MIDDLEBURG
COMMUNITIES

Middleburg Markets Report

Q1
2023

Middleburg Communities is pleased to present our Middleburg Markets Report for the 1st 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

Interest-rate hikes and problems in the banking sector set a negative tone for the first quarter of 2023. Coming at the same time as a moderation in rent growth, the change in the macro environment made access to capital more challenging. Despite the new tone set by the interest-rate and banking environment, our view is the conditions in which we operate can more accurately be said to have held their own--indeed, to have displayed stubbornness--than to have changed materially.

As we have noted before, the chief sources of uncertainty in the macroeconomic situation have neither improved nor deteriorated to any convincing extent. The U.S. macroeconomy continues to benefit from resilient growth in employment, income, and consumption. High inflation has been equally obstinate, although the official inflation rate has receded mildly and, as we show, actual inflation has receded entirely. The strength of the economy, along with stubbornly high expectations for continued inflation, make it almost certain that interest rates will continue to rise. It is possible, though not certain, that interest-rate hikes will not only have their desired effect but also push the economy into recession in perhaps a year. As with any relatively balanced environment, however, the macroeconomic situation could start to resolve by improving, deteriorating, or remaining balanced.

Mosby Poinsett, Greenville, SC

We begin this 2023Q1 Middleburg Markets Report by reviewing the paths of rents, property values, and inflation over the three years since the pandemic started, before diving more deeply into macroeconomic and housing-market conditions this years. 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 Athens GA, Charleston SC, Fort Myers FL, Harrisonburg VA, and Ocala FL.

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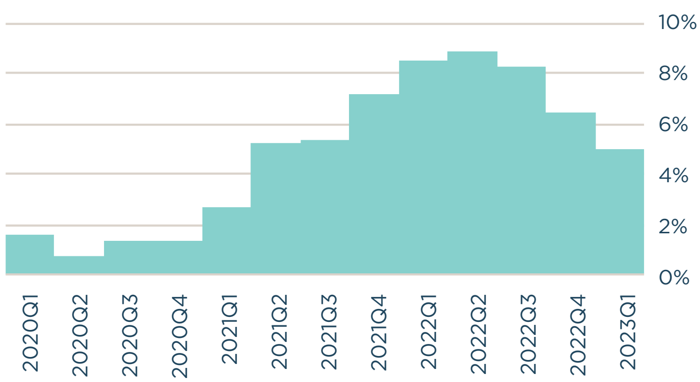
U.S. Overview

If the dominant story of 2022 was how the Federal Reserve needed to start raising interest rates to contain a broad inflation problem, the dominant story of the first quarter of 2023 was how the effect of the rate-hike regime upset a narrow segment of the banking industry—and whether that narrow impact might spread to become a broader problem for the rest of the economy.

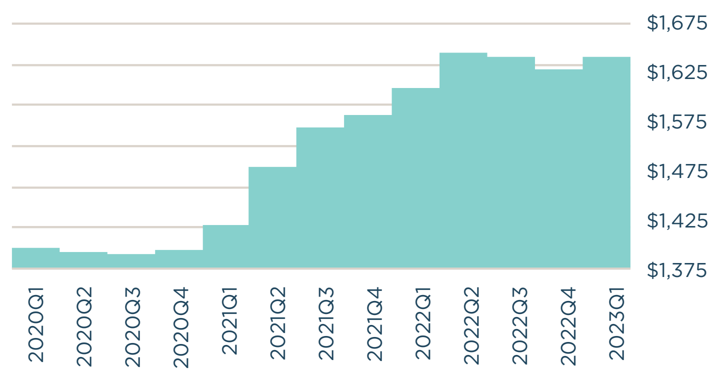
Three years into what may be called "the covid economy"—at the effective end of the pandemic, even though the U.S. Center for Disease Control continues to forecast roughly 2,000 additional deaths from the disease each week, indefinitely—it is useful to recap how macroeconomic conditions have changed since the onset of the pandemic.

Trailing 12-mo Consumer Price Inflation



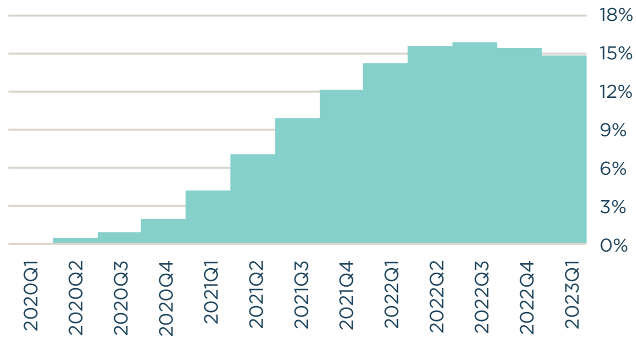
As of the first quarter of 2020, when the pandemic started, Consumer Price Index (CPI) inflation rate had averaged 1.9 percent per year over the previous 13 years—exactly the same pace as the growth of both multifamily effective rent per unit and capital value of multifamily properties, according to CoStar data. Over the three years since then CPI inflation has averaged a much higher 5.0 percent per year; effective rent per unit has slightly outpaced the inflation rate at 5.3 percent per year while capital appreciation has lagged slightly at 4.7 percent per year.

Current U.S. Multifamily Effective Rent per Unit



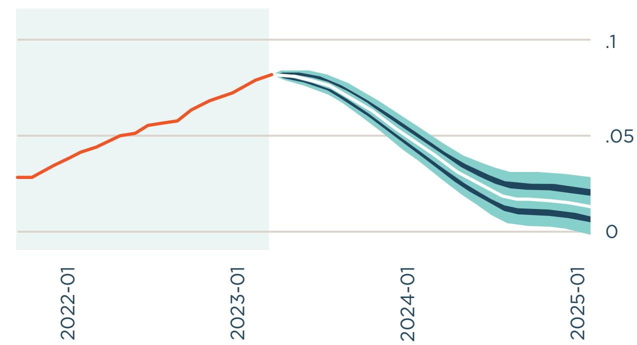
The similarity in pandemic-era averages, though, masks very different patterns over the three pandemic years. During the first half of the pandemic (2020Q1-2021Q3) effective rent per unit grew at 6.8 percent per year and capital appreciation grew at 6.4 percent per year, while inflation averaged just 3.1 percent per year. Over the second half (2021Q3-2023Q1) the roles were reversed, with effective rents growing at 3.7 percent per year and capital appreciation at 3.0 percent per year while inflation averaged 6.9 percent per year. Effective rents and capital values have declined since 2022Q3, while the inflation rate has continued to far exceed its two percent target.

Current U.S. Multifamily Capital Appreciation



CPI Shelter Forecast

Confidence interval shown 95% 75% and 50%



The fact that the surge in inflation came later than the surge in effective rents is no mystery. More than one-third of the Consumer Price Index (and its cousin, the Personal Consumption Expenditure deflator) is determined by changes in average costs paid for rental housing. (Inflation in the owner-occupied part of the housing market is measured as the change in "owner-equivalent rent," or what would be paid if the house were rented rather than owned, and is estimated on the basis of actual rents paid for renter-occupied housing.) Crucially, the price of housing is measured across all households, not just those signing new leases reflecting current market conditions. Because lease rents are adjusted to market conditions only about once a year, there is a substantial lag between when market effective rents change and when that change is fully reflected in the CPI.

That lag between changes in market effective rents and changes in the shelter component of the CPI has two major implications. First, it is relatively straightforward to predict when the shelter component will stop being a significant contributor to continued high inflation: Middleburg Communities predicts that the shelter component will revert to its long-term average by the summer of 2024 and perhaps as early as March 2024.

Second and more importantly, the members of the Federal Open Market Committee will need to be aware of that lag so they can avoid continuing to raise interest rates long after the inflation problem has been solved in the market. (They are, of course, fully aware of the problem: in fact, valuable theoretical and empirical analyses of the issue have been conducted by staff economists at the Federal Reserve Board and several of the regional Federal Reserve Banks.)

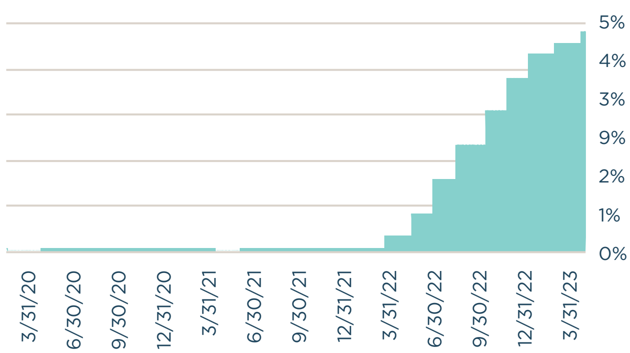
Several sources have reported in general on the market-wide decline in rent growth: Jay Parsons of RealPage, for example, reported that "nearly 10% of submarkets reporting year-over-year rent cuts on new leases in March," led by Phoenix, Las Vegas, Sacramento, and other markets in the Western part of the country. Going a step further, researchers at Penn State University have estimated that nationwide marginal (that is, new-lease) rents declined by 6.37 percent during the 12 months ending February 2023. The Penn State researchers further estimated that, if the declining market rents were used in place of in-place rents, the year-over-year overall CPI inflation rate in February would have been reported at just 0.91 percent, well below the FOMC's long-term target inflation rate of two percent, while the "core" inflation rate (excluding food and energy) would have been only slightly above the long-term target at 2.1 percent. In other words, taking into account market rents on newly signed leases rather than average rents being paid by all renters suggests that, in fact, the battle against persistently high inflation has already been won.

RATE HIKES AND MACROECONOMIC STRENGTH

Importantly, bringing inflation (whether measured or actual) down to the two percent range would not be enough, by itself, to satisfy the Fed's inflation-fighting mandate. Many decisions are made on the basis of expectations for future inflation—meaning that inflation could be a problem if for no other reason than that consumers and business decision-makers expect it to be so. Unfortunately, while actual inflation may have fallen to the Fed's long-term target range, expectations remain elevated. For example, according to the New York Federal Reserve Banks' Survey of Consumer Expectations, the median one-year-ahead inflation expectation had fallen from 6.78 percent in June 2022 to 4.23 percent in February 2023—but then jumped again to 4.75 percent in the March survey. And preliminary results from the University of Michigan's survey of consumer sentiment suggested a jump in coming-year expected inflation from 3.6 percent in March to 4.6 percent in April.

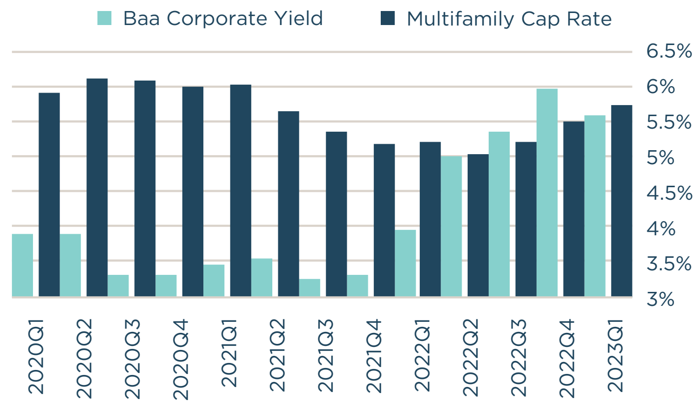
The continued strength of the economy, coupled with concerns about still-elevated inflation expectations, make it exceedingly likely that the FOMC will continue to pursue its rate-hike regime. As this quarterly report was being prepared, the CME FedWatch Tool indicated an 83 percent probability that the FOMC would raise the key Federal Funds Rate by an additional 25 basis points at its May 2-3 meeting, along with a solid 24 percent expectation of a further rate hike at the June 13-14 meeting. (Although the rate-hike regime has occasionally been called "unprecedented," it certainly is not: the effective federal funds rate has not risen so rapidly since the beginning of 1987, but such rapid rises were commonplace from 1969 until then.)

Effective Federal Funds Rate



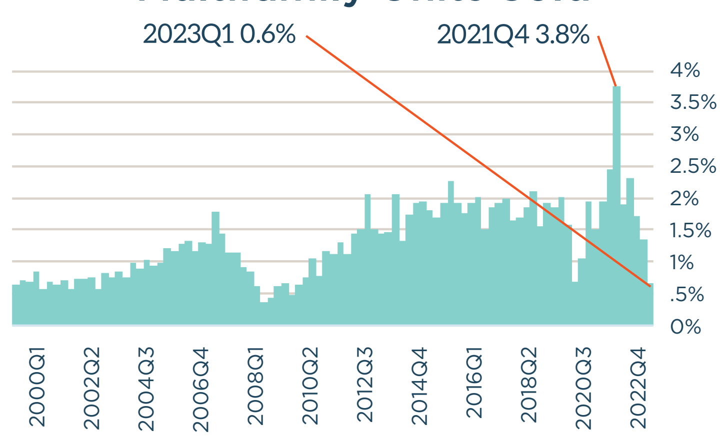
The surge in policy interest rates has had markedly different effects on the multifamily market than on markets for other investments. Particularly striking has been the cost of Baa-rated corporate borrowing, often considered a benchmark for real estate borrowing given similarities in duration and credit quality. Over the 13 years prior to the covid pandemic the cap rate on multifamily properties averaged 1.2 percentage points higher than the yield on Baa-rated corporate bonds. Over the past year, however, multifamily cap rates have increased only moderately—from about 5.2 percent in 2022Q1 (and 5.0 percent in 2021Q4) to 5.7 percent in 2023Q1, whereas Baa corporate yields have ballooned from 3.9 percent to 5.6 percent. In fact, the cap rate spread to Baa yields has been close to, or narrowly *less* than, zero over the past year.

Baa Corporate Yield and Multifamily Cap Rate



The most salient result of the increase in both multifamily cap rates and borrowing rates has been a dramatic rollback in multifamily property transactions. The number of apartment units that transacted nationally had reached a historic high in the last quarter of 2021 at an astounding 3.8 percent of the apartment inventory—nearly triple the average transaction activity of the 21 years leading up to that spasm. Since then, however, the volume of apartment transaction activity has collapsed to just 0.6 percent of inventory in 2023Q1—the lowest rate since 2008Q4-2010Q2 in the aftermath of the Great Financial Crisis.

Percent of U.S. Multifamily Units Sold

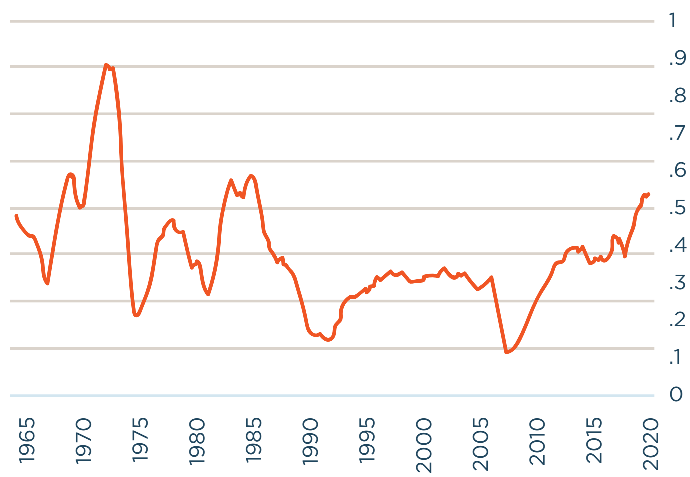


While some market participants have been forecasting for more than a year that the U.S. economy will go into a recession—with most foreseeing a mild one but a few calling for a severe one—actual economic conditions have stubbornly refused to comply. For example, the quarterly average of nationwide payroll employment increased at an annualized rate of 0.8 percent per year from 2020Q1 through 2023Q1 (or, more accurately, it declined by 18.1 million jobs during the first quarter of the pandemic but has grown by 21.6 million since then). That 0.8 percent per year pace is low by long-term standards—payroll employment grew at twice that pace, for example from 1968Q3 to 2022Q1—but it is equal to the average pace of employment growth during the 20 years leading up to the pandemic.

Other key macroeconomic indicators have been similarly resilient in the face of high inflation. Real personal consumption expenditures, for example, increased at a robust pace averaging 2.8 percent per year from the end of 2021 through February 2023. Real disposable income, has increased less aggressively at 0.8 percent per year over the same period—but, after reaching a low-water mark in June 2022, it has increased in every month since then at an average pace exceeding 6.5 percent per year.

During most of 2022 the most significant macroeconomic problem pointing towards a recession was the sharp decline in construction of single-family housing. The number of new single-family housing permits declined 40 percent from February 2022 through January 2023, while single-family housing starts declined by 32 percent over the same period—a downturn severity that had not been observed since the period leading up to the housing and financial crisis of 2008-09. February and March of this year, however, brought the first signs of what we expect will be a significant recovery in housing construction, with single-family permits increasing by nine percent in February and another four percent in March while single-family starts increased by two percent in February and another three percent in March. Including multifamily units (which are much more volatile on a month-to-month basis), the average number of housing units permitted during February and March was up 10 percent from the average number during the three previous months, while the average number of units started was up four percent.

Curiously, the continued resilience of multifamily construction—especially compared with 2022's extraordinary weakness in single-family construction—has led some observers to refer to it as "unprecedented." As with the pace of the FOMC's interest rate hikes, this reflects a remarkably short horizon. In fact, the number of multifamily housing units started, as a share of the number of households, was consistently higher during the mid-1980s, as well as during the late 1960 and early 1970s. It is only relative to the growing shortage of multifamily housing over the last three decades that the current level of multifamily housing construction seems even notable.



BANK PROBLEMS AND RECESSION RISK

On the other hand, the most important new development during the first quarter of 2023—the failures of Silicon Valley Bank and Signature Bank, along with the emergency acquisition of Credit Suisse—prompted fears that a banking crisis might pull the national or even global economy into recession, in the same way that the collapse of Lehman Brothers triggered the global financial crisis of 2008-09. We believe this concern is overblown. There are no meaningful signs of systemic weakness in the U.S. banking sector. Rather, two banks failed simply because they did a remarkably poor job of diversifying their exposures and managing their concentration risks. The systemic risk posed by the SVB/Signature dual failure is in the same league as the systemic risk posed by the failure of Long-Term Capital Management back in 1998: sizable enough to prompt a bailout, but not sizable enough to significantly affect the economy.

With respect to the much larger Credit Suisse, U.S. regulators and investors have been aware for many years that the bank's continuing willingness to skirt national banking regulations to help clients evade their home country's reporting and tax requirements was raising potential conflict with the desire by various governments to enforce those requirements. That continuing conflict made it difficult for CS to be more successful in the U.S. market—which, thankfully, limited its systemic risk to the U.S. economy despite its size.

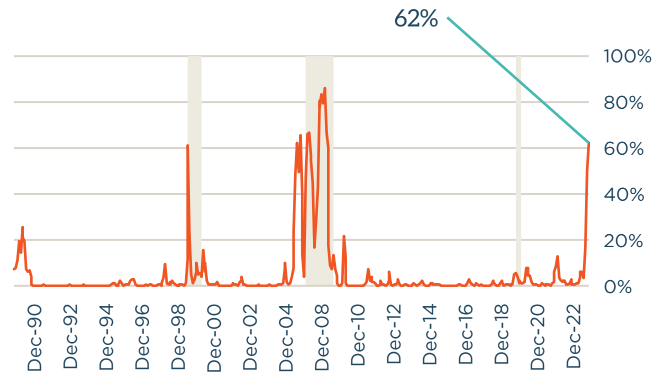
Nevertheless, the minutes of the March 21-22 FOMC meeting indicated that, "given their assessment of the potential economic effects of the recent banking-sector developments, the staff's projection at the time of the March meeting included a mild recession starting later this year."

The "dot plot" published following the March FOMC meeting is quite consistent not only with the staff projection but also with the expectations of market participants. For example, the CME FedWatch Tool suggests that the Federal Funds Rate will top out in the range of 5-5¼ percent (25 bps above its current level) this year, and then recede by about one percentage point over each of the next two years before settling on a longer-run level of about 2½ percent.

Historical evidence suggests that the single most accurate market-based predictor of future macro conditions is the Near-Term Forward Spread, which measures market expectations that the FOMC will reduce policy interest rates in coming months, typically in response to a faltering economy. The NTFS has remained negative since mid-November 2022. In combination with other variables that historically have added incrementally to recession forecasting accuracy (including housing starts, housing permits, and average hours worked), our model now yields a 62 percent probability that a recession will begin approximately in the first quarter of 2024.

While Middleburg Communities does not look forward either to a recession or to a meaningful contraction in capital availability, it is important to keep in mind that our investment thesis is not "invest in real estate because times are good." Although it does not fully capture either our mission or our value proposition, perhaps an adequate abbreviation would be "invest in multifamily housing in Middleburg's states because demand will continue to support it for decades to come." The

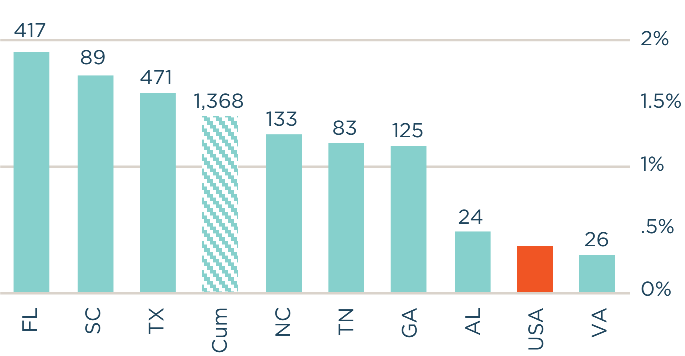
Probability of Recession, Forecast 12 Months Ahead

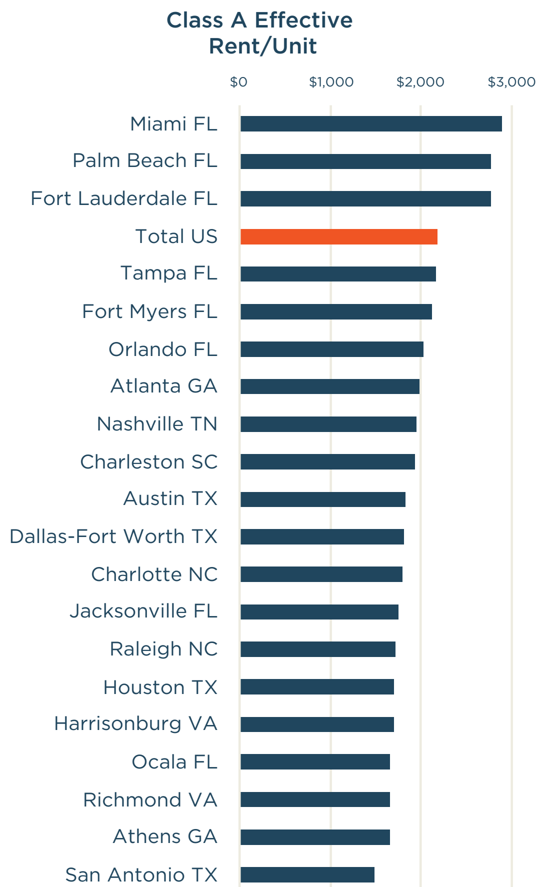


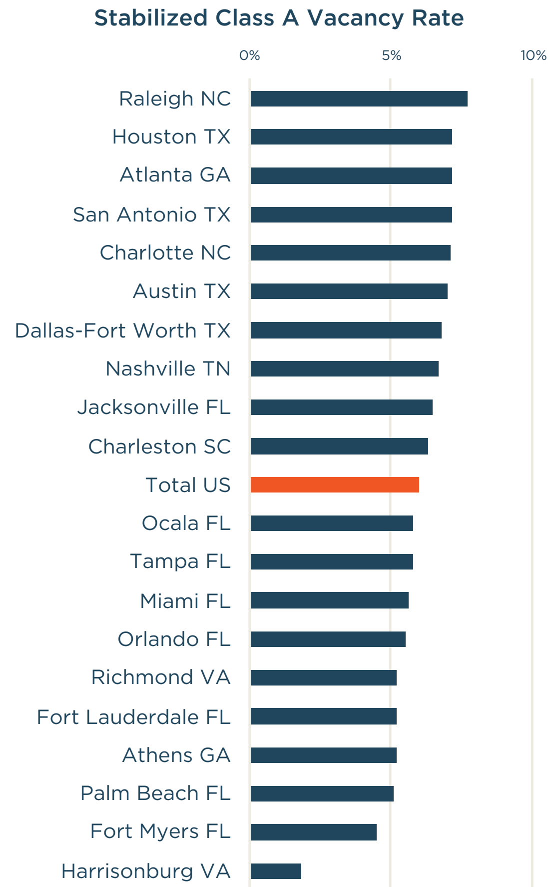
essential driver of this approach continued to be evident during 2022, as the U.S. Census Bureau estimates that population growth in Middleburg's eight states far outpaced the national average at 1.39 percent (equaling 1.4 million people) versus just 0.38 percent for the nation as a whole.

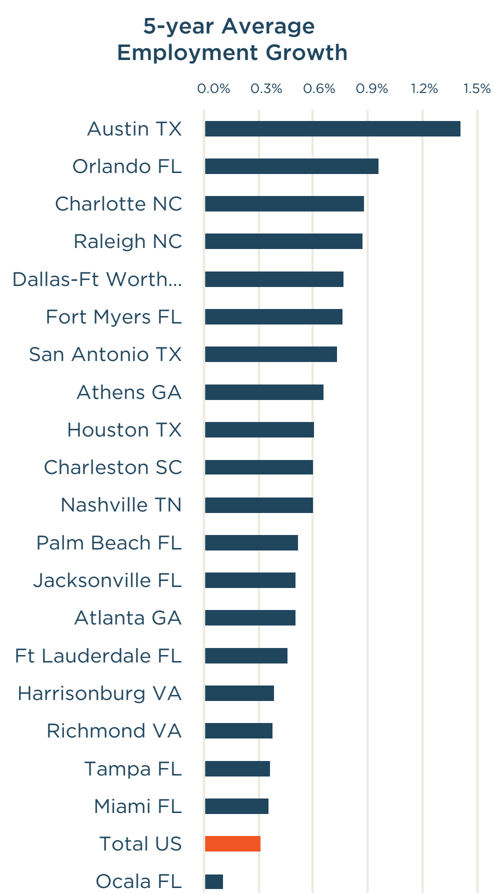
Of course, another part of our value proposition is our skill at identifying the best markets within our states—and the best locations within those markets—for our full-service activities including new developments and property acquisitions. As we have done in previous reports, in the following pages we review demand, supply, and capital market conditions in each of the 15 largest metro areas in Middleburg's arc, along with a sample of five smaller markets from among those that are "also on our radar."

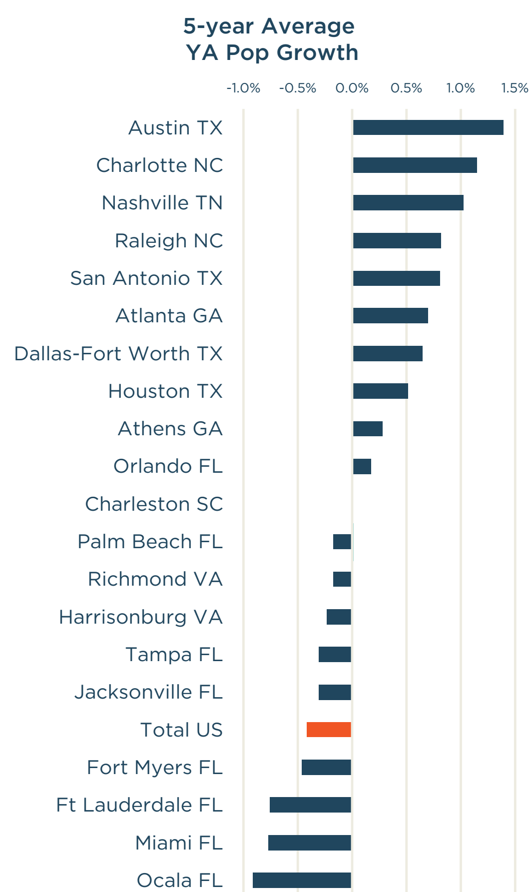
Population Growth 2021-22




Class A Effective Rent/Unit
$0
$1,000
$2,000
$3,000
Miami FL
Palm Beach FL
Fort Lauderdale FL
Total US
Tampa FL
Fort Myers FL
Orlando FL
Atlanta GA
Nashville TN
Charleston SC
Austin TX
Dallas-Fort Worth TX
Charlotte NC
Jacksonville FL
Raleigh NC
Houston TX
Harrisonburg VA
Ocala FL
Richmond VA
Athens GA
San Antonio TX


Stabilized Class A Vacancy Rate
0%
5%
10%
Raleigh NC
Houston TX
Atlanta GA
San Antonio TX
Charlotte NC
Austin TX
Dallas-Fort Worth TX
Nashville TN
Jacksonville FL
Charleston SC
Total US
Ocala FL
Tampa FL
Miami FL
Orlando FL
Richmond VA
Fort Lauderdale FL
Athens GA
Palm Beach FL
Fort Myers FL
Harrisonburg VA


5-year Average Employment Growth
0.0%
0.3%
0.6%
0.9%
1.2%
1.5%
Austin TX
Orlando FL
Charlotte NC
Raleigh NC
Dallas-Ft Worth...
Fort Myers FL
San Antonio TX
Athens GA
Houston TX
Charleston SC
Nashville TN
Palm Beach FL
Jacksonville FL
Atlanta GA
Ft Lauderdale FL
Harrisonburg VA
Richmond VA
Tampa FL
Miami FL
Total US
Ocala FL


5-year Average YA Pop Growth
-1.0%
-0.5%
0.0%
0.5%
1.0%
1.5%
Austin TX
Charlotte NC
Nashville TN
Raleigh NC
San Antonio TX
Atlanta GA
Dallas-Fort Worth TX
Houston TX
Athens GA
Orlando FL
Charleston SC
Palm Beach FL
Richmond VA
Harrisonburg VA
Tampa FL
Jacksonville FL
Total US
Fort Myers FL
Ft Lauderdale FL
Miami FL
Ocala FL

Dallas / Fort Worth, TX

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

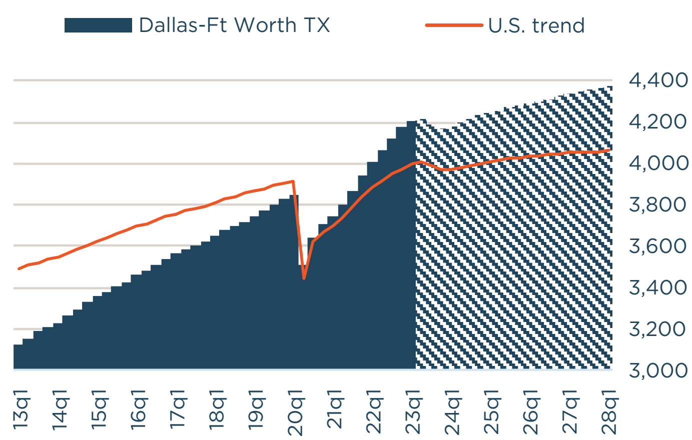
MIDDLEBURG'S RANK #6 AMONG 15 LARGEST METROS

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.

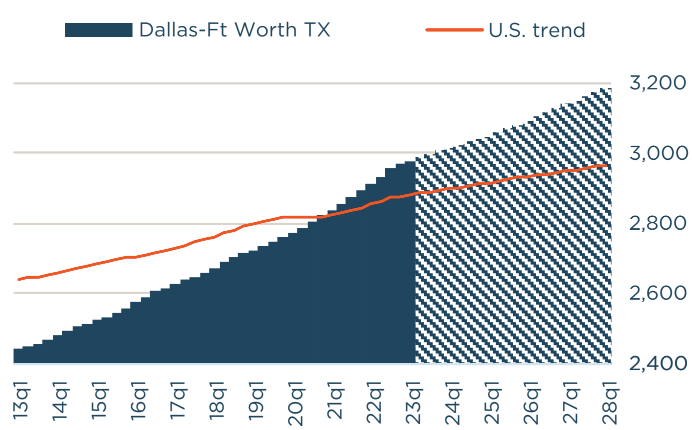
Dallas's population already skews young, but Oxford Economics forecasts that over the next five years the metro area will grow by an additional 38 thousand young adults (0.6 percent per year), 163 thousand new **Employees** (0.8 percent per year) and 209 thousand new **Households** (1.4 percent per year) all total numbers that lead every other metro area in Middleburg's part of the country.

Both house price appreciation (1.8 percent per year) and median household income (2.2 percent per year) are forecast to grow less rapidly in the Dallas / Fort Worth metro area than in the nation as a whole (2.3 percent and 2.5 percent respectively), and the fact that house prices are expected to lag by more than incomes implies that the house price to income ratio will each more than in the rest of the country. **Demand** for Class A rental housing units will grow by 28.7 thousand units—surpassing every other metro in Middleburg's territory save Atlanta—but in percentage terms the growth rate is expected to be extraordinarily weak by Middleburg's standards at just 2.3 percent per year. Nevertheless, **Effective Rent per Unit** and **Net Operating Income** are both expected to grow moderately at 1.5 percent per year. **New Construction** and **Net Deliveries** have remained moderate for several years, providing some reassurance against oversupply concerns.

Total Employment (000s)

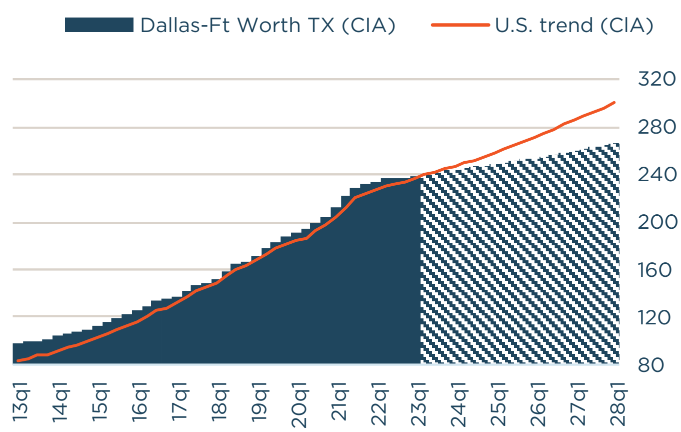


Number of Households (000s)

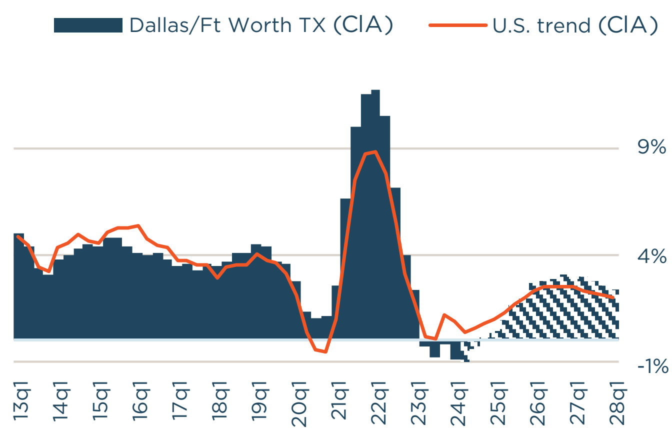


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
261,985 ↑1.1%	17,541 ↑ 2.9%	$265,652 ↑ 0.6%	$304 million ↓ 89%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
6.3% ↓ 9.3%	$84,563 ↑ 0.4%	6.8% ↑ 0.4%	+14 bps above US avg

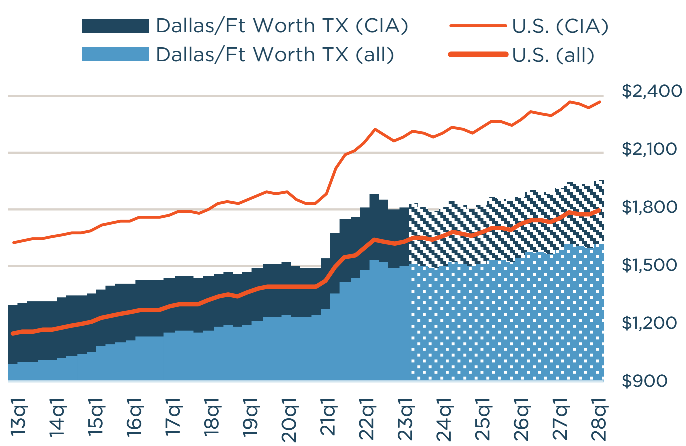
Units in Demand (000s)



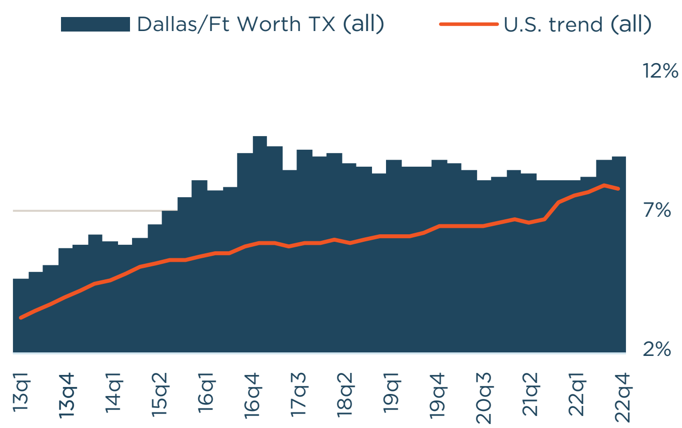
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



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

Houston, TX

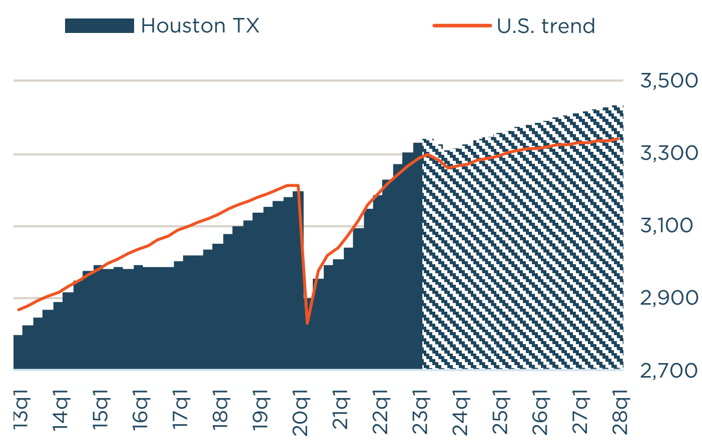
Houston's reduced exposure to the oil & gas industry makes what was already a strong market more appealing to long-term investors.

MIDDLEBURG'S RANK #11 AMONG 15 LARGEST METROS

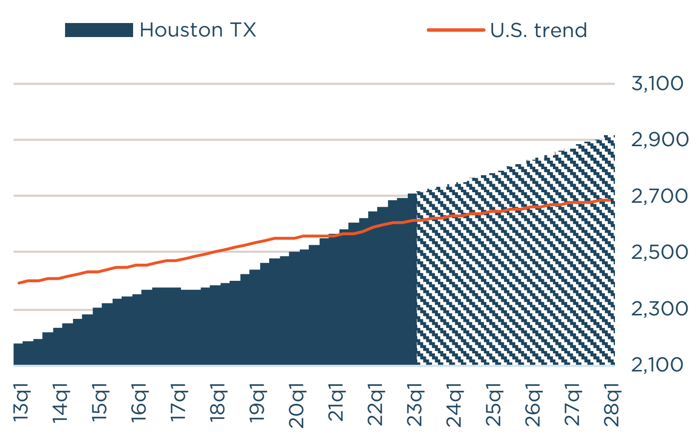
The demographic drivers of rental housing demand in Houston should continue to be strong: for example, Oxford Economics forecasts that the city's young adult population will grow by 27 thousand over the next five years (0.5 percent per year), and growth in **Number of Households** and **Total Employment** should lead all other metro areas in Middleburg's arc except Dallas / Fort Worth at 207 thousand (1.5 percent per year) and 102 thousand (0.6 percent per year) respectively. Median household income is expected largely to keep pace with house price appreciation over the next five years, preserving the current house price to income ratio even while it is expected to ease in many other metro areas.

CoStar forecasts that Houston's rental housing fundamentals will not keep up with those in most other metro areas along Middleburg's arc: for example, growth in the number of class A **Units in Demand** is expected to be substantially lower than average for large metros in Middleburg's territory at 2.6 percent per year, while **Effective Rent per Unit** and **Net Operating Income** are expected to trail the national average very slightly at 1.3 and 1.2 percent per year respectively. **Subdued Construction and Net Deliveries** of Class A properties over the past six years, however, suggest that no oversupply problems are on the horizon.

Total Employment (000s)

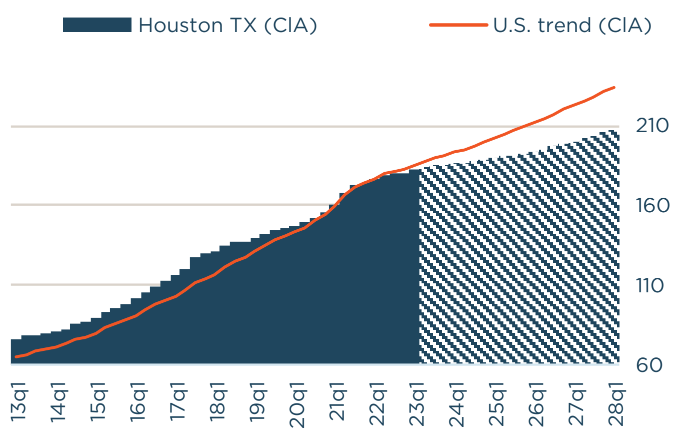


Number of Households (000s)

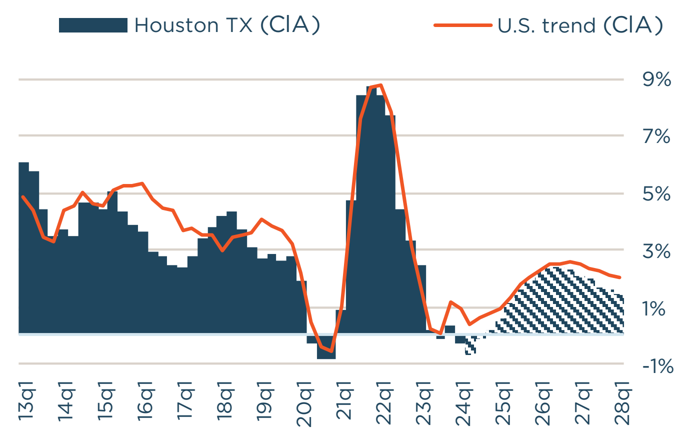


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
200,809	9,302	$247,050	$1,624 million
↑ 1.4%	↓ 17%	↑ 0.6%	↓ 55%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
6.2%	$78,248	7.2%	+41 bps
↓ 6.9%	↑ 0.5%	↑ 0.1%	above US avg

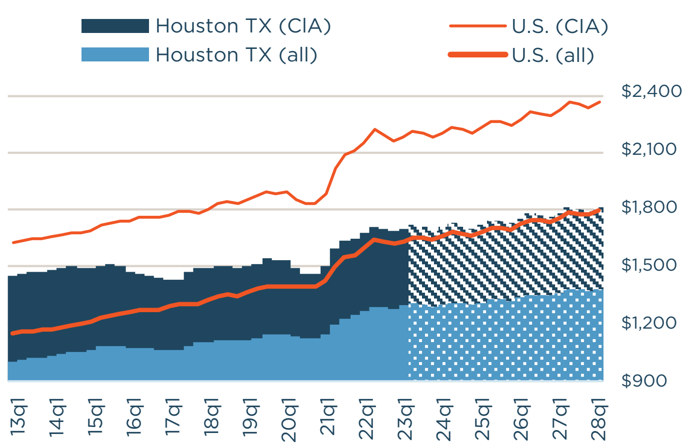
Units in Demand (000s)



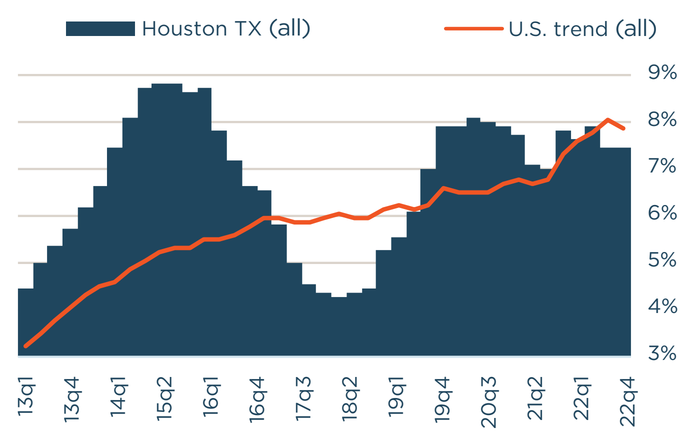
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



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

Atlanta, GA

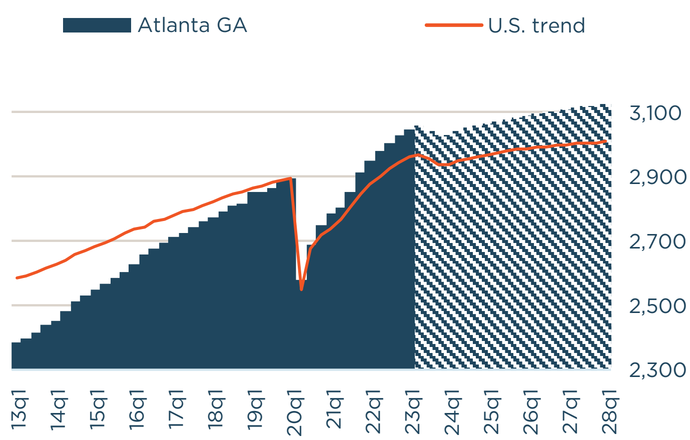
Atlanta is similar in many respects to the Dallas / Fort Worth metro area, but at a slightly smaller and slightly less dynamic scale.

MIDDLEBURG'S RANK #10 AMONG 15 LARGEST METROS

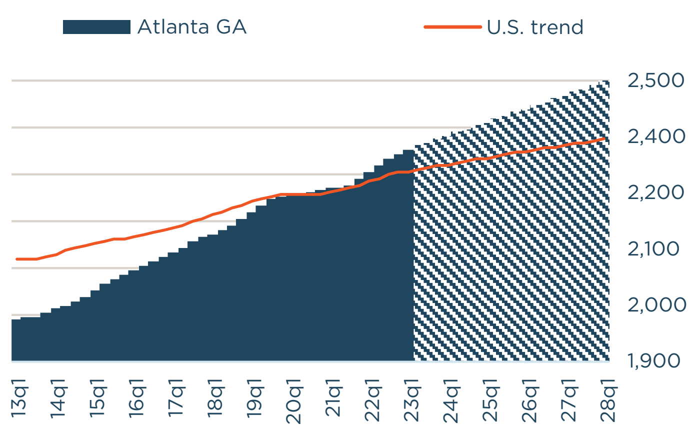
The largest market in Middleburg's territory outside of Texas, Atlanta is projected to see growth over the next five years of 0.7 percent per year in the number of young adults (31 thousand), 1.2 percent per year in the **Number of Households** (146 thousand) and 0.5 percent per year in **Total Employment** (77 thousand), all at least 60% better than the national rate and all above median for metro areas in Middleburg's territory. Homebuyer affordability is expected to ease in Atlanta relative to the rest of the country, with house prices increasing less rapidly at 1.3 percent per year (compared with 2.3 percent for the nation as a whole) while median household incomes rise at 2.1 percent per year (compared with 2.2 for the country).

In the rental housing market, the number of class A **Units in Demand** is expected to grow at 5.0 percent per year, slightly higher than the national average of 4.9 percent, implying 34 thousand new units, but **Effective Rent per Unit** is expected to fall sharply behind both the national average (1.7 percent per year) and the median for metro areas in Middleburg's part of the country (2.0 percent) at just 0.4 percent per year. Worse, CoStar forecasts that **Net Operating Income** will stagnate over the next five years, growing at just 0.1 percent per year—weaker than any metro area in Middleburg's arc, large or small, except Roanoke VA.

Total Employment (000s)

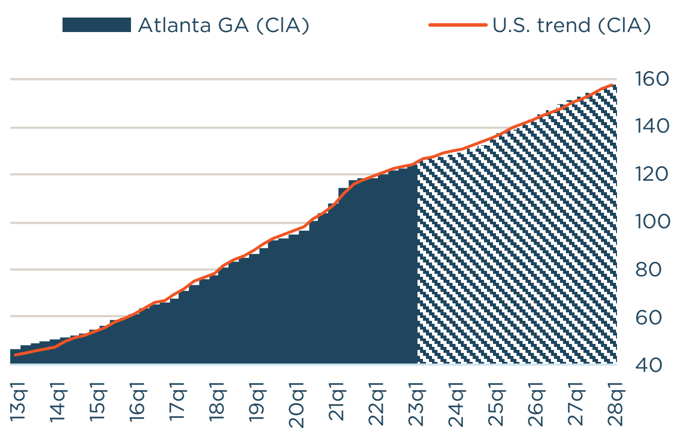


Number of Households (000s)

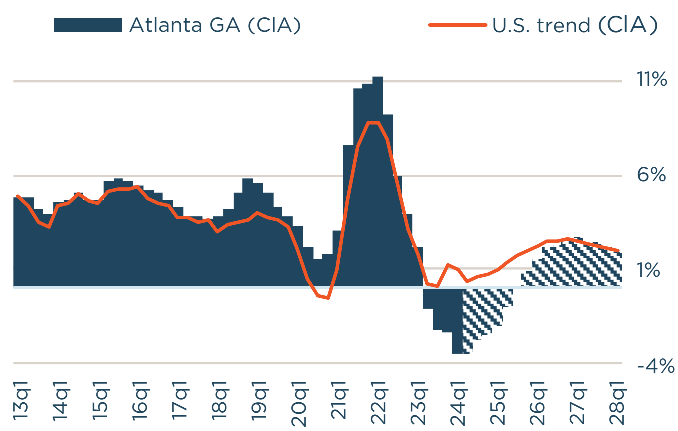


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
138,907	25,860	$334,703	$1,120 million
↑ 1.3%	↓ 0.1%	↑ 0.6%	↓ 69%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
7.1%	$85,828	7.2%	0 bps
↓ 9.2%	↑ 0.9%	↑ 0.4%	from US avg

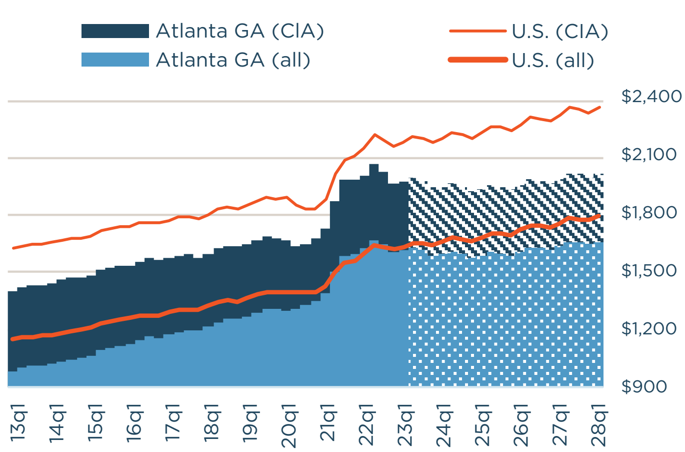
Units in Demand (000s)



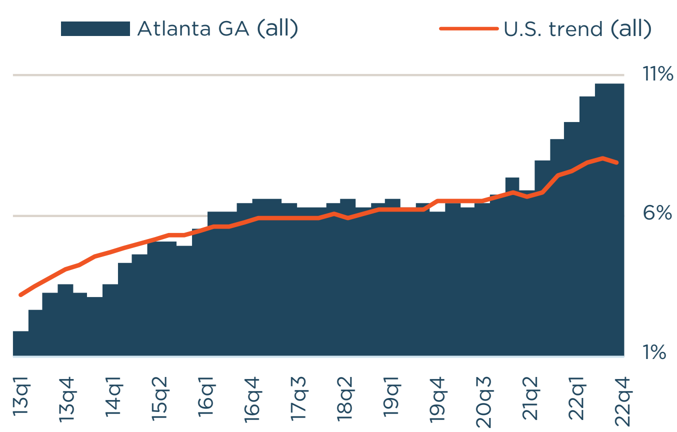
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



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

Tampa, FL

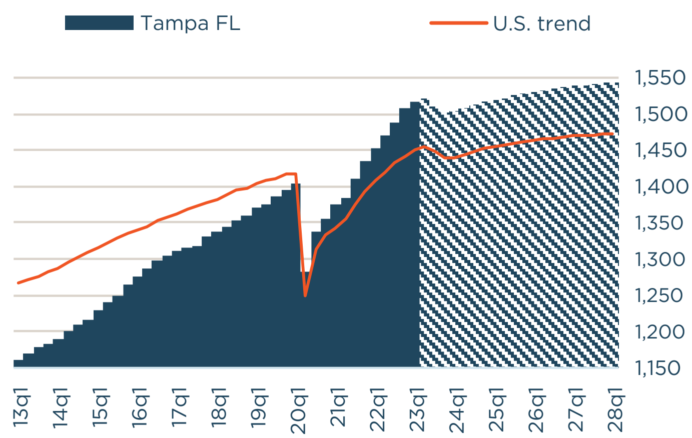
The Tampa market should continue to present appealing opportunities even though underlying demographic fundamentals are not as strong as in other metros in the area.

MIDDLEBURG'S RANK #13 AMONG 15 LARGEST METROS

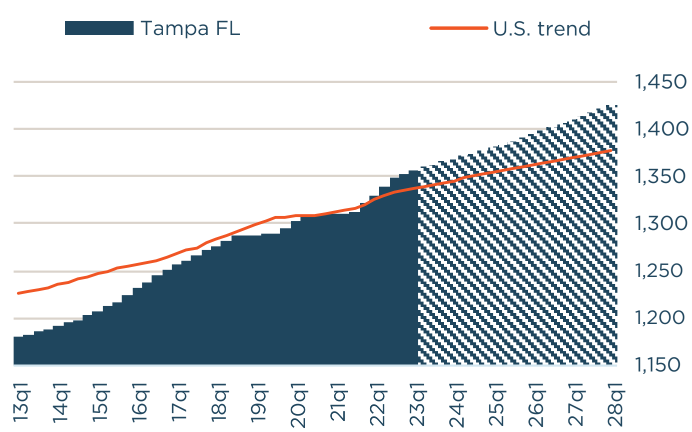
Tampa is not expected to grow as dynamically as other markets in Middleburg's arc. For example, Oxford Economics forecasts that over the next five years Tampa's young adult population will shrink by 0.3 percent per year while **Total Employment** grows at just 0.4 percent per year (27 thousand) and its **Number of Households** grows at a slightly better rate of 1.0 percent per year (68 thousand). On top of that, Tampa's median household income is projected to grow slightly less than the national average at just 2.4 percent per year, reflecting its increasing appeal among retirees.

Furthermore, homeownership affordability should ease as house price appreciation is forecast to lag the nationwide average significantly at 1.3 percent per year versus 2.3 percent nationally. Nevertheless, CoStar projects that the number of **Units in Demand** will rise by 5.1 percent per year (15 thousand), exceedomg the national rate, while growth in both **Effective Rent per Unit** and **Net Operating Income** keep pace with the national average of 1.7 percent per year. **Construction and Net Deliveries**, however, have been well above the national average relative to existing inventory, giving rise to oversupply concerns.

Total Employment (000s)

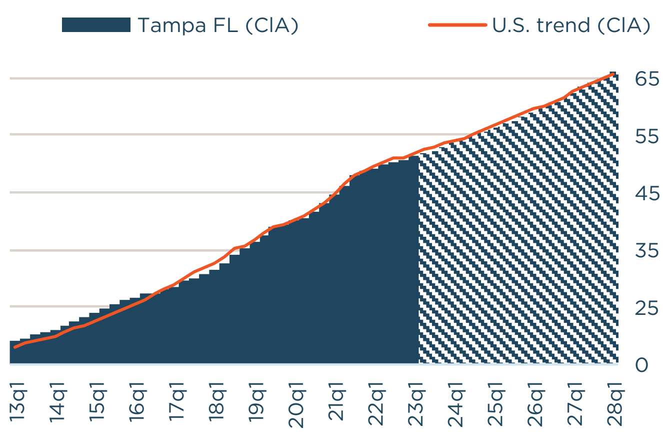


Number of Households (000s)

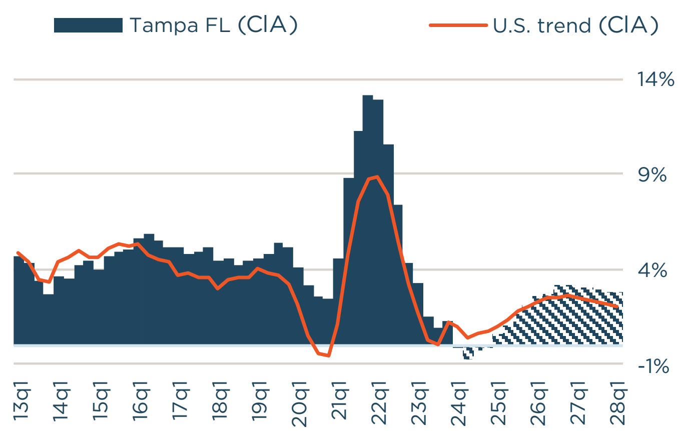


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
55,788	7,464	$331,120	$260 million
↑ 0.9%	↑ 1.2%	↑ 1.4%	↑ 1.6%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
7.3%	$68,796	5.8%	+1 bps
↓ 12.7%	↑ 0.7%	↑ 0.2%	above US avg

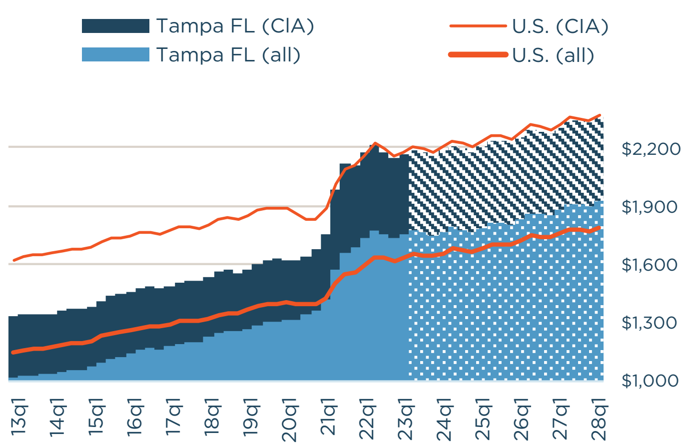
Units in Demand (000s)



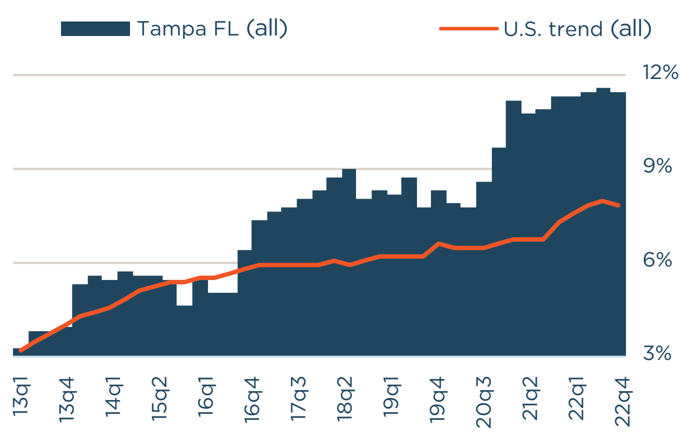
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



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

Charlotte, NC

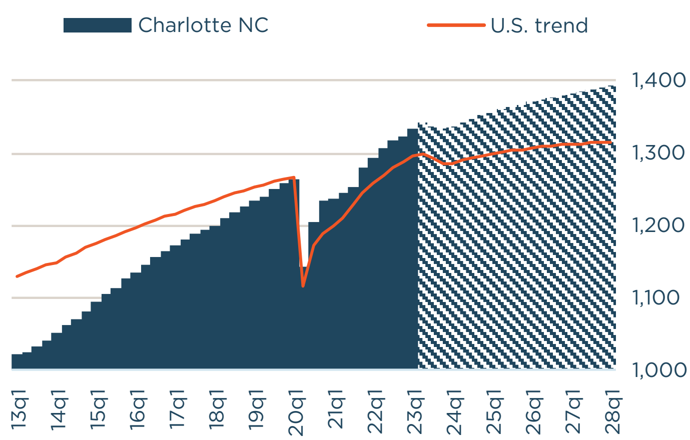
We expect demand for rental housing in Charlotte to be supported by very strong growth in all key demand drivers as it continues its fascinating transformation from a textile manufacturing hub to a diversified hub for finance and high-value manufacturing.

MIDDLEBURG'S RANK #8 AMONG 15 LARGEST METROS

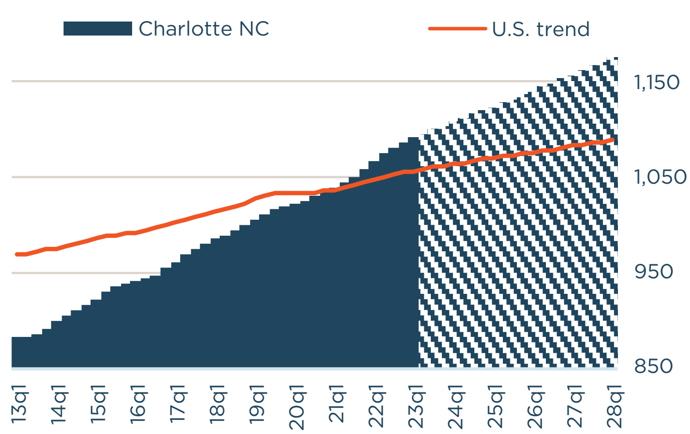
Charlotte's economy has successfully shed its dependence on low-value textiles with its nationally prominent finance sector and the growth of advanced non-textile manufacturing. As a result, over the next five years Oxford Economics forecasts that its young adult population will grow at 1.1 percent per year (23 thousand), trailing only Austin, while growth in **Total Employment** trails only Austin and Orlando at 0.9 percent per year (60 thousand) and growth in the **Number of Households** trails only Austin and matches Orlando and Houston at 1.5 percent per year (83 thousand)—all, of course, substantially better than the national average.

Homebuyer affordability is expected to ease slightly as house price appreciation averaging 1.7 percent per year lags median household income growth of 2.1 percent per year.. Nevertheless, CoStar expects the number of class A rental **Units in Demand** to grow by 18 thousand at a comfortably above-average rate of 5.7 percent per year. **Effective Rent per Unit** and **Net Operating Income** are likely to grow less rapidly over the next five years than in other markets in Middleburg's territory at just 1.1 and 1.2 percent per year respectively, but the main reason for concern about Charlotte's operating fundamentals comes from **Construction and Deliveries** that have far outpaced the national average and seem likely to exceed the growth in demand over the next three years.

Total Employment (000s)

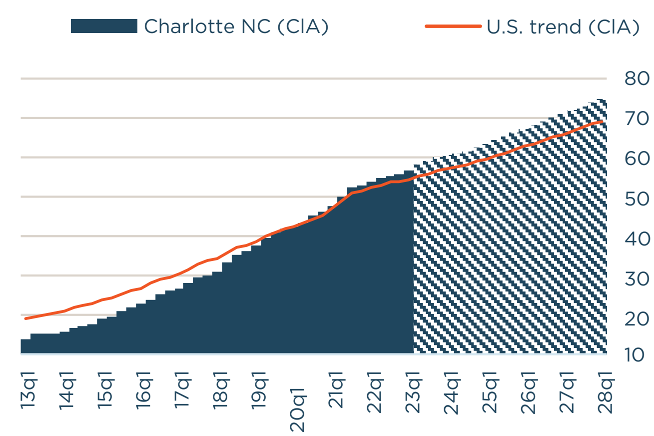


Number of Households (000s)

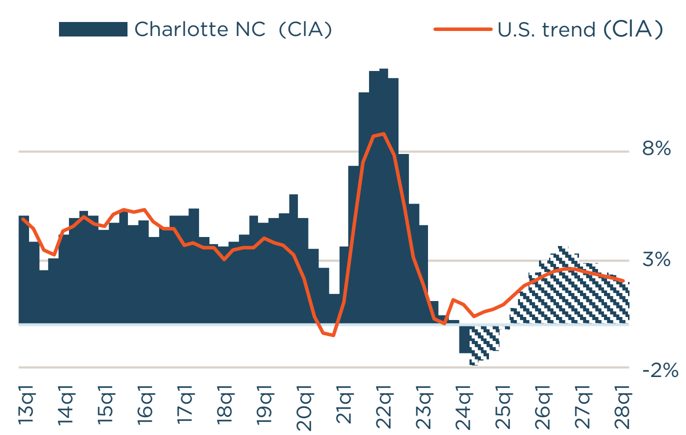


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
64,132	9,295	$327,606	$288 million
↑ 2.0%	↓9.4%	↑ 1.1%	↓ 87%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
11.0%	$77,667	7.1%	-19 bps
↓ 7.6%	↑ 0.7%	↑ 0.2%	below US avg

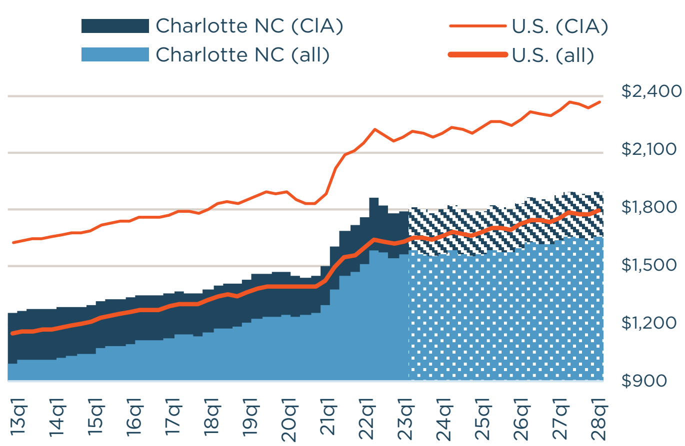
Units in Demand (000s)



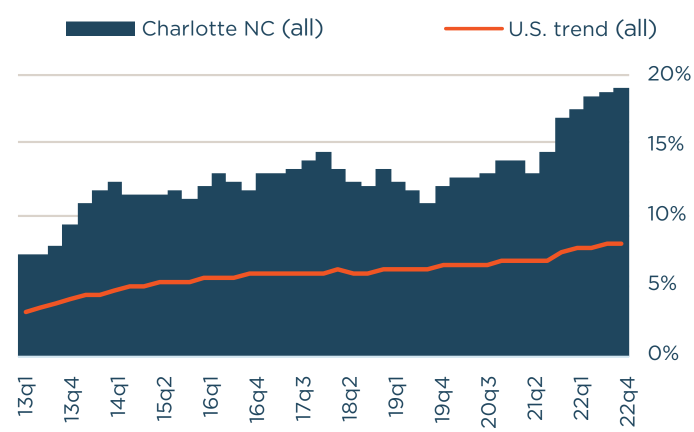
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



Representative large employers: 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 assume control of the Reedy Creek Improvement District introduces an unwelcome degree of uncertainty.

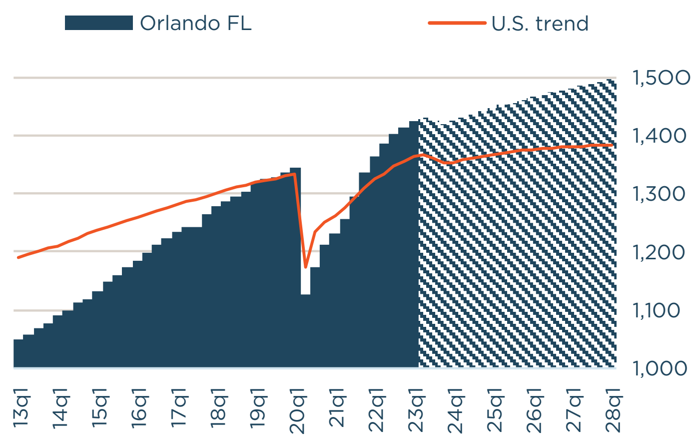
MIDDLEBURG'S RANK #5 AMONG 15 LARGEST METROS

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 1.5 percent per year, respectively, adding 70 thousand jobs and 81 thousand households. Oxford also expects above-average growth in Orlando's **Young Adult Population** at 0.2 percent per year (3 thousand) while the young adult population of the U.S. shrinks by -0.4 percent per year.

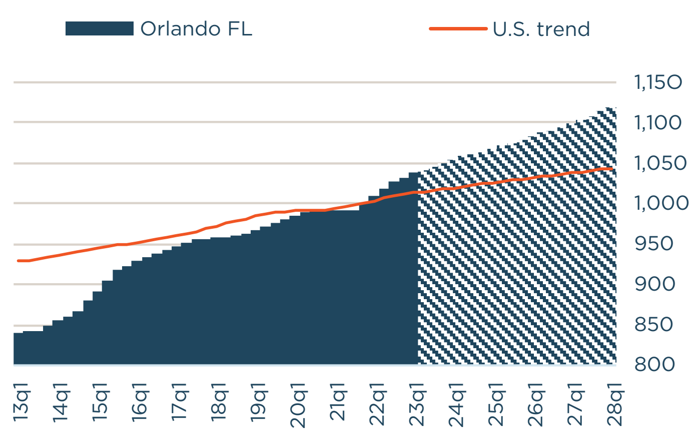
Orlando's homebuying affordability problem is expected to improve over the next five years as incomes are expected to grow at 2.4 percent per year compared to home prices at just 1.3 percent. Nevertheless, CoStar forecasts that growth of **Effective Rent per Unit** at 1.8 percent per year and **Net Operating Income** at 1.9 percent per year will slightly outpace the national average over the same period. Continued strong **Construction and Deliveries** bear close attention, although Orlando's strong demand growth seems likely to keep pace.

The threat posed by an ordinarily pro-growth state government to the continuing success of the Orlando economy is real, though the pre-takeover leadership of the Reedy Creek Improvement District seems to have found a way to preserve the status quo.

Total Employment (000s)

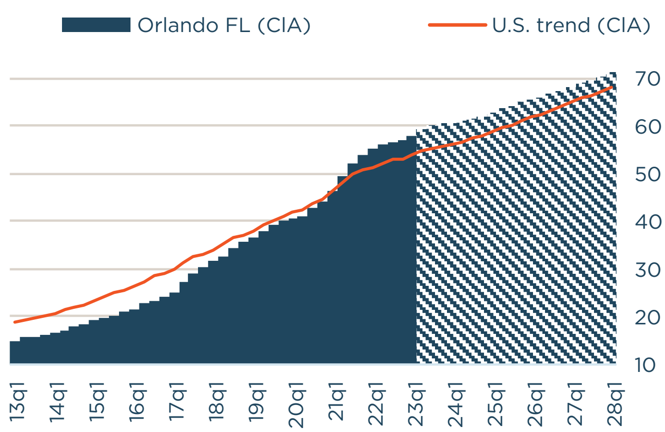


Number of Households (000s)

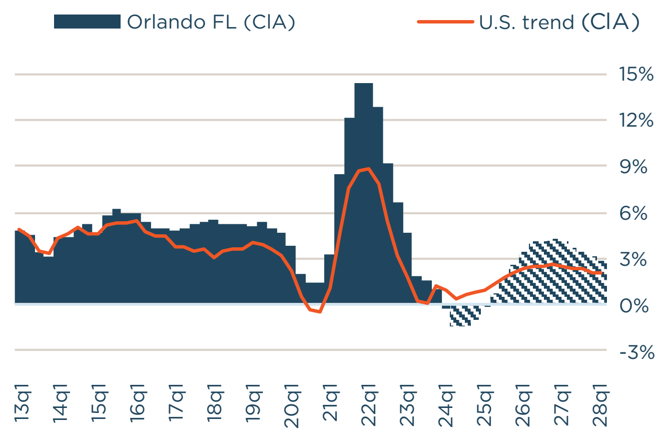


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
63,182	9,323	$338,984	--
↑ 0.6%	↑ 3.9%	↑ 0.9%	↓ 100%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
9,6%	$72,522	5.5%	-14 bps
↓ 10%	↑ 0.7%	↑ 0.1%	below US avg

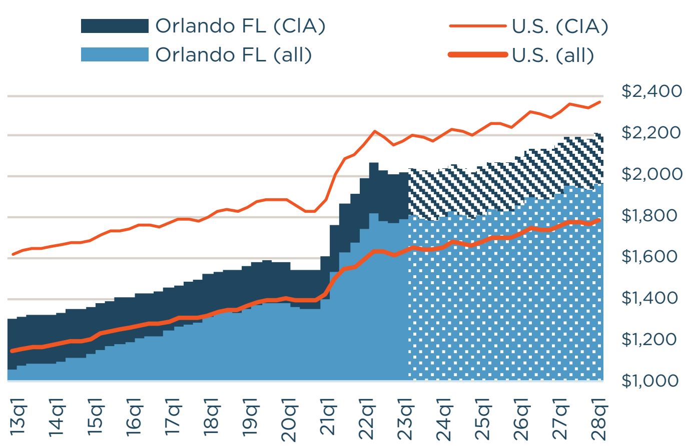
Units in Demand (000s)



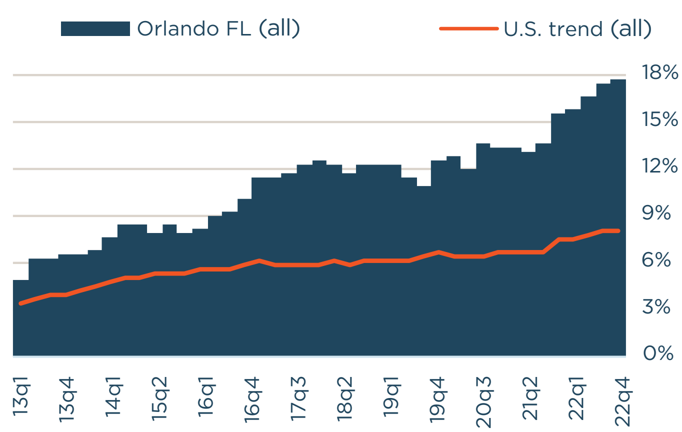
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



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

Austin, TX

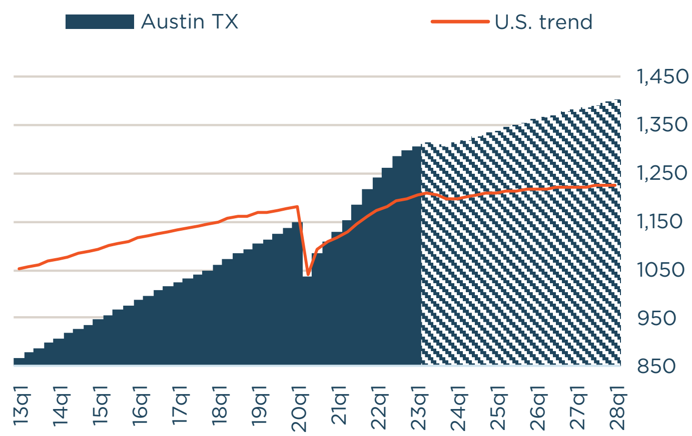
Austin's appeal as a rental housing market should surprise nobody, as the Texas capital has become known as a favorite among young professionals, thanks in large part to the University of Texas and the city's music scene.

MIDDLEBURG'S RANK #3 AMONG 15 LARGEST METROS

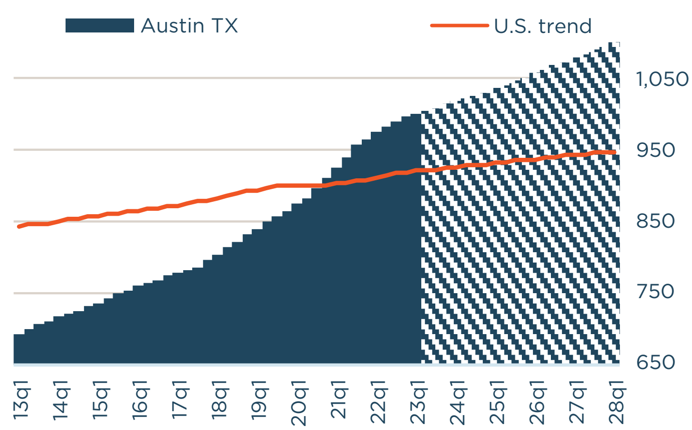
Over the next five years Oxford Economics forecasts that growth in Austin's young adult population, **Number of Households**, and **Total Employment** will outpace every other metro area in Middleburg's footprint in percentage terms at 1.4, 1.4, and 1.9 percent per year, respectively. The absolute numerical growth in young adults and employment are expected to trail only the much larger Houston and Dallas at 29 thousand and 94 thousand respectively, while the number of new households is expected to trail only Houston, Dallas, and Atlanta at 99 thousand.

Homeownership affordability is forecast to remain both a very serious and a growing problem in Austin, with house price appreciation continuing at 3.5 percent per year—well above the national average of 2.3 percent per year—while growth in median household income falls barely short of the national average at 2.4 percent per year. CoStar forecasts that rental housing **Demand** will grow by 19 thousand units over the next five years (3.4 percent per year), sixth among large metro areas in Middleburg's arc. The major concern in Austin is supply, with its strong demand growth threatening to be overrun by continued strong **Construction and Deliveries.** As a result, **Effective Rent per Unit** and **Net Operating Income** are expected to lag behind other markets in the region at 1.2 and 1.4 percent per year respectively.

Total Employment (000s)



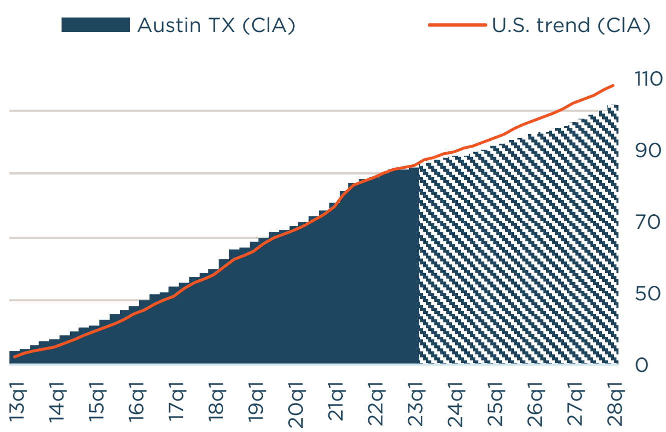
Number of Households (000s)



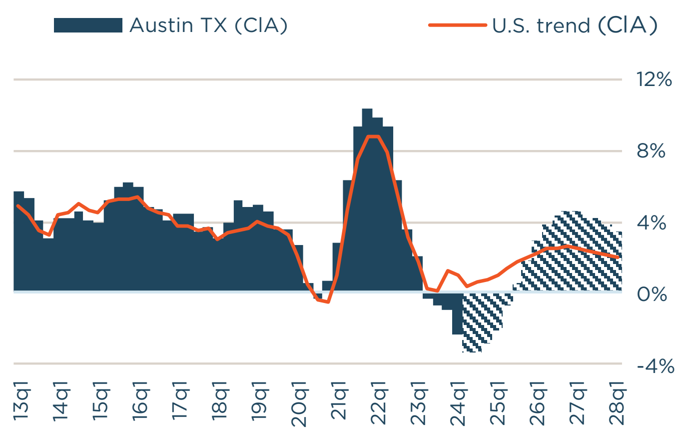
CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
100,546	13,817	$303,816	$689 million
↑ 0.1%	↑ 11%	↑ 0.6%	↓ 16%

12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
-0.1%	$97,675	7.0%	-20 bps
↓ 7.7%	↑ 0.4%	↑ 0.2%	below US avg

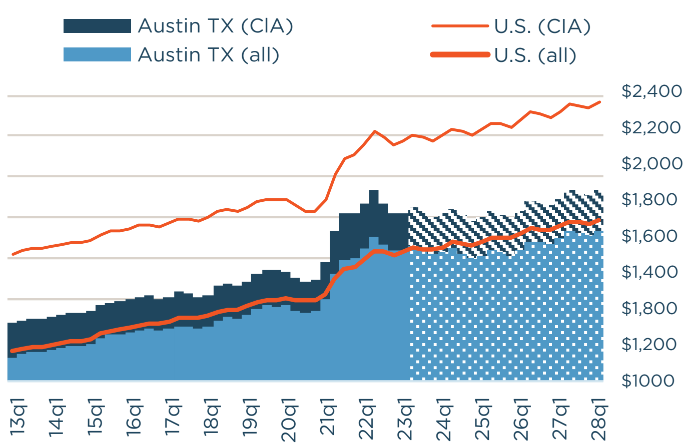
Units in Demand (000s)



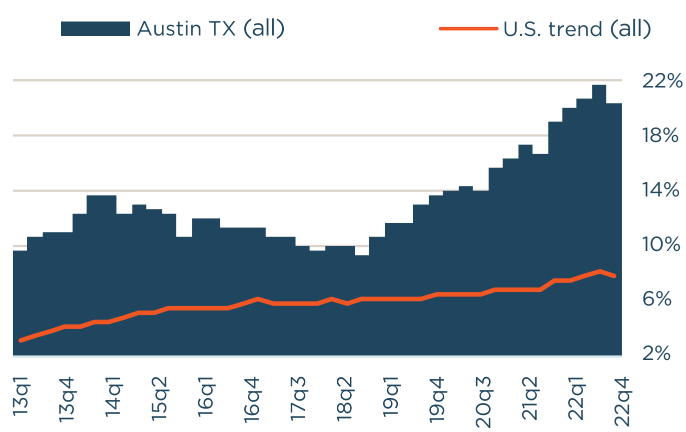
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



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

Miami, FL

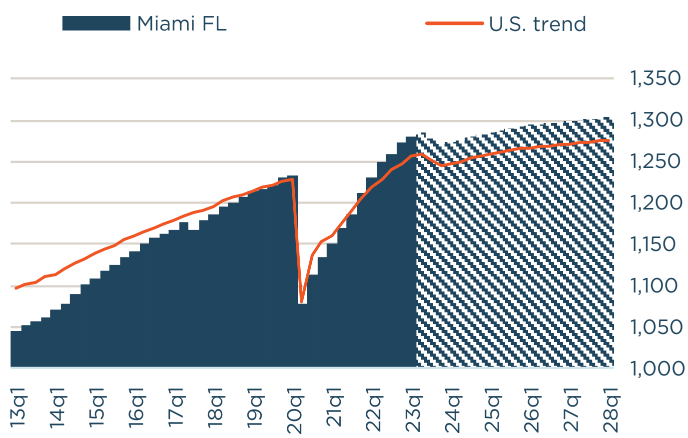
Miami is a market with some solid demand drivers—but one that, ultimately, is more likely to appeal to developers and investors other than Middleburg.

MIDDLEBURG'S RANK #4 AMONG 15 LARGEST METROS

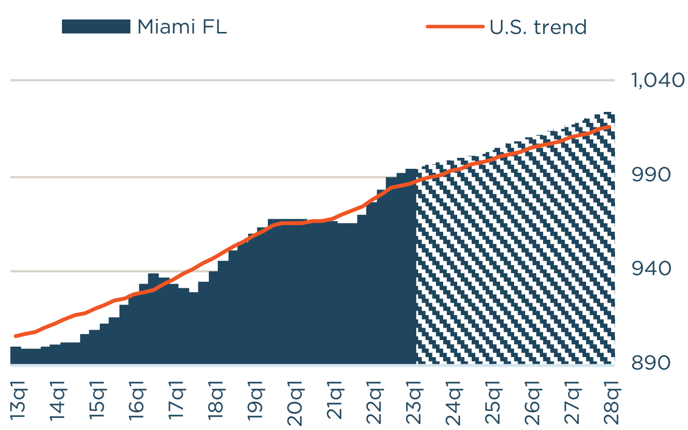
Miami has attracted (or perhaps sought) attention as a new home for tech firms relocating away from the San Francisco Bay area as well as finance firms relocating away from New York City. Even if that happens, it's probably not enough to make the Miami area especially appealing to Middleburg. Oxford 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 -0.8 percent per year, double the national average of -0.4 percent per year, while the **Number of Households** is expected to grow by an anemic (for this part of the country) 31 thousand, or just 0.6 percent per year.

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 2.8 percent per year while median household income increases at just 2.0 percent per year. But Miami's rental housing market tends to be dominated by wealthy retirees in high-end apartments, rather than the younger professional households in middle-market Class A apartments that form the greatest share of Middleburg's resident base. As an example, Miami's current average Class A **Effective Rent per Unit** of $3,104, easily the highest among markets in Middleburg's part of the country, is 5 percent higher than in neighboring Fort Lauderdale or Palm Beach, but Miami's median household income is 11 percent lower than in Fort Lauderdale and 12 percent lower than in Palm Beach.

Total Employment (000s)

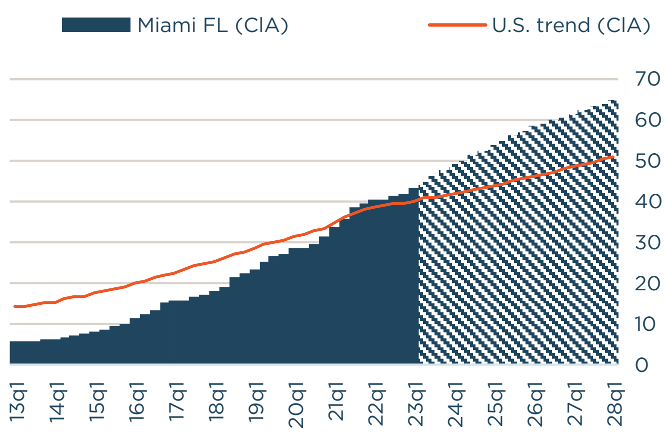


Number of Households (000s)

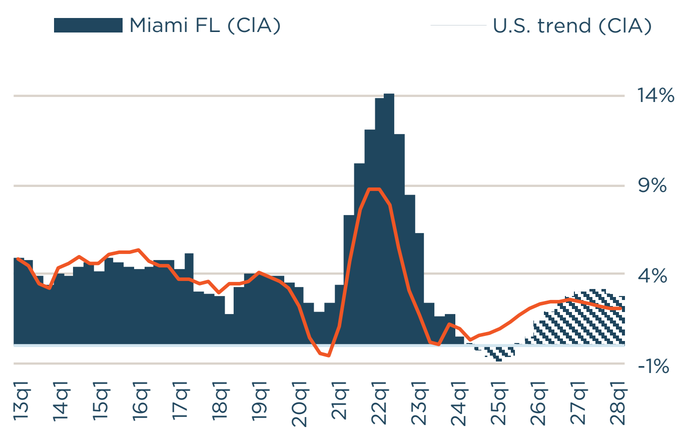


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
48,401	21,524	$470,707	$1,284 million
↑ 4.1%	↓ 4.6%	↑ 0.9%	n/a
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
10.2%	$65,153	5.6%	-23 bps
↓ 11.5%	↓ 0.2%	↑ 0.2%	below US avg

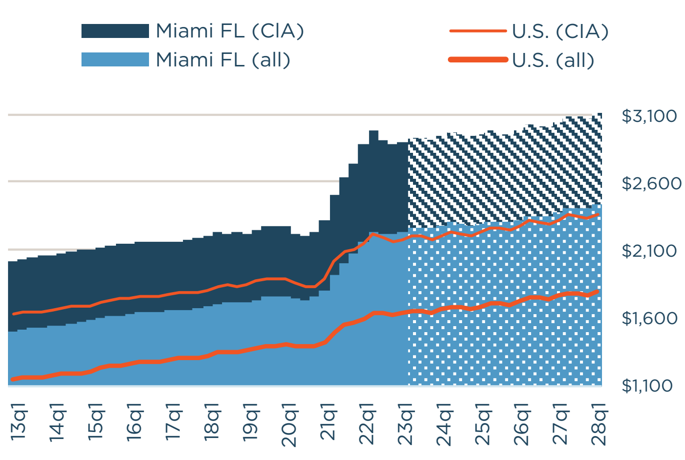
Units in Demand (000s)



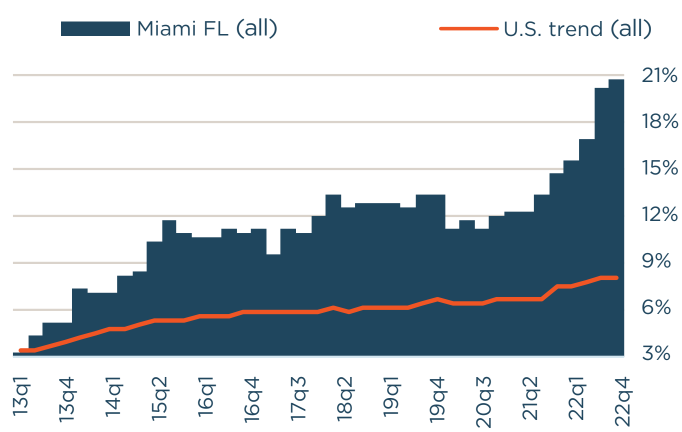
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



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

San Antonio, TX

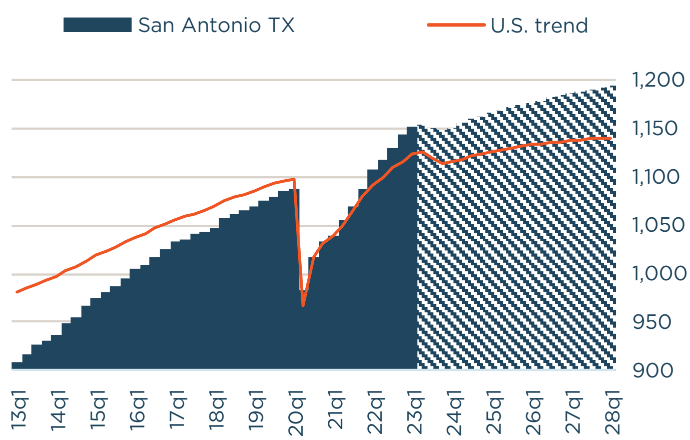
San Antonio has become an interesting market, though perhaps more for acquisition than for development. Only 80 miles from Austin, it is already seeing in-migration from its increasingly unaffordable neighbor, especially among young adults.

MIDDLEBURG'S RANK #15 AMONG 15 LARGEST METROS

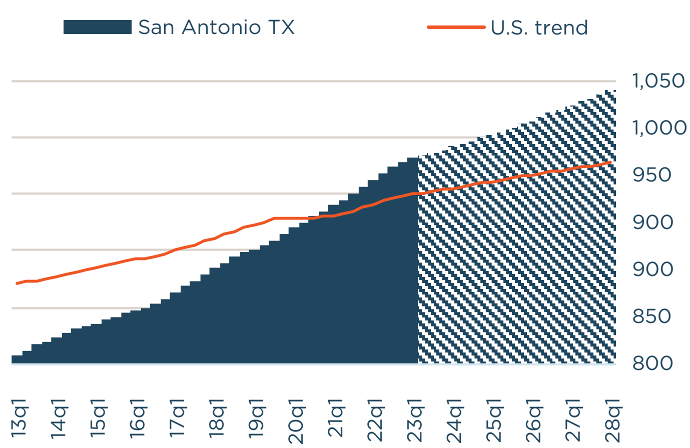
San Antonio's economic base, long dominated by nearby military installations, has diversified impressively in financial services (USAA, JP Morgan Chase), digital technologies (Rackspace Technology, TaskUs), medical care, grocery retailing, and other industries. Oxford Economics forecasts that, over the next five years, San Antonio will experience especially strong growth in all three key demographic drivers of rental housing demand: young adult population (up 16 thousand at 0.7 percent per year), **Number of Households** (up 60 thousand at 1.2 percent per year), and **Total Employment** (up 42 thousand at 0.7 percent per year).

Homebuyer affordability problems are likely to ease very slight in San Antonio over the next few years as house price appreciation trails the national average at 1.9 percent per year. CoStar expects **Demand** for rental housing to increase by 14 thousand units at 4.5 percent per year, and **Construction and Deliveries** have remained manageable, but **Net Operating Income** is forecast to trail every other large metro area in Middleburg's arc at just 0.4 percent per year. The main drawback of San Antonio as a development market are its prevailing rents for Class A properties, with **Effective Rent per Unit** not only lower than for every other metro area in Middleburg's region at just $1,518 per unit but also forecast to increase more sluggishly at just 0.6 percent per year.

Total Employment (000s)

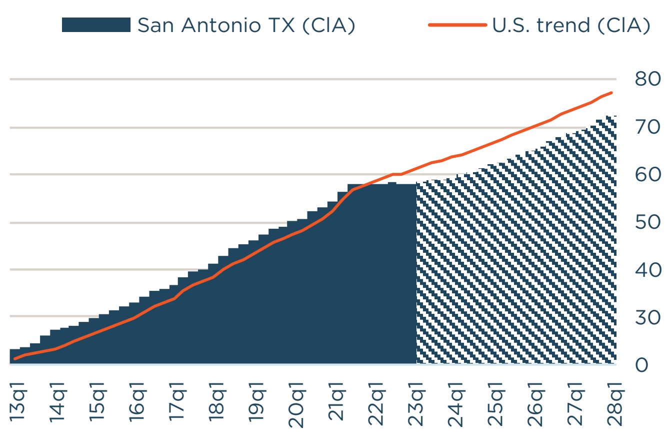


Number of Households (000s)

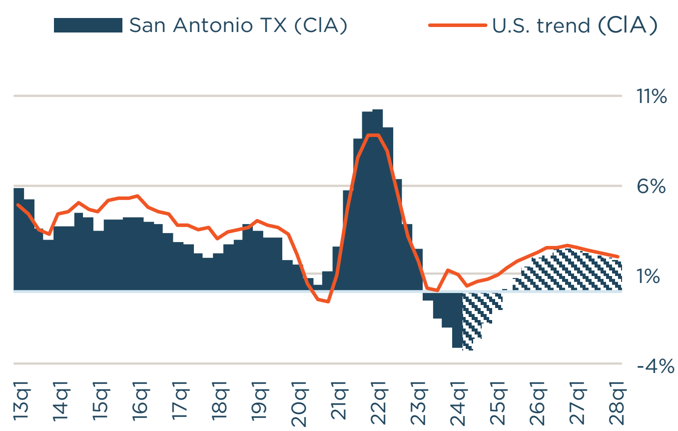


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
63,467	6,716	$201,966	$289 million
↑ 0.3%	↑ 17%	↑ 0.6%	↓ 44%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
7.9%	$72,934	7.2%	24 bps
↓ 7.4%	↑ 0.3%	↑ 0.5%	above US avg

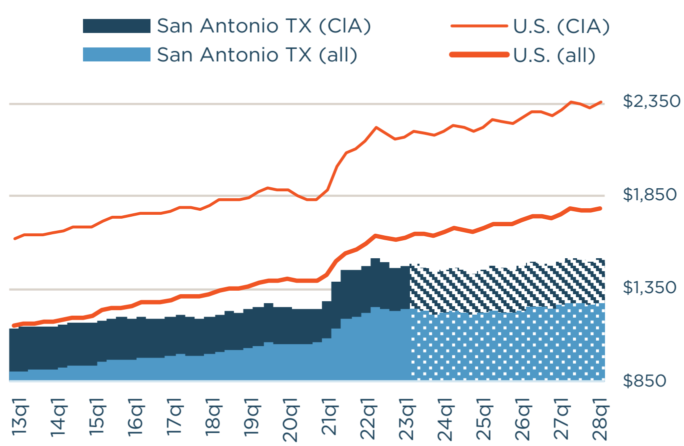
Units in Demand (000s)



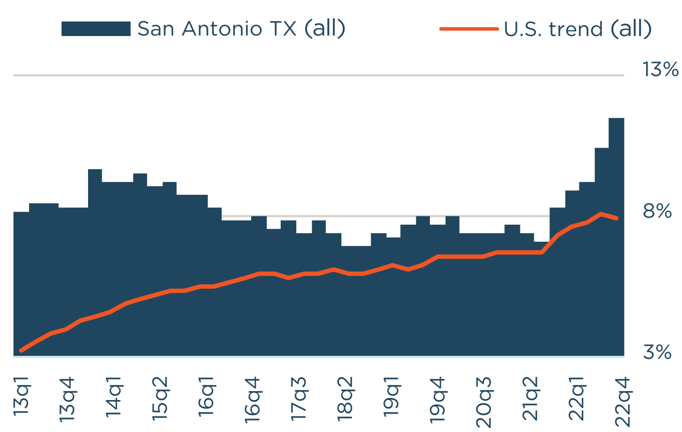
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



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

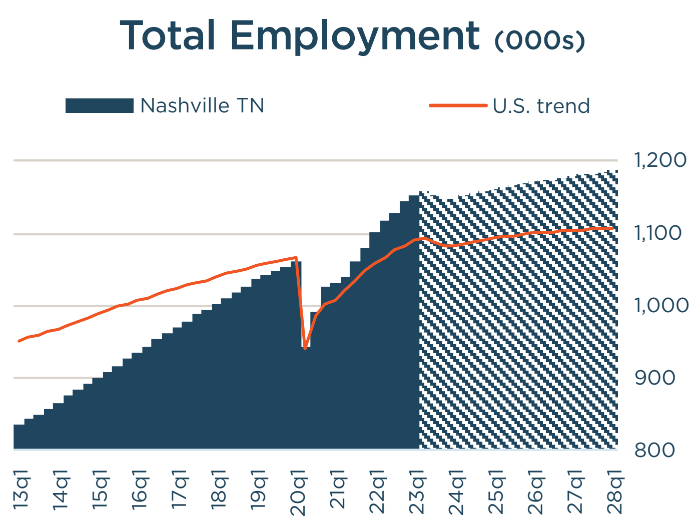
Nashville, TN

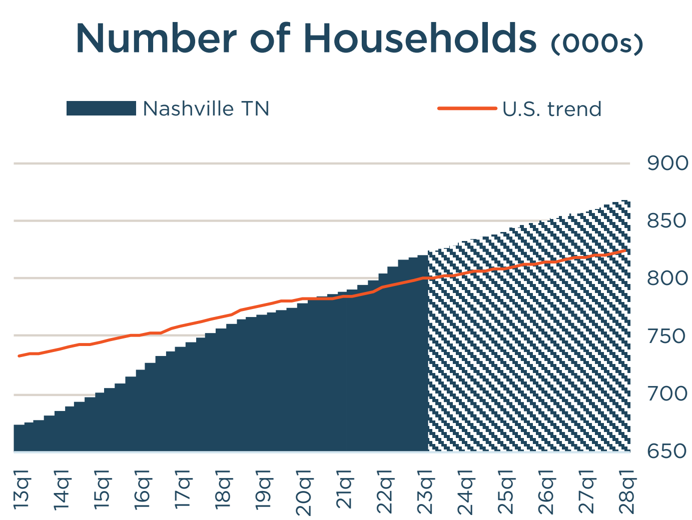
Nashville may as well be called "The New Austin." As in Austin, it's hard to find weak aspects of the Nashville rental housing market; also as in Austin, however, the strength of the Nashville market is widely recognized.

MIDDLEBURG'S RANK #1 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 17 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 35 thousand (0.6 percent per year).

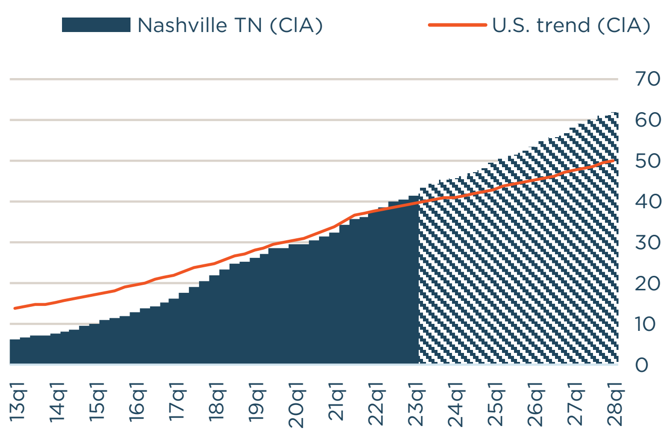
Nashville's homebuyer affordability problem is expected to continue worsening over the next five years, with house price appreciation averaing 3.2 percent per year trailing only Austin while median household income growth merely matches the national average at 2.5 percent per year. The demographic and affordability pressures are expected to increase apartment **Demand** by 20 thousand units (8.3 percent per year) over the next five years; as in Austin, however, the very strong pace of **Construction and Deliveries** pose a distinct oversupply threat. As a result, growth in both **Effective Rent per Unit** and **Net Operating Income** are expected to trail every other metro area in Middeleburg's arc except San Antonio at just 0.6 percent per year.



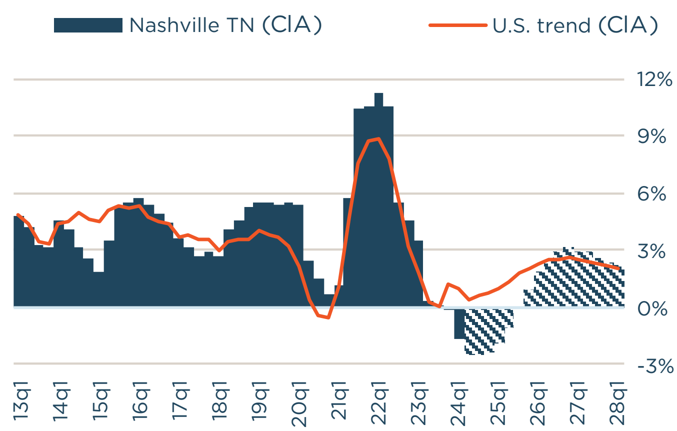


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
49,113	13,478	$354,810	$580 million
↑5.3%	↓13%	↑1.4%	↓58%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
8.8%	$81,759	6.7%	+9 bps
↓8.1%	↑0.7%	↑0.4%	above US avg

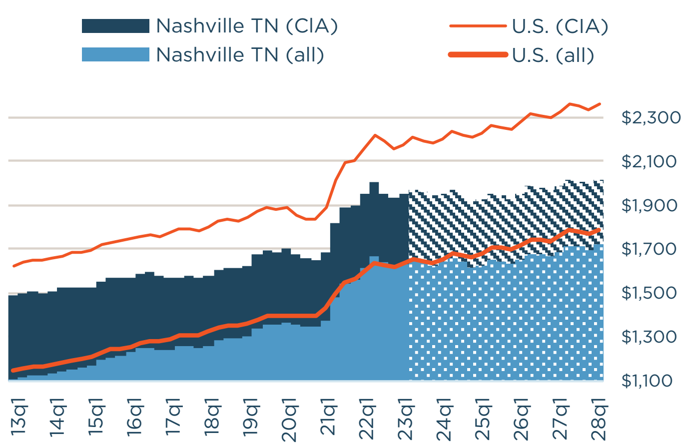
Units in Demand (000s)



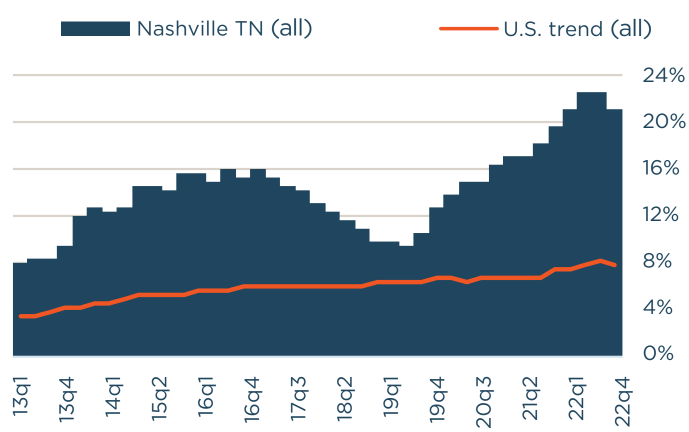
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



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

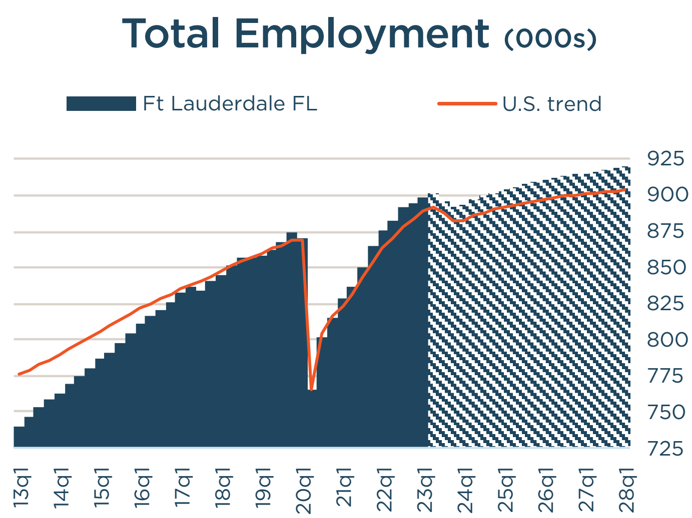
Fort Lauderdale, FL

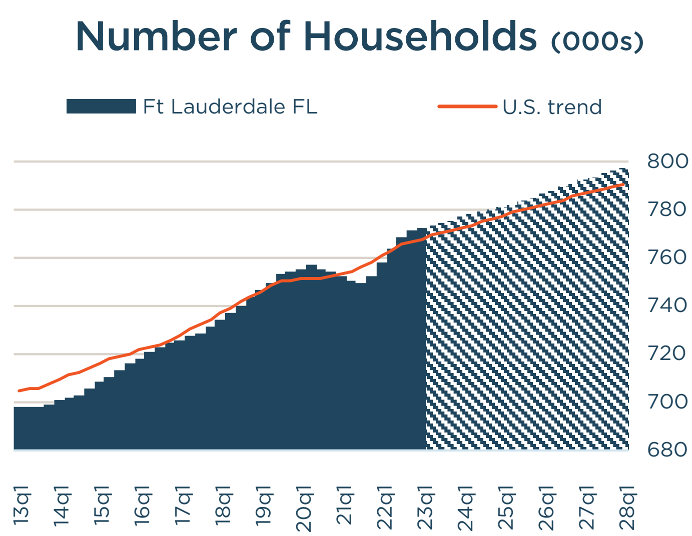
The Fort Lauderdale market shares much in common with its near neighbors Miami and Palm Beach—but those shared traits are the ones most likely to make them appeal more to other developers and investors than to Middleburg.

MIDDLEBURG'S RANK #9 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 $2,945 average effective rent per Class A unit trails only Miami's $3,104 and Palm Beach's $2,960. The transaction market fully reflects that strength, with Class A apartments selling at an average price of $433,359 per unit. On top of that, Oxford Economics forecasts that the house-price-to-income ratio will continue to increase over the next five years with house prices appreciation slightly outpacing the national average at 2.4 percent per year while the median household income increases by just 2.1 percent per year.

Those numbers are not really enough to make Fort Lauderdale especially appealing to Middleburg, though, given that we don't typically compete at the highest end of the rental housing market. More important to us is the fact that growth in the key demographic drivers is expected to be anemic: Oxford Economics forecasts, for example, that the young adult population will contract by 9 thousand over the next five years at -0.8 percent per year, twice as bad as the national average of -0.4 percent per year, while **Total Employment** will grow by just 21 thousand at 0.5 percent per year and the **Number of Households** will grow by just 25 thousand at 0.6 percent per year. As a result, growth in both **Effective Rent per Unit** and **Net Operating Income** are expected to trail the national average—not to mention other metro areas in Middleburg's arc—at just 1.3 and 1.1 percent per year respectively.

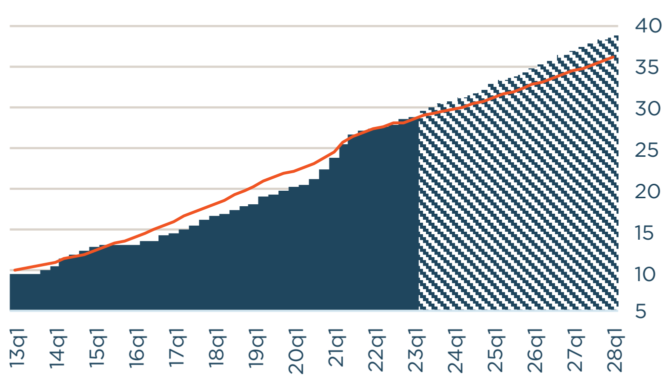




CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
31,441	6,453	$433,359	$660 million
↑ 2.0%	↓ 6.0%	↑ 1.4%	↓ 73%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
8.5%	$73,150	5.2%	2 bps
↓ 11.3%	↑ 0.1%	--	above US avg

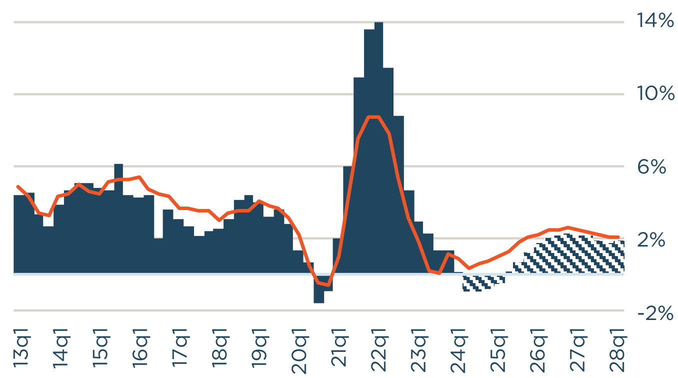
Units in Demand (000s)

Ft Lauderdale FL (CIA) U.S. trend (CIA)



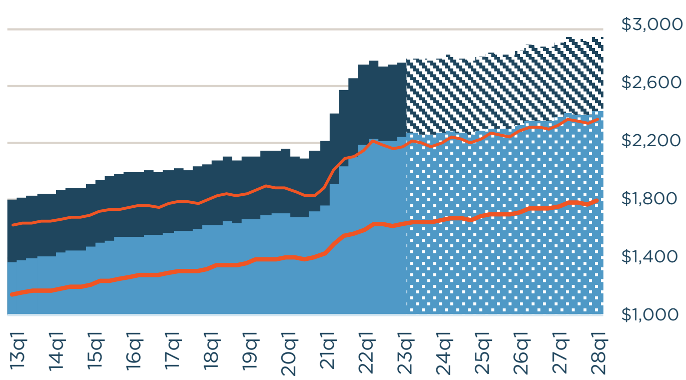
Net Operating Income (trailing 4-qtr)

Ft Lauderdale FL (CIA) U.S. trend (CIA)



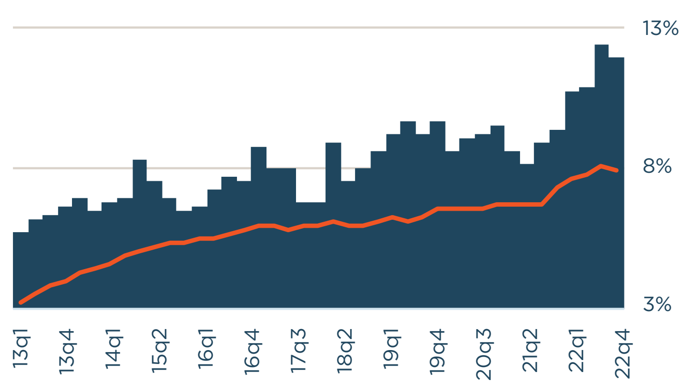
Effective Rent per Unit

Ft Lauderdale FL (CIA) U.S. (CIA)
Ft Lauderdale FL (all) U.S. (all)



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

Fort Lauderdale FL (all) U.S. trend (all)



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

Jacksonville, FL

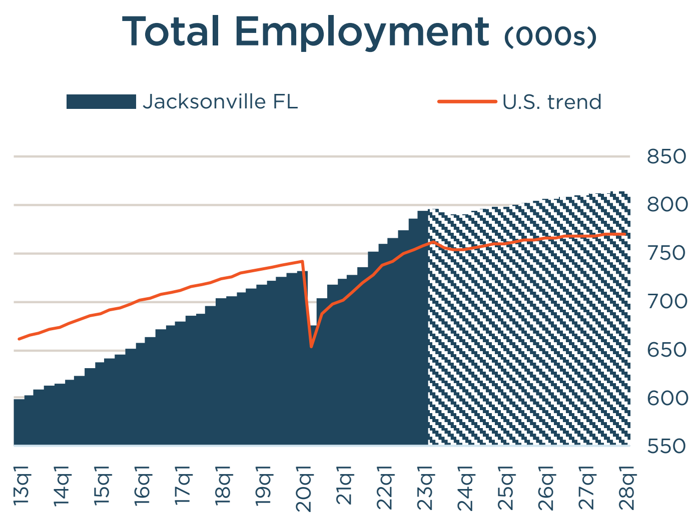
Jacksonville's economy is continuing to diversify beyond its former over-reliance on the cruise industry and other port activities, especially with growth in financial services.

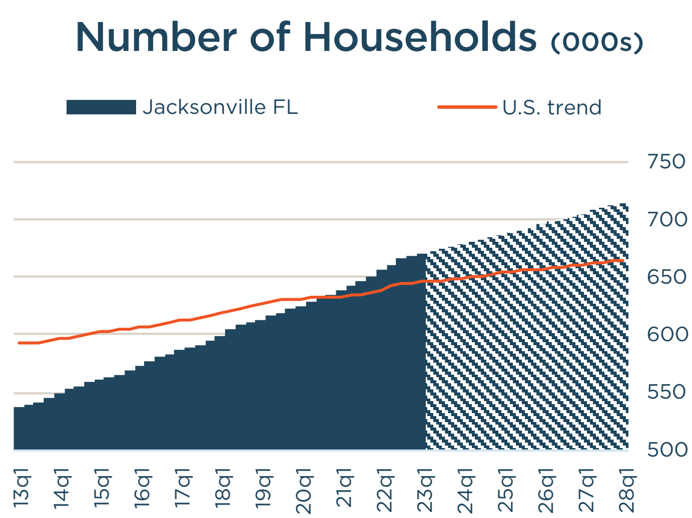
MIDDLEBURG'S RANK #14 AMONG 15 LARGEST METROS

The growth rate of GDP in the Jacksonville metro area has exceeded the national average for several years and is expected to continue. Oxford Economics forecasts that the **Number of Households** in Jacksonville will increase by 44 thousand over the next five years at 1.3 percent per year, comfortably above average for metro areas in Middleburg's part of the country, while **Total Employment** will grow at 0.5 percent per year, resulting in 20 thousand additional jobs. The young adult population, however, is expected to shrink by -0.3% per year, only very slightly better than the national average of -0.4% per year and worse than all large metro areas in Middleburg's arc other than Miami and Fort Lauderdale.

Neither is a homeownership affordability problem likely to drive apartment demand, as house prices are expected to grow substantially less than in the rest of the country at just 0.7 percent per year, significnatly less than the growth rate of median household income at 2.3 percent per year.

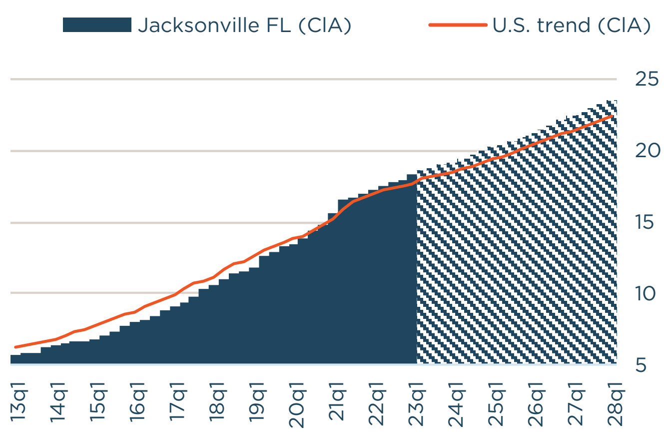
Given the weakness in demographic and affordability drivers, CoStar expects that **Demand** for rental housing units will grow by just 5 thousand over the same period, at 5.1 percent per year only slightly exceeding the national average. Similarly, growth in **Effective Rent per Unit** and **Net Operating Income** are expected to be sluggish at 0.9 and 0.8 percent per year respectively—not only trailing the national average of 1.7 percent per year but also trailing every large metro area in Middleburg's arc except Atlanta and San Antonio. On top of that, the pace of **Construction and Deliveries** has picked up considerably, raising concerns about possible over-supply problems.



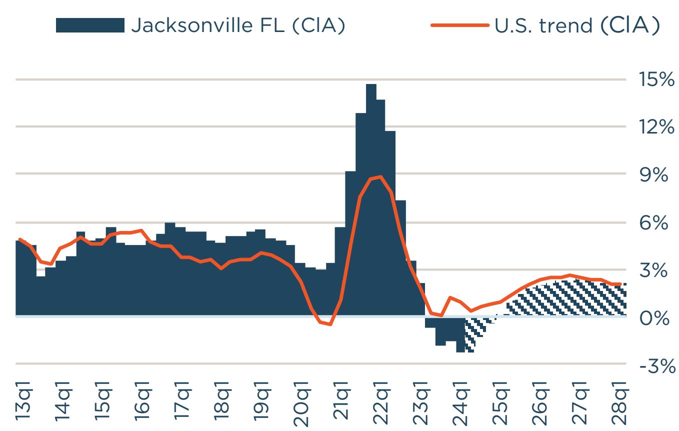


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
20,159	3,659	$253,458	$280 million
↑ 1.5%	↑ 6.3%	↑ 0.3%	↑ 51%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
7.9%	$73,855	6.5%	-1 bps
↓ 8.9%	↑ 0.7%	↑ 0.7%	below US avg

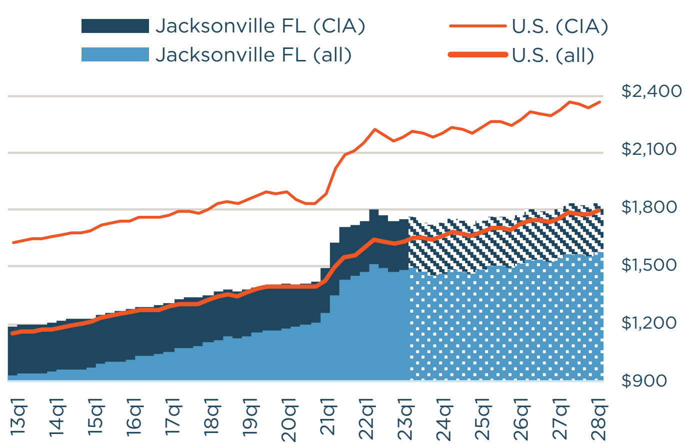
Units in Demand (000s)



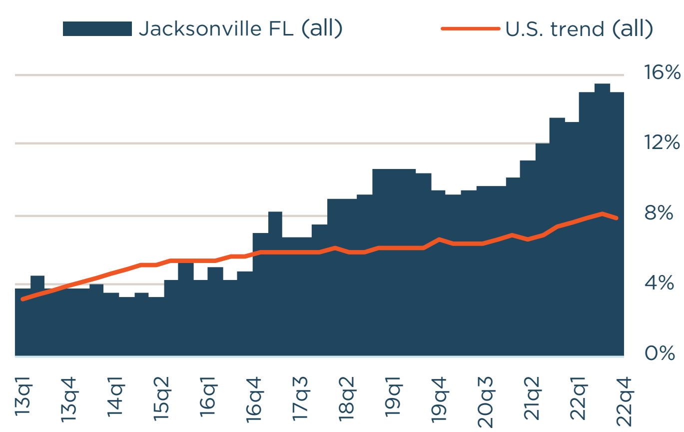
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



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

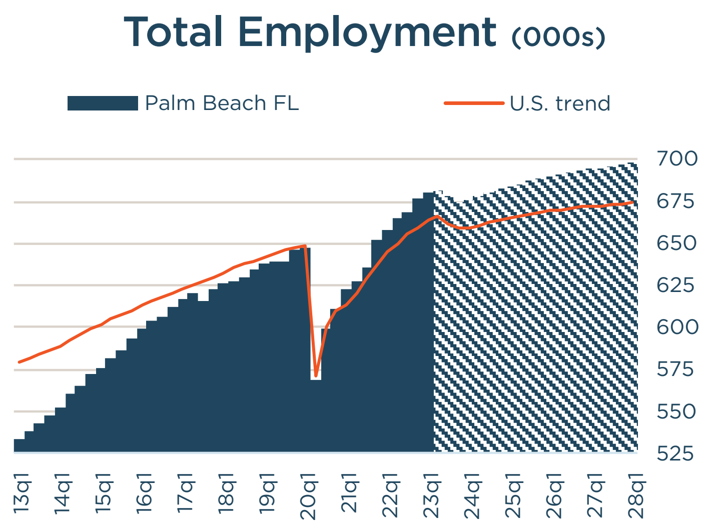
Palm Beach, FL

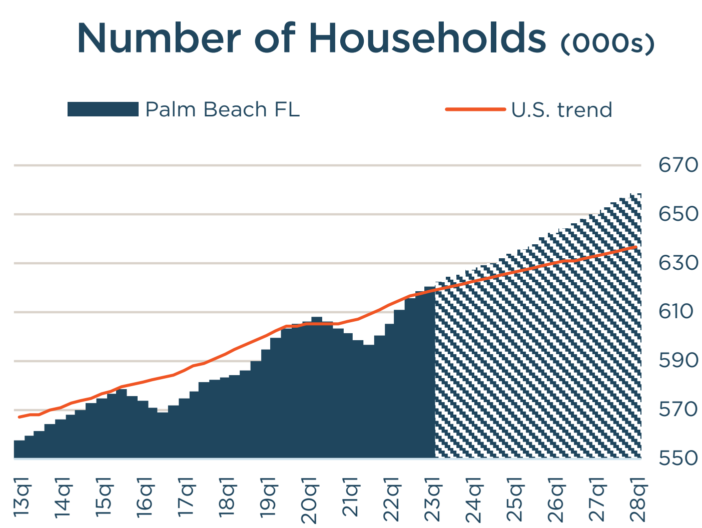
The rental housing market in Palm Beach—expensive and skewed toward wealthy retirees, like its near neighbors Miami and Fort Lauderdale, except with more promising demographic trends—will generally appeal more to developers other than Middleburg.

MIDDLEBURG'S RANK #2 AMONG 15 LARGEST METROS

Chief among the signs of a niche housing market is effective market rent per Class A unit of $2,960 which is second only to Miami at $3,104 despite a median household income that trails the national average at just $82,100 (compared with $85,800 for the country as a whole). Nevertheless, the young adult population is expected to remain unchanged over the next five years, which is certainly good news relative to the -0.4% expected for the nation as a whole and the -0.2% for all metro areas (large and small) in Middleburg's part of the country, and Palm Beach is expected to see reasonable growth in both the **Number of Households** (1.2 percent per year, or 38 thousand) and **Total Employment** (0.5 percent per year, or 18 thousand).

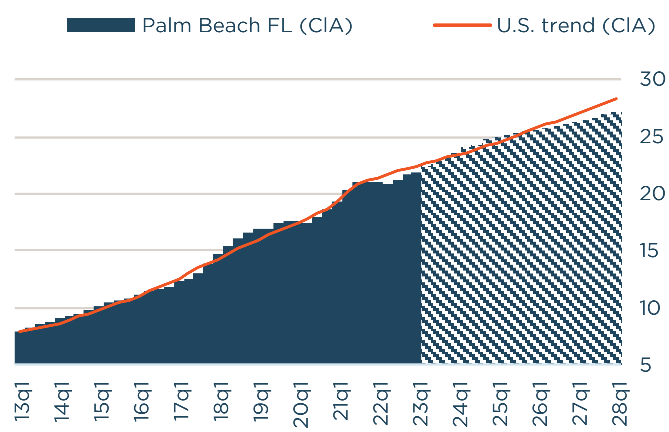
Homeownership affordability problems should also increase demand for rental housing, with anticipated growth in house prices equaling the national average while median household income lags at just 1.9 percent per year, the weakest for all large metro areas in Middleburg's territory. Nevertheless, CoStar expects growth in **Demand**, **Effective Rent per Unit**, and **Net Operating Income** to be somewhat on the weak side at 4.4 percent per year (5 thousand units), 1.4 percent per year and 1.3 percent per year respectively. **Construction and Deliveries** showed slight bursts in 2013, 2016, and 2021, but generally the danger of oversupply seems more remote for Palm Beach than for any large metro area in Middleburg's part of the country aside from Houston.



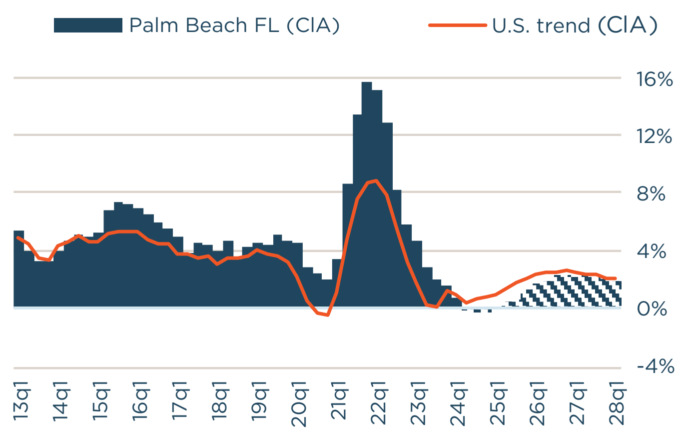


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	APARTMENT SALES VOLUME
23,784	4,706	$449,228	$583 million
↑ 1.2%	↑ 10%	↑0.9%	↑ 22%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
9.0%	$74,630	5.1%	-50 bps
↓ 14%	↓ 0.2%	↓ 0.1%	below US avg

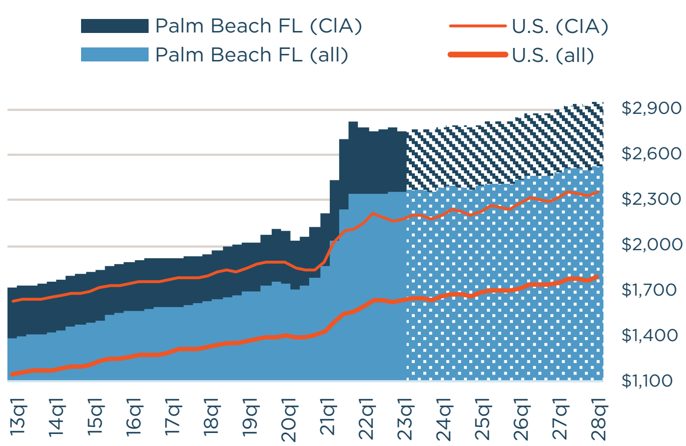
Units in Demand (000s)



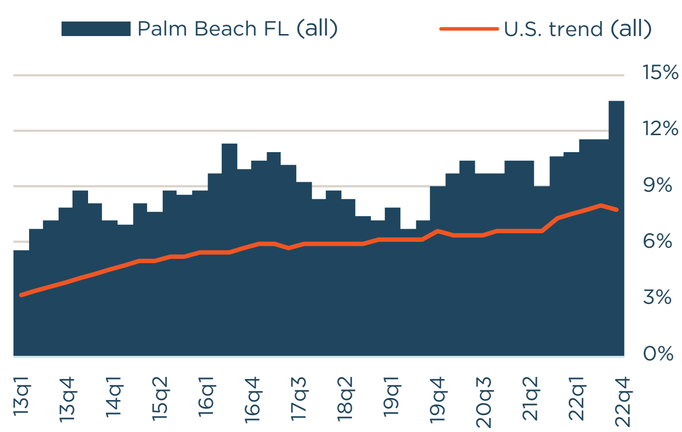
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



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

Raleigh, NC

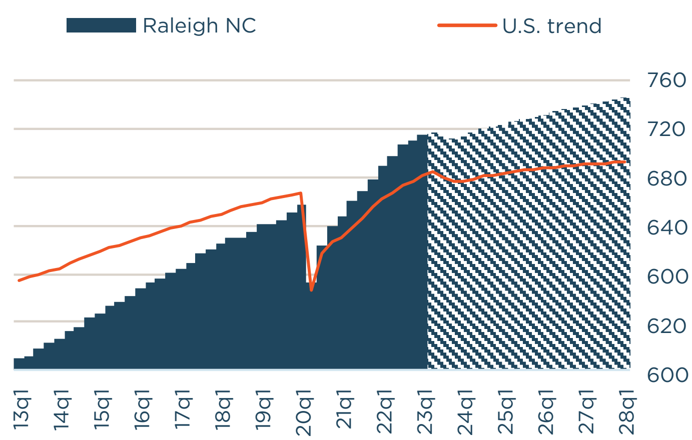
In terms of its attractiveness as a rental housing market, Raleigh can perhaps best be described as a somewhat smaller and much more affordable version of Austin or Nashville.

MIDDLEBURG'S RANK #7 AMONG 15 LARGEST METROS

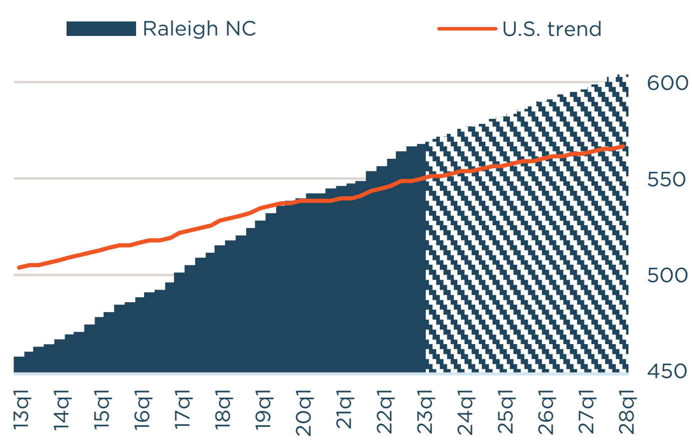
Raleigh has a diverse economic base and an uncommonly high-education, high-income population—a characteristic that it is likely to retain given its reputation as "the low-cost tech hub" and decisions by a large number of tech and life-sciences companies such as IBM, GlaxoSmithKline, and SAS to expand 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 0.8 percent per year (9 thousand), its **Number of Households** by 1.2 percent per year (36 thousand), and its **Total Employment** by 0.9 percent per year (31 thousand).

Homebuyer affordability is expected to ease slightly in Raleigh over the next five years, on pace with the national average, as a result of house price appreciation averaging 2.2 percent per year while median household income grows at 2.4 percent per year. CoStar expects **Demand** for rental housing units to expand by nine thousand over the next five years at 6.0 percent per year, but growth in **Effective Rent per Unit** and **Net Operating Income** are expected to be weak at just 1.0 and 0.9 percent per year respectively, trailing almost every large metro in Middleburg's territory as well as the national average. The biggest concern in Raleigh—as in Austin and Nashville—is the pace of **Construction and Deliveries**, which threatens the most imbalanced supply/demand situation of any of Middleburg's large markets.

Total Employment (000s)

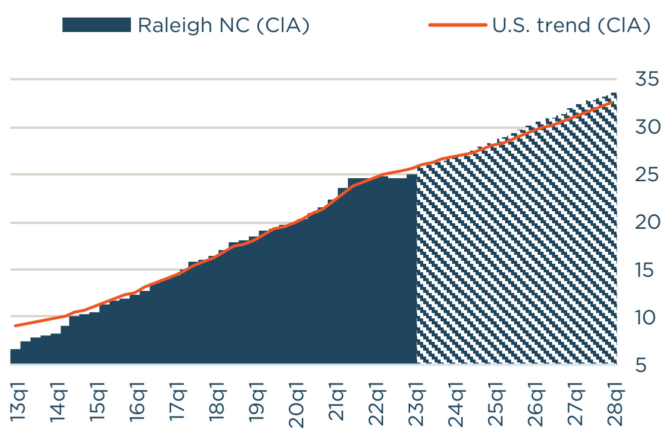


Number of Households (000s)

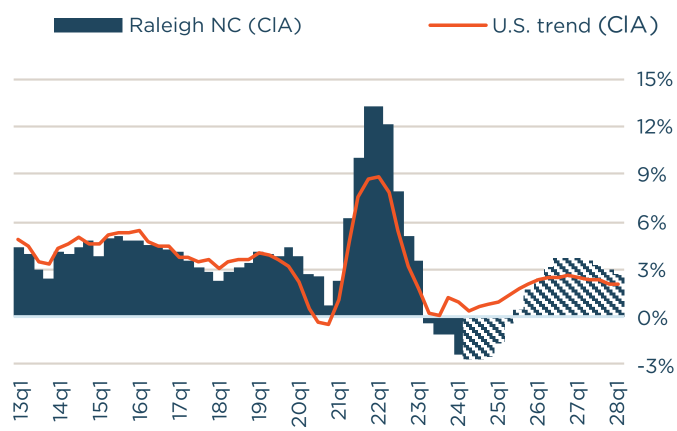


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
27,876	6,747	$317,464	$74 million
↑ 2.6%	↓ 9.5%	↑ 0.7%	↓ 81%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
6.8%	$94,796	7.7%	-23 bps
↓ 8.2%	↑ 0.8%	↑ 0.4%	below US avg

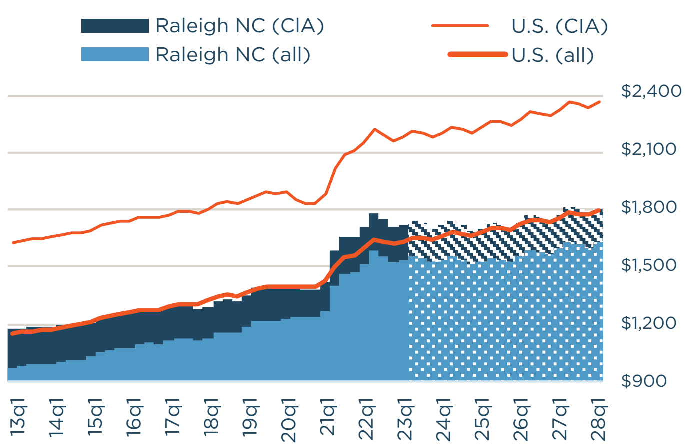
Units in Demand (000s)



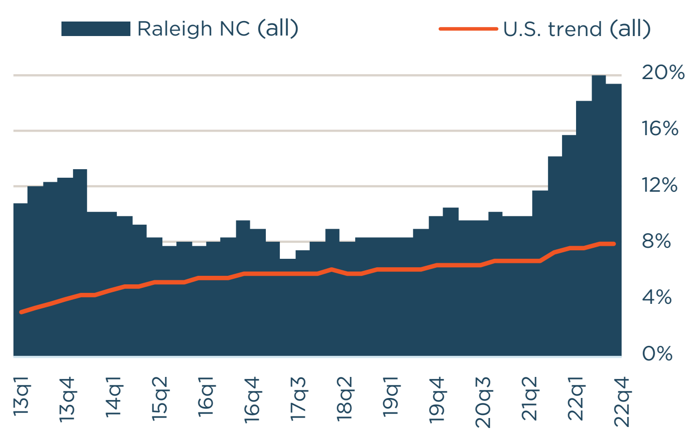
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



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

Richmond, VA

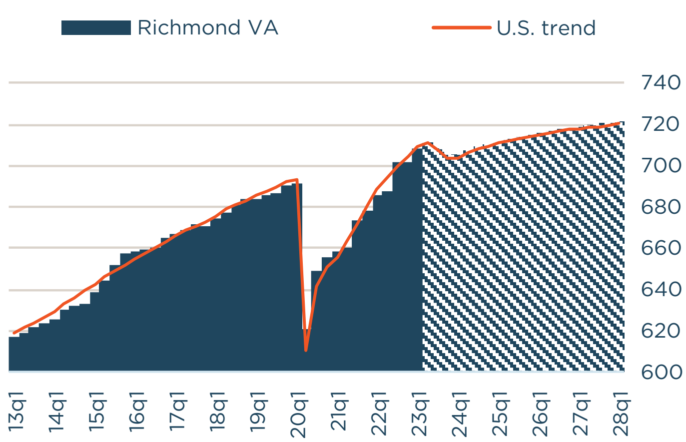
Richmond has successfully shed its over-reliance on the tobacco industry and transformed itself into a diversified regional hub with particular strength in financial services.

MIDDLEBURG'S RANK #12 AMONG 15 LARGEST METROS

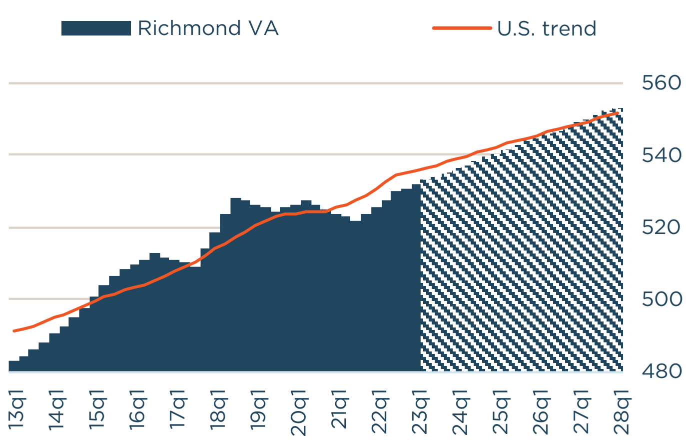
Growth in young adult population and **Total Employment** are expected to keep pace with other metro areas in Middleburg's arc over the next five years at -0.2 and +0.4 percent per year respectively, while growth in the **Number of Households** it expected to slightly outpace the rest of the region—and the country—at 0.8 percent per year, accounting for 21 thousand additional households. Homeownership affordability, however, is not anticipated to be a significant driver of rental housing demand, with house prices expected to grow at an anemic 1.4 percent per year, falling short of median household income growth of 2.2 percent per year.

The demographic drivers should be enough to push growth in **Units in Demand** by 10 thousand units over the next five years at a pace of 8.1 percent per year, trailing only Miami and Nashville among large metro areas in Middleburg's part of the country. Even better, CoStar forecasts growth in **Effective Rent per Unit** to lead every other large metro are in Middleburg's territory at 2.1 percent per year while growth in **Net Operating Income** should also be relatively strong at 2.0 percent per year. One of the most appealing aspects of the Richmond housing market for investors, though, is that it simply hasn't yet been discovered by institutional investors: cap rates have tended to be persistently above the national average, a property value discount that doesn't seem to be justified by its market conditions and that therefore may signal abnormal appreciation over the coming years.

Total Employment (000s)

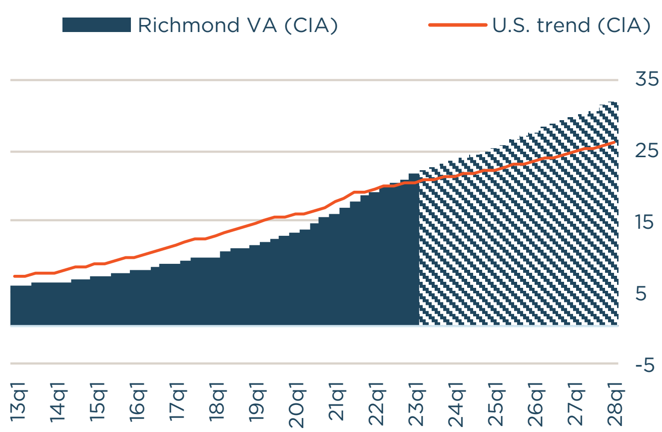


Number of Households (000s)

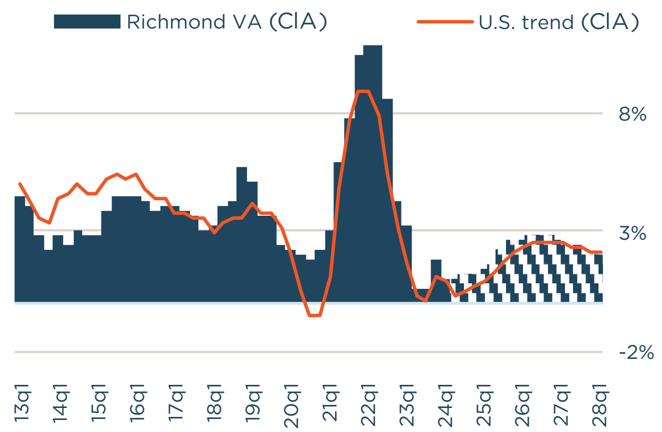


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT SALES VOLUME
23,876	5,500	$283,169	$204 million
↑ 5.4%	↓ 16%	↑ 1.6%	--
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
7.1%	$80,805	5.2%	+74 bps
↓ 6.1%	↑ 0.8%	↓ 0.4%	above US avg

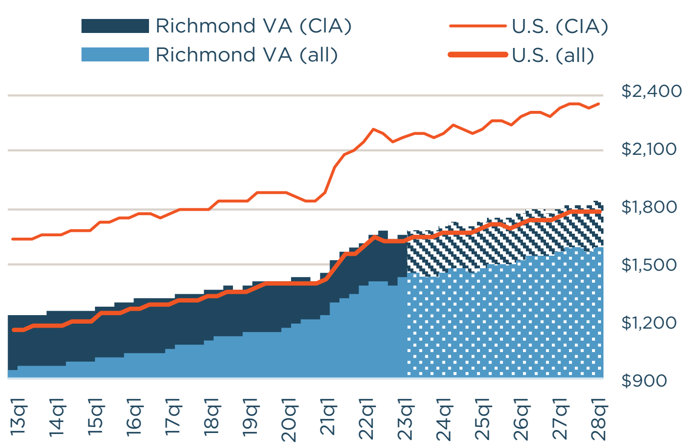
Units in Demand (000s)



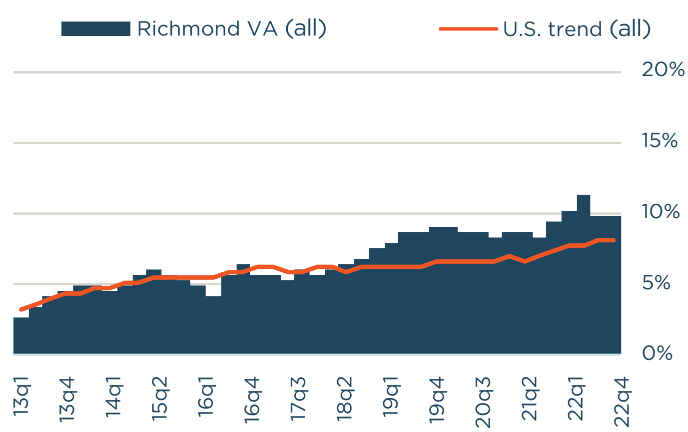
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



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

ALSO ON OUR RADAR

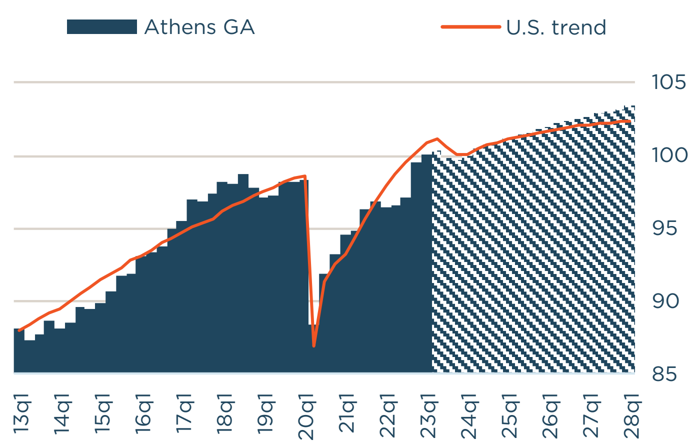
Athens, GA

Best known as the home of the University of Georgia, Athens has a perhaps surprisingly diverse economic base and the prospect of outsized growth in non-student demand for rental housing.

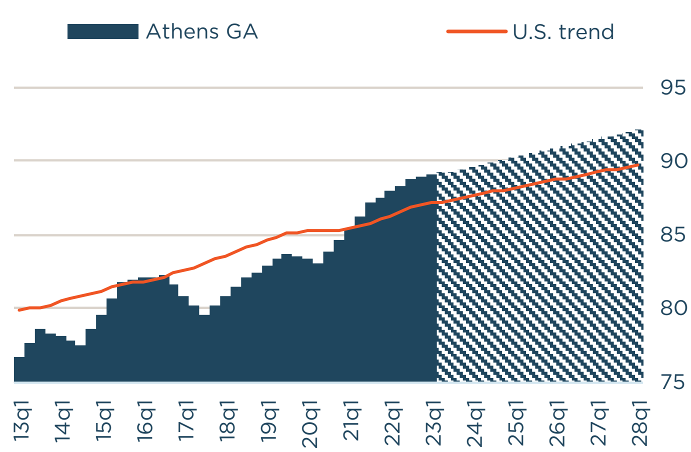
Economic activity extends far beyond Sanford Stadium, encompassing multiples plants for activities such as manufacturing of construction vehicles, electrical equipment, refrigerated transport, industrial electric motors, and pharmaceuticals. Growth in the major drivers of rental housing demand is expected to outpace most other metro areas in Middleburg's part of the country over the next five years, with the young adult population forecast to grow by 0.3 percent per year compared with contraction of -0.2 percent per year for the country as a whole while **Total Employment** and the **Number of Households** also outpace the national average at 0.7 percent per year.

Perhaps the strongest drivers of rental housing demand, though, will be an increasing homeownership affordability issue as median household income growth of just 0.8 percent per year dramatically lags behind forecast house price appreciation of 1.6 percent per year. As a result, growth in **Effective Rent per Unit** for Class A multifamily properties is expected to lead all large metro areas in Middleburg's arc except Richmond at 2.0 percent per year, while growth in **Net Operating Income** is expected to outpace every large market in Middleburg's territory at 2.2 percent per year. The major drawback to multifamily development in Athens is the level of rents, which at $1,814 per unit exceeds only San Antonio, Raleigh, and Houston among large markets in Middleburg's part of the country. A prevailing cap rate about 147 basis points above the U.S. average, however, provides an income cushion relative to sales prices averaging $241,298 per unit.

Total Employment (000s)

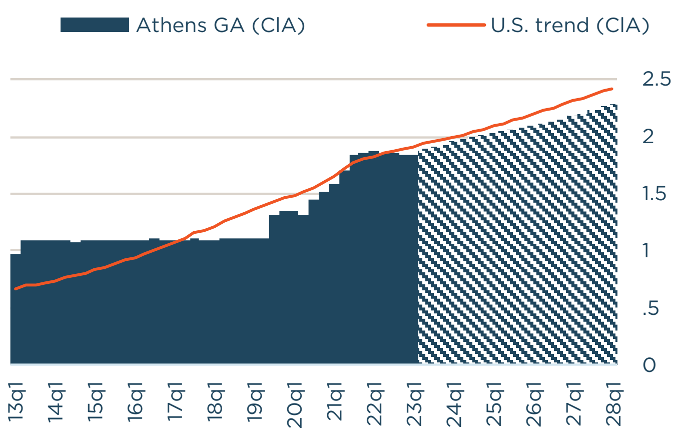


Number of Households (000s)

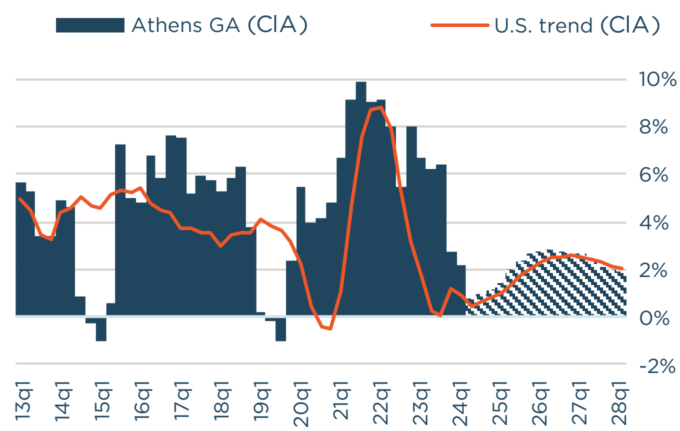


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	APARTMENT SALES VOLUME
2,101	50	$241,298	$200 million
no change	no change	↑ 1.5%	↓ 30%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
11.7%	$63,037	5.2%	+147 bps
↓ 5.2%	↓ 0.7%	↑ 0.4%	above US avg

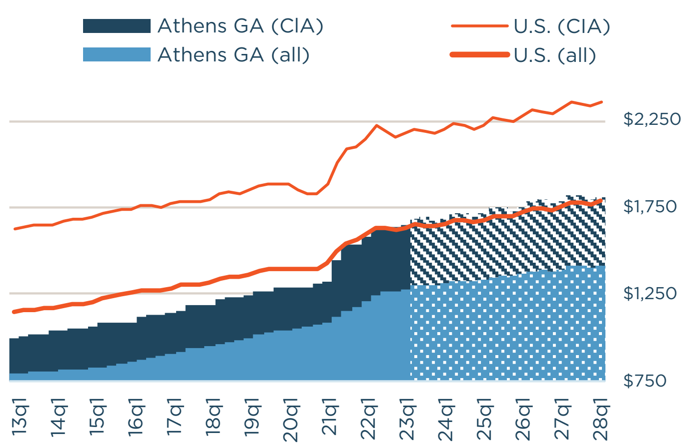
Units in Demand (000s)



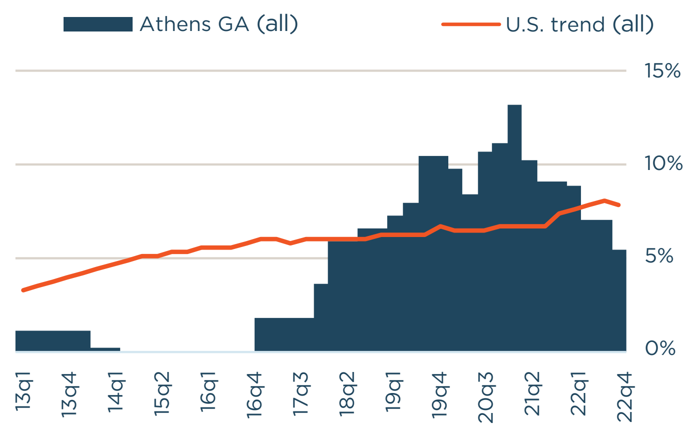
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



Representative large employers: University of Georgia, Piedmont Athens Regional (health care), Caterpillar, Pilgrim's (poultry products), Power Partners (manufacturing)

ALSO ON OUR RADAR

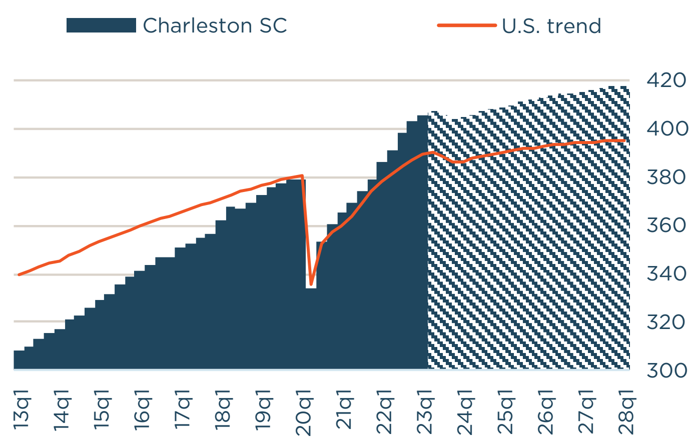
Charleston, SC

Economic growth drivers slightly stronger than national and regional averages are likely to push exceptionally strong growth in rents and NOI in the Charleston metro area.

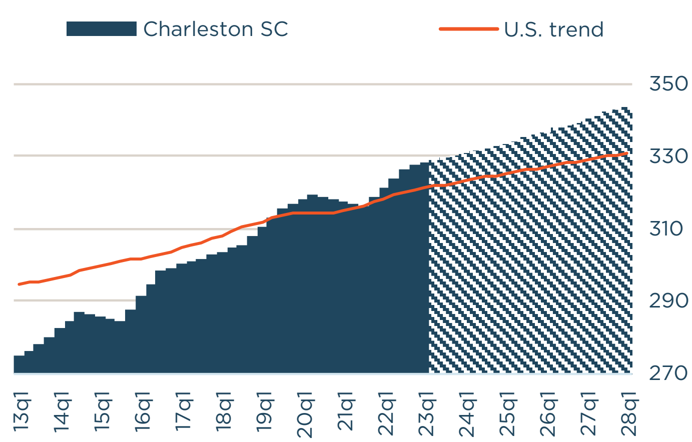
Charleston's economy, once over-reliant on its naval base, has become more diversified than the national average, and both manufacturing and tourism are expected to drive continued economic growth. Oxford Economics forecasts that the young adult population will grow at 0.1 percent per year over the next five years—against a backdrop of nationwide contraction at -0.4 percent per year—while the **Number of Households** and **Total Employment** will grow at 0.9 and 0.6 percent per year respectively, exceeding the average both nationally and for metro areas in Middleburg's arc.

A recently emerging homeownership affordability problem in Charleston is likely to ease significantly over the next few years as house price appreciation averaging just 0.5 percent per year lags far behind both the national average and median household income growth averaging 2.2 percent per year. Nevertheless, CoStar forecasts that the growth rates of Class A **Effective Rent per Unit** (2.0 percent per year) and **Net Operating Income** 2.1 percent per year) will exceed both the national average and the median for metro areas—large and small—in Middleburg's territory. Given the strong demand growth conditions, it seems quite unlikely that oversupply will become a significant concern even though the pace of **Construction and Deliveries** has been high relative to existing inventory for several years.

Total Employment (000s)

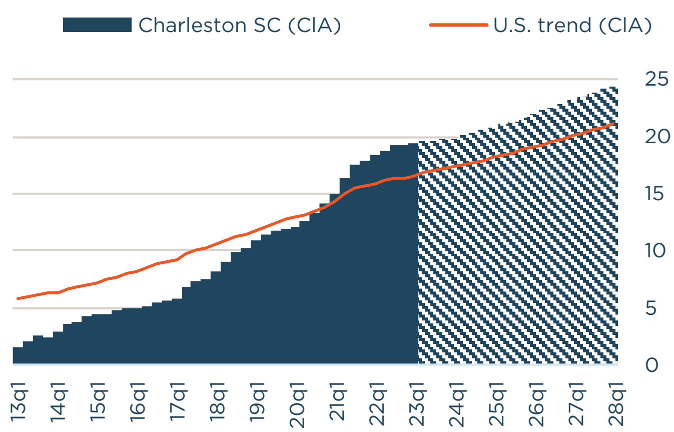


Number of Households (000s)

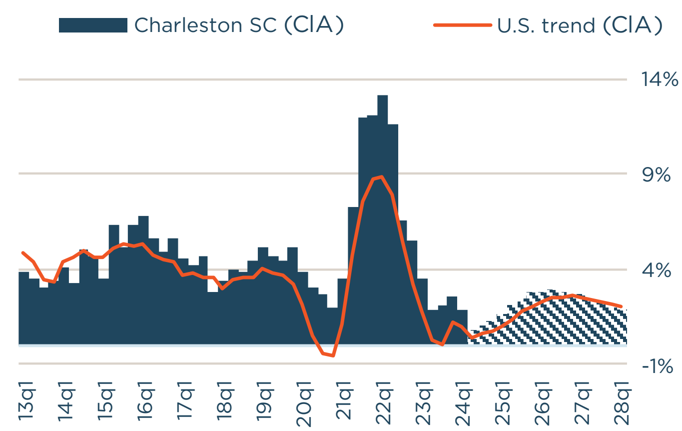


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	APARTMENT SALES VOLUME
21,011	2,301	$292,476	$32 million
no change	↑ 21%	↑ 1.6%	--
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
8.7%	$79,813	6.3%	-3 bps
↓ 8.8%	↑ 0.3%	↑ 0.1%	below US avg

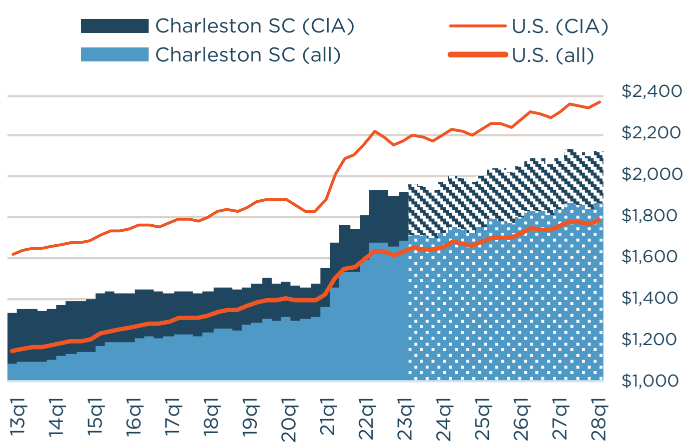
Units in Demand (000s)



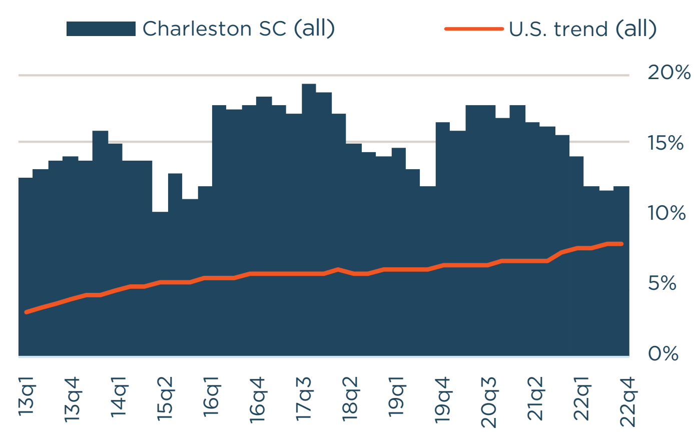
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



Representative large employers: Joint Base Charleston, Medical University of South Carolina, Boeing, Walmart, Robert Bosch

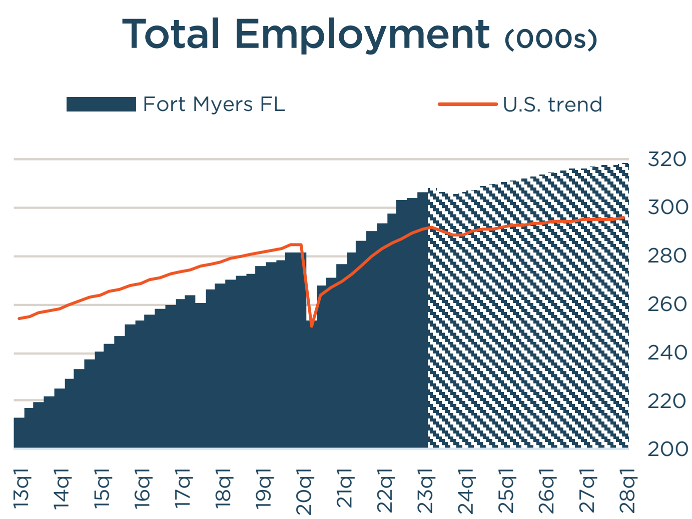
ALSO ON OUR RADAR

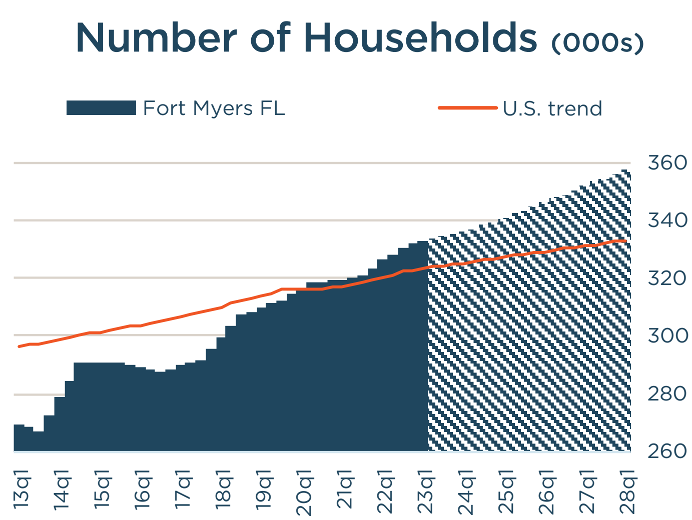
Fort Myers, FL

Housing market conditions in the Fort Myers metro area are similar in many respects to those in Charleston, with one exception: the potential for oversupply in Fort Myers over the next three years seems much more pronounced.

The **Number of Households** in the Fort Myers metro area (which includes Cape Coral) is forecast to grow by 1.4 percent per year over the next five years, and **Total Employment** by 0.8 percent per year, both comfortably higher than either the national average or the median among metro areas in Middleburg's arc. On the other hand, the population already skews older than the national average and Oxford Economics expects its young adult population to shrink by -0.5 percent per year over the next five years—even more than the national average of -0.4 percent per year. After showing some signs of transforming from primarily a retiree destination to the kind of diversified renter base more appealing to Middleburg, Fort Myers seems to have settled on a distinct "let's wait and see" stance.

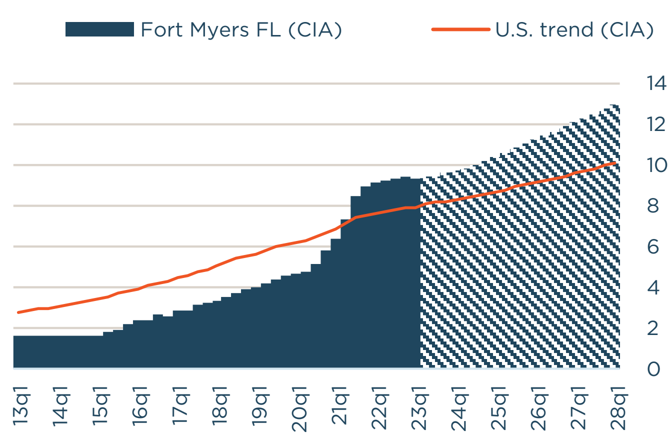
Homeownership affordability problems are likely to ease somewhat over the next five years as projected house price appreciation averaging 2.2 percent per year (barely) exceeds the national average while median household income averaging 2.6 percent per year (barely) falls short of the national average. Still, CoStar forecasts that **Effective Rent per Unit** for Class A properties will grow by 1.8 percent per year—higher than for most large metros in Middleburg's territory—while **Net Operating Income** will grow more rapidly than in any large metro area in Middleburg's arc at 2.1 percent per year. The major concern regarding multifamily investment in Fort Myers—and it is a significant one—is the pace of **Construction and Deliveries**, which threatens to outstrip demand growth over the next three years.



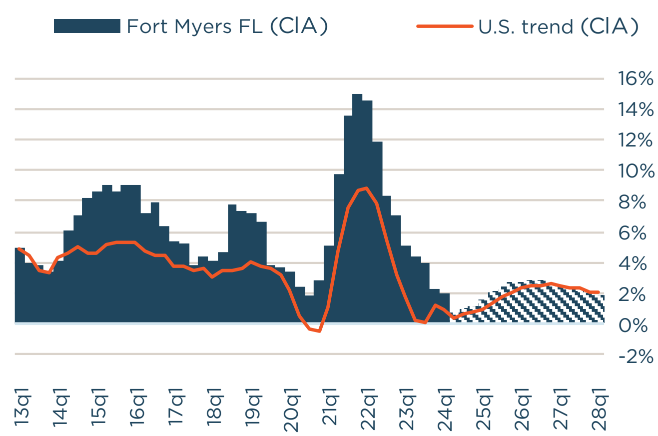


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	APARTMENT SALES VOLUME
9,875 no change	1,839 ↑ 20%	$303,278 ↑ 0.6%	$39 million --
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
5.3% ↓ 16%	$71,307 ↑ 0.3%	4.5% ↑ 0.3%	+1 bps above US avg

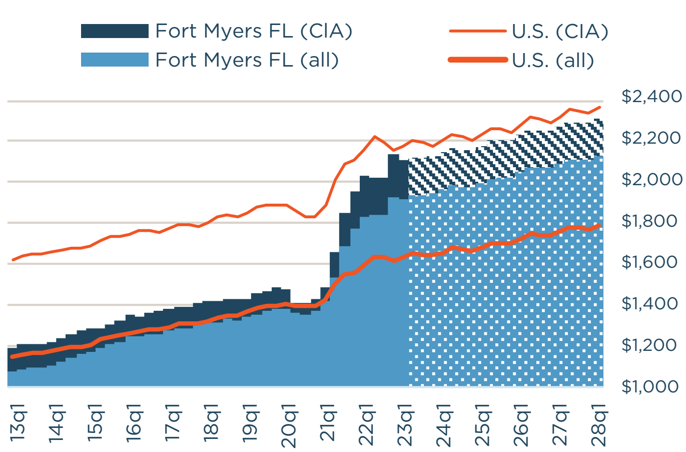
Units in Demand (000s)



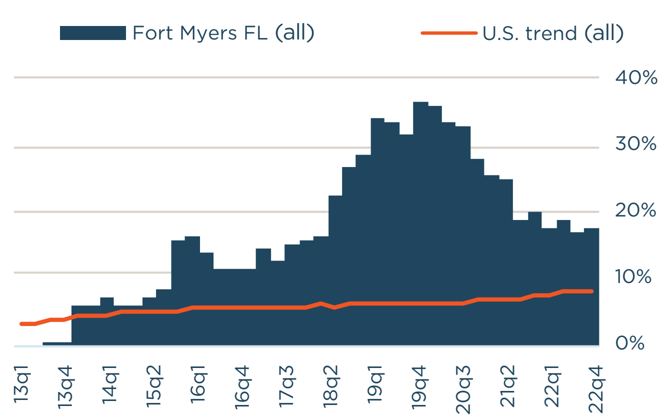
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



Representative large employers: large employers: Lee Memorial Health System, Florida Gulf Coast University, Chico's (clothing), Publix Supermarkets, Vance Brothers (manufacturing)

ALSO ON OUR RADAR

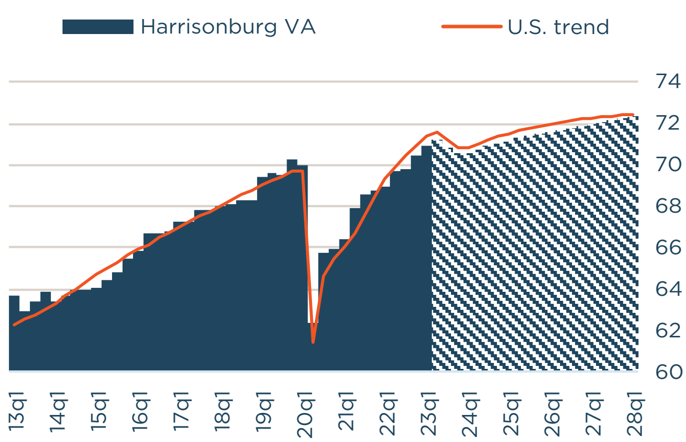
Harrisonburg, VA

Harrisonburg, like Athens, is known primarily as a college town but encompasses other economic activities. Compared with Athens, however, Harrisonburg is likely to see weaker growth in most drivers of rental housing demand.

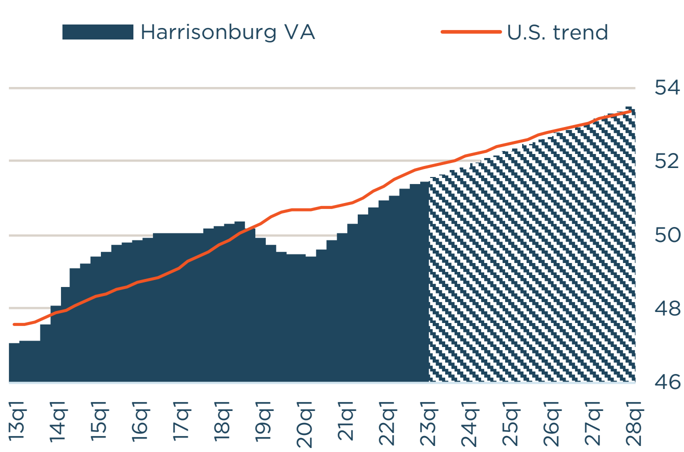
The young adult population (age 25-34) in Harrisonburg is forecast to shrink by 0.2 percent per year over the next five years—better than the national average of -0.4 percent per year, and equal to the median for all metro areas in Middleburg's part of the country, but weaker than in most of the metro areas that Middleburg targets (as well as in Athens). Similarly, growth in both the **Number of Households** at 0.8 percent per year and **Total Employment** at 0.4 percent per year should exceed the national average but fall short of Middleburg's target areas. On top of that, homeownership affordability concerns are likely to ease more than in the country as a whole as house price appreciation averages just 1.6 percent per year while median household income increases at 2.3 percent per year.

As a result, growth in **Demand** for rental housing units (there is hardly any Class A rental housing in Harrisonburg) is forecast to languish at just 0.8 percent per year, far weaker than in any of Middleburg's target markets and not much better than the very weakest markets in Middleburg's part of the country. Nevertheless, **Effective Rent per Unit**—weak, but not especially so, at $1,836—and **Net Operating Income** are both expected to grow at about 1.6 percent per year, almost identical to the national average of 1.7 percent per year. This solid prospect for income growth in the face of rather weak demand growth can be attributed to the pace of **Construcion and Deliveries**, which has tended to vary between zero and manageable and generates not the least concern for oversupply.

Total Employment (000s)



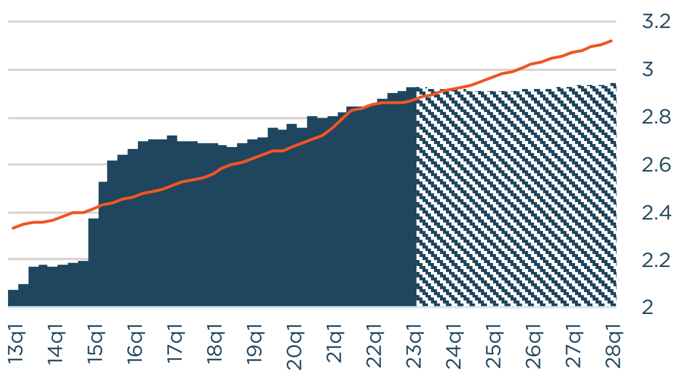
Number of Households (000s)



APARTMENT INVENTORY	UNITS UNDER CONSTRUCTION	APT SALE PRICE PER UNIT	APARTMENT SALES VOLUME
2,992	0	$154,580	0
no change	--	n/a	n/a
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
9.2%	$71,350	1.8%	+126 bps
↓ 9.3%	↑ 0.6%	↓ 0.1%	above US avg

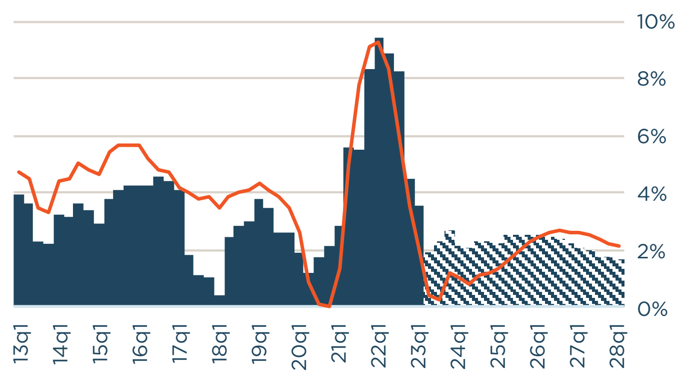
Units in Demand (000s)

Harrisonburg VA (all) U.S. trend (all)



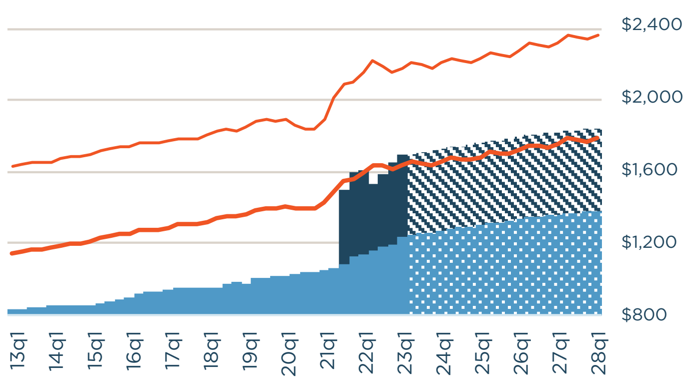
Net Operating Income (trailing 4-qtr)

Harrisonburg VA (all) U.S. trend (CIA)



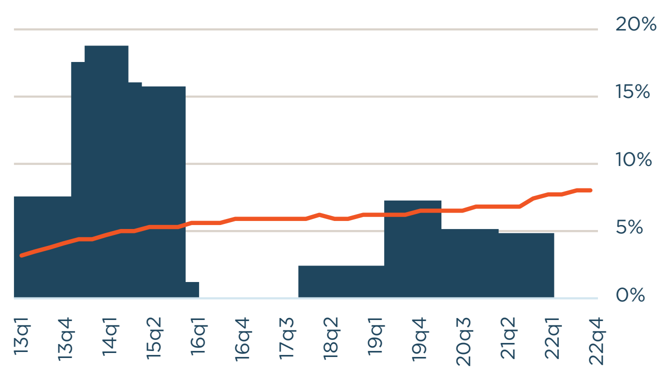
Effective Rent per Unit

Harrisonburg VA (CIA) U.S. (CIA)
Harrisonburg VA (all) U.S. (all)



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

Harrisonburg VA (all) U.S. trend (all)



Representative large employers: James Madison University, LSC Communications Book (printing), Farmer Focus, Sentara Healthcare

ALSO ON OUR RADAR

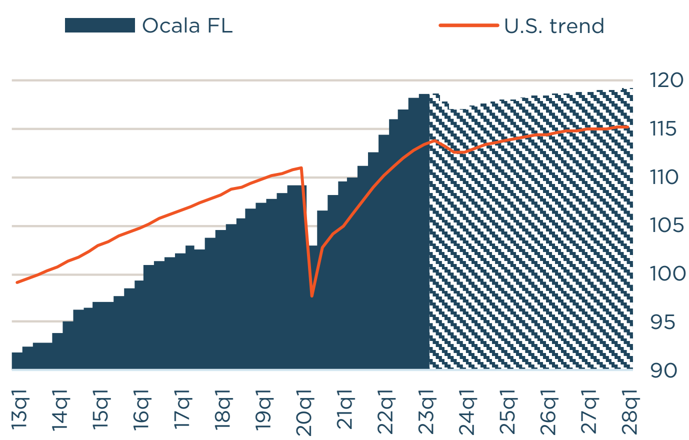
Ocala, FL

As is true in many Florida markets, Ocala's population skews old and is likely to skew older. A growing homeownership affordability issue, however, will likely provide some additional impetus for rental housing demand among the shrinking population of young adults.

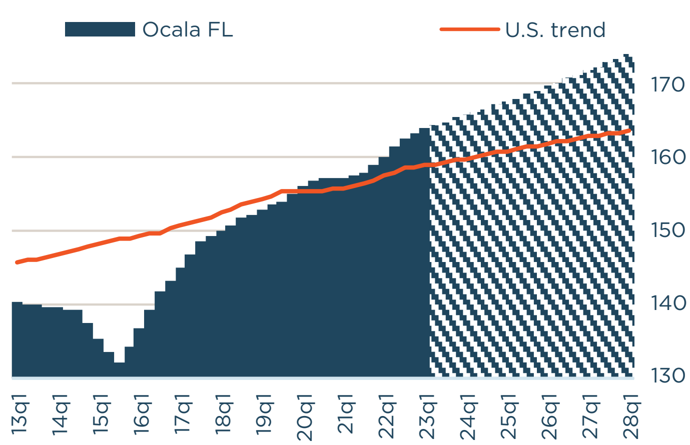
Oxford Economics projects that the young adult population in the Ocala metro area will shrink by an average of -0.9 percent per year over the next five years, more than twice as bad as the national average of -0.4 percent per year. Growth in the **Number of Households** averaging 1.2 percent per year should exceed the national average (0.6 percent per year) but is weak by the standards of Middleburg's target markets, while **Total Employment** growth averaging just 0.1 percent per year is likely to fall short of every large market in Middleburg's arc and almost every small market, too.

The first-time emergence of a homeownership affordability issue is heralded by house price appreciation projected to average 2.5 percent per year, slightly higher than the national average of 2.5 percent, while median household income fails to keep pace with the national average at just 2.1 percent per year. As a result, CoStar forecasts surprisingly robust growth in **Net Operating Income** growth at 2.0 percent per year, as well as reasonably strong growth in **Effective Rent per Unit** at 1.5 percent per year. The demand pressures suggest that oversupply is not likely to present a concern even though **Construction and Deliveries** have jumped from zero to non-zero in the past six quarters.

Total Employment (000s)

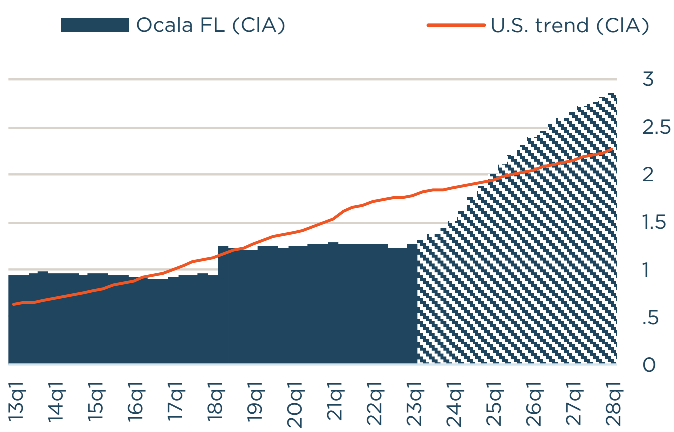


Number of Households (000s)

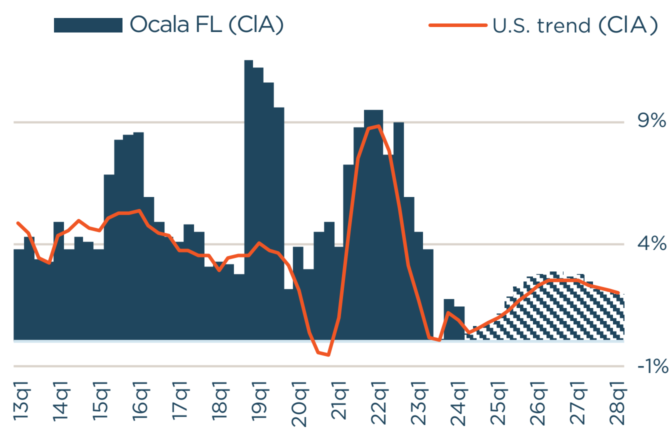


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	APARTMENT SALES VOLUME
1,572	1,039	$36,664	0
↑ 21%	↓ 21%	↑ 0.2%	--
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
14.3%	$58,569	5.8%	34 bps
↓ 10%	↓ 0.2%	no change	above US avg

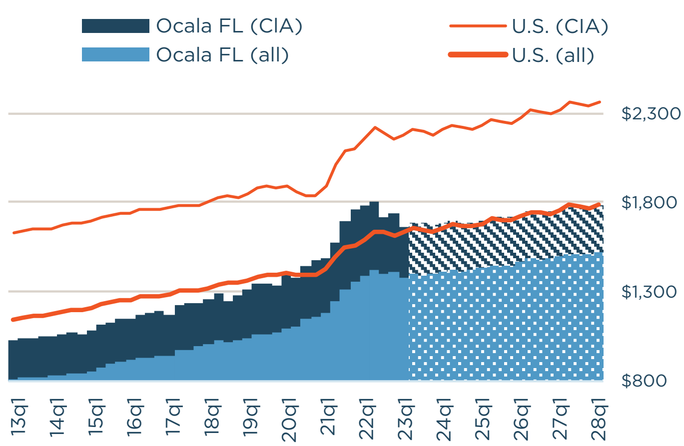
Units in Demand (000s)



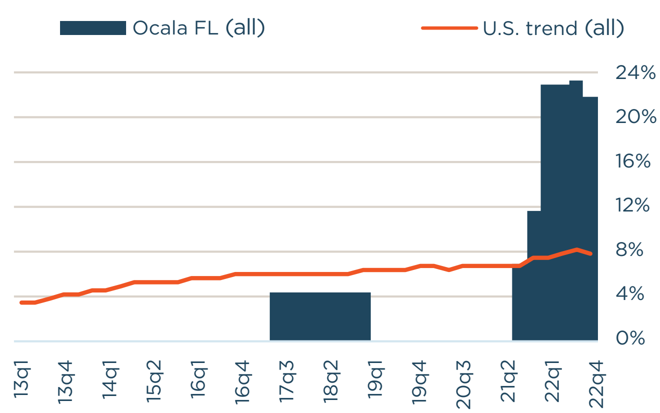
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



Representative large employers: HCA Florida Hospitals, Lockheed Martin, Chewy.com, FedEx Ground, Cardinal LG (laminated glass)