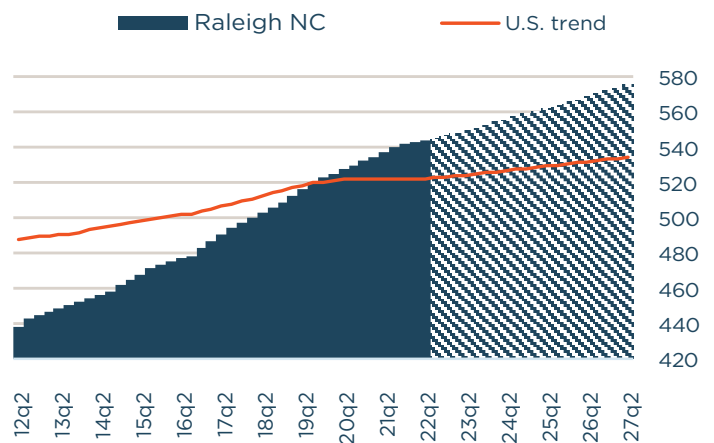
In terms of its attractiveness as a rental housing market, Raleigh can perhaps best be described as a somewhat smaller and much more affordable version of Austin or Nashville.

MIDDLEBURG'S RANK #6 AMONG 15 LARGEST METROS

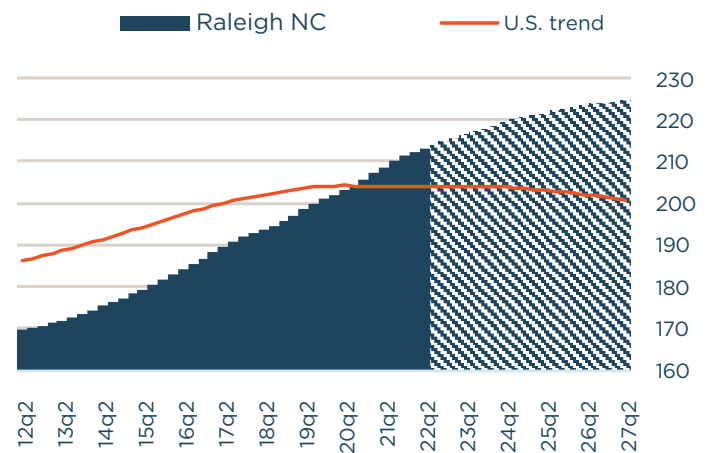
Raleigh has a diverse economic base and an uncommonly high-education, high-income population—a characteristic that it is likely to retain given its reputation as "the low-cost tech hub" and decisions by a large number of tech and life-sciences companies such as IBM, GlaxoSmithKline, and SAS to expand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

Homebuyer affordability should worsen only slightly in Raleigh over the next five years, with house prices outpacing the national average (4.7 percent per year vs 4.2 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 6.1 percent per year. Growth in **Effective Rent per Unit** should also slightly outpace the rest of Middleburg's territory at 2.8 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 39 basis points below the national average, making it very appealing for new development.

Number of Households (000s)

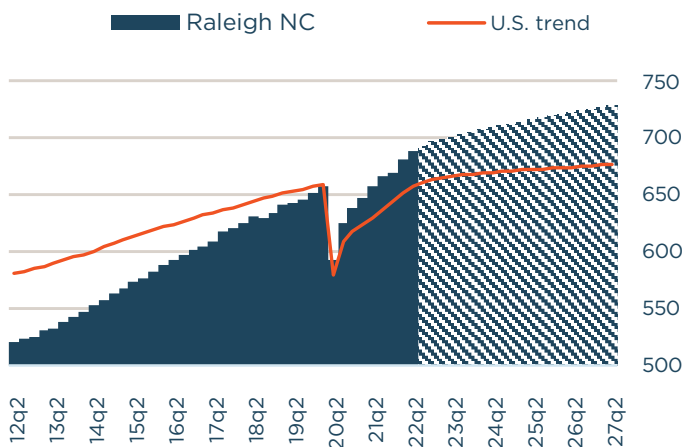


Young Adult Population (000s)

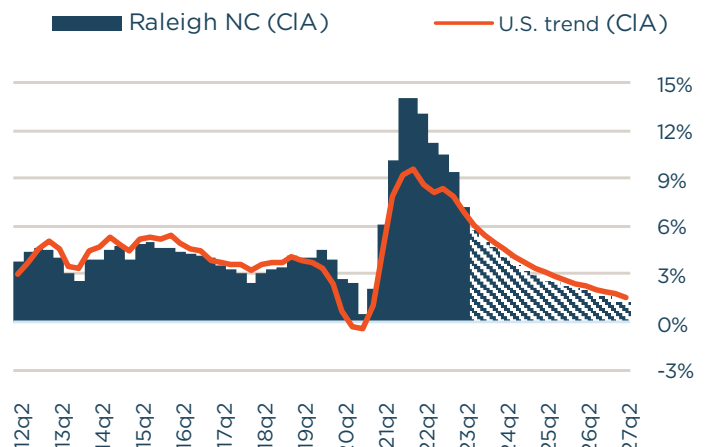


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
27,092	4,386	\$319,259	\$593 million
0.0%	7.2%	5.1%	-7%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
21.5%	\$93,240	5.5%	-39 bps
-6.8%	1.7%	0.0%	below US avg

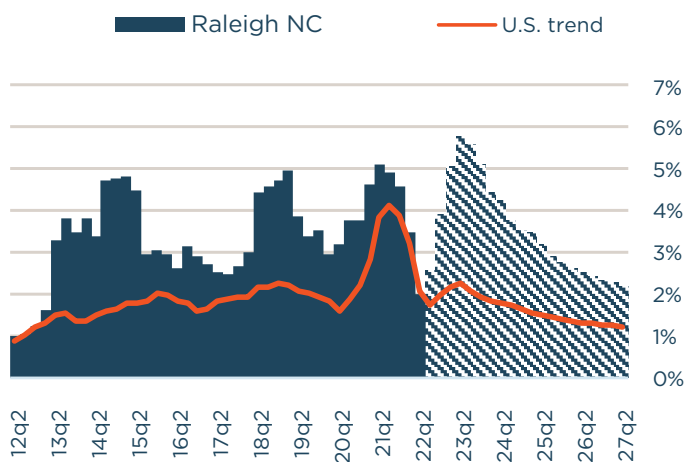
Total Employment (000s)



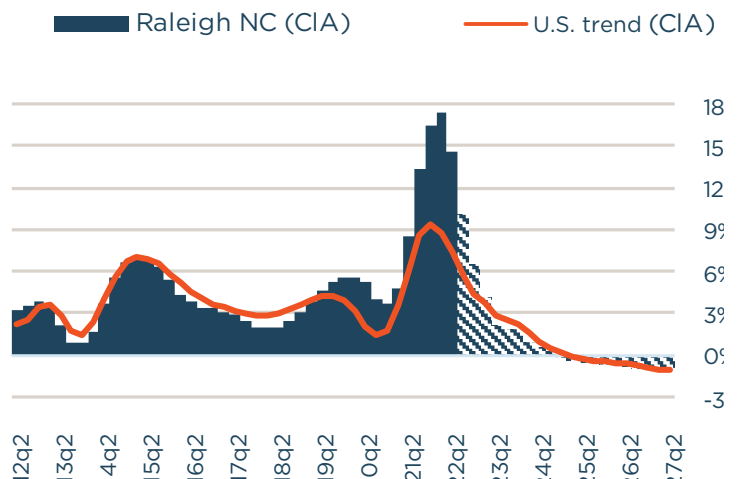
Net Operating Income (trailing 4-qtr)



Net Absorption (trailing 4-qtr sum)



Apartment Property Value Appreciation (trailing 4-qtr)



Representative large employers: Duke Univ. & Health, State of North Carolina, Wake Cty Public School System, Wal-Mart, IBM, WakeMed Health & Hospitals, North Carolina State University, Target, UNC, Rex Healthcare, SAS Institute

Richmond, VA

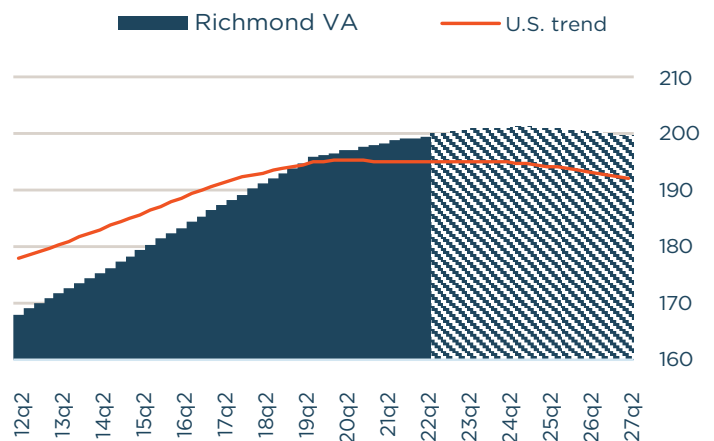
Richmond has successfully shed its over-reliance on the tobacco industry and transformed itself into a diversified regional hub with particular strength in financial services.

MIDDLEBURG'S RANK #15 AMONG 15 LARGEST METROS

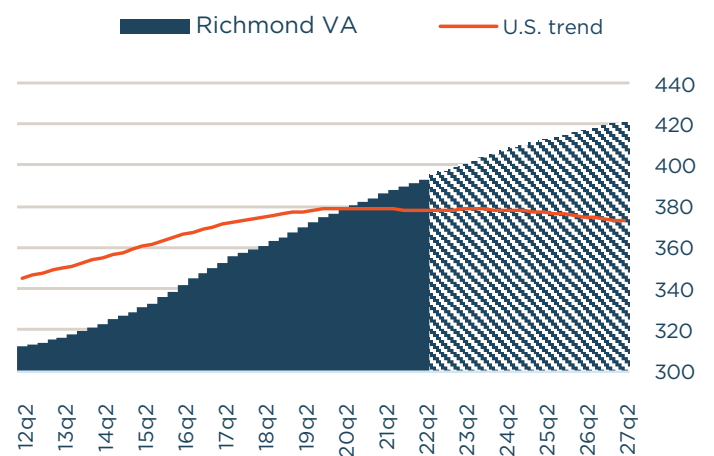
Growth in young adult population, **Number of Households**, and **Total Employment** are expected to slightly outpace other metro areas in Middleburg's arc over the next five years at 0.0, 0.7, and 0.8 percent per year respectively, implying no additional young adults with well as 18 thousand new households and 28 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 2.9 percent per year.

The demographic drivers should be enough to push growth in Units in Demand by 9 thousand units over the next five years at a pace of 8.0 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 3.0 and 4.0 percent per year respectively. One of the most appealing aspects of the Richmond housing market for investors, though, is that it simply hasn't yet been discovered by institutional investors: cap rates have tended to be about 70 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.

Number of Households (000s)

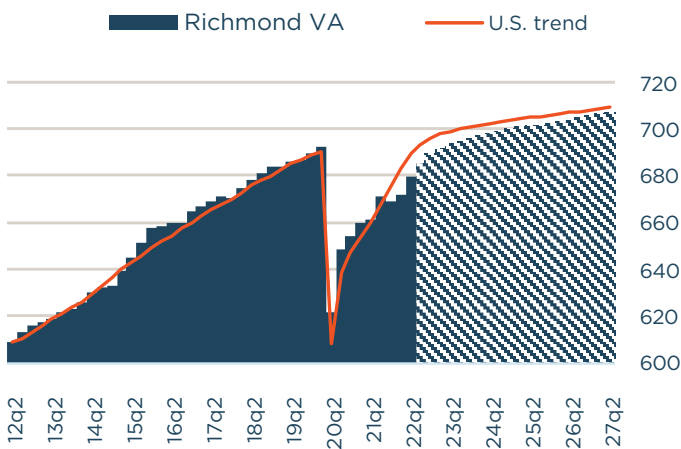


Young Adult Population (000s)

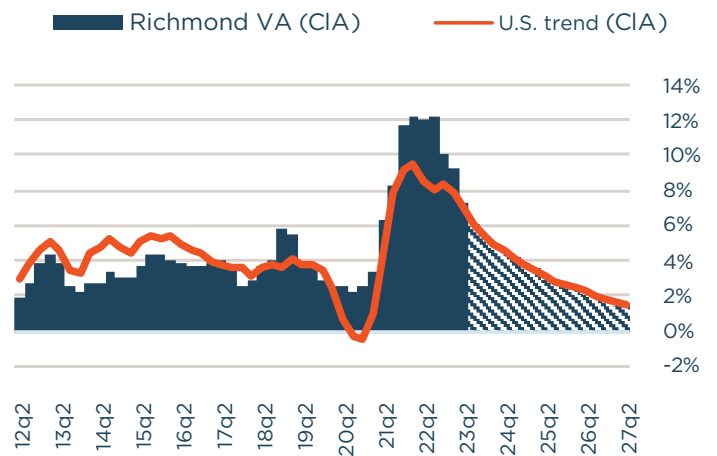


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
21,534	5,268	\$277,209	\$330 million
1.5%	11.0%	3.9%	85%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
13.5%	\$77,240	3.8%	+70 bps
-3.3%	1.7%	0.0%	above US avg

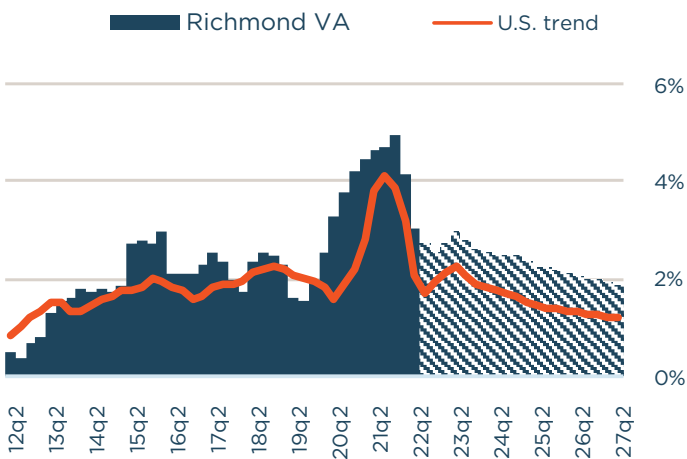
Total Employment (000s)



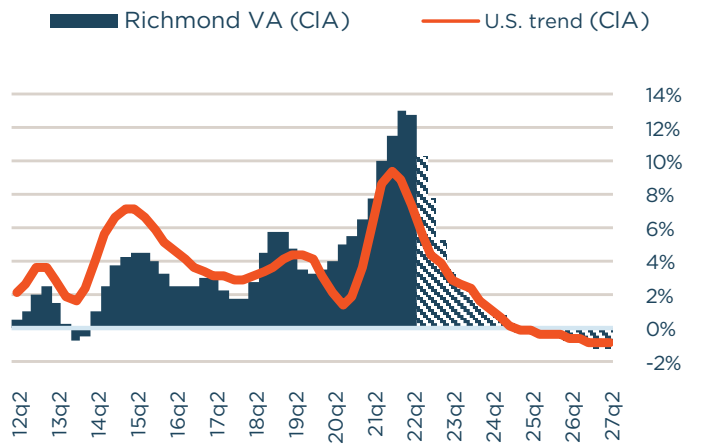
Net Operating Income (trailing 4-qtr)



Net Absorption (trailing 4-qtr sum)



Apartment Property Value Appreciation (trailing 4-qtr)



Representative large employers: Capital One Financial, VCU Med. & Univ. Health, HCA, Bon Secours, Dominion Resources, SunTrust Banks, Altria, Amazon, Wells Fargo, Anthem Blue Cross

ALSO ON OUR RADAR

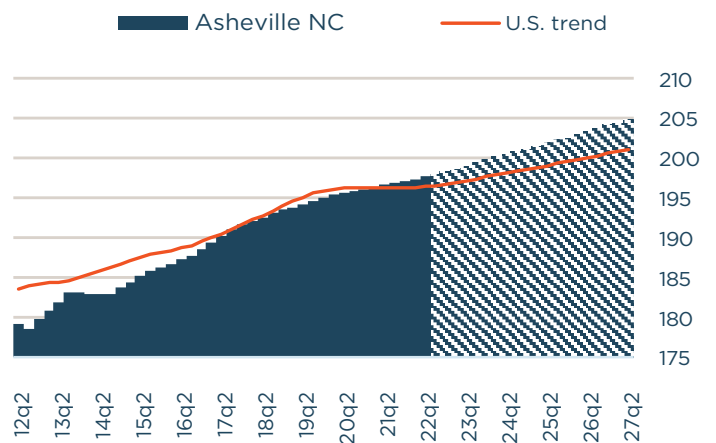
Asheville, NC

Asheville, located in western North Carolina’s Blue Ridge Mountains and home to UNC-Asheville, is known for a vibrant arts scene and historic architecture, including the dome-topped Basilica of Saint Lawrence as well as the Vanderbilt-family Biltmore Estate. The Downtown Art District is filled with galleries and museums, and in the nearby River Arts District, former factory buildings house artists’ studios.

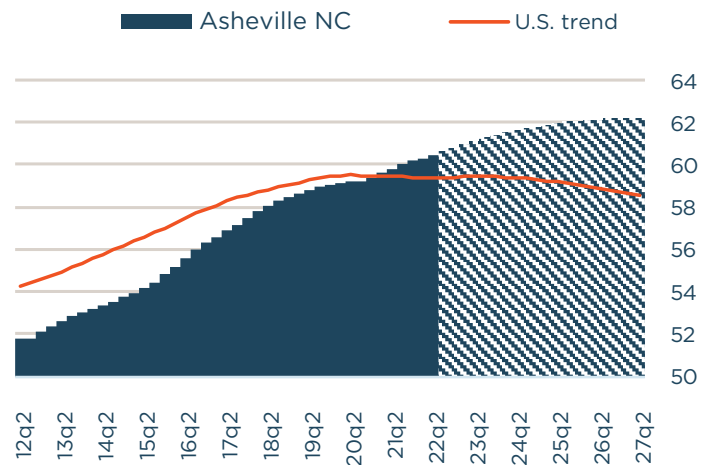
Asheville’s **Young Adult Population** has grown at a consistently strong pace over the last 10 years, and is expected to continue to outpace the national average at 0.6% annually. Asheville is also expected to see relatively strong growth in the other primary drivers of rental housing demand, the **Number of Households** and **Total Employment**.

Asheville’s rental housing operating fundamentals have been perhaps surprisingly strong, with net absorption consistently exceeding the national average and both **Net Operating Income** and **Apartment Property Value Appreciation** similarly strong. Asheville is known as a somewhat difficult market for development, but its appeal to the younger households who drive rental housing demand is likely to continue to make it worth attention.

Number of Households (000s)

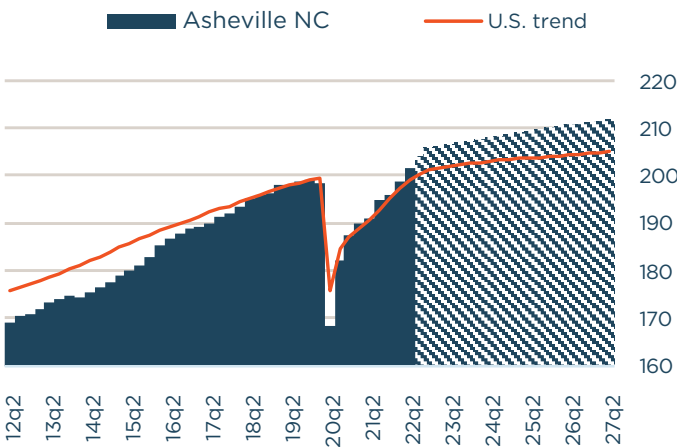


Young Adult Population (000s)

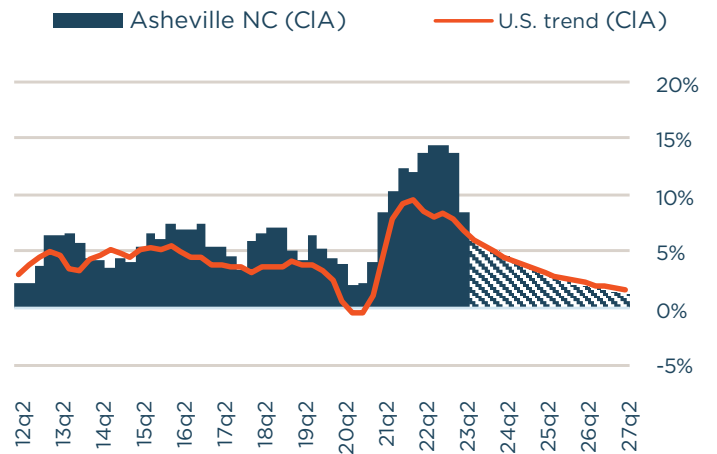


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
7,517	1,262	\$290,499	\$312 Million
0.0%	77.2%	9.9%	64%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
18.0%	\$66,120	3.8%	+46 bps
-4.8%	2.1%	0.1%	above US avg

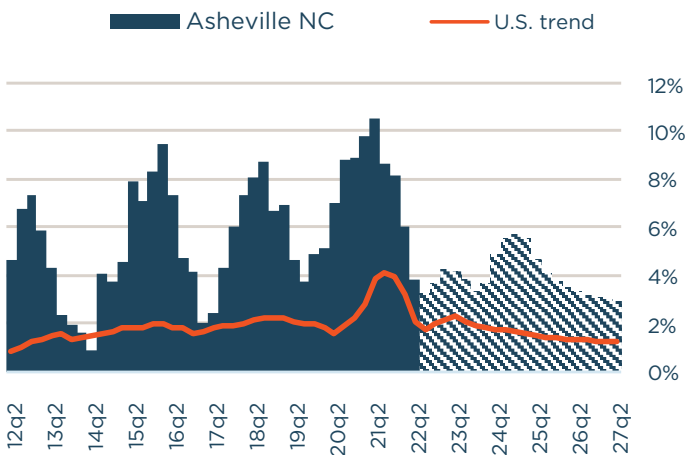
Total Employment (000s)



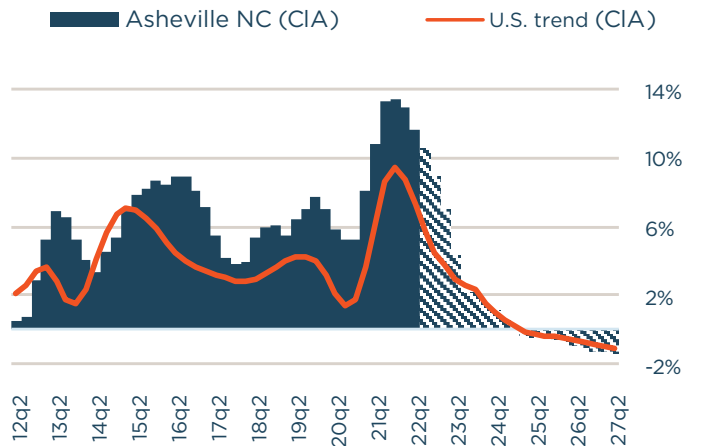
Net Operating Income (trailing 4-qtr)



Net Absorption (trailing 4-qtr sum)



Apartment Property Value Appreciation (trailing 4-qtr)



Representative large employers: Mission Health Hospital, Ingles Markets, Buncombe County Board of Education, Veterans Administration, Biltmore, County of Buncombe, City of Asheville, Wal-Mart

ALSO ON OUR RADAR

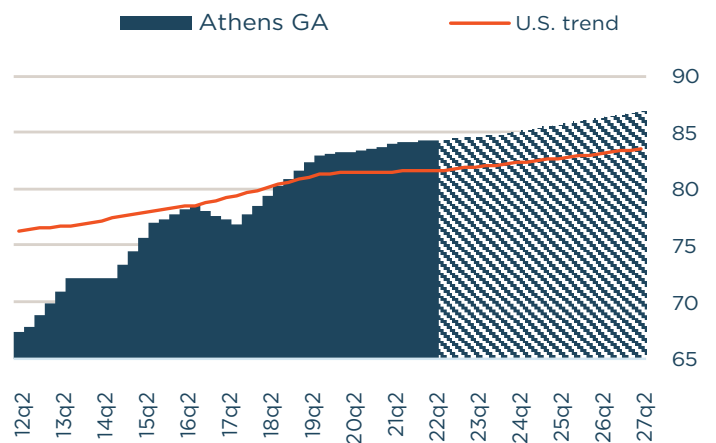
Athens, GA

Athens, GA is home to the University of Georgia and on the outskirts of the large Atlanta metropolitan area. As with the homes of many other colleges, Athens has attracted young technology companies such as Docebo, Roundsphere, and Cogent Education as well as more established firms such as Partner Software, Peachtree Medical Billing, and Digital Insight.

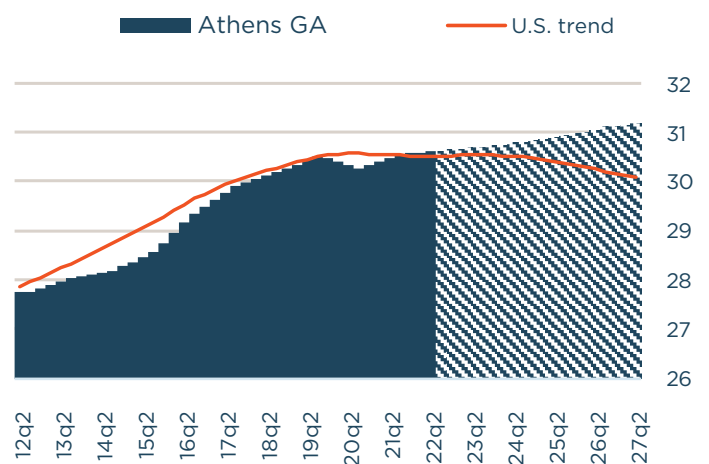
The University of Georgia also hosts its own biotechnology research centers—mostly located on the lower east side of town bordering Oconee county—helping it to attract pharmaceutical manufacturing and biotechnology companies such as Meril and Janssen Pharmaceuticals. In May 2020, RWDC Industries, a company that develops alternatives to single-use plastics, announced their plan to invest \$260 million into the city and the surrounding area and acquire an existing 400,000 square-foot facility.

Despite this foundation for potential growth, however, Athens does not yet boast a vibrant rental housing market: for example, no new units appear to be under construction, nor did any existing units change hands during the second quarter. The market’s prevailing cap rate appears to be significantly higher than other markets at about 146 basis points above the national average, making it worth considering for property acquisition if not for new development.

Number of Households (000s)

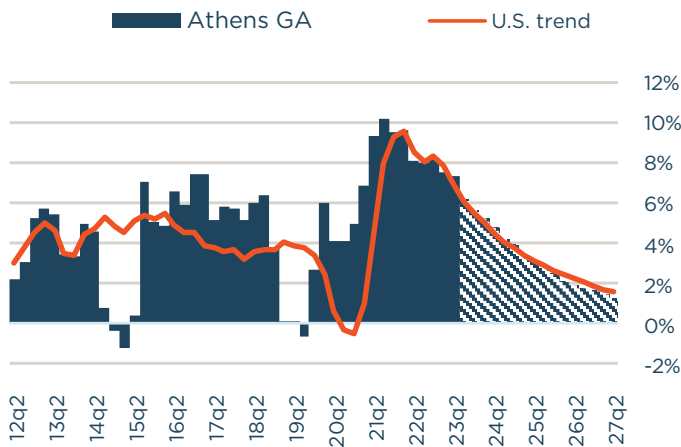


Young Adult Population (000s)

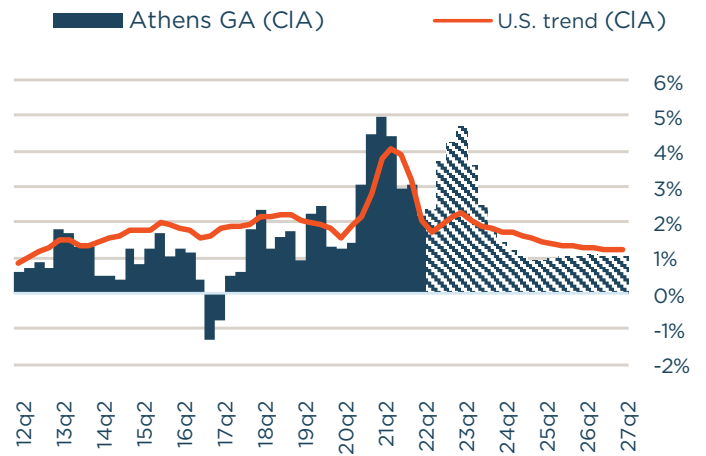


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
2,101	0	\$214,308	0
0.0%	0.0%	1.4%	--
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
15.7%	\$56,720	3.1%	+146 bps
-6.3%	1.4%	0.6%	above US avg

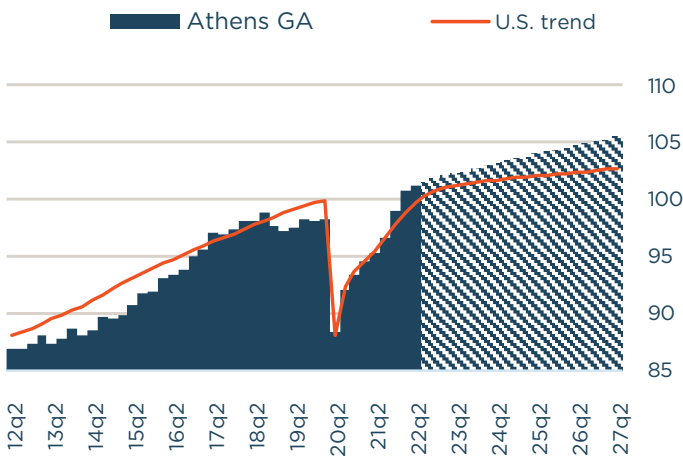
Total Employment (000s)



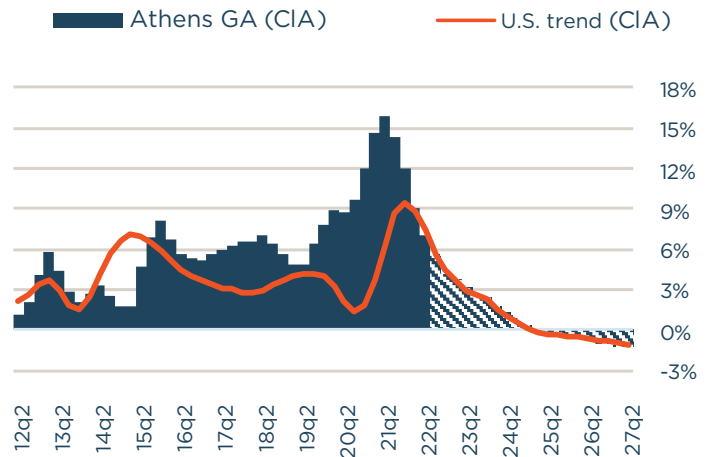
Net Operating Income (trailing 4-qtr)



Net Absorption (trailing 4-qtr sum)



Apartment Property Value Appreciation (trailing 4-qtr)



Representative large employers: The University of Georgia, Piedmont Athens Regional, Clarke County School District, St. Mary's Health Care System, Caterpillar, Pilgrim's, DialAmerica, Power Partners, Inc., Carrier Transicold, ABB

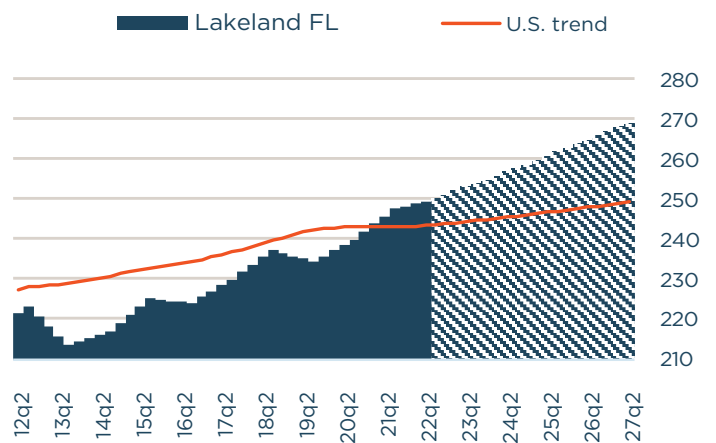
ALSO ON OUR RADAR

Lakeland, FL

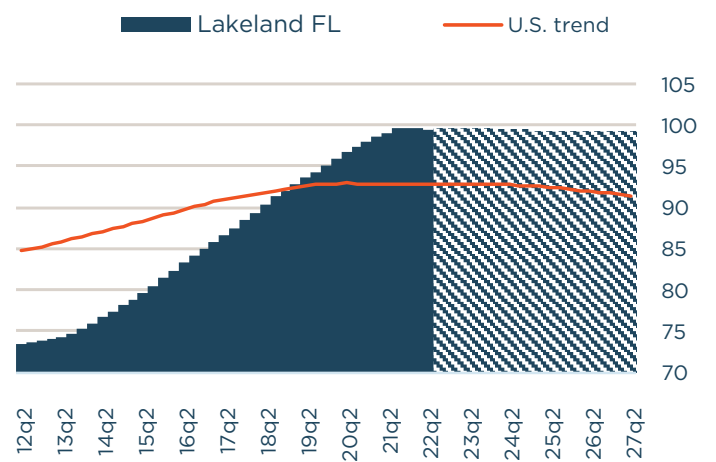
Unsurprisingly given its location on Interstate 4 connecting Orlando and Tampa, Lakeland has long been a transportation hub with companies such as FedEx Freight, and FedEx Services, and the Saddle Creek Corporation employing more than 600 people in the area.

With both neighboring metro areas—especially Orlando—seemingly poised to grow strongly over the next several years, Lakeland seems likely to benefit from the gradual joining of the two urban centers.

Number of Households (000s)

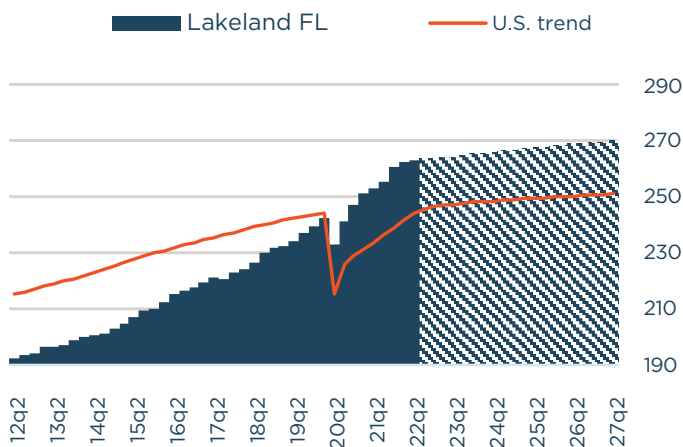


Young Adult Population (000s)

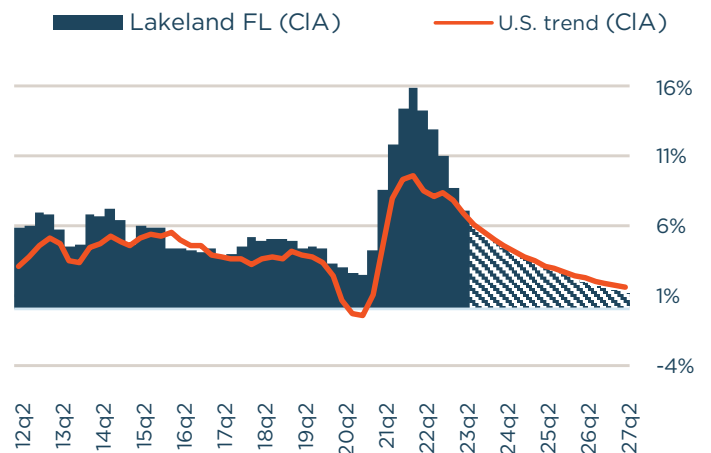


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
4,869	794	\$275,486	250
10.6%	-37.1%	3.8%	-73.2%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
22.0%	\$59,840	3.3%	-10 bps
-4.7%	0.9%	0.5%	to US avg

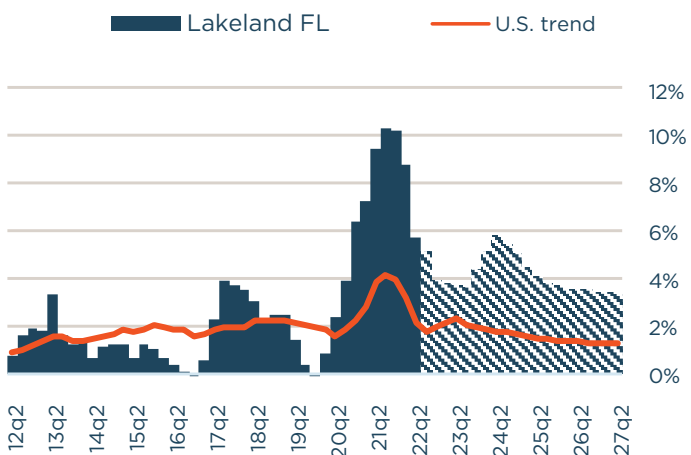
Total Employment (000s)



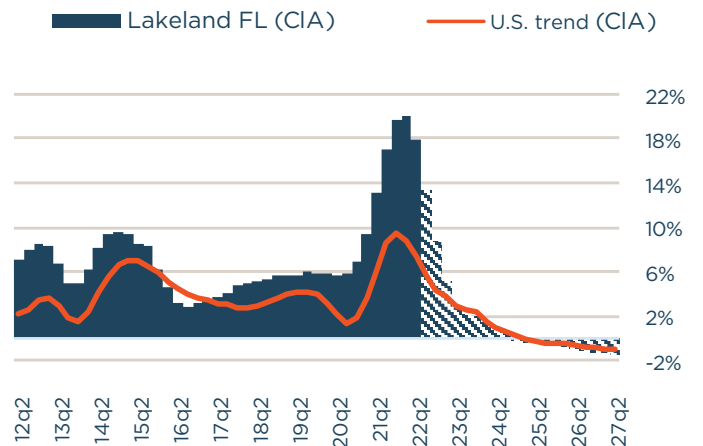
Net Operating Income (trailing 4-qtr)



Net Absorption (trailing 4-qtr sum)



Apartment Property Value Appreciation (trailing 4-qtr)



Representative large employers: Publix, Lakeland Regional Health, GEICO, City of Lakeland, Watson Clinic, Southeastern University, GC Services, Amazon

ALSO ON OUR RADAR

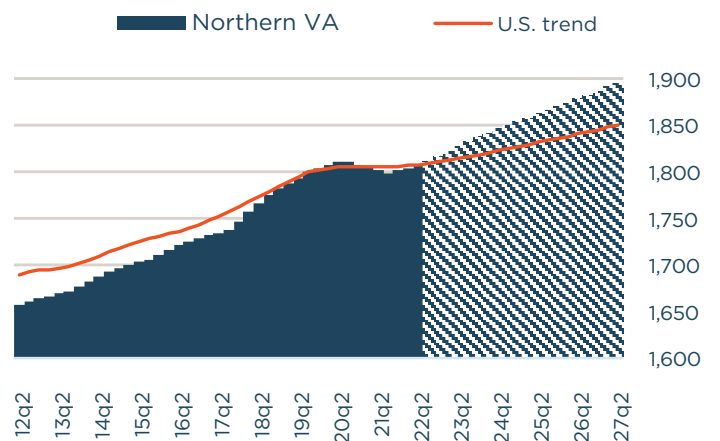
Northern Virginia

Northern Virginia is known for both its relative affluence and the relative stability of its economy, thanks in large part to the massive and diversified presence of U.S. federal government agencies. Of the large counties in the nation with a median household income in excess of \$100,000, the top two are in Northern Virginia and together account for more than half of the region’s population.

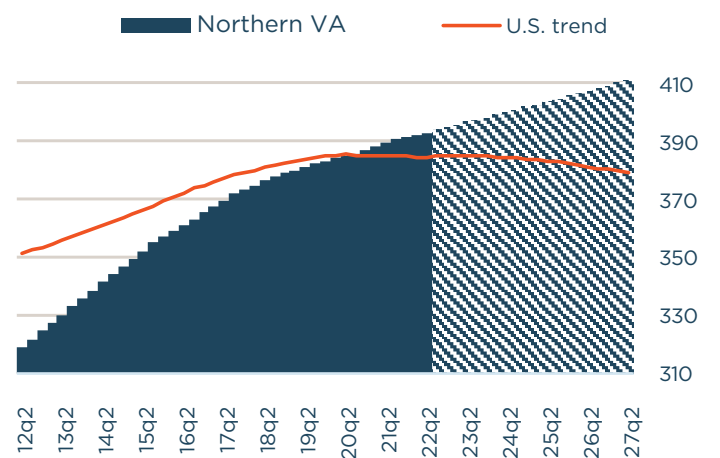
Northern Virginia is not merely a bedroom community for federal government employees working in the adjoining District of Columbia: the Virginia side of the Potomac River is itself home to numerous government agencies, especially those with a military or homeland-protection focus including the Pentagon Marine Corps Base Quantico; several other military installations including Forts Myer and Belvoir; the FBI and DEA Academies, the Naval Criminal Investigative Service, the National Reconnaissance Office, and the Central Intelligence Agency. Major non-defense government employers include the United States Patent and Trademark Office and the United States Geological Survey—but the region also boasts several major private-sector employers including CapitalOne, Hilton Hotels, Leidos, and consulting firms such as Booz Allen Hamilton, CACI International, and MITRE Corporation.

With such a strong and diversified employment base, it is important to keep in mind the ways in which Northern Virginia is perhaps not as enticing as other metro areas in Middleburg’s part of the country. Oxford Economics forecasts, for example, that growth in **Total Employment**, a significant driver of rental housing demand, is likely to be no stronger than the national average over the next five years. Growth in the **Young Adult Population**, too, is likely to be more moderate in Northern Virginia than in other parts of Middleburg’s territory, although the region does not seem likely to see the contraction expected in the rest of the nation.

Number of Households (000s)

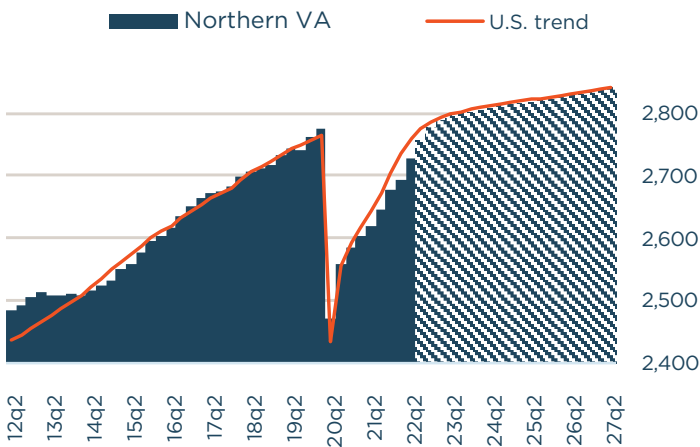


Young Adult Population (000s)

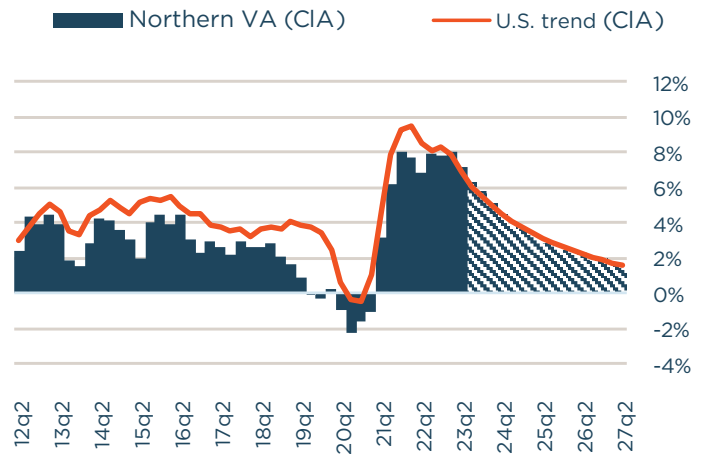


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
158,563	26,827	\$468,730	\$2,621 million
1.5%	3.9%	2.2%	+6%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
9.9%	\$120,960	4.7%	+4 bps
-3.7%	1.8%	-0.3%	to US avg

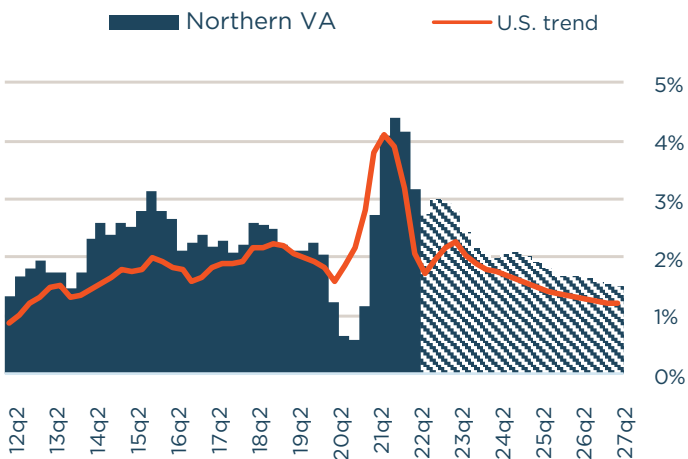
Total Employment (000s)



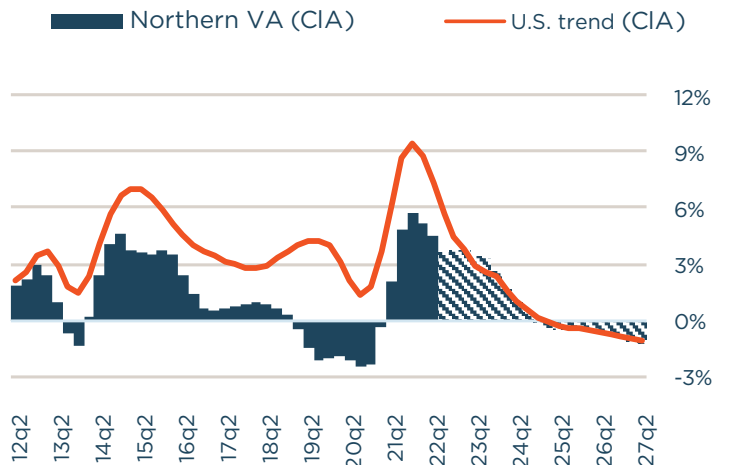
Net Operating Income (trailing 4-qtr)



Net Absorption (trailing 4-qtr sum)



Apartment Property Value Appreciation (trailing 4-qtr)



Representative large employers: AES Corporation, Beacon Building Products, Booz Allen Hamilton, CACI International, Capital One, DXC Technology, General Dynamics, Northrop Grumman, Hilton Hotels, Leidos

ALSO ON OUR RADAR

Tuscaloosa, AL

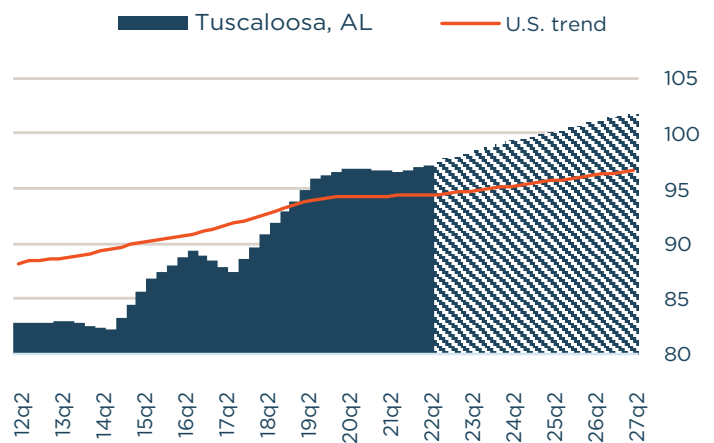
Home to the University of Alabama, Tuscaloosa is the regional center of industry, commerce, healthcare and education for West Alabama.

A significant contributor to the city's economy is the Mercedes-Benz U.S. International assembly plant, which opened in 1995 near Vance, 20 miles east of downtown Tuscaloosa, and employs approximately 4,400 people. The auto assembly plant supports several auto parts manufacturers including BFGoodrich, and the strength of the engineering base supports other industrial jobs.

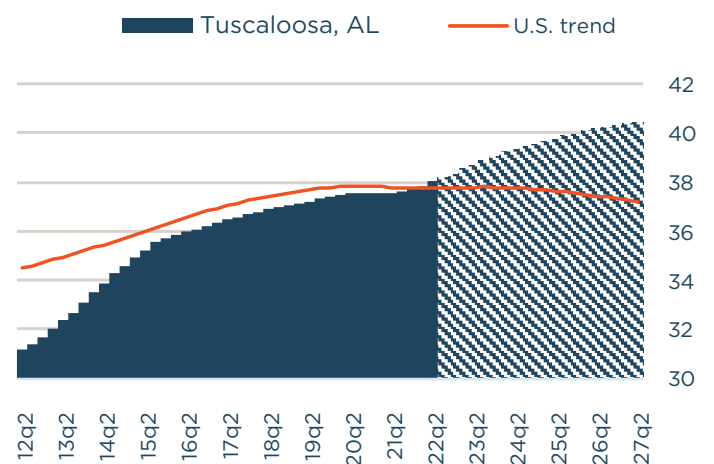
More than luxury sedans, however, have made Tuscaloosa appealing to the demographic drivers of rental housing demand: indeed, both the **Young Adult Population** and **Number of Households** are expected to grow much more strongly over the next five years in Tuscaloosa than in the country as a whole.

Like the home of its sports rival the University of Georgia, Tuscaloosa is by no means a vibrant rental housing market, with no units currently under construction and no significant property transactions during 2022Q2. Unlike Athens GA, however, Tuscaloosa does not appear to offer especially high multifamily cap rates—in fact, the cap rate in Tuscaloosa appears very close to the national average. The industrial base of this city and the intellectual capital building up in it bear observation, but Tuscaloosa does not appear to be a top priority for either development or acquisition.

Number of Households (000s)

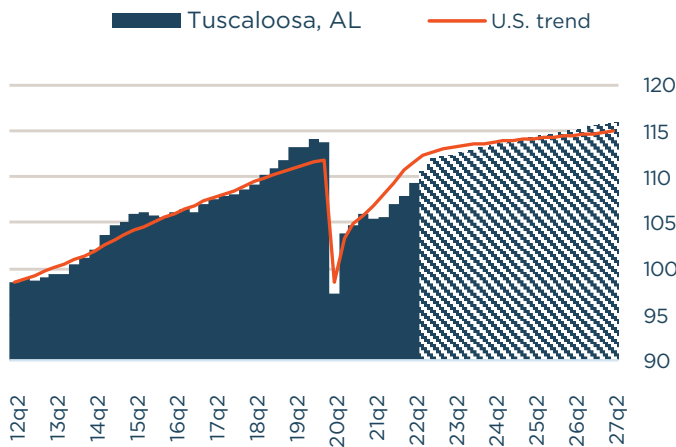


Young Adult Population (000s)

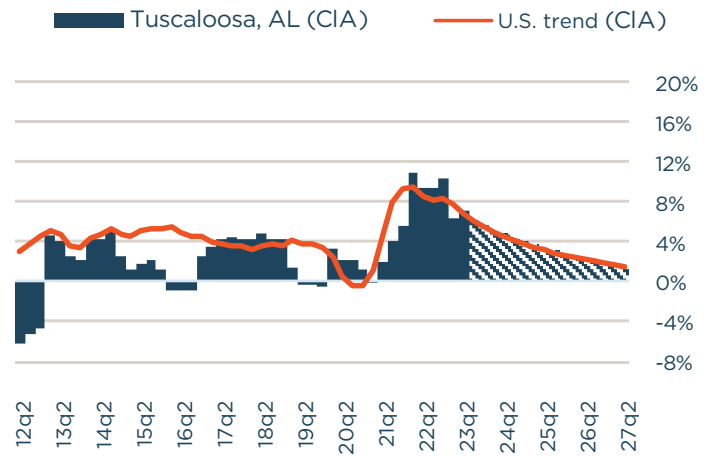


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
695	0	\$171,832	0
0.0%	0.0%	-1.2%	--
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
11.9%	\$55,640	3.7%	0 bps
-2.1%	1.6%	1.0%	to US avg

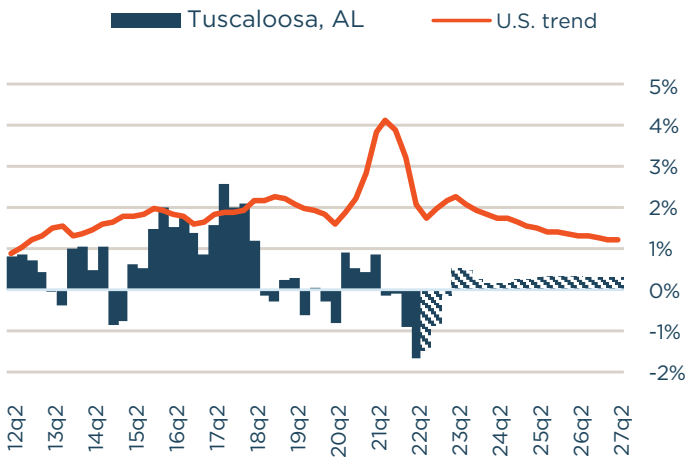
Total Employment (000s)



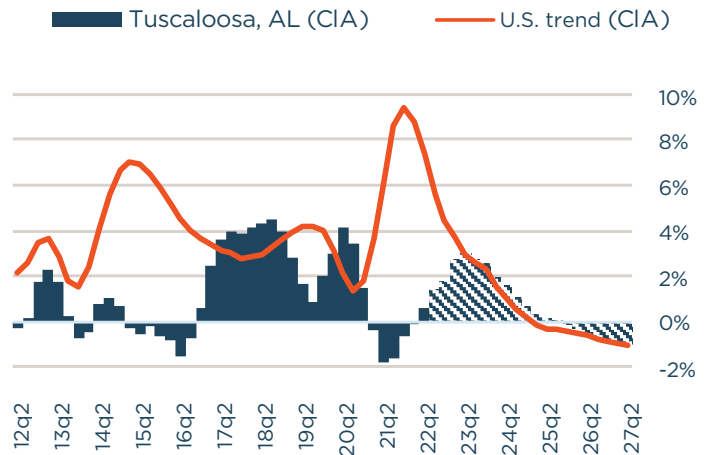
Net Operating Income (trailing 4-qtr)



Net Absorption (trailing 4-qtr sum)



Apartment Property Value Appreciation (trailing 4-qtr)



Representative large employers: Mercedes Benz, BFGoodrich Tire Manufacturing, GAF Materials Corporation, Hunt Refining Company, JVC America, Nucor Steel and Phifer Wire.