



MIDDLEBURG
COMMUNITIES

Middleburg Markets Report

Q3
2023



Middleburg Communities is pleased to present our Middleburg Markets Report for the 3rd quarter of 2023. 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
CHIEF EXECUTIVE OFFICER



Kory Geans
CHIEF INVESTMENT OFFICER

The data presented in this report are gathered from multiple sources that have been cited. Note that even historical data may change in subsequent reports. Although every effort is made to ensure the accuracy, timeliness, and completeness of the information provided in this publication, the information is provided "AS IS" and Middleburg Communities does not guarantee, warrant, represent, or undertake that the information provided is correct, accurate, current, or complete. This paper makes a number of predictions. These predictions of the future environment for the multifamily industry address matters that are uncertain and may turn out to be materially different than as expressed in this paper. The information provided in this paper is not a substitute for legal and other professional advice. If any reader requires legal advice or other professional assistance, each such reader should consult his or her own legal or other professional advisor and discuss the specific facts and circumstances that apply to the reader. Middleburg Communities is not liable for any loss, claim, or demand arising directly or indirectly from any use or reliance upon the information contained herein.

Introduction

U.S. macroeconomic conditions have withstood six quarters of aggressive rate hikes and six quarters of war in Europe. It is legitimate to question whether added problems—most prominently war in the Middle East and “war” among the majority Republican caucus in the U.S. House of Representatives—may finally be enough to tip the macroeconomy into recession.

It is important to recognize that the most recently available data sources collectively suggest that the economy is realizing its best-case scenario: a “soft landing” in which inflation, labor markets, consumer spending, income growth, and business investment all slide into acceptable ranges.

The multiplying sources of risk must, however, be taken seriously. In effect, key events of the 3rd quarter (and the beginning of the 4th quarter) have widened the range of possible outcomes—and therefore increased the risk of economic recession even though the most likely outcome has not worsened.

This 2023Q3 Middleburg Markets Report begins by considering how monetary policy and macroeconomic conditions are likely to unfurl over the next few quarters, before focusing on the implications for operating conditions in the rental housing market. 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 Charlottesville VA, Clarksville TN, Lakeland FL, Pensacola FL, and Sarasota FL.



The Baldwin, Orlando, FL



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U.S. Overview

Perhaps the simplest and most accurate phrase to describe the current U.S. macroeconomic situation is “great, but...”. Over the past six quarters, persistently high inflation accompanied by equally persistent strengths in key segments of the economy—especially labor markets, consumer spending, and business investment—had forced the Federal Reserve to push the key Federal Funds Rate to its highest level since 2007. Those key economic indicators have remained strong, though closer to the balance that would characterize a “soft landing.” Potential sources of downside risk, however, have multiplied even as upside risk—and therefore the risk of even higher interest rates—has failed to abate.

The minutes describing the September 19-20 meeting of the Federal Open Market Committee (FOMC) provided an uncommonly clear picture of an uncommonly muddled situation. A single key paragraph summarizes the variety of major sources of risk that existed even before the brutal Hamas attack on Israel and the countering moves by Israel on Gaza:

Participants generally noted there was still a high degree of uncertainty surrounding the economic outlook.

- *One new source of uncertainty was that associated with the autoworkers' strike, and many participants observed that an intensification of the strike posed both an upside risk to inflation and a downside risk to activity.*
- *A majority of participants pointed to upside risks to inflation from rising energy prices that could undo some of the recent disinflation or to the risk that inflation would prove more persistent than expected.*
- *Various participants noted downside risks to economic activity, including*
 - *that credit conditions might tighten more than expected if the domestic banking sector experienced further strains;*
 - *the possibility that the economic slowdown in China could result in a drag on global economic growth; or*

- *that an extended U.S. government shutdown could have negative, albeit temporary, consequences for growth.*
- *Some participants remarked that an upside risk to their projections for economic activity was that the unexpected resilience that the economy had demonstrated so far could persist.*
- *Several participants commented that a government shutdown might result in the delayed release of some economic data and that this outcome would make it more difficult to assess economic conditions.*
- *A few participants observed that there were challenges in assessing the state of the economy because some data continued to be volatile and subject to large revisions.*

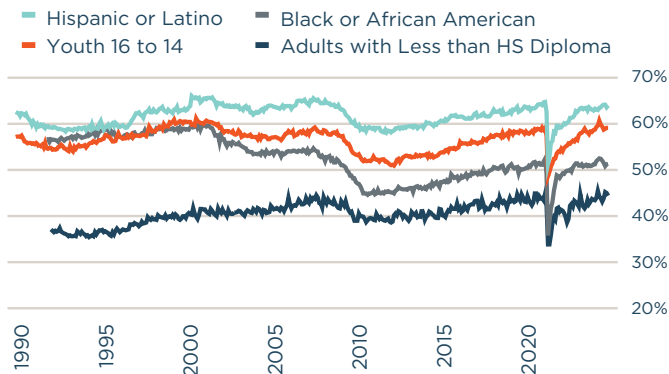
That is an impressive range of risks to pack into one paragraph, but it is important not to lose sight of the fact that before the “but” comes an undeniable “great.” Put simply, current macroeconomic conditions continue to be strong even as they converge toward the balance that would enable the FOMC to stop hiking interest rates. That is, the most likely path forward for the U.S. macroeconomy continues to be toward a soft landing—with either no recession or a mild one, and with a significant decline in interest rates on the horizon.

LABOR MARKETS TRENDING TOWARD BALANCE

Labor markets continue to be perhaps the most resilient segment of the macroeconomy. Monthly data has, in the FOMC's words, "continued to be volatile and subject to large revisions," but the trends underlying the month-to-month fluctuations are unmistakably favorable.

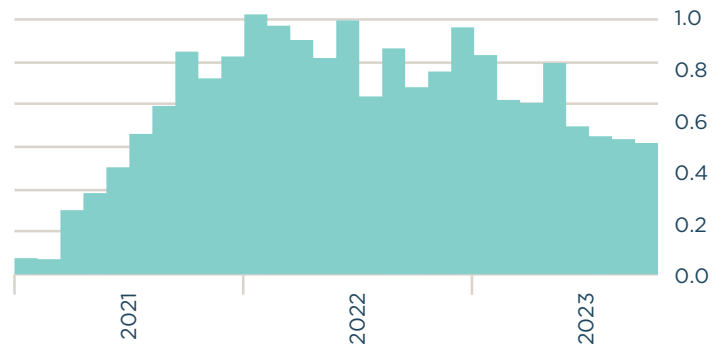
The underlying strength of the labor markets is conveyed well by the employment-to-population ratios for groups of workers who generally tend to lose their jobs earliest when labor markets soften. The share of adults without a high school diploma who are employed, for example, remains near the all-time high recorded earlier this year; the ratios for the Hispanic, Black, and youth populations, while not yet recovered to the levels observed prior to the 2008-09 financial crisis, continue the upward trend marking all three groups since about 2011.

Employment to Population Ratio for Selected Vulnerable Groups



Maximizing employment, however, is not the only goal: instead, the FOMC's rate-hike regime is designed to bring labor markets back into balance, thereby achieving its dual mandate focusing on price stability as well as employment. In this regard the FOMC minutes noted "continuing signs that supply and demand in the labor market were coming into better balance." That trend is conveyed well by the number of job openings in excess of job seekers (that is, unemployed people), which has been on a clear, if unsteady, downward trend since surging to a peak in March 2022.

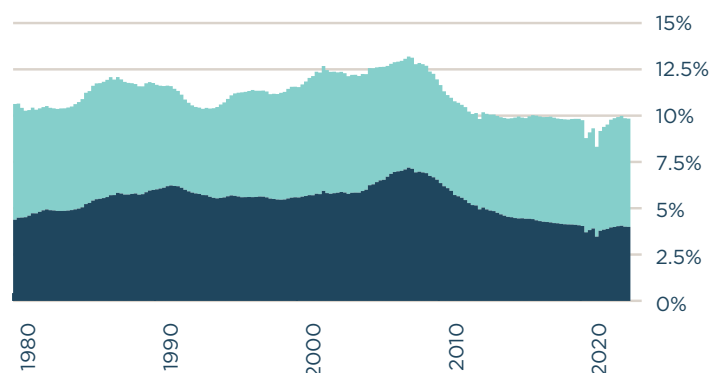
Excess Job Openings per Unemployed Person



STUBBORN AGGREGATE DEMAND

Balance seems more elusive in other parts of the economy, with aggregate demand continuing to put pressure on aggregate supply. Preliminary data from the Advance Monthly Retail Trade Survey, for example, measured a very strong 1.7 percent increase in total retail and food service sales during Q3 relative to Q2—an unsustainable 7.0 percent annualized pace—resulting from a strong 0.7 percent increase in September following an upward-revised 0.8 percent increase in August.

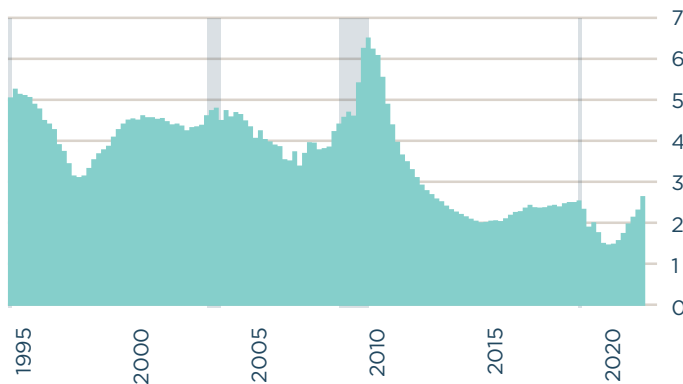
Household Debt Service Ratios



As the FOMC minutes noted, "consumer and business spending appear(s) to be more resilient to tight financial conditions than previously expected," with "generally strong household balance sheets" among the most important reasons. Indeed, aggregate household debt service ratios remain below 10 percent, as they have consistently since 2013. As a

result, even though the delinquency rate on credit card debt has increased sharply since 2021, it remains well below the levels that were normal during the two decades prior to 2011.

Credit Card Delinquency Rate



POLITICAL THREATS TO MACROECONOMIC BALANCE

The persistent strength of aggregate demand suggests that the U.S. macroeconomy is increasingly close to—but not yet at—the supply/demand balance that would enable the FOMC to relax interest rates without risking a reignition of inflation. In this reignition-risk environment, the recent political crises in the Middle East and (much less seriously) the U.S. House of Representatives represent a significant widening of the range of possible bad outcomes.

The brutal action by Hamas to set off a new war between Israel and Palestinians could not be more tragic. Strictly in terms of its most likely effect on the U.S. macroeconomy, however, such a war would not ordinarily be considered terribly threatening: less threatening, for example, than the Russian invasion of Ukraine, which has more direct effects on countries that are more important trading partners of the U.S.

It seems clear, however, that the intent underlying the Hamas action is not simply to trigger an Israeli-Palestinian war, but to trigger a much wider conflict likely to involve Lebanon (or at least the Hezbollah force within its territory), Iran, perhaps

Jordan, and other neighboring states that are important participants in global petroleum markets. To the extent that the war risks broadening in this way, it presents a significant risk to the U.S. macroeconomy, because it could trigger supply disruptions and/or price shocks to the U.S. and/or its most important trading partners.

Two additional global risks emanate from China. First, the country's economic growth has been weaker than usual for several quarters—and now faces a substantial risk of a financial crisis tied to overleveraged, non-performing investments in real estate. At the same time—and even, perhaps, as a distraction from the domestic economic vulnerability—China has continued to act belligerently toward not only Taiwan but also other countries with interests in the Straits of Molucca, a key global trading route. A significant decline in the Chinese economy could affect both global aggregate demand and global capital markets, while a flare-up of territorial threats could disrupt global trade and supply chains.

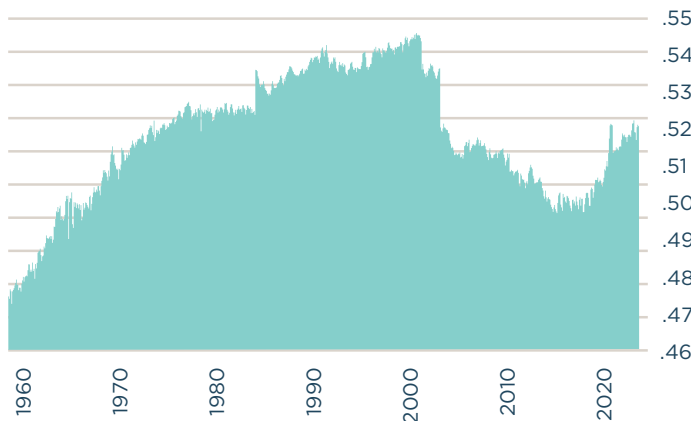
The three major global trouble spots—the Middle East, China, and of course Ukraine—could push the U.S. macroeconomy in the direction of either recession or re-inflation—or, in the worst case, into a period of stagflation, if supply problems collide with outsized demand. At the same time, of course, the internecine “warfare” among Republicans in the U.S. House of Representatives could exacerbate all three global risks by preventing the U.S. federal government from responding appropriately to any or all of them.

The risks are not all to the downside, however: as the FOMC noted, the surprising resilience of labor markets, wage growth, and consumer and business spending could continue to protect the U.S. from recession even as “higher but longer” interest rates tame inflation. In short, the array of risks to U.S. macroeconomic conditions do not necessarily imply an increased risk of recession (or stagflation): instead, they simply imply a markedly expanded cone of possible outcomes.

REGIONAL SUPPLY/DEMAND IMBALANCES IN RENTAL HOUSING

The number of households per adult (termed the headship rate) jumped upward temporarily during the first few months of the covid pandemic, but then resumed an otherwise steady recovery since the aberrational, post-1964 low that it reached during 2014-2017. We believe that the recovery in households per adult is likely to continue nationwide, especially with the impetus of a continuing accommodation by many employers to flexible and work-from-home arrangements.

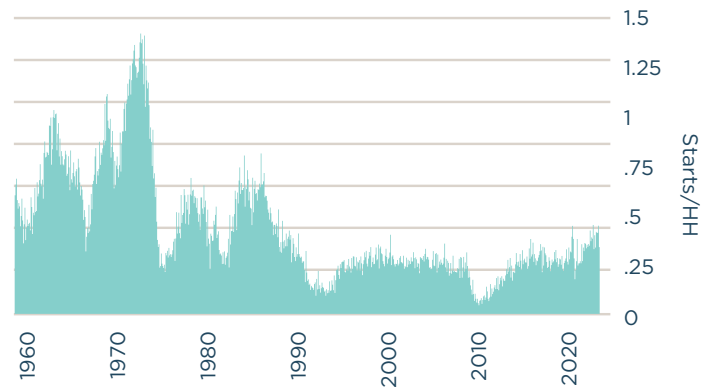
Households per Adult



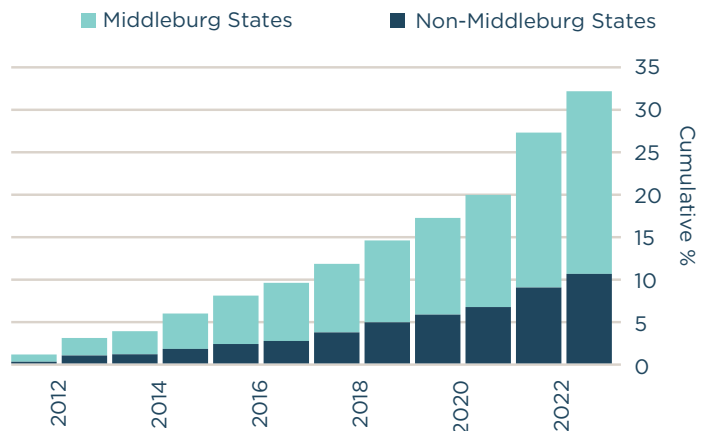
The surge in housing demand has not yet been met by an adequate housing supply response. In fact, relative to the number of households, the number of units started in multi-family buildings during August dropped to just 0.25 per hundred households—approximately normal during the last three decades, but not close to the construction paces that were commonplace during the 1960s, 1970s, and much of the 1980s.

Moreover, nationwide figures for housing construction fail to address the enormous imbalance in demand growth between the states in which Middleburg is most active—Virginia, North & South Carolina, Georgia, Florida, Tennessee, Alabama, and Texas—and the rest of the country. In fact, since 2010 the number of households in Middleburg’s states has grown more than twice as rapidly—by 21 percent compared with just 10 percent—as in the other 42 states.

5+ Unit Starts/ US Households

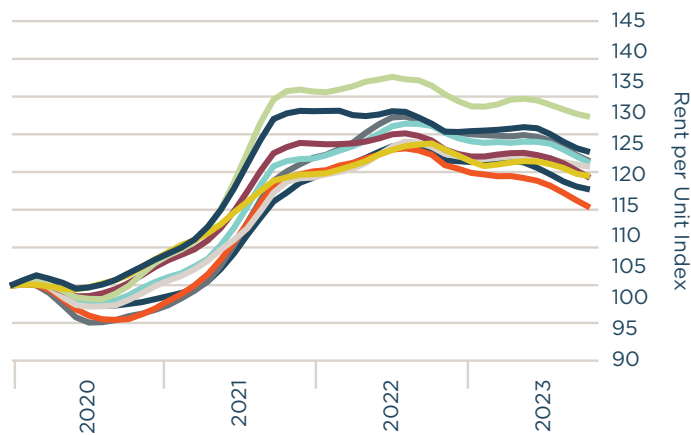


Growth in the Number of Households since 2010



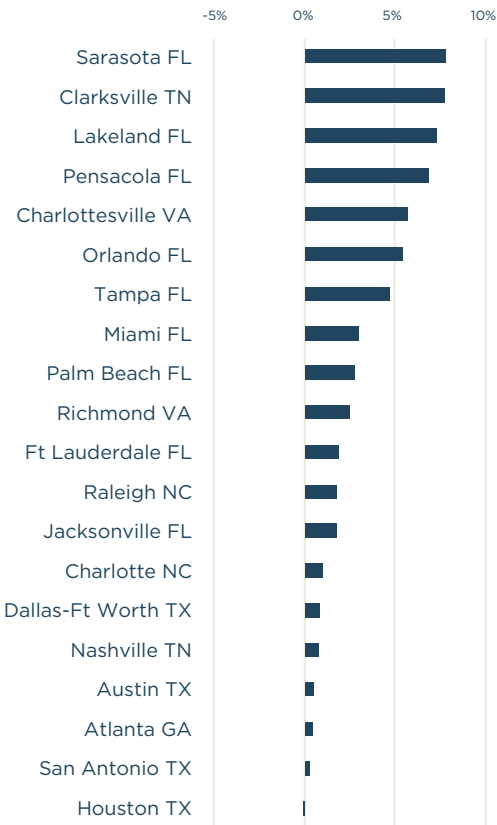
As a result of both the nationwide housing supply/demand imbalance and the regional disparity, average rent per unit multiplied by average occupancy rate surged dramatically following the early months of the covid pandemic. In fact, by mid-2022 this “average rent realized” measure surged to a level that was more than 25 higher than its pre-covid level in every one of the large markets targeted by Middleburg; in most metro areas it reached even higher peaks (including Tampa at more than +40%). The supply response has certainly caused average rent realized to ease off since mid-2022, but in every large targeted market it remains at least 15 percent higher than it was at the end of 2020.

Primary Markets Rent Per Unit Indices

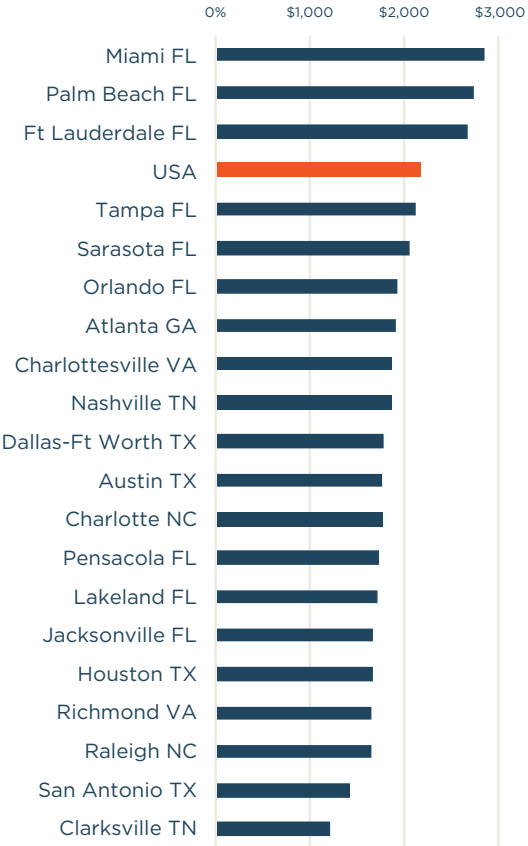


We at Middleburg continue to be confident in the fundamental market conditions underlying our broad regional focus, and we are especially proud of our skill at identifying the best markets within our states—and the best locations within those markets—for our development, acquisition, and other activities. Put plainly, neither the demand increases nor the supply responses of the past few years have been felt equally across all parts of “our” territory, and we believe we have superior capabilities to evaluate supply/demand imbalances at the local and super-local level as a tool in identifying the best opportunities. 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.”

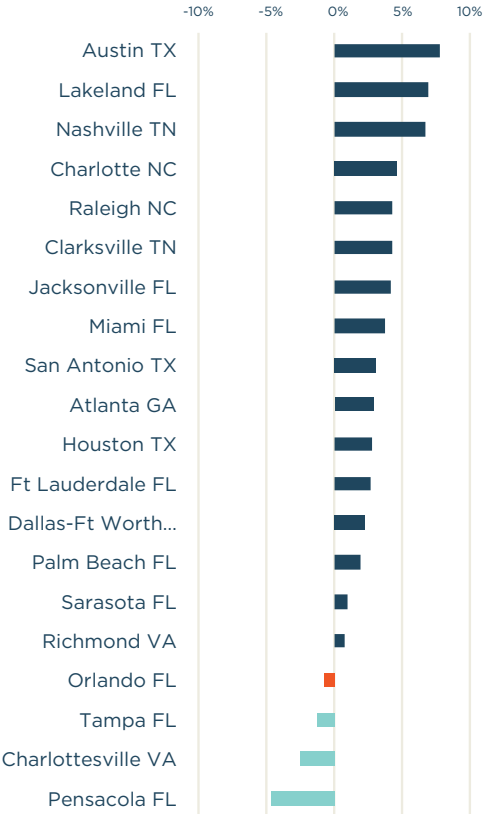
Forecast Demand Growth



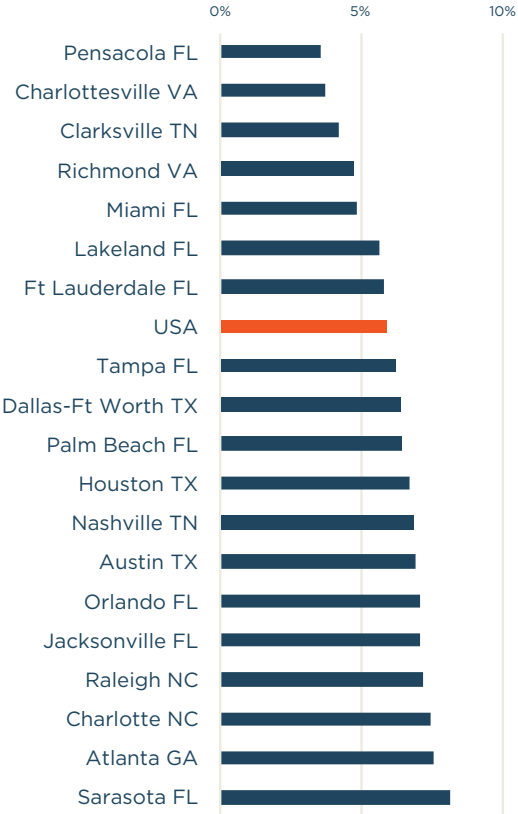
Class A Effective Rent per Unit



Forecast Oversupply Risk



Stabilized Class A Vacancy Rate



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. Current indicators suggest that near-suburban counties and Tarrant County (Fort Worth) likely offer better opportunities than Dallas County itself.

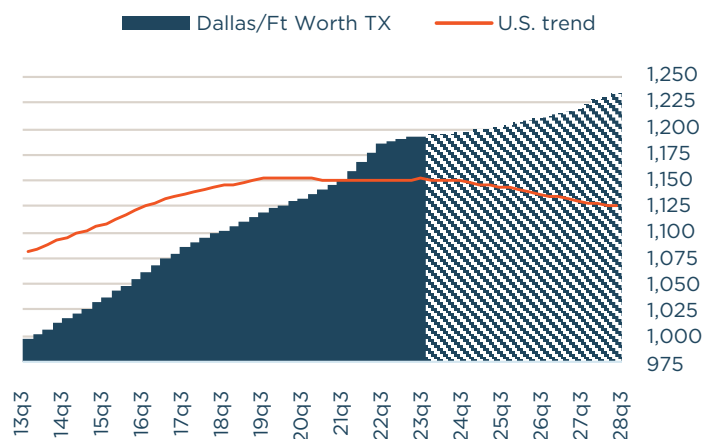
MIDDLEBURG'S RANK #9 AMONG 15 LARGEST METROS

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.

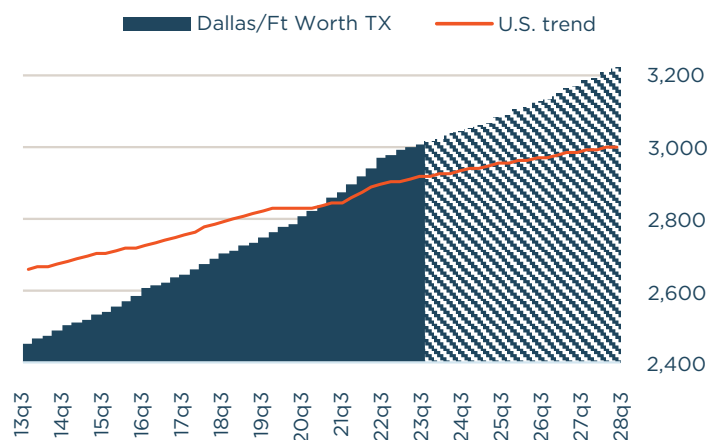
Dallas's population already skews young, but Oxford Economics forecasts that over the next five years the metro area will grow by an additional 41 thousand **Young Adults** (0.7 percent per year), 199 thousand new employees (0.9 percent per year) and 210 thousand new **Households** (1.4 percent per year) all total numbers that lead every other metro area in Middleburg's part of the country.

Effective Rent per Unit and **Net Operating Income** are expected to continue growing robustly at 3.0 and 3.3 percent per year respectively, although both are expected to lag slightly behind the national averages (3.2 and 3.8 percent respectively). Middleburg estimates that the supply of rental housing units will grow by 2.8 percent over the next three years while demand will grow by 0.8 percent per year. That implies only a marginal threat of oversupply in the market, and fits with CoStar's forecast that market sale price per unit will grow by 4.6 percent per year.

Young Adult Population (000s)

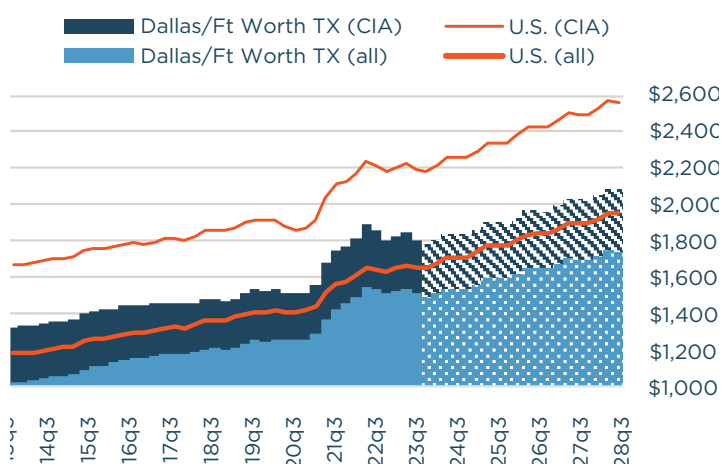


Number of Households (000s)



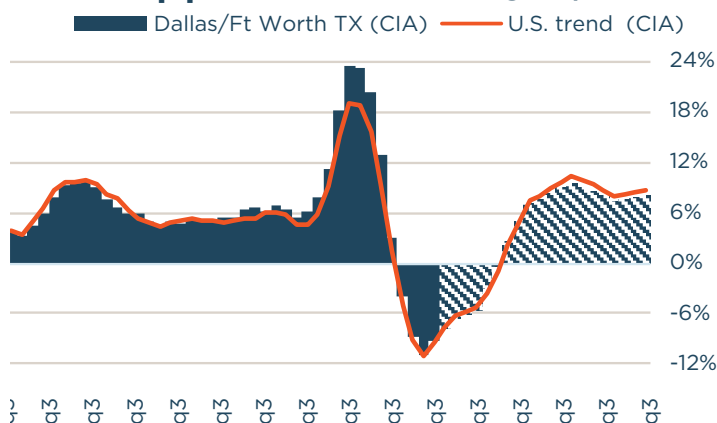
CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
263,603	24,363	\$238,200	4,110
↑ 1.2%	↑ 6.9%	↓ 1.2%	↑ 61%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
-0.1%	\$86,200	6.4%	+16 bps
↓ 2.3%	↑ 1.6%	↑ 0.2%	above US avg

Effective Rent per Unit

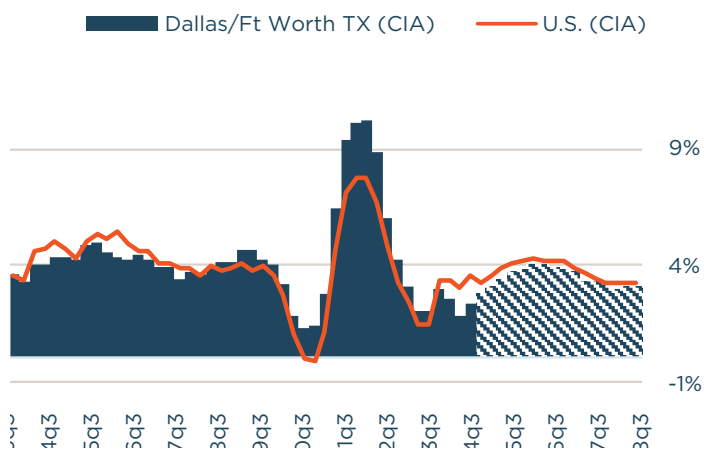


Apartment Unit

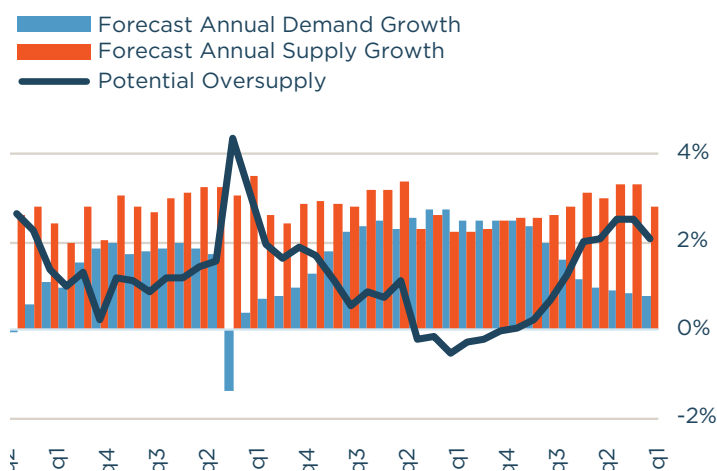
Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



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

Houston, TX

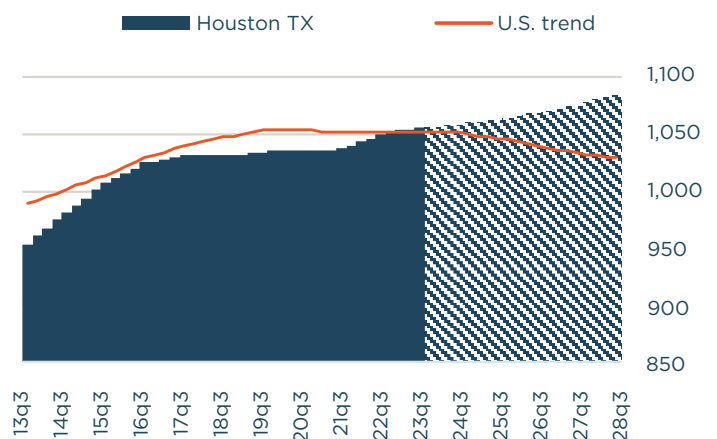
Houston's reduced exposure to the oil & gas industry makes what was already a strong market more appealing to long-term investors, although forecast rental housing fundamentals will likely continue to shine more brightly in Austin and Dallas. Current conditions suggest that the coastal and near-suburban counties likely offer better opportunities than Harris County itself.

MIDDLEBURG'S RANK #14 AMONG 15 LARGEST METROS

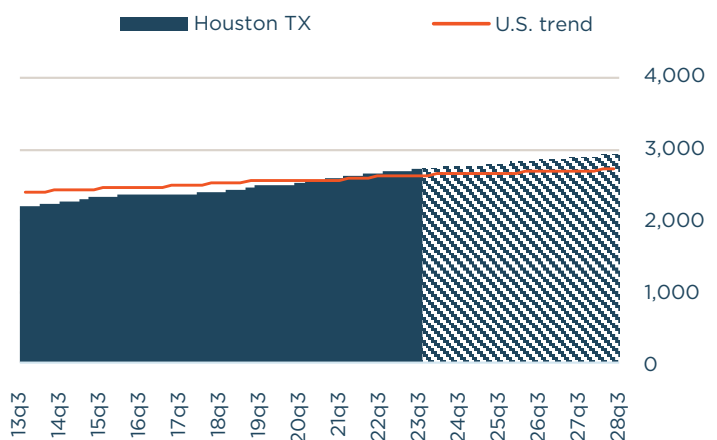
The demographic drivers of rental housing demand in Houston should continue to be strong: for example, Oxford Economics forecasts that the city's **Young Adult Population** will grow by 29 thousand over the next five years (0.5 percent per year), and growth in both **Number of Households** and total employment should lead all other metro areas in Middleburg's arc except Dallas / Fort Worth at 208 thousand (1.5 percent per year) and 114 thousand (0.7 percent per year) respectively. Rental housing demand should also get a slight boost from house price appreciation that is expected to exceed the national average over the next five years (2.3 percent per year vs 2.0 percent), implying that the house price to income ratio should ease less in Houston than in the nation as a whole (-0.8 percent vs -1.1 percent).

CoStar forecasts that Houston's rental housing fundamentals will be adequate but not as strong as in other metro areas along Middleburg's arc: for example, **Effective Rent per Unit** is forecast to grow by 2.9 percent per year (vs a national average of 3.2 percent), **Net Operating Income** by 3.3 percent per year (vs 3.8 percent), and market sale price per unit by 4.5 percent per year (vs 5.1 percent). Perhaps the most promising aspect of Houston's rental housing market is that Middleburg forecasts its inventory to grow by only 2.6 percent per year over the next three years—less than in any other large metro area in our territory—keeping oversupply concerns in check despite what we project to be absolutely flat demand growth.

Young Adult Population (000s)

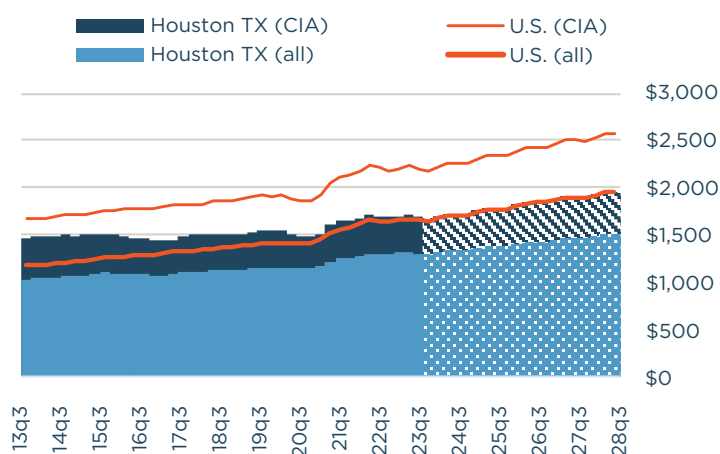


Number of Households (000s)

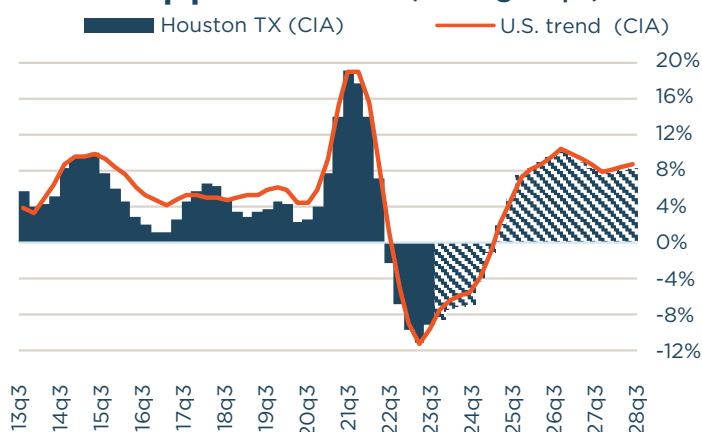


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
204,721	7,764	\$219,340	2,244
↑ 0.7%	↓ 12%	↓ 1.1%	↓ 16%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
3.0%	\$79,640	6.7%	+39 bps
↓ 2.7%	↑ 1.3%	no change	above US avg

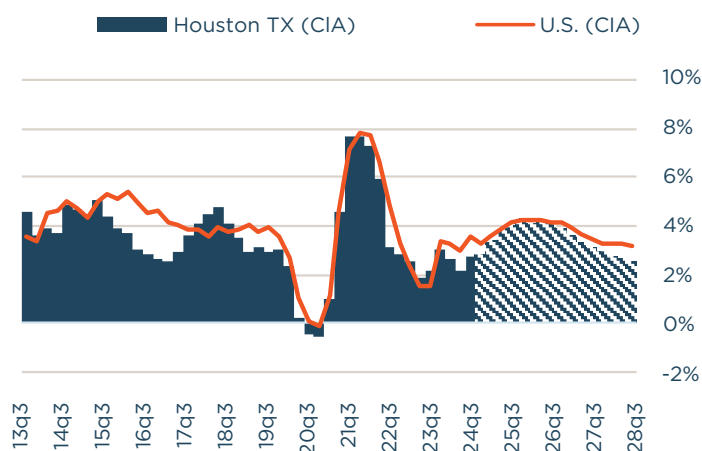
Effective Rent per Unit



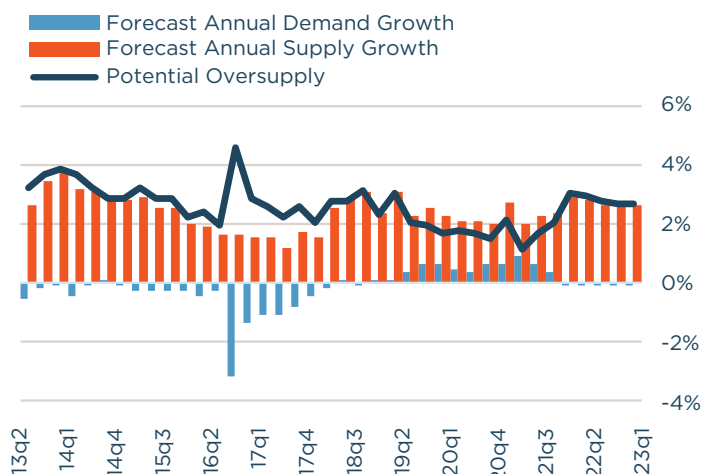
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



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

Atlanta, GA

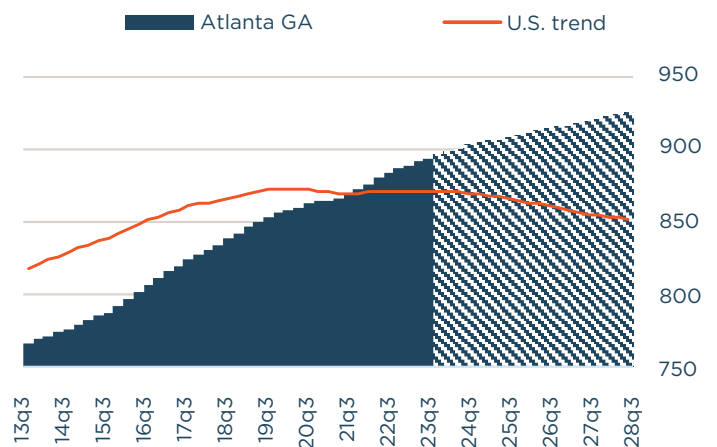
Atlanta is similar in many respects to the Dallas / Fort Worth metro area, but at a slightly smaller and slightly less dynamic scale. The large number of counties and diversity of local market conditions in the Atlanta metro area offers a premium for more disaggregated location evaluation, with certain counties such as Gwinnett, Paulding, Newton, and Coweta currently more appealing than others such as Spalding, Clayton, and Fulton.

MIDDLEBURG'S RANK #10 AMONG 15 LARGEST METROS

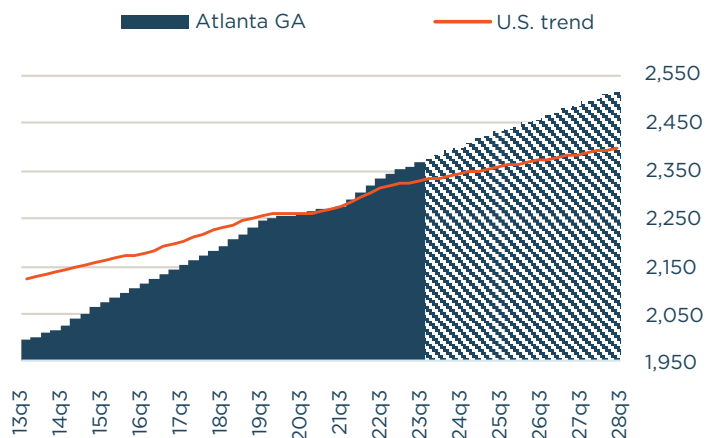
The largest market in Middleburg's territory outside of Texas, Atlanta is projected to see growth over the next five years of 0.7 percent per year in the number of **Young Adults** (31 thousand), 1.2 percent per year in the **Number of Households** (148 thousand) and 0.6 percent per year in total employment (89 thousand), all substantially better than the national rate. Other metro areas in Middleburg's arc are likely to see an additional boost in rental housing demand from increases in house purchase prices, but a slight easing in Atlanta's rent-to-income ratio is forecast to match the national pace of -1.1 percent.

Rental housing fundamentals are forecast to show moderate improvement, with growth in **Effective Rent per Unit** averaging 2.9 percent per year, growth in **Net Operating Income** averaging 3.4 percent per year, and growth in market sale price per unit averaging 4.7 percent per year. Middleburg forecasts both supply of and demand for rental housing units to grow slowly by the standards of large metro areas in our part of the country at 3.1 and 0.4 percent per year, respectively, putting our estimate of the risk of oversupply at an equally moderate 2.7 percent per year.

Young Adult Population (000s)

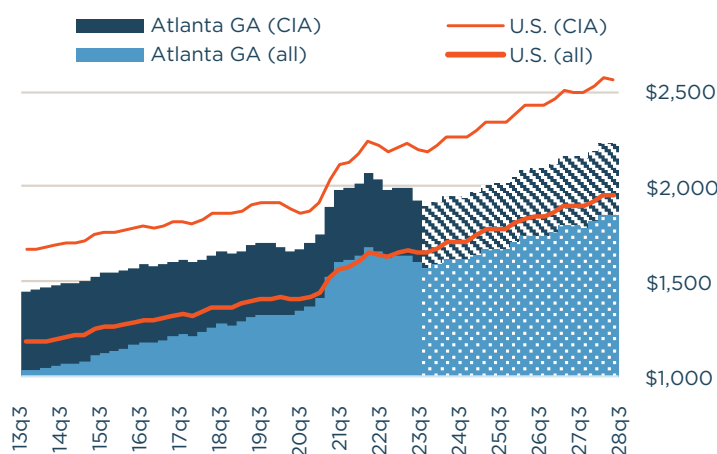


Number of Households (000s)

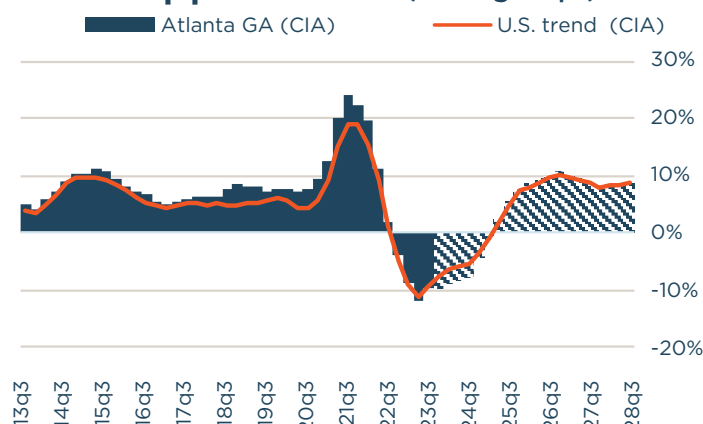


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
144,031	21,549	\$305,507	2,323
↑ 1.9%	↓ 6.2%	↓ 1.0%	↑ 82%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
3.4%	\$86,680	7.6%	-3 bps
↓ 2.5%	↑ 1.3%	↑ 0.2%	below US avg

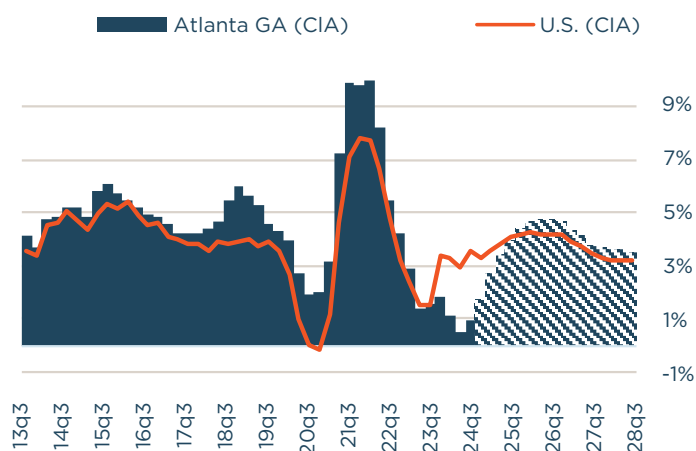
Effective Rent per Unit



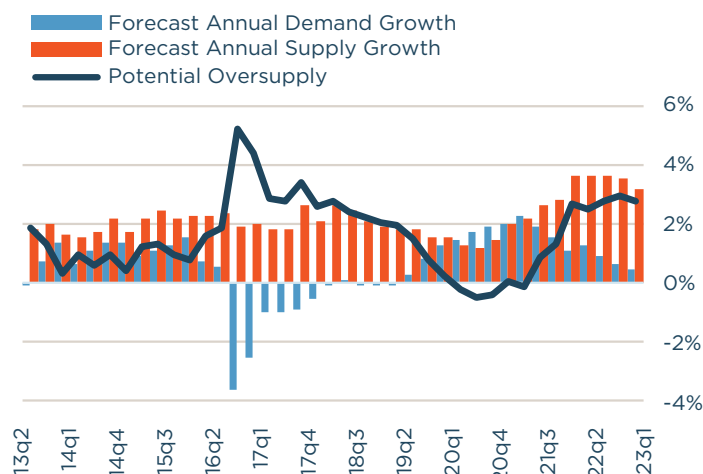
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



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

Tampa, FL

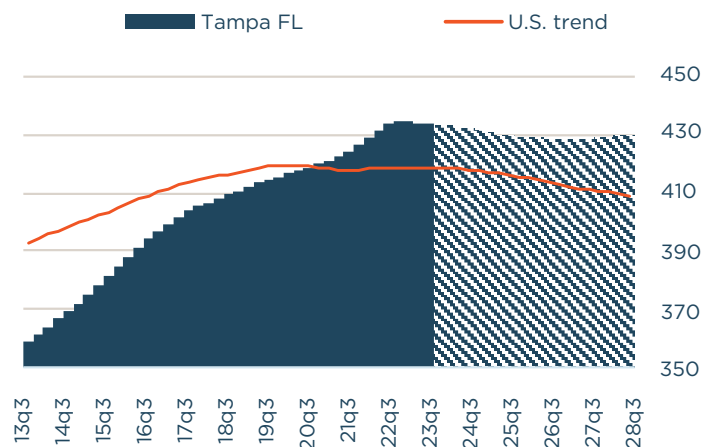
Fundamentals in the Tampa market have shown notable recent improvements, pushing it higher on Middleburg's list of favored markets even though demographic drivers continue to be relatively weak by the standards of large metros in our part of the country.

MIDDLEBURG'S RANK #7 AMONG 15 LARGEST METROS

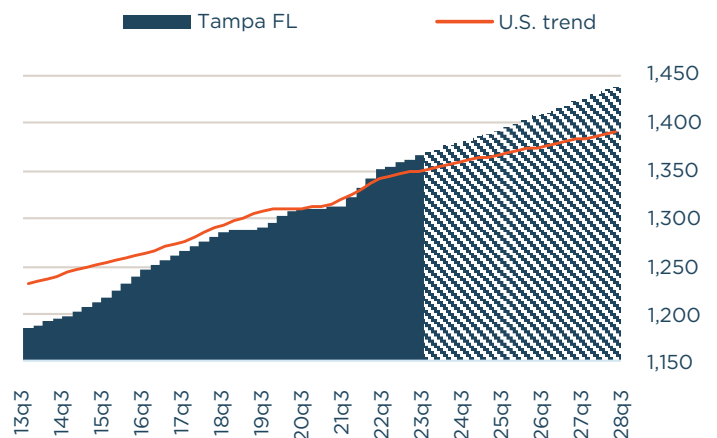
Oxford Economics forecasts that over the next five years Tampa's **Young Adult Population** will shrink by -0.2 percent per year (better than the national average of -0.5 percent per year) while total employment merely matches the national average pace of 0.4 percent per year (35 thousand) and its **Number of Households** grows at a slightly better rate of 1.0 percent per year (72 thousand, and beating the national average pace of 0.6 percent per year). On top of that, Tampa's rental housing market is unlikely to see an additional boost from home affordability problems, with the rent-to-income ratio expect to decline by -1.3 percent, slightly more than the national rate of -1.1 percent.

Nevertheless, CoStar projects that **Effective Rent per Unit** will grow by 3.9 percent per year, higher than in any other large metro area in Middleburg's arc and comfortably better than the national average rate of 3.2 percent per year. Similarly, CoStar expects **Net Operating Income** to grow at 4.4 percent per year, trailing only Richmond among large metros in our territory, while growth in Tampa's market sale price per unit will outpace all rival cities at 6.0 percent per year. Finally, Middleburg projects that demand for rental housing units will grow by 4.6 percent per year over the next three years—second only to Orlando—and the excess of demand growth over supply growth (3.4 percent per year) will beat all other large metros in our arc with an implied undersupply of 1.3 percent per year.

Young Adult Population (000s)

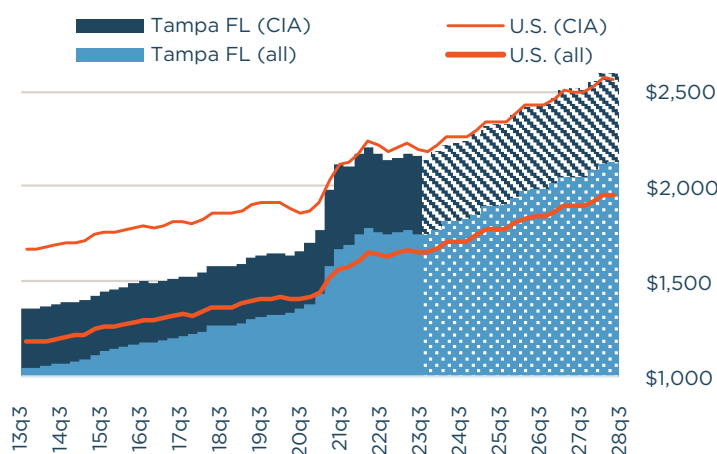


Number of Households (000s)

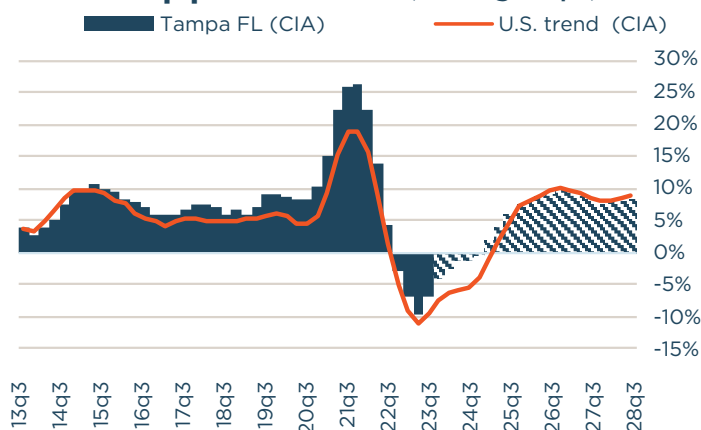


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
59,422	6,879	\$301,102	2,073
↑ 1.7%	↓ 13%	↑ 0.1%	↑ 1,751%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
1.6%	\$71,080	6.2%	+2 bps
↓ 4.7%	↑ 1.1%	↑ 0.1%	above US avg

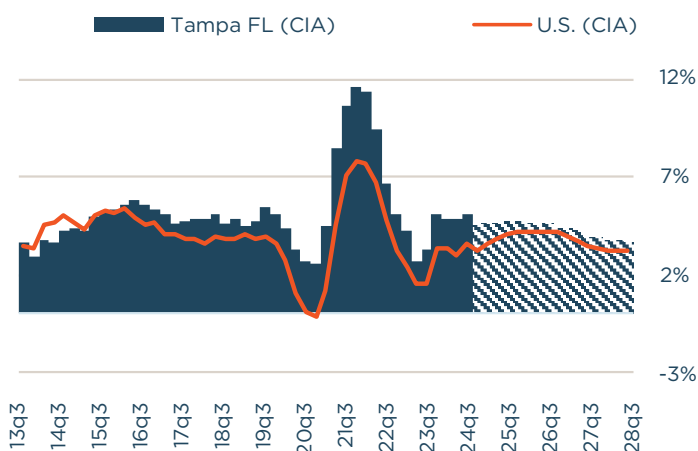
Effective Rent per Unit



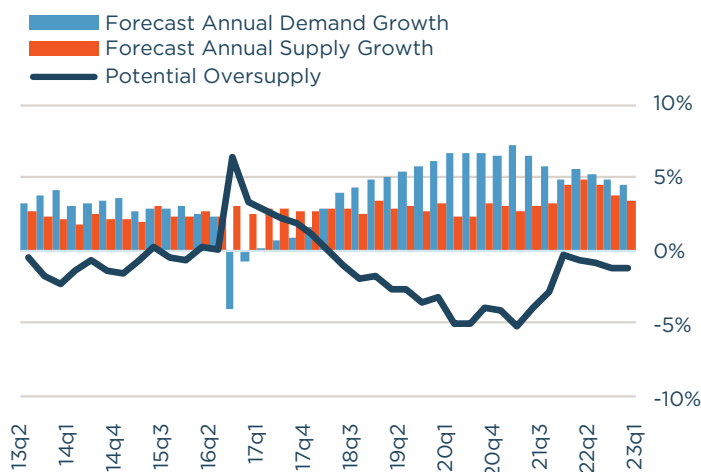
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



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

Charlotte, NC

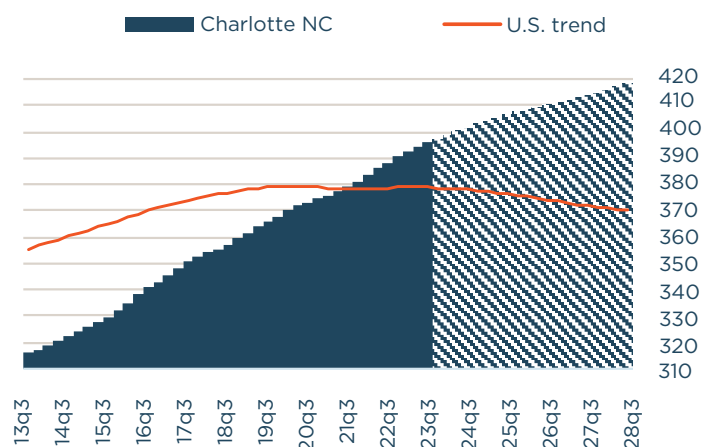
Charlotte's strong demand drivers have attracted even stronger supply growth, raising oversupply concerns despite what is likely to remain a strong growth trajectory. Conditions remain especially favorable, however, in Mecklenburg County and its southern near neighbors, Union and (across the state border) York counties.

MIDDLEBURG'S RANK #11 AMONG 15 LARGEST METROS

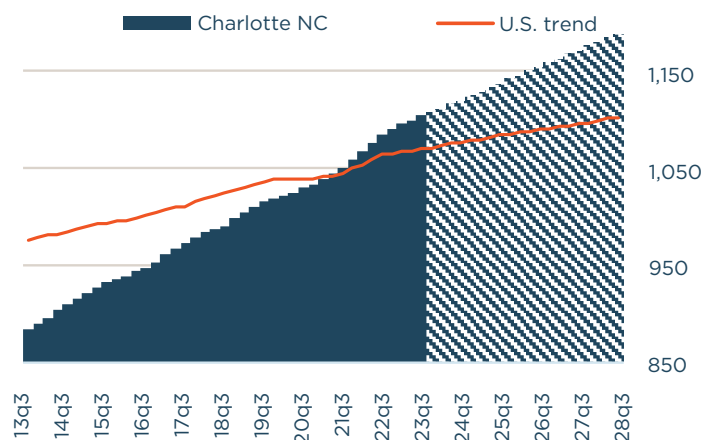
The uncommonly strong demographic drivers of demand growth in Charlotte should not falter over the next five years: Oxford Economics forecasts, for example, that Charlotte's **Young Adult Population** will grow at 1.1 percent per year (22 thousand), trailing only Austin, while growth in the **Number of Households** trails only Austin and Orlando at 1.5 percent per year (85 thousand) and growth in total employment also comfortably exceeds both the national average and the median of large metros in Middleburg's territory at 0.9 percent per year (60 thousand). Moreover, rental housing demand is likely to get an additional boost as house price appreciation slightly outpaces the national average (2.1 vs 2.0 percent per year) while median household income growth slightly lags the national average (2.7 vs 3.0 percent per year).

The strength of the demand drivers, however, is likely to be countered by the strength of the supply response. CoStar forecasts, for example, that **Effective Rent per Unit** and **Net Operating Income** are likely to grow less rapidly over the next five years in Charlotte than in many other markets in Middleburg's territory—and the national average—at just 2.6 and 3.4 percent per year respectively, compared with the national paces of 3.2 and 3.8 percent per year. Middleburg estimates that the supply of rental housing units will grow by 5.2 percent per year over the next three years while demand grows by just 1.0 percent per year, creating an oversupply concern that trails only Nashville and Austin among large metro areas in Middleburg's part of the country.

Young Adult Population (000s)

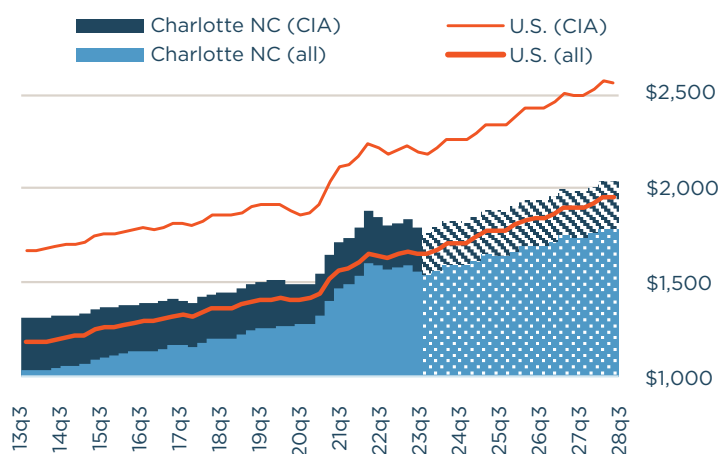


Number of Households (000s)



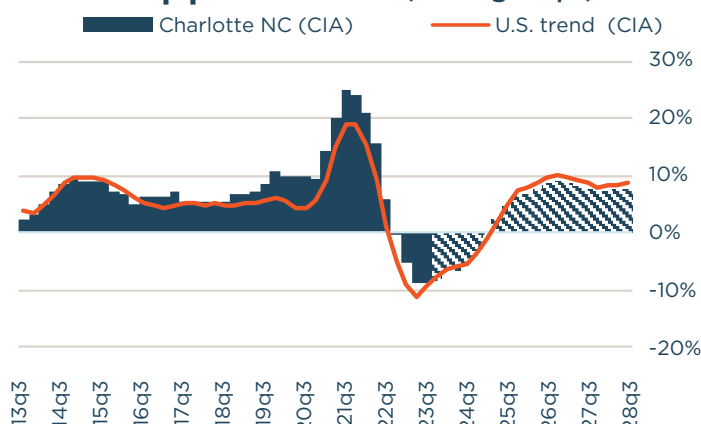
CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
65,149	9,545	\$298,609	733
↑ 3.3%	↓ 14%	↓ 2.0%	↑ 15%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
4.0%	\$79,440	7.4%	-13 bps
↓ 2.6%	↑ 1.5%	↑ 0.7%	below US avg

Effective Rent per Unit

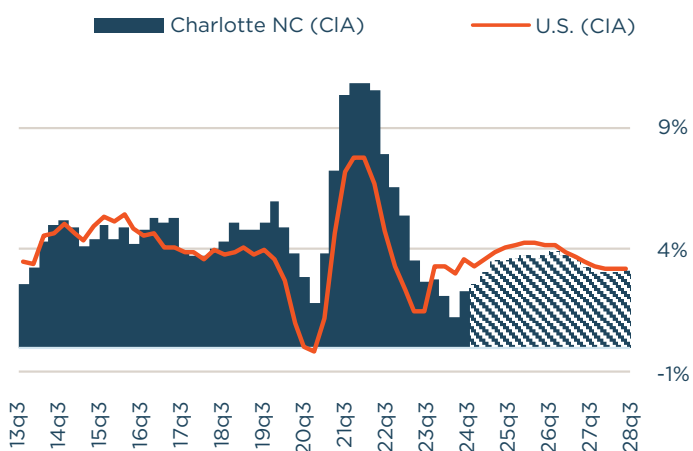


Apartment Unit

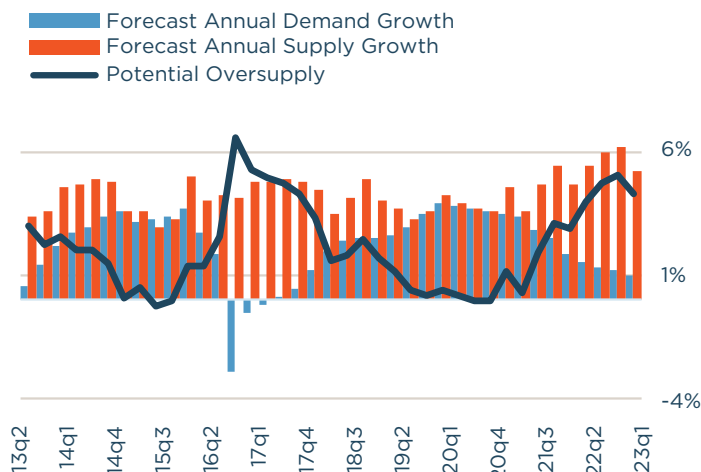
Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



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

Orlando, FL

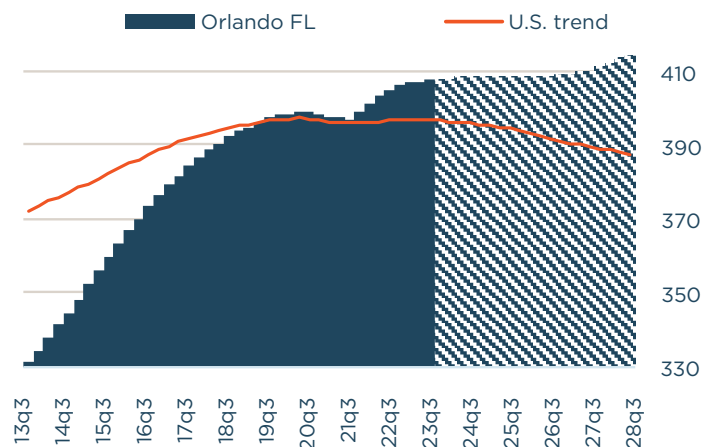
Orlando has become one of the most appealing rental housing markets in the country, but the rancor marking the state of Florida's continuing efforts to exercise control over the Reedy Creek Improvement District introduces an unwelcome degree of uncertainty.

MIDDLEBURG'S RANK #2 AMONG 15 LARGEST METROS

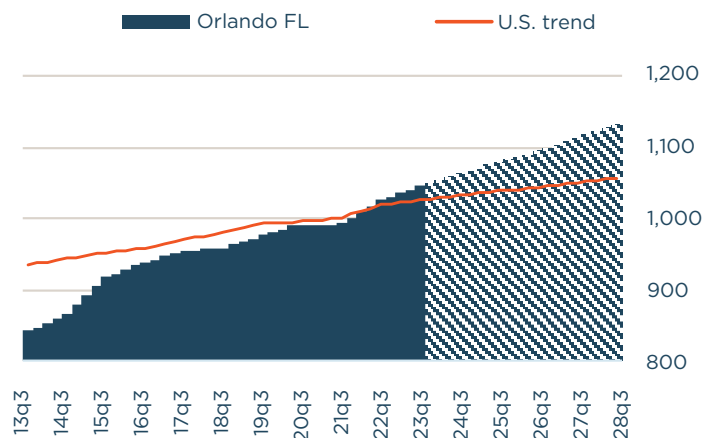
Orlando has broadened its economy to encompass much more than its roots as a pure tourist destination, and the most likely path forward is one that builds on that breadth as well as its best-in-class resorts. Oxford Economics forecasts that growth in total employment and the **Number of Households** will trail only Austin at 1.0 and 1.6 percent per year, respectively, adding 74 thousand jobs and 87 thousand households. Oxford also expects above-average growth in Orlando's **Young Adult Population** at 0.3 percent per year (7 thousand) while the young adult population of the U.S. shrinks by -0.5 percent per year. Orlando's homebuying affordability problem is expected to keep pace with the national average over the next five years.

CoStar forecasts that rental housing fundamentals will remain stronger in Orlando than in most other large metro areas in Middleburg's part of the country: for example, CoStar expects **Effective Rent per Unit** to grow at 3.1 percent per year, **Net Operating Income** to grow at 3.6 percent per year, and market sale price per unit to grow at 5.1 percent per year. Middleburg's internal forecasting puts growth in demand for rental housing units at an average of 5.2 percent per year over the next three years, comfortably outpacing our forecast of supply growth averaging 4.6 percent per year. The threat posed to these robust forecasts by an ordinarily pro-growth state government remains uncomfortably high, though it seems possible that genuine threats may have started giving way to merely face-saving actions.

Young Adult Population (000s)

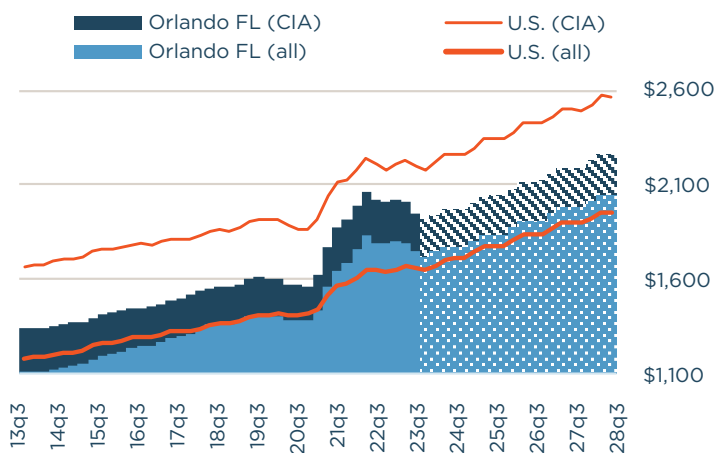


Number of Households (000s)

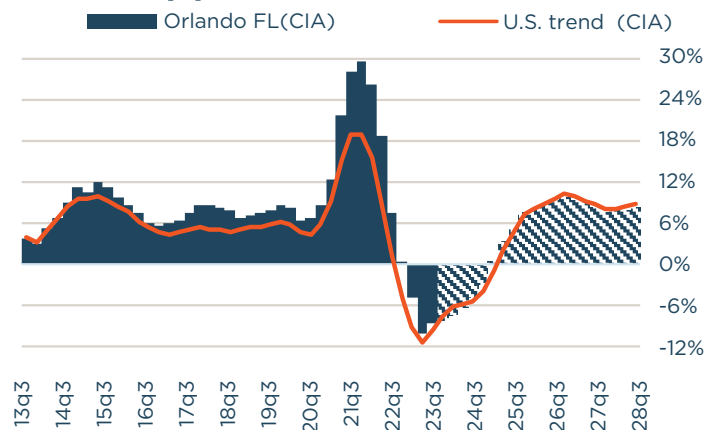


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
68,618	9,243	\$297,170	1,676
↑ 2.0%	↓ 9.3%	↓ 1.5%	↑ 288%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
2.6%	\$74,920	7.1%	-8 bps
↓ 3.9%	↑ 1.1%	↑ 1.0%	below US avg

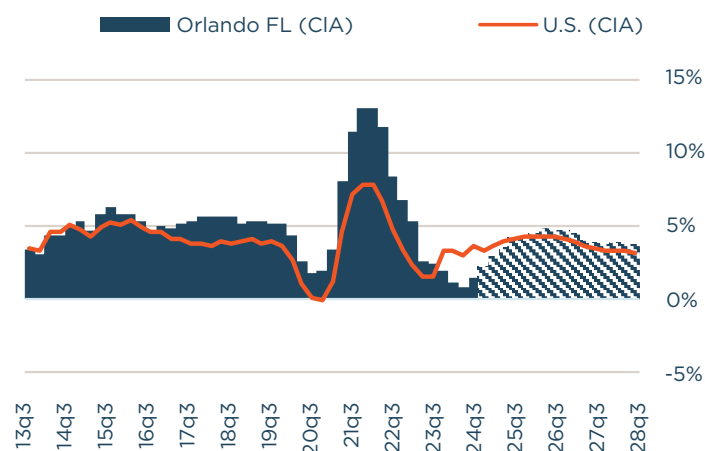
Effective Rent per Unit



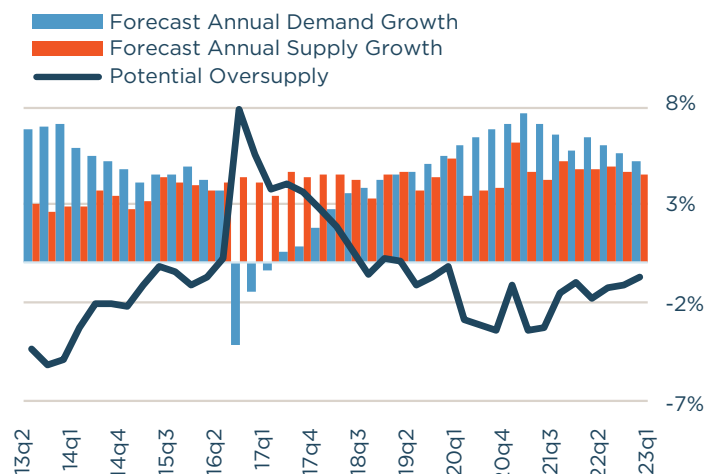
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



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

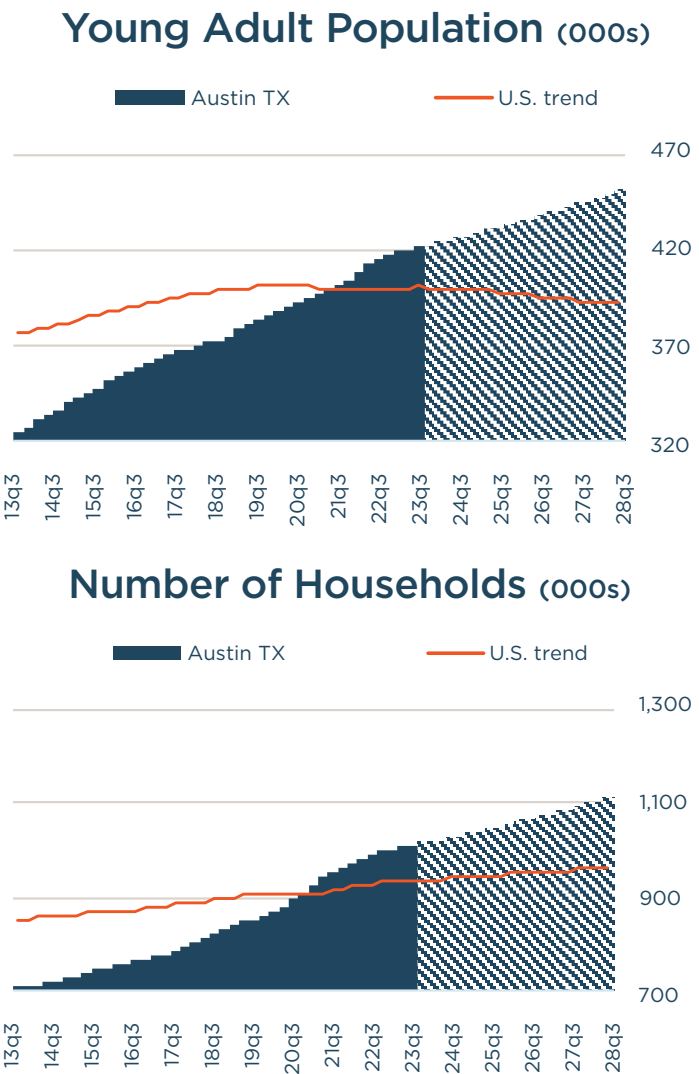
Austin, TX

Austin’s appeal as a rental housing market should surprise nobody, as the Texas capital has become known as a favorite among young professionals, thanks in large part to the University of Texas and the city’s music scene. As in Nashville and Charlotte, however, the strong market supply response to obviously favorable demand drivers has dimmed Austin’s star.

MIDDLEBURG’S RANK #4 AMONG 15 LARGEST METROS

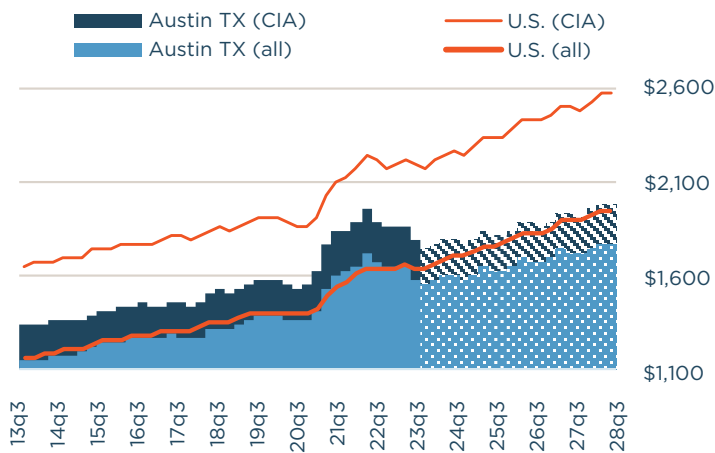
Over the next five years Oxford Economics forecasts that growth in Austin's **Young Adult Population, Number of Households**, and total employment will outpace every other metro area in Middleburg's footprint in percentage terms at 1.4, 1.5, and 1.9 percent per year, respectively. The absolute numerical growth in young adults is expected to trail only the much larger Dallas and Atlanta at 30 thousand; growth in employment is expected to trail only Dallas and Charlotte at 99 thousand, and the number of new households is expected to trail only Dallas, Houston, and Atlanta at 100 thousand.

Homeownership affordability is forecast to remain both a very serious and a growing problem in Austin, with house price appreciation continuing at 3.3 percent per year—well above the national average of 2.0 percent per year—while growth in median household income falls slightly short of the national average at 2.9 percent per year. The major threat to rental housing fundamentals in Austin is supply, which Middleburg forecasts will growth by 7.8 percent per year over the next three years—more than in any other primary market in our part of the country—while demand grows by just 0.5 percent per year. In short, Austin faces a more serious oversupply threat than any other market in our territory.

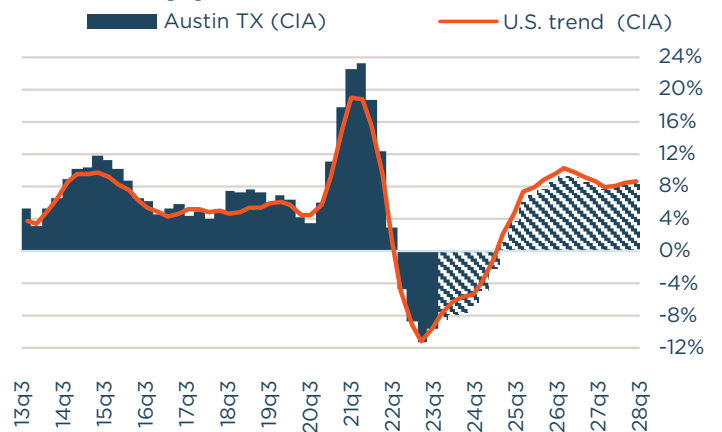


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
101,983	15,874	\$283,362	1,315
↑ 2.3%	↓ 13%	↓ 1.9%	↑ 146%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
-6.8%	\$99,720	6.9%	-18 bps
↑ 1.7%	↑ 1.3%	↑ 0.2%	below US avg

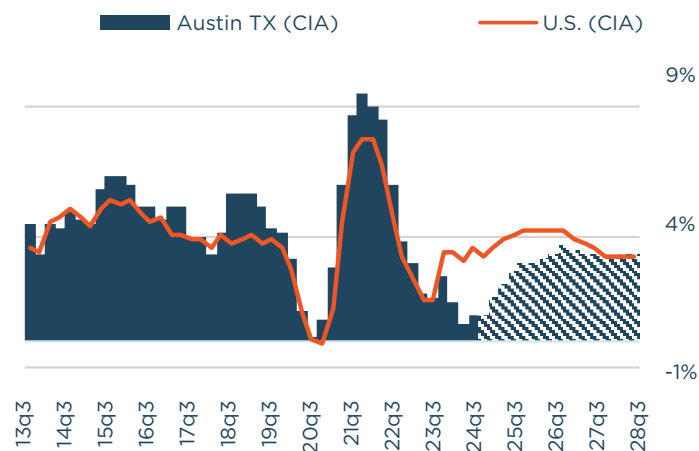
Effective Rent per Unit



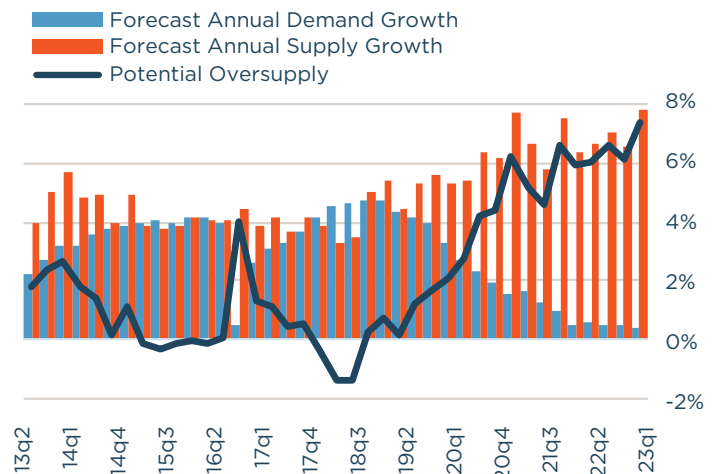
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



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

Miami, FL

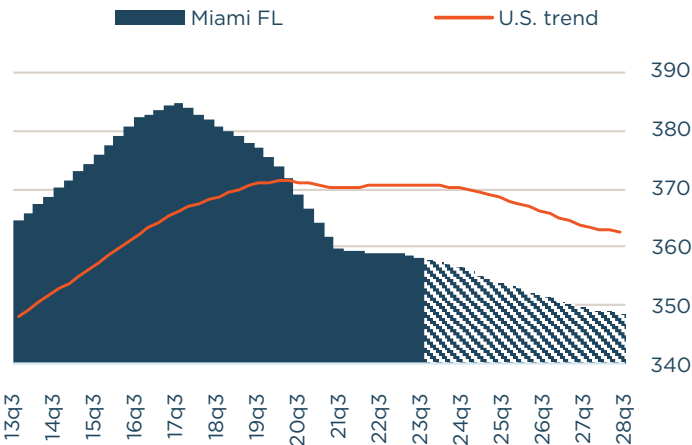
Miami is a market with some solid rental housing fundamentals—but one that, ultimately, is more likely to appeal to developers and investors other than Middleburg.

MIDDLEBURG’S RANK #5 AMONG 15 LARGEST METROS

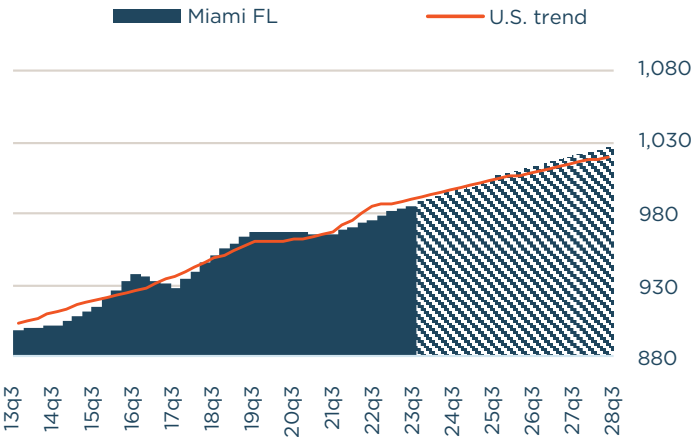
Miami has attracted (or perhaps sought) attention as a new home for tech firms relocating away from the San Francisco Bay area as well as finance firms relocating away from New York City. Even if that happens, it's probably not enough to make the Miami area especially appealing to Middleburg. Oxford Economics forecasts that the area's **Young Adult Population**—a key demographic driver of non-niche rental housing demand—will continue to shrink over the next five years at -0.6 percent per year, exceeding the national average of -0.5 percent per year, while employment and the **Number of Households** are expected to grow at anemic (for this part of the country) rates of just 0.4 and 0.8 percent per year respectively.

Demand for rental housing will receive a push from Miami's continuing homebuyer affordability problem, which is expected to worsen substantially as house price appreciation continues to outpace the national average at 2.3 percent per year while median household income at the same pace falls short of the national average. 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 \$2,900, easily the highest among markets in Middleburg's part of the country, is 7 percent higher than in neighboring Fort Lauderdale and 4 percent higher than in Palm Beach, but Miami's median household income is 10 percent lower than in Fort Lauderdale and 12 percent lower than in Palm Beach.

Young Adult Population (000s)

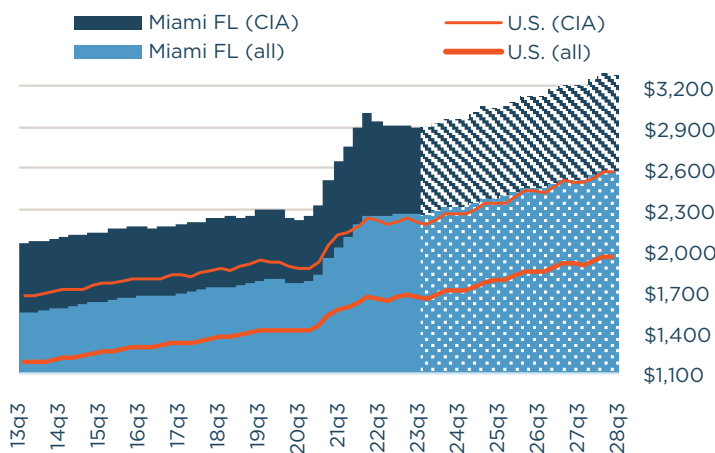


Number of Households (000s)

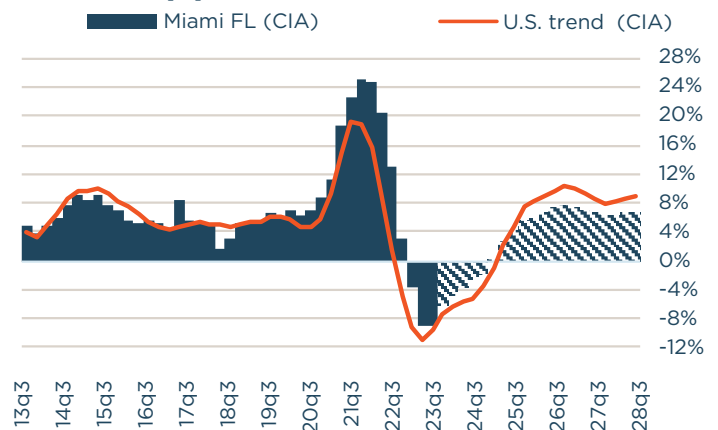


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
47,343	21,187	\$416,323	668
↑ 0.9%	↑ 1.7%	↓ 1.1%	↑ 170%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
7.2%	\$68,080	4.8%	-10 bps
↓ 4.3%	↑ 0.7%	↓ 0.3%	below US avg

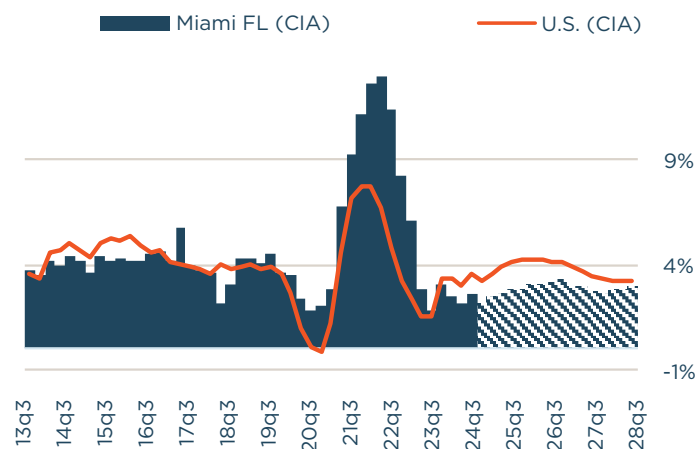
Effective Rent per Unit



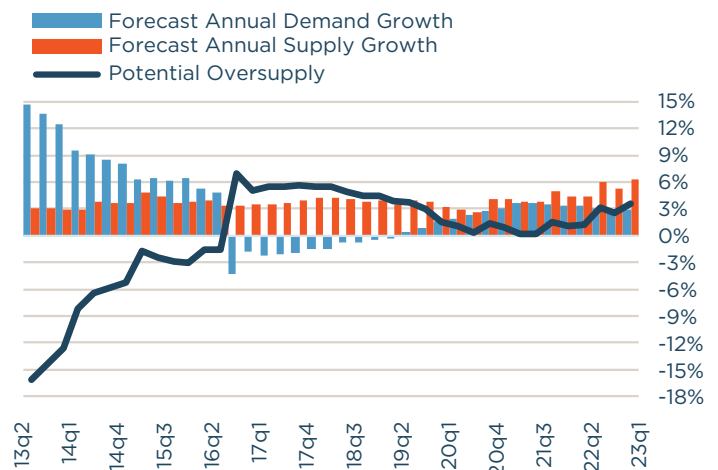
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



San Antonio, TX

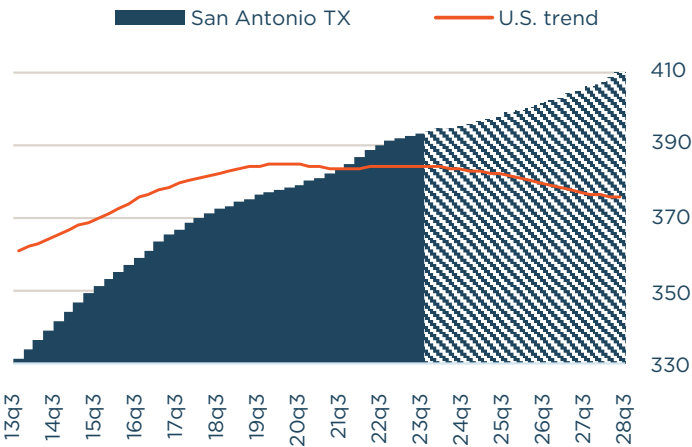
San Antonio has become an interesting market, though perhaps more for acquisition than for development. Only 80 miles from Austin, it is already seeing in-migration from its increasingly unaffordable neighbor, so it is no surprise that its northeastern suburban areas should be especially appealing.

MIDDLEBURG’S RANK #15 AMONG 15 LARGEST METROS

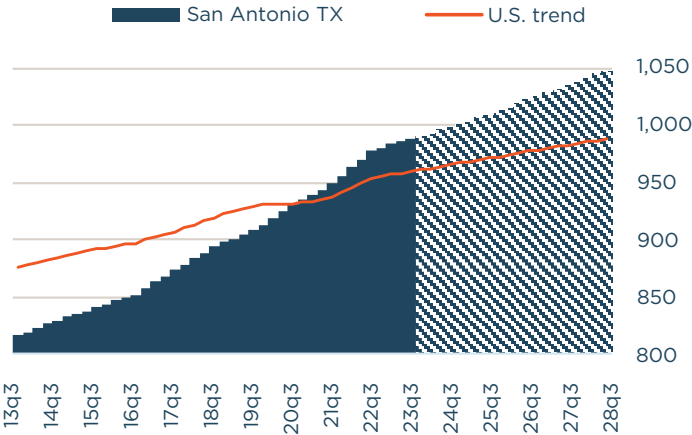
San Antonio's economic base, long dominated by nearby military installations, has diversified impressively in financial services (USAA, JP Morgan Chase), digital technologies (Rackspace Technology, TaskUs), medical care, grocery retailing, and other industries. Oxford Economics forecasts that, over the next five years, San Antonio will experience relatively strong growth in all three key demographic drivers of rental housing demand: **Young Adult Population** (up 17 thousand at 0.8 percent per year, trailing only Austin, Charlotte, and Nashville), **Number of Households** (up 59 thousand at 1.2 percent per year), and total employment (up 47 thousand at 0.8 percent per year).

Homebuyer affordability problems are likely to provide a very slight boost to rental housing demand over the next few years as house price appreciation nearly keeps pace with the national average while growth in median household income trails slightly. The main drawback of San Antonio as a development market is prevailing rents, with **Effective Rent per Unit** for Class A properties not only lower than for every other metro area in Middleburg's region at just \$1,443 but also forecast to increase more sluggishly than most of them at just 2.5 percent per year. Middleburg's internal forecasts put supply growth at a moderate pace of 3.2 percent per year over the next three years, but we expect demand growth to be even weaker at just 0.3 percent per year.

Young Adult Population (000s)

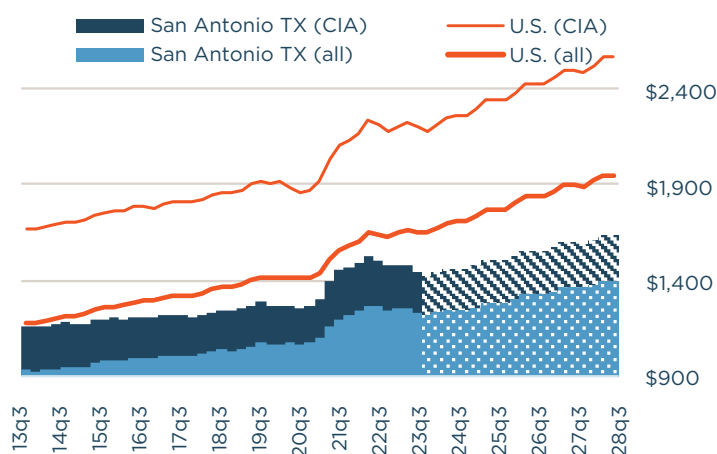


Number of Households (000s)



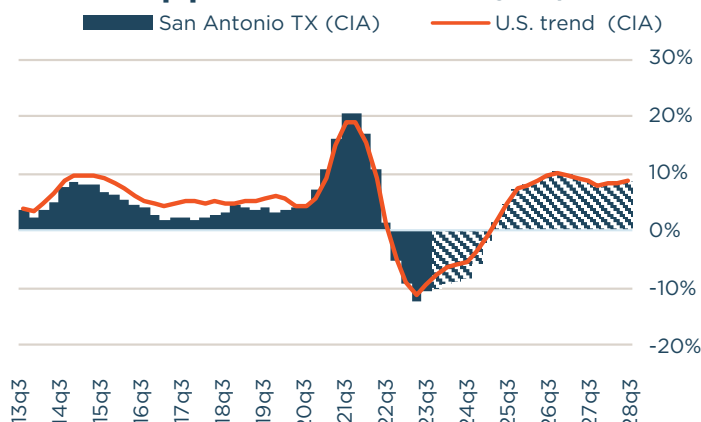
CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
65,399	3,548	\$180,140	1,412
↑ 0.8%	↓ 13%	↓ 1.3%	↑ 282%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
1.2%	\$74,280	8.3%	25 bps
↓ 1.3%	↑ 0.8%	↑ 0.2%	above US avg

Effective Rent per Unit

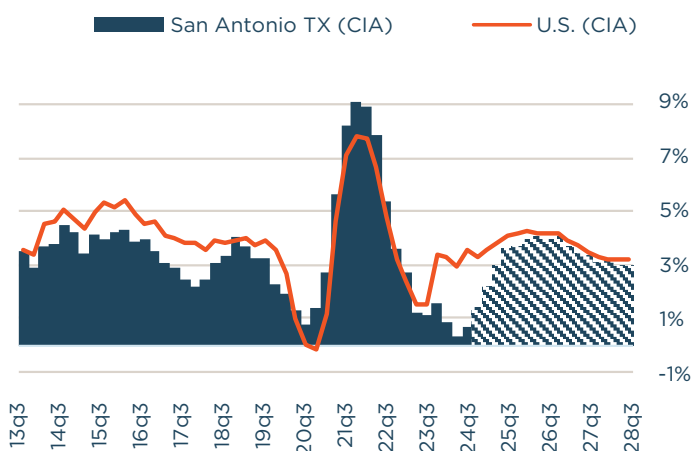


Apartment Unit

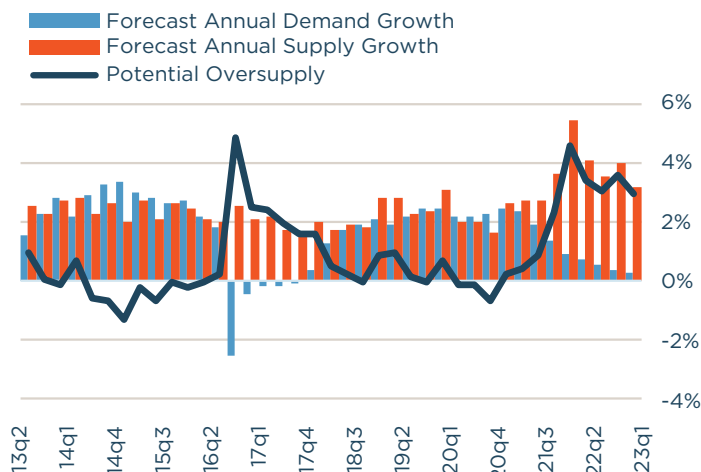
Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



Nashville, TN

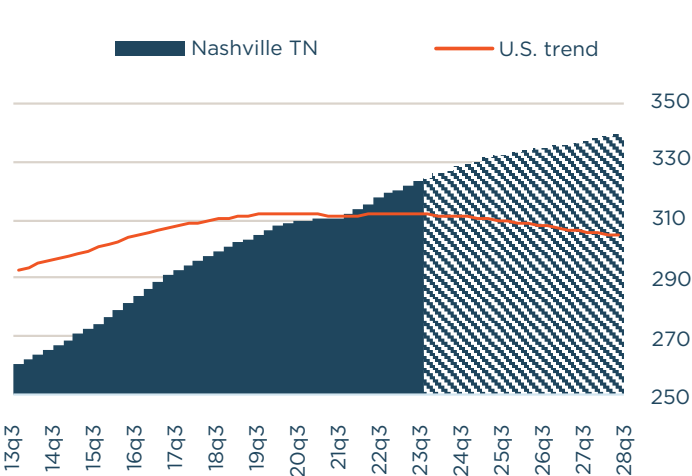
Nashville has overtaken its cousin Austin: while weaknesses are difficult to find in both markets—and while wide recognition of their strengths has created oversupply concerns in both—Middleburg now rates Nashville slightly higher than Austin. The eastern-ish arc of suburban counties from Sumner to Williamson is especially appealing.

MIDDLEBURG’S RANK #3 AMONG 15 LARGEST METROS

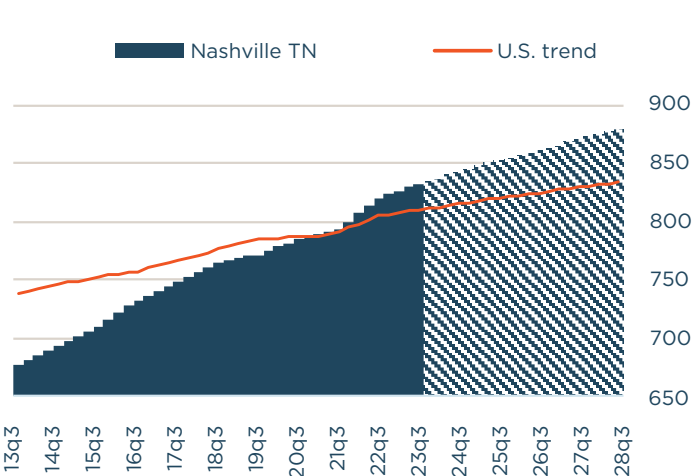
Like Austin, Nashville seems to be a growing favorite of young professionals, based partly on its music scene. Also like Austin, Nashville has seen high-profile recent corporate relocations including AllianceBernstein. As a result, the key demographic drivers of rental housing demand are all expected to continue to grow strongly in Nashville over the next five years. Oxford Economics expects that Nashville's **Young Adult Population** will grow by 16 thousand over the next five years (1.0 percent per year, trailing only Austin and Charlotte), that the **Number of Households** will grow by 47 thousand (1.1 percent per year), and that total employment will grow by 40 thousand (0.7 percent per year).

As in Austin and Charlotte, however, wide recognition of such strong demand drivers has delivered an even stronger supply response: Middleburg’s own analysis suggests that rental housing inventory will grow by 7.0 percent per year over the next three years, easily outpacing demand growth of 0.7 percent per year. In keeping with this forecast, CoStar predicts that growth in **Effective Rent per Unit** will trail every other metro area in Middleburg’s arc except Austin at just 2.3 percent per year even as the average stabilized vacancy rate increases by a full percentage point. Similarly, CoStar expects growth in **Net Operating Income** and market sale price per unit to be relatively weak at just 3.2 and 4.6 percent per year respectively.

Young Adult Population (000s)

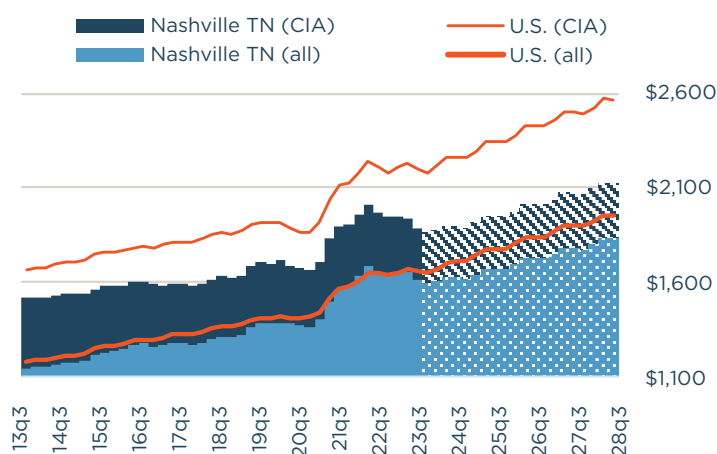


Number of Households (000s)

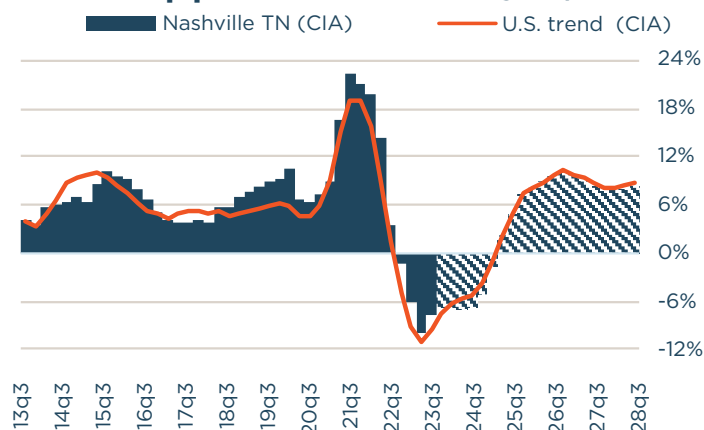


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
51,897	13,606	\$318,961	672
↑ 2.3%	↓ 1.0%	↓ 0.9%	↑ 148%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
1.4%	\$83,400	6.9%	+17 bps
↓ 2.0%	↑ 1.5%	↑ 0.3%	above US avg

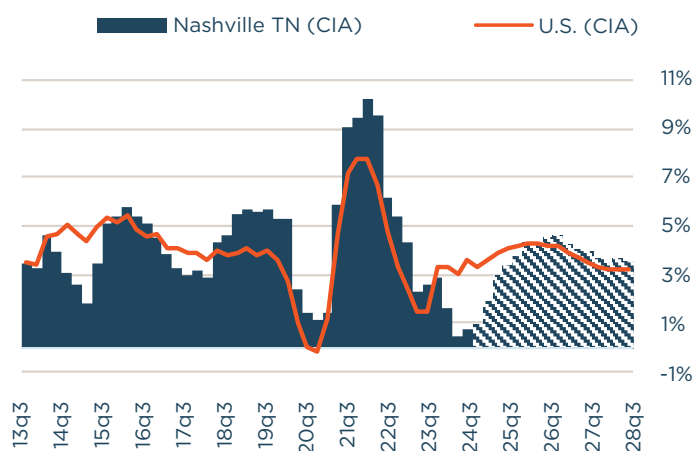
Effective Rent per Unit



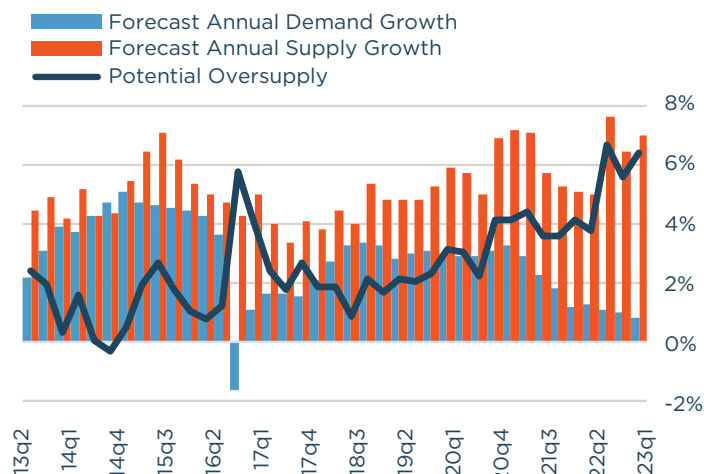
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



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

Fort Lauderdale, FL

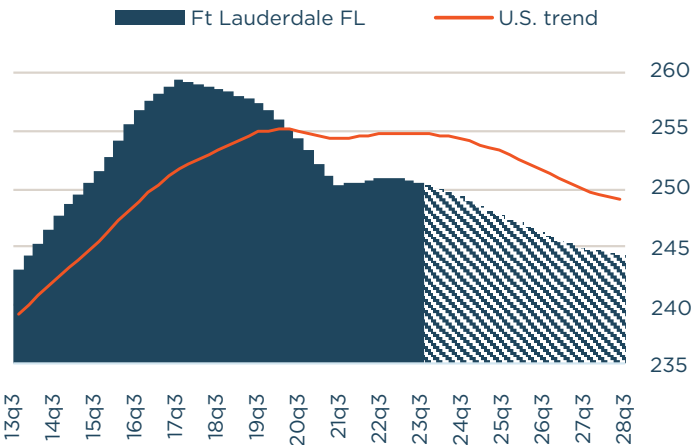
The Fort Lauderdale market shares much in common with its near neighbors Miami and Palm Beach—but those shared traits are the ones most likely to make them appeal more to other developers and investors than to Middleburg.

MIDDLEBURG’S RANK #6 AMONG 15 LARGEST METROS

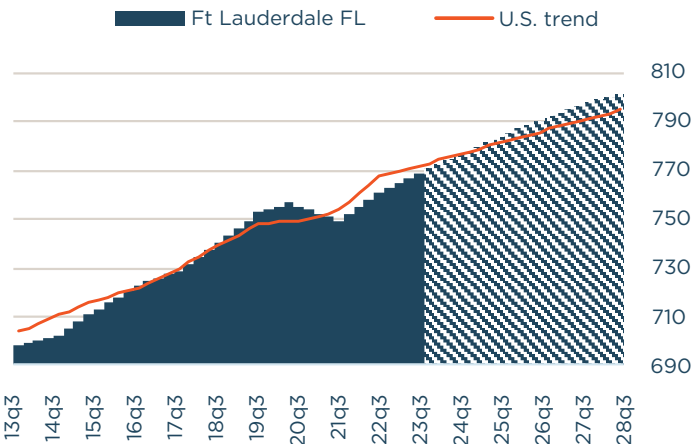
The most appealing aspect of the Fort Lauderdale market is the market rents that it can support: the metro area's \$2,713 average **Effective Rent per Class A Unit** trails only Miami's \$2,900 and Palm Beach's \$2,783. The transaction market fully reflects that strength, with Class A apartments selling at an average price of \$385,398 per unit. Those numbers are not necessarily 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 by the standards of primary metro areas in our part of the country.

For example, Oxford Economics forecasts that the **Young Adult Population** will contract by 6 thousand over the next five years at -0.5 percent per year, very slightly worse than the national average, while total employment will grow by just 32 thousand at 0.5 percent per year and the **Number of Households** will grow by just 25 thousand at 0.8 percent per year. On the other hand, while Middleburg forecasts the average growth rate of supply (4.3 percent per year) to outpace the average growth rate of demand (1.8 percent per year), the implied risk of oversupply is actually quite moderate by the standards of primary markets in our territory at just 2.6 percent per year--and Costar's forecasts for the expected growth rates of **Effective Rent per Unit** (3.3 percent per year), **Net Operating Income** (3.7 percent per year), and market sale price per unit (5.4 percent per year) make Fort Lauderdale impossible to ignore.

Young Adult Population (000s)

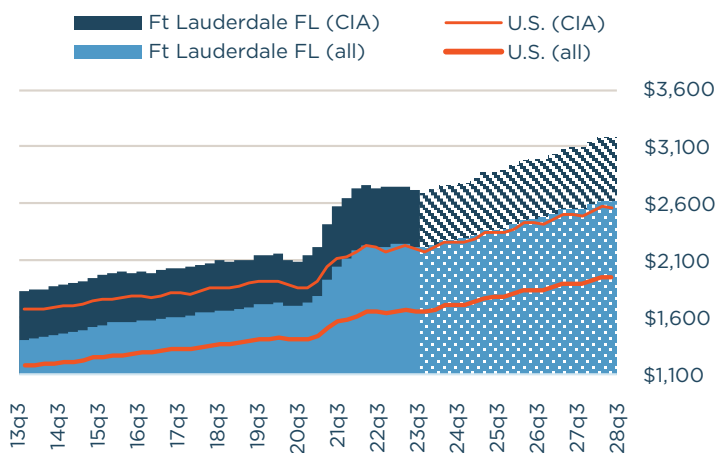


Number of Households (000s)

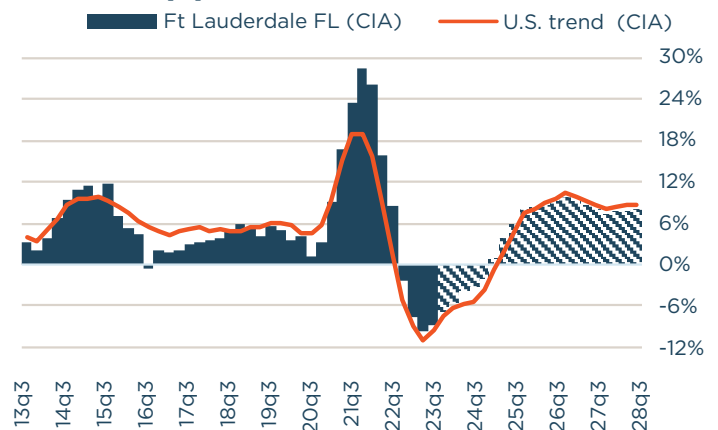


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	APARTMENT UNITS SOLD
33,242	5,412	\$389,717	1,562
↑ 3.0%	↓ 3.9%	↓ 0.9%	↓ 28%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
1.9%	\$75,520	5.8%	4 bps
↓ 6.0%	↑ 0.8%	↑ 0.3%	above US avg

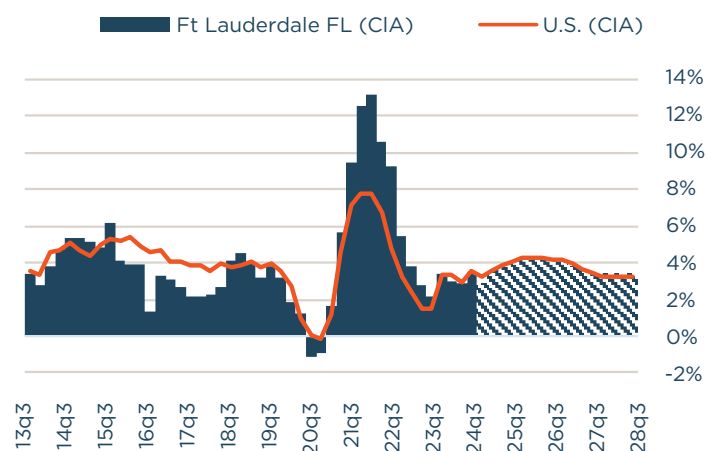
Effective Rent per Unit



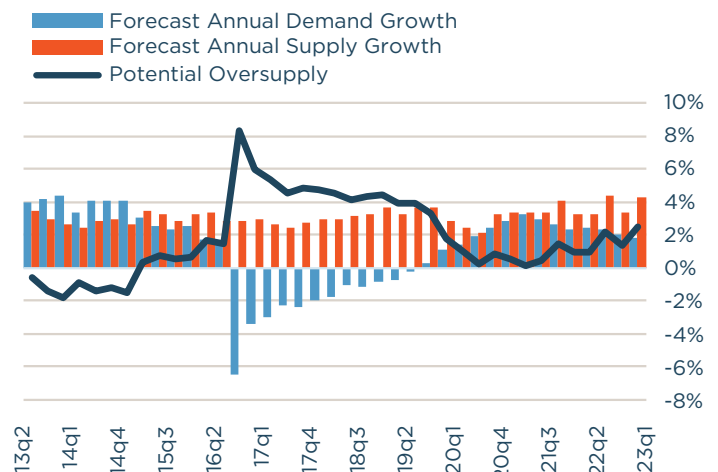
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



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. Current conditions make Duval County’s coastal neighbors, Nassau and St. Johns, especially appealing.

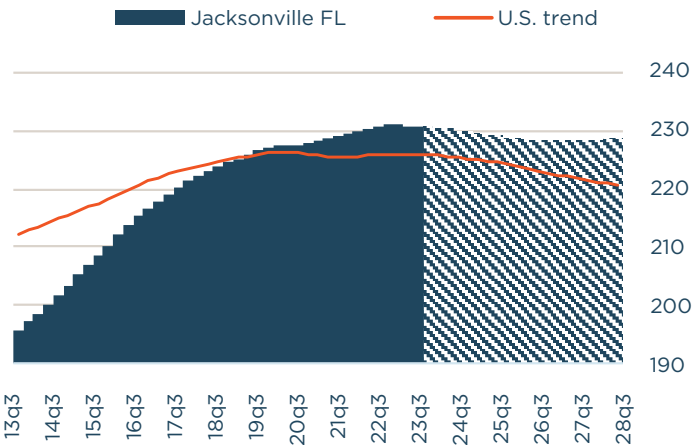
MIDDLEBURG’S RANK #13 AMONG 15 LARGEST METROS

Oxford Economics forecasts that the **Number of Households** in Jacksonville will increase by 47 thousand over the next five years at 1.4 percent per year, comfortably above the national pace of 0.6 percent per year and higher than in most primary metro areas in Middleburg’s part of the country, while total employment will grow at 0.6 percent per year, resulting in 24 thousand additional jobs. The **Young Adult Population**, however, is expected to shrink by 2 thousand at -0.2% per year, better than the national average of -0.5% per year but worse than most other large metro areas in Middleburg’s arc.

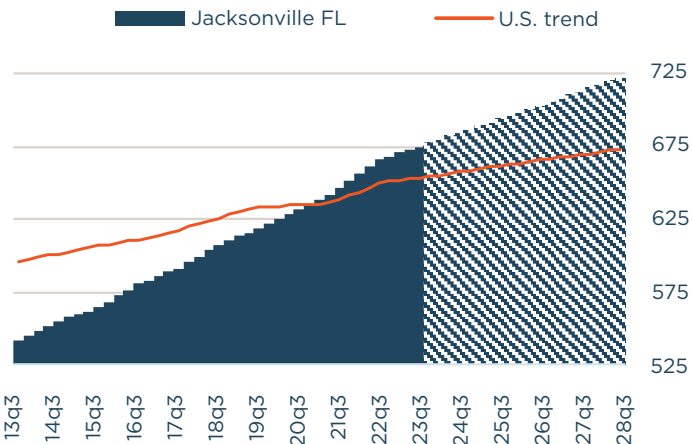
Neither is a homeownership affordability problem likely to drive apartment demand, as house prices are expected to grow at just half the national pace (1.0 vs 2.0 percent per year) while growth in median household income comes closer to the national average (2.7 vs 3.0 percent per year). And Middleburg’s own analysis suggests that supply growth over the next three years will exceed demand growth by 3.9 percent per year, giving rise to an oversupply concern.

Despite these warning signs, CoStar expects that Jacksonville’s rental housing fundamentals are likely to remain favorable. **Effective Rent per Unit**, for example, is forecast to grow by 3.3 percent per year, exceeding the national average, while **Net Operating Income** and market sale price per unit are forecast to grow by 4.1 and 5.5 percent per year respectively—not only exceeding the national average, but outpacing every other primary market in Middleburg’s territory except Tampa and Richmond.

Young Adult Population (000s)

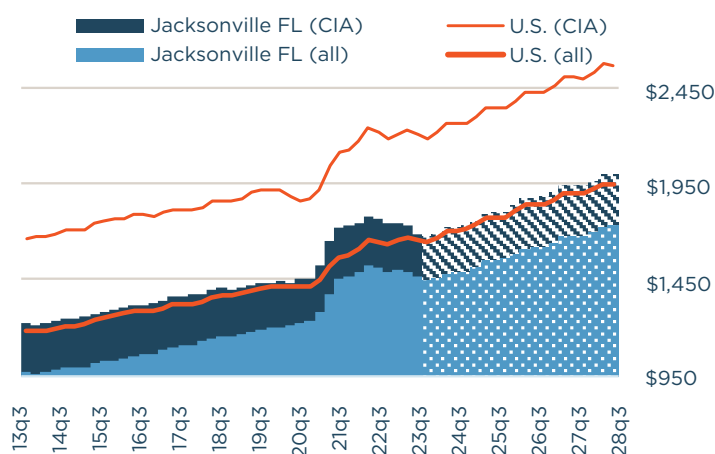


Number of Households (000s)



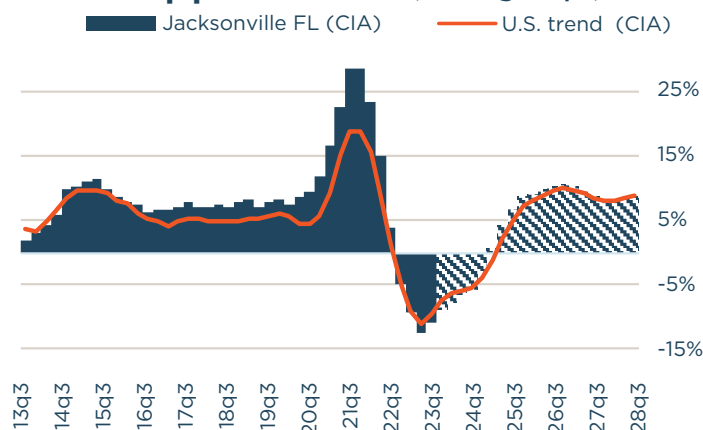
CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
22,431	4,248	\$232,126	692
↑ 8.0%	↓ 24%	↓ 1.0%	--
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
0.4%	\$76,400	7.1%	-3 bps
↓ 6.1%	↑ 1.2%	↑ 0.8%	below US avg

Effective Rent per Unit

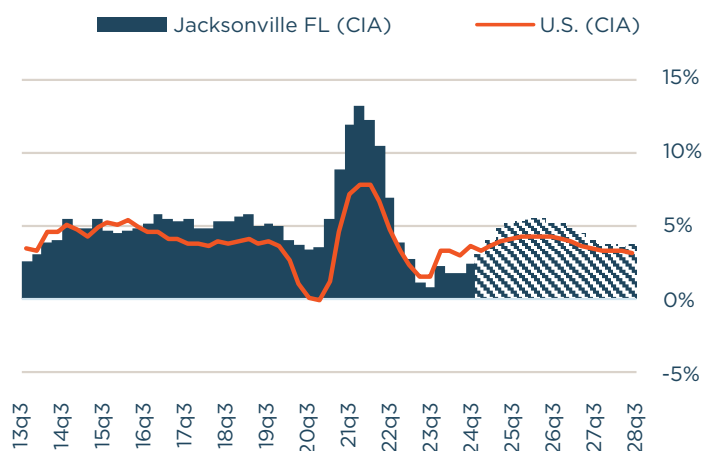


Apartment Unit

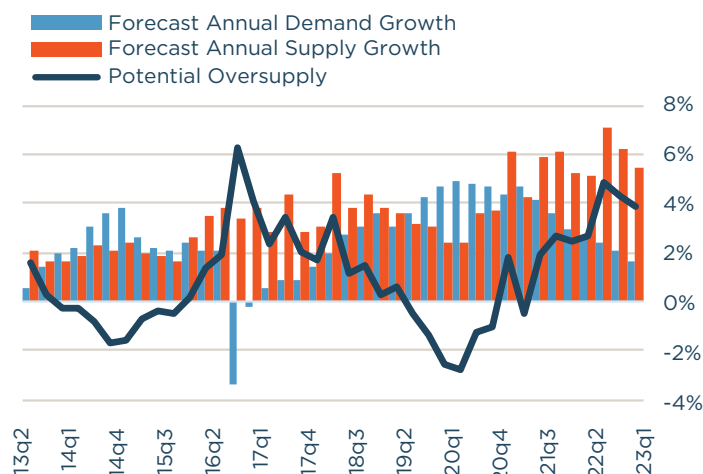
Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



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

Palm Beach, FL

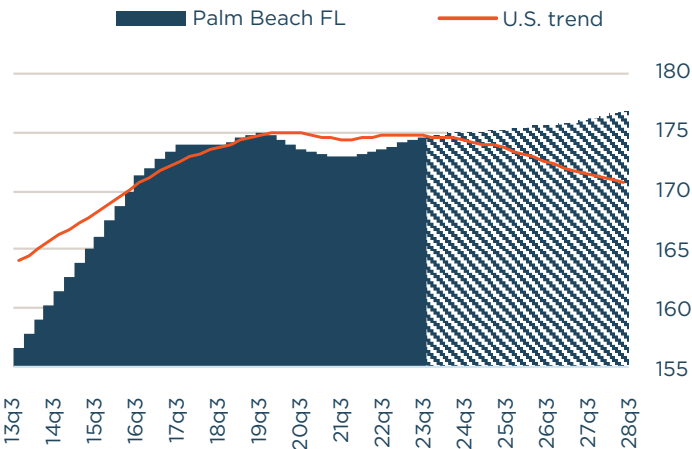
The rental housing market in Palm Beach—expensive and skewed toward wealthy retirees, like its near neighbors Miami and Fort Lauderdale, except with more promising demographic trends—will generally appeal to developers other than Middleburg but is absolutely worth continuing to surveil.

MIDDLEBURG’S RANK #1 AMONG 15 LARGEST METROS

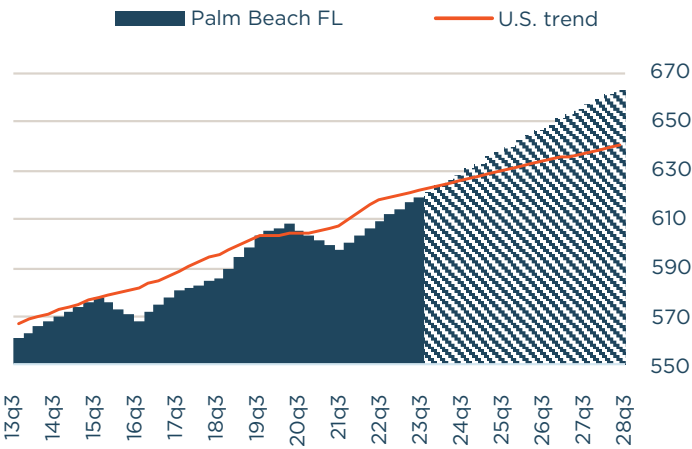
Chief among the signs of a niche housing market is effective market rent per Class A unit of \$2,783 which is second only to Miami at \$2,900 despite a median household income that barely surpasses the national average at just \$77,480 (compared with \$76,760 for the country as a whole). Nevertheless, the **Young Adult Population** is expected to grow over the next five years at 0.3 percent per year, which is certainly good news relative to the -0.5% expected for the nation as a whole, and Palm Beach is expected to see reasonable growth in both the **Number of Households** (1.4 percent per year, or 44 thousand) and total employment (0.5 percent per year, or 19 thousand).

Homeownership affordability problems should provide an additional boost to rental housing demand, with anticipated growth in house prices nearly keeping pace with the national average at 1.8 percent per year while median household income lags at just 2.1 percent per year, the weakest for all large metro areas in Middleburg’s territory. Partly for this reason, CoStar expects growth in **Effective Rent per Unit** to outpace every other metro in Middleburg’s arc except Tampa and Richmond at 3.4 percent per year while growth in **Net Operating Income** and market sale price per unit are forecast to trail only Tampa, Richmond, and Jacksonville at 3.7 and 5.5 percent per year respectively. And Middleburg’s own analysis suggests that supply growth is likely to outpace demand growth by just 1.8 percent per year over the next three years—the most favorable supply-demand balance among primary markets in our territory other than Tampa, Orlando, and Richmond.

Young Adult Population (000s)

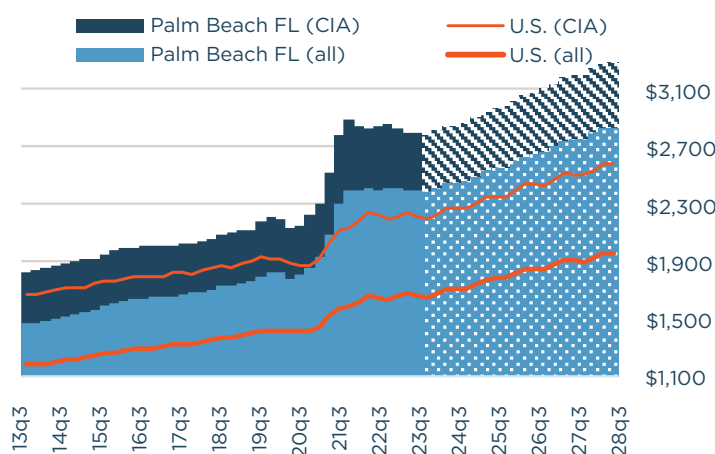


Number of Households (000s)



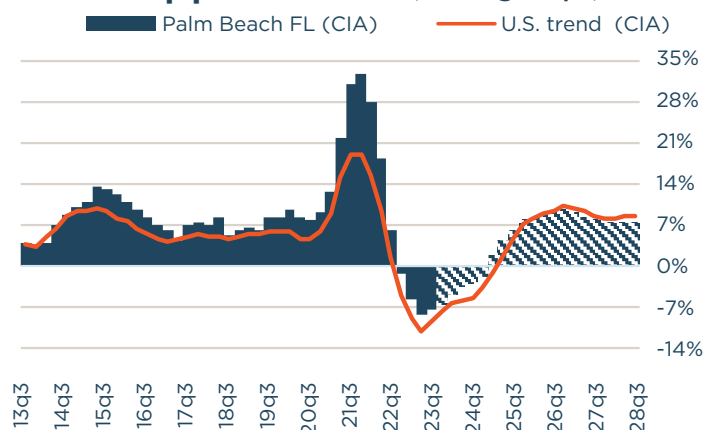
CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	APARTMENT UNITS SOLD
26,394	3,218	\$392,806	568
↑ 2.6%	↓ 10%	↓ 0.3%	↓ 61%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
3.3%	\$77,480	6.4%	-54 bps
↓ 4.3%	↑ 0.6%	↑ 0.1%	below US avg

Effective Rent per Unit

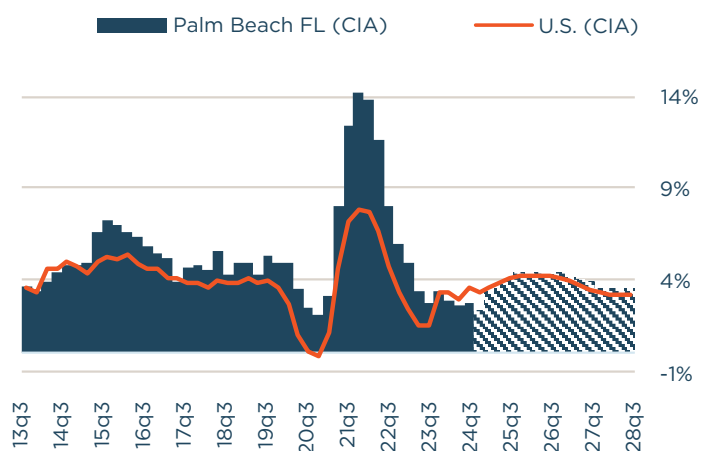


Apartment Unit

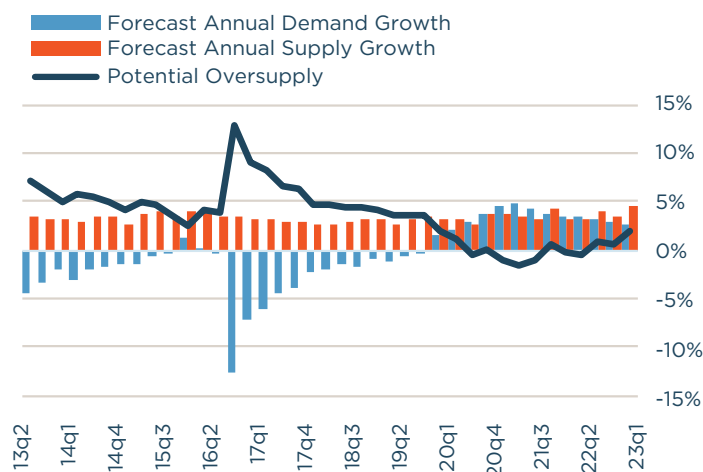
Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



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

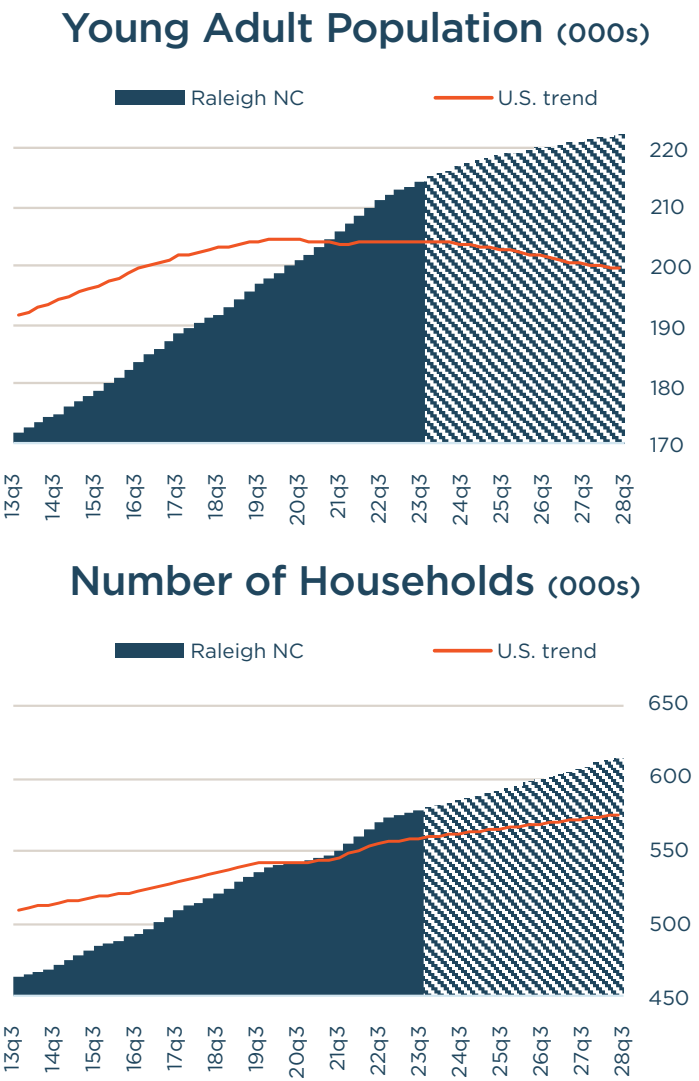
Raleigh, NC

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. As in those markets—but not quite as severely—oversupply concerns have arisen in Raleigh.

MIDDLEBURG’S RANK #8 AMONG 15 LARGEST METROS

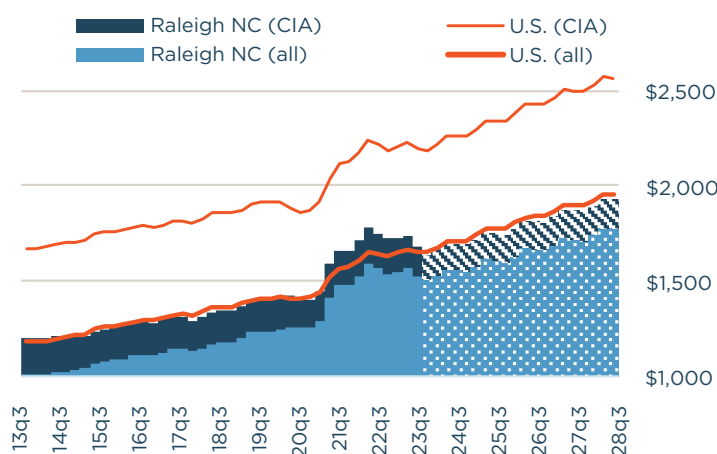
Raleigh has a diverse economic base and an uncommonly high-education, high-income population—a characteristic that it is likely to retain given its reputation as "the low-cost tech hub" and decisions by a large number of tech and life-sciences companies such as IBM, GlaxoSmithKline, and SAS to expand their operations here. Oxford Economics forecasts above-average growth in Raleigh over the next five years for all three key apartment demand drivers with its **Young Adult Population** growing by 0.7 percent per year (8 thousand), its **Number of Households** by 1.2 percent per year (36 thousand), and its total employment by 0.9 percent per year (33 thousand).

The biggest concern in Raleigh—as in Austin and Nashville—is a supply-demand imbalance: Middleburg’s analysis indicates that rental housing inventory will grow by 5.6 percent per year over the next three years—a pace trailing only those in Austin, Nashville, and Miami—while demand growth will be decidedly more moderate at just 1.7 percent per year. This fits with CoStar’s forecasts for rental housing fundamentals: for example, CoStar expects growth in **Effective Rent per Unit**, **Net Operating Income**, and market sale price per unit to be slightly worse than average for large metro areas in Middleburg’s arc at 2.8 percent per year, 3.4 percent per year, and 4.6 percent per year respectively.

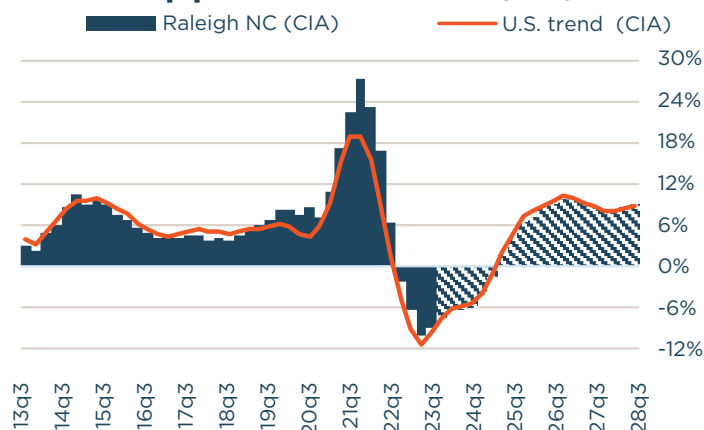


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	APARTMENT UNITS SOLD
30,985	6,073	\$287,307	2,386
↑ 3.2%	↓ 8.7%	↓ 1.1%	↑ 701%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
2.6%	\$96,520	7.2%	-21 bps
↓ 2.0%	↑ 1.8%	no change	below US avg

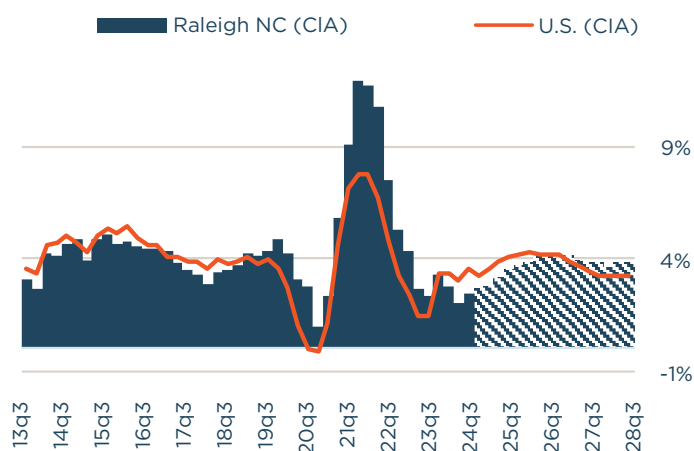
Effective Rent per Unit



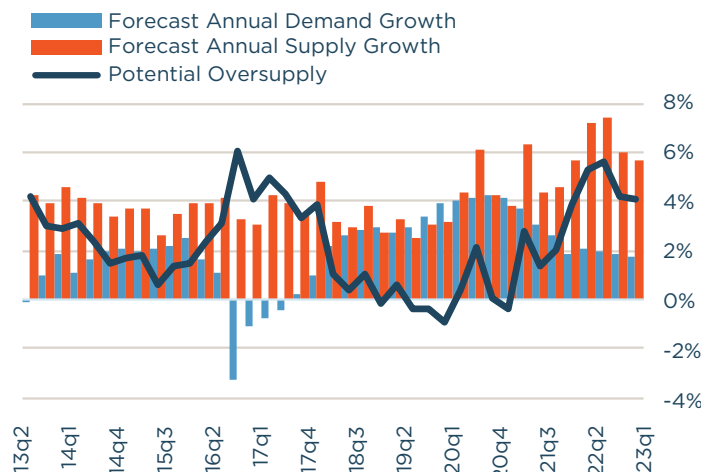
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



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

Richmond, VA

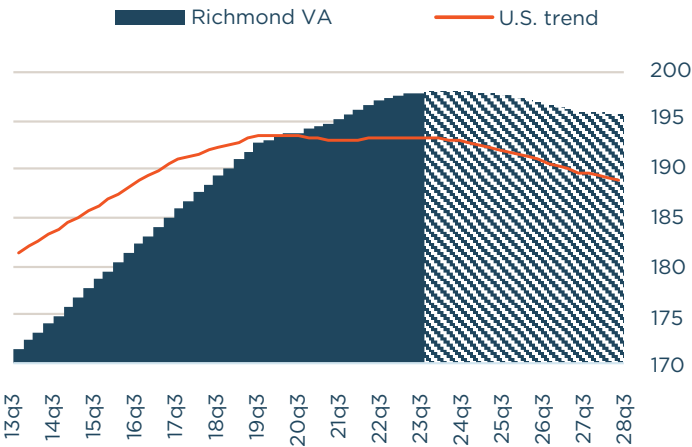
Not only has Richmond transformed itself into a diversified regional hub with particular strength in financial services, but it has also transformed its rental housing market into a collection of genuinely strong fundamentals.

MIDDLEBURG’S RANK #12 AMONG 15 LARGEST METROS

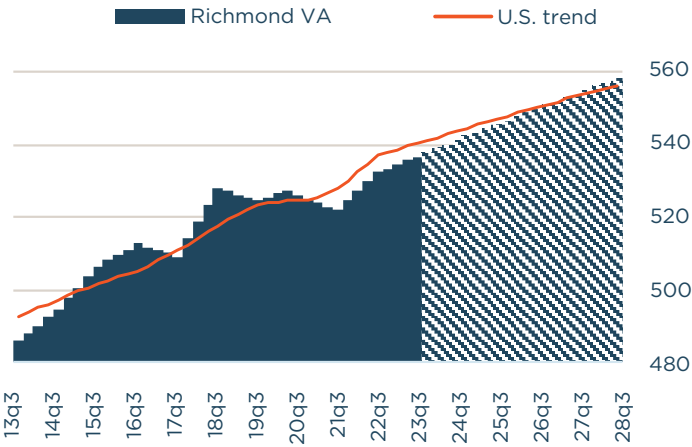
The current strength in Richmond’s market fundamentals does not come from the classic demand drivers. Oxford Economics, for example, forecasts that the **Young Adult Population** will shrink over the next five years at a pace of -0.2 percent per year—better than the national average of -0.5 percent per year, but worse than all other primary markets in Middleburg’s territory except Miami and Fort Lauderdale. Growth in total employment and **Number of Households** are expected to be positive but trail all other large metros in Middleburg’s arc at 0.8 and 0.3 percent per year, respectively. Moreover, homeownership affordability is not anticipated to any additional boost to rental housing demand, with house prices expected to grow at an anemic 0.4 percent per year, falling well short of median household income growth of 2.7 percent per year.

The relative weakness of demand drivers, however, means that Richmond has escaped the strong supply response that has caused rental housing market fundamentals to soften so much in several other markets. Middleburg’s internal modeling suggests that supply growth in Richmond over the next three years will average just 3.1 percent per year, less than in any other primary market in our territory except Houston and Dallas—and while demand growth will fall slightly short at 2.4 percent per year, the resulting supply-demand imbalance will be more favorable than in any of its rival markets except Tampa and Orlando. This fits with CoStar’s forecasts for growth in **Effective Rent per Unit**, **Net Operating Income**, and market sale price per unit, which at 3.7, 4.5, and 5.7 percent per year, respectively, are expected to lead every other large metro in Middleburg’s territory except Tampa.

Young Adult Population (000s)

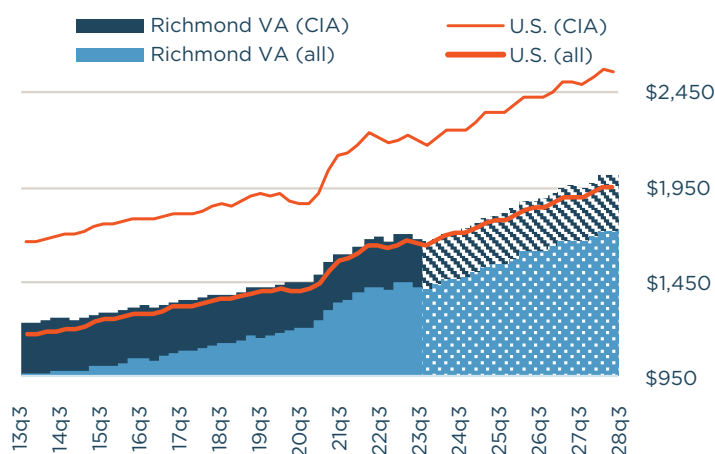


Number of Households (000s)

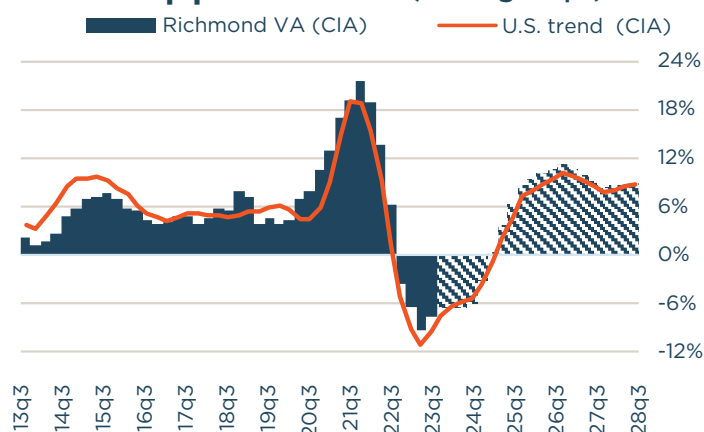


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	APARTMENT UNITS SOLD
24,382	5,844	\$262,875	397
↑ 1.4%	↑ 28%	↓ 0.8%	↑ 8.5%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
5.1%	\$82,400	4.7%	+78 bps
↓ 1.6%	↑ 1.1%	↑ 0.1%	above US avg

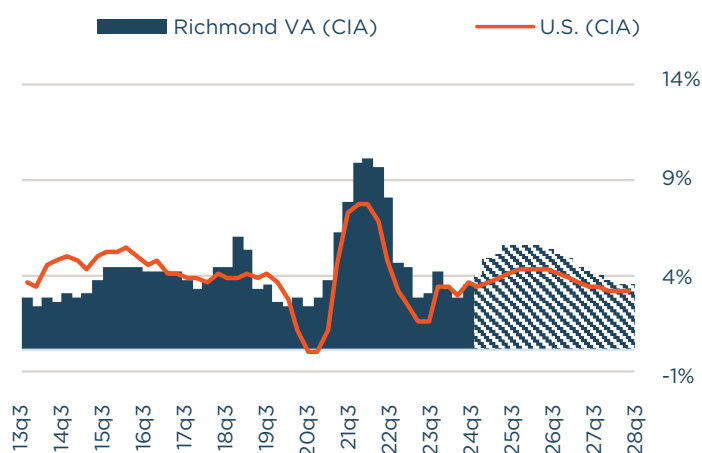
Effective Rent per Unit



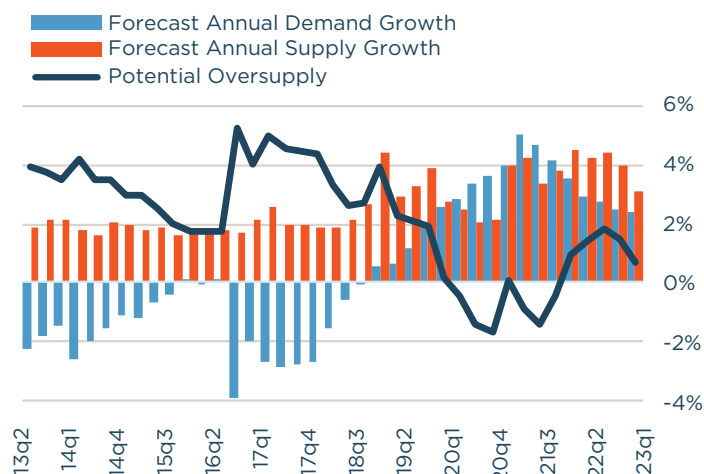
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



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

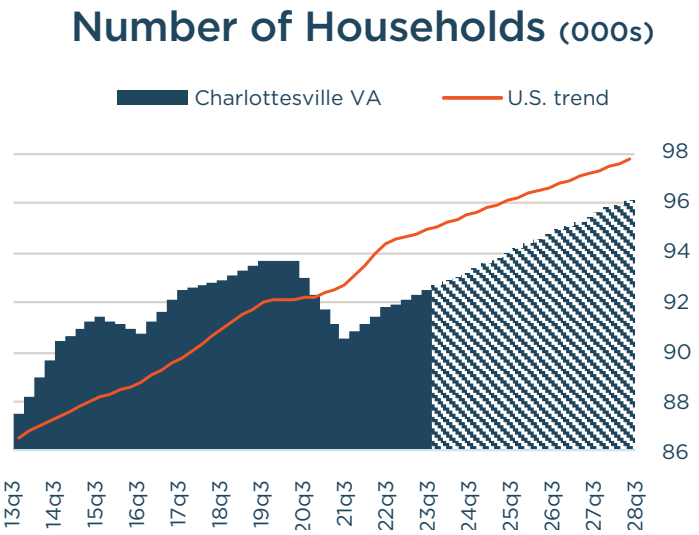
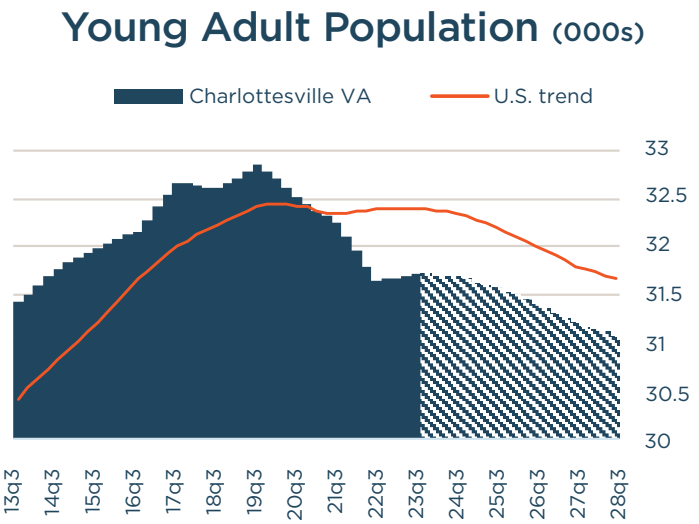
ALSO ON OUR RADAR

Charlottesville, VA

Charlottesville’s housing market differs from those of many other university towns by its solid professional employment base—associated with higher incomes, house prices and rents—and therefore bears attention for possible development opportunities as well as acquisitions.

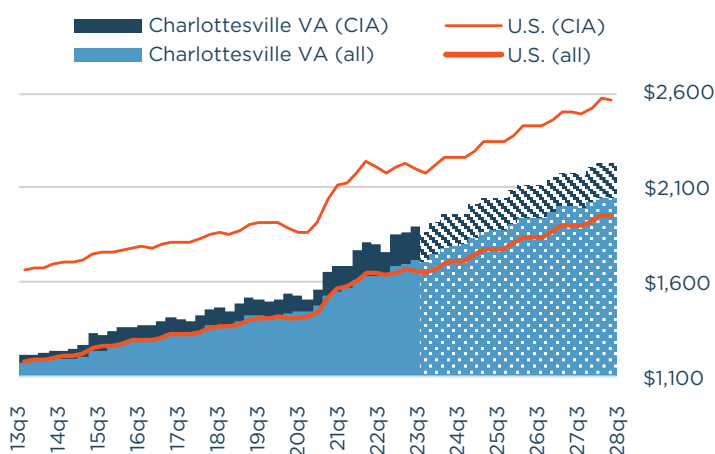
Unlike in many other college towns, for example, rental housing demand in Charlottesville is unlikely to be driven by growth in the young adult population, which Oxford Economics expects will only barely surpass the national average at -0.4 percent per year over the next five years. Moreover, Charlottesville is forecast to see lower house price appreciation (0.7 percent per year versus 2.0) and higher median income growth (3.1 percent per year versus 3.0), meaning that the house-price-to-income ratio is forecast actually to ease in Charlottesville more than in the rest of the country. On other other hand, total employment is forecast to grow by 0.8 percent per year—more than twice the national average—while growth in the **Number of Households** should also comfortably exceed the national average.

Nevertheless, CoStar predicts rental housing market fundamentals to be stronger over the next five years in Charlottesville than in the country as a whole. For example, **Effective Rent per Class A Unit** at \$1,894 already exceeds that in many other of Middleburg’s markets, but CoStar forecasts it to grow at a very strong 3.6 percent per year; similarly, **Net Operating Income** is forecast to grow by 4.0 percent per year and market sale price per unit by 5.4 percent per year, both exceeding not only the national average but the projected rates in most of Middleburg’s primary markets. Furthermore, CoStar expects the average stabilized Class A vacancy rate to decline from an already-low 2.9 percent to just 1.4 percent. These favorable fundamentals seem to reflect a continued favorable supply-demand imbalance: Middleburg’s analysis indicates that supply growth averaging just 3.3 percent per year over the next three years will fall noticeably short of demand growth averaging 5.5 percent per year.



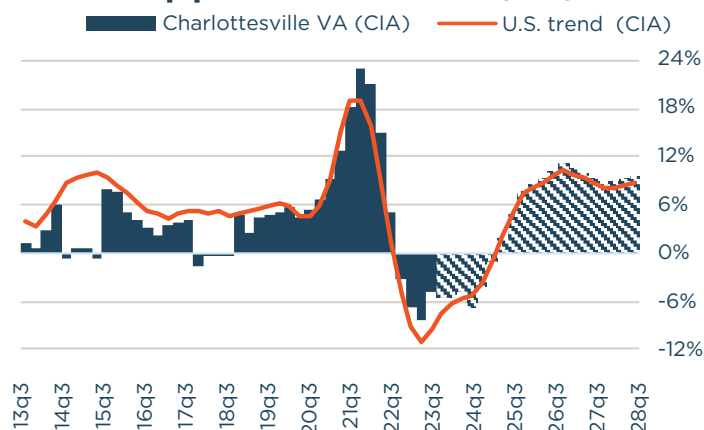
TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT UNITS SOLD
3,487	513	\$266,270	468
↑ 0.9%	↑ 94%	↑ 1.3%	↑ 7,700%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	STABILIZED APARTMENT VACANCY RATE	CLASS A APARTMENT CAP RATE GUIDANCE
4.1%	\$89,360	3.7%	+63 bps
↓ 0.7%	↑ 1.3%	↑ 1.3%	above US avg

Effective Rent per Unit

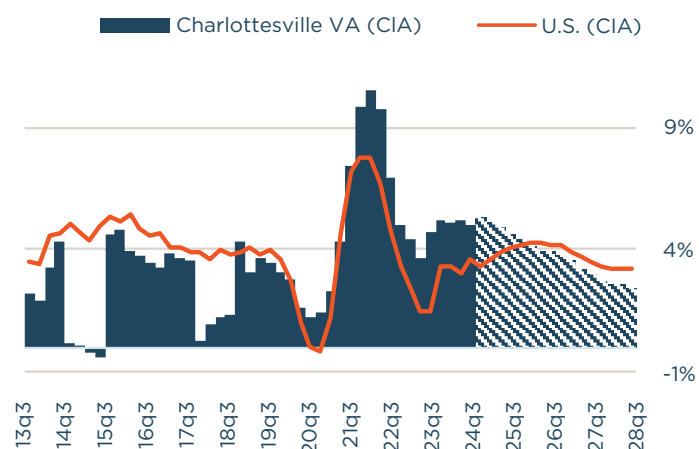


Apartment Unit

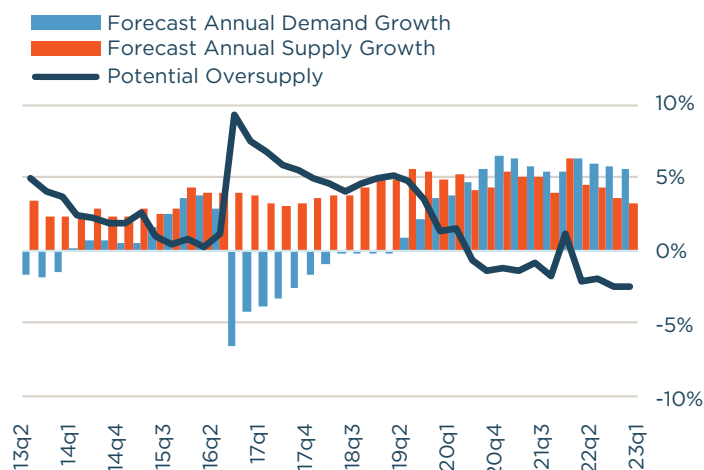
Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



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

ALSO ON OUR RADAR

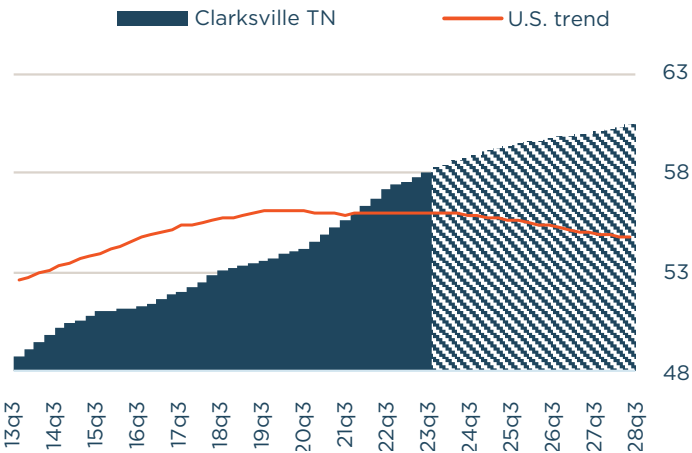
Clarksville, TN

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

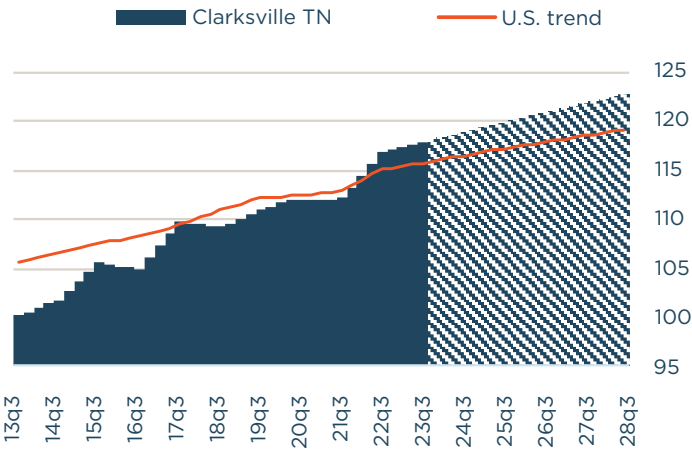
Growth in the primary drivers of rental housing demand is expected to remain well above the national averages over the next five years: Oxford Economics forecasts that Clarksville will see annual growth averaging 0.8 percent in its **Young Adult Population**, 0.8 percent in the **Number of Households**, and 0.5 percent in total employment. Moreover, although the house-price-to-income ratio is expected to ease slightly, it will not do so as strongly as in the rest of the country, providing a slight additional boost to rental housing demand.

As a result, rental housing fundamentals over the next five years seem likely to compare favorably with the national average. For example, CoStar forecasts growth in **Effective Rent per Unit** to average 3.6 percent per year, growth in **Net Operating Income** to average 4.0 percent per year, and growth in market sale price per unit to average 4.9 percent per year. With a current average Class A effective rent of just \$1,234 it is difficult to see Clarksville as an appealing market for Class A development, but it could be more appealing for workforce housing development or property acquisition.

Young Adult Population (000s)

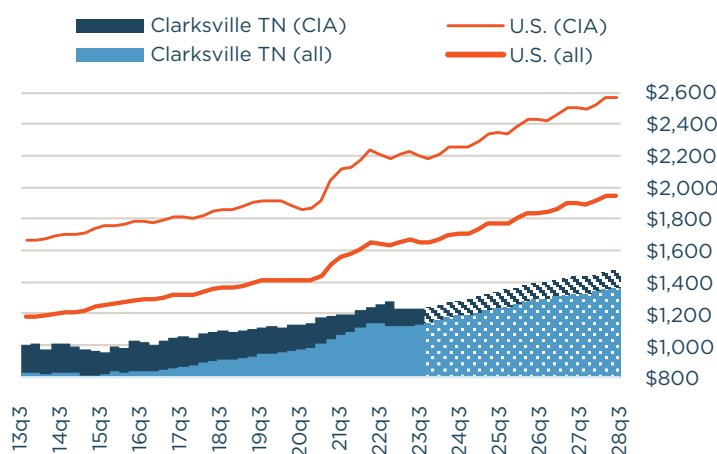


Number of Households (000s)

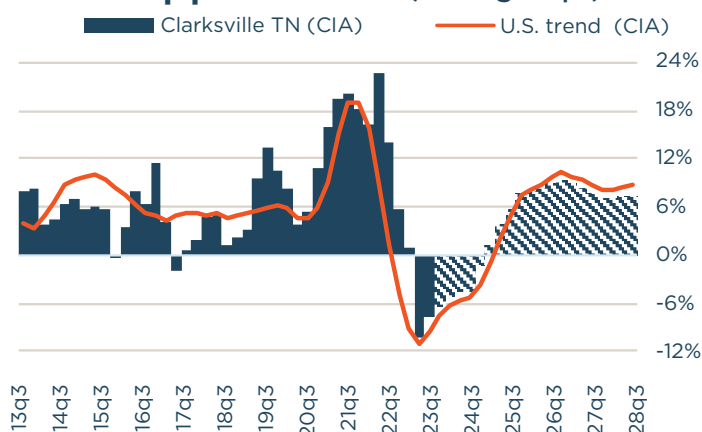


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT UNITS SOLD
1,287	0	\$158,053	5
no change	--	↓ 0.1%	↓ 98%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	STABILIZED APARTMENT VACANCY RATE	CLASS A APARTMENT CAP RATE GUIDANCE
0.5%	\$63,560	4.2%	+110 bps
↓ 0.3%	↑ 0.8%	↓ 0.8%	above US avg

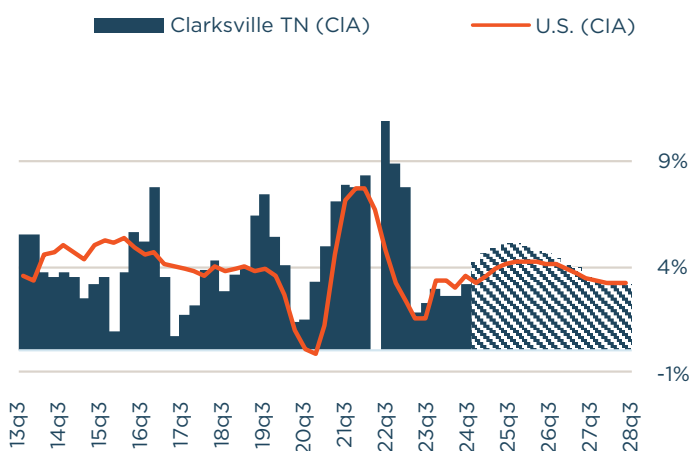
Effective Rent per Unit



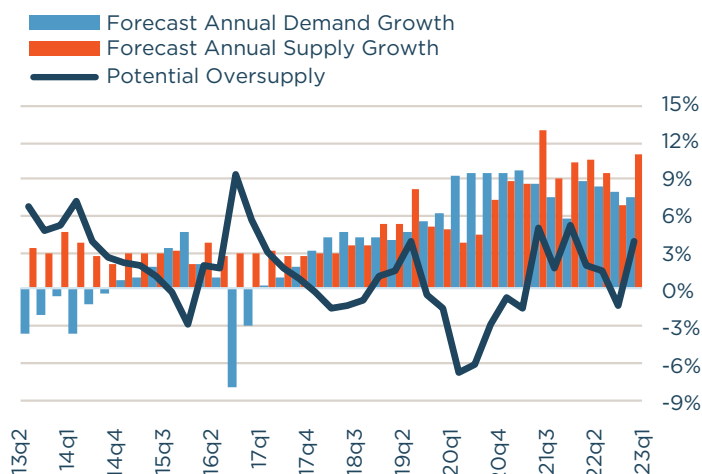
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



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

ALSO ON OUR RADAR

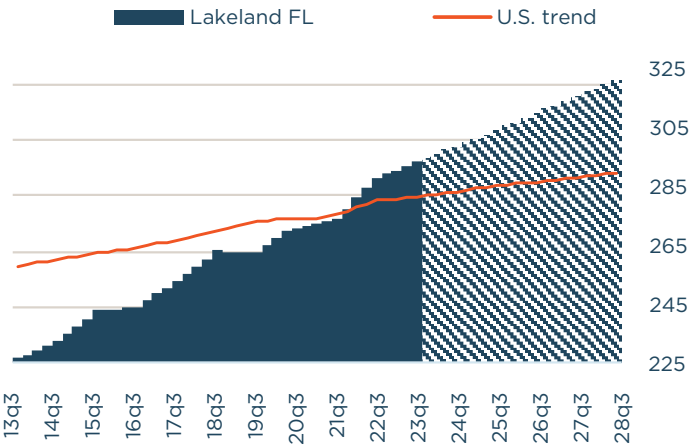
Lakeland, FL

Unsurprisingly given its location on Interstate 4 connecting Orlando and Tampa, Lakeland seems poised to grow strongly over the next several years, especially as the Brightline rail service currently serving the Miami-to-West Palm Beach corridor is ultimately extended through Orlando to Tampa.

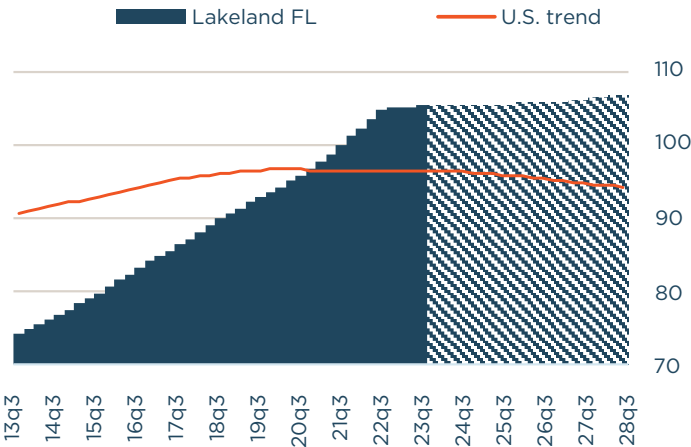
Oxford Economics forecasts that Lakeland’s **Young Adult Population** will grow by 0.3 percent per year over the next five years, far outpacing the national average and likely affected by spillover from Orlando’s nearly identical pace. Similarly, **Total Employment** is forecast to grow at 0.5 percent per year—also comfortably exceeding the national average—while the **Number of Households** is forecast to grow at a very dramatic 1.9 percent per year, rivaled only by Austin among primary markets in Middleburg’s part of the country. Rental housing demand in Lakeland should also get a small boost from house price appreciation, which is forecast to exceed the national average at 2.2 percent per year.

CoStar forecasts that rental housing market fundamentals will remain strong in Lakeland over the next five years, with growth in **Effective Rent per Unit** averaging 3.2 percent per year, growth in **Net Operating Income** averaging 3.8 percent per year, and growth in market sale price per unit averaging 4.9 percent per year. Such strong fundamentals face a clear threat, however, in a current supply-demand imbalance, as Middleburg estimates that supply growth averaging 13.1 percent per year over the next three years is likely to outstrip demand growth averaging only 7.0 percent per year.

Number of Households (000s)

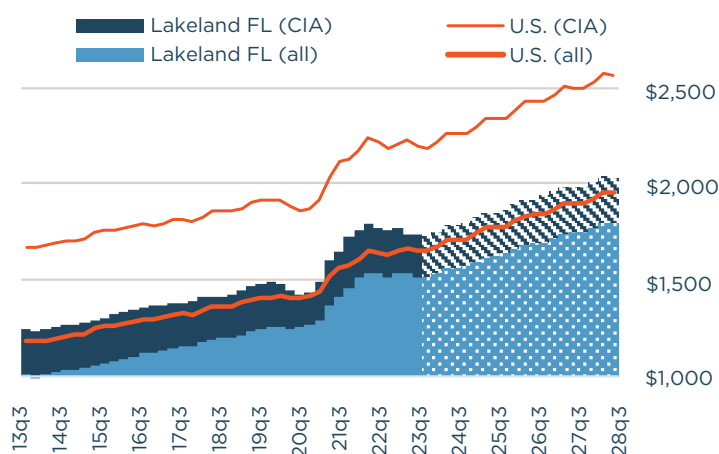


Young Adult Population (000s)

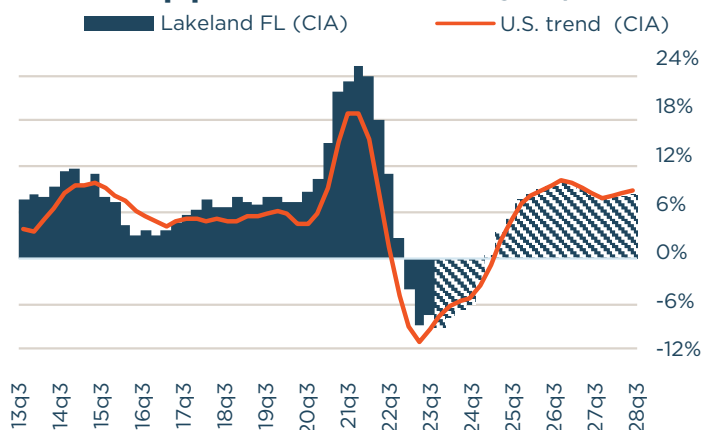


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT UNITS SOLD
5,321	1,036	\$258,204	6
↑ 6.0%	no change	↓ 0.9%	↓ 99%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	STABILIZED APARTMENT VACANCY RATE	CLASS A APARTMENT CAP RATE GUIDANCE
3.8%	\$60,560	5.6%	+8 bps
↓ 4.3%	↓ 0.9%	↑ 0.4%	above US avg

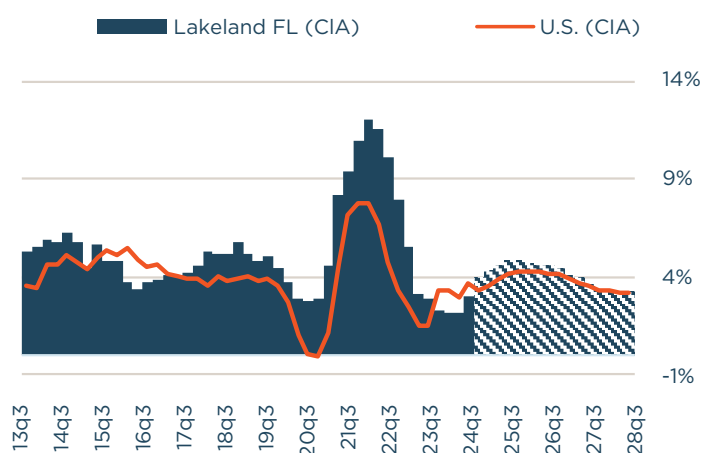
Effective Rent per Unit



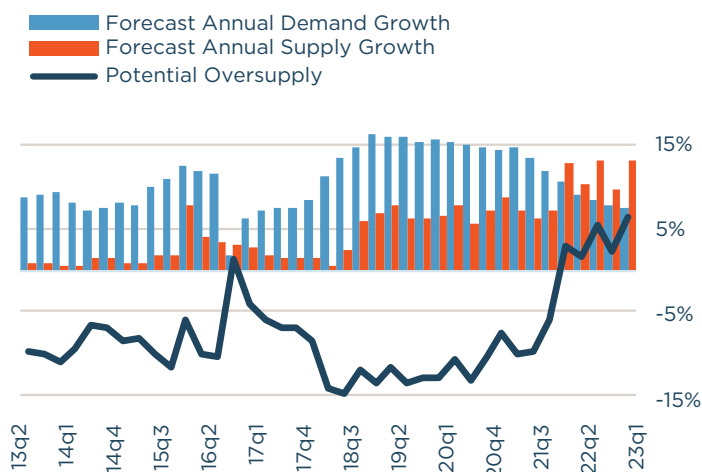
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



Representative large employers: Lakeland Regional Health, GEICO, Amazon, Saddle Creek Logistics, Rooms To Go

ALSO ON OUR RADAR

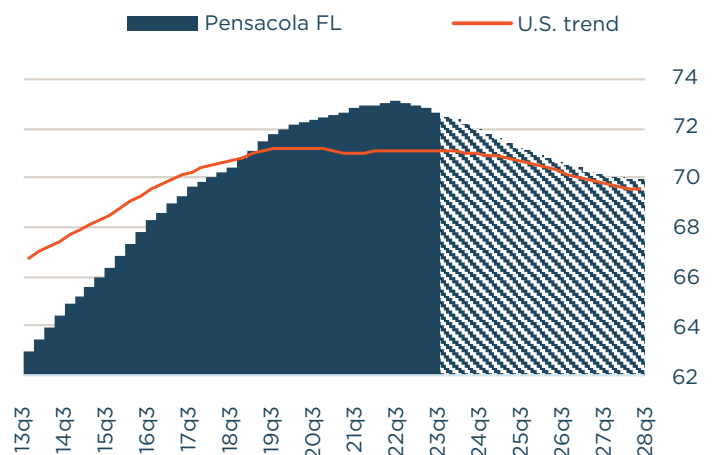
Pensacola, FL

Pensacola's economy seems unlikely to diversify strongly beyond its Navy-and-beaches base, but recent growth and consistently strong rental housing demand metrics make it more appealing than many other similarly sized communities with nearby military operations.

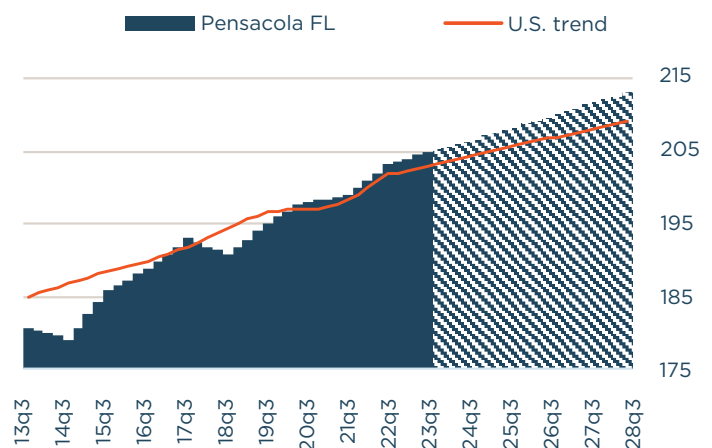
The economy of Pensacola is broader than many other small metro areas associated with military bases—more like Clarksville TN (near Fort Campbell), for example, than like Panama City (home of its own naval base). The nearly 10,000 employees at Navy Federal Credit Union's financial service center is the most important contributor, but others include manufacturing, education, and health care. As a result, Oxford Economics forecasts that total employment and the number of **Households** will grow in Pensacola at very slightly more than the national average, 0.45 and 0.79 percent per year over the next five years compared with 0.37 and 0.59 respectively. Pensacola's **Young Adult Population**, however, is expected to decline by -0.77% percent per year, even more than the national average of -0.46% per year.

On the other hand, CoStar forecasts that growth in **Effective Rent per Unit** will match the national average at 3.2 percent per year while **Net Operating Income** slightly exceeds it (4.3% per year compared with 3.8% per year), implying slightly higher growth in apartment price appreciation (5.7 percent per year versus 5.1 percent). The number of units under construction or recently delivered has been abnormally strong, but Middleburg estimates that demand for rental housing will outpace supply growth over the next three years by 4.5 percent of current inventory—not the usual supply-demand relationship in Middleburg's part of the country. Pensacola seems unlikely to rise to the top of Middleburg's list, but it does seem to be a small market worth Middleburg's attention.

Young Adult Population (000s)

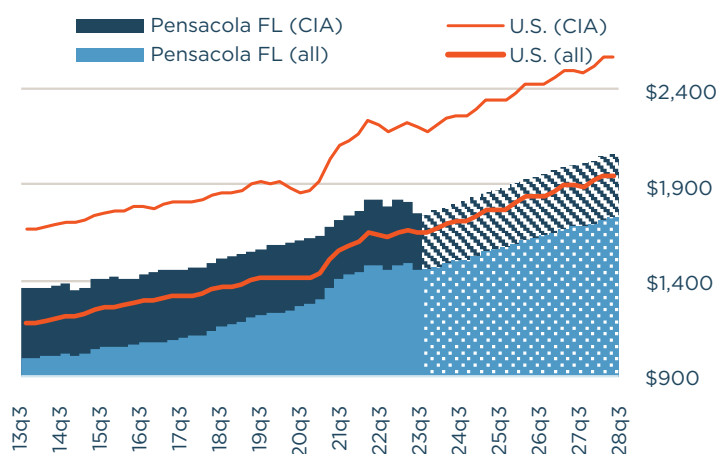


Number of Households (000s)

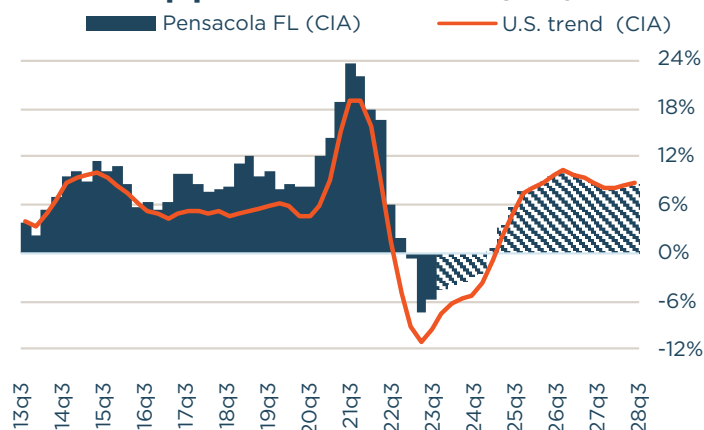


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT UNITS SOLD
3,360	324	\$245,331	464
↑ 4.0%	↓ 29%	↓ 0.9%	↑ 342%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	STABILIZED APARTMENT VACANCY RATE	CLASS A APARTMENT CAP RATE GUIDANCE
3.4%	\$71,320	3.5%	-4 bps
↓ 2.0%	↑ 0.7%	↓ 0.1%	above US avg

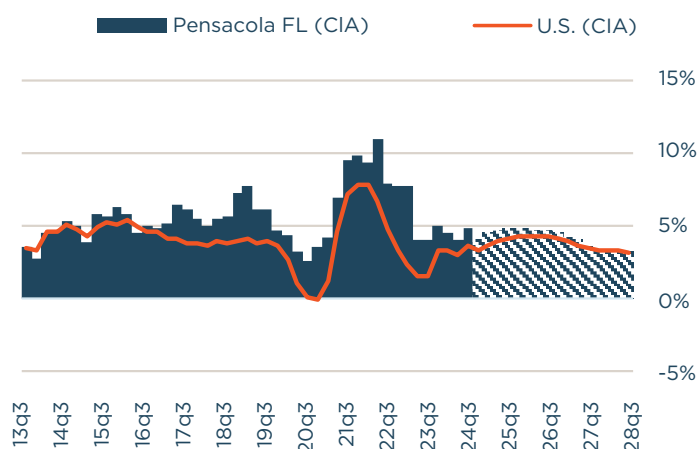
Effective Rent per Unit



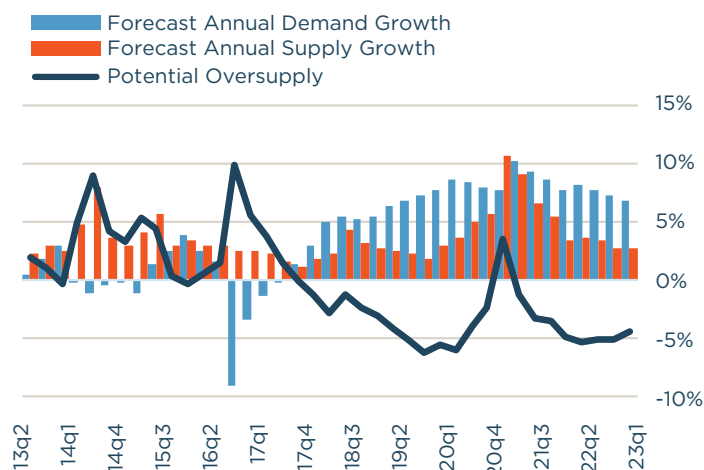
Apartment Unit Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



Representative large employers: Naval Air Station Pensacola, Navy Federal Credit Union, Baptist Health Care, University of West Florida, Ascend Performance Materials, Innisfree Hotels

ALSO ON OUR RADAR

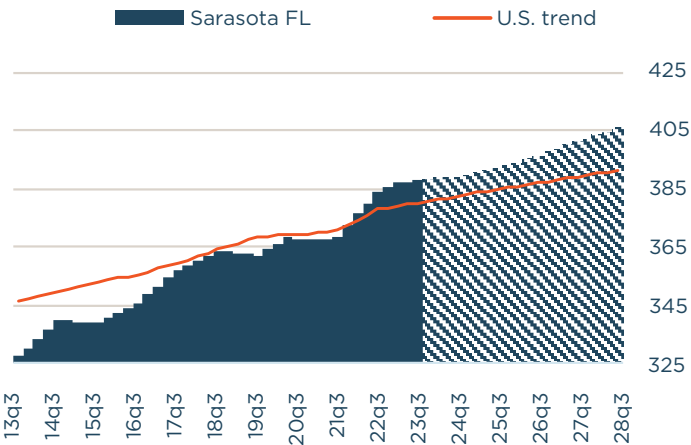
Sarasota, FL

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

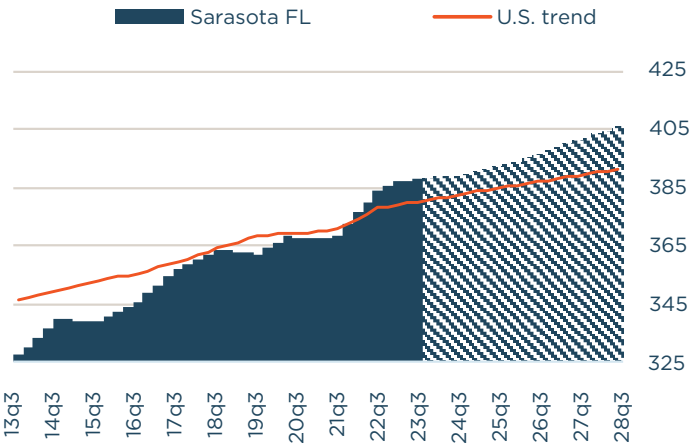
Oxford Economics forecasts that the **Number of Households** will grow at 0.9 percent per year over the next five years, comfortably above average for metro areas in Middleburg's part of the country, while **Total Employment** will grow at a more moderate but still slightly-above-average pace of 0.6 percent per year. The young adult population, however, is expected to shrink even more dramatically than for the country as a whole at -1.3 percent per year, reflecting Sarasota's continued appeal as a retirement destination.

Perhaps surprisingly, there appears to be essentially no current supply-demand imbalance in the Sarasota market: Middleburg forecasts that rental housing demand growth averaging 7.6 percent per year over the next three years will essentially keep pace with supply growth averaging 8.4 percent per year. This balance likely explains what CoStar forecasts to be continued strong market fundamentals, with expected growth over the next five years averaging 3.3 percent per year in **Effective Rent per Unit**, 4.3 percent per year in **Net Operating Income**, and 5.3 percent per year in market sale price per unit.

Number of Households (000s)

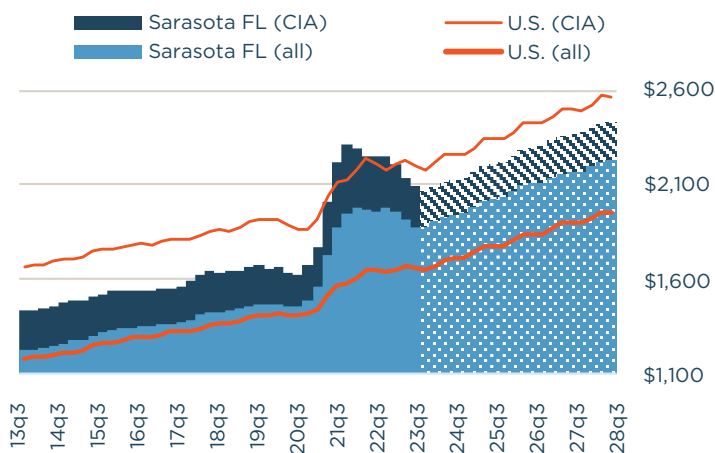


Number of Households (000s)



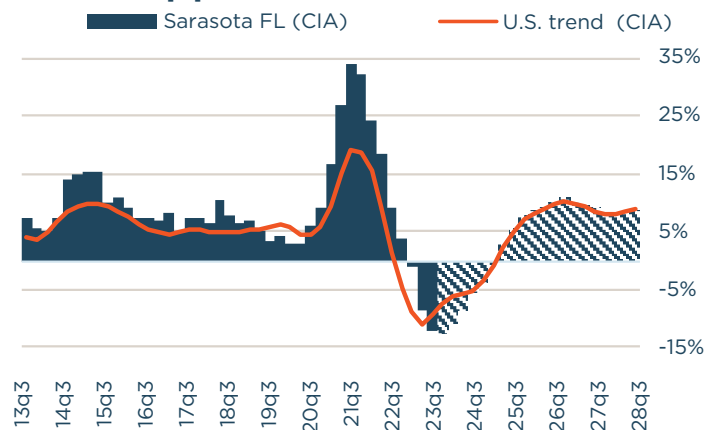
TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT UNITS SOLD
12,184	1,360	\$280,219	1,551
↑ 3.1%	↓ 21%	↓ 3.6%	↑ 148%
12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	STABILIZED APARTMENT VACANCY RATE	CLASS A APARTMENT CAP RATE GUIDANCE
1.3%	\$77,520	8.1%	-8 bps
↓ 5.0%	↑ 1.0%	↑ 0.8%	below US avg

Effective Rent per Unit

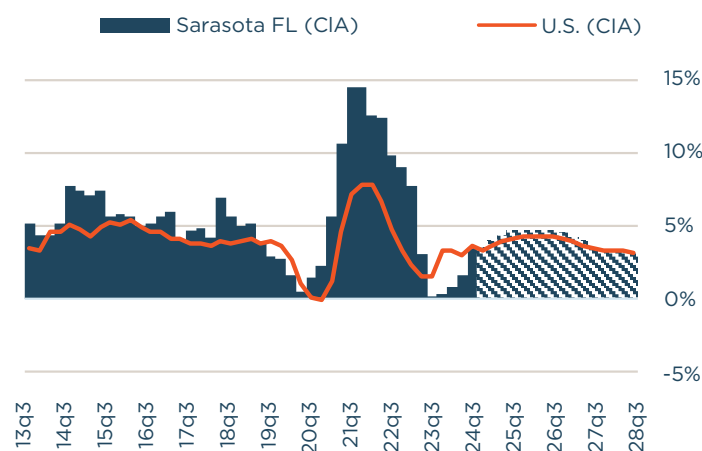


Apartment Unit

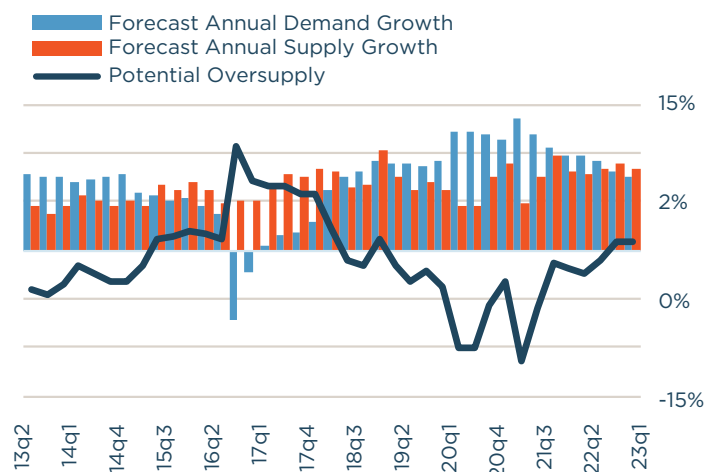
Appreciation (trailing 4-qtr)



Net Operating Income (trailing 4-qtr)



Supply-Demand Forecasts



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