MIDDLEBURG COMMUNITIES

Middleburg Markets Report

Q4 2022

Middleburg Communities is pleased to present our Middleburg Markets Report for the 4th 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

The fourth quarter of 2022 saw continued leveling in the existing "uncertainty imbalance"—not, unfortunately, with an easing of macroeconomic uncertainty but with sharply increased uncertainty in rental housing markets that brought them more into balance with macroeconomic conditions.

The chief sources of uncertainty in the macroeconomic situation have neither improved nor deteriorated to any convincing extent. The brutal war in Ukraine continues to disrupt energy and food markets worldwide, threatening to damage our economy by weakening the economies of our trading partners. The critical drivers of macroeconomic health in the U.S.—growth in employment, income, and consumption, along with fixed investment—continue to show modest growth with occasional head fakes of weakness. And stubbornly high inflation—again with occasional head fakes—continue to drive interest-rate hikes. Meanwhile, the signs of weakness in rental housing markets that first murmured during the third quarter certainly announced themselves loudly during Q4 with increased vacancy rates, rent declines, and declines in property values.

Mosby at Riverlights, Wilmington, SC

We begin this 2022 Q4 Middleburg Markets Report by summarizing current macroeconomic conditions and addressing the now-familiar question of how they are likely to develop during 2023, before addressing the now-balanced uncertainty in housing markets. As always, we then update our discussion of conditions in the 15 largest housing markets in "our" part of the country along with five in a rotating set of smaller markets—this time Durham NC, Fort Walton Beach FL, Hilton Head SC, Huntsville AL, and Winchester VA.

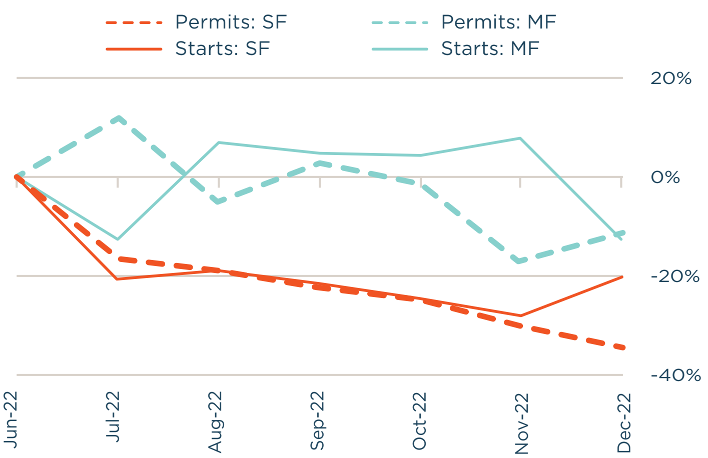
Table of Contents

U.S. Overview

Uncertainty regarding the country's macroeconomic situation started early in 2022 and remained troublesome all year. The most important supports of a healthy macroeconomy—broad growth in employment, income, and consumption—remained surprisingly robust throughout the year. The collapse of single-family housing development, however, has come to be the most important threat to continued growth in 2023.

The severity of the downturn in single-family housing construction can hardly be overstated. New permits and starts for single-family housing units peaked in February at roughly 7½ percent above their 2021 average. By November, however, new single-family permits had declined to 28 percent less than their monthly average in 2021, while single-family starts continued to decline and in December were a stunning 30 percent below their 2021 average.

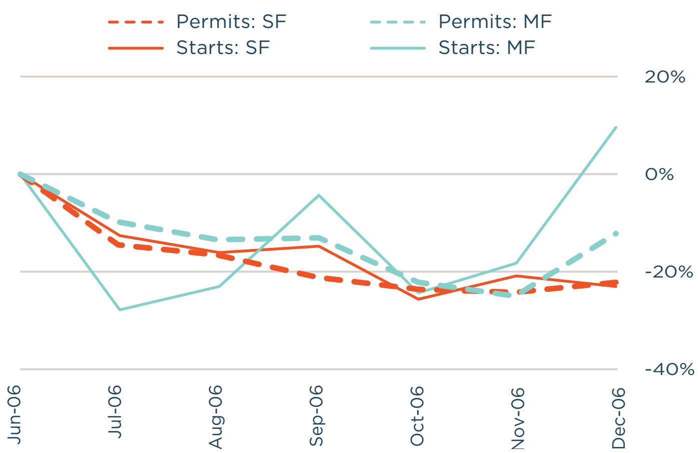
Changes in Housing Construction during 2022H2



For the year as a whole, the single-family construction industry saw 12 percent fewer permits and 11 percent fewer starts in 2022 than in 2021. The contrast with the multifamily housing market was stark: for buildings with 5+ units, the pace of activity was comparatively steady throughout the year, with total housing permits nine percent greater in 2022 than in 2021 and starts 14 percent higher.

The possible implications of the collapse in single-family housing construction are, to be blunt, dire. In fact, the last time the U.S. saw double-digit declines in single-family permits and starts from one calendar year to the next was 2006-09, during the period of the Great Financial Crisis. The three instances prior to that were also associated with significant recessions in 1973-74, 1979-81, and 1990.

Changes in Housing Construction during 2006H2



And yet: in other relevant respects, 2022 looked nothing like the situation that prevailed prior to those other downturns. Most importantly, total nonfarm employment has remained strong, increasing by 1.2 percent over the last six months of 2022 (twice as strong as during the last six months of 2006); in goods-producing sectors of the economy employment grew by +1.3 percent during the last half of 2022 compared with -0.8 percent during the corresponding period of 2006.

Other labor market indicators that typically provide early warning of macroeconomic downturns also showed strength: for example, the average duration of an unemployment spell declined much more strongly during the last half of 2022 than during the last half of 2006.

Similarly, consumption continued to expand during the last half of 2022 (even after inflation) whereas it contracted during the run-up to the GFC. As with the labor market, certain consumption segments typically provide early warning of economic downturns; among them is sales of autos and light trucks, which grew by +12.4 percent during the last half of 2022 compared with a decline of -1.5 percent during the corresponding period in 2006.

The current macroeconomic situation bears very uncomfortable similarities with the landscape just preceding the Great Financial Crisis, but the two periods are not strong analogues.

In short, while it is true that the current macroeconomic situation bears very uncomfortable similarities with the landscape just preceding the GFC, the two periods do not appear to be strong analogues. Perhaps the most important difference comes, again, from the single-family housing market. In particular, the pre-GFC collapse of the single-family market happened *despite* strongly promotional interest-rate policy, whereas the 2022 single-family market collapse happened *because of* a precautionary interest-rate policy that saw the 30-year mortgage rate surge by 3.77 percent points since the beginning of the year (and by 1.12 percentage points over its last six months).

The strongly mortgage-favorable interest-rate policy of 2006 was part of an extended period during which the federal government promoted homeownership as what many people interpreted to be a risk-free way to build wealth through highly leveraged investments in an asset whose value seemed to be increasing without pause. In this promotional environment, the rentership rate declined steadily from 36.2 percent at the beginning of 1994 to just 30.8 percent at the end of 2004.

And then, of course, the owner-occupied housing bubble burst and house prices declined by more than 21 percent from 2007 to 2011—leaving so very many of those households that had jumped from renting to owning with, instead of wealth, massive losses or defaults on their highly leveraged asset purchases. The rentership rate quickly, and understandably, recovered to more than 37 percent—and it remains possible that, just as the Great Recession had durable effects on the borrowing habits of an entire generation, so the GFC may end up having durable effects on the housing choices of a new entire generation.

The markedly different policy stances—strongly biased toward homebuying in 2006, and strongly neutral in 2022—accounts for the fact that multifamily construction activity in 2006 didn't start to recover until well after single-family construction had collapsed, whereas in 2022 it remained reasonably stable throughout the year. Put simply, in late 2006 the multifamily market only began its recovery from years of being disfavored, whereas in 2022 the multifamily market is regarded as an important alternative to single-family housing.

INFLATION

The other reason for the sharp difference in interest-rate policy regimes between 2006 and 2022 was, of course, sharply different inflation regimes. Overall inflation during 2006 amounted to just 2.5 percent and core inflation (excluding food and energy) was just 2.6 percent, close to the long-term target of two percent that has guided the Federal Open Market Committee for decades. During 2022, in contrast, both overall and core inflation were unacceptably high at 6.4 percent and 5.7 percent.

In fact, the most fundamental uncertainty in U.S. macroeconomic conditions during the 4th quarter stems from the fact that inflation has remained so much higher than the FOMC's long-term target even as worries regarding job market, income, and consumption continue to simmer. If the FOMC remains determined to see inflation decline to the two-percent range before it slackens increases in interest rates, then it certainly runs the risk of tipping the economy into recession. If, on the other hand, the FOMC is willing to protect the rest of the economy even before inflation reaches its target range, then that lessens the risk of falling into recession.

Two reasons lead us to believe that the FOMC is more likely to declare victory against inflation—and turn to protecting against softening in labor markets—than it is to continue increasing interest rates too aggressively.

Forward-looking FOMC members are unlikely to wait for published inflation to fall to its target before slackening their inflation-fighting policy.

The first reason is that consumer inflation expectations have already showed clear signs of declining. The Survey of Consumer Expectations published by the Federal Reserve Bank of New York has already shown that the median inflation expectation over the next year dropped by 1.78 percentage points over the last half of 2022, from 6.78 percent in June to 4.99 percent in December. Similarly, the internal estimates prepared by the Federal Reserve Bank of Cleveland show expected one-year inflation declining from 4.23 in June to 2.66 at the end of the year. Those declines in inflation expectations (especially coming from those sources) are important, as the FOMC's most important inflation objective is to prevent high inflation from becoming embedded in forward expectations, which would make it more difficult to combat.

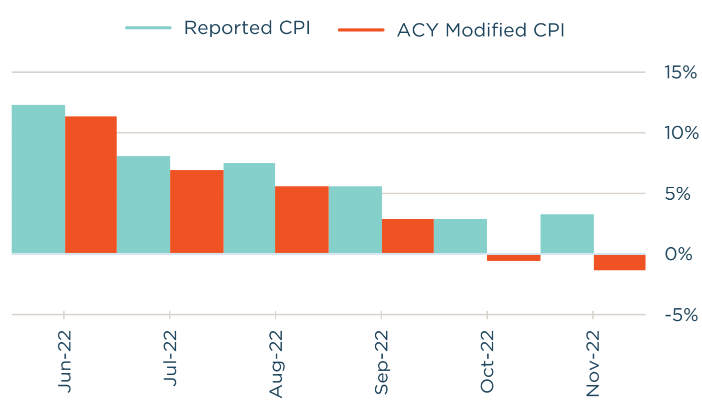
The second reason is that the most recent inflation reports make it clear that reported overall inflation is already being overstated, thanks to the problems inherent in measuring inflation for the shelter components of both the Consumer Price Index (CPI) and the Personal Consumption Expenditures (PCE) deflator.

It is widely recognized—including by members of the FOMC—that the shelter components are enormously lagged as a measure of current changes in shelter costs. Because of that, forward-looking FOMC members are unlikely to wait for published inflation to fall to its target before slackening their inflation-fighting policy: instead, in making their decisions they are likely to fight against an "actual" inflation rate that will likely fall before the published rate does.

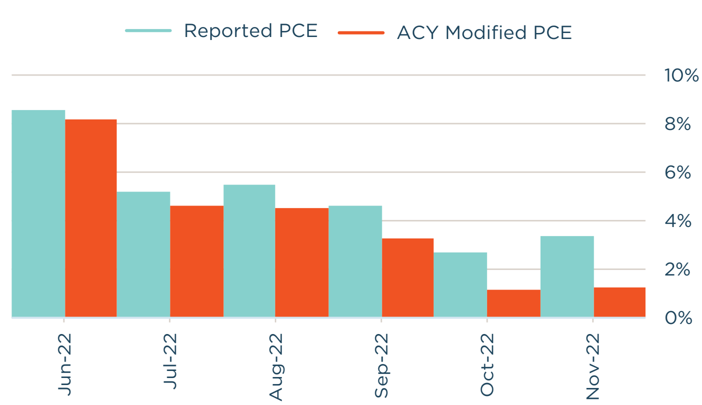
There is little question that "actual" inflation in shelter costs has already begun to fall. Rent declines were measured during most of the second half of 2022 by various aggregators of nationwide data on apartment rents: for example, Jay Paysons of RealPage reported that "apartment rents nationally declined month-over-month for each of the last four months." Other sources share this view: for example, the Penn State/ACY Alternative Inflation Index estimates that marginal rents reached their peak in July and had already declined by -1.7 percent as of November—a period during which the CPI and PCE inflation measures showed rents increasing by +2.9 percent.

In fact, Penn State estimates "corrected" versions of the CPI and PCE deflator, showing significantly lower inflation during the July-November period as a result of the corrections to the rent component. For example, the annualized inflation reported over that period by the CPI was 3.2 percent (and 4.9 percent for the "core" CPI), whereas Penn State's estimate of the correct rate was actually negative at -1.3 percent (and -0.8 for core CPI). Similarly, the PCE deflator showed annualized inflation over the same period at 3.3 percent (4.4 percent for core PCE), whereas the Penn State corrected rate was much lower at 1.2 percent (2.0 percent for core PCE).

Reported and ACY-Modified CPI



Reported and ACY-Modified PCE



As noted, it is unlikely that the FOMC participants who collectively determine interest-rate policy would fail to recognize the existing signs that published inflation measures overstate actual inflation, nor that they would fail to seek to determine—as Penn State has done—whether actual inflation has already fallen to the two percent target range after adjusting for the lag in measuring changes in shelter costs. That, combined with the already-measured declines in inflation expectations, make it seem likely that the FOMC will begin to reduce its emphasis on fighting inflation to protect against recession, especially if it sees signs of weakness in labor markets.

It is very important to note that the declines noted are in new rents (or, as Penn State terms it, "marginal" rents), not in overall rental receipts. In fact, many of the same factors that have affected both single- and multifamily housing markets during 2022, including steeply increased mortgage interest rates and exceedingly low vacancy rates, have pushed renter retention rates to abnormally high levels. While marginal rents were increasing, the high retention rates meant that operators of rental housing enjoyed rent increases only on the abnormally low share of rental units that turned over to new tenants. Conversely, now that marginal rents have started to decline, the same high retention rates mean that operators are suffering rent declines only on that still-abnormally-low share of units that turn over. In both cases, of course, the high retention rate has made the rental housing market more stable for operators.

MULTIFAMILY HOUSING CONSTRUCTION AND DEMAND

Earlier we noted that multifamily housing construction activity had remained generally stable during 2022 even as single-family housing construction activity declined at a pace not seen since before the GFC. The continued strong pace of multifamily construction has, however, raised concerns that the increases in rental housing supply may exceed incremental demand, causing vacancy rates to increase and suppressing rent increases.

This concern is well founded, and we at Middleburg Communities have already seen signs both of lower occupancy rates and of downward pressure on rents. We estimate rental housing over- or under-supply separately not only for each of the markets in which we are active but in the dozens of other markets that we actively follow for possible activity.

During the last half of 2022 the rental housing supply/demand balance shifted unfavorably in several of the metro areas that we track—including metro areas about which we had already identified concerns, such as Austin TX and Nashville TN. However, we regard the signs of oversupply as fundamentally a temporary issue that is likely to resolve over the next two years as a result of what we believe will be a renewed increase in rental housing demand.

During the last half of 2022 the rental housing supply/demand balance shifted unfavorably in several metro areas, including Austin TX and Nashville TN.

Our essentially optimistic view—that demand will fairly quickly resume growing and absorb projected supply—comes from several reasons, including forces to which we have already alluded. In particular, we expect mortgage interest rates to persist at a substantially higher level than prospective homebuyers have become accustomed to over the past 15 years, encouraging many of them to remain renters later into their household life cycle. Of course the beginning of a decline in house prices is also likely to generate concern about a repeat of the GFC-era losses that come from highly leveraged investments in rapidly depreciating assets.

Much more important than this, however, is the underlying force that, in our view, is most responsible for the recent weakness and oversupply concerns: The second half of 2022 saw a surprising decline in the rate of new household formations—that is, the frequency with which individuals who had been sharing housing (including with parents) instead chose to form their own households and, typically, sign a lease contract. The reasons for fluctuations in the household formation rate are not well understood, although individuals do seem to respond to changes in (or concerns about) local economic conditions, especially employment opportunities.

If labor-market conditions weaken, or if individuals become increasingly concerned about a weakening job market, then we would expect the household formation rate to remain low in response. We do not, however, believe that either actual or feared weakness in labor market conditions is likely to last—and, therefore, we do expect 2023 to see a resumption of household formation. Household formation is, however, among the most difficult demand drivers to track with adequate frequency. We will continue to monitor it and continue to work on improving our forecasting of it.

In addition to what we expect to be a resumption of household formation, we expect that oversupply concerns in Middleburg's part of the country will be ameliorated by continued strong migration from other parts of the country. In fact, the 4th quarter of 2022 served notice that several of the strongest competing housing markets—those that have been supported by strong hiring in the technology sector—seem to have seen rapid reversals in their demand drivers as several leading tech companies have announced high-profile waves of layoffs. We believe that the economic base of markets in our Southeastern part of the country will continue to benefit from superior job growth prospects, especially as companies look to realign their operations from those higher-cost and higher-risk markets to the lower-cost and lower-risk markets with which we are so familiar.

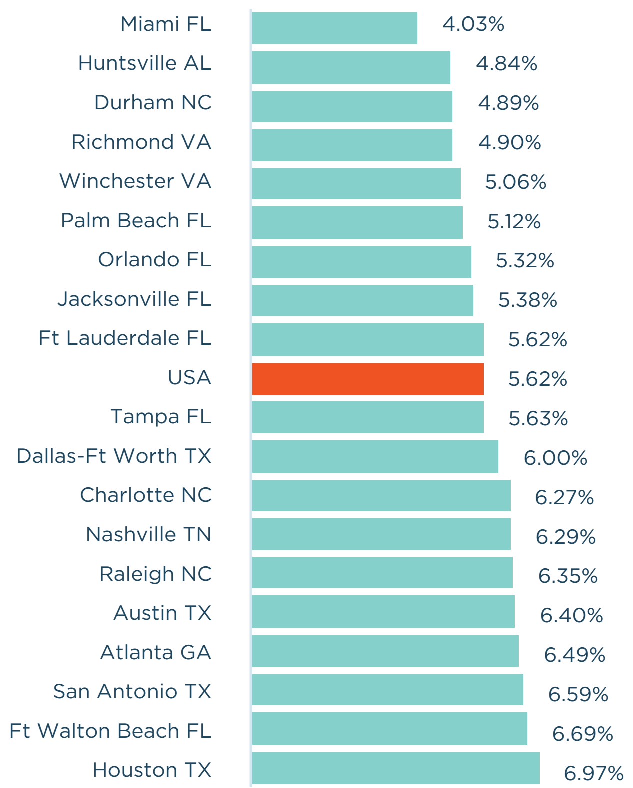
One final reason for our optimism regarding rental-housing demand is the increasing range of options available in the rental housing market. Middleburg Communities not only gained a head start on most developers of single-family rental communities, but also developed a design approach that we believe will continue to give us an advantage over developers who rushed in to that activity without considering how it is likely to differ, in design terms, from single-family housing meant for owner-occupancy. Thoughtful, newly developed single-family rental communities are likely to draw interest from some households who would otherwise look to home-buying as the only way to achieve the housing they prefer. In short, thoughtful approaches to single-family rental housing development are likely to increase the rentership rate in any given market.

We can, perhaps, best summarize the overall state of the U.S. macroeconomy and rental housing market in this way. It is without doubt that uncertainties in the housing market have caught up with the uncertainties that have dogged the U.S. macroeconomy all year. The combined macroeconomic and housing-market conditions—most particularly the collapse in single-family housing construction activity—bear ominous similarities to the conditions in late 2006, just before the most serious economic crisis this country has faced since the 1930s. We believe, however, that the U.S. economy is much less vulnerable than it was in 2006: in fact, we believe that rental housing demand will probably resume, likely in 2023, what we think is a very long-term upward trend both relative to single-family housing generally and specifically in the broad set of markets we have chosen to target.

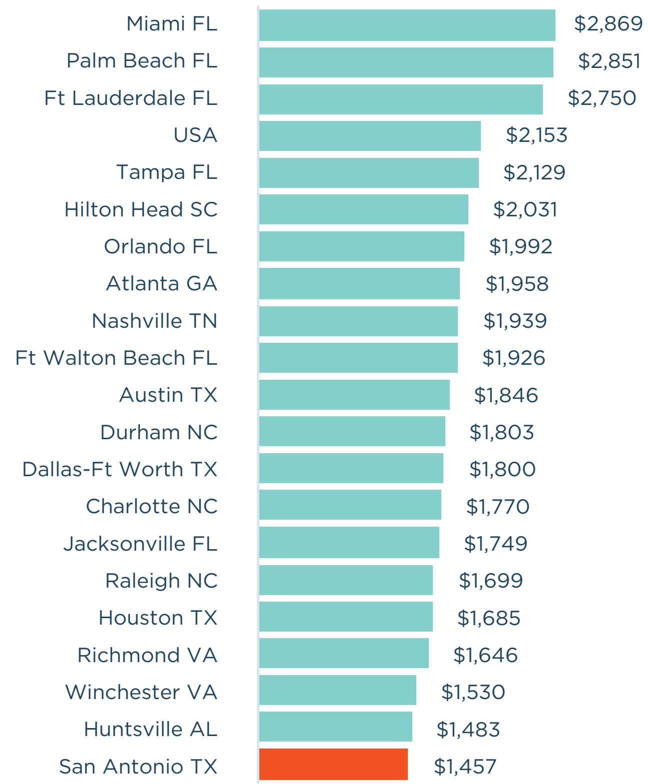
As usual, in the following pages we review demand, supply, and capital market conditions in each of the 15 largest metro areas in Middleburg's arc, along with a sample of five smaller markets from among those that are "also on our radar."

Indigo Champions Ridge, Davenport FL

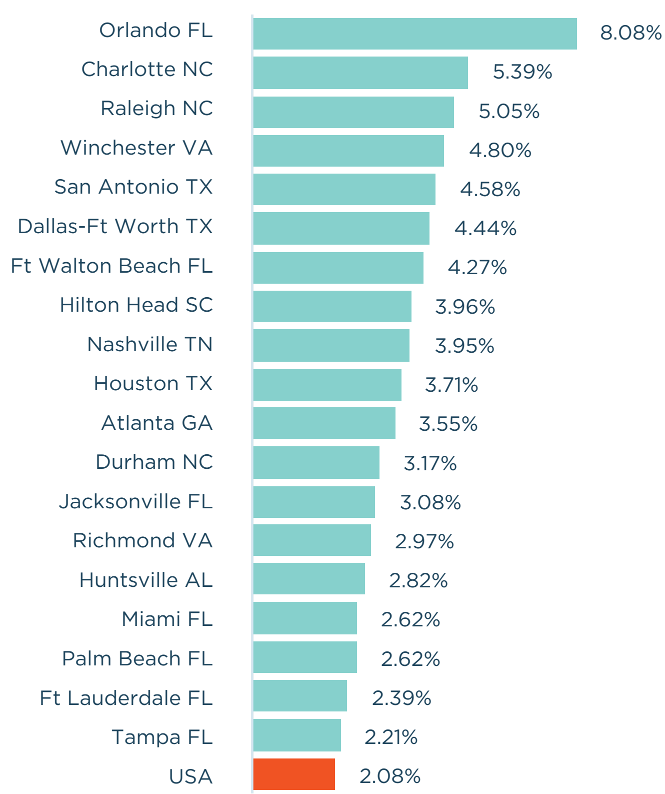
Stabilized Class A Vacancy Rate



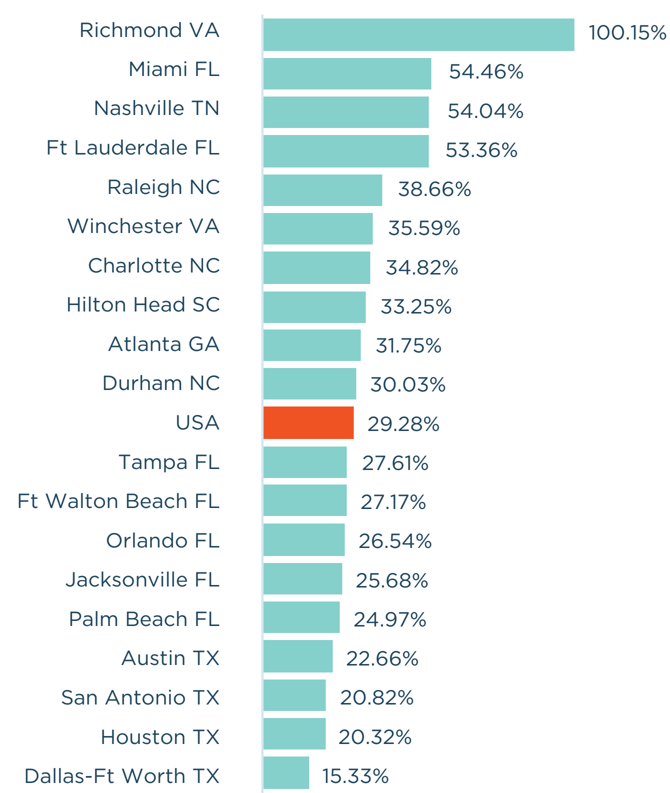
Class A Effective Rent/Unit



5-year Forecast Employment Growth



5- year Forecant Rental Housing Demand Growth



Dallas / Fort Worth, TX

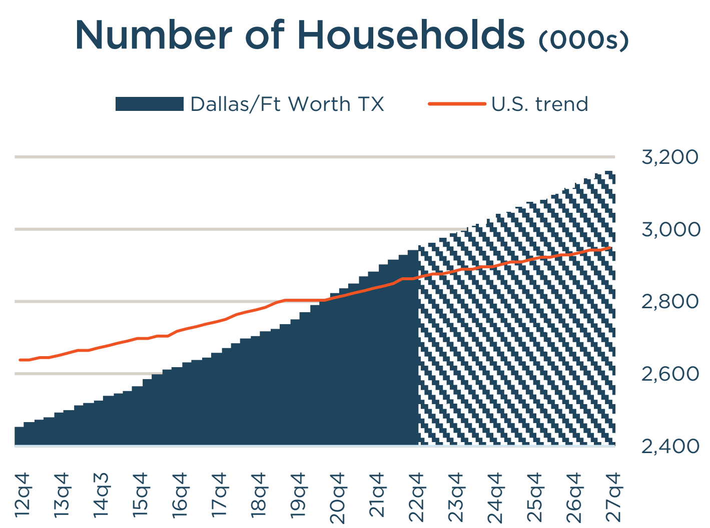
The largest metro area in Middleburg's territory, Dallas/Fort Worth is already recognized as a "near-gateway" market and is likely to continue leading a long-term shift away from older gateway markets such as New York and San Francisco.

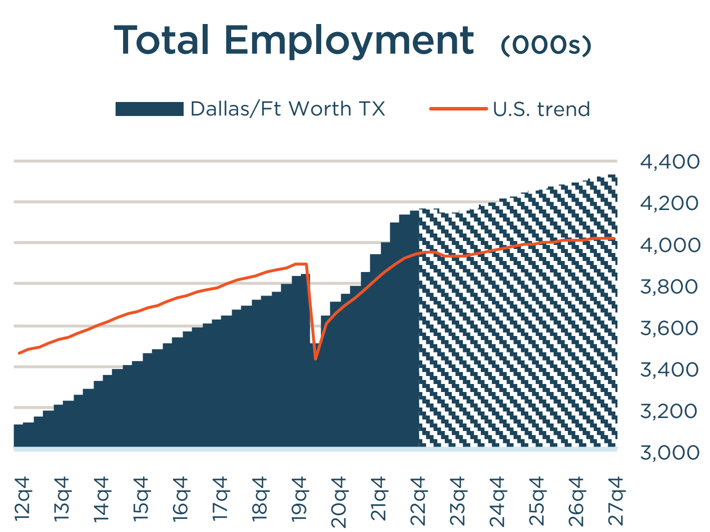
MIDDLEBURG'S RANK #8 AMONG 15 LARGEST METROS

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.

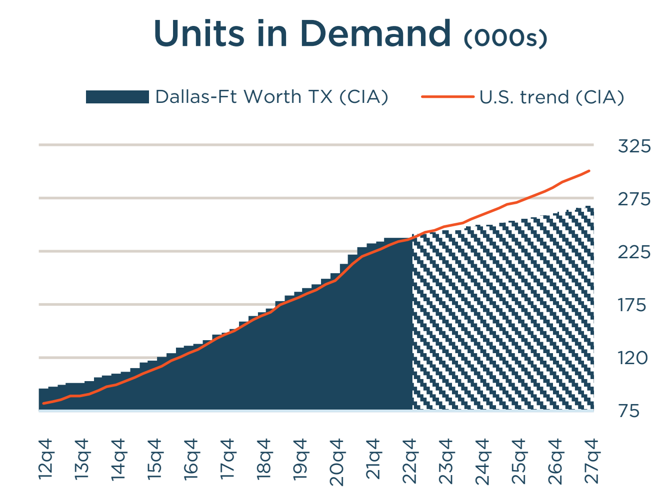
Dallas's population already skews young, but Oxford Economics forecasts that over the next five years the metro area will grow by an additional 42 thousand young adults (0.7 percent per year), 178 thousand new **Employees** (0.8 percent per year) and 220 thousand new **Households** (1.5 percent per year) all total numbers that are expected to trail only Houston.

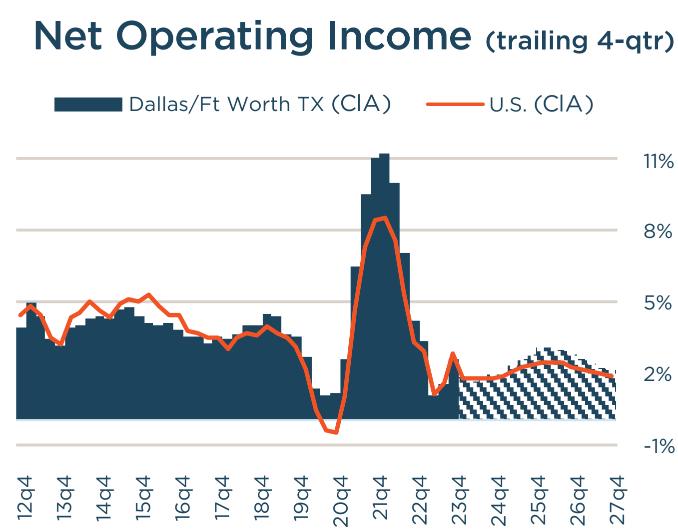
Median household incomes in Dallas / Fort Worth are expected essentially to keep pace the rest of the country at 2.1 percent per year in nominal terms over the next five years, but the house price to income ratio is expected to ease as house prices grow less rapidly (1.4 percent per year) than in the nation as a whole (1.9 percent per year). CoStar forecasts that growth in **Demand** for Class A rental housing units will surpass that in any other market at 30 thousand (2.4 percent per year), driving similarly strong growth in **Effective Rent per Unit** (2.1 percent per year), and **Net Operating Income** is also expected to outpace the country as a whole. **New Construction** and **Net Deliveries** have moderated recently, providing some assurance that oversupply concerns are easing.

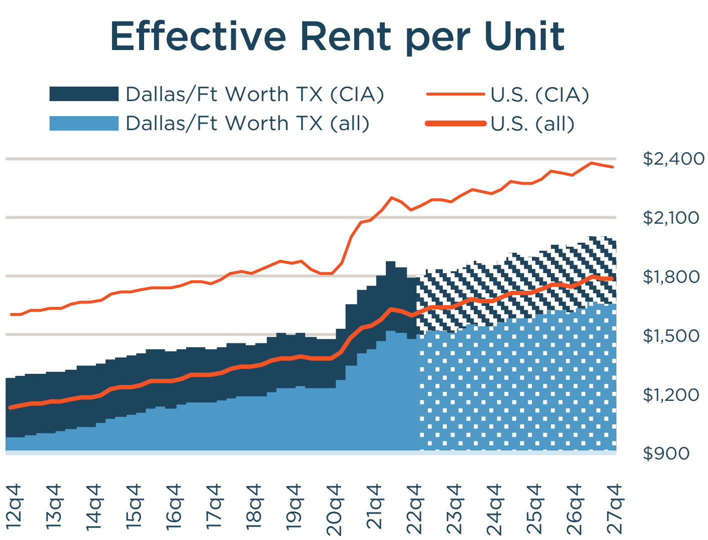


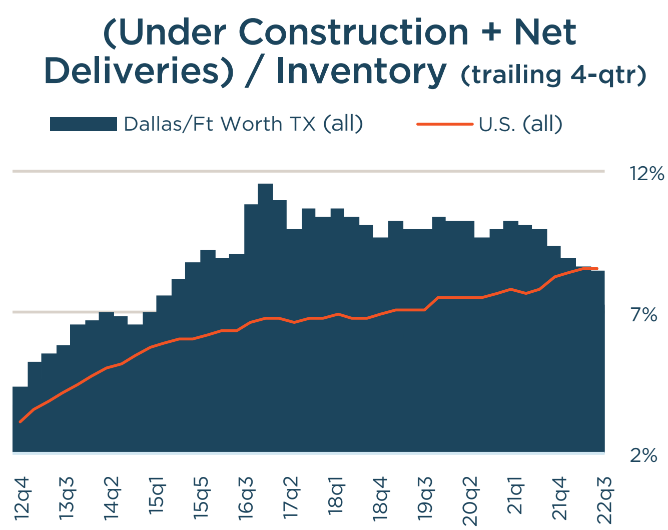


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
260,238	15,648	$265,183	$2,111 million
↑ 0.8%	↑ 3.9%	↓ 0.8%	↓63%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
14.7%	$83,520	6.3%	+11 bps
↓ 7.9%	↑ 0.4%	↑ 0.5%	above US avg









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

Houston, TX

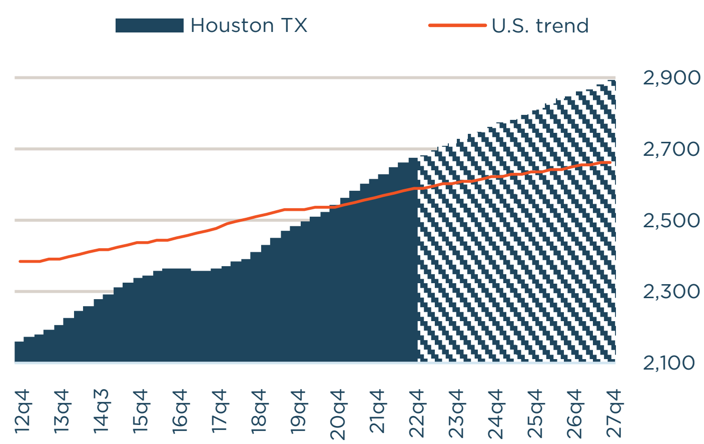
Houston's reduced exposure to the oil & gas industry makes what was already a strong market more appealing to long-term investors.

MIDDLEBURG'S RANK #11 AMONG 15 LARGEST METROS

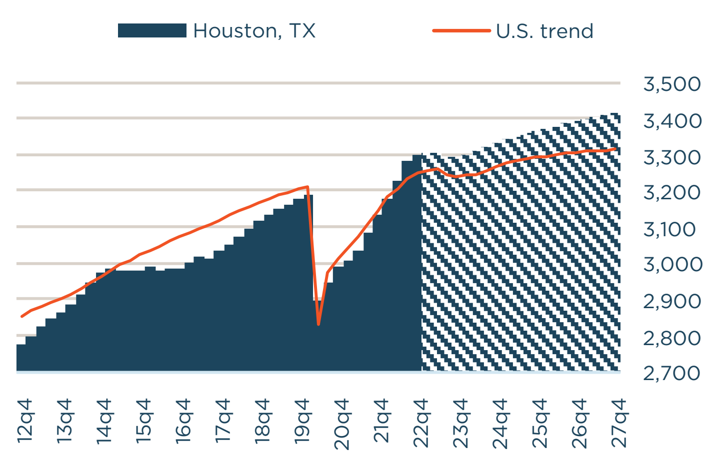
The demographic drivers of rental housing demand in Houston should continue to be strong: for example, Oxford Economics forecasts that the city's young adult population will grow by 31 thousand over the next five years (0.6 percent per year), and growth in **Number of Households** and **Total Employment** should lead all other metro areas in Middleburg's arc at 218 thousand (1.6 percent per year) and 117 thousand (0.7 percent per year) respectively. Household income is expected to remain higher than the US average, growing to 86.6 thousand annually in 5 years compared to 84.3 thousand for the US.

Partly as a result of an easing homeownership affordability issue, CoStar forecasts that Houston's rental housing fundamentals will not keep up with those in other metro areas along Middleburg's arc: for example, growth in the number of class A **Units in Demand** 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 2.9 and 1.3 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.

Number of Households (000s)

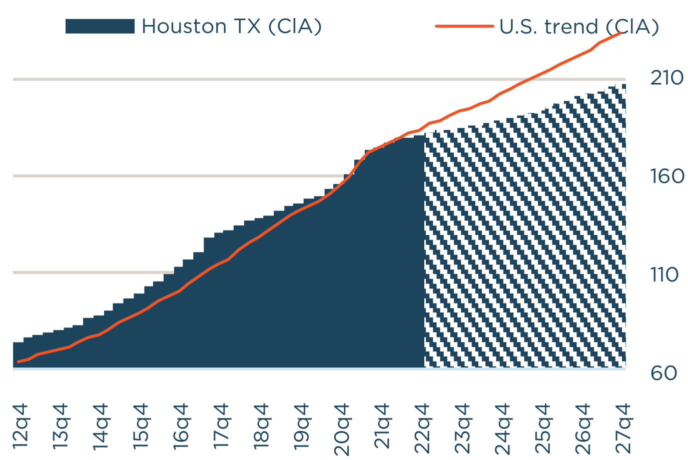


Total Employment (000s)

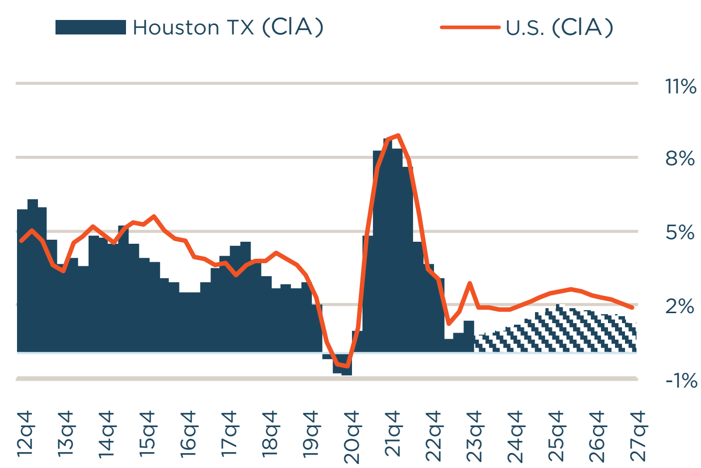


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
197,537	10,452	$246,546	$3,630 million
↑ 0.4%	↓ 5.0%	↓ 0.1%	↓ 40%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
10.5%	$77,440	7.1%	+40 bps
↓5.9%	↑ 0.4%	↑ 0.3%	above US avg

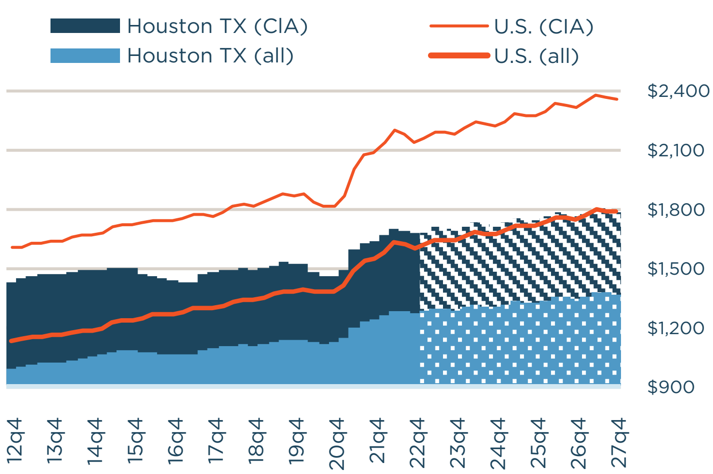
Units in Demand (000s)



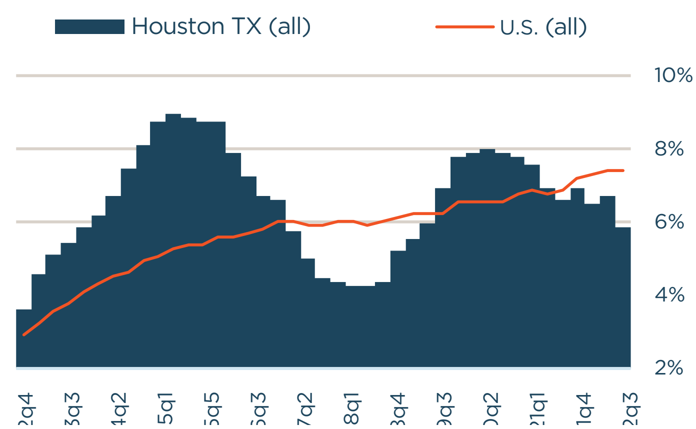
Net Operating Income (trailing 4-qtr)



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

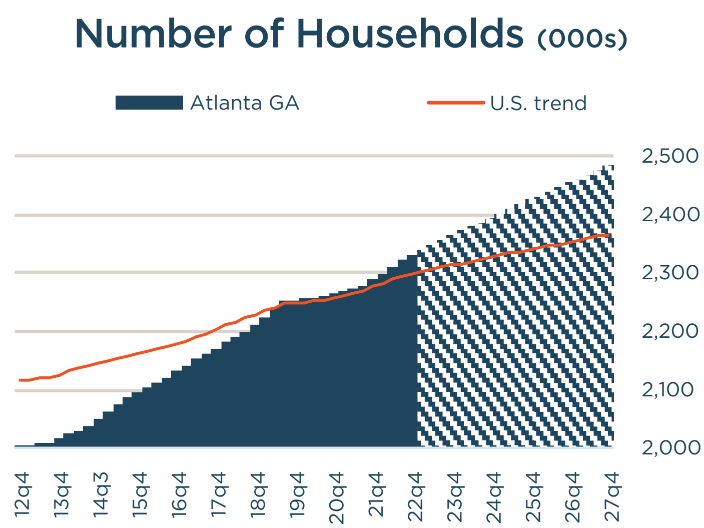
Atlanta, GA

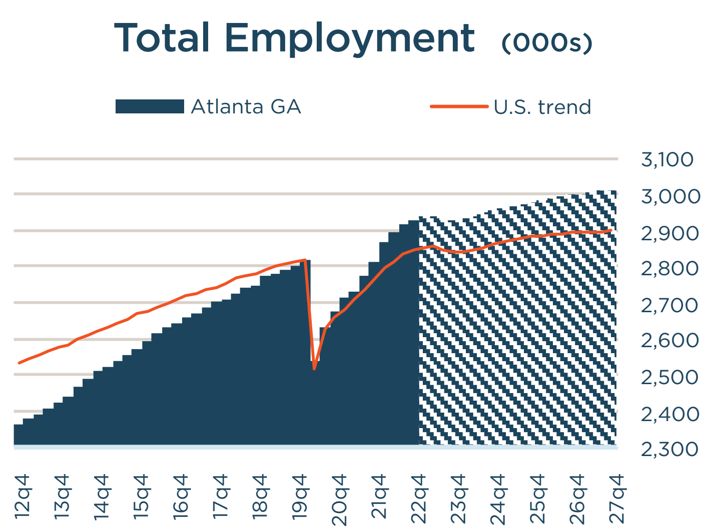
Atlanta is similar in many respects to the Dallas / Fort Worth metro area, but at a slightly smaller and slightly less dynamic scale.

MIDDLEBURG'S RANK #10 AMONG 15 LARGEST METROS

The largest market in Middleburg's territory outside of Texas, Atlanta is projected to see growth over the next five years of 0.8 percent per year in the number of young adults (35 thousand), 1.3 percent per year in the **Number of Households** (152 thousand) and 0.6 percent per year in **Total Employment** (96 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 1.2 percent per year (compared with 1.9 percent for the nation as a whole) while median household incomes rise at the same pace as the rest of the country.

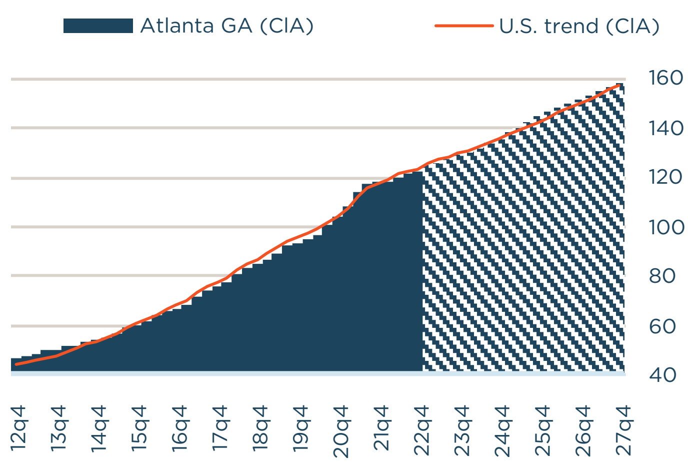
In the rental housing market, the number of class A **Units in Demand** is expected to grow at 5.4 percent per year, slightly higher than the national average of 5.0 percent, implying 37 thousand new units, while **Effective Rent per Unit** is expected to fall behind the national average at .5 percent per year versus 1.9 percent nationally. 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.



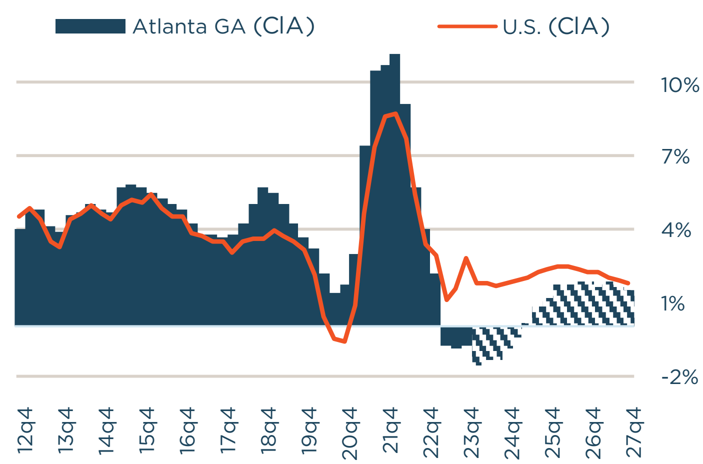


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
136,686	26.462	$332,307	$3,024 million
↑ 1.7%	↑ 6.8%	↓ 0.5%	↑ 83%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
14.6%	$83,440	6.6%	-4 bps
↓ 8.2%	↑ 0.8%	↑ 0.5%	below US avg

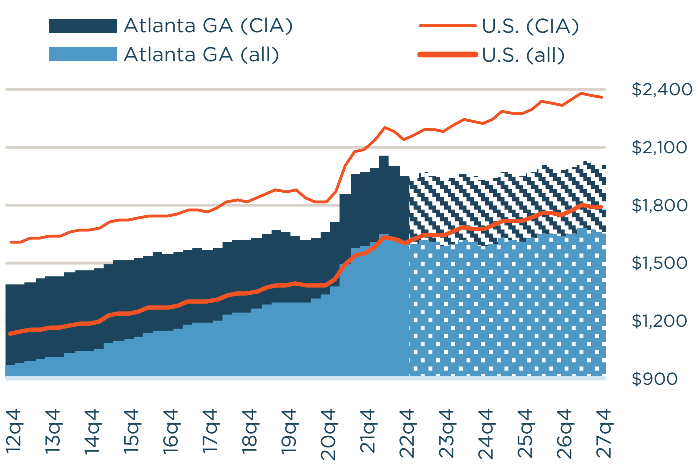
Units in Demand (000s)



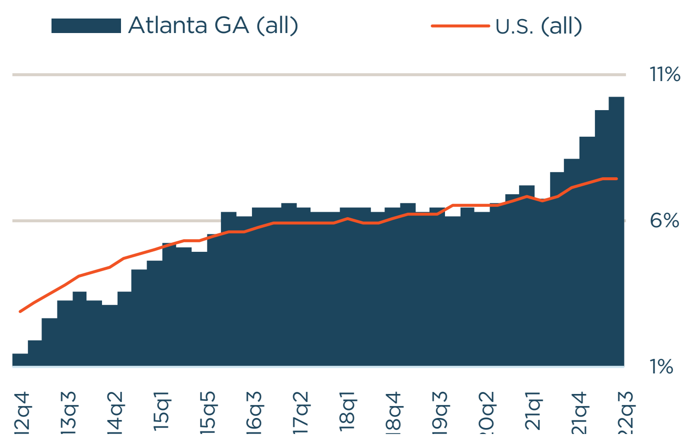
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



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

Tampa, FL

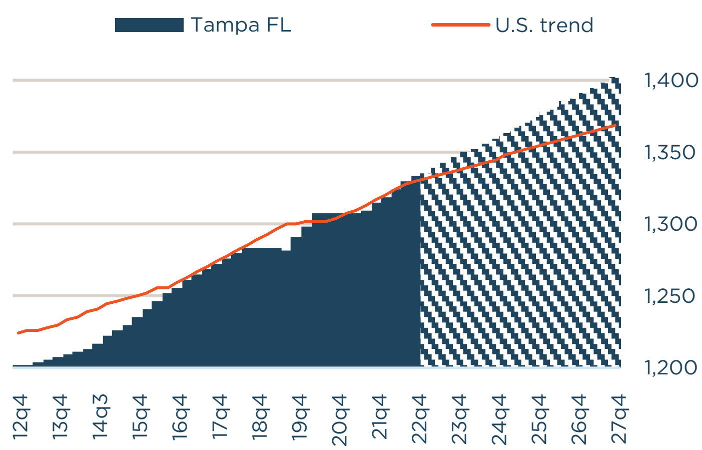
The Tampa market should continue to present appealing opportunities even though underlying demographic fundamentals are not as strong as in other metros in the area.

MIDDLEBURG'S RANK #13 AMONG 15 LARGEST METROS

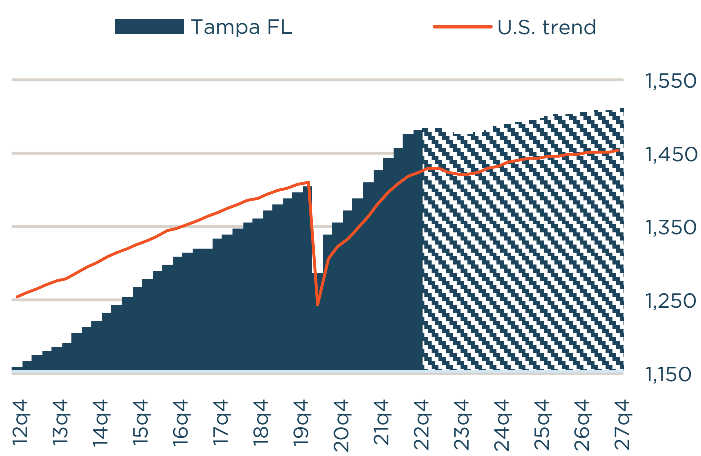
Tampa is not expected to grow as dynamically as other markets in Middleburg's arc. For example, Oxford Economics forecasts that over the next five years Tampa's young adult population will shrink by 0.3 percent per year while **Total Employment** grows at just 0.4 percent per year (31 thousand) and its **Number of Households** grows at a slightly better rate of 1.0 percent per year (69 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 1.2 percent per year versus 1.8 percent nationally, the anticipated slow growth of house price appreciation means that the **House Price to Income Ratio** is expected to improve 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 (14 thousand), almost keeping pace with the national rate. **Construction and Net Deliveries**, however, have been well above the national average relative to existing inventory, giving rise to oversupply concerns.

Number of Households (000s)

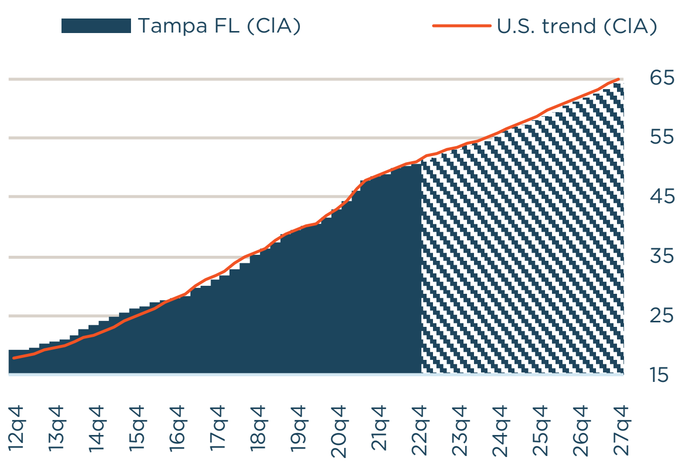


Total Employment (000s)

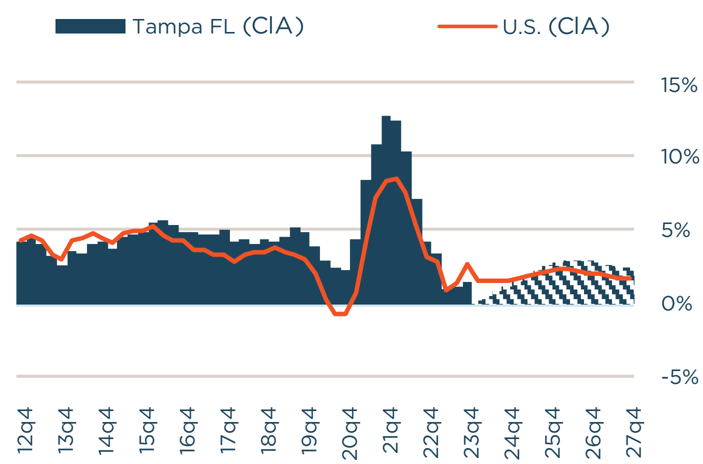


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
55,571 ↑ 0.6%	6,798 ↓ 0.7%	$331,711 ↑ 0.1%	$256 million ↓ 49%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
16.0% ↓ 11.9%	$67,800 ↑ 0.5%	6.0% ↑ 0.5%	-5 bps below US avg

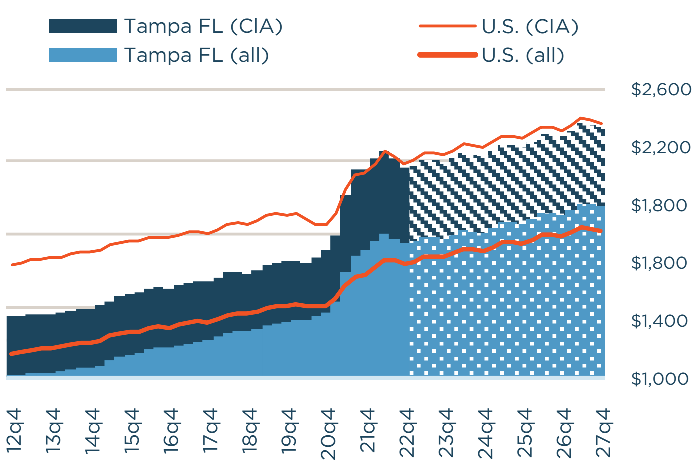
Units in Demand (000s)



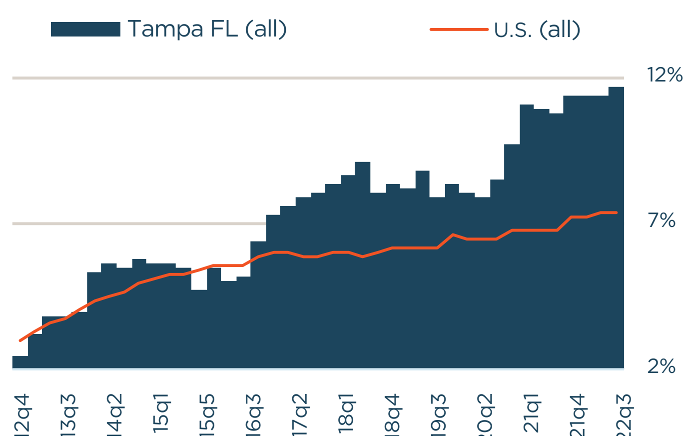
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



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

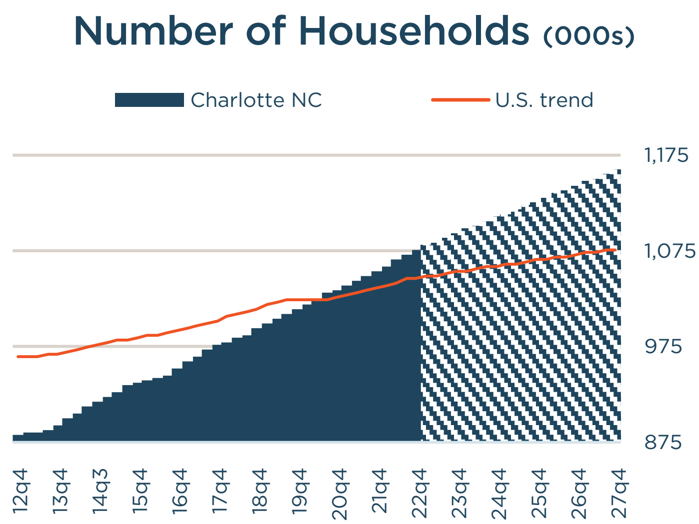
Charlotte, NC

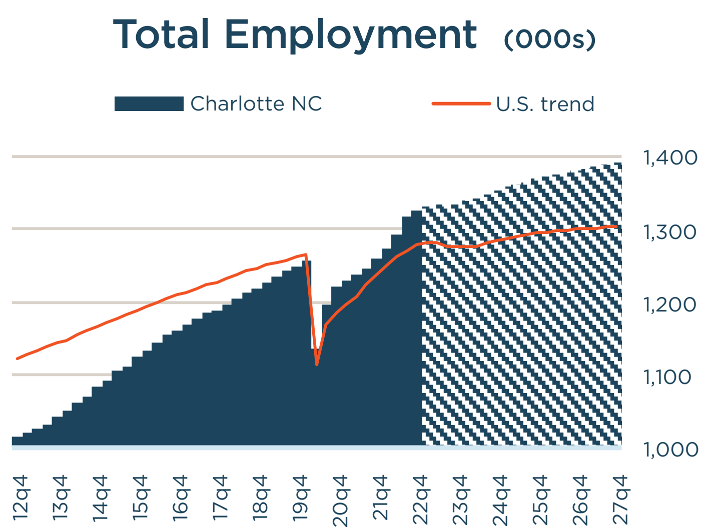
We expect demand for rental housing in Charlotte to be supported by very strong growth in all key demand drivers as it continues its fascinating transformation from a textile manufacturing hub to a diversified hub for finance and high-value manufacturing.

MIDDLEBURG'S RANK #9 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 24 thousand (1.2 percent per year), its **Number of Households** by 84 thousand (1.5 percent per year), and its **Total Employment** by 67 thousand (1.0 percent per year)—all well above the average for metros in Middleburg's arc.

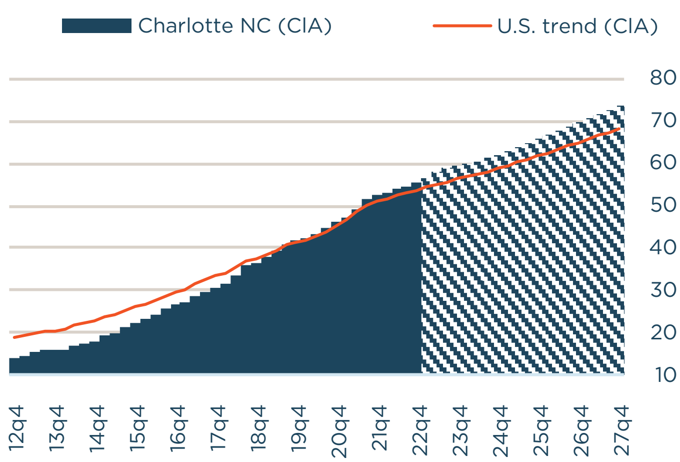
Homebuyer affordability is expected to worsen slightly more than for the nation as a whole, with relatively slow growth in median household income (1.8 percent per year) lagging behind growth in house prices (2.2 percent per year). This and the area's demographics are expected to add 18 thousand to the number of class A rental **Units in Demand**, a comfortably above-average rate of 5.9 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 growth in demand.



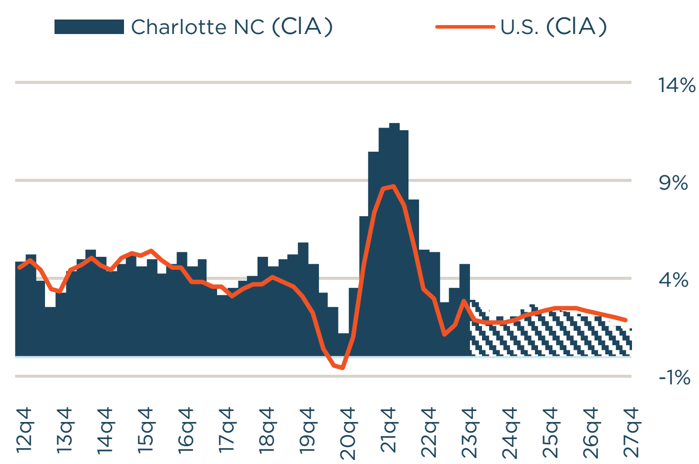


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
61,619 ↑ 1.8%	7,393 ↓ 5.4%	$324,331 ↓ 0.4%	$1,752 million ↓ 21%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
17.0% ↓ 7.2%	$77,920 ↑ 0.6%	6.3% ↑ 0.4%	-26 bps below US avg

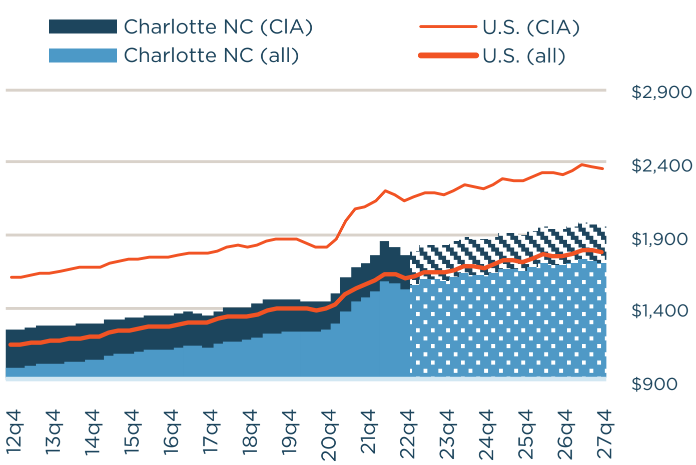
Units in Demand (000s)



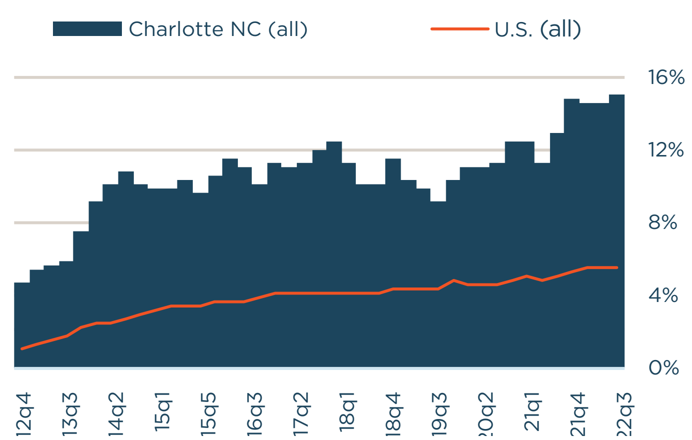
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



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

Orlando, FL

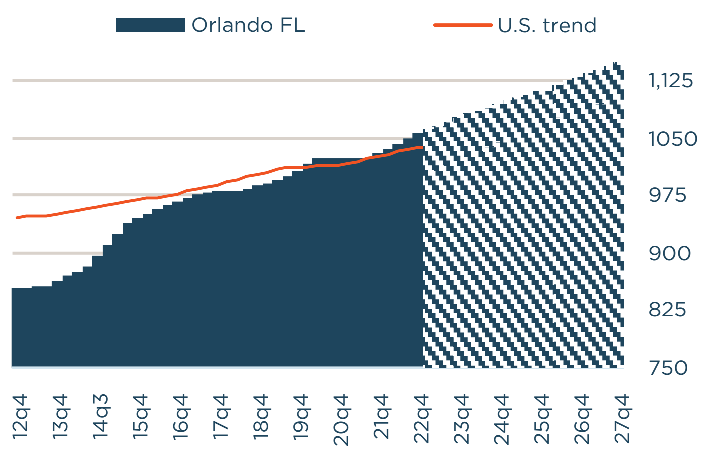
Orlando has become one of the most appealing rental housing markets in the country—but the state of Florida's initial move to disband the Reedy Creek Improvement District introduces an unwelcome degree of uncertainty.

MIDDLEBURG'S RANK #1 AMONG 15 LARGEST METROS

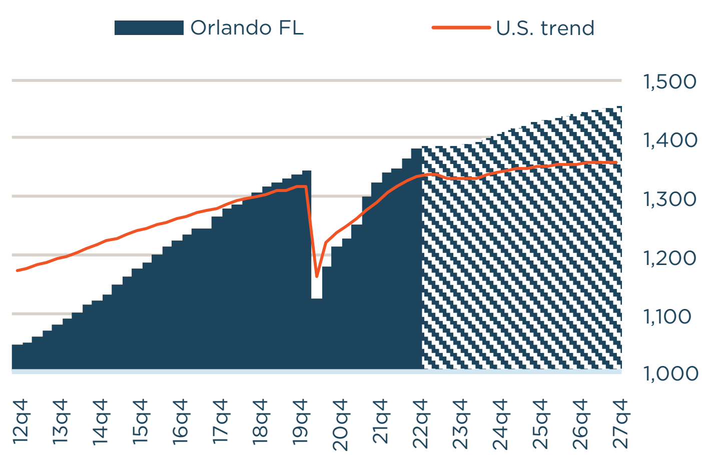
Orlando has broadened its economy to encompass much more than its roots as a pure tourist destination, and the most likely path forward is one that builds on that breadth as well as its best-in-class resorts. Oxford Economics forecasts that **Total Employment** in Orlando will grow by 1.0 percent per year over the next five years, resulting in 74 thousand additional workers. Oxford also expects above-average growth in Orlando's **Young Adult Population** (4 thousand, or 0.2 percent per year) and **Number of Households** (81 thousand, 1.6 percent per year. Orlando's homebuying affordability problem is expected to improve over the next five years as incomes are expected to grow at 2.3 percent compared to home prices

Continuing with this likeliest scenario, CoStar forecasts that **Effective Rent per Unit** will grow by 2.2 percent per year and **Net Operating Income** by 2.5 percent per year over the same period. The massive success of the Orlando economy makes it beyond surprising that an ordinarily pro-growth state government would eradicate the Reedy Creek Improvement District, which encompasses much of Orange and Osceola counties and is the unquestioned driver of the area's economic growth. There is plenty of time for cooler heads to prevail, but Middleburg will of course monitor the situation against the possibility that the state will persist in its policy.

Number of Households (000s)

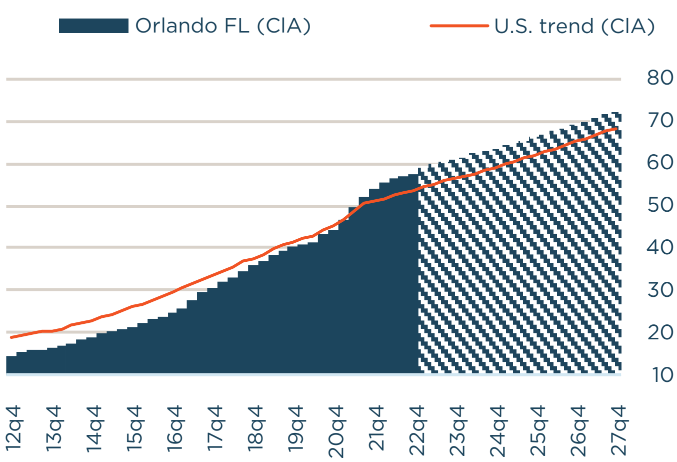


Total Employment (000s)

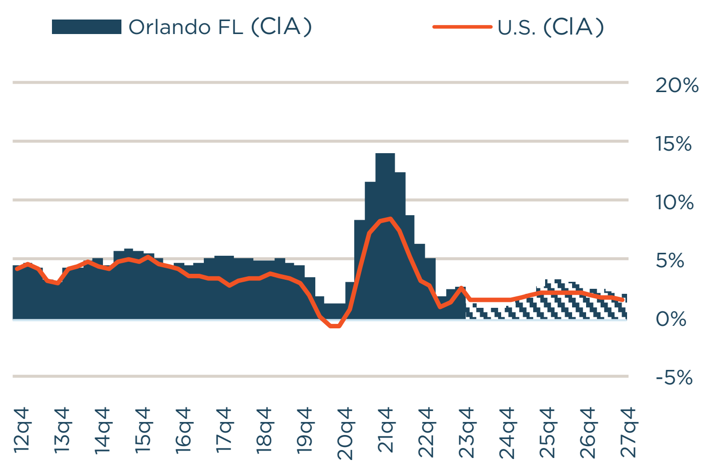


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
62,668	9,031	$334,635	$1,421 million
↑ 1.7%	↑ 5.0%	↑ 1.1%	↓ 63%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
16.3%	$71,160	5.4%	-20 bps
↓ 8.3%	↑ 0.9%	↑ 0.4%	below US avg

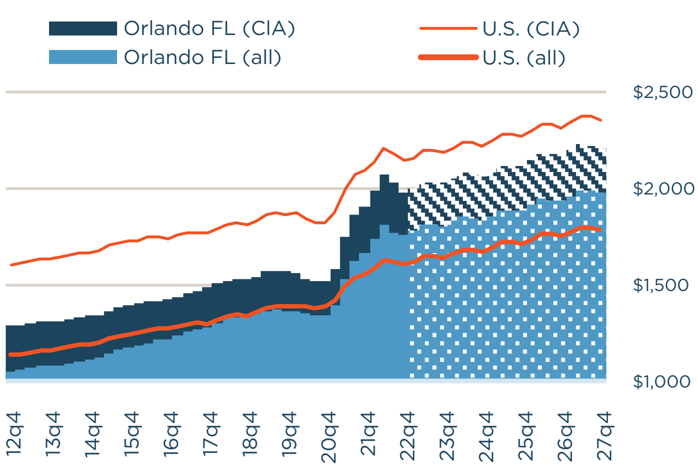
Units in Demand (000s)



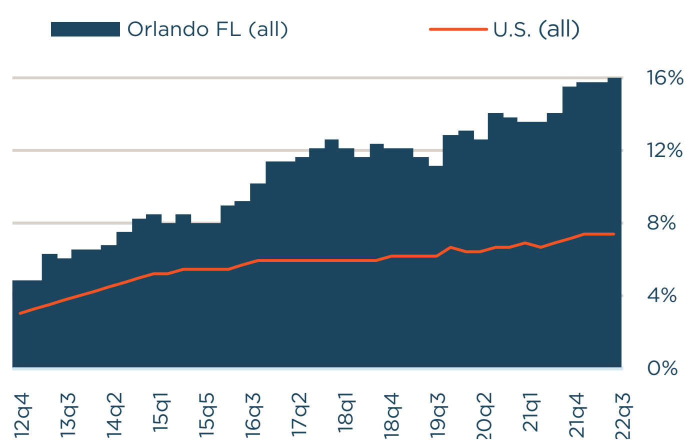
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



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

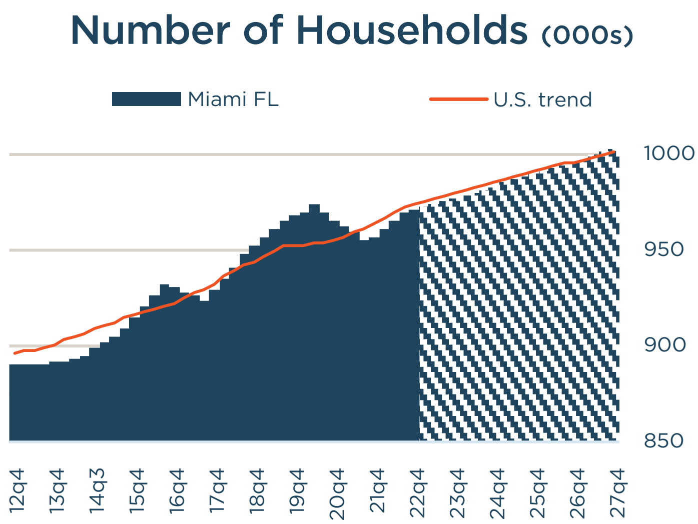
Miami, FL

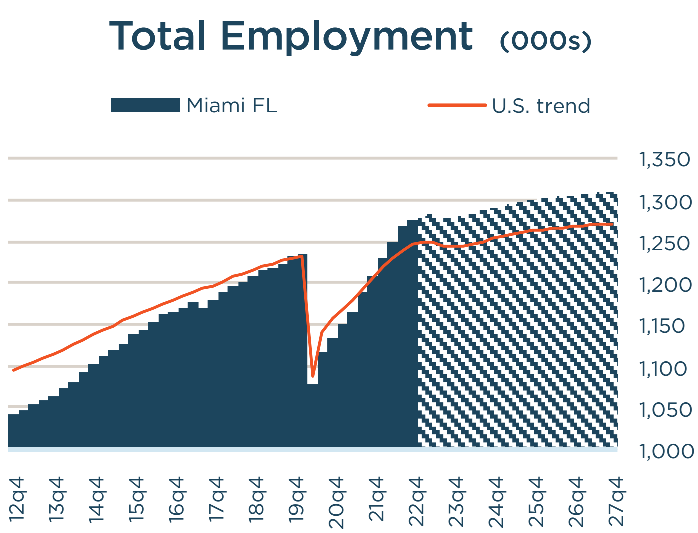
Miami is a market with some solid demand drivers—but one that, ultimately, is more likely to appeal to developers and investors other than Middleburg.

MIDDLEBURG'S RANK #3 AMONG 15 LARGEST METROS

Miami has attracted (or perhaps sought) attention as a new home for tech firms relocating away from the San Francisco Bay area as well as finance firms relocating away from New York City. Even if that happens, it's probably not enough to make the Miami area especially appealing to Middleburg. Oxford Economics forecasts that the area's young adult population—a key demographic driver of non-niche rental housing demand—will actually shrink very slightly over the next five years (-0.7 percent per year), while the **Number of Households** is expected to grow by an anemic (for this part of the country) 32 thousand, or just 0.7 percent per year.

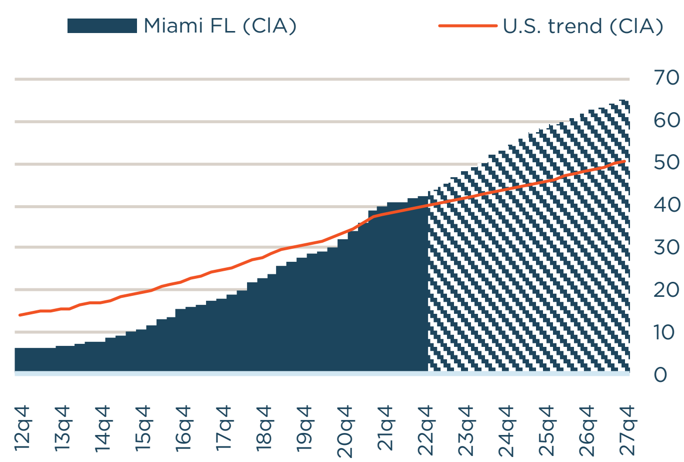
Demand for rental housing will receive a push from Miami's continuing homebuyer affordability problem, which is expected to worsen very substantially as house prices increase by about 2.3 percent per year while median household incomes increase by just 1.9 percent per year. But Miami's rental housing market tends to be dominated by wealthy retirees in high-end apartments, rather than the younger professional households in middle-market Class A apartments that form the greatest share of Middleburg's resident base. As an example, Miami's current average Class A **Effective Rent per Unit** of $2,869, 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 65.6 thousand, 17 percent lower than in its cross-Florida neighbor.



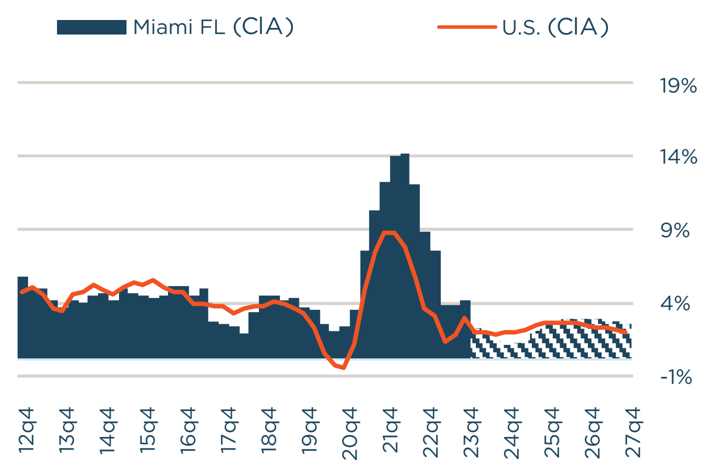


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
46,243	21,612	$478,578	$832 million
↑ 0.7%	↑ 23%	↑ 0.5%	↓ 46%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
13.7%	$65,600	4.8%	-32 bps
↓ 11.2%	↑ 0.2%	↑ 0.2%	below US avg

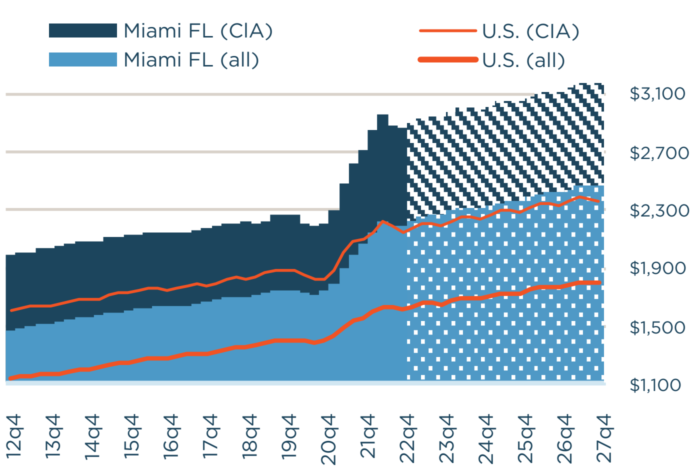
Units in Demand (000s)



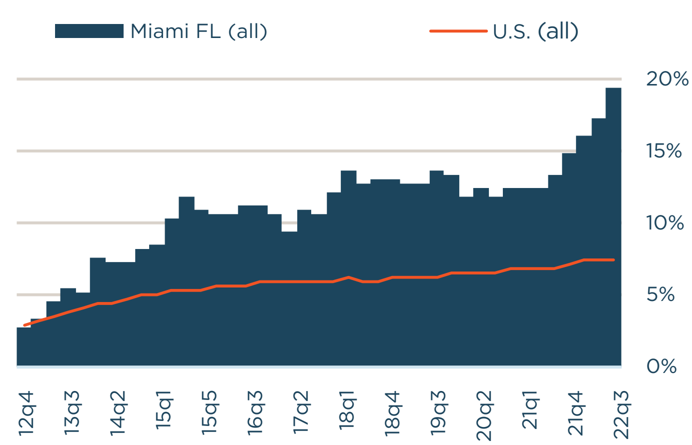
Net Operating Income (trailing 4-qtr)



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

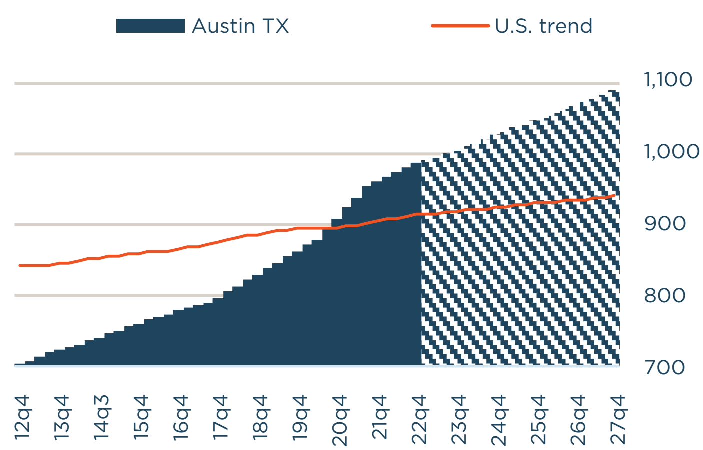
Austin's appeal as a rental housing market should surprise nobody, as the Texas capital has become known as a favorite among young professionals, thanks in large part to the University of Texas and the city's music scene.

MIDDLEBURG'S RANK #5 AMONG 15 LARGEST METROS

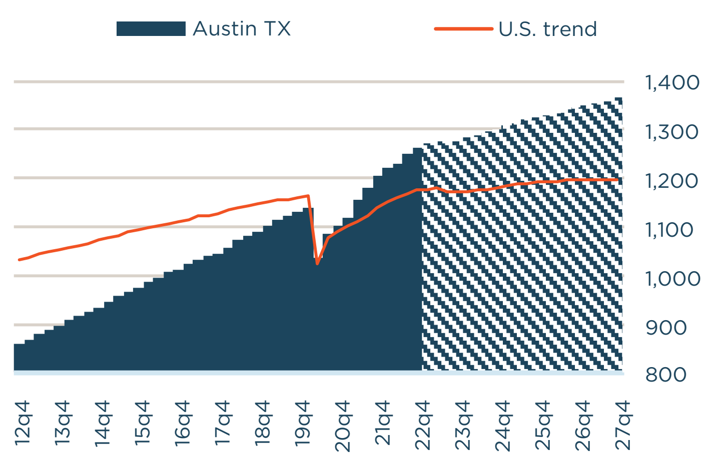
Over the next five years Oxford Economics forecasts that growth in Austin's young adult population, **Number of Households**, and **Total Employment** will outpace every other metro area in Middleburg's footprint in percentage terms at 1.5, 2.0, and 1.6 percent per year, respectively. The absolute numerical growth in young adults is expected to trail only the much larger Houston and Dallas at 31 thousand, while the number of new households is expected to trail only Houston, Dallas, and Atlanta at 102 thousand.

Homeownership affordability remains a problem in Austin, though the next five years are expected to see marginal improvement as the increase in median household incomes slightly outpaces the increase in house prices. As a result of the expected inflows, however, CoStar forecasts that rental housing **Demand** will grow by 19 thousand units over the next five years (3.9 percent per year), trailing only Dallas / Fort Worth, Houston, and Atlanta. **Effective Rent per Unit**, **Net Operating Income**, and apartment property value appreciation will also outpace most other markets in the region, while **Construction and Deliveries** maintain a reasonable pace relative to the existing Class A inventory. Class A cap rates appear to have declined to about 23 basis points below the national average.

Number of Households (000s)

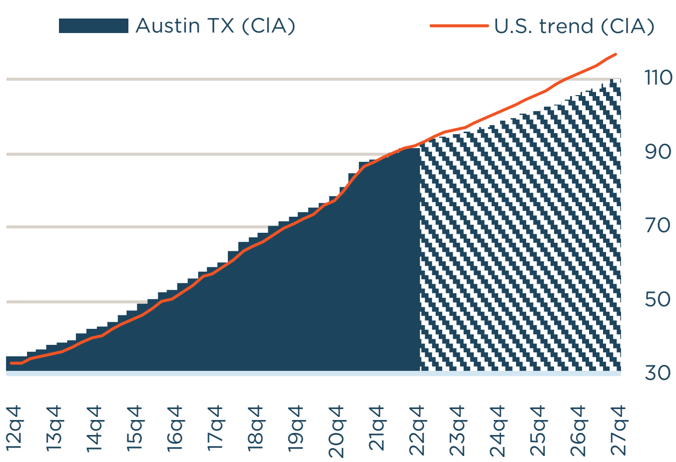


Total Employment (000s)

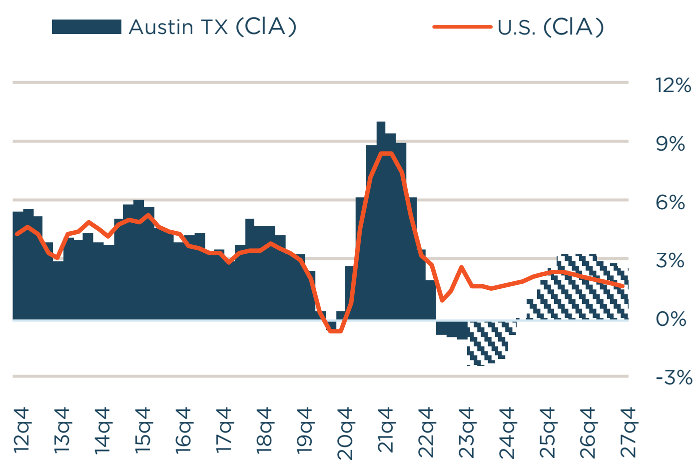


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
101,156	12,366	$306,250	$822 million
↑ 1.3%	↓ 7.5%	↓ 0.4%	↓ 64%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
10.9%	$95,480	6.5%	-23 bps
↓ 6.7%	↑ 0.7%	↑ 0.4%	below US avg

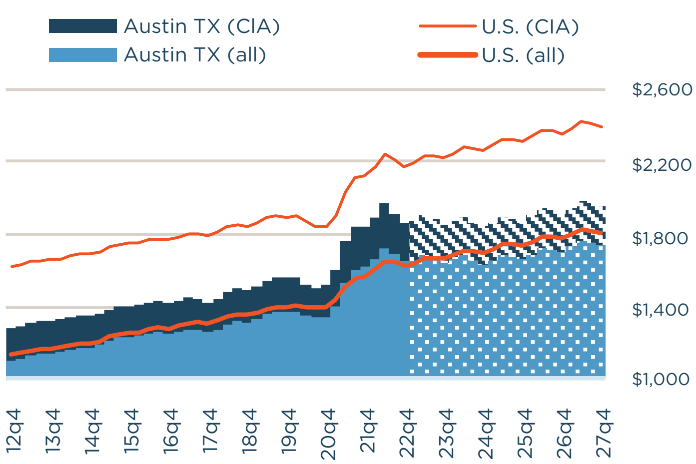
Units in Demand (000s)



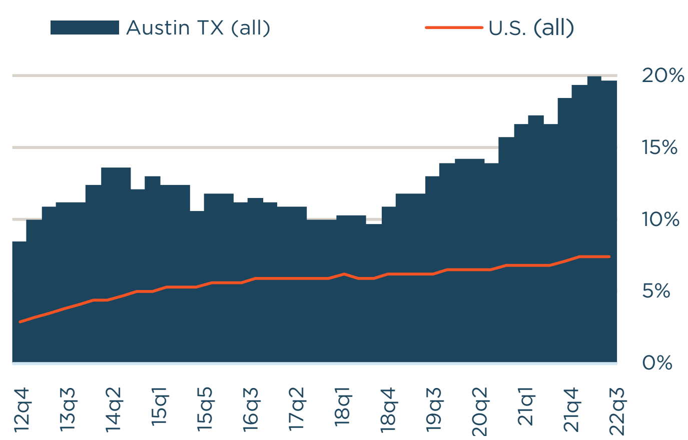
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



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

San Antonio, TX

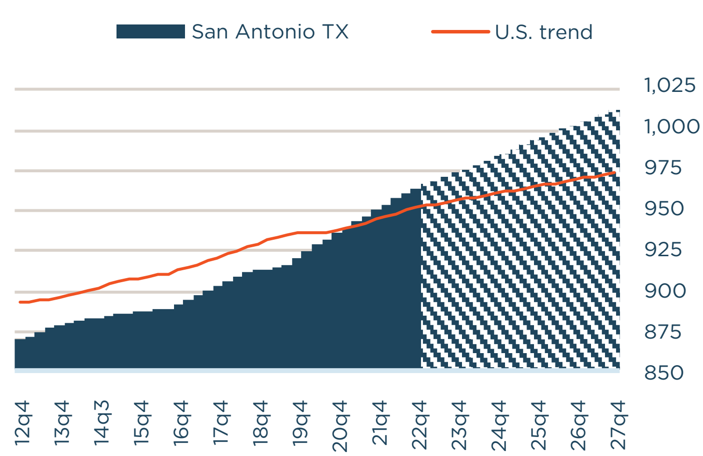
San Antonio has become an interesting market, though perhaps more for acquisition than for development. Only 80 miles from Austin, it is already seeing in-migration from its increasingly unaffordable neighbor, especially among young adults.

MIDDLEBURG'S RANK #15 AMONG 15 LARGEST METROS

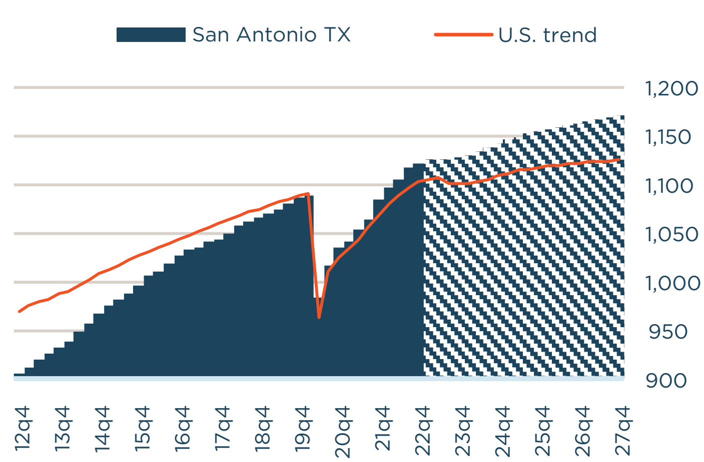
San Antonio's economic base, long dominated by nearby military installations, has diversified impressively in financial services (USAA, JP Morgan Chase), digital technologies (Rackspace Technology, TaskUs), medical care, grocery retailing, and other industries. Oxford Economics forecasts that, over the next five years, San Antonio will experience especially strong growth in all three key demographic drivers of rental housing demand: young adult population (up 17 thousand at 0.9 percent per year, second only to Austin), **Number of Households** (up 63 thousand at 1.3 percent per year), and **Total Employment** (up 50 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 3.8 and 1.0 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 $1,457 per unit. Moreover, although **Construction and Deliveries** have remained subdued relative to the Class A inventory, current construction activity suggests that may change. .

Number of Households (000s)

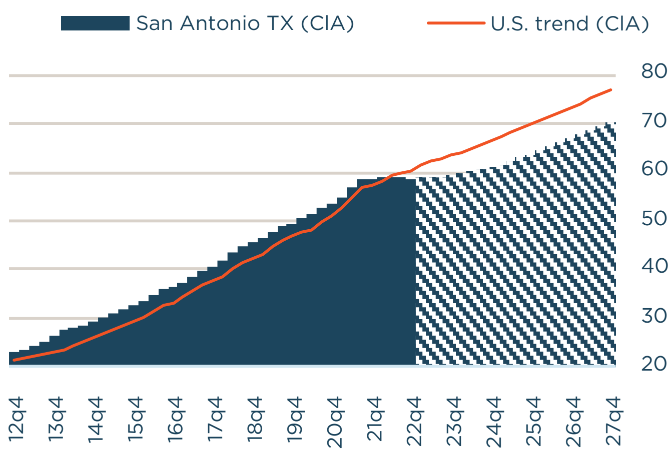


Total Employment (000s)

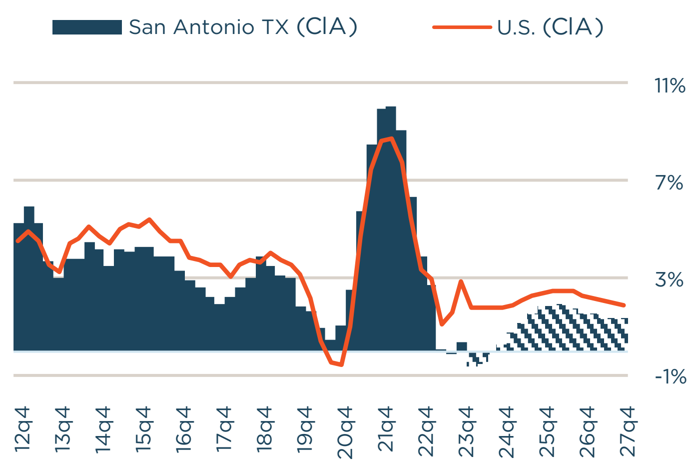


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
63,785	4,652	$202,677	$736 million
↑ 1.2%	↑ 3.7%	↓ 0.6%	↓ 73%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
12.7%	$71,720	6.7%	21 bps
↓ 6.8%	↑ 0.3%	↑ 0.6%	above US avg

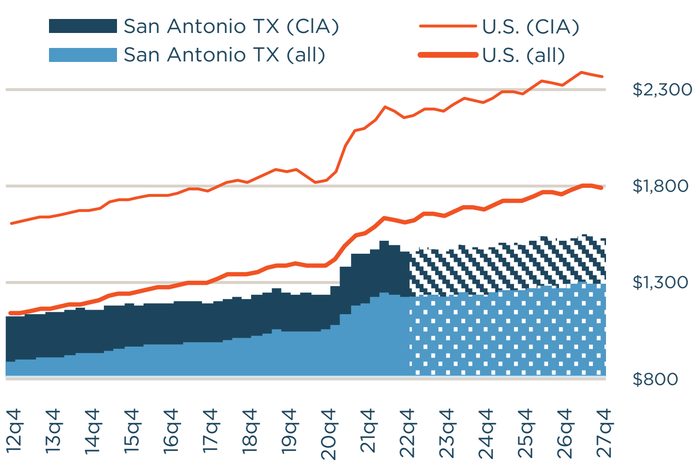
Units in Demand (000s)



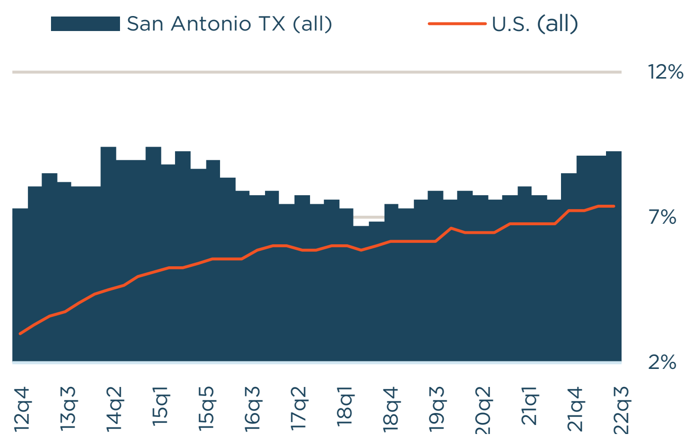
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



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

Nashville, TN

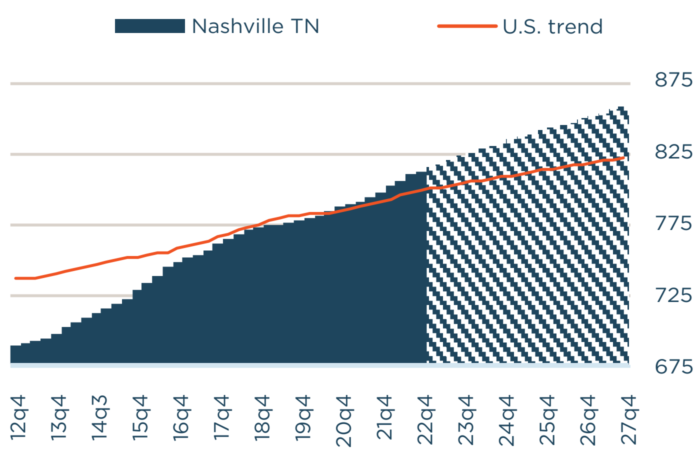
Nashville may as well be called "The New Austin." As in Austin, it's hard to find weak aspects of the Nashville rental housing market; also as in Austin, however, the strength of the Nashville market is widely recognized.

MIDDLEBURG'S RANK #4 AMONG 15 LARGEST METROS

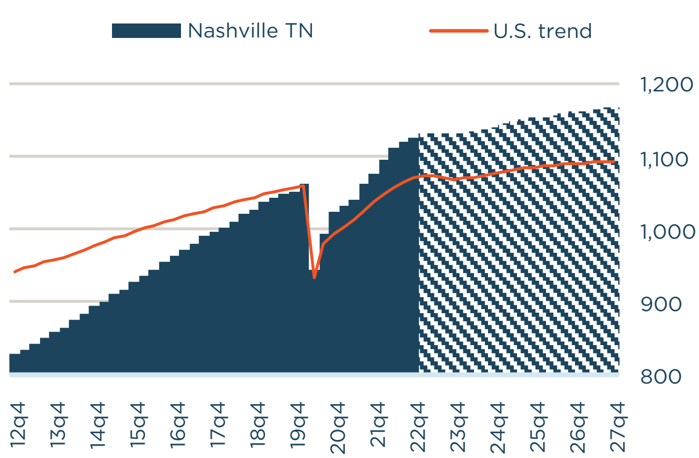
Like Austin, Nashville seems to be a growing favorite of young professionals, based partly on its music scene. Also like Austin, Nashville has seen high-profile recent corporate relocations including AllianceBernstein. As a result, the key demographic drivers of rental housing demand are all expected to grow strongly in Nashville over the next five years. Oxford Economics expects that Nashville's young adult population will grow by 17 thousand over the next five years (1.1 percent per year), that the **Number of Households** will grow by 46 thousand (1.1 percent per year), and that **Total Employment** will grow by 42 thousand (0.7 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 (3.0 percent per year) for any metro area in Middleburg's region while median household incomes grow at just 2.5 percent per year. The demographic and affordability pressures are expected to increase apartment **Demand** by 21.9 thousand units (9.0 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** (0.7 percent per year), and **Net Operating Income** (0.8 percent per year). The main risk in the Nashville market is likely to be the pace of **Construction and Deliveries**, which have persistently been quite high, relative to Class A and total inventory, for most of the past decade.

Number of Households (000s)

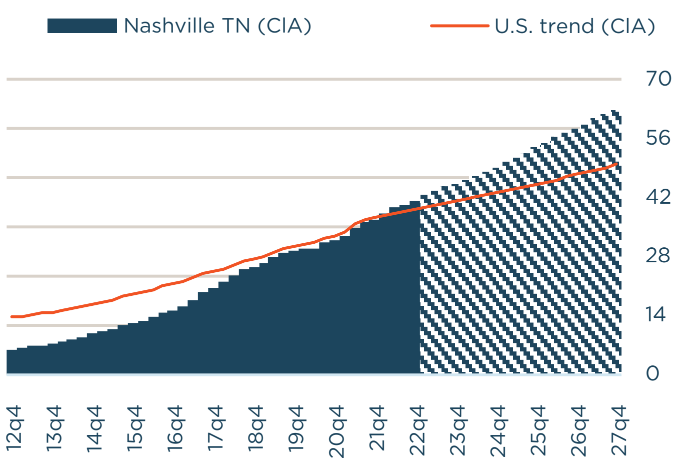


Total Employment (000s)

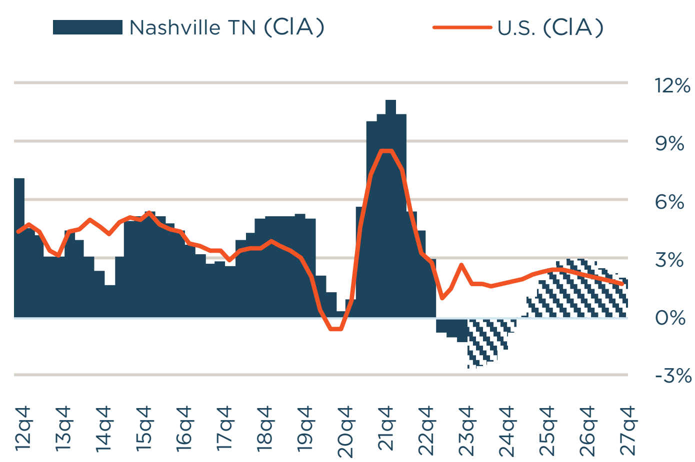


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
46,744	14,454	$344,548	$1,146 million
↑1.7%	↑0.5%	↓0.3%	↓15%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
16.7%	$80,000	6.4%	+4 bps
↓8.7%	↑0.6%	↑0.5%	above US avg

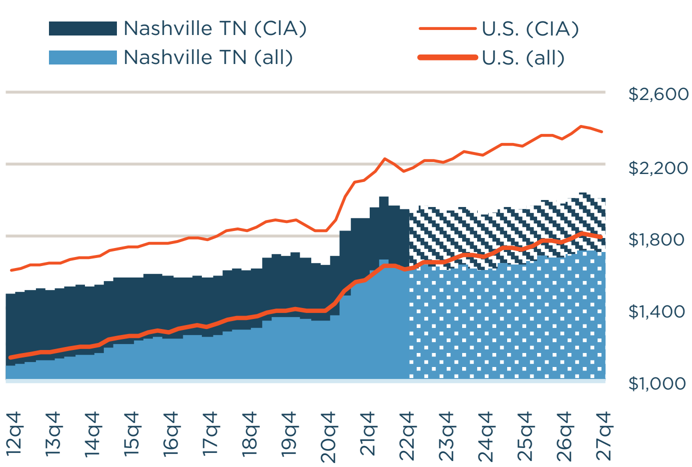
Units in Demand (000s)



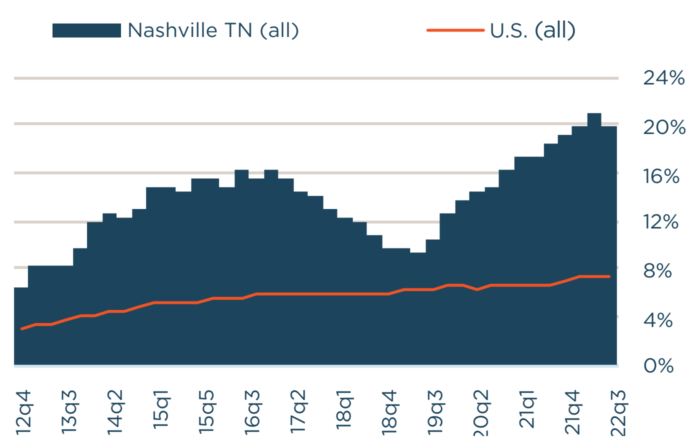
Net Operating Income (trailing 4-qtr)



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

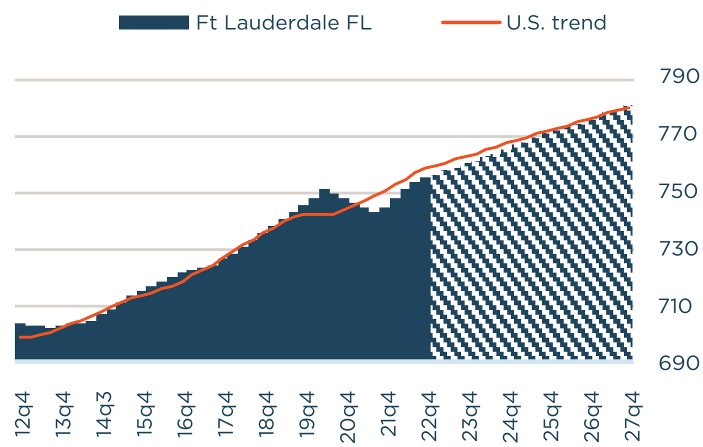
The Fort Lauderdale market shares much in common with its near neighbors Miami and Palm Beach—but those shared traits are the ones most likely to make them appeal more to other developers and investors than to Middleburg.

MIDDLEBURG'S RANK #7 AMONG 15 LARGEST METROS

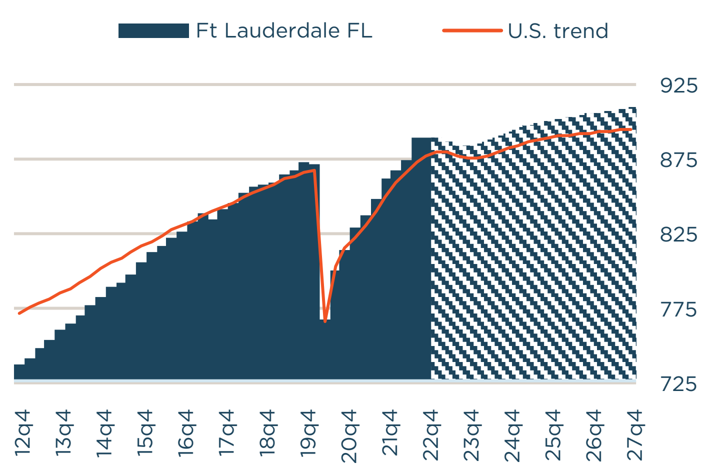
The most appealing aspect of the Fort Lauderdale market is the market rents that it can support: the metro area's $2,750 average effective rent per Class A unit is second only to Miami's at $2,869 and Palm Beach's at $2,851. The transaction market fully reflects that strength, with Class A apartments selling at an average price of $433,110 per unit. On top of that, Oxford Economics forecasts that the house-price-to-income ratio will remain high flat over the next five years at a rate surpassed only by Miami and Palm Beach, with house prices rising at 2.1 percent per year while the median household income increases by just 1.9 percent per year.

Those numbers are not really enough to make Fort Lauderdale especially appealing to Middleburg, though, given that we don't typically compete at the highest end of the rental housing market. More important to us is the fact that growth in the key demographic drivers is expected to be anemic: Oxford Economics forecasts, for example, that the young adult population will contract by 9 thousand over the next five years at -0.7 percent per year, trailing Palm Beach which is expected to remain the same while **Total Employment** is will grow by just 38 thousand at 0.9 percent, trailing Miami (though better than Palm Beach). The kicker is the **Number of Households**, which is forecast to grow by just 20 thousand at 0.4 percent per year—not only below average in Middleburg's part of the country but also trailing both Palm Beach and Miami.

Number of Households (000s)

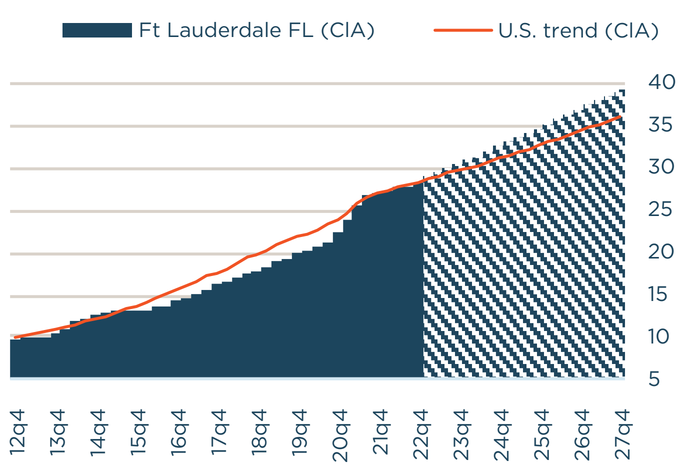


Total Employment (000s)

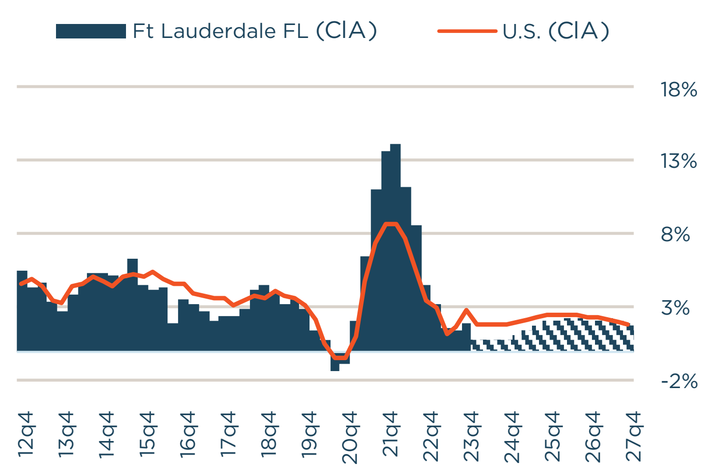


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
30,792	6,702	$433,110	$0 million
↑ 1.9%	↓ 4.9%	↓ 0.2%	↓ 100%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
15.6%	$72,920	5.6%	-7 bps
↓ 11.7%	↑ 0.7%	↑ 0.3%	below US avg

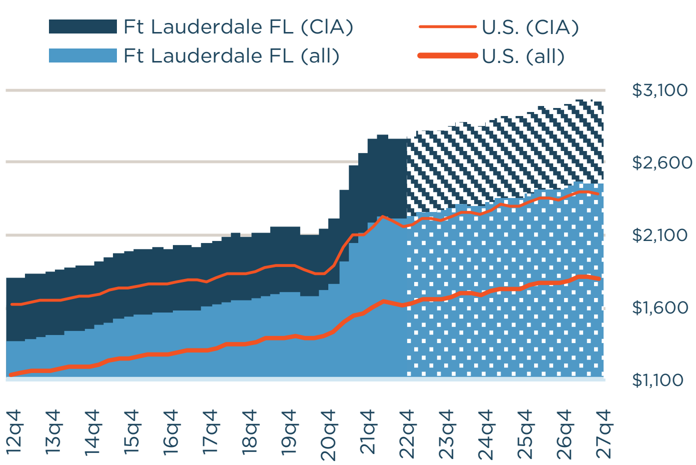
Units in Demand (000s)



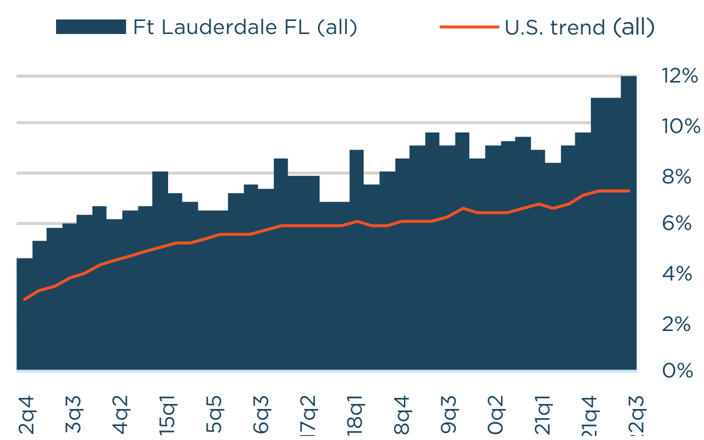
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



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

Jacksonville, FL

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

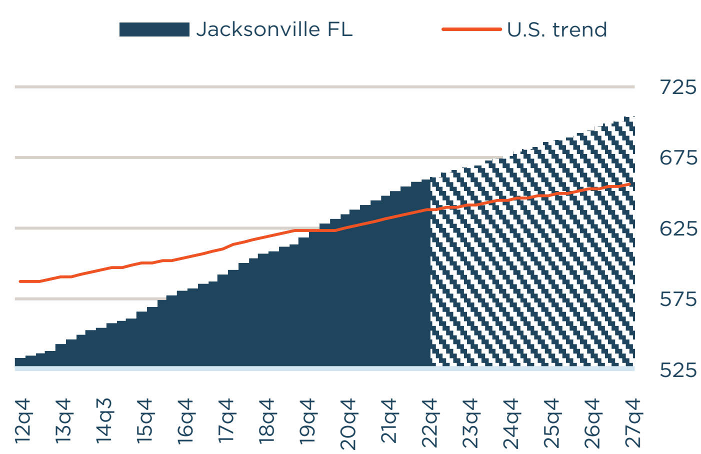
MIDDLEBURG'S RANK #14 AMONG 15 LARGEST METROS

The growth rate of GDP in the Jacksonville metro area has exceeded the national average for several years and is expected to continue. And Oxford Economics forecasts that the **Number of Households** in Jacksonville will increase by 44 thousand over the next five years at 1.3 percent per year, comfortably above average for metro areas in Middleburg's part of the country. Strong growth in the number of households, however, is not likely to be matched by equally strong growth in other drivers of rental housing demand, with both **Total Employment** forecast to growth at 0.6 percent yet young adult growth is forecast for -0.3 percent per year, resulting in 23 thousand additional jobs and three thousand fewer young adults.

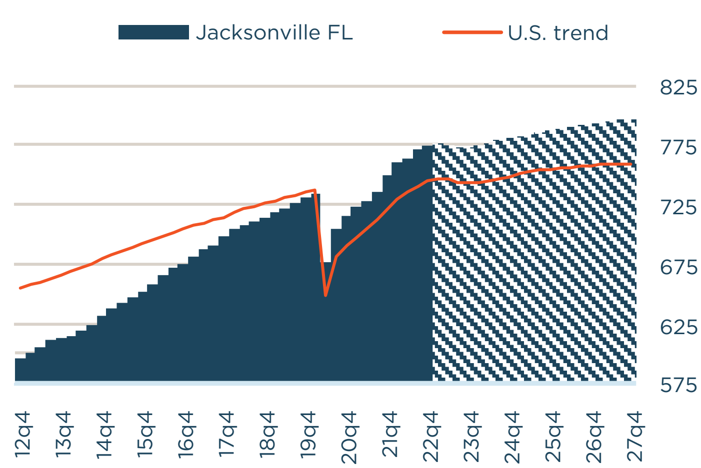
Neither is a homeownership affordability problem likely to drive apartment demand, as house prices are expected to grow substantially less than in the rest of the country at just 0.2 percent per year, significantly less than the growth rate of median household income at 2.1 percent per year.

Given the weakness in demographic and affordability drivers, CoStar expects that **Demand** for rental housing units will grow by just 4 thousand over the same period, at a below-average pace of 4.6 percent per year. **Effective Rent per Unit**, **Net Operating Income**, and price appreciation for Class A apartment properties are all expected to be near or below average at 0.7, 0.7, and -1.9 percent per year respectively. The pace of **Construction and Deliveries**, though, has remained consistently reasonable as a share of Class A inventory.

Number of Households (000s)

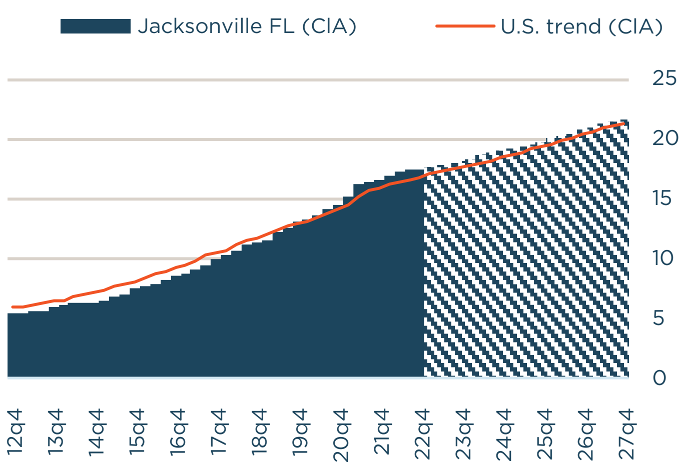


Total Employment (000s)

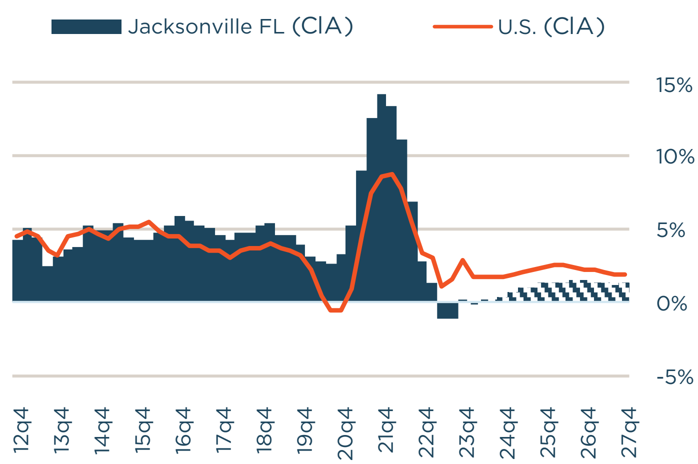


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
19,293	2,791	$251,499	$185 million
no change	↑ 34%	↓ 1.7%	↓ 48%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
17.1%	$72,600	5.6%	-7 bps
↓ 8.5%	↑ 0.2%	↑ 0.3%	below US avg

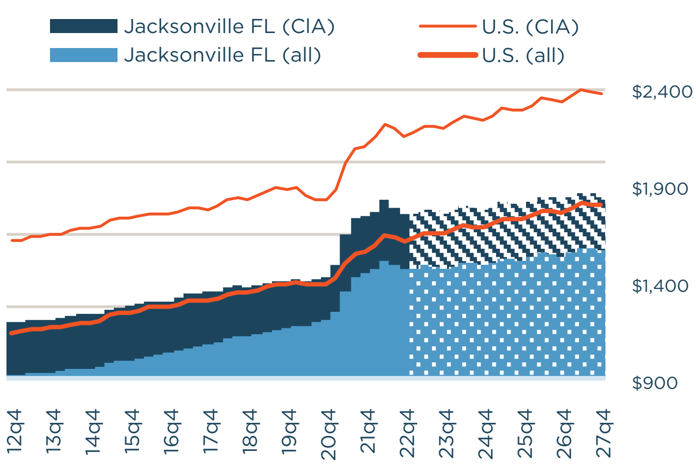
Units in Demand (000s)



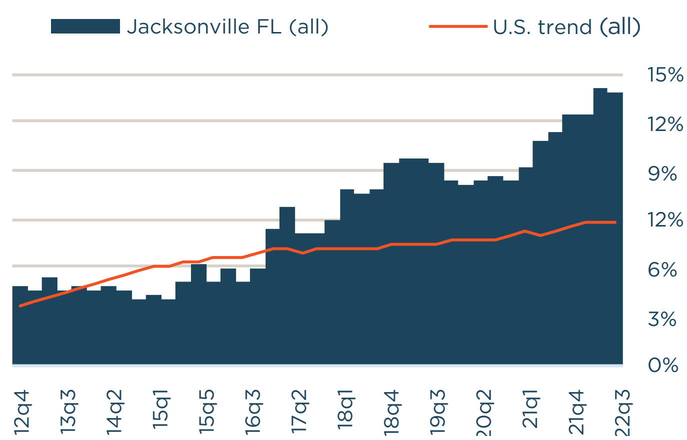
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



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

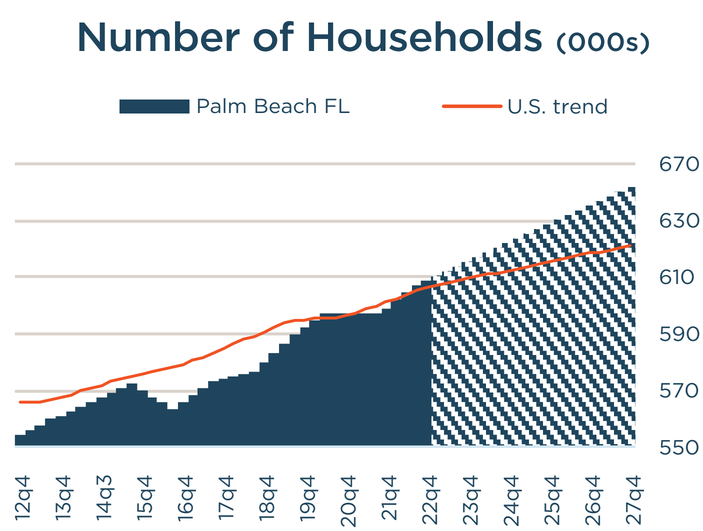
Palm Beach, FL

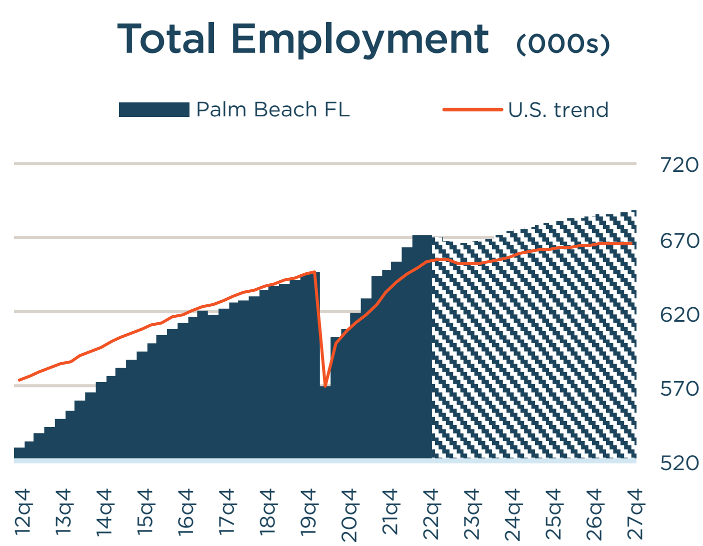
The rental housing market in Palm Beach—expensive and skewed toward wealthy retirees, like its near neighbors Miami and Fort Lauderdale, except with more promising demographic trends—will generally appeal more to developers other than Middleburg.

MIDDLEBURG'S RANK #2 AMONG 15 LARGEST METROS

Chief among the effective market rent per unit of $2,851 which is second only to Miami at $2,869. Yet the growth in the young adult population over the next five years is a tepid 0.0 percent. Yet the number of households is expected to grow at a reasonable 1.2 percent and The **Number of Households** is also expected to growth relatively rapidly at 1.1 percent per year, though growth in **Total Employment** is expected to be less impressive at 0.5 percent per year, lower than average for this region. Homeownership affordability problems should also increase demand for rental housing, with anticipated growth in house prices at 1.7 percent per year while median household incomes lag at just 1.9 percent per year, in the lower range of Middleburg's metro areas.

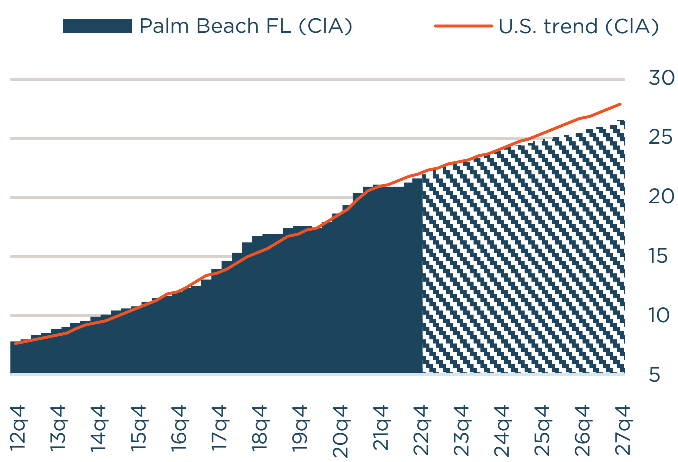
CoStar expects **Demand** and **Effective Rent per Unit** to increase at 4.2 and 1.3 percent per year, respectively, both slightly above average for metro areas in Middleburg's part of the country, while growth in **Net Operating Income** for Class A properties is expected to be slightly above average at 1.3 percent. What makes Palm Beach most interesting for developers are its cap rates averaging almost two full percentage points below the national average—by far the lowest in Middleburg's region. **Construction and Deliveries** showed slight bursts in 2013, 2016, and 2021, but generally the pace of new construction has given no sign of any oversupply issue.



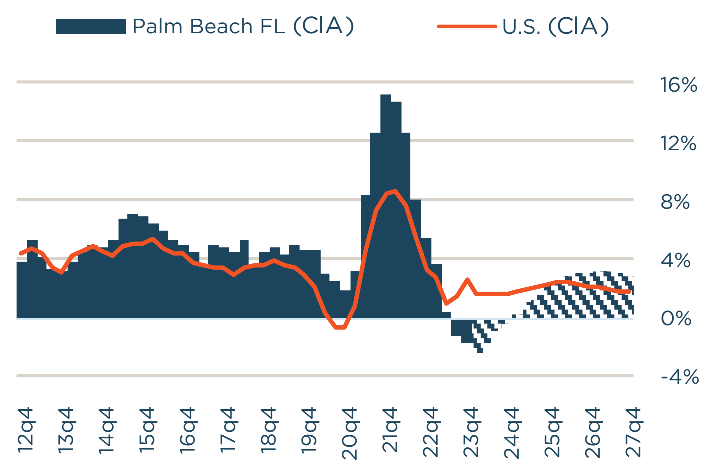


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
23,330	4,840	$452,871	$322 million
↑ 0.4%	↑ 3.8%	↑ 0.9%	↓ 33%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
16.4%	$73,840	5.3%	-58 bps
↓ 11.8%	↓ 0.5%	↓ 0.5%	below US avg

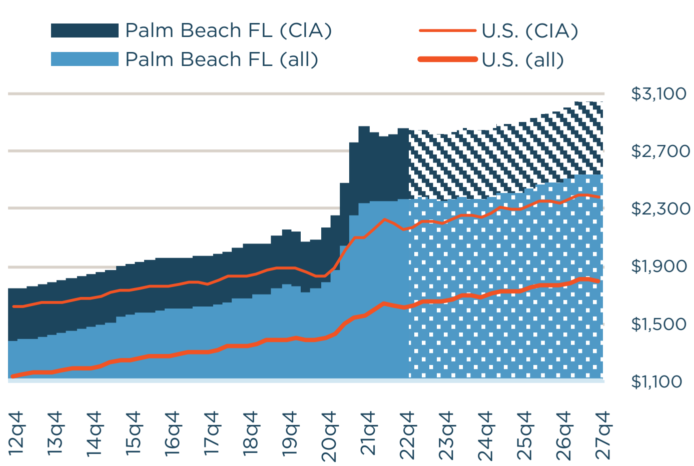
Units in Demand (000s)



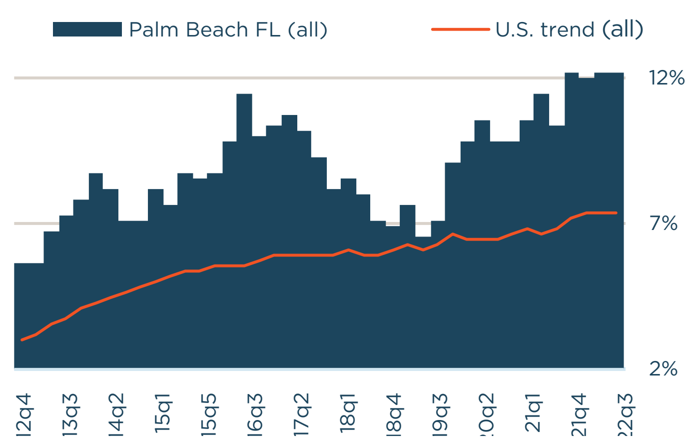
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



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

Raleigh, NC

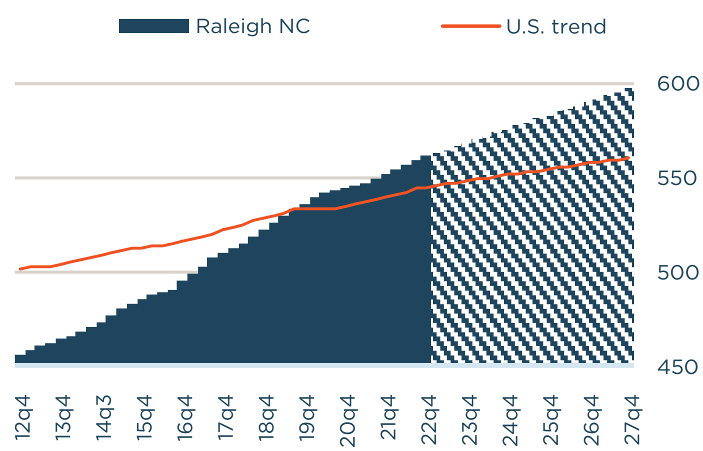
In terms of its attractiveness as a rental housing market, Raleigh can perhaps best be described as a somewhat smaller and much more affordable version of Austin or Nashville.

MIDDLEBURG'S RANK #9 AMONG 15 LARGEST METROS

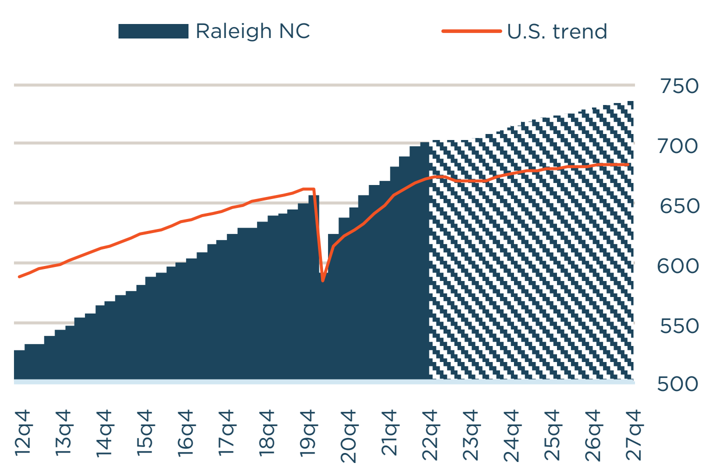
Raleigh has a diverse economic base and an uncommonly high-education, high-income population—a characteristic that it is likely to retain given its reputation as "the low-cost tech hub" and decisions by a large number of tech and life-sciences companies such as IBM, GlaxoSmithKline, and SAS to expand their operations here. Oxford Economics forecasts above-average growth in Raleigh over the next five years for all three key apartment demand drivers with its young adult population growing by 0.9 percent per year, its **Number of Households** by 1.3 percent per year, and its **Total Employment** by 0.9 percent per year.

Homebuyer affordability should worsen only slightly in Raleigh over the next five years, with house prices growing at a similar pace as home prices, both at 2.2 percent. Even without an affordability driver, the strong demographic trends are likely to drive equally strong demand for rental housing: CoStar expects **Demand** for rental housing units to expand by eight thousand over the next five years at 6.3 percent per year. Growth in **Effective Rent per Unit** should also be slightly slower than the rest of Middleburg's territory at 1.1 percent per year, helped in part by **Construction and Deliveries** that have been persistently reasonable over the past seven years. Raleigh has become a darling of investors with a prevailing cap rate about significantly below the national average, making it very appealing for new development.

Number of Households (000s)

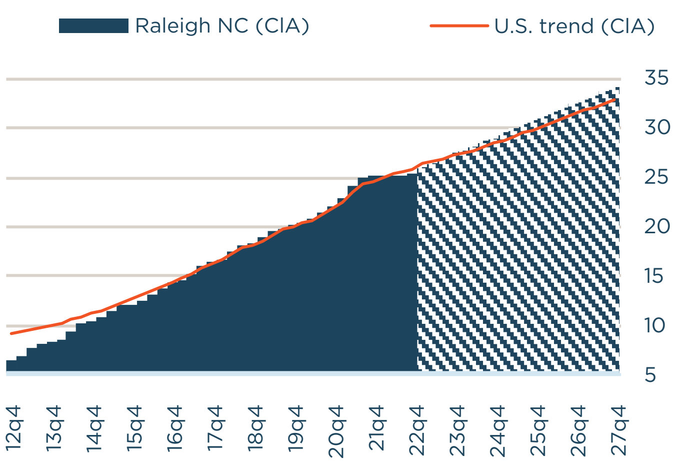


Total Employment (000s)

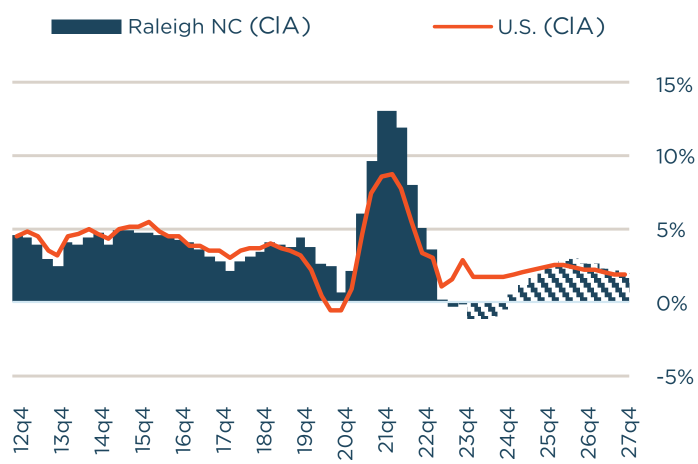


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
27,609	6,178	$322,859	$390 million
no change	↑ 17%	↓ 0.6%	↓ 48%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
16.8%	$94,280	6.4%	-28 bps
↓ 8.2%	↑ 0.6%	↓ 0.1%	below US avg

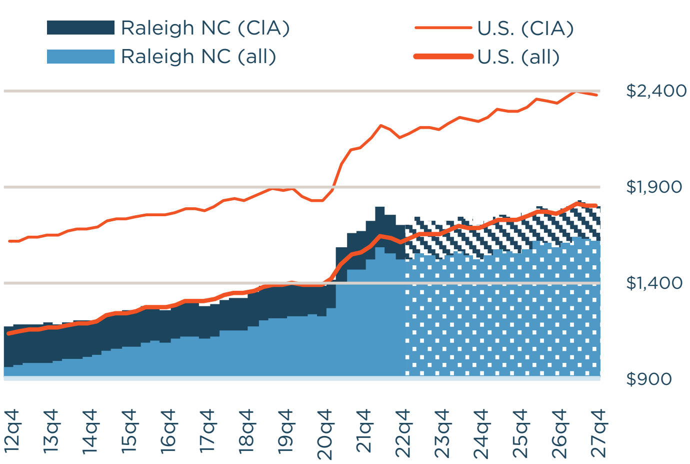
Units in Demand (000s)



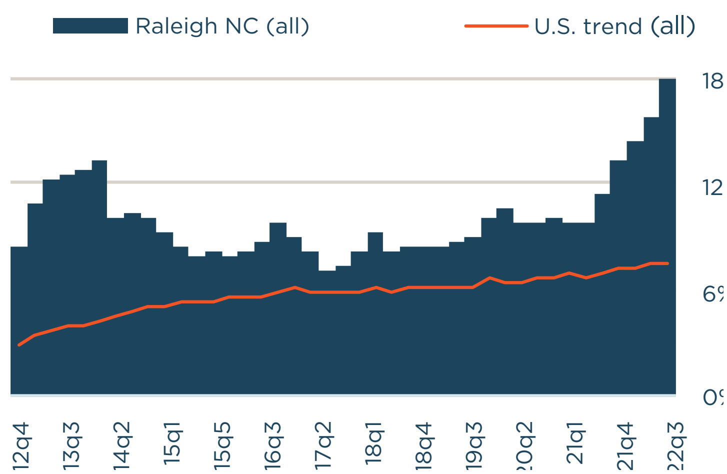
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



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

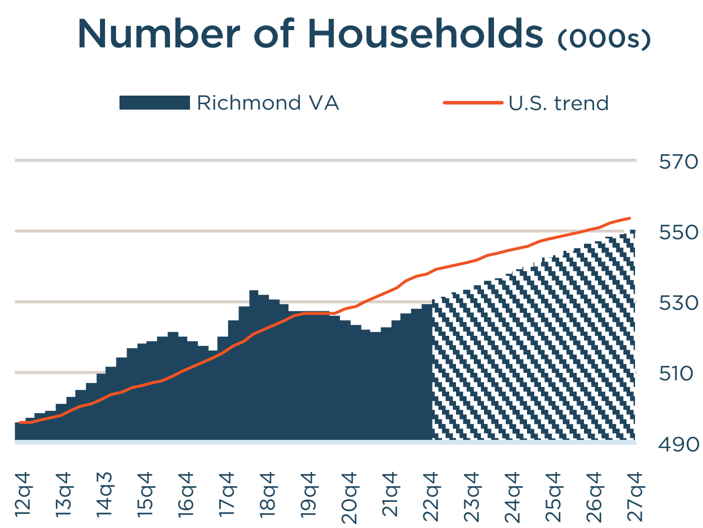
Richmond, VA

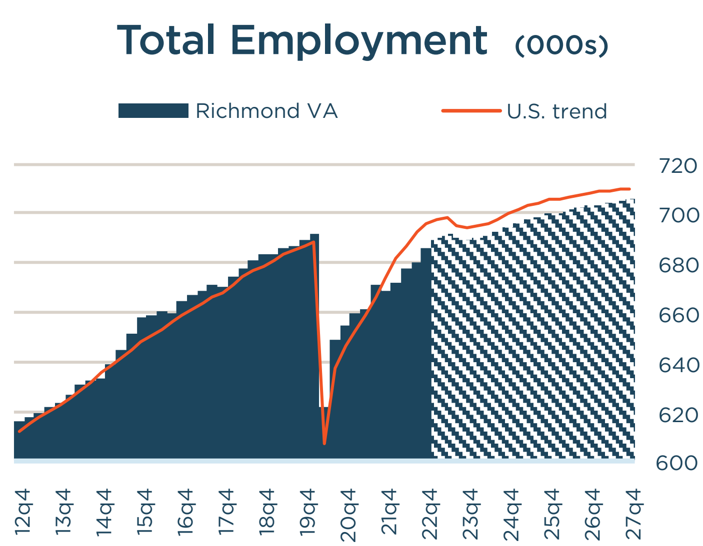
Richmond has successfully shed its over-reliance on the tobacco industry and transformed itself into a diversified regional hub with particular strength in financial services.

MIDDLEBURG'S RANK #12 AMONG 15 LARGEST METROS

Growth in young adult population, **Number of Households**, and **Total Employment** are expected to slightly outpace other metro areas in Middleburg's arc over the next five years at -0.1, 0.8, and 0.6 percent per year respectively, implying one thousand fewer young adults as well as 21 thousand new households and 19 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 0.7 percent per year, falling short of median household income growth of 2.1 percent per year.

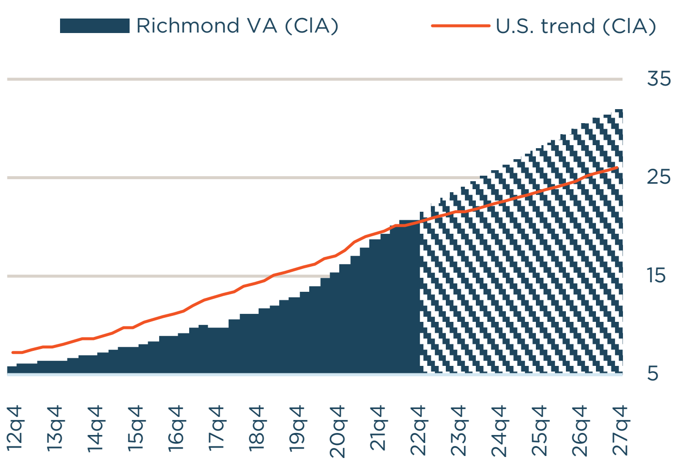
The demographic drivers should be enough to push growth in **Units in Demand** by 11 thousand units over the next five years at a pace of 9.1 percent per year, comfortably above average for Middleburg's part of the country, while **Effective Rent per Unit** and **Net Operating Income** are expected to grow at slightly-above-average paces of 2.0 and 2.0 percent per year respectively. One of the most appealing aspects of the Richmond housing market for investors, though, is that it simply hasn't yet been discovered by institutional investors: cap rates have tended to be persistently above the national average, a property value discount that doesn't seem to be justified by its market conditions and that therefore may signal abnormal appreciation over the coming years.



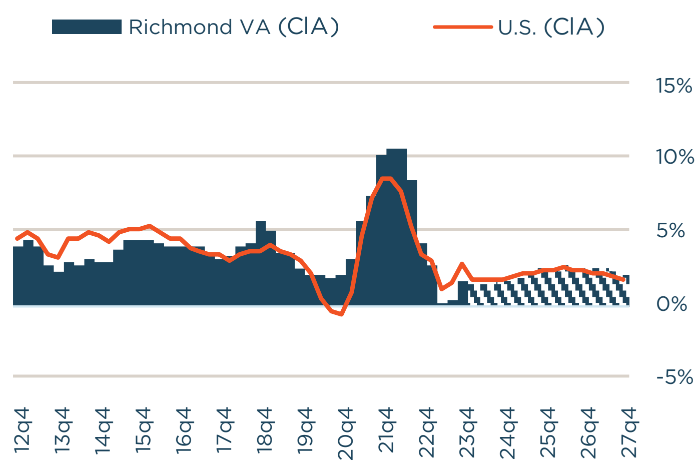


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
22,644	6,071	$279,735	$0 million
↑ 0.3%	↑ 4.3%	↓ 1.6%	↓ 100%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
10.6%	$78,360	5.1%	+71 bps
↓ 5.2%	↑ 0.8%	↑ 0.6%	above US avg

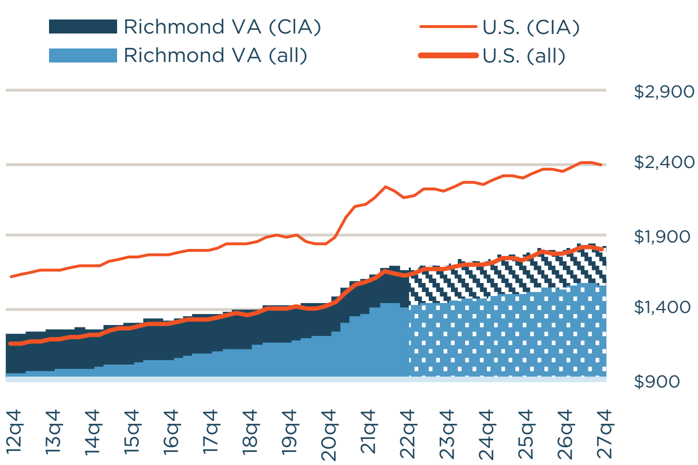
Units in Demand (000s)



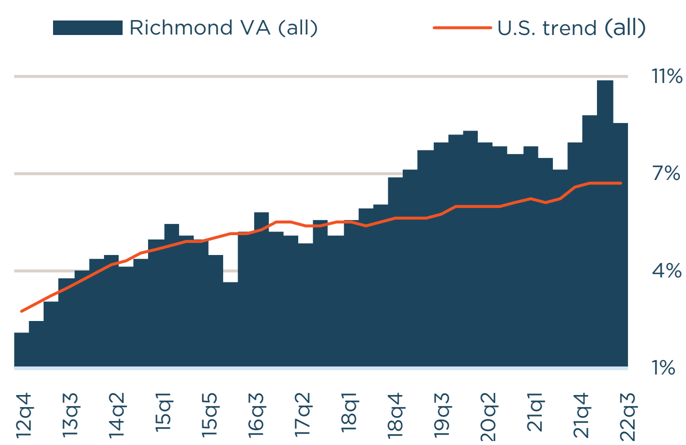
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



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

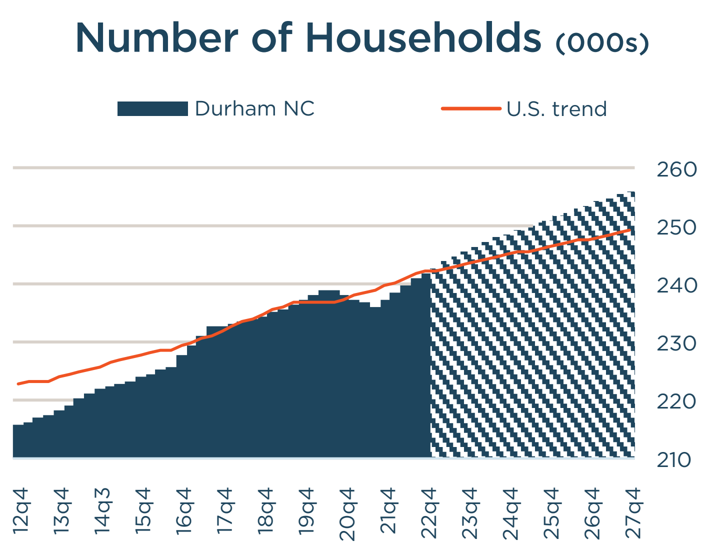
ALSO ON OUR RADAR

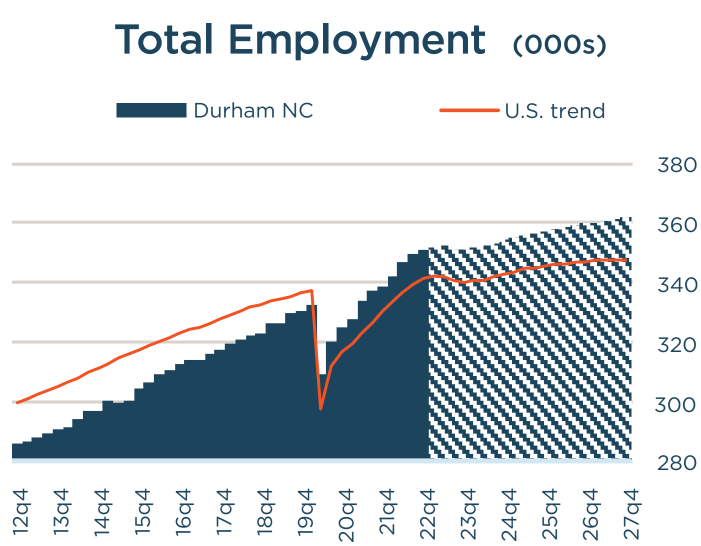
Durham, NC

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

The likely growth of Durham's rental housing market is real, supported in part by Duke University and their Health System and IBM. Oxford Economics forecasts that, over the next five years, the young adult population in this university town will expand by 0.7 percent per year, comfortably above the average for metro areas in Middleburg's part of the country. Growth in both the **Number of Households** and **Total Employment**, however, will be even stronger at 1.1 and 0.6 percent per year, respectively. And, although housing is not particularly expensive in Durham, expected growth in house prices at 2.1 percent per year should ease pressure on median household incomes growing at just 2.7 percent per year.

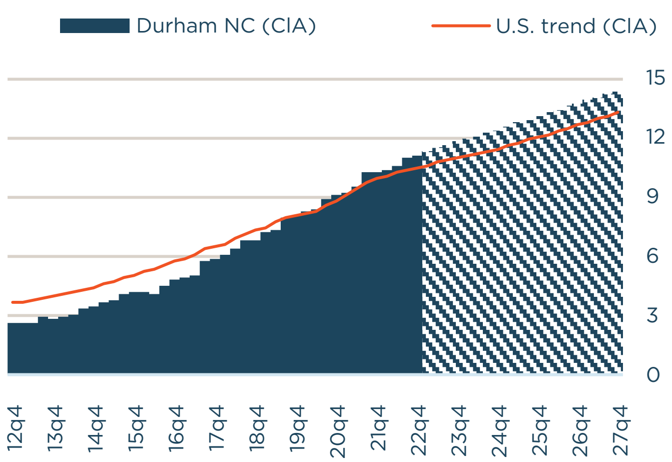
The demographic forces are likely to provide some boost to the rental housing market, with CoStar forecasting about-average growth of **Demand** at 5.3 percent per year but slightly-above-average growth in **Effective Rent per Unit** and **Net Operating Income** at 2.2 and 2.3 percent per year respectively. With an average Class A effective rent of just $1,803, Durham is slightly lower than the average of other Middleburg markets.



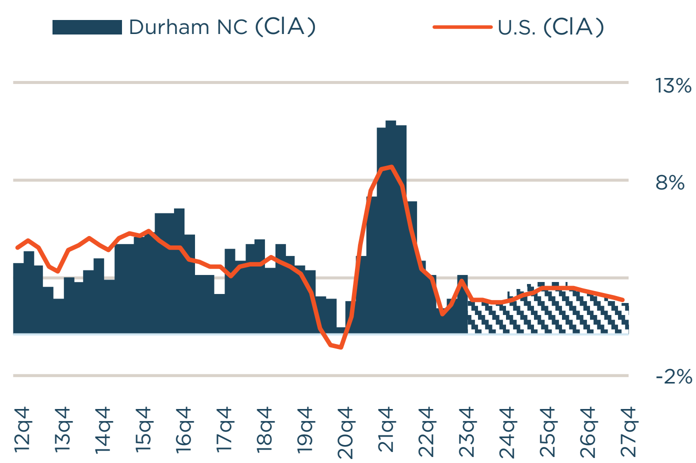


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
12,292	1,585	$307,940	$342 million
no change	↑ 27%	↓ 1.3%	↑ 214%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
17.9%	$78,320	4.9%	+11 bps
↓ 7.6%	↑ 0.6%	↑ 0.2%	below US avg

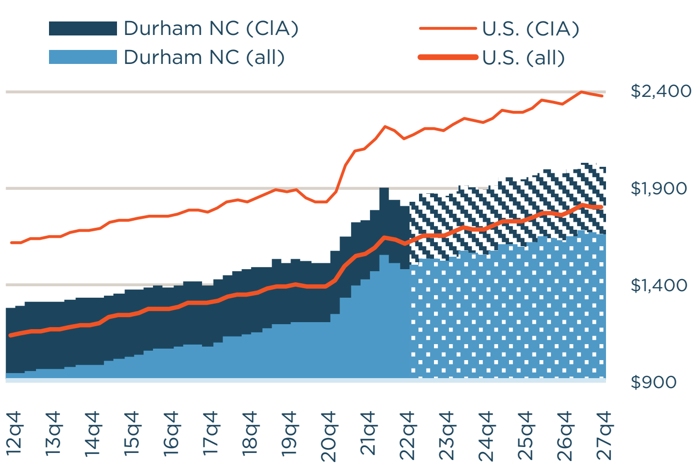
Units in Demand (000s)



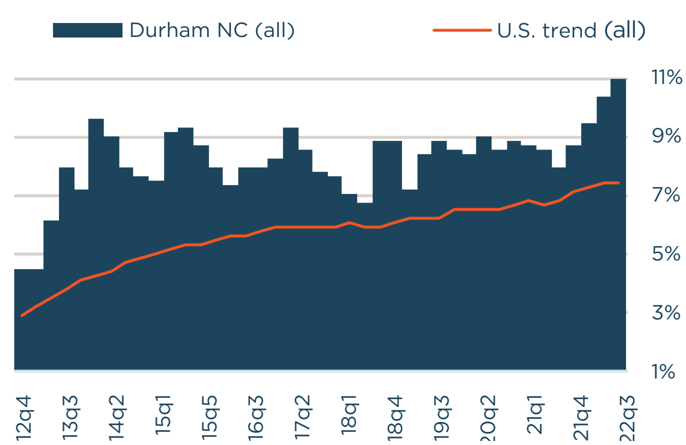
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



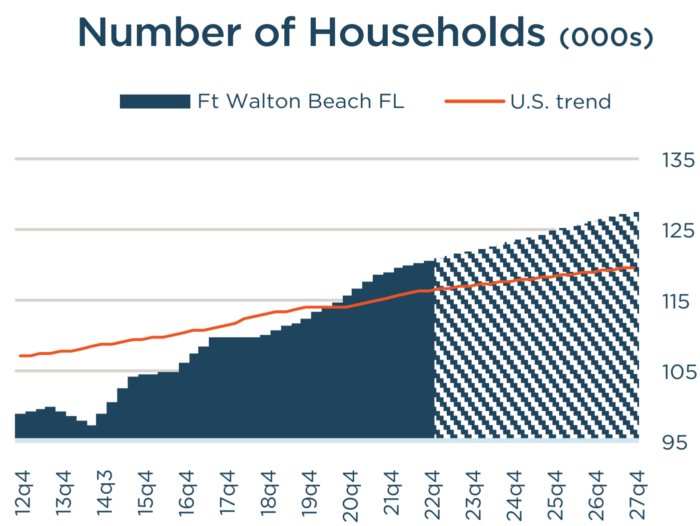
Representative large employers: Duke University, IBM Durham Public Schools, GlaxoSmithKline, Blue Cross & Blue Shield of NC

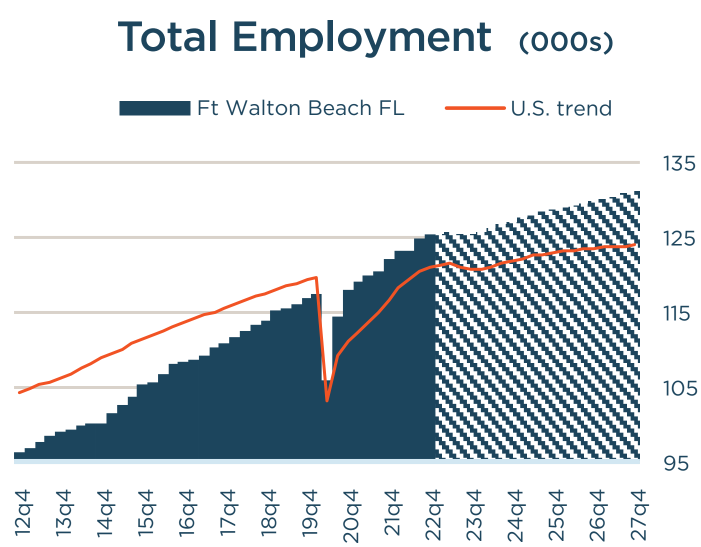
ALSO ON OUR RADAR

Fort Walton Beach, FL

Fort Walton Beach is a smaller housing market in Florida with 120 thousand households which, for comparison purposes, Orlando has over 1 million households and Tampa has over 1.3 million households. While the market is much smaller than these other primary Florida markets, the average rent is $1,926 which is similar to Orlando at $1,992 and slightly behind Tampa at $2,129.

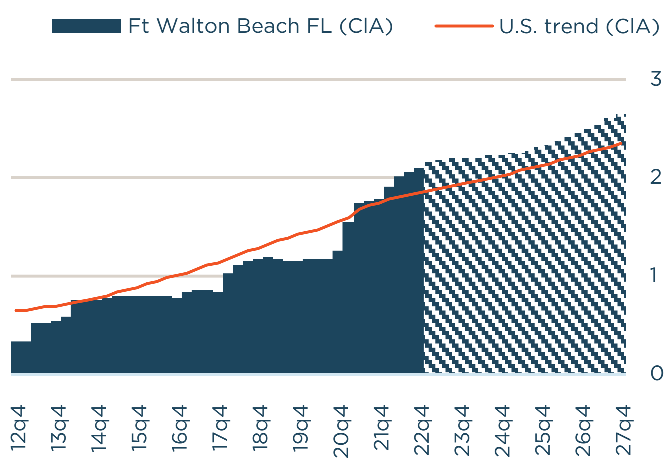
Growth in the underlying demographic drivers of rental housing demand in Fort Walton Beach is not especially strong as the projected five year growth rate in young adults is -0.5 percent with a net loss of 1 thousand expected. Oxford Economics expects **Total Employment** in Fort Walton Beach to grow by 0.8 percent per year and the five year growth in the **Number of Households** expected to be 1.2 percent. Fort Walton Beach does have strong expected growth in household income over five years at 4.2% which is significnatly outpaces Orlando at 2.3 percent and Tampa also at 2.3 percent. Home prices are projeced to grow at a moderate 1.5 percent annually ove rthe next five years which is significnatly slower than hosuehold income which will improve home affordability.



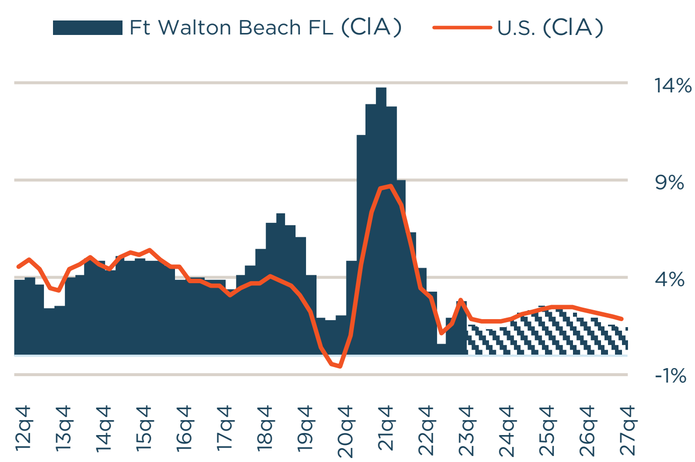


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
2,387 no change	0 --	$309,113 ↓ 0.5%	340 --
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
12.0% ↓ 10.8%	$70,720 ↑ 0.7%	7.0% ↑ 0.9%	+61 bps above US avg

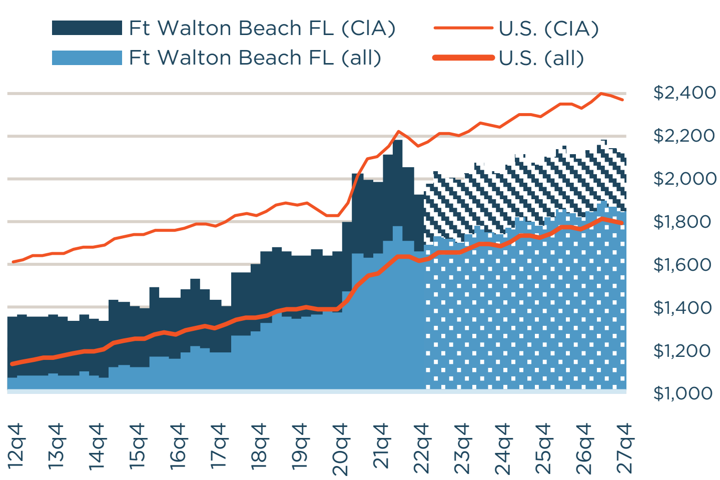
Units in Demand (000s)



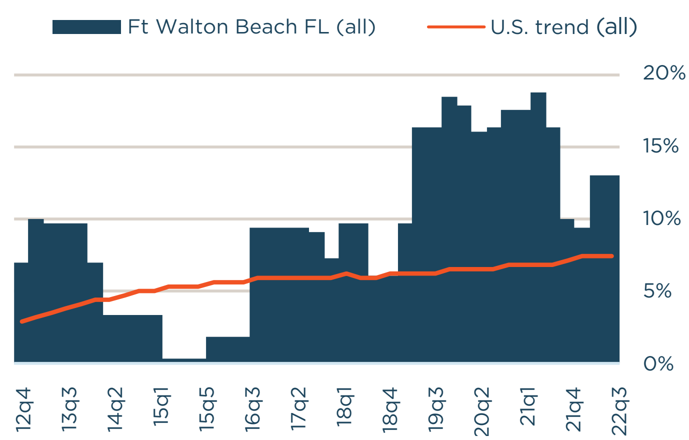
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



Representative large employers: Okaloosa County School District, Fort Walton Beach Medical Center, Publix, Okaloosa County BCC, Lockheed Martin

ALSO ON OUR RADAR

Hilton Head, SC

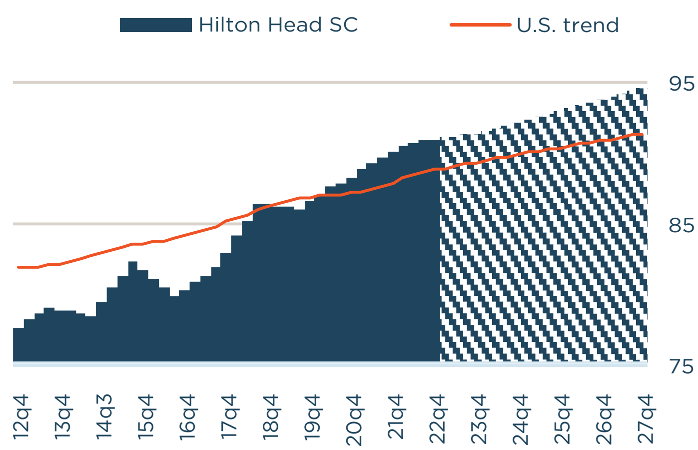
Hilton Head Island features 12 miles of beachfront on the Atlantic Ocean and is a popular vacation destination and has 2.5 million visitors annually. In 2021 the Hilton Head Island metro area had a population of 221,000 and total employment of around 82,000. Overall, the metro economy generated GDP of $11.5 billion in 2021; with finance & real estate and government the largest sectors.

Growth in the primary drivers of rental housing demand is expected to remain tepid over the next five years: Oxford Economics forecasts that Hilton Head will see annual negative growth averaging -0.4 percent in its young adult population, 0.8 percent in the **Number of Households**, and 0.8 percent in **Total Employment**. House prices are also expected to increase at a slow pace of 0.3 percent per year, which should help owner-affordability as growth in median household incomes is expected to be 2.4 percent per year.

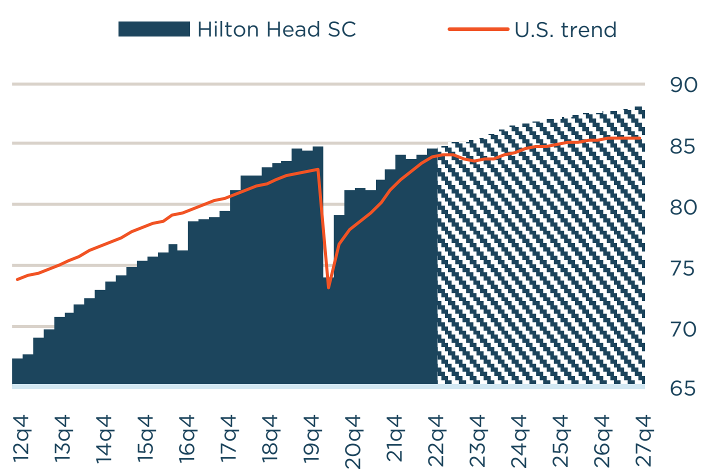
As a result, CoStar forecasts that **Demand** for rental housing units will increase at an pace of 5.7 percent per year, and that growth in Class A **Effective Rent per Unit** will be low at 1.7 percent. **Net Operating Income** and property value appreciation are also expected to see be lower at 1.8 and -1.2 percent per year respectively.

While growth in Hilton Head is expected to be slow, the average rent is $2,031 which compares favorably to Charleston, SC. Charleston has been a market with an extraordinarily large amount of development recently and the rents on apartments there lag those in Hilton Head at $1,899. Yet household income in Charleston is 79 thousand compared to Hilton Head where it is 72 thousand.

Number of Households (000s)

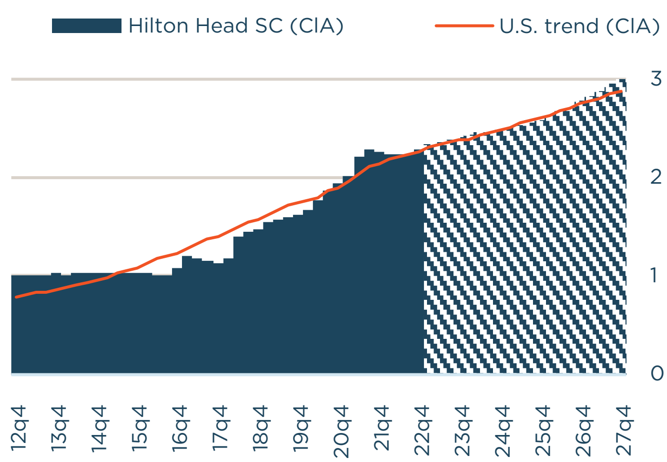


Total Employment (000s)

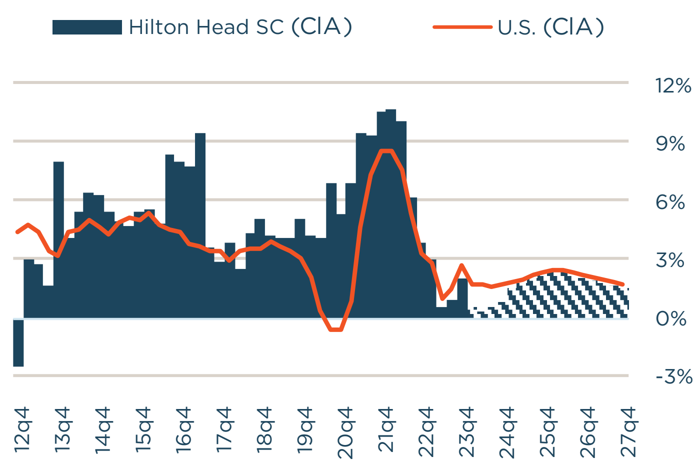


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
2,585	0	$281,996	0
↑ 11.2%	↓ 100%	↓1.3%	--
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
18.4%	$72,160	4.0%	+34 bps
↓ 6.3%	↑ 0.4%	↓ 0.1%	above US avg

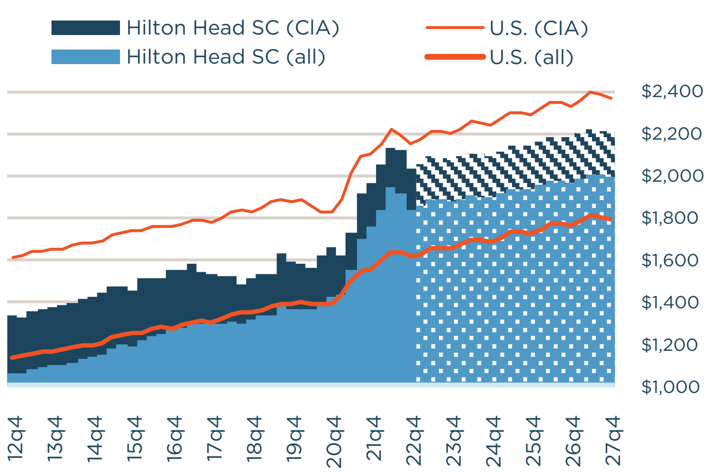
Units in Demand (000s)



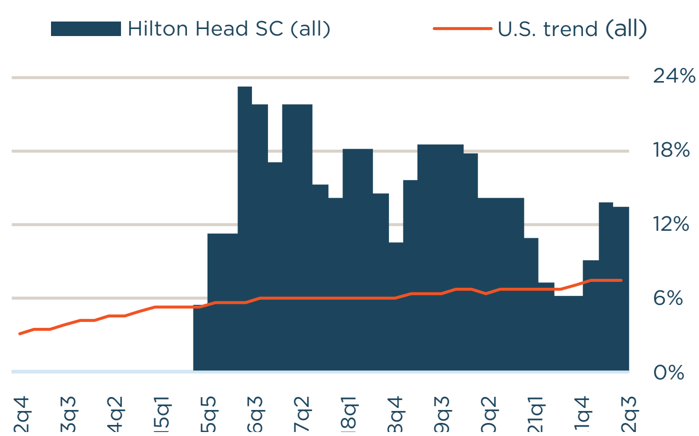
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



Representative large employers: SERG Group Restaurants, Marriott Vacation Club, Sea Pines Resort, Hilton Head Medical Center & Clinics, Coastal Restaurants and Bars, Beaufort County School District

ALSO ON OUR RADAR

Huntsville, AL

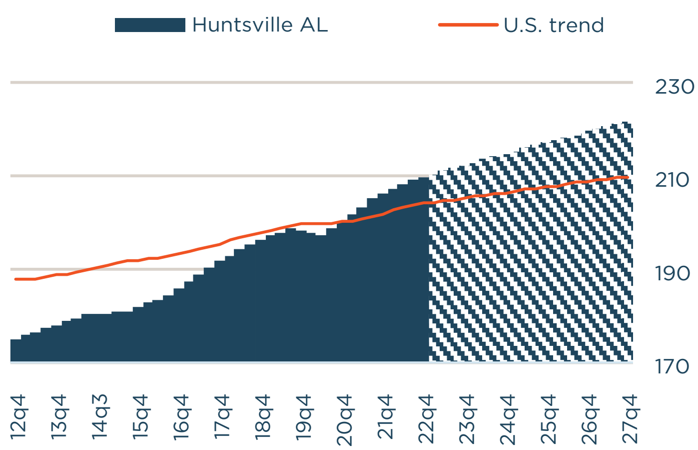
During World War II the Army established Redstone Arsenal near Huntsville. After the war, additional research was conducted at Redstone Arsenal on rockets, followed by adaptations for space exploration. NASA's Marshall Space Flight Center, the United States Army Aviation and Missile Command, and most recently the FBI's operational support headquarters all came to be located at nearby Redstone Arsenal.

Rental housing demand is going to be driven by the growth in young adults which are expected to grow by .9 percent over the next five years. Combine this with employment grwoth of 1.1 percent and employment growth of 0.5 percent and Huntsville is one of the faster growing market in Middleburg's regions.

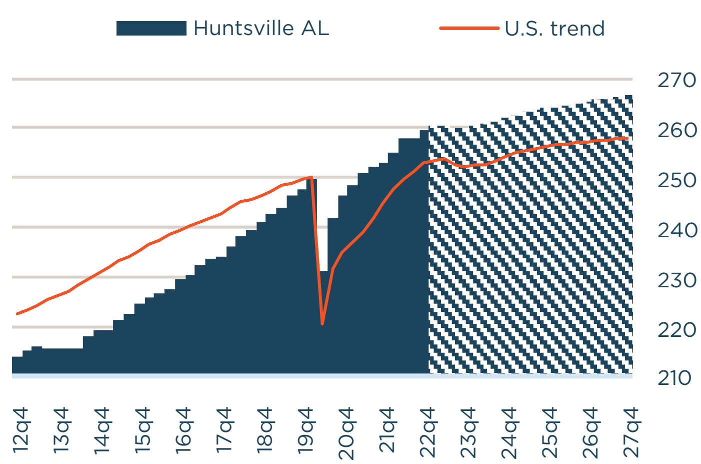
The median household income in Huntsville is 80 thousand which compares extremely favorably to similar smaller cities in Alabama such as Tuscaloosa at 58 thousand and Auburn at 55. This is largely attriuted to the high concentration of scientists and engineers in Huntsville. Yet the average rent paid in Huntsville is $1,483 compared to $1,495 in Tuscaloosa and $1,228 in Auburn.

Over the next five years, Huntsville is forecast to track the national economy, with average annual GDP growth of 1.5%. The greatest contributors to forecast economic growth are expected to be the professional services and finance & real estate sectors. Employment in the city is forecast to increase by 0.6% per year on average between 2023-27. The government and education & health sectors are expected to be the main sources of job creation.

Number of Households (000s)

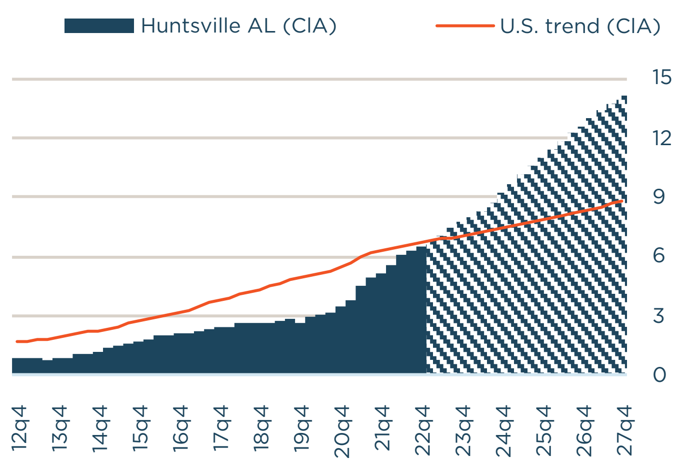


Total Employment (000s)

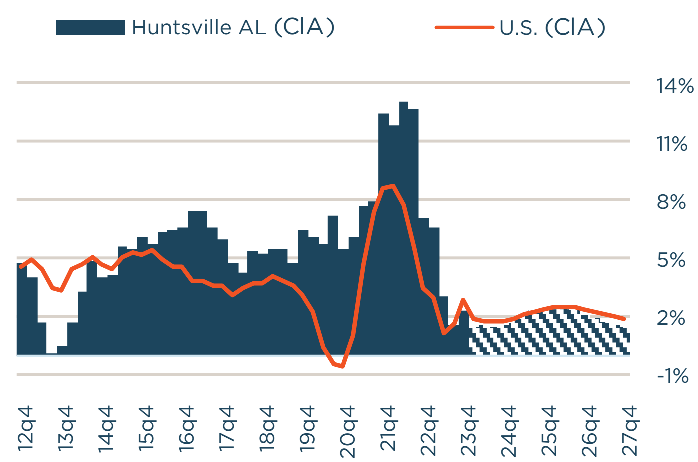


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
8,393	3,782	$249,303	$546 million
↑ 2.8%	↑ 10.5%	↓ 0.5%	↑ 69%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
14.2%	$80,800	4.9%	+14 bps
↓ 6.7%	↑ 0.9%	↑ 0.4%	above US avg

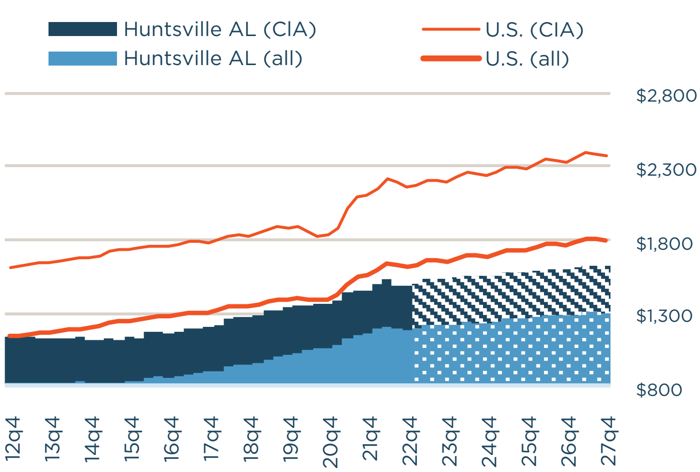
Units in Demand (000s)



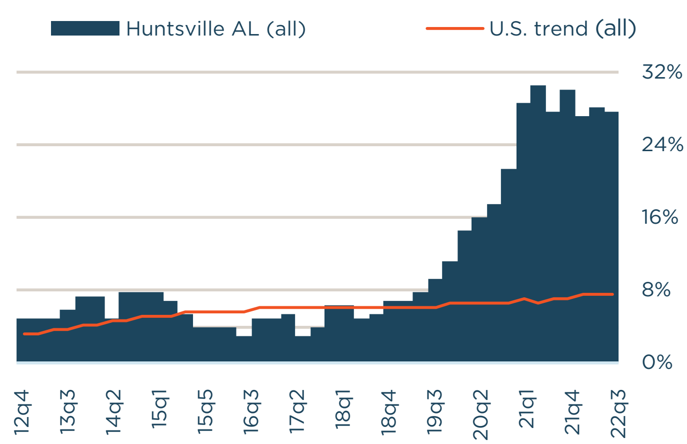
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



Representative large employers: U.S. Army/Redstone Arsenal, Huntsville Hospital, NASA/Marshall Space Flight Center, Huntsville City Schools, The Boeing Company

ALSO ON OUR RADAR

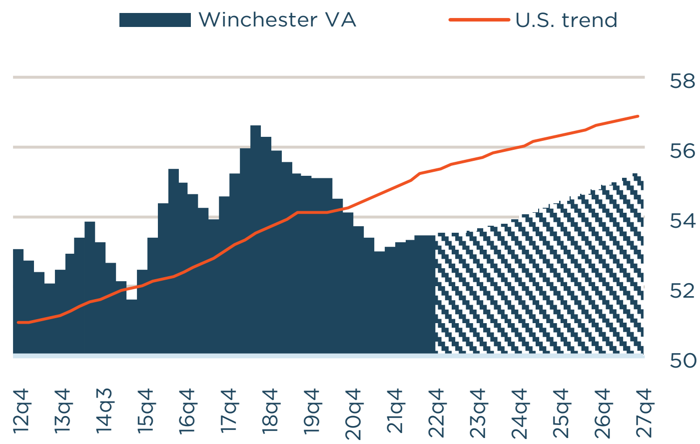
Winchester, VA

In 2021 the Winchester metro area had a population of 145,000 and total employment of around 67,000. Overall, the metro economy generated GDP of $8.4 billion in 2021; with manufacturing and finance & real estate the largest sectors. The greatest contributions to growth came from the education & health and finance & real estate sectors. Total employment also increased over this period, with job creation strongest in education & health.

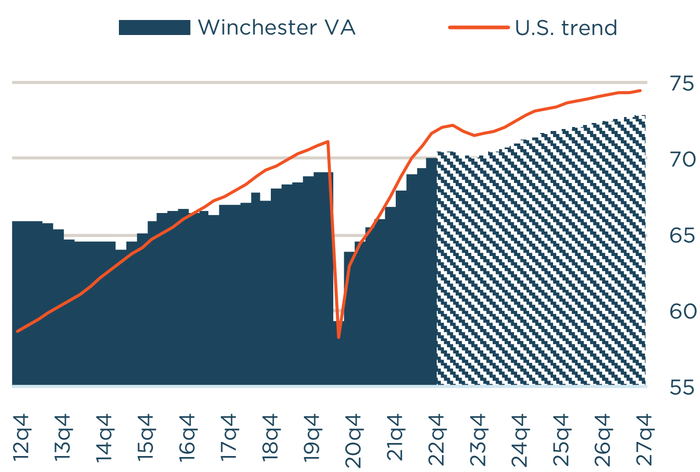
Oxford Economics forecasts that the **Number of Households** will grow at 0.7 percent per year over the next five years, slightly below the average for metro areas in Middleburg's part of the country, while **Total Employment** will grow at a more moderate but still slightly-above-average pace of 0.9 percent per year. The young adult population, however, is expected to shrink slightly at -0.5 percent, and growth in median household income is expected to be strong at 3.6 percent per year. The combination of the strong growth in median household income with slow growth in house prices (1.1 percent per year) means that the **House Price to Income Ratio** is likely to improve.

Over the next five years, Winchester is forecast to track the national economy, with average annual GDP growth of 1.5%. The greatest contributors to forecast economic growth are expected to be the manufacturing and wholesale & retail sectors. Employment in the city is forecast to increase by 0.9% per year on average between 2023-27. The government and hospitality & other services sectors are expected to be the main sources of job creation.

Number of Households (000s)

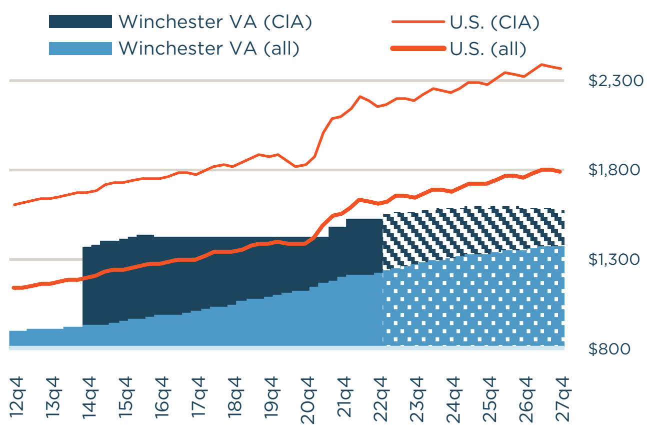


Total Employment (000s)

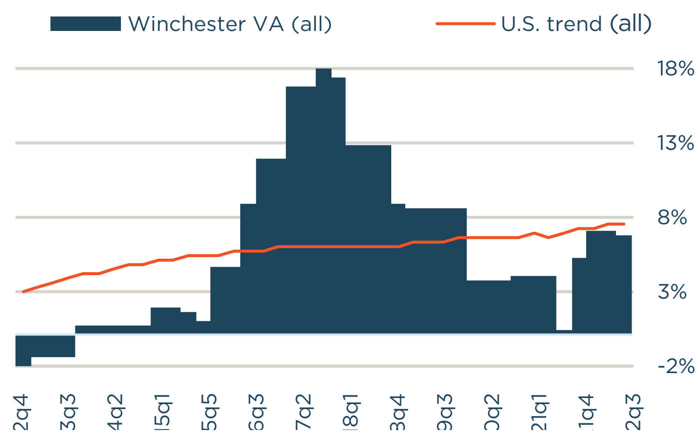


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
18 no change	0 --	$244,139 ↓ 0.5%	0 --
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
9.8% ↓ 7.2%	$77,280 ↑ 1.2%	24% no change	103 bps above US avg

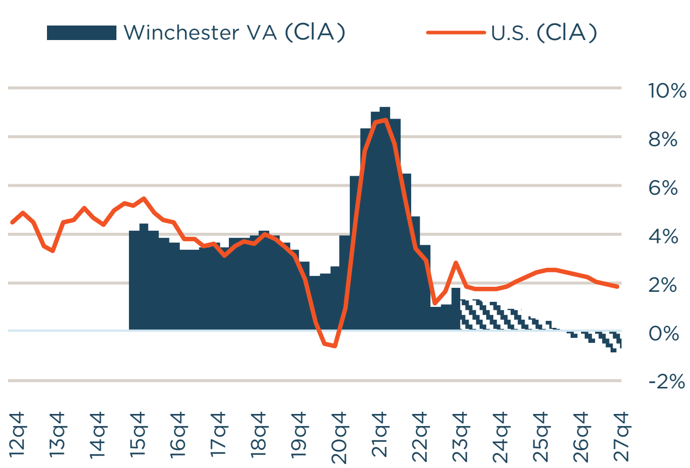
Effective Rent per Unit



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



Net Operating Income (trailing 4-qtr)



Representative large employers: Valley Health System, Frederick Co. Public Schools, Navy Federal Credit Union, Amazon, Trex