MIDDLEBURG
COMMUNITIES

Middleburg Markets Report

Q3
2022

Middleburg Communities is pleased to present our Middleburg Markets Report for the 3rd quarter of 2022. This report summarizes our current thinking about the rental housing market both nationally and in those markets that we most closely evaluate for development, acquisition, or other forms of investment.

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

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

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

Kory Geans
CO-MANAGING PARTNER AND
CHIEF INVESTMENT OFFICER

Introduction

If the first half of 2022 was marked by an "uncertainty imbalance" between foreboding macroeconomic conditions and more auspicious rental housing market conditions—especially in Middleburg's part of the U.S.—the 3rd quarter brought more uncertainty to housing markets but, perhaps paradoxically, no intensification of macroeconomic warning signs.

The war in Ukraine continues to be the chief worry: with Russia's battlefield strength seeming to have amounted to little more than an elaborate bluff, its remaining weapons of aggression—not just nuclear or chemical arms but its position as the chief energy supplier to some of Ukraine's most important allies—increase the concern that it will deploy more widespread economic destruction to make up for its physical shortcomings.

The U.S. stock market, too, continued its first-half slide during Q3, while bond markets mirrored its baleful outlook. Yet macroeconomic conditions domestically—especially labor markets, but also income growth, consumption, and consumer and business sentiment—have proven surprisingly resilient to these bleak omens. In fact, the most commonly cited summary statistic for U.S. economic output—real growth in gross domestic product (GDP)—seems likely to show a significant recovery from the previous two consecutive quarters of misleadingly negative numbers.

We begin this 2022Q3 Middleburg Markets Report by trying to answer the increasingly puzzling question of where the macroeconomy is headed. We then delve into the increased uncertainty of housing market conditions and provide some insight into how we evaluate markets and target locations before updating 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 Daytona Beach FL, Fayetteville NC, Gainesville FL, Greenville SC, and Melbourne FL.

Mosby Ingleside, Charleston, SC

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U.S. Overview

The third quarter of 2022 brought surprisingly little change in macroeconomic conditions—with persistent and very clear threats of recession accompanied by a striking lack of actual recessionary conditions. The torrid housing market, though, showed a clear movement toward moderation, with some softening in rent growth and house prices but, as with the macroeconomy, no clear signs of actual weakness.

Macroeconomic developments during the third quarter seemed almost designed to preserve in balance the three already-existing eventual outcomes: mild recession, soft landing, or significant recession.

Mild Recession. This remains the most likely scenario, with perhaps a 50% likelihood despite the fact that data have stubbornly refused to reveal the real-world tentativeness that would lead to it. The forces driving in the direction of recession are clear enough, including inflation eroding real income growth, increased interest rates, high energy prices, economic weakness overseas, and lackluster confidence among consumers and businesses. Under such conditions it would be perfectly normal for any of the three key macroeconomic supports—employment growth, income, and consumption—to falter, leading to widespread but mild macroeconomic weakness

Moreover, at least two "leading indicators" for recession, an inversion of the yield curve and a bear market in equities, have given their signals. The third quarter was marked by a persistently strong yield curve inversion: for example, the frequently used spread between 10-year and two-year Treasury yields has been negative on every market day since the 4th of July. With respect to a bear market in equities, in August three Federal Reserve Board economists published a study noting that:

> *Since the beginning of this year, broad equity market indexes around the world have declined significantly. In interpreting the declines, market commentaries have highlighted the risks to the economic outlook in the United States and other advanced economies. … Expected dividends contain information about GDP, as they provide a signal about firms' profits, which in turn are an important component of GDP. Beyond this direct effect, they reveal information about firms' and investors' expectations of future economic conditions.* [1]

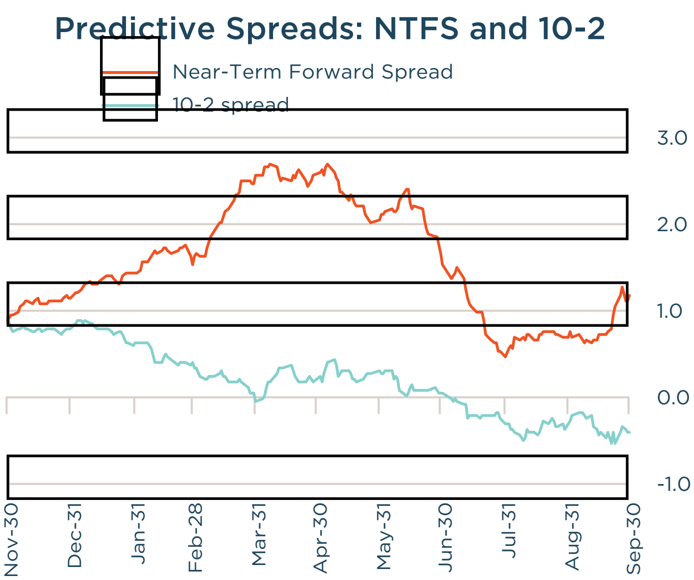
The simple question is this: with the conditions for recession having been in place for some six months, why haven't the recessionary conditions actually materialized? For example, employment growth during September—which was described by some as "disappointing"—was, in fact, stronger than in more than 70 percent of other months dating back to the beginning of 2000. September's employment situation more closely resembled normal expansion than the beginning of even a mild recession.

Soft Landing. The idea that inflation might revert to its two percent long-term target without an accompanying recession is often dismissed as Panglossian and chimerical, but nevertheless deserves perhaps a 30% likelihood. Of course it is difficult to manage an economy as complex and interconnected as ours using tools as rudimentary as monetary and

[1] Markus Ibert, Ben Knox & Francisco Vazquez-Grande, "Are Stocks Pricing in Recession Risks? Evidence from Dividend Futures," FEDS Notes August 18, 2022.

fiscal policy—but multiple capable people with pretty good information are trying to achieve this very goal, and their efforts have to be accorded some meaningful probability of success. And if something as inherently difficult as a "soft landing" is the goal, it certainly helps to have in place beforehand a runway paved, as it now is, with normal expansion conditions in employment, income, and consumption.

As noted, an inverted yield curve is often taken as a signal of a coming recession. As we noted in our previous quarterly report, however, the "near-term forward spread" studied by Federal Reserve economists has been an even more reliable indicator of coming recession—and, far from turning negative, it has actually turned more strongly positive since reaching a low on August 1st. (A positive reading indicates the collective expectation among market participants that macroeconomic conditions are strong enough to support continued increases in policy interest rates.)



Regarding the bear market in equities, the Fed research published in August actually concluded that it appears to be signaling a slowdown but not a recession:

> *The historical relationship between realized real dividend growth and real GDP growth [leads to the conclusion that] revisions to expected real GDP growth in 2022 since the beginning of this year across advanced economies are about zero [while] moderate declines in expected real dividends for 2023 across the broad equity indexes we study translate into moderate downward revisions to real GDP growth for 2023 across advanced economies.*
>
> *Overall, these results indicate that equity markets price in only moderate downward revisions to expected dividend and GDP growth. By comparison, professional forecasters from Consensus Economics are less sanguine: they have on average marked their U.S. GDP growth forecasts downwards from 3.9% to 2.1% for 2022 and from 2.6% to 1.8% for 2023 since the beginning of this year.*[2]

Of course, market signals are imperfect predictors for macroeconomic conditions: indeed, the authors note that "should a recession materialize in 2022 or 2023, we suspect that expected dividends and equity prices have much further room to fall." Still, it's notable that such a variety of recession indicators do not yet signal anything worse than a soft landing.

Significant Recession. It must be said that several macroeconomic forecasters whose opinions merit attention—including several of those surveyed by Consensus Economics—have predicted a significant recession. The array of recession-ish conditions already in place have certainly set up an environment in which economic wounds can fester. This is particularly true of the war in Ukraine, which Russia seemingly hopes to win by driving Europe into economic hardship sufficient to make Ukraine's allies sue for peace on its behalf. It is absolutely possible that the economy could tip into stagflation if the aggressive rate hikes prescribed by the Federal Open Market Committee (FOMC) suppress investment and hiring before they suppress inflation. Still, the resilience that we've seen so far in employment, income, consumption, and even sentiment indicators suggest that such an unfavorable outcome carries a likelihood of only something like 20%.

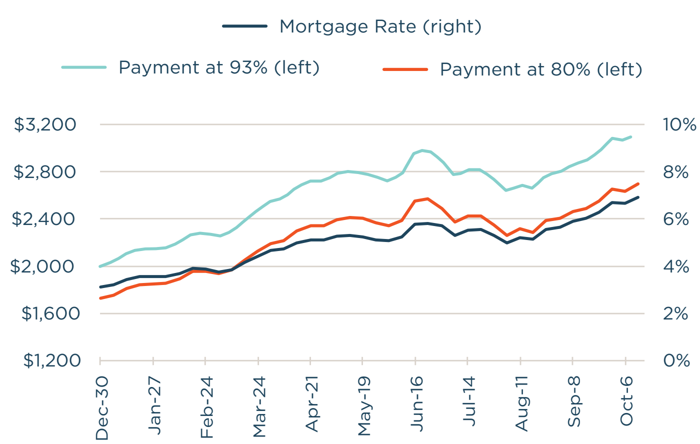
[2] Ibid.

HOUSING COSTS: RENTING AND OWNING

The astonishing increases in both rents and house prices over the past year-plus appear finally to have moderated. CoStar reports that the nationwide average effective rent on Class A multifamily properties declined by 1.2 percent during Q3 after having increased by 22 percent over the previous seven quarters, while the Federal Housing Finance Agency (FHFA) reports that the nationwide average home purchase price declined by 0.6 percent in July; house prices are widely expected to continue declining significantly after having surged by more than 40 percent over the previous 25 months.

Notwithstanding the July decline in house prices, the FOMC's rate hikes have continued to drive up the monthly cost facing a potential house buyer. The nationwide average rate on a new 30-year fixed-rate mortgage has more than doubled this year, from 3.11% as of December 30th to 6.70% as of September 29th (and 6.92% as of October 13th). As a result, even assuming a continuation through September of the house price decline measured in July, the implied monthly payment (for principal and interest only) on the average-priced house increased by a staggering 55 percent: from $1,732 to $2,682 for a new mortgage with an often-quoted 20% down payment, and from $2,013 to $3,118 with a down payment at the actual average of 7%.

Mortgage Rates and Payments



While the enormous increases in rents and mortgage payments since 2020 have focused attention on housing affordability, it is important to note that affordability problems are much more significant in the owner-occupied part of the housing market than in the rental housing market. For example, even as incomes have increased, the implied monthly mortgage payment (for principal and interest only) on the average-priced house, as a percent of personal disposable income, has increased by 50 percent during the first three quarters of 2022.

In contrast, in the market-rate population, RealPage has reported that affordability issues have not yet affected the rental housing market. In particular, RealPage reported in July that

> *Market-rate apartment renter incomes have soared since the pandemic, keeping rent-to-income ratios much lower than widely assumed. … The share of income spent on rent ticked up from 21.3% in 2019 to 23.2% in 2022, marking a return to the 2011 norm, and still well below the generally accepted affordability ceiling of 33%.* [3]

More recently the same organization summarized the evidence that rental housing demand does not seem to have been affected by affordability issues:

1. *Are rent collections weakening? Not yet. Rent collections actually climbed UP in September.*
2. *Is there a "flight to affordability? Not yet. If affordability was the No. 1 hurdle, we would see…a shift in demand from higher-priced Class A to lower-priced Class C…. But that's not happening right now.*
3. *Are renter incomes stagnating? Not yet. Incomes among new lease signers jumped 11.6% year-over-year.*[4]

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[3] "Market-Rate Apartment Renters Spending 23% of Income Toward Rent," July 18, 2022.

[4] Jay Parsons, "Is Apartment Demand Weakening Due to High Rents? Look for These 3 Signals," October 10, 2022.

In short, the affordability issues constraining prospective buyers of owner-occupied housing appear to have been exacerbated much more severely than those constraining prospective renters of the sort of middle-market Class A rental housing that constitutes most of Middleburg's focus.

MIDDLEBURG'S FORECASTING

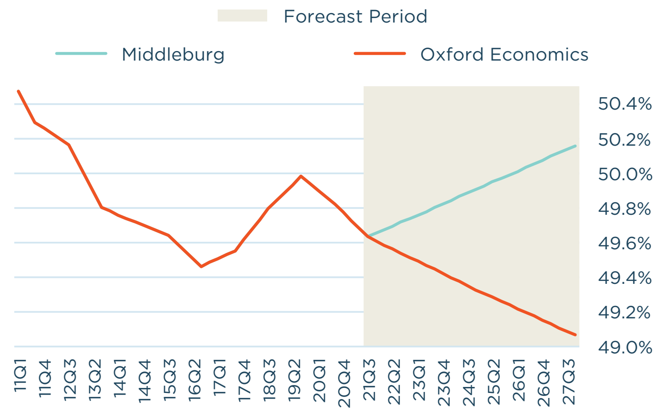
Our data-driven approach to making investment decisions rests on three pillars. The first pillar is raw data, which come from both internal sources such as operating fundamentals at the properties we operate along with external sources such as U.S. government agencies. The second pillar is our data and analytical partners such as RealPage, CoStar, Oxford Economics, and Green Street, which provide forecasts of certain key indicators.

It is undeniable, though, that some economic parameters are of greater importance to Middleburg than to our data partners, and it's appropriate for us to focus more closely on those parameters than our data partners do. The third pillar, then, is our own empirical analysis in selected applications.

A good example of this is the number of households per adult (also called, technically, the "headship rate"), which is critical to evaluating demand for rental housing units because growth in the adult population multiplied by the headship rate equals growth in the number of households. The headship rate declined sharply in the years immediately following the 2007-09 housing market crisis, but recovered strongly from 2016Q3 through 2019 before being derailed by the covid pandemic. The data provided by Oxford Economics reflects this pattern, including the early-pandemic derailment—but Oxford Economics assumes that the headship rate will continue declining indefinitely.

In fact, the headship rate has already begun to recover significantly, and specialists who have studied it closely generally expect it to continue its recovery over the next few years. For example, researchers in the Federal Reserve's Household and Business Spending Section noted in May of this year that

Alternative Forecasts of U.S. Headship Rate



> *Over the past year and a half there has been a remarkable rebound in the headship rate, driven in large part by a return to the pre-pandemic rates at which younger adults lived with parents or older family members. This rebound has been an important contributor to a huge increase in housing demand. … Looking ahead, headship rates might continue to climb given the strength of the labor market and as a result of pandemic-driven adaptations in how and where people prefer to live.*[5]

Because the headship rate is so important to Middleburg in evaluating local demand conditions, we replace Oxford's assumed downward path with our own forecast based on (1) Oxford's forecast for population growth by age group, (2) our own empirical analysis of the historical relationship between the headship rate and the age distribution of the population, and (3) our adjustments for historical differences in headship rates for specific metro areas relative to the national average.

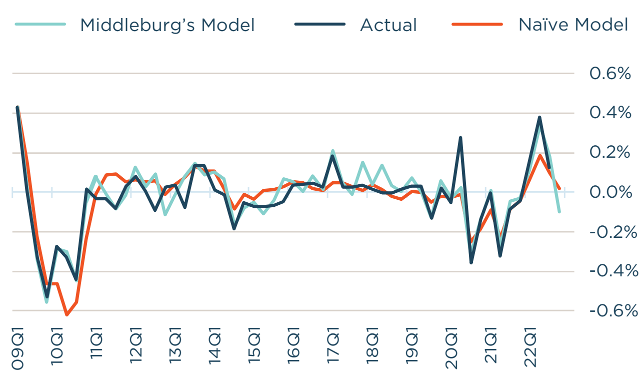
There are other parameters for which we believe we have the capability to develop better forecasts than are available from our data partners. As an example, although CoStar provides a forecast for cap rates on Class A multifamily properties, we believe we can develop more robust predictions by applying recent innovations in forecasting techniques. In particular, we make use of a recent observation that certain historical periods are more relevant than others in developing a forecast from current conditions, either because conditions during one

[5] Daniel García and Andrew Paciorek, "The Remarkable Recent Rebound in Household Formation and the Prospects for Future Housing Demand," FEDS Notes May 6, 2022.

period were more similar to current conditions or because outcomes in those periods were more informative.[5]

A simple version of our cap rate forecasting model illustrates the advantage of employing this insight on relevance. Considering cap rate forecasts for two quarters ahead, the relevance-weighted model produced forecasts that were 32 percent closer to the correct value, on average, compared with a naïve model that weighted all historical periods equally. Moreover, the enhanced accuracy was especially pronounced in forecasting quarters that ultimately showed the largest movements, such as 2009Q2-20010Q3 (the immediate aftermath of the Great Financial Crisis), 2017Q1, and 2022Q2.

Two-Quarter-Ahead Forecasts of Changes in Cap Rates



In terms of current conditions, the nationwide average cap rate on Class A apartment properties seems to have increased by approximately 67 basis points over the first three quarters of 2022. Middleburg's relevance-weighted model predicted 63 basis points of increase over that period, but predicts that during Q4 the cap rate will subside by 10 basis points. In contrast, the naïve equally-weighted model predicted just 34 basis points of increase over the first three quarters of this year, but implies that cap rates are likely to increase by a further two basis points during Q4.

MIDDLEBURG'S LOCATION SELECTION

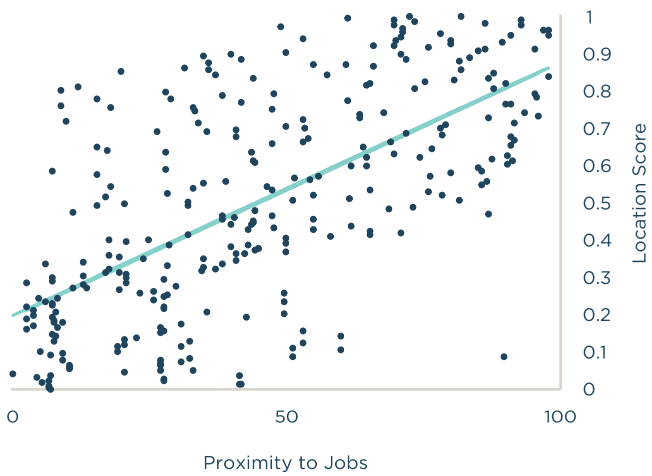
Beyond our focus on higher-quality forecasting of top-level conditions such as nationwide average cap rates, we put a great deal of effort into evaluating local variations in the market conditions that are most important in considering opportunities to develop or acquire rental housing communities. For example, we do not directly forecast local-market cap rates; rather, we model local-market variations from the national average cap rate and combine that with our forecast of the national average to produce an indirect forecast of local-market cap rates.

Our analysis of local market conditions informs both our selection and prioritization of markets and our selection and prioritization of areas within each market. Each location, however, presents a trade-off among desirable and undesirable attributes: after all, any location that presented only desirable attributes would be relatively expensive as a result, so the key is to use better judgment than other bidders in selecting locations given the inevitable trade-offs.

[6]Megan Czasonis, Mark Kritzman & David Turkington, "Addition by Subtraction: A Better Way to Forecast Factor Returns (and Everything Else), Journal of Portfolio Management, September 2020.

To see this, consider one of the criteria that we use to evaluate locations within a metro area: proximity to employment. For a company such as Middleburg that develops, owns, and operates predominately middle-market Class A rental housing, relatively good proximity to employment clearly makes a given location more appealing to our households. As the accompanying graph for the Raleigh NC shows, there is a strong positive relationship between job proximity and the overall score that we assign to locations. But there is a great deal of variation, too: some locations score poorly on job proximity but well on other criteria, while one location in particular scores very well on job proximity but poorly in other respects.

Location Scoring: Job Proximity (Raleigh NC)

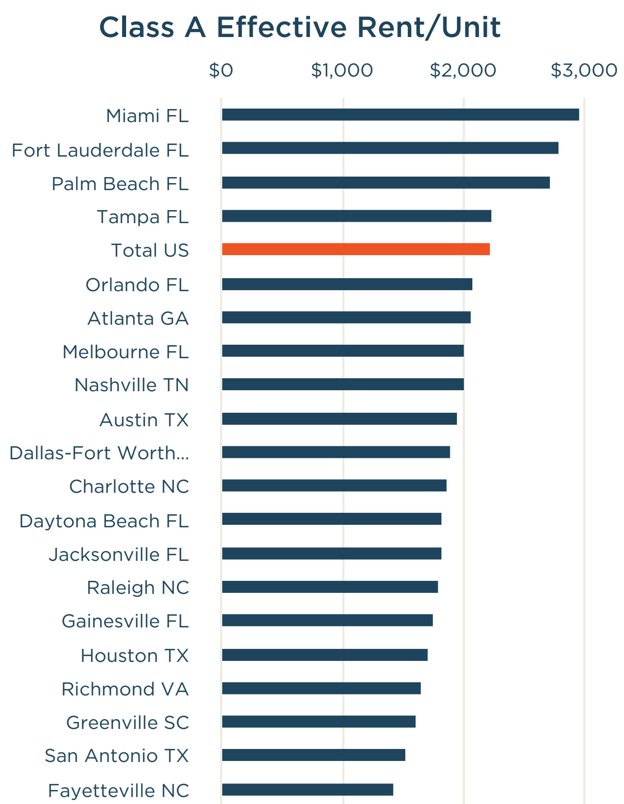


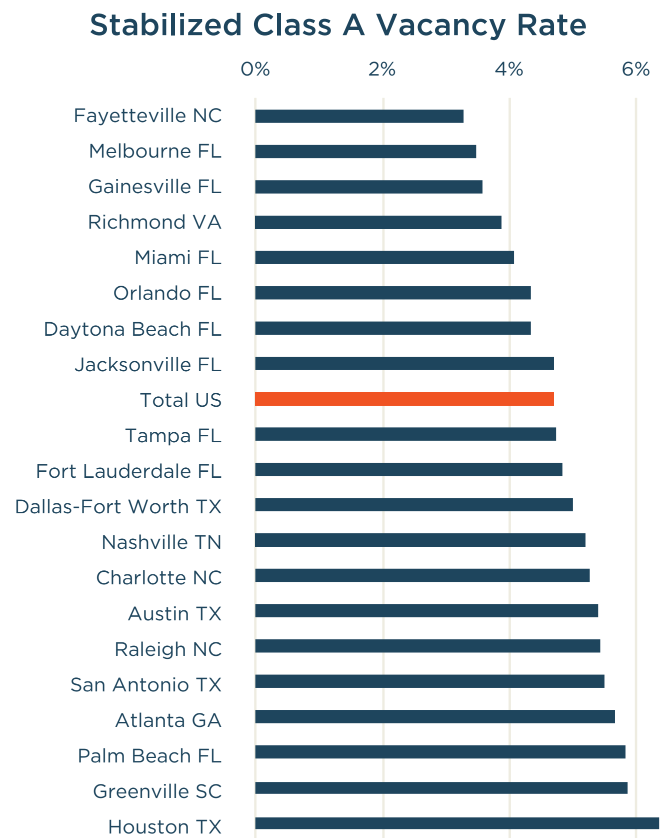
As mentioned, our forecast for growth in the number of renter households is especially important in evaluating locations for possible development, acquisition, or financing. As another accompanying graph shows, those few parts of the Raleigh metro area that we forecast to have a net decline in the number of renter households over the next few years score very poorly overall—that is, it's very difficult for a location with negative predicted growth in renter households to overcome that problem. In contrast, those parts of the Raleigh area that we believe will see the strongest growth in renter households also tend to score well on other criteria, making them the most desirable for our development, acquisition, or financing activities.

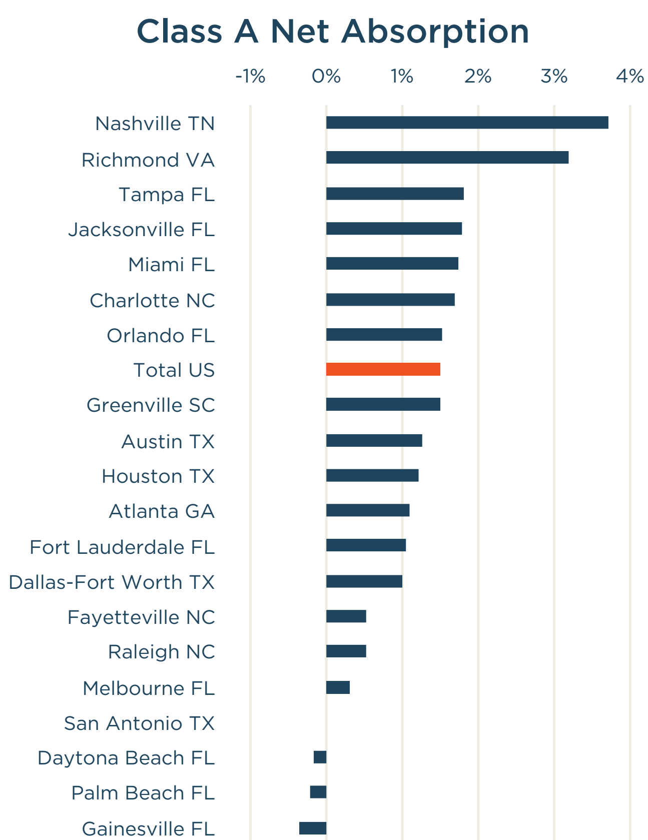
Location Scoring: Renter Households (Raleigh NC)

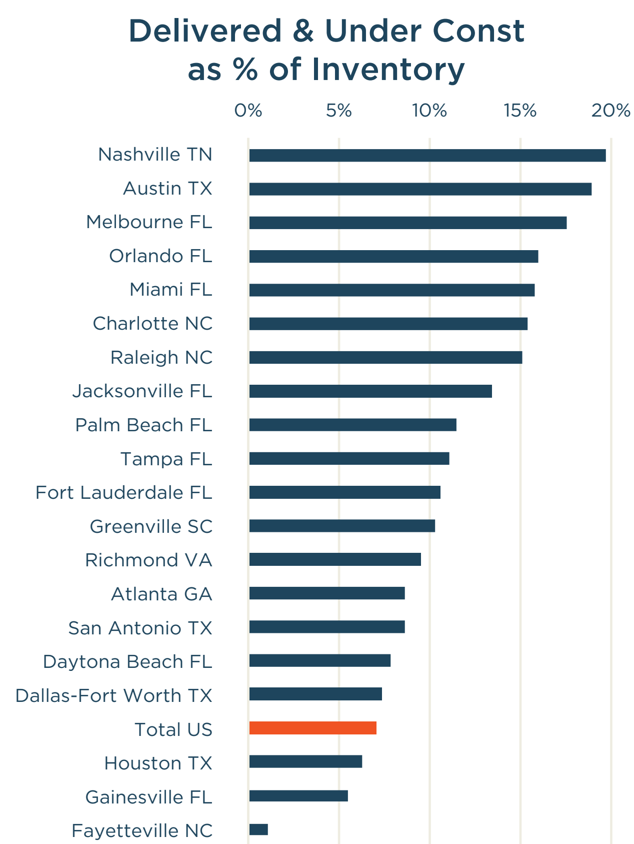
To summarize, Middleburg's view is that the macroeconomic situation as it affected investments in rental housing changed surprisingly little during 2022Q3 as compared with 2022Q2. We continue to focus closely on the downside risks confronting both the global and the U.S. economy, but we also remain confident that the challenges confronting the U.S. economy are outweighed by the strength of the country's labor markets, household incomes, and consumer spending, especially in our region.

As we have done in previous reports, 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."









*data as of 2022Q3

Dallas / Fort Worth, TX

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

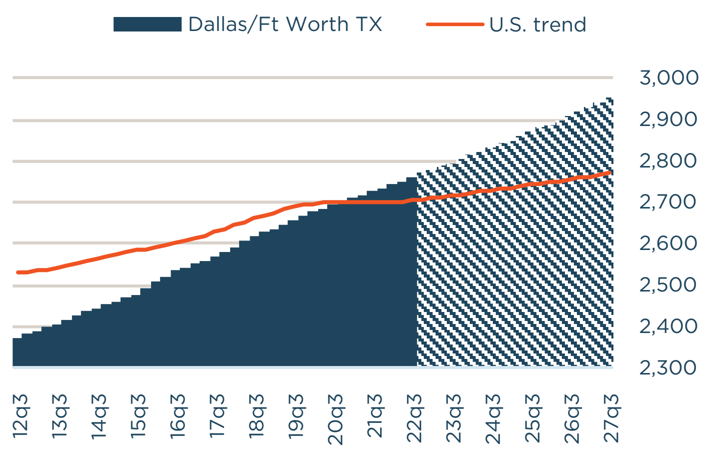
MIDDLEBURG'S RANK #3 AMONG 15 LARGEST METROS

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

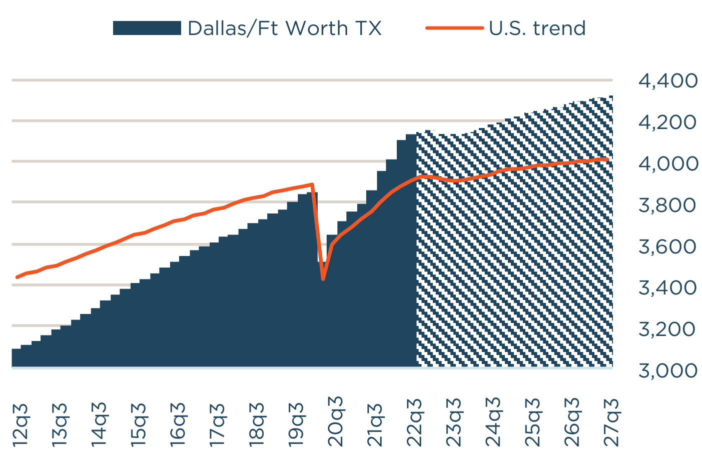
Dallas's population already skews young, but Oxford Economics forecasts that over the next five years the metro area will grow by an additional 43 thousand young adults (0.7 percent per year), 192 thousand new **Employees** (0.9 percent per year) and 190 thousand new **Households** (1.3 percent per year) all total numbers that are expected to trail only Houston. The projected growth in the number of renter households and the number of employed residents are among the strongest in Middleburg's part of the country.

Median household incomes in Dallas / Fort Worth are expected essentially to keep pace the rest of the country at 2.9 percent per year in nominal terms over the next five years, but the house price to income ratio is expected to ease as house prices grow less rapidly (2.1 percent per year) than in the nation as a whole (3.1 percent per year). CoStar forecasts that growth in **Demand** for Class A rental housing units will surpass that in any other market at 46 thousand (3.6 percent per year), driving similarly strong growth in **Effective Rent per Unit** (3.5 percent per year, higher than any other large metro area in Middleburg's territory), and **Net Operating Income** is also expected to outpace the country as a whole as well as other markets in Middleburg's arc. **New Construction and Net Deliveries** have moderated recently, and Middleburg estimates that multifamily deliveries over the next three years will fall short of incremental demand for rental housing units, persistently lower, relative to existing Class A inventory, than in the nation as a whole, providing some assurance that over-supply problems are unlikely.

Number of Households (000s)

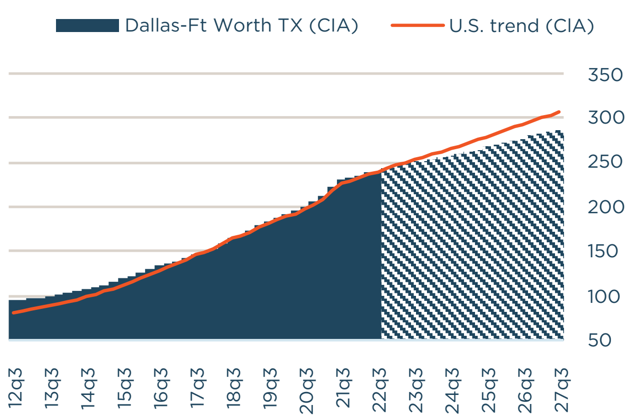


Total Employment (000s)

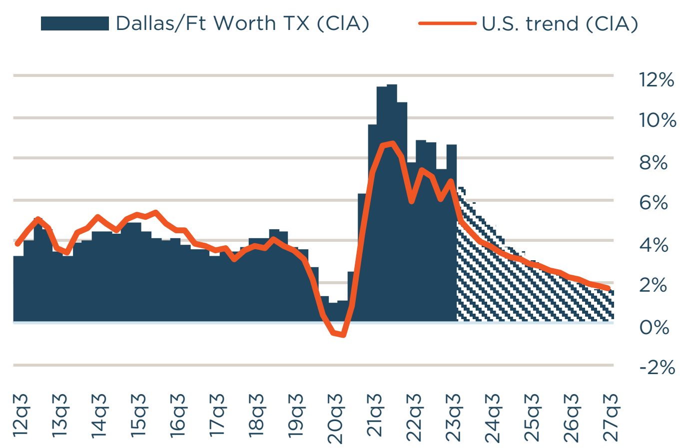


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
258,380	15,211	$271,471	$5,567 million
↑ 1.3%	↓ 9.5%	↑ 0.4%	↓ 29%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
20.6%	$85,120	5.4%	+7 bps
↓ 7.8%	↑ 1.1%	↑ 0.4%	above US avg

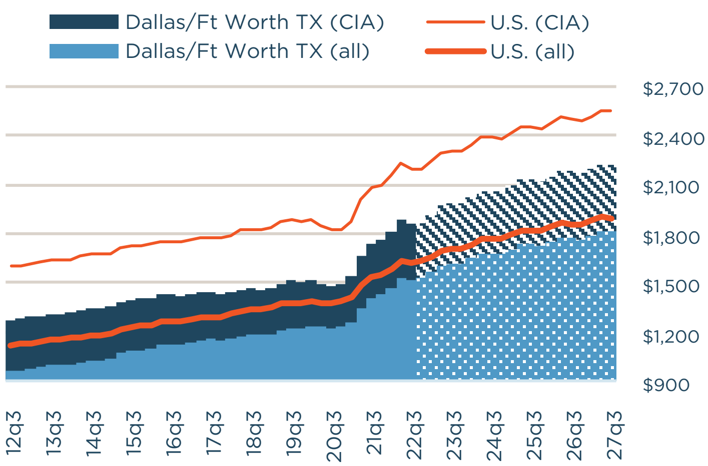
Units in Demand (000s)



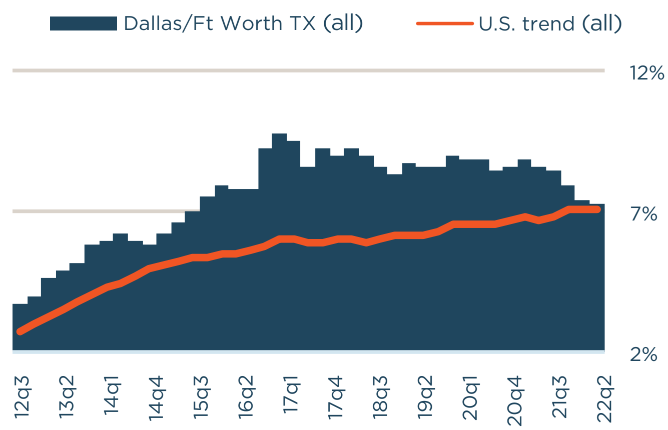
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory (trailing 4-qtr)



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

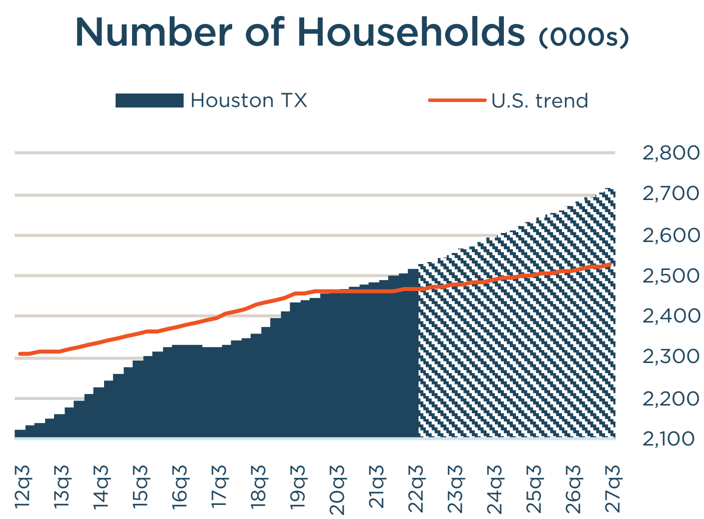
Houston, TX

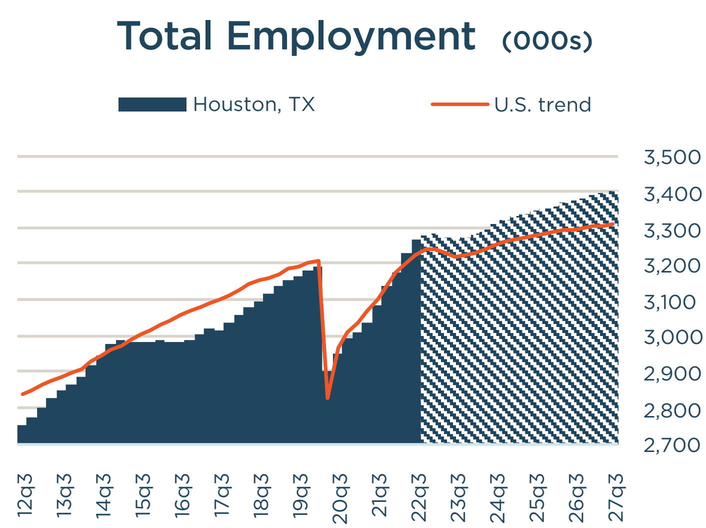
Houston's reduced exposure to the oil & gas industry makes what was already a strong market more appealing to long-term investors.

MIDDLEBURG'S RANK #11 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 34 thousand over the next five years (0.6 percent per year), and growth in **Number of Households** and **Total Employment** should lead all other metro areas in Middleburg's arc at 195 thousand (1.5 percent per year) and 136 thousand (1.3 percent per year) respectively. Moreover, employment growth is expected to be concentrated among higher-paying jobs, with median household income growing by 3.2 percent per year, faster than the national average of 3.0 percent per year. We project that growth in the number of renter households and in the number of employed residents will be comfortably above average for metro areas in Middleburg's arc.

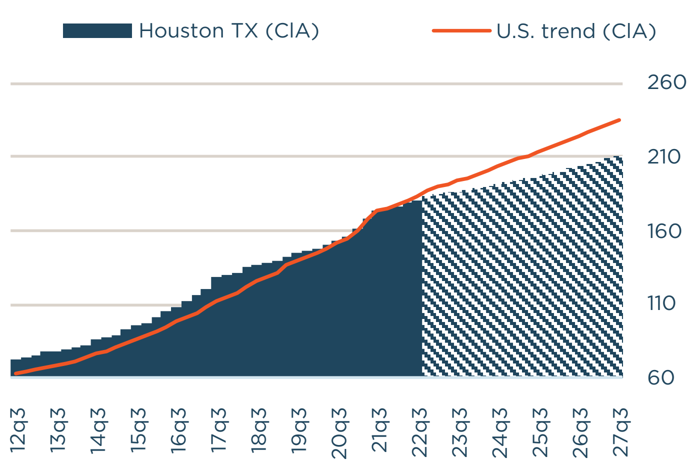
Partly as a result of an easing homeownership affordability issue, CoStar forecasts that Houston's rental housing fundamentals will not keep up with those in other metro areas along Middleburg's arc: for example, growth in the number of **Units in Demand** and **Effective Rent per Unit** are expected to be slightly lower than average for large metros in Middleburg's territory (as well as for the country as a whole) at 3.1 and 2.2 percent per year, respectively, while **Net Operating Income** is also expected to trail the national average. Subdued **Construction and Net Deliveries** of Class A properties over the past six years suggest that no oversupply problems are on the horizon, and Middleburg forecasts that deliveries over the next three years will continue to fall short of incremental demand for rental housing units.



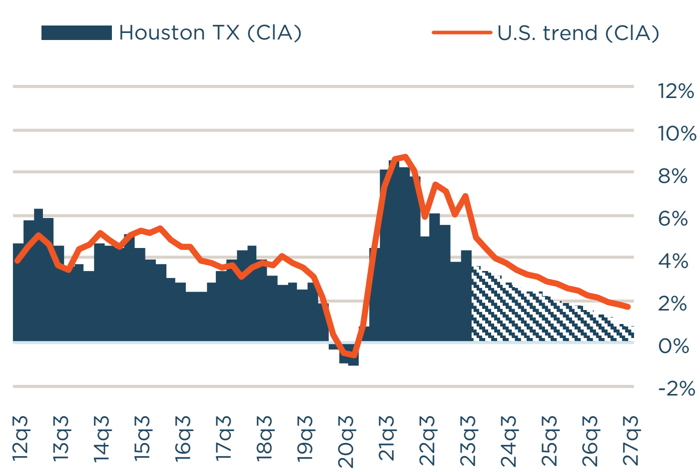


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
196,586 ↑ 0.6%	10,098 ↑ 7.7%	$251,473 ↑ 0.3%	$5,714 million ↓ 46%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
13.0% ↓ 4.6%	$78,720 ↑ 1.6%	6.6% ↑ 0.3%	+40 bps above US avg

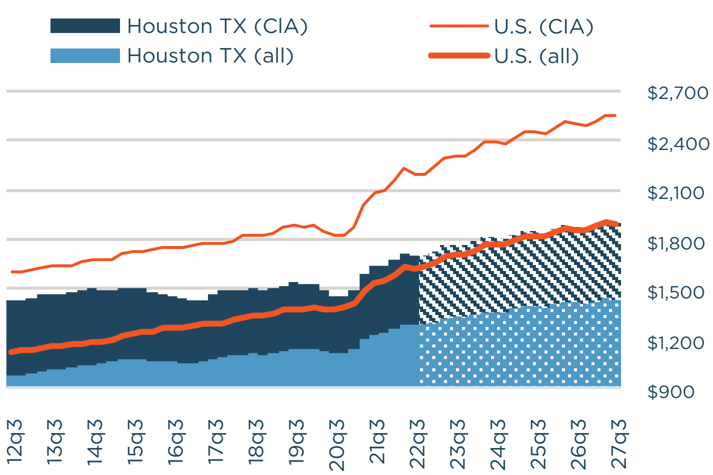
Units in Demand (000s)



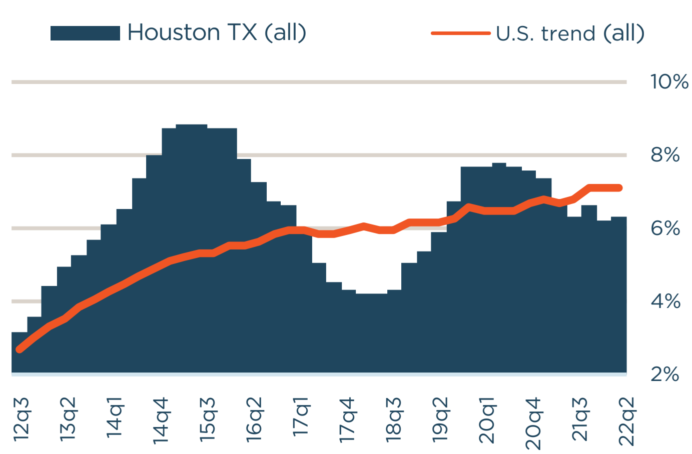
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory (trailing 4-qtr)



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

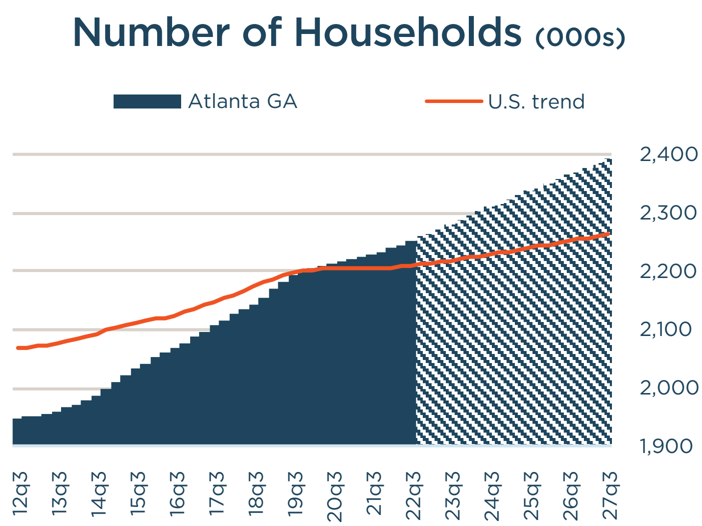
Atlanta, GA

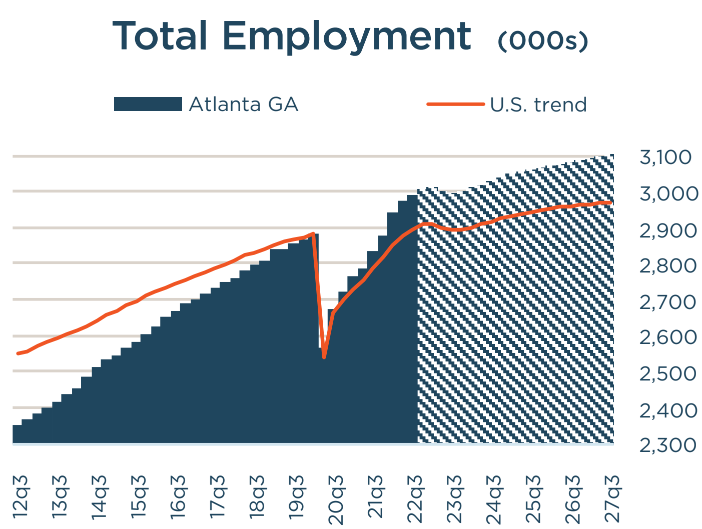
Atlanta is similar in many respects to the Dallas / Fort Worth metro area, but at a slightly smaller and slightly less dynamic scale.

MIDDLEBURG'S RANK #7 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 (40 thousand), 1.2 percent per year in the **Number of Households** (141 thousand) and 0.7 percent per year in **Total Employment** (113 thousand), all well above average for metro areas in Middleburg's territory. Homebuyer affordability is expected to ease slightly in Atlanta relative to the rest of the country, with house prices increasing less rapidly at 2.9 percent per year (compared with 3.1 percent for the nation as a whole) while median household incomes rise at the same pace as the rest of the country.

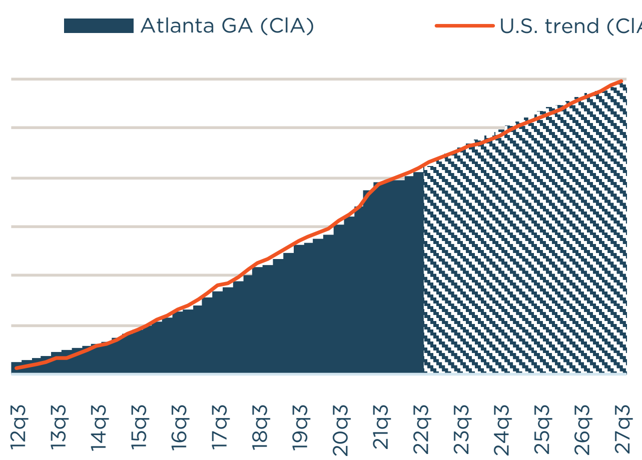
In the rental housing market, the number of **Units in Demand** is expected to grow at 5.2 percent per year, among the strongest paces in Middleburg's part of the country, implying 35 thousand new units, while **Effective Rent per Unit** is expected to fall slightly behind the national average at 2.7 percent per year. 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. Middleburg estimates that deliveries over the next three years will almost exactly equal incremental demand for rental housing units.



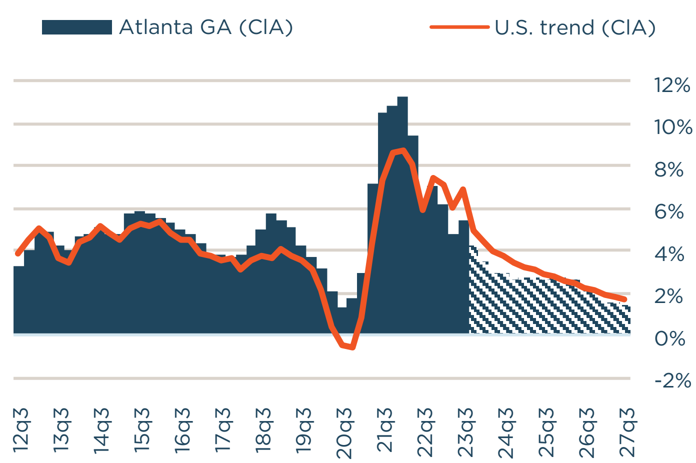


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
134,880	23,345	$332,210	$2,365 million
↑ 2.9%	↓ 3.1%	↑ 0.1%	↓ 67%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
20.2%	$84,360	5.8%	-8 bps
↓ 6.3%	↑ 1.4%	↑ 0.1%	below US avg

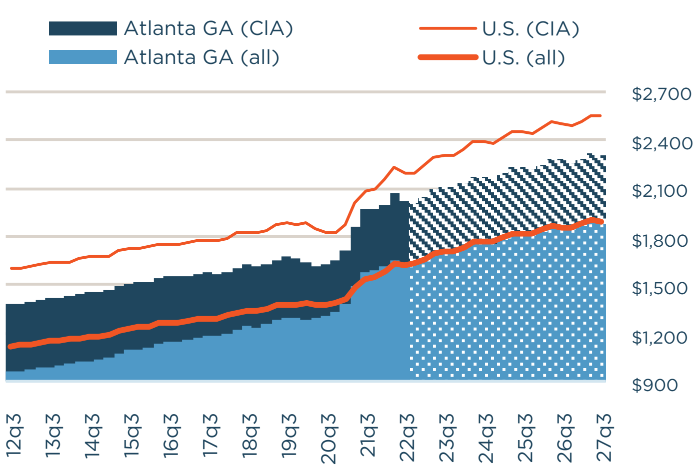
Units in Demand (000s)



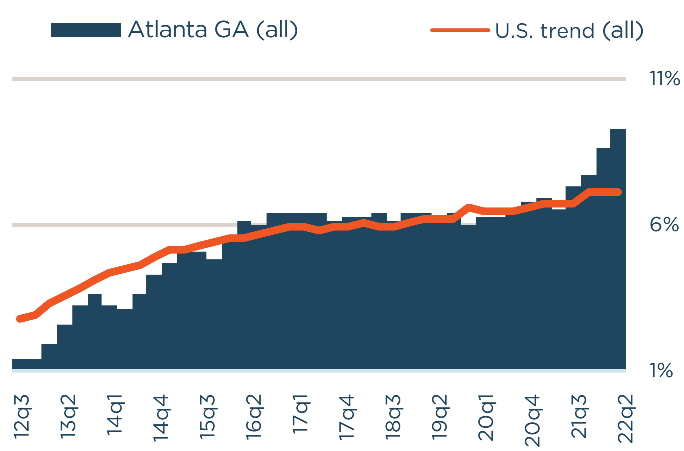
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory (trailing 4-qtr)



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

Tampa, FL

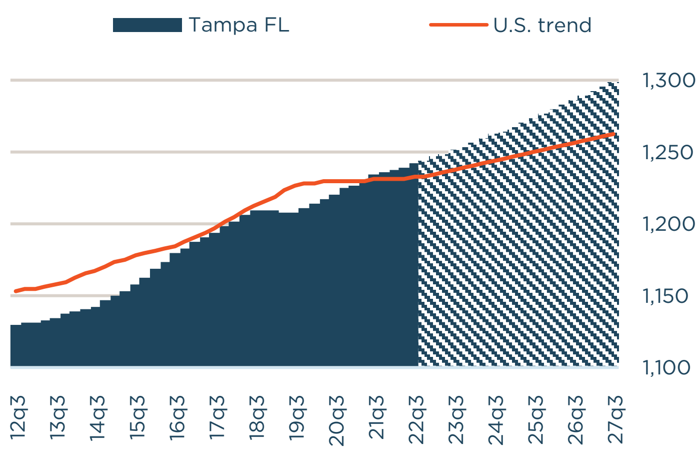
The Tampa market should continue to present appealing opportunities even though underlying demographic fundamentals are not as strong as in other metros in the area.

MIDDLEBURG'S RANK #13 AMONG 15 LARGEST METROS

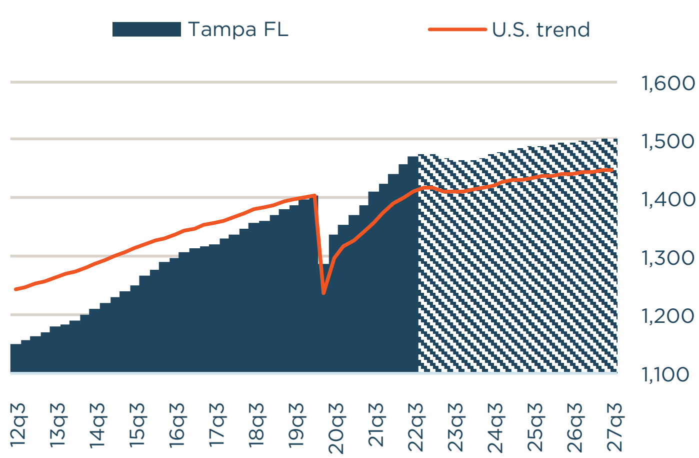
Tampa is not expected to grow as dynamically as other markets in Middleburg's arc. For example, Oxford Economics forecasts that over the next five years Tampa's young adult population will shrink by 0.3 percent per year while **Total Employment** grows at just 0.4 percent per year (33 thousand) and its **Number of Households** grows at a slightly better rate of 0.9 percent per year (56 thousand). 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 the nationwide average at 2.9 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 4.5 percent per year (13 thousand), almost keeping pace with the national rate. **Construction and Net Deliveries** have been well above the national average relative to existing inventory, but we forecast that deliveries over the next three years will fall short of incremental demand for rental housing units, ameliorating oversupply concerns.

Number of Households (000s)

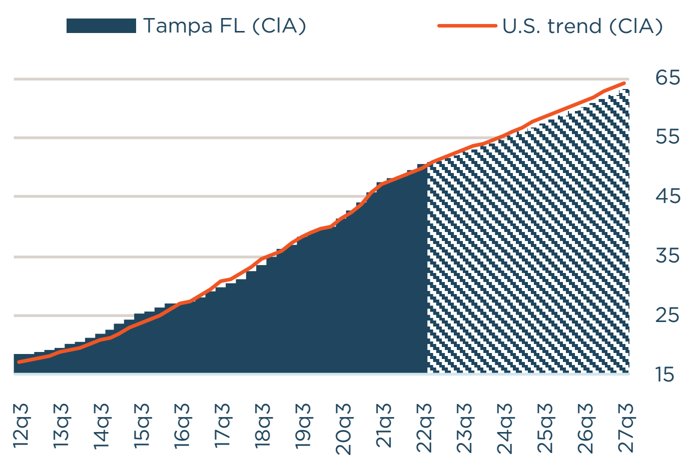


Total Employment (000s)

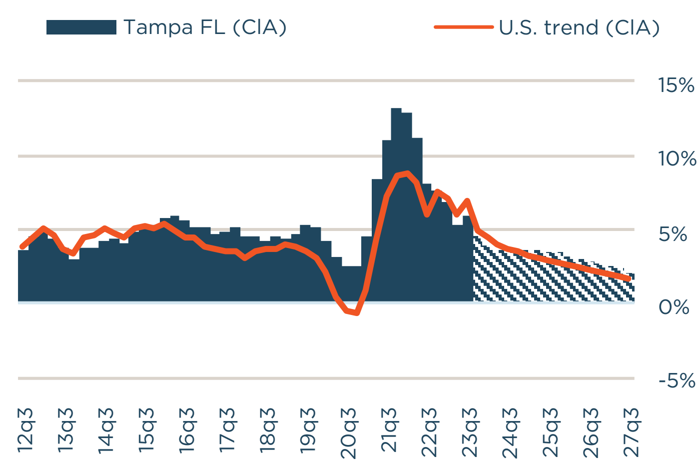


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
55,055	6,512	$336,664	$823 million
↑ 1.3%	↓ 6.9%	↑ 0.4%	↓ 79%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
22.7%	$69,520	5.3%	-17 bps
↓ 8.3%	↑ 1.2%	↑ 0.6%	below US avg

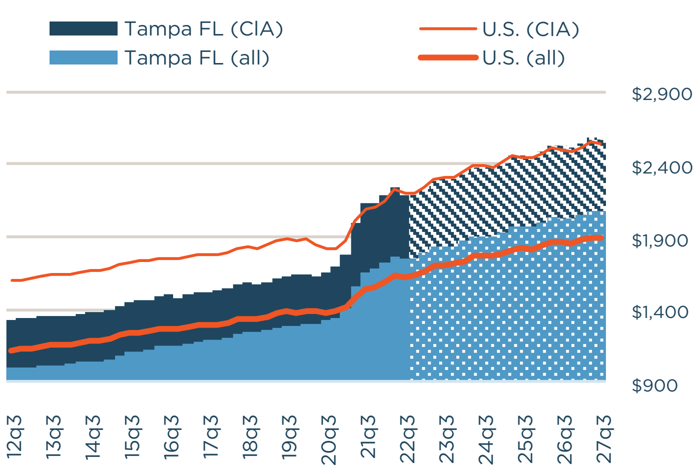
Units in Demand (000s)



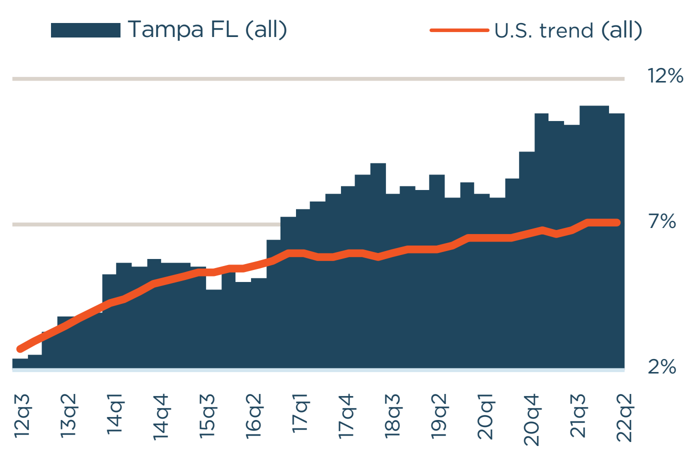
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory (trailing 4-qtr)



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

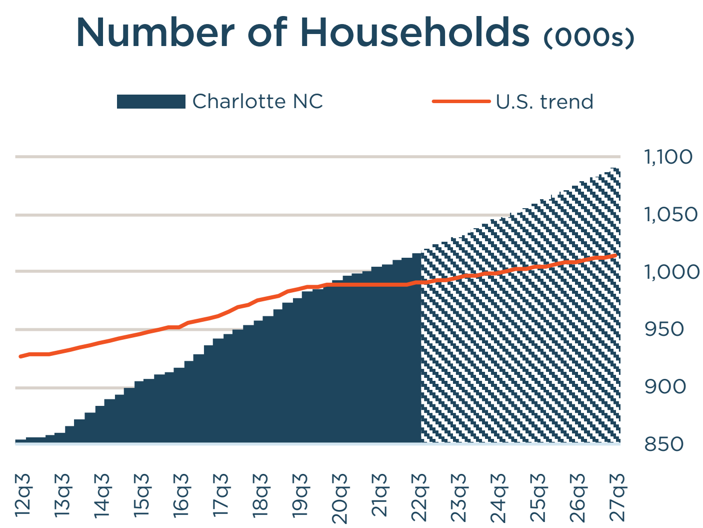
Charlotte, NC

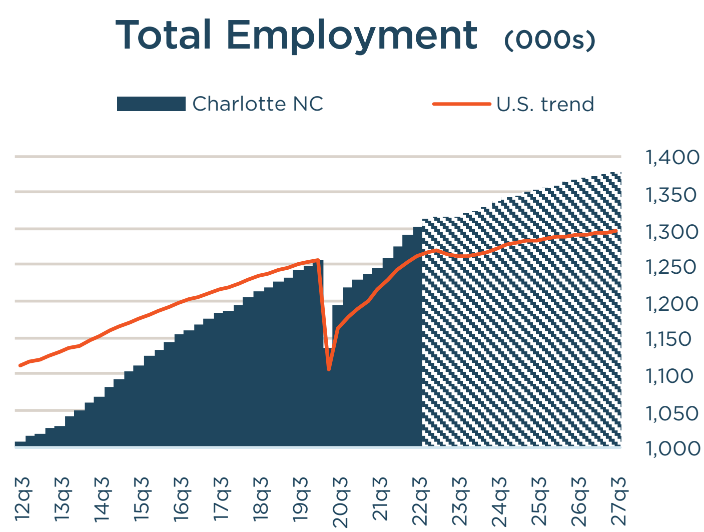
We expect demand for rental housing in Charlotte to be supported by very strong growth in all key demand drivers as it continues its fascinating transformation from a textile manufacturing hub to a diversified hub for finance and high-value manufacturing.

MIDDLEBURG'S RANK #10 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 (1.3 percent per year), its **Number of Households** by 73 thousand (1.4 percent per year), and its **Total Employment** by 75 thousand (1.1 percent per year)—all well above the average for metros in Middleburg's arc.

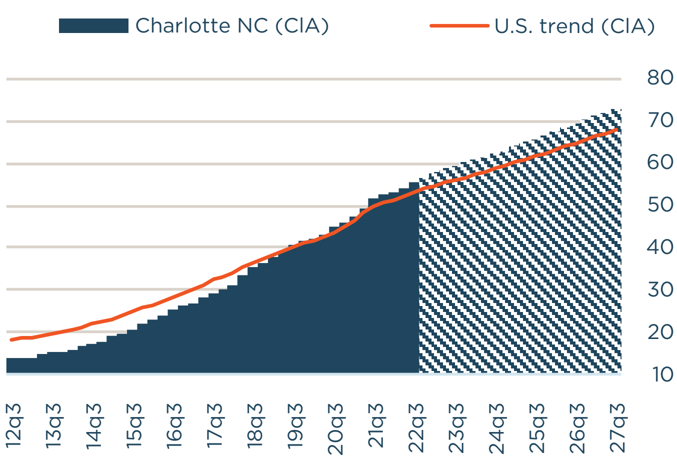
Homebuyer affordability is expected to worsen slightly more than for the nation as a whole, with relatively slow growth in median household income (2.8 percent per year) lagging behind growth in house prices (3.2 percent per year). This and the area's demographics are expected to add 17 thousand to the number of rental **Units in Demand**, a comfortably above-average rate of 5.6 percent per year. 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, but the main reason for concern about Charlotte's operating fundamentals comes from **Construction and Deliveries** that have far outpaced the national average and may exceed the likely incremental growth in demand.



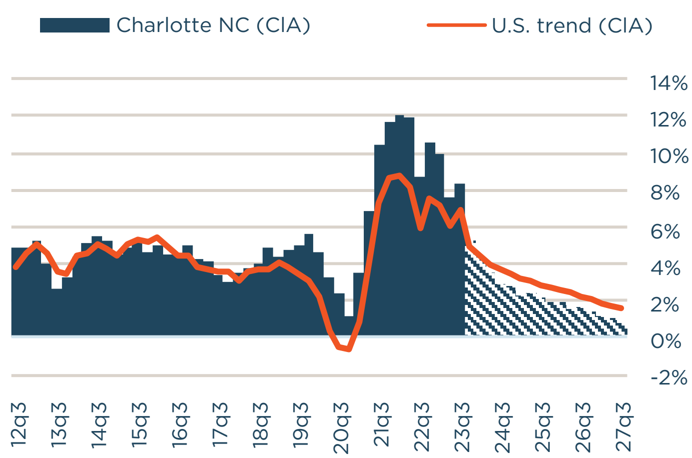


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
60,961	6,464	$331,838	$1,747 million
↑ 4.2%	↓ 16%	↑ 0.9%	↓ 34%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
19.6%	$78,320	5.9%	-30 bps
↓ 7.7%	↑ 1.3%	↑ 0.6%	below US avg

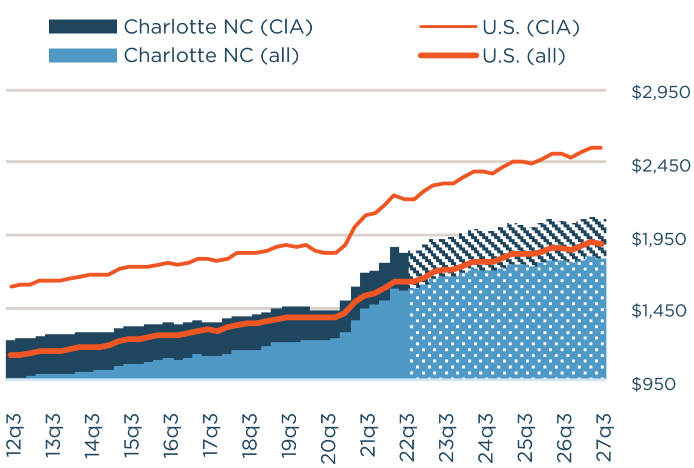
Units in Demand (000s)



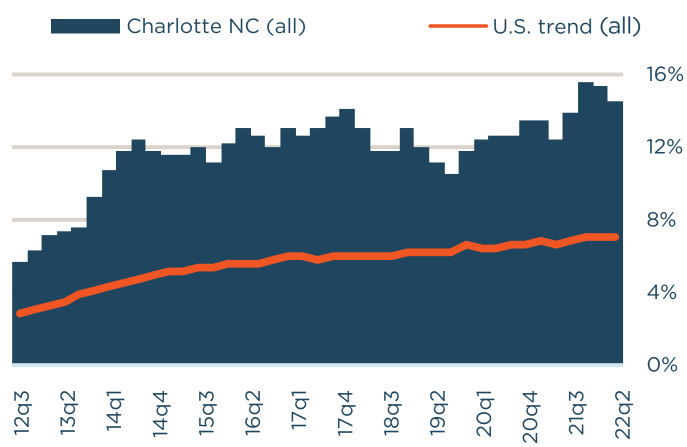
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory (trailing 4-qtr)



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

Orlando, FL

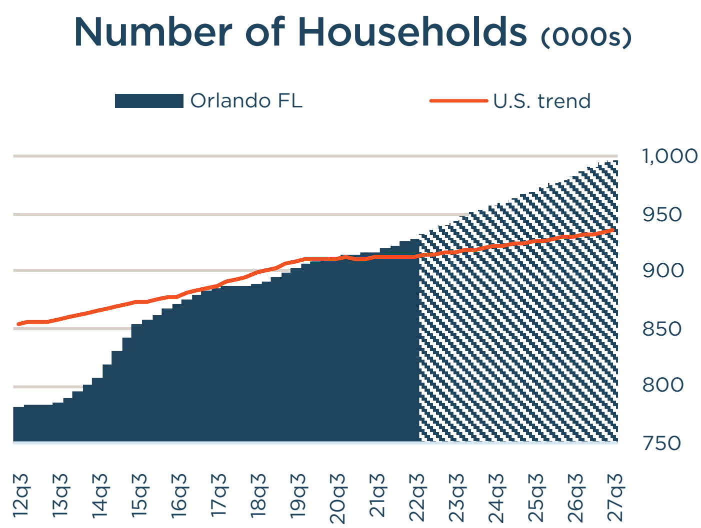
Orlando has become one of the most appealing rental housing markets in the country—but Orange County's approval of a voter referendum on rent control, and with the state of Florida's earlier move to disband the Reedy Creek Improvement District introduce an unwelcome degree of uncertainty.

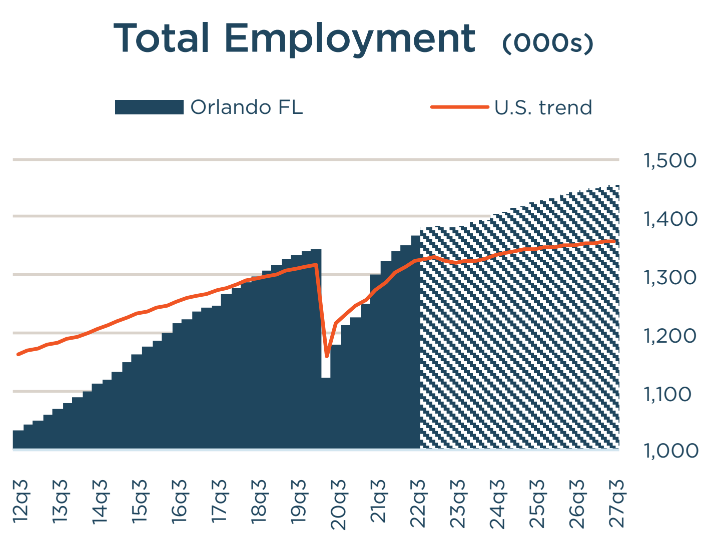
MIDDLEBURG'S RANK #1 AMONG 15 LARGEST METROS

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 1.2 percent per year over the next five years, resulting in 87 thousand additional workers. Oxford expects growth in Orlando's **Young Adult Population** to be disappointing (just four thousand, or 0.2 percent per year), but growth in the **Number of Households** is expected to be much more comfortable (68 thousand, 1.4 percent per year). Orlando's homebuying affordability problem is expected to worsen quite a bit more severely than the national average, with expected growth in house prices among the highest in Middleburg's area at 3.5 percent per year while growth in median household income falls short of the national average at just 2.6 percent per year.

Continuing with this likeliest scenario, CoStar forecasts that **Effective Rent per Unit** will grow by 3.5 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. Middleburg forecasts that deliveries over the next three years are likely to outpace incremental demand only marginally even though **Construction and Deliveries** have been high relative to existing inventory over the past several years.

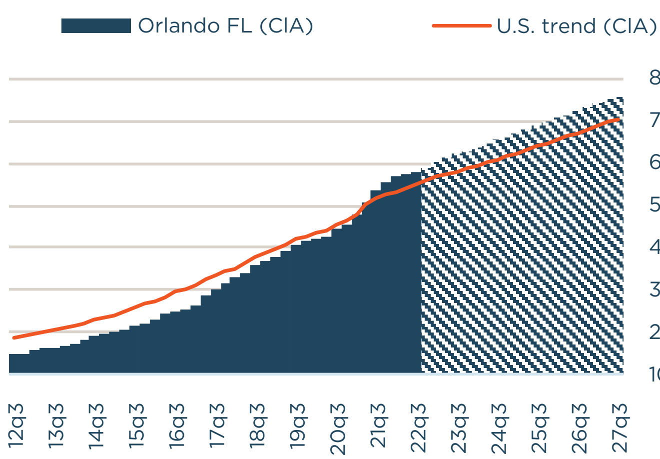
The massive success of the Orlando economy makes it beyond surprising that an ordinarily pro-growth state government would eradicate the Reedy Creek Improvement District, which encompasses much of Orange and Osceola counties and is the unquestioned driver of the area's economic growth. The introduction of a rent control referendum is perhaps less surprising but, of course, equally unwelcome.



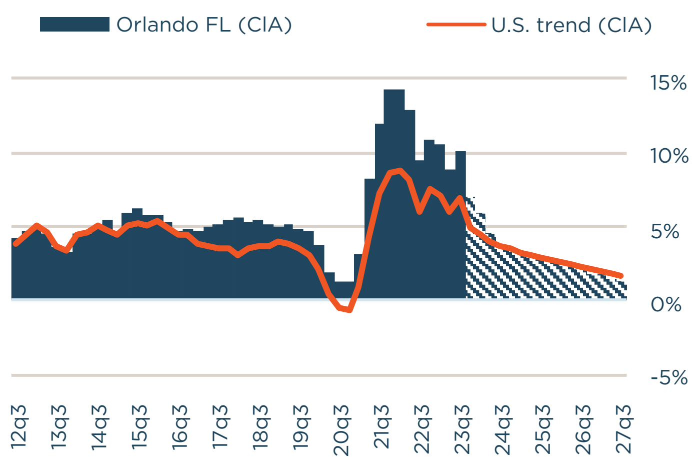


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
62,395	8,510	$334,149	$3,142 million
↑ 1.8%	↑ 4.4%	↑ 0.3%	↓ 34%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
20.6%	$75,280	4.8%	-28 bps
↓ 5.6%	↑ 1.5%	↑ 0.5%	below US avg

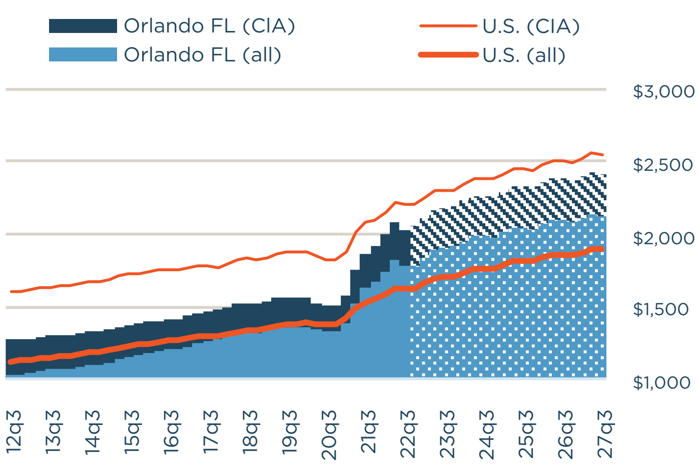
Units in Demand (000s)



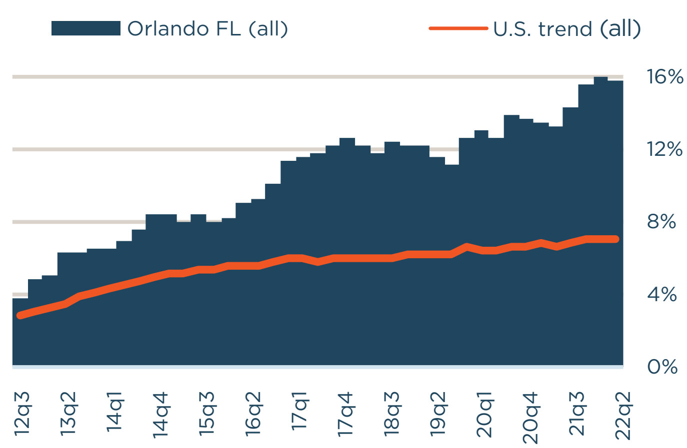
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory (trailing 4-qtr)



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

Miami, FL

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

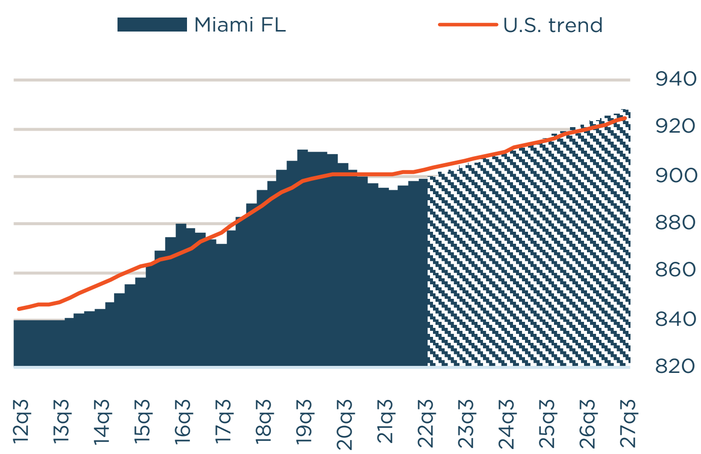
MIDDLEBURG'S RANK #5 AMONG 15 LARGEST METROS

Miami has attracted (or perhaps sought) attention as a new home for tech firms relocating away from the San Francisco Bay area as well as finance firms relocating away from New York City. Even if that happens, it's probably not enough to make the Miami area especially appealing to Middleburg. Oxford Economics forecasts that the area's young adult population—a key demographic driver of non-niche rental housing demand—will actually shrink more during the next five years than in the nation as a whole (-0.6 percent per year vs -0.3), while the **Number of Households** is expected to grow by an anemic (for this part of the country) 31 thousand, or just 0.7 percent per year.

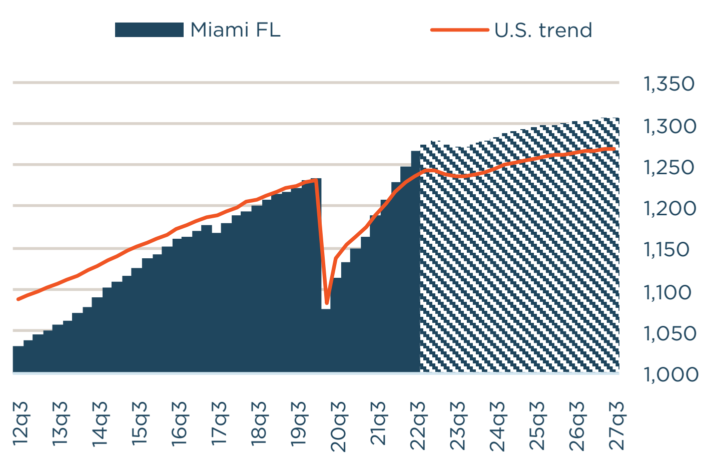
Demand for rental housing will receive a push from Miami's continuing homebuyer affordability problem, which is expected to worsen very substantially as house prices increase by about 4.3 percent per year while median household incomes increase by just 2.6 percent per year. But Middleburg forecasts that deliveries of rental housing units over the next three years are likely to outpace incremental demand for rental housing units by more than eight percent, giving rise to oversupply concerns.

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 $2,879, 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)

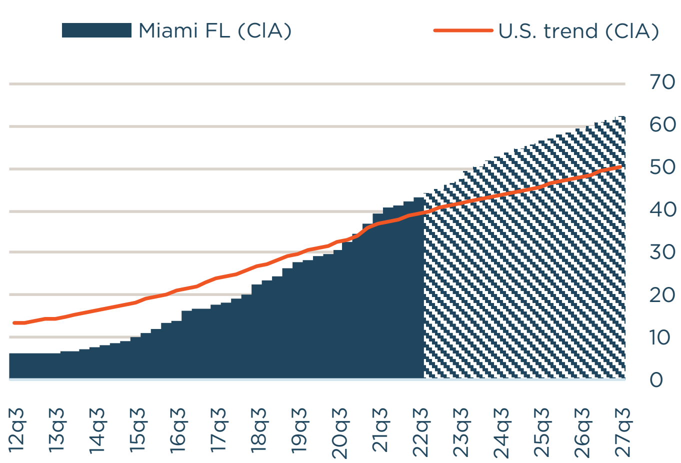


Total Employment (000s)

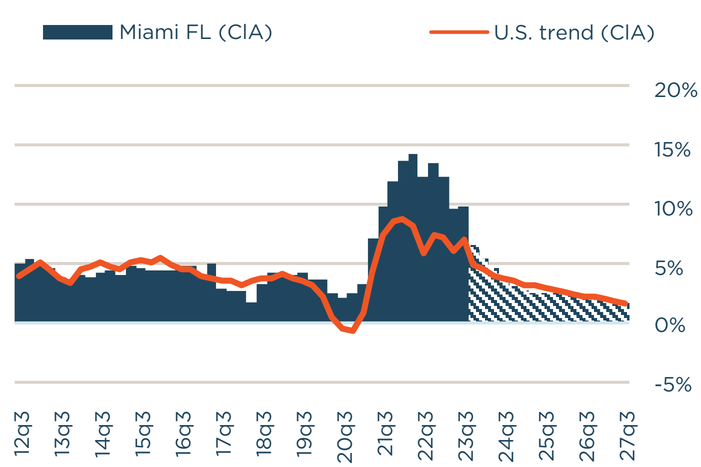


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
46,659 ↑4.6%	16,130 ↑ 4.2%	$478,525 ↑ 1.8%	$1,532 million ↑ 190%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
21.2% ↓ 5.7%	$66,200 ↑ 1.4%	4.9% ↑ 0.5%	-39 bps below US avg

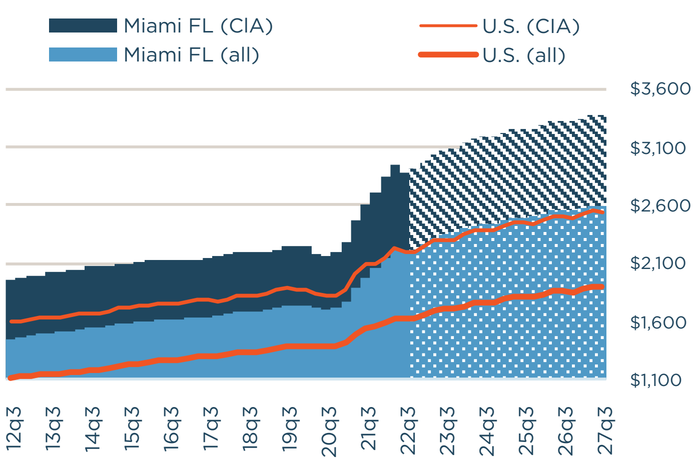
Units in Demand (000s)



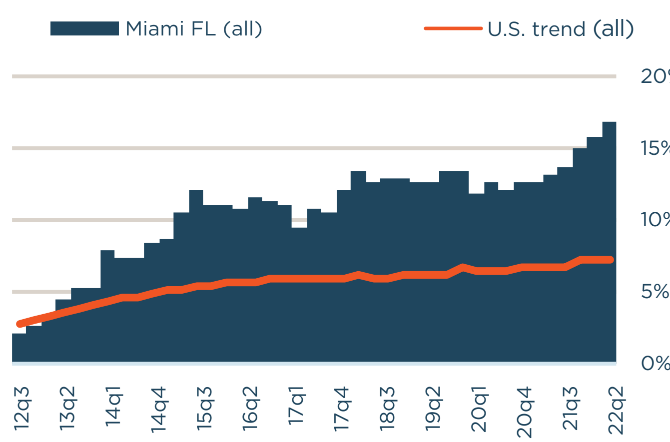
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory (trailing 4-qtr)



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

Austin, TX

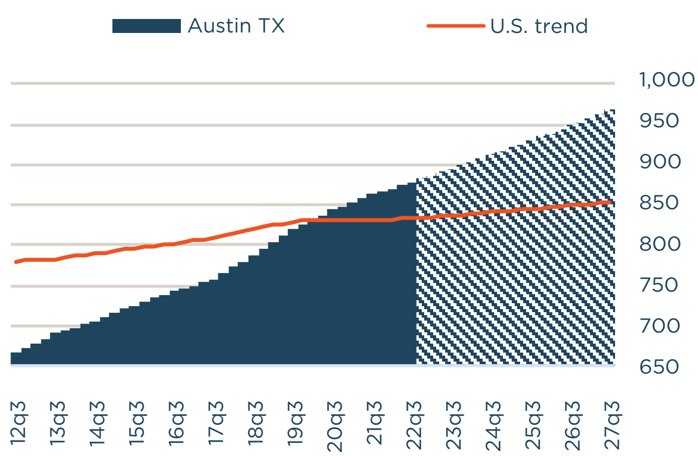
Austin's appeal as a rental housing market should surprise nobody, as the Texas capital has become known as a favorite among young professionals, thanks in large part to the University of Texas and the city's music scene.

MIDDLEBURG'S RANK #4 AMONG 15 LARGEST METROS

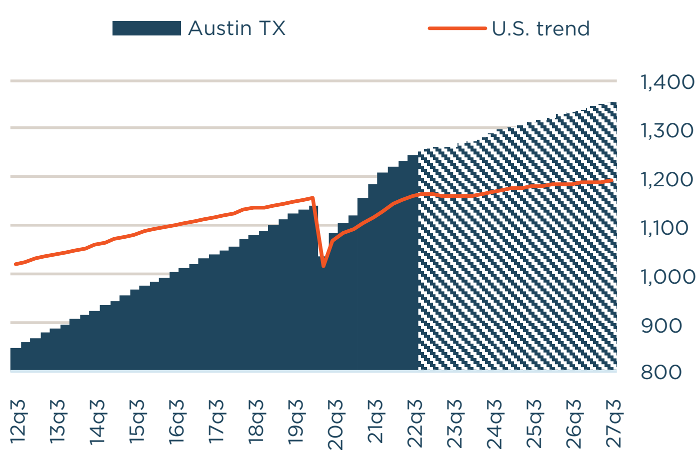
Over the next five years Oxford Economics forecasts that growth in Austin's young adult population, **Number of Households**, and **Total Employment** will outpace every other metro area in Middleburg's footprint in percentage terms at 1.6, 1.7, and 1.9 percent per year, respectively. The absolute numerical 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 89 thousand.

Homeownership affordability remains a problem in Austin, though the next five years are expected to see no worsening. As a result of the expected inflows, however, CoStar forecasts that rental housing **Demand** will grow by 23 thousand units over the next five years (4.6 percent per year), trailing only Dallas / Fort Worth, Houston, and Atlanta, while **Effective Rent per Unit, Net Operating Income**, and apartment property value appreciation will also outpace most other markets in the region. Although **Construction and Deliveries** have been quite strong relative to the existing inventory, Middleburg actually forecasts that Austin will remain undersupplied over the next three years, with growth in the number of renter households outpacing deliveries by more than five percent.

Number of Households (000s)

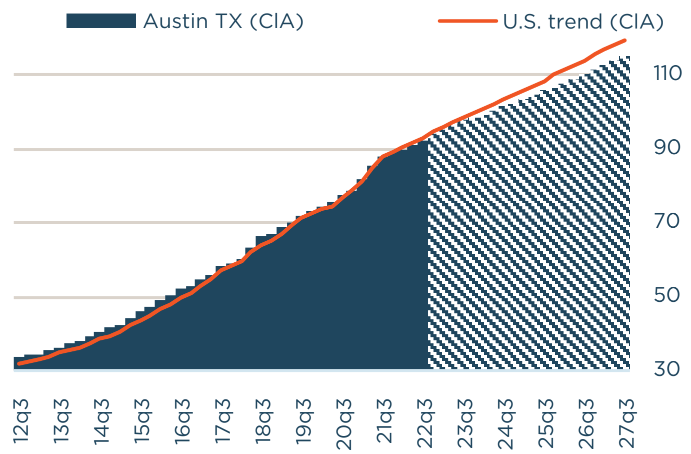


Total Employment (000s)

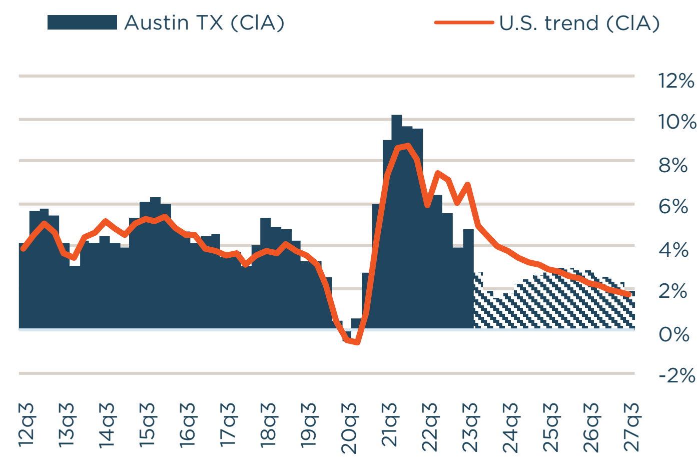


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
100,077	13,210	$304,039	$1,776 million
↑ 0.6%	↑ 10%	↓ 0.8%	↓ 42%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
20.3%	$96,560	5.7%	-28 bps
↓ 11%	↑ 1.4%	↑ 0.3%	below US avg

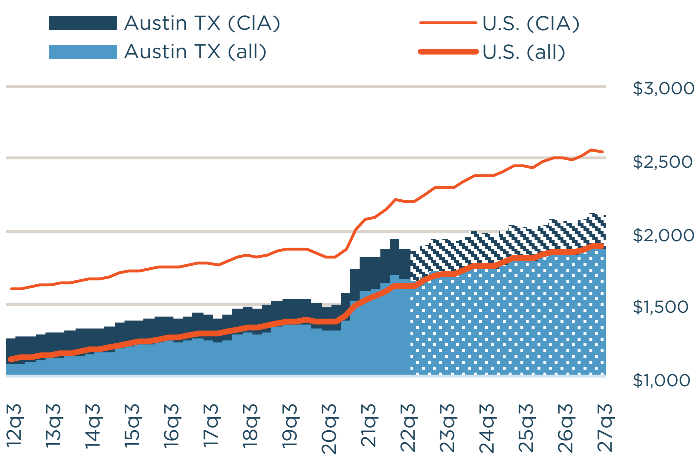
Units in Demand (000s)



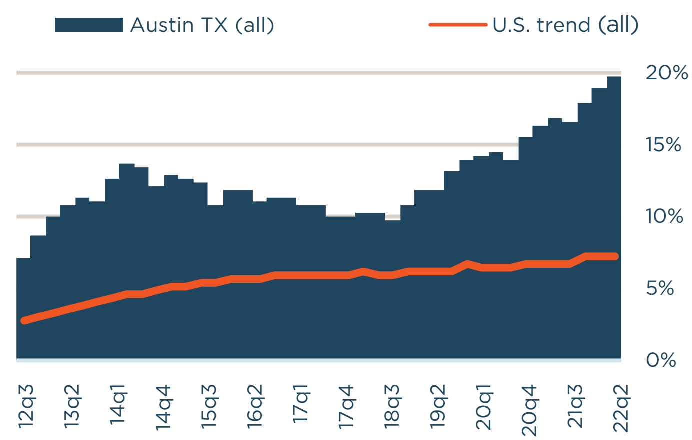
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory (trailing 4-qtr)



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

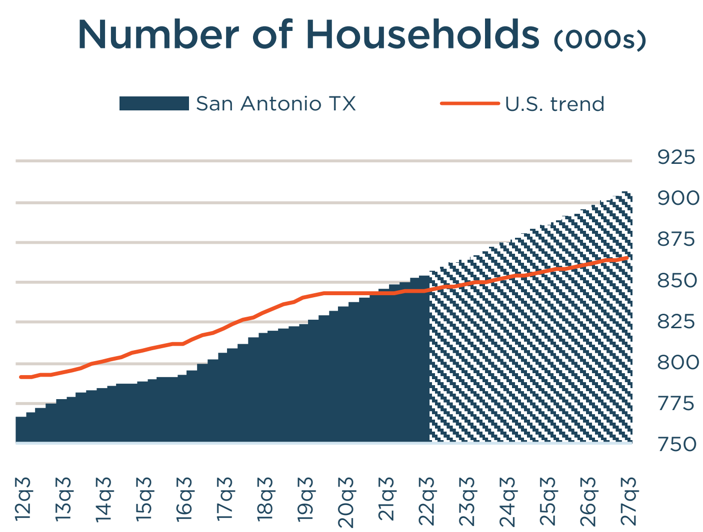
San Antonio, TX

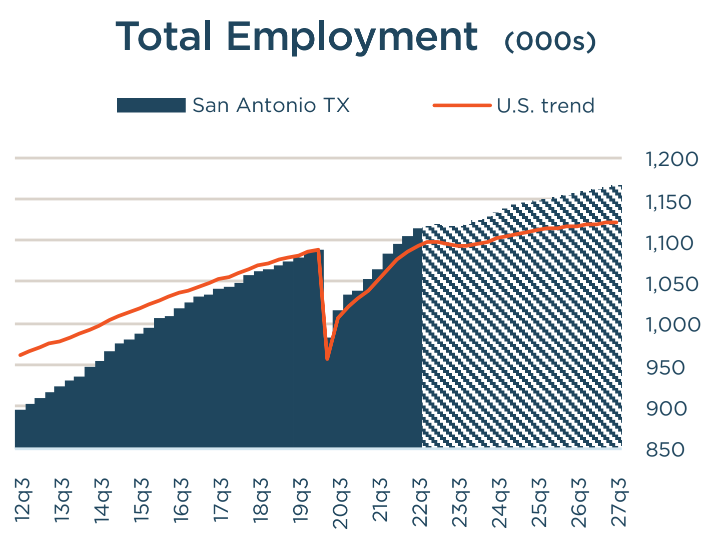
San Antonio has become an interesting market, though perhaps more for acquisition than for development. Only 80 miles from Austin, it is already seeing in-migration from its increasingly unaffordable neighbor, especially among young adults.

MIDDLEBURG'S RANK #14 AMONG 15 LARGEST METROS

San Antonio's economic base, long dominated by nearby military installations, has diversified impressively in financial services (USAA, JP Morgan Chase), digital technologies (Rackspace Technology, TaskUs), medical care, grocery retailing, and other industries. Oxford Economics forecasts that, over the next five years, San Antonio will experience especially strong growth in all three key demographic drivers of rental housing demand: young adult population (up 18 thousand at 0.9 percent per year), **Number of Households** (up 52 thousand at 1.2 percent per year), and **Total Employment** (up 52 thousand at 0.9 percent per year).

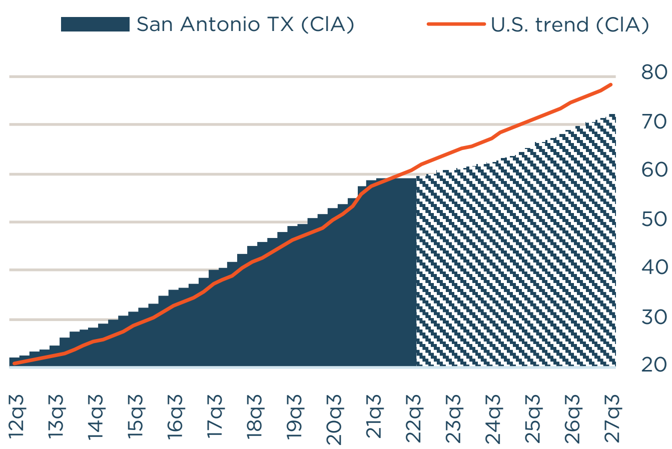
San Antonio has seen an increase in homebuyer affordability problems, but that is not likely to be the driver of apartment demand going forward as house prices are expected to grow very slightly less rapidly than incomes. The demographic growth is expected to drive above-average increases in **Demand** for rental housing and Class A **Effective Rent per Unit** by 4.1 and 2.5 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 $1,491 per unit. On the other hand, **Construction and Deliveries** have remained subdued relative to the Class A inventory, and Middleburg estimates that demand growth will outpace deliveries by more than seven percent over the next three years.



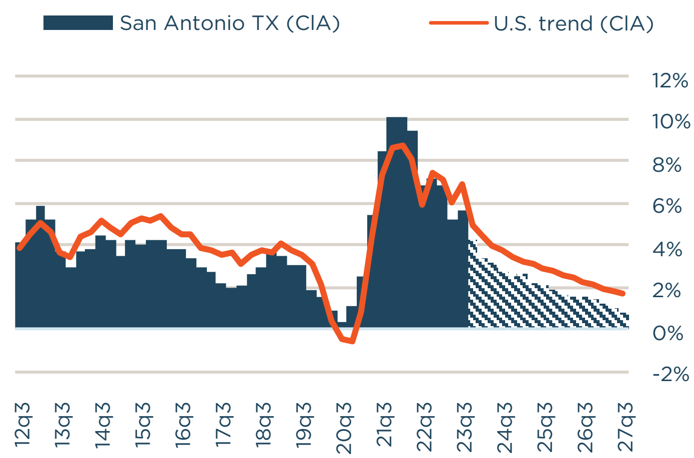


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
63,114	4,292	$205,468	$1,886 million
↑ 0.4%	↑ 2.7%	↑ 0.5%	↓ 44%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
18.1%	$71,800	5.9%	19 bps
↓ 6.5%	↑ 1.3%	↑ 0.4%	above US avg

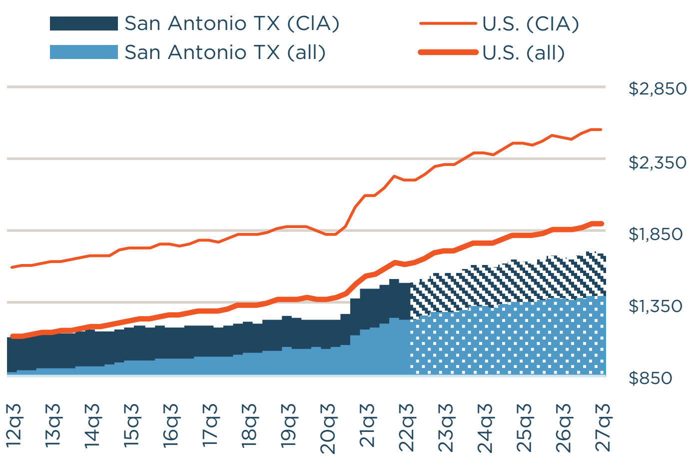
Units in Demand (000s)



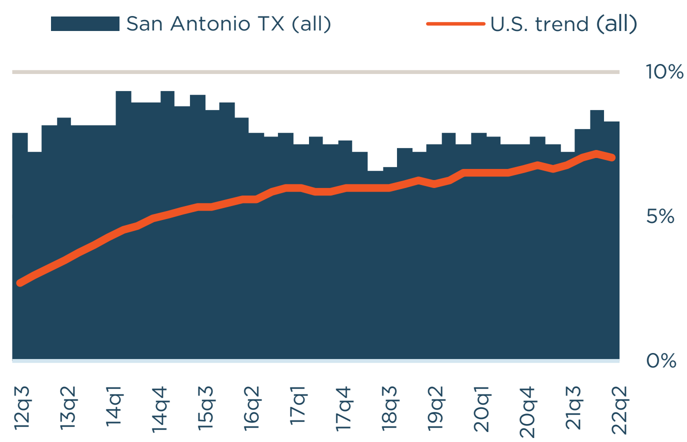
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory (trailing 4-qtr)



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

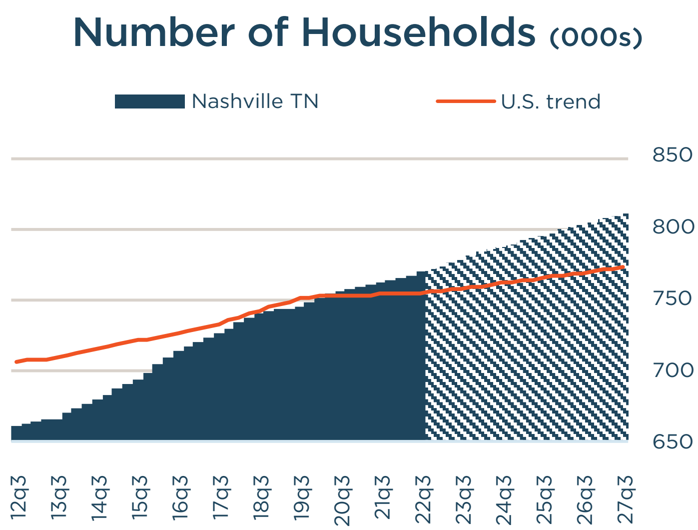
Nashville, TN

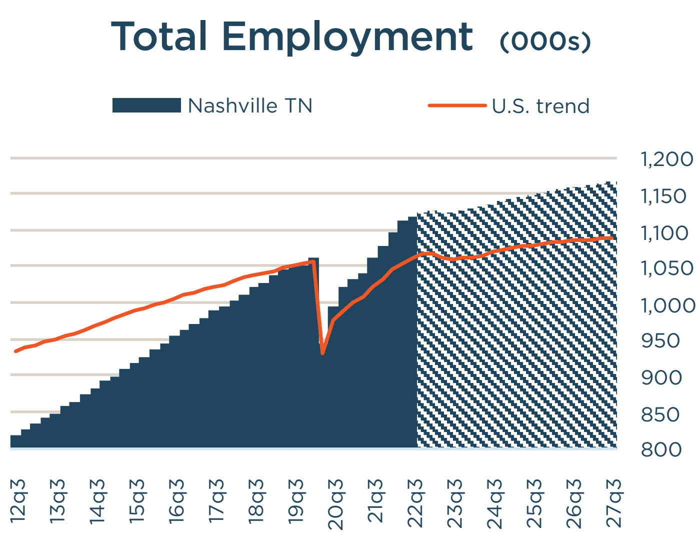
Nashville may as well be called "The New Austin." As in Austin, it's hard to find weak aspects of the Nashville rental housing market; also as in Austin, however, the strength of the Nashville market is widely recognized.

MIDDLEBURG'S RANK #6 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 20 thousand over the next five years (1.2 percent per year), that the **Number of Households** will grow by 42 thousand (1.1 percent per year), and that **Total Employment** will grow by 47 thousand (0.8 percent per year).

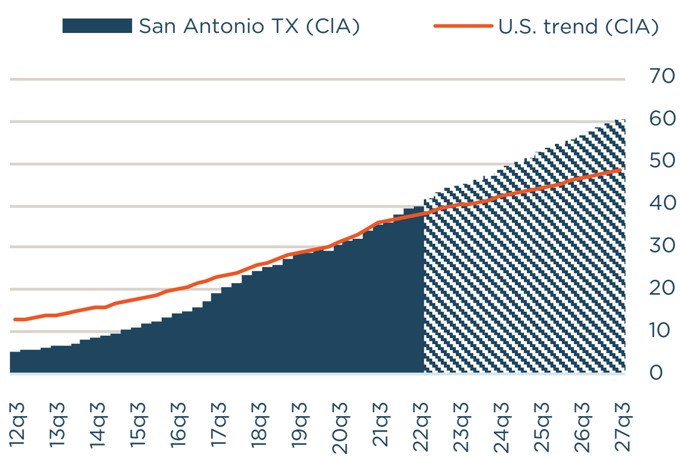
Nashville's homebuyer affordability problem is expected to catch up with Austin's over the next five years, with the highest rate of growth for house prices (4.2 percent per year) for any metro area in Middleburg's region while median household incomes grow at just 3.2 percent per year. The demographic and affordability pressures are expected to increase apartment **Demand** by 20 thousand units (8.6 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** (2.5 percent per year) and **Net Operating Income**. 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: in fact, Middleburg forecasts that deliveries over the next three years will outpace growth in demand by about 12 percent.



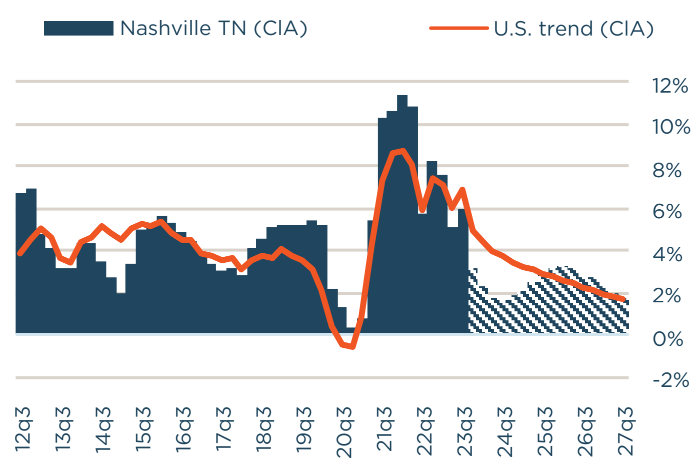


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
45,614	11,850	$342,889	$345 million
↑ 3.8%	↓ 0.9%	↓ 0.6%	↓ 92%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
23.1%	$82,040	5.8%	+6 bps
↓ 7.3%	↑ 1.1%	↑ 0.6%	above US avg

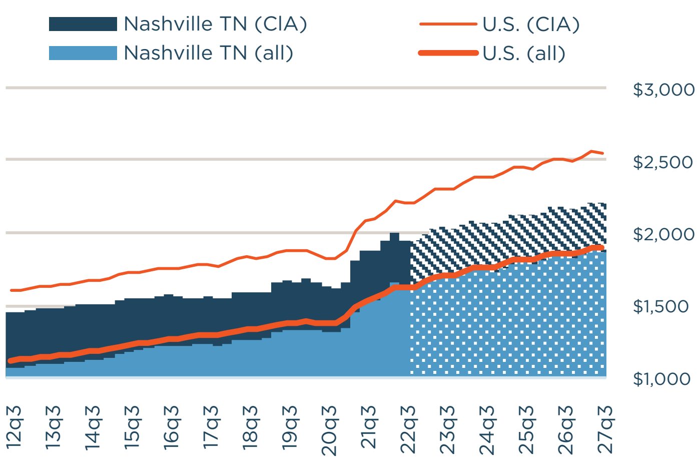
Units in Demand (000s)



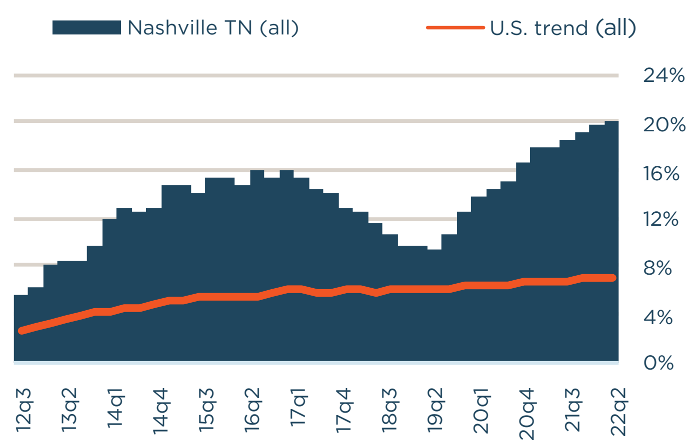
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory (trailing 4-qtr)



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

Fort Lauderdale, FL

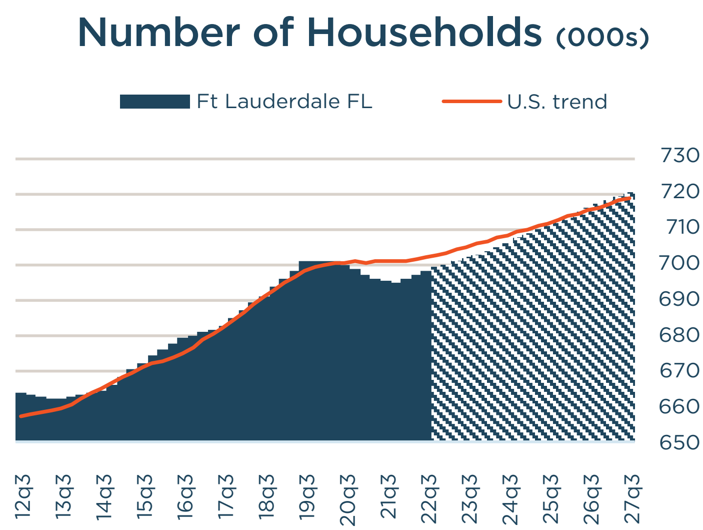
The Fort Lauderdale market shares much in common with its near neighbors Miami and Palm Beach—but those shared traits are the ones most likely to make them appeal more to other developers and investors than to Middleburg.

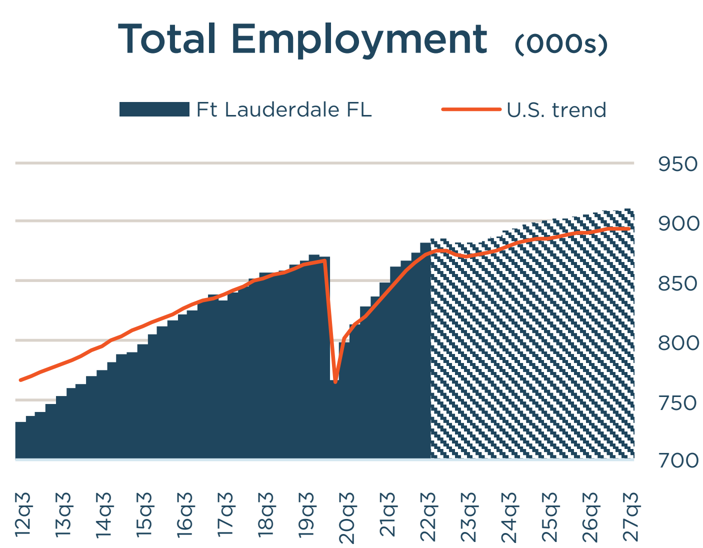
MIDDLEBURG'S RANK #8 AMONG 15 LARGEST METROS

The most appealing aspect of the Fort Lauderdale market is the market rents that it can support: the metro area's $2,739 average effective rent per Class A unit is second only to Miami's and greater even than Palm Beach's at $2,719. The transaction market fully reflects that strength, with Class A apartments selling at an average price of $428,781 per unit and a prevailing cap rate around 17 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 3.9 percent per year while the median household income increases by just 2.5 percent per year.

Moreover, oversupply should not be much of a problem, as we forecast that deliveries over the next three years will pretty closely balance growth in rental housing demand.

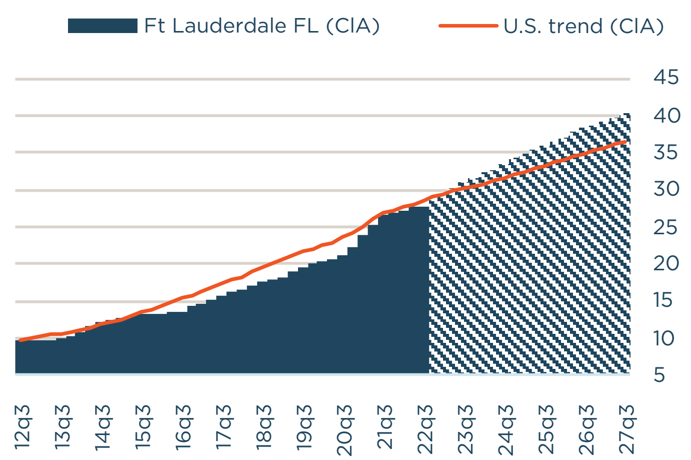
Those numbers are not really enough to make Fort Lauderdale especially appealing to Middleburg, though, given that we don't typically compete at the highest end of the rental housing market. More important to us is the fact that growth in the key demographic drivers is expected to be anemic: Oxford Economics forecasts, for example, that **Total Employment** and the **Number of Households** will each grow by just 0.6 percent per year (adding 28 thousand and 22 thousand respectively), while the young adult population is expected actually to contract by eight thousand (-0.6 percent per year).



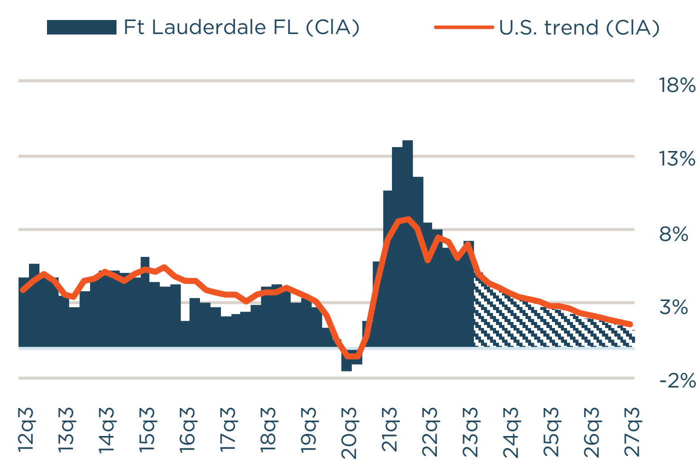


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
30,109	7,255	$428,781	$320 million
↑ 1.1%	↑ 14%	↑ 0.2%	↓ 59%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
21.5%	$73,200	5.2%	-17 bps
↓ 6.1%	↑ 1.3%	↑ 0.4%	below US avg

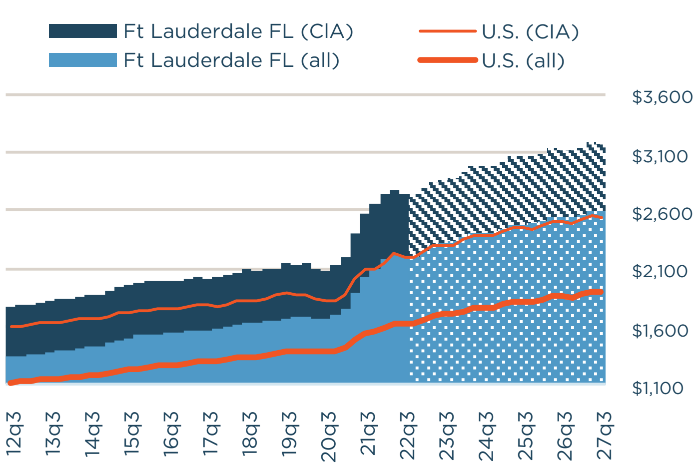
Units in Demand (000s)



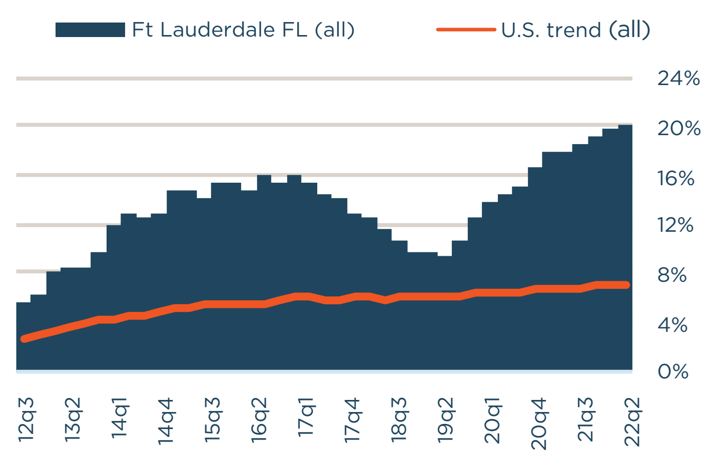
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory (trailing 4-qtr)



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

Jacksonville, FL

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

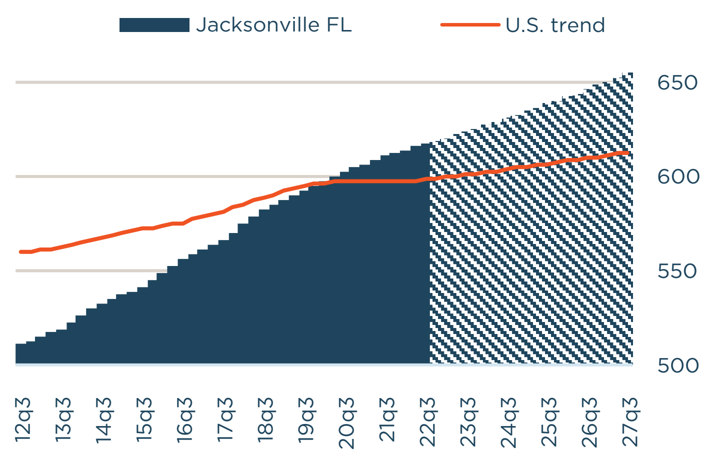
MIDDLEBURG'S RANK #15 AMONG 15 LARGEST METROS

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 **Total Employment** forecast to grow only slightly more rapidly than average at 0.5 percent per year (24 thousand additional jobs) while the young adult population is expected to shrink by three thousand (-0.3 percent per year).

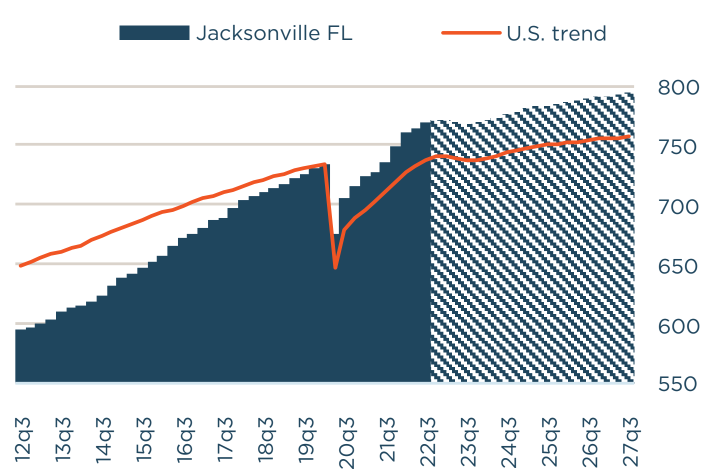
Neither is a homeownership affordability problem likely to drive apartment demand, as house prices are expected to grow substantially less than in the rest of the country at just 1.9 percent per year; median household incomes are expected to grow more rapidly at 2.4 percent per year, although significantly less than for the country as a whole.

Given the weakness in demographic and affordability drivers, CoStar expects that **Demand** for rental housing units will grow by just four thousand over the same period, at a below-average pace of 3.7 percent per year, and Middleburg projects that deliveries will outpace demand growth by about four percent over the next three years. On the other hand, growth in **Effective Rent per Unit** for Class A apartment properties is expected to exceed the national average at 3.1 percent per year.

Number of Households (000s)

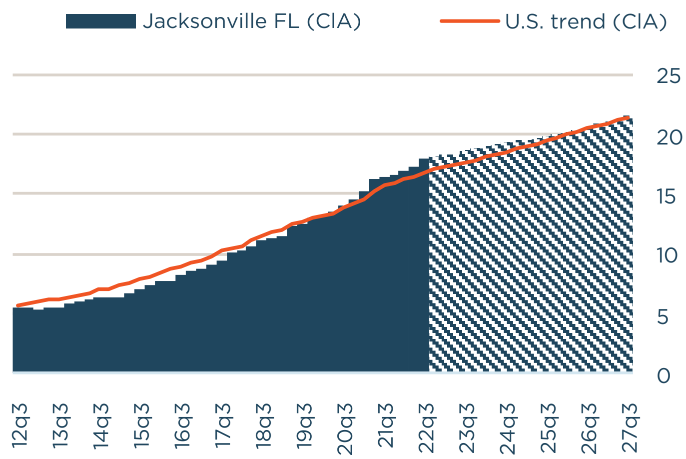


Total Employment (000s)

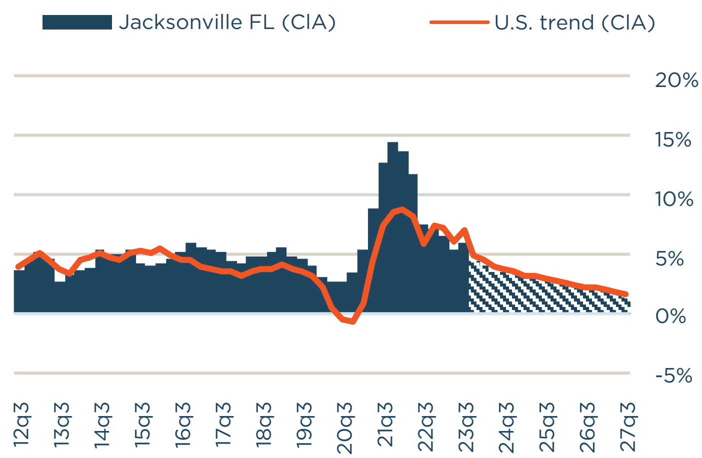


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
19,293	2,327	$255,258	$359 million
↑ 3.7%	↓ 16%	no change	↓ 83%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
19.1%	$77,400	5.1%	-17 bps
↓ 8.5%	↑ 1.0%	↑ 0.4%	below US avg

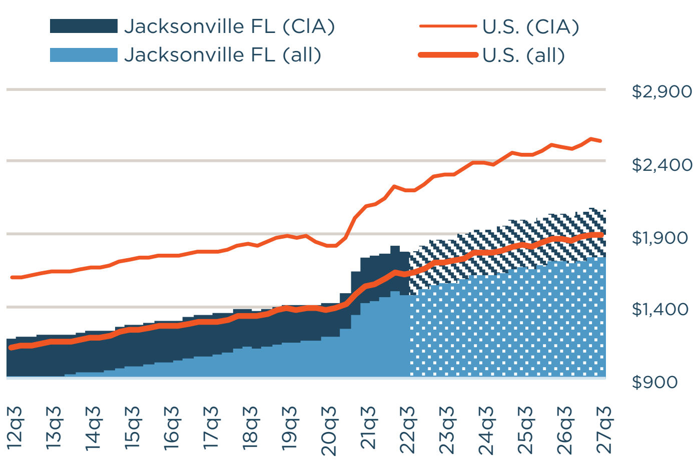
Units in Demand (000s)



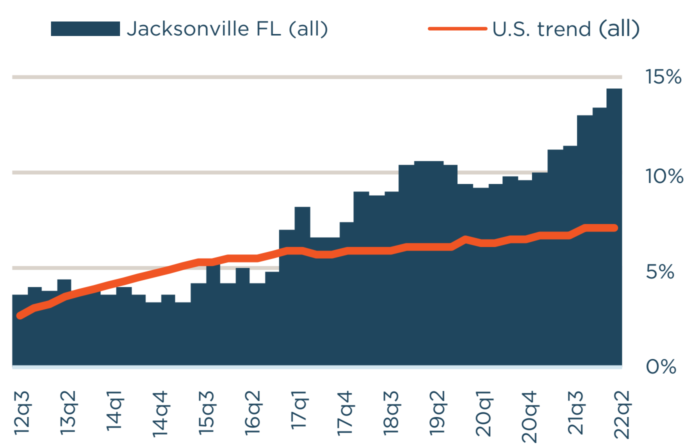
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory (trailing 4-qtr)



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

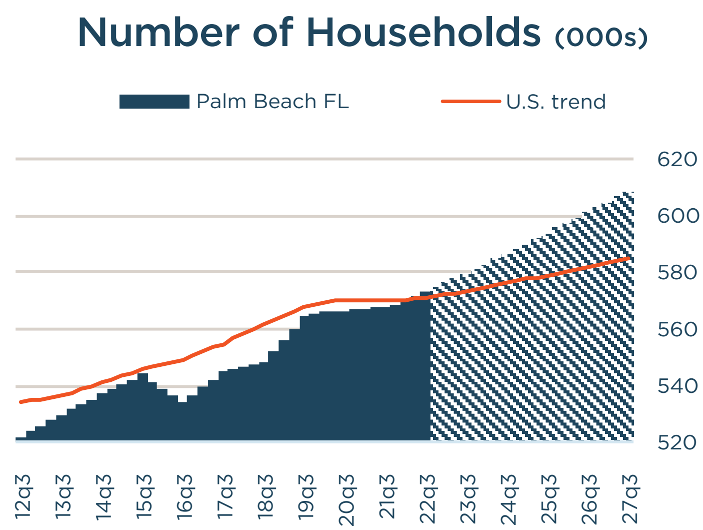
Palm Beach, FL

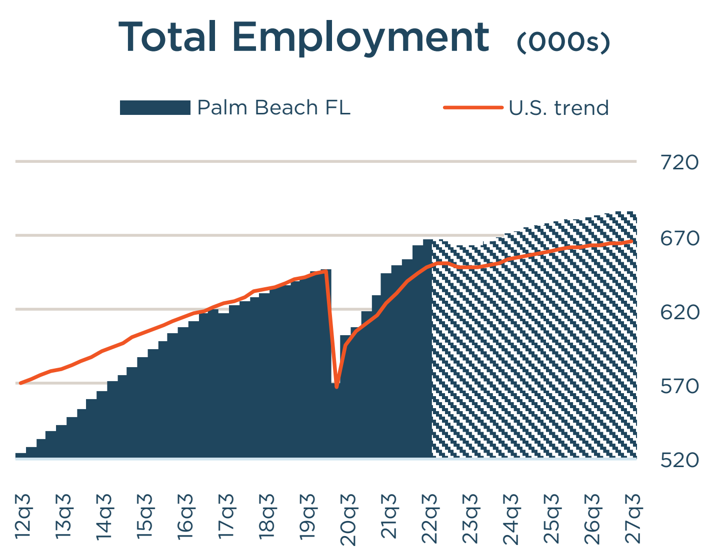
The rental housing market in Palm Beach—expensive and skewed toward wealthy retirees, like its near neighbors Miami and Fort Lauderdale, except with more promising demographic trends—will generally appeal more to developers other than Middleburg.

MIDDLEBURG'S RANK #2 AMONG 15 LARGEST METROS

Chief among the positive trends for Palm Beach is growth in its **Number of Households**, which is expected to increase by 35 thousand at 1.2 percent per year. Growth in its young adult population and **Total Employment** are expected to be less impressive at 0.1 and 0.6 percent per year respectively, both greater than the national average but low for this region. The biggest boost for rental housing should come from home-ownership affordability problems, with anticipated growth in house prices (3.7 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.

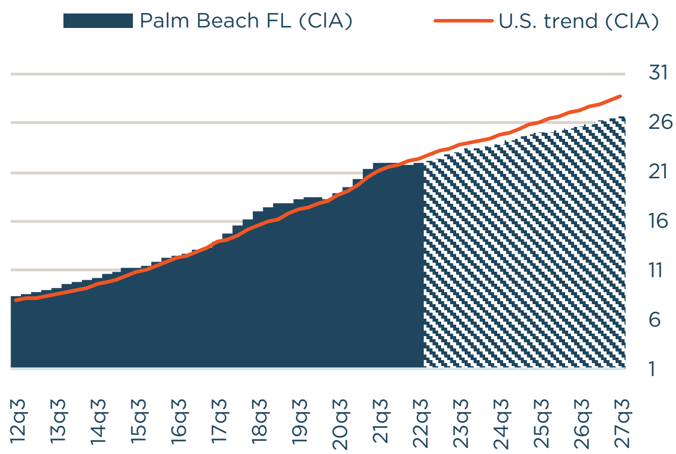
CoStar expects **Demand** and **Effective Rent per Unit** to increase at 4.0 and 3.6 percent per year, respectively, both slightly above average for metro areas in Middleburg's part of the country, while growth in **Net Operating Income** for Class A properties is expected to surpass every metro except Orlando and Dallas. What makes Palm Beach most interesting for developers are its cap rates averaging about 68 basis points below the national average—the lowest in Middleburg's region—as well as effective rents averaging $2,719 per unit. **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. And Middleburg forecasts that Palm Beach's rental housing market will remained undersupplied over the next three years, with deliveries falling short of incremental demand by about 4½ percent.



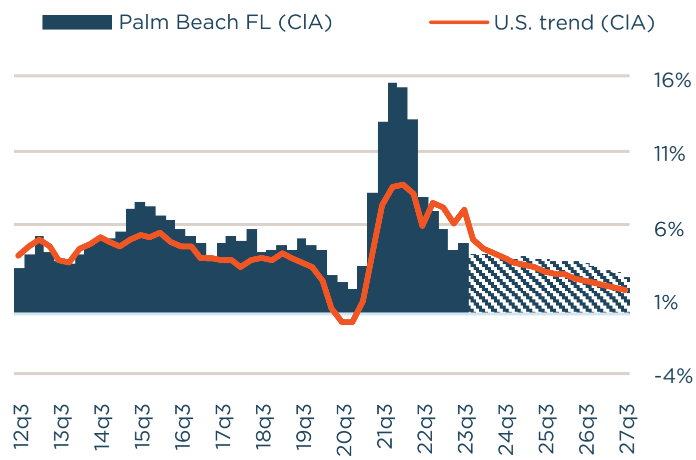


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
23,620 ↑ 2.1%	4,321 ↓ 10%	$432,866 ↑0.5%	$700 million ↓ 13%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
23.8% ↓ 6.6%	$74,520 ↑ 0.8%	6.3% ↑ 0.4%	-68 bps below US avg

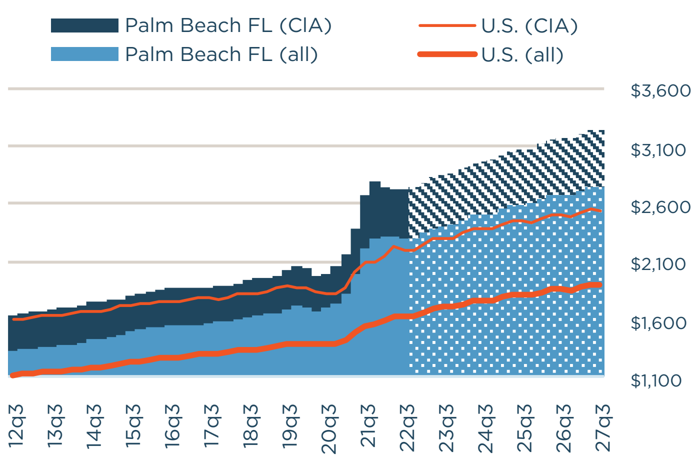
Units in Demand (000s)



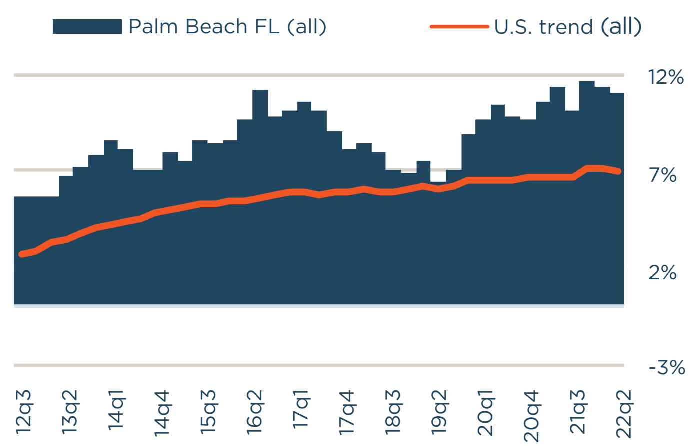
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory (trailing 4-qtr)



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

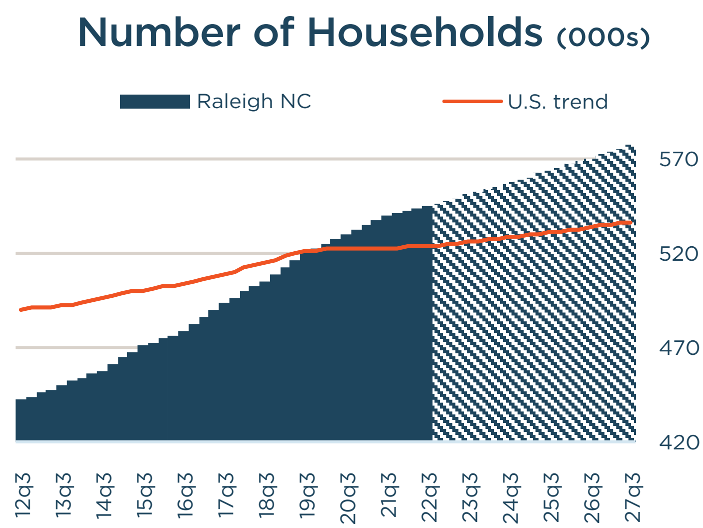
Raleigh, NC

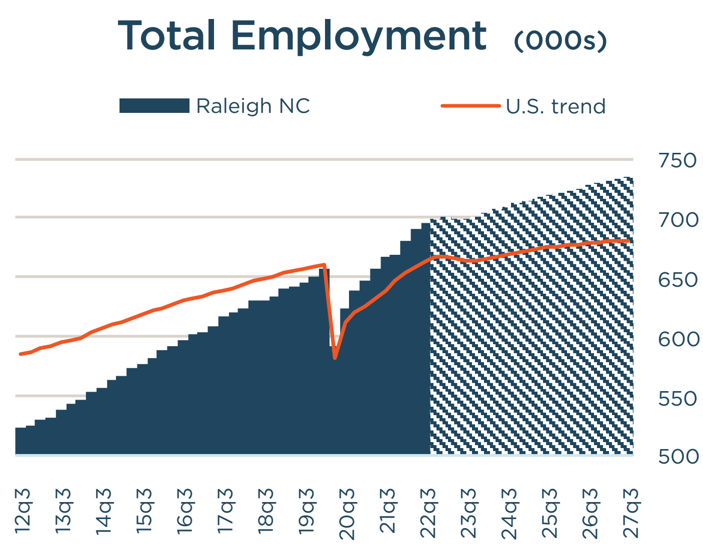
In terms of its attractiveness as a rental housing market, Raleigh can perhaps best be described as a somewhat smaller and much more affordable version of Austin or Nashville.

MIDDLEBURG'S RANK #9 AMONG 15 LARGEST METROS

Raleigh has a diverse economic base and an uncommonly high-education, high-income population—a characteristic that it is likely to retain given its reputation as "the low-cost tech hub" and decisions by a large number of tech and life-sciences companies such as IBM, GlaxoSmithKline, and SAS to expand their operations here. Oxford Economics forecasts above-average growth in Raleigh over the next five years for all three key apartment demand drivers with its young adult population growing by 1.0 percent per year, its **Number of Households** by 1.2 percent per year, and its **Total Employment** by 1.1 percent per year.

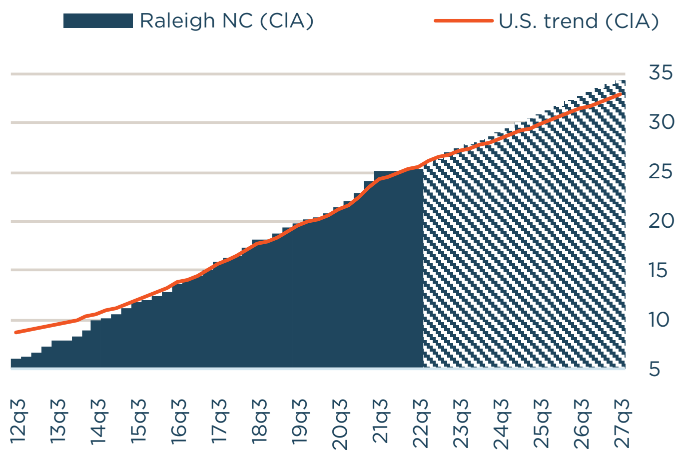
Homebuyer affordability should worsen only slightly in Raleigh over the next five years, with house prices slightly outpacing the national average (3.3 percent per year vs 3.1 percent) while median household income growth matches the national average. Even without an affordability driver, the strong demographic trends are likely to drive equally strong demand for rental housing: CoStar expects **Demand** for rental housing units to expand by nine thousand over the next five years at 6.3 percent per year. **Construction and Deliveries** have been elevated relative to inventory, however, and Middleburg estimates that deliveries over the next three years will outpace incremental growth by more than five percent. As a result, CoStar estimates that **Effective Rent per Unit** will grow by just 2.4 percent per year, compared with a national average of 3.0 percent.



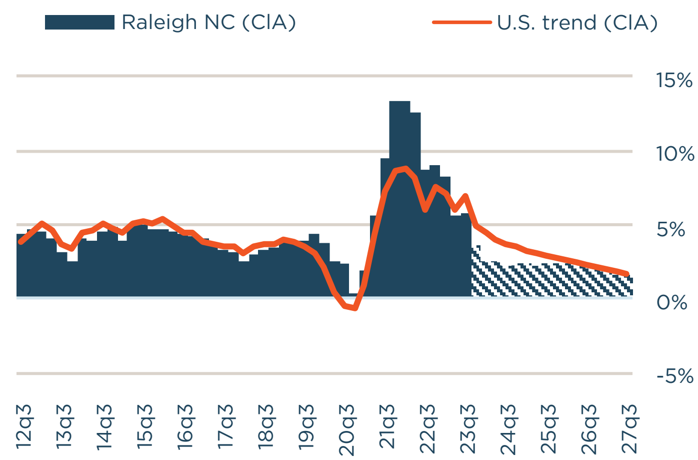


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
27,609	4,821	$325,038	$747 million
↑ 1.6%	↑ 1.3%	↑ 1.0%	↑ 26%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
23.7%	$94,800	5.8%	-38 bps
↓ 7.7%	↑ 1.2%	↑ 0.4%	below US avg

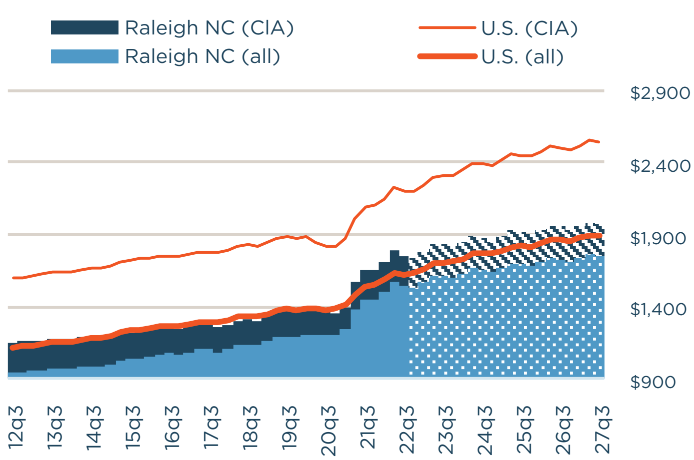
Units in Demand (000s)



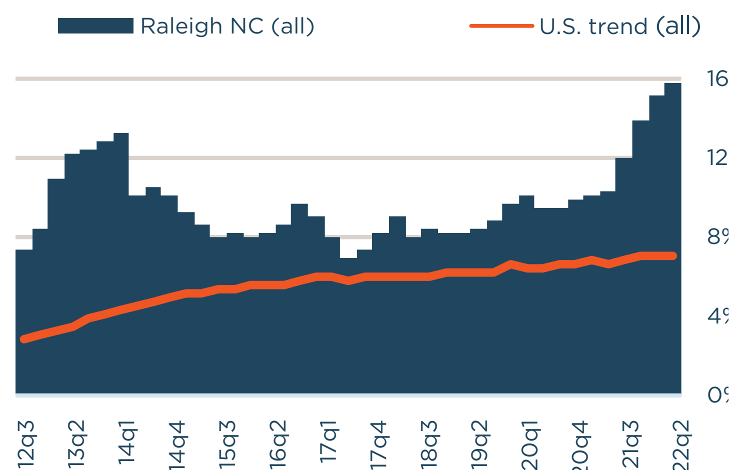
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory (trailing 4-qtr)



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

Richmond, VA

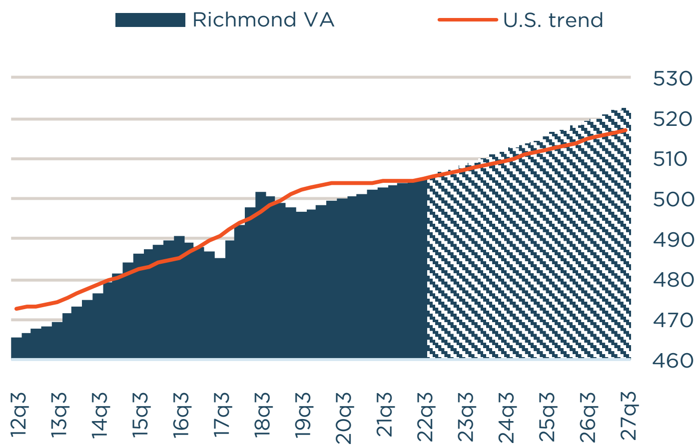
Richmond has successfully shed its over-reliance on the tobacco industry and transformed itself into a diversified regional hub with particular strength in financial services.

MIDDLEBURG'S RANK #12 AMONG 15 LARGEST METROS

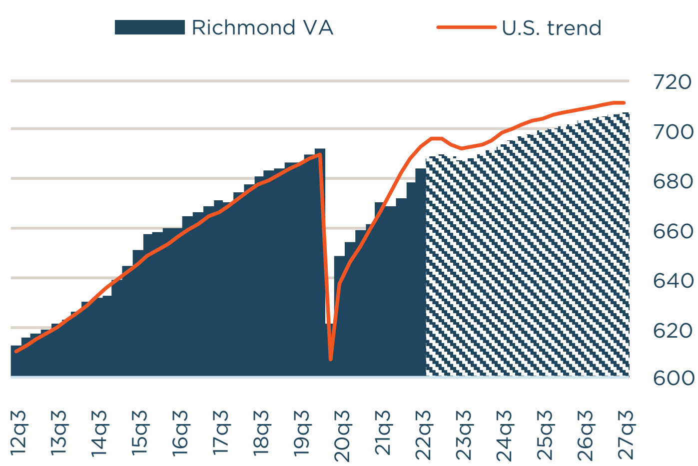
Growth in the **Number of Households** and **Total Employment** are expected to slightly outpace the rest of the country over the next five years at 0.7 and 0.6 percent per year respectively, implying 18 thousand new households and 22 thousand new jobs. Homeowner affordability, however, is not anticipated to be a significant driver of rental housing demand, with house prices expected to grow at an anemic 2.0 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 10 thousand units over the next five years at a pace of 8.6 percent per year, comfortably above average for Middleburg's part of the country, while **Effective Rent per Unit** is expected to grow at a slightly-above-average pace of 2.9 percent per year. 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 62 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)



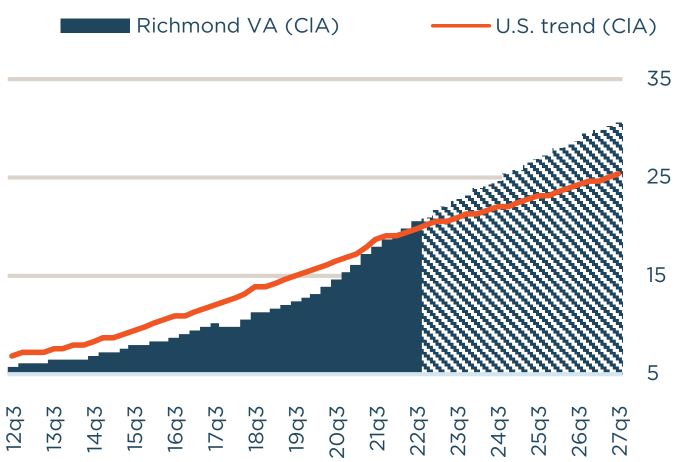
Total Employment (000s)



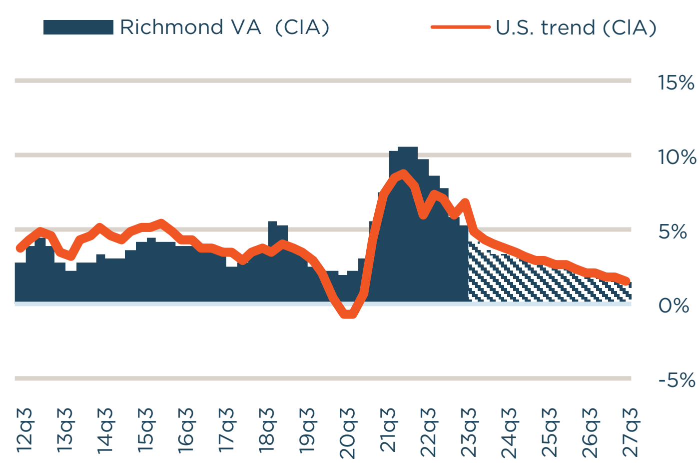
CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
22,242	5,714	$288,955	$910 million
↑ 2.7%	↑ 10%	↑ 2.5%	↑ 147%

12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
15.1%	$78,320	4.3%	+62 bps
↓ 5.3%	↑ 1.3%	↑ 0.4%	above US avg

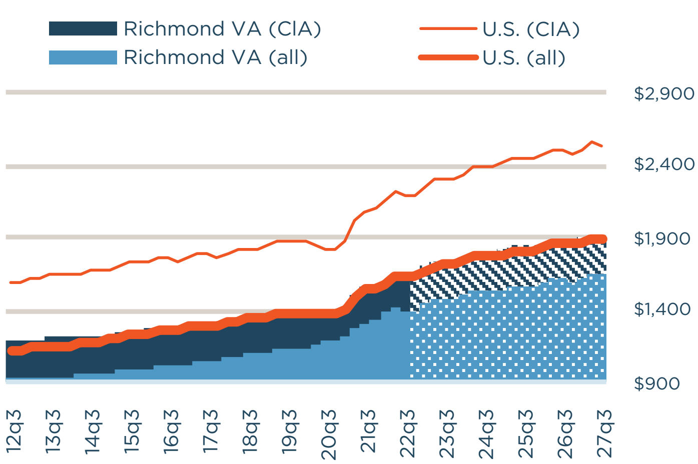
Units in Demand (000s)



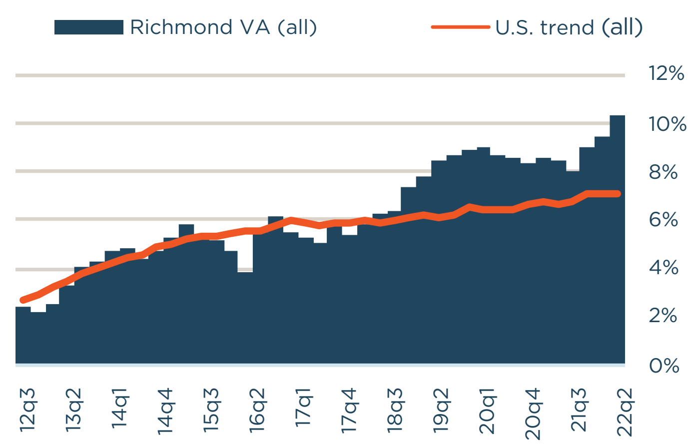
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory (trailing 4-qtr)



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

ALSO ON OUR RADAR

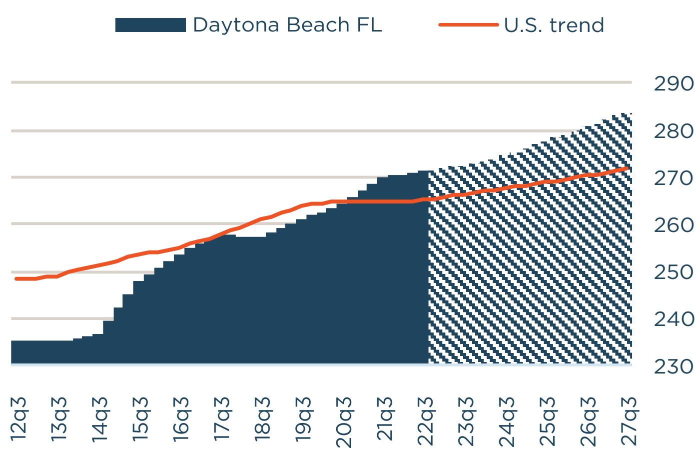
Daytona Beach, FL

Although it is most widely known for its car-racing events, the Daytona Beach metro area is primarily a retirement destination with the associated employment concentrations in health care and land development.

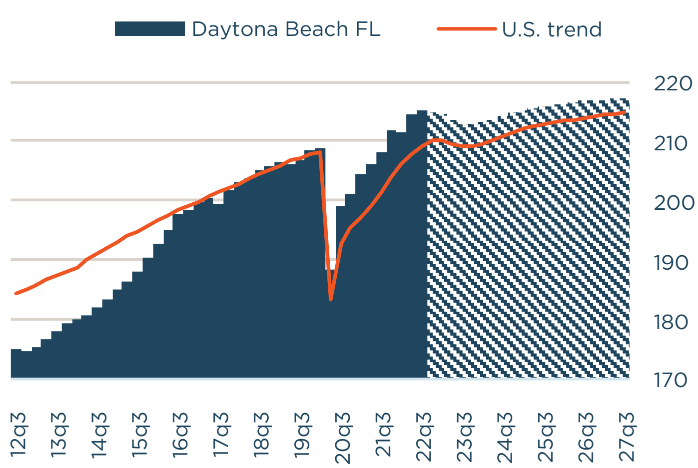
Although Oxford Economics forecasts above-average growth in the **Number of Households** over the next five years at 0.9 percent per year, that should be primarily in older age groups with the young adult population actually shrinking more than for the country as a whole at -0.8 percent per year. And, although the economic base includes boat manufacturing (Boston Whaler) and education (Embry-Riddle, Stetson), Employment growth is expected to lag the national average at just 0.2 percent per year.

Demand for rental housing units grew smartly for several years but is forecast to stagnate with growth averaging just 3.5 percent over the next five years compared with the national average of 5.1 percent, according to CoStar, even though homeownership affordability problems should worsen with house price growth of 3.5 percent per year outpacing median household income growth of just 2.3 percent per year. As a result, Middleburg estimates that deliveries will slightly outpace incremental demand over the next three years.

Number of Households (000s)

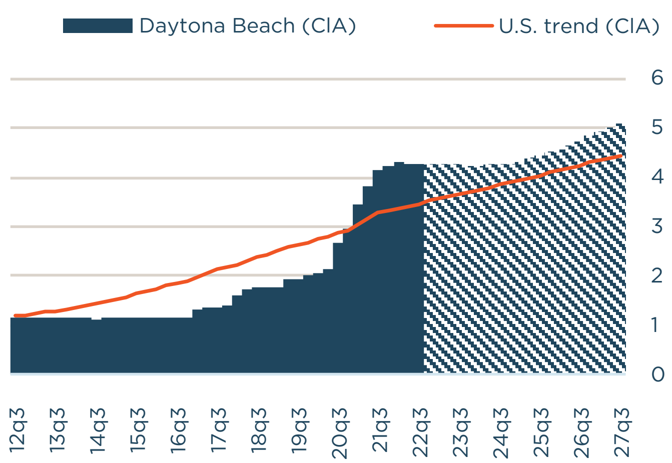


Total Employment (000s)

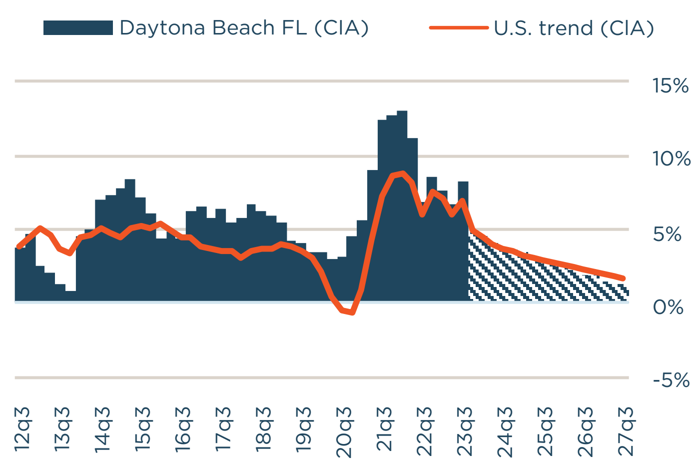


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
4,471	0	$277,244	0
no change	--	↓ 0.9%	--
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
22.9%	$62,200	4.5%	+40 bps
↓ 7.9%	↑ 1.0%	↑ 0.1%	above US avg

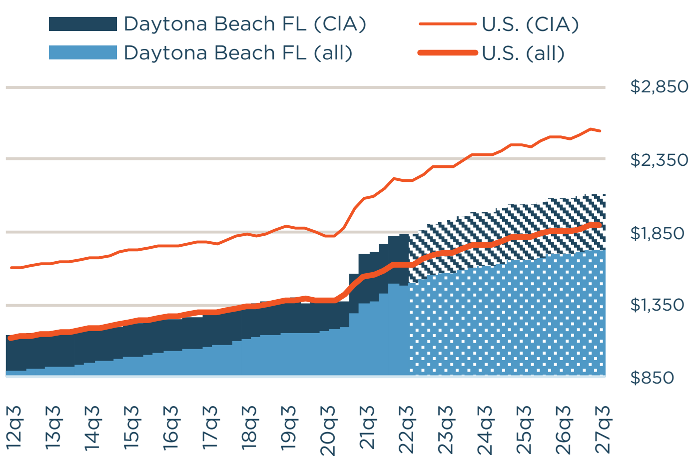
Units in Demand (000s)



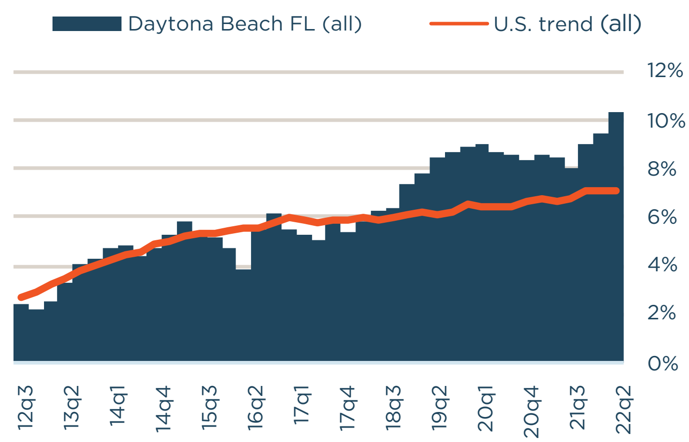
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory (trailing 4-qtr)



Representative large employers: Advent Health System, Embry-Riddle Aeronautical University, Brunswick Corporation

ALSO ON OUR RADAR

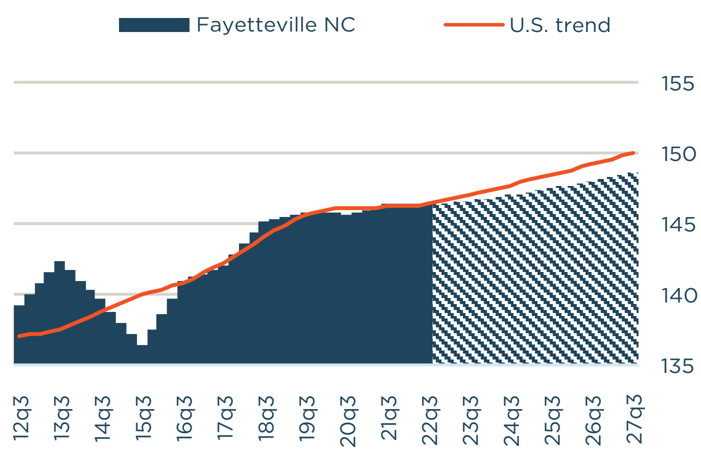
Fayetteville, NC

Home to the U.S. Army's Fort Bragg, Fayetteville also has a manufacturing base, a population that slants quite young and a notable shortage of new rental housing construction.

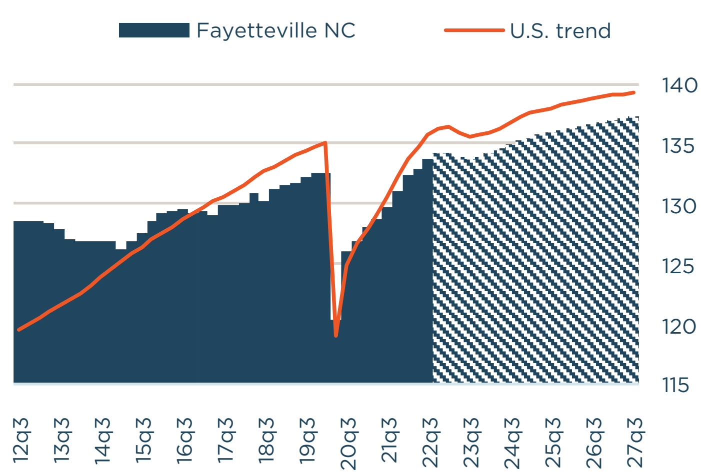
Growth in the underlying demographic drivers of rental housing demand in Fayetteville is expected to be broadly normal for the country as a whole, if perhaps somewhat weak for Middleburg's arc. **Total Employment** is expected to grow at the national average of 0.5 percent per year over the next five years, and the young adult population should expand by about 0.2 percent per year compared with a nationwide contraction of -0.3 percent per year. Growth in the **Number of Households**, though, is forecast to be somewhat anemic at just 0.3 percent per year.

Rental housing demand is likely to get no boost from home-ownership affordability issues, which are expected to match the national average. As a result, of the demographic and affordability trends, CoStar predicts that rental housing **Demand** in Fayetteville is likely to stagnate over the entirety of the next five years with growth averaging just 0.4 percent per year. **Effective Rent per Class A Unit** is expected to grow very slightly more than the national average at 3.2 percent per year—but low rents averaging just $1,430 per unit provide ample explanation for new construction that has barely budged over the past seven years.

Number of Households (000s)

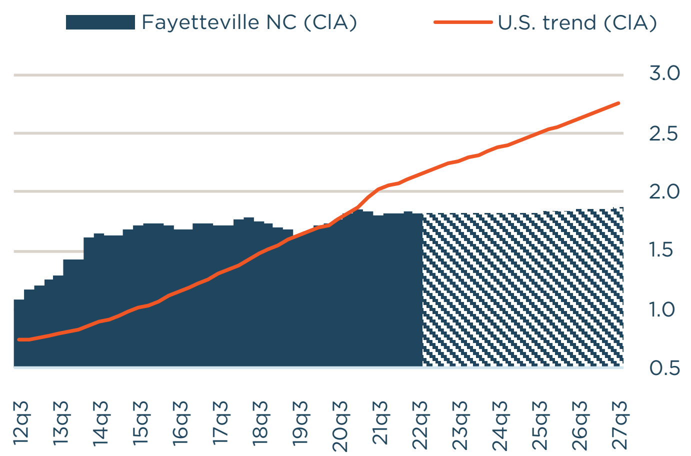


Total Employment (000s)

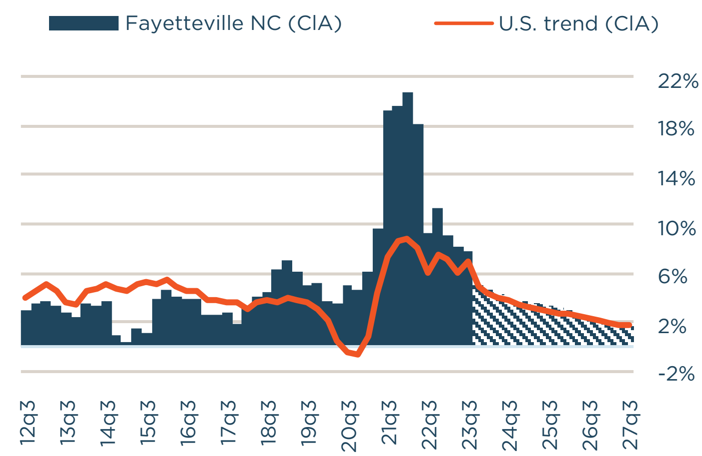


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
1,890	0	$196,923	192
no change	--	↑ 3.0%	--
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
18.2%	$57,720	3.4%	+89 bps
↓ 6.6%	↑ 1.4%	↓ 0.1%	above US avg

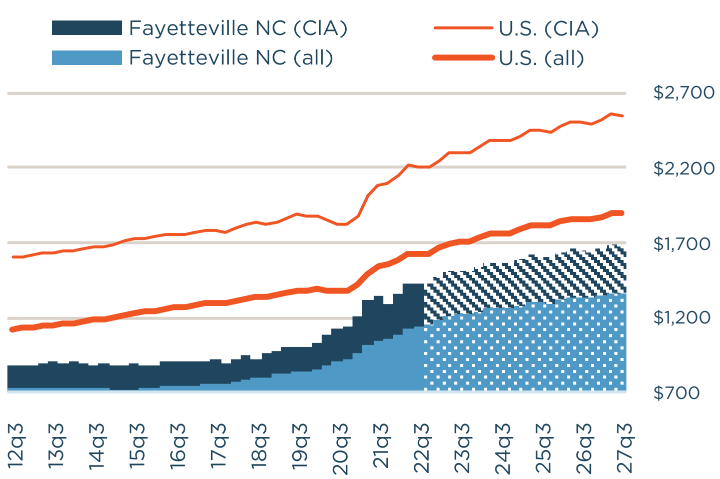
Units in Demand (000s)



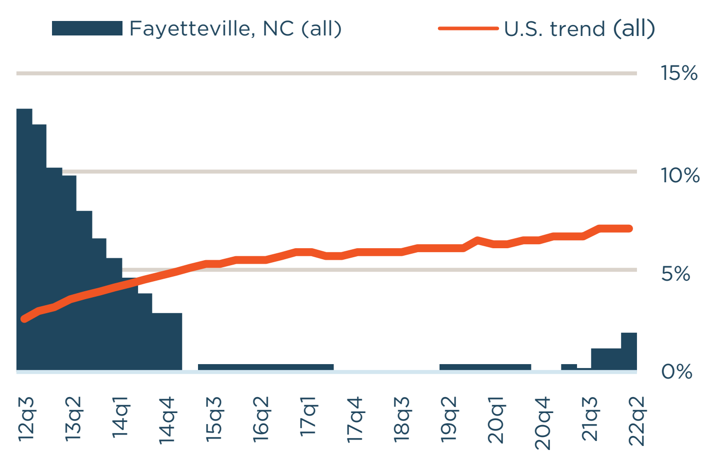
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory (trailing 4-qtr)



Representative large employers: Fort Bragg (XVIIIth Airborne, Army Special Operations Command), Goodyear Tire & Rubber, Purolator Filters

ALSO ON OUR RADAR

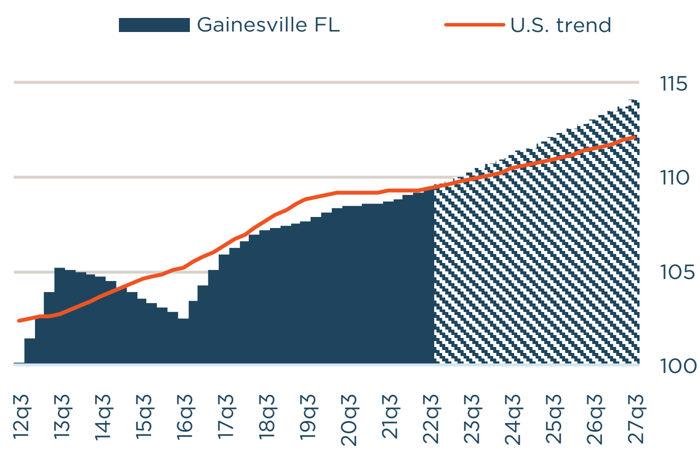
Gainesville, FL

Primarily known for hosting the 4th-largest university in the country, Gainesville offers some appealing rental housing market characteristics even for non-student properties.

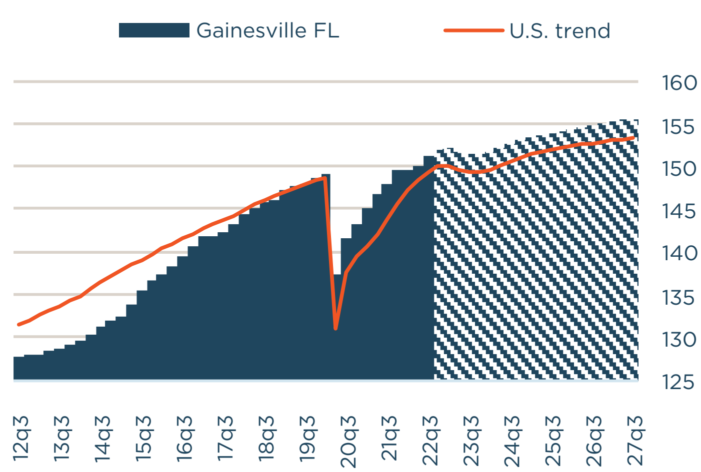
Oxford Economics projects that the young adult population will actually decline in Gainesville much more than in the rest of the country at -1.1 percent per year over the next five years. Growth in **Employment** and the **Number of Households**, however, are expected to outpace the national average at 0.6 and 0.8 percent per year, respectively. House prices are also expected to increase at a slightly-above-average pace of 3.3 percent per year, which should put pressure on owner-affordability as growth in median household incomes is expected to lag at just 2.3 percent per year.

As a result, CoStar forecasts that **Demand** for rental housing units will increase at a pace averaging 8.2 percent per year, well above average for metro areas in Middleburg's part of the country, while growth in Class A **Effective Rent per Unit** should edge out the national average at 3.1 percent per year. The pace of new construction has been persistently moderate, and Middleburg estimates that deliveries over the next three years will fall short of incremental demand by more than three percent. As with many other secondary markets, average rents are on the low side at $1,697 per Class A unit.

Number of Households (000s)

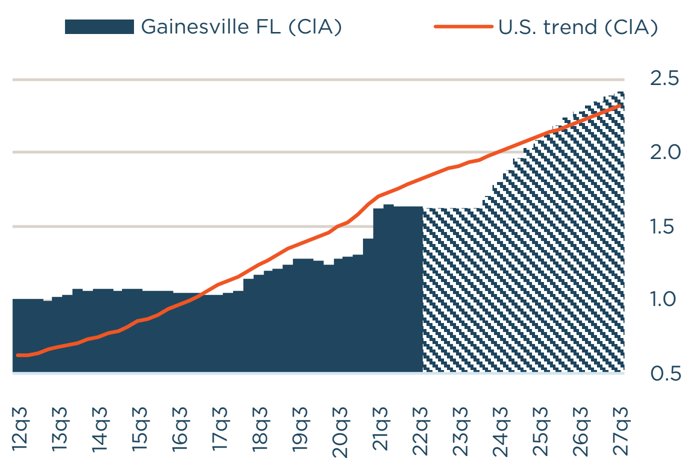


Total Employment (000s)

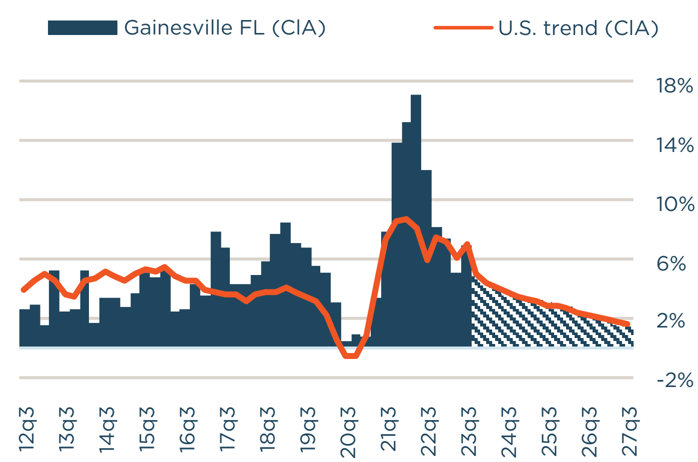


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
1,693	472	$205,565	0
no change	no change	↓ 1.4%	--
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
17.7%	$57,960	3.7%	+21 bps
↓ 7.5%	↑ 1.2%	↑ 0.2%	above US avg

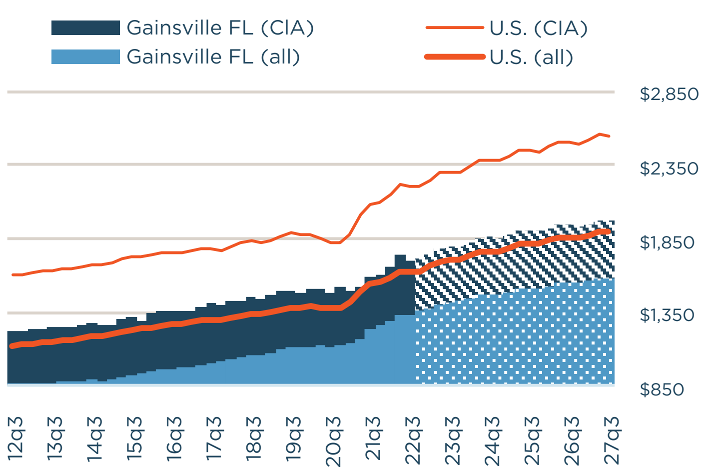
Units in Demand (000s)



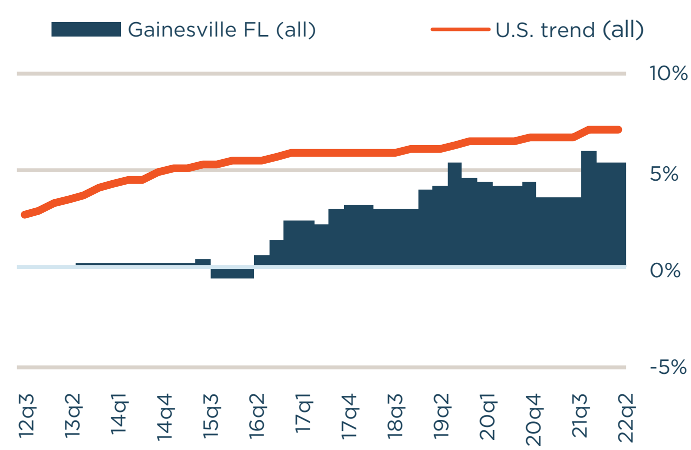
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory (trailing 4-qtr)



Representative large employers: University of Florida, Shands Hospital, Nationwide Insurance

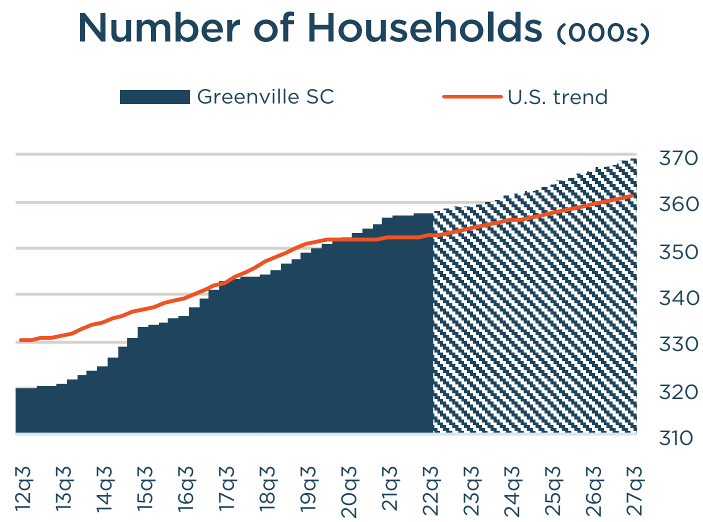
ALSO ON OUR RADAR

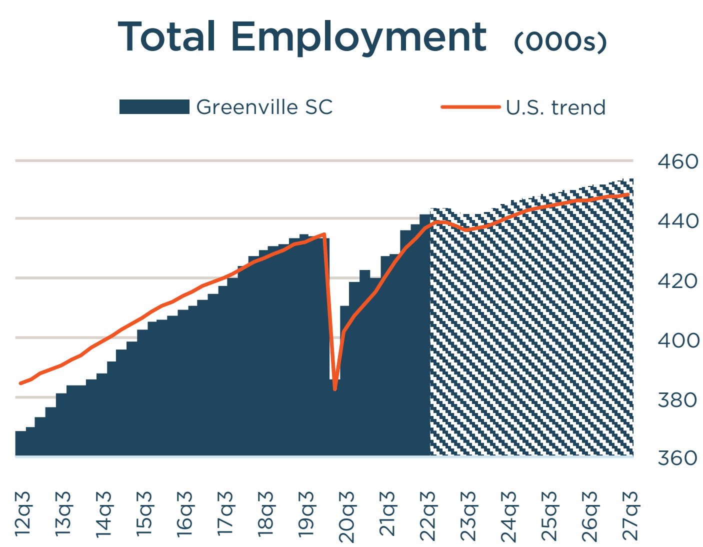
Greenville, SC

Greenville's rental housing demand drivers very closely match national averages—which, of course, is weak praise considering how strong are the demand drivers in so many other markets in Middleburg's arc. In fact, the under-the-radar steadiness of its market conditions are what makes Greenville appealing.

Oxford Economics forecasts that **Total Employment** growth will match the national average over the next five years at 0.5 percent per year—but employment growth that has matched or slightly exceeded the national average has a long history in Greenville. Likewise with growth in the **Number of Households**, which should slightly exceed the national average at 0.6 percent per year. And if growth in the young adult population is expected to be barely positive at 0.1 percent per year, that's still solid in an environment of negative growth for the nation as a whole.

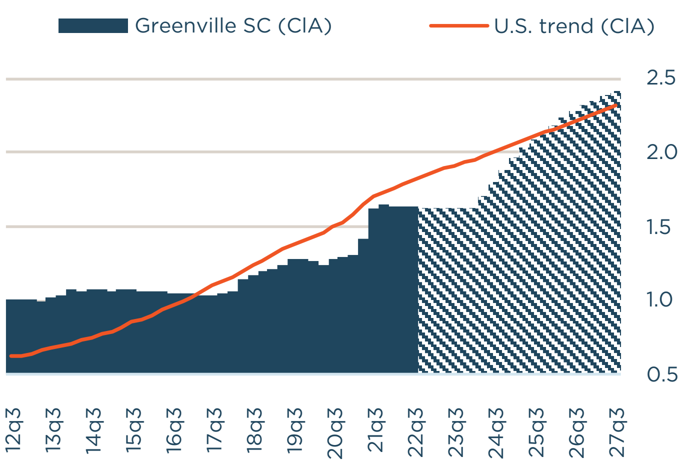
Likewise with the prospects for growth in rental housing **Demand** and **Effective Rent per Unit**, both of which CoStar forecasts to grow at the national average of 5.1 and 3.0 percent per year respectively. Middleburg forecasts that rental housing in Greenville will remain undersupplied over the next three years with incremental demand growth outpacing deliveries, and cap rates exceeding the national average also make it an appealing if unspectacular market for development.



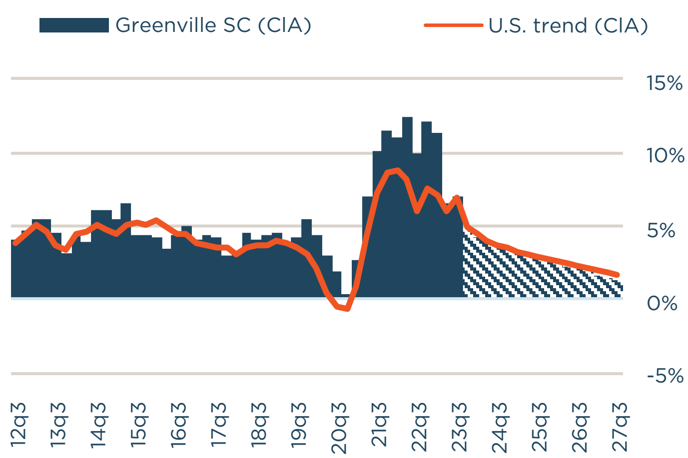


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
10,354	1,431	$261,992	$942 million
no change	no change	↑1.1%	↑ 334%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
17.8%	$68,120	6.2%	+14 bps
↓ 6.2%	↑ 1.4%	↑ 0.4%	above US avg

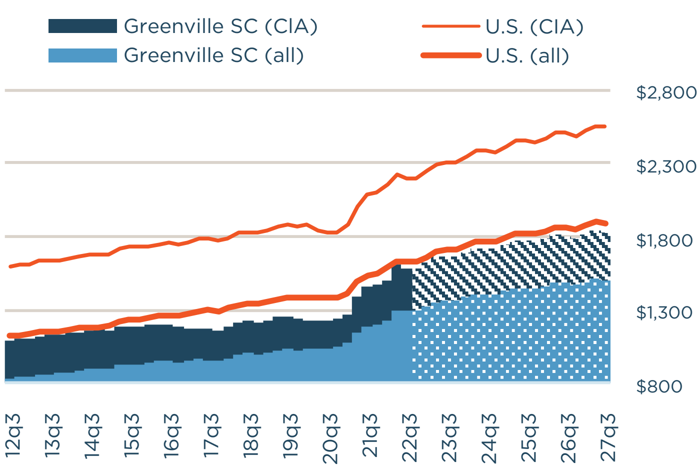
Units in Demand (000s)



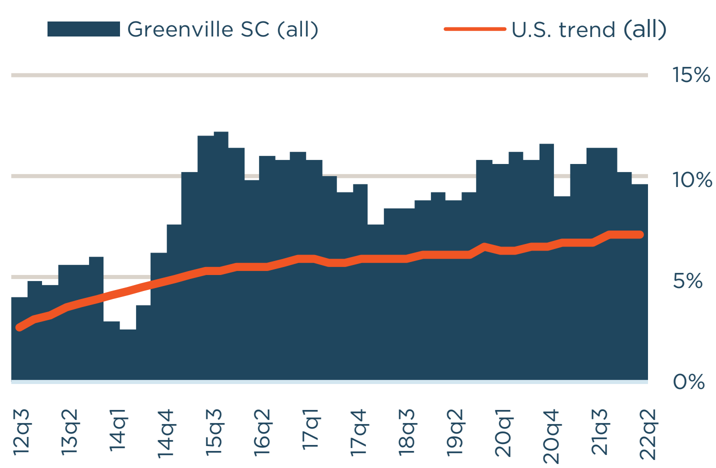
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory (trailing 4-qtr)



Representative large employers: Michelin, Duke Energy, GE Power, Fluor, Prisma Health

ALSO ON OUR RADAR

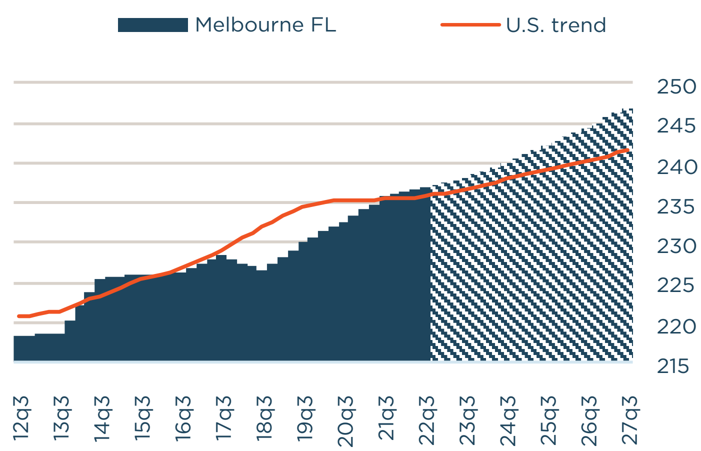
Melbourne, FL

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

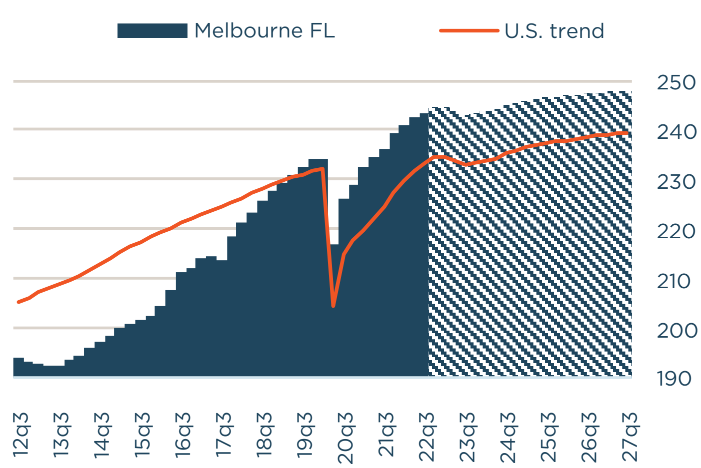
Oxford Economics forecasts that the **Number of Households** will grow at 0.8 percent per year over the next five years, comfortably above the national average. **Total Employment,** however, is expected to grow at a below-average pace of just 0.4 percent per year. The big loser is expected by be Melbourne's young adult population, which appears to have been shrinking for the past year and is expected to continue declining by a massive -1.2 percent per year. Weak growth in median household income at 2.4 percent per year—again, a sign of its growing appeal among retirees—along with fairly strong continued growth in house prices (3.5 percent per year) means that the **House Price to Income Ratio** is likely to worsen considerably more than in most other metro areas.

The twin boosts from growth in the number of households and exacerbated homeownership affordability are expected to grow **Demand** for Melbourne's rental housing by 7.7 percent per year, considerably above average for metro areas in Middleburg's part of the country. Construction, however, has been strong over the last half-decade, and Middleburg projects that deliveries over the next three years are likely to outpace incremental demand by almost eight percent. Partly in response to this strong supply response, CoStar projects that **Effective Rent per Unit** will grow at just 2.8 percent per year over the next five years—not weakly by any means, but not as strongly as the national average.

Number of Households (000s)

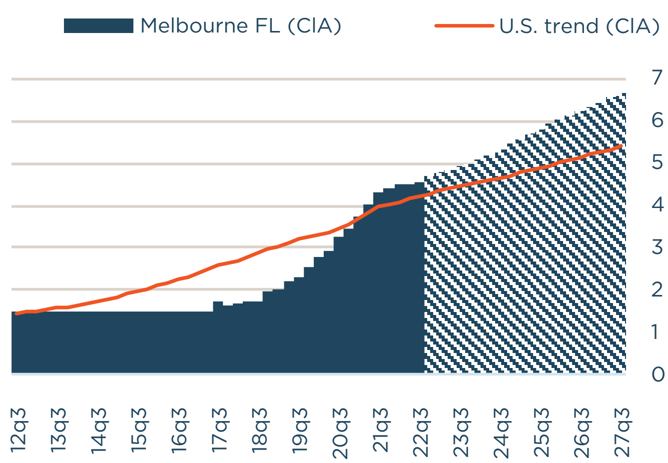


Total Employment (000s)

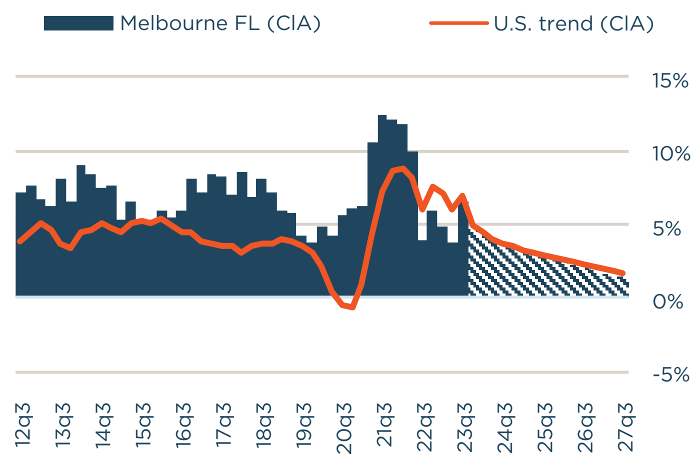


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
4,969	960	$267,312	0
↑ 5.7%	↓ 22%	↓ 3.1%	--
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
22.5%	$68,120	4.0%	-17 bps
↓ 8.4%	↑ 1.1%	↑ 0.5%	below US avg

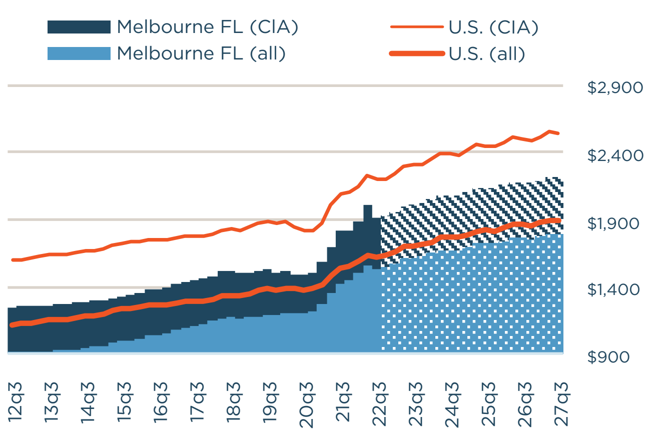
Units in Demand (000s)



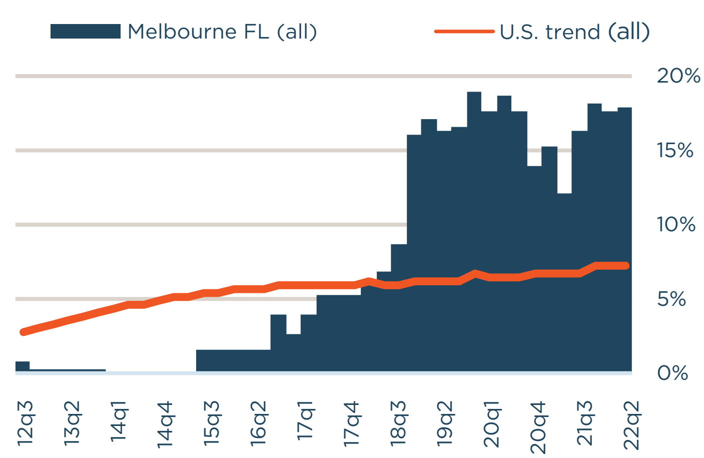
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



(Under Construction + Net Deliveries) / Inventory (trailing 4-qtr)



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