MIDDLEBURG
COMMUNITIES

Middleburg Markets Report

Q2
2023

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

Introduction

The Federal Open Market Committee's aggressive rate-hike regime—500 basis points in 15 months—finally dragged inflation close to its long-term goal, with the increase in the Consumer Price Index over the previous 12 months plummeting from 9.1 percent in June 2022 to 3.0 percent in June 2023.

The labor market also showed its first significant signs of moderation, with growth in nonfarm payroll employment growing in June significantly less strongly than expected. As a whole, however, macroeconomic indicators seem to be pointing more strongly toward the most favorable outcome, a "soft landing" in which inflationary pressures are fully conquered without tipping the economy into a recession.

The effects on the rental housing market have been mixed in a very positive way: the macroeconomic conditions have continued to drive demand for rental housing, while higher borrowing costs and more-stringent underwriting criteria have put significant pressure on those developers who lack the experience and capital depth to navigate a higher-rate regime.

This 2023Q2 Middleburg Markets Report begins by considering how monetary policy and macroeconomic conditions are likely to unfurl over the next few quarters, before focusing on the implications for operating conditions in the rental housing market. As always, we then update our discussion of conditions in the 15 largest housing markets in "our" part of the country along with five in a rotating set of smaller markets—this time Gainesville GA, Knoxville TN, Naples FL, Odessa TX, and Wilmington NC.

Indigo Champions Ridge, Citrus Ridge, Florida

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U.S. Overview

Our 2022Q3 quarterly report estimated probabilities of 50% for a mild recession, 30% for a "soft landing," and 20% for a significant recession. The notable resilience of the economy—through 15 months of aggressive interest rate hikes that have brought inflation close to its long-term target—suggest that the likelihood of any recession has diminished sharply in favor of the increasingly convincing prospect of a soft landing.

The set of developments that could have triggered a significant recession as early as the first quarter of 2022 was daunting, but a quick status update on each of them reinforces how much more sanguine the current situation is.

Russia's invasion of Ukraine has not disrupted global trade as severely as it might have done. Paradoxically, in fact, its notably poor performance seems to have reduced Russia's power to use either intimidation or subsidies to influence other countries in ways that would disrupt trade. For example, shortly after its invasion Russia blocked natural gas sales to Poland and Bulgaria in an attempt to force their acquiescense; now, in contrast, Russia continues shipping petroleum products even though the world has imposed a generally successful price cap well below the world price for its output.

Domestic conditions, far from faltering, have impressed with their resilience over the past 18 months. For example, total nonfarm payroll employment continued to grow at annualized paces of 2.2 percent over the first half of 2023 and 2.9 percent since the end of 2021. In fact, the rate of employment growth since before the pandemic began has equaled the average rate over the two prior decades.

Similarly, real personal income grew at an annualized pace of 1.5 percent over the first five months of 2023—low by long-term historical standards, but wholly reassuring considering that income growth was outrunning inflation whose annualized rate averaged 6.1 percent over the same period. And real personal consumption expenditures have continued to grow during the first five months of 2023 at a blistering 3.6 percent annualized pace, supported by savings that had built up during the pandemic.

When inflation surged to unacceptable levels, many observers predicted that it could not be brought under control without having the Federal Open Market Committee (FOMC) drive the economy into recession. Inflation has not yet declined to the FOMC's long-term goal of around two percent per year, but it is certainly much closer: over the 12 months ending June 2023 prices rose by just 3.0 percent according to the Consumer Price Index, compared with 9.0 percent over the 12 months ending June 2022.

Other observers based their recession forecast on the inversion of the yield curve after several interest rate spreads moved strongly into negative territory. We pay closer attention to the Near-Term Forward Spread (NTFS, defined as the difference between the current yield on 3-month Treasuries and the current expectation for the yield 18 months from now), which has historically been a more accurate recession predictor than any contemporaneous yield spread, but the NTFS, too, has been negative since November 2022. After reaching a low point in early May 2023, however, the NTFS has moved steadily closer to neutral.

The macroeconomic condition that we found most convincing as a precursor to recession was the 2022 collapse in single-family housing construction, with permits plummeting by 25 percent from 2022Q1 to 2022Q3 while starts sank by 24 percent. The single-family construction market has not yet shown recovery on a quarter-to-quarter basis, but certainly the decline has stopped.

The combination of less-threatening conditions in a wide array of macroeconomic sectors has substantially reduced the likelihood that the economy will tip into recession. As recently as April 2023, Middleburg's recession forecasting model estimated a 73 percent probability that the U.S. economy would enter a recession, most likely in the spring of 2024. Extending data through the end of June, however, caused the estimated likelihood of a recession beginning in the next year to plummet all the way to 16 percent—and, given the broadly resilient conditions, it has to be expected that any recession coming in the next year would likely be quite mild.

RATE HIKES ARE LIKELY TO CONTINUE

As noted, inflation has declined sharply over the past year but has not yet reached the FOMC's goal of around two percent per year. More importantly, however, other indicators suggest that inflationary pressures remain high—meaning that participants in the FOMC meetings are likely to be concerned that prematurely ending the fight against inflation could allow it to reignite.

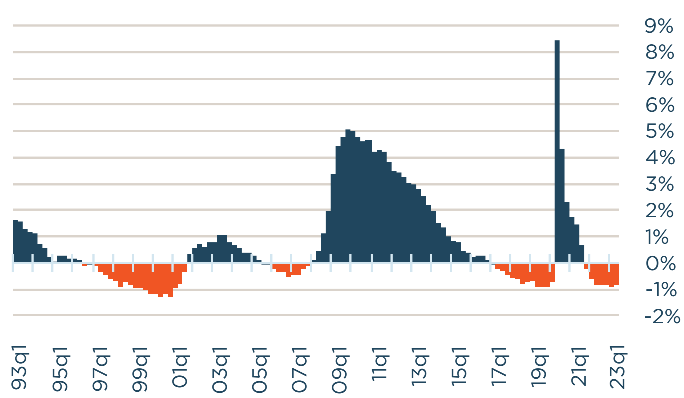
Raphael Bostic, President of the Federal Reserve Bank of Atlanta, published a commentary on March 1 that provides a useful framework for understanding FOMC meeting participants' decision-making process. Noting that "history teaches that if we ease up on inflation before it is thoroughly subdued, it can flare anew," President Bostic suggested five conditions that he would "need to see to consider reversing the course of monetary policy":

- A narrowing of the gap between labor supply and demand
- Higher interest rates more decisively affecting aggregate demand
- Ongoing recovery in aggregate supply
- Reduction in the breadth of inflation
- Stable inflation expectations

Recent macroeconomic conditions have revealed progress toward meeting each of these conditions—but they have not yet been met.

For example, although the number of persons who are actively "part of the labor force"—that is, the supply of labor—has increased strongly by a total of 6.8 percent since its low point during the early part of the covid pandemic, the resilient employment growth previously noted means that the unemployment rate sank below its "natural" (or "non-cyclical) rate in the fourth quarter of 2021 and has remained stuck at almost the same gap since then. Other measures of labor market slack, such as the number of job openings per unemployed person, have also remained in ranges indicating "too much demand."

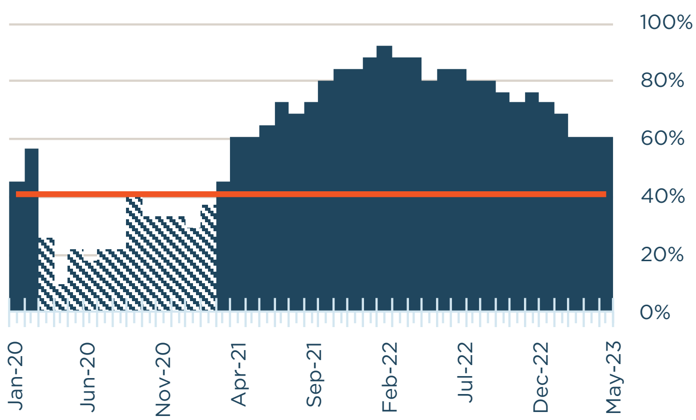
Unemployment Rate in Excess of "Natural"



Similarly, while higher interest rates do seem to have had an effect on aggregate demand, and aggregate supply does seem to have recovered appreciably, measures of overall balance still lean toward "too much demand." For example, total capacity utilization remains very slightly above its long-term median level of 78.8 percent, while the inventory-to-sales ratio for retailers remains almost 20 percentage points below its long-term median.

With respect to the breadth of inflation, the June 2023 inflation report from the Bureau of Economic Analysis showed that prices increased for 80.3 percent of the items measured, and declined for just 19.6 percent of them—a gap of 61 percent that has declined from its high of 92 percent in February 2022 but remains dramatically higher than its long-term median of just 41 percent.

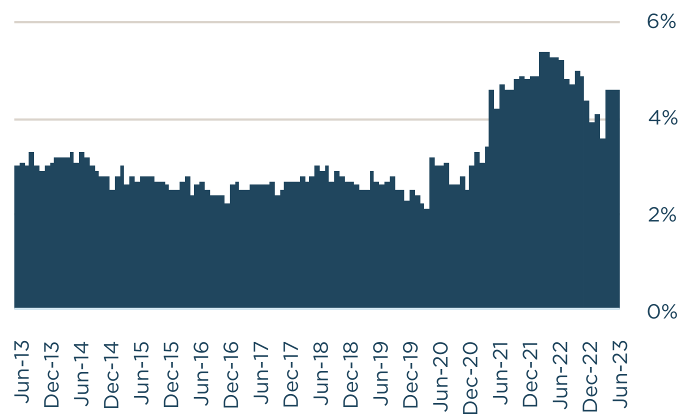
Breadth of Inflation: Fraction of Items



The final condition mentioned in President Bostic's commentary involves inflation expectations: that is, FOMC meeting participants are generally concerned that inflation may remain high (or reignite) because workers may seek higher wages, and/or business owners may seek higher prices, to protect against the inflation that they merely expect will come. The two leading sources of evidence on inflation expectations—surveys conducted by the Federal Reserve Bank of New York and by the University of Michigan—both show a marked decline in inflation expectations from a high recorded in 2022Q2. Both, however, show that survey participants continue to expected inflation to average around 4.5 percent in the next year—high enough to lead interest-rate policymakers to fear that inflated expectations may reignite actual expectation.

To summarize, none of the five conditions mentioned in President Bostic's commentary has yet been achieved. It is worth noting that President Bostic himself, in another commentary published on June 21, suggested that "policy may now be sufficiently restrictive" and therefore "the bar to justify further rate hikes is higher than it was a few months ago." As a notable "dove," however—meaning that he generally tends to favor maintaining lower interest rates to protect job markets, even at the cost of somewhat higher inflation—he would certainly be expected to reach such a conclusion before a majority of FOMC members would agree.

UMichigan Survey of Inflation Expectations



Most market participants—Middleburg Communities among them—believe that that FOMC members will increase policy interest rates at least one more time, and very possibly two more times, before starting to ease their restrictive monetary policy. At the time this commentary was written, for example, the CME FedWatch tool estimated a 98.9 percent probability that the FOMC would decide at its July 26 meeting to increase the target Federal Funds Rate range to 5.25%-5.50%, along with a 30.7 percent probability of at least one more hike later this year.

Meeting Probabilities

Meeting Date	300-325	325-350	350-375	375-400	400-425	425-450	450-475	475-500	500-525	525-550	550-575	575-600
7/26/2023				0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	98.9%	1.1%	0.0%
9/20/2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	85.1%	14.8%	0.1%
11/1/2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	69.7%	27.5%	2.8%
12/13/2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	6.9%	65.5%	25.0%	2.5%
1/31/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	2.5%	28.1%	50.9%	16.9%	1.6%
3/20/2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.4%	16.6%	40.6%	32.2%	8.5%	0.7%
5/1/2024	0.0%	0.0%	0.0%	0.0%	0.0%	1.3%	15.8%	39.4%	32.6%	9.8%	1.1%	0.0%
6/19/2024	0.0%	0.0%	0.0%	0.0%	0.6%	7.9%	26.6%	36.3%	22.1%	5.8%	0.6%	0.0%
7/31/2024	0.0%	0.0%	0.0%	0.5%	6.3%	22.4%	34.1%	25.3%	9.5%	1.8%	0.2%	0.0%
9/25/2024	0.0%	0.0%	0.4%	5.2%	19.5%	32.0%	26.9%	12.3%	3.2%	0.5%	0.0%	0.0%
11/6/2024	0.0%	0.3%	4.4%	16.9%	29.8%	27.8%	14.9%	4.8%	0.9%	0.1%	0.0%	0.0%
12/18/2024	0.2%	2.9%	12.4%	25.1%	28.5%	19.6%	8.5%	2.3%	0.4%	0.0%	0.0%	0.0%

WILL RATE HIKES HURT THE RENTAL HOUSING MARKET?

Assuming that the FOMC does extend its aggressive interest rate policy, the likely effects on rental housing markets are more nuanced than many casual analysts recognize.

A rise in interest rates affects the rental housing market negatively in two ways. First, of course it increases the cost of borrowed capital. Second, the increase in yields on competing investments typically increases the cap rate, and therefore reduces the value of a property relative to the net operating income (NOI) produced by that property. The two mistakes that many casual analysts make are, first, supposing that an increase in interest rates necessarily leads to an increase in the cap rate and, second, assuming that an increase in the cap rate necessarily implies a decline in property value.

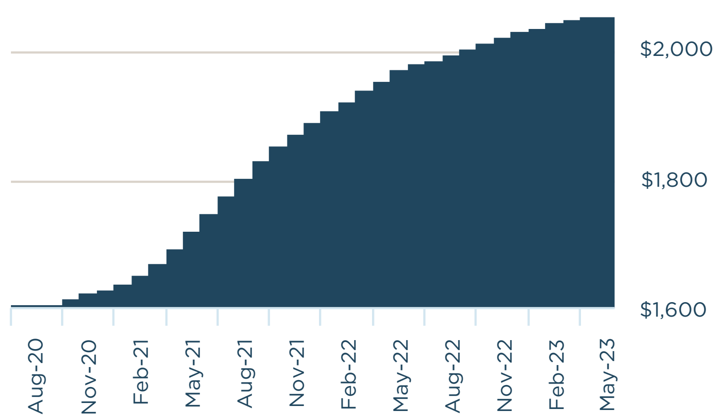
A similarly aggressive rate-hike regime pursued by the FOMC during 2004-06 provides a good illustration of the nuanced relationship between interest rates and real estate investment returns. From June 2004 through June 2006 the FOMC raised interest rates 17 times for a total of 4.25 percentage points—yet apartment property values increased by about 25 percent.[1]

The explanation for that outcome should not be surprising: the macroeconomic conditions that prompted the interest rate hikes in 2004-06, like those prevailing today, were very strong. In fact, an increase in interest rates typically happens because macroeconomic conditions are extraordinarily strong and are expected to remain so.

That strength in overall macroeconomic conditions, of course, typically results in equally strong rental housing market fundamentals and growth in NOI. Indeed, publicly available data show that same-property NOI increased by 3.0 percent during 2004Q2-2005Q2 and by another 8.4 percent during 2005Q2-2006Q2, boosted in part by an increase in occupancy rates from 93.1 percent in 2004Q2 to 94.6 percent in 2006Q2. Moreover, NOI growth was not the only reason for the strong property appreciation: over the same period, even while the FOMC was increasing the Federal Funds rate by 4.25 percentage points, the implied cap rate on apartment properties declined from 7.2 percent to 5.9 percent.

What could cause the cap rate on apartment properties to decline even while market interest rates were increasing? Simply that investors sought to participate in the strength of rental housing market fundamentals, and directed more capital toward apartment properties to do so. It is useful to keep in mind that a cap rate is an implied rate that is derived by dividing apartment property values by net operating income. During the 2004Q2-2006Q2 period investors, perceiving the strong rental housing market fundamentals, directed additional capital to buy apartment properties; the capital flows drove an increase in apartment property values that was even greater than the increase in NOI, thereby driving down cap rates.

Strong Average Rent Growth Continued During 2023



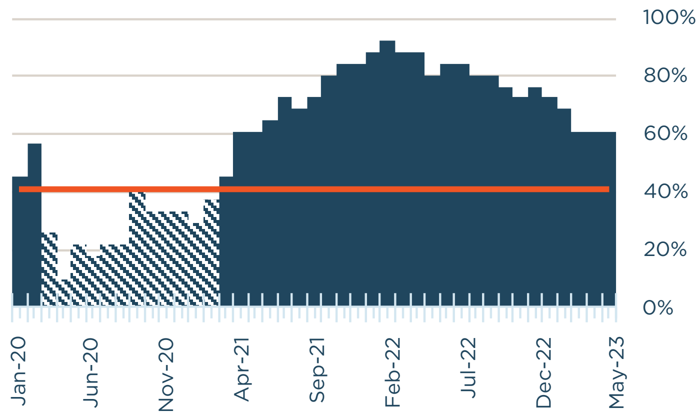
Rental housing market fundamentals remain similarly strong today. Average rents, for example, continued to grow at a 3.1 percent annualized pace during the first half of 2023—slightly below the 4.1 percent annualized pace typical prior to the pandemic, but quite astonishing given both significant supply growth and the torrid pace of rent growth during the period two years at 15.4 percent in 2022 and 8.0 percent in 2023 according to the Zillow Observed Rent Index.

[1] Property appreciation estimated from the FTSE Nareit PureProperty® Index; figures given in the following two paragraphs taken from Nareit T-tracker®, which summarizes data reported in quarterly filings by public REITs with portfolios concentrated in apartments.

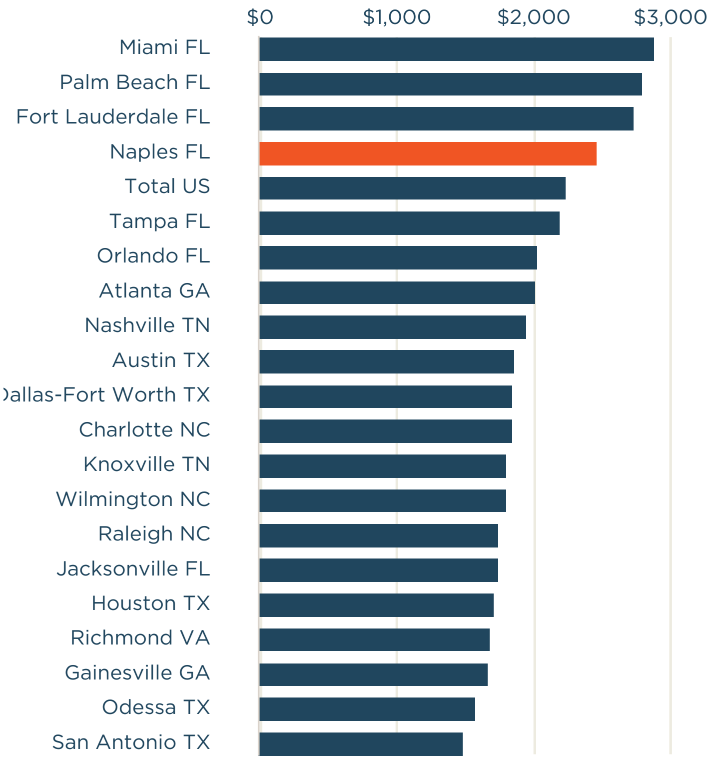
Those average rent figures are nationwide, but there is no question that Middleburg continues to benefit from our emphasis on eight of the fastest-growing states in the country. From the beginning of 1990 through 2023Q1 the rate of employment growth in Middleburg's states had averaged 1.6 percent per year, exceeding the employment growth rate in the rest of the country by 0.7 percent per year. Incredibly, during 2023Q2 the gap between Middleburg's states and the rest of the country actually widened to 0.9 percent on an annualized basis.

Understandably, we at Middleburg continue to be confident in the fundamental market conditions underlying our regional focus. As we have noted before, 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."

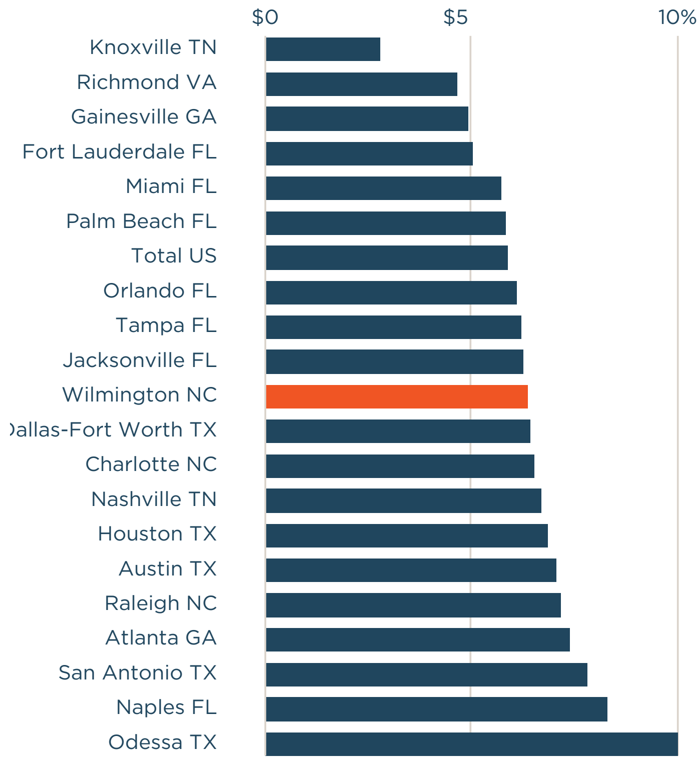
Breadth of Inflation: Fraction of Items



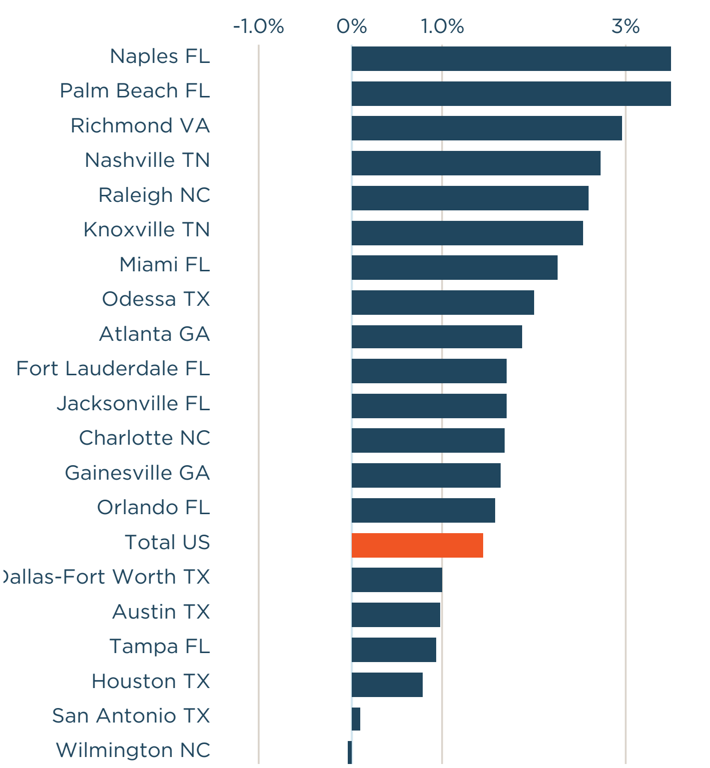
Class A Effective Rent/Unit



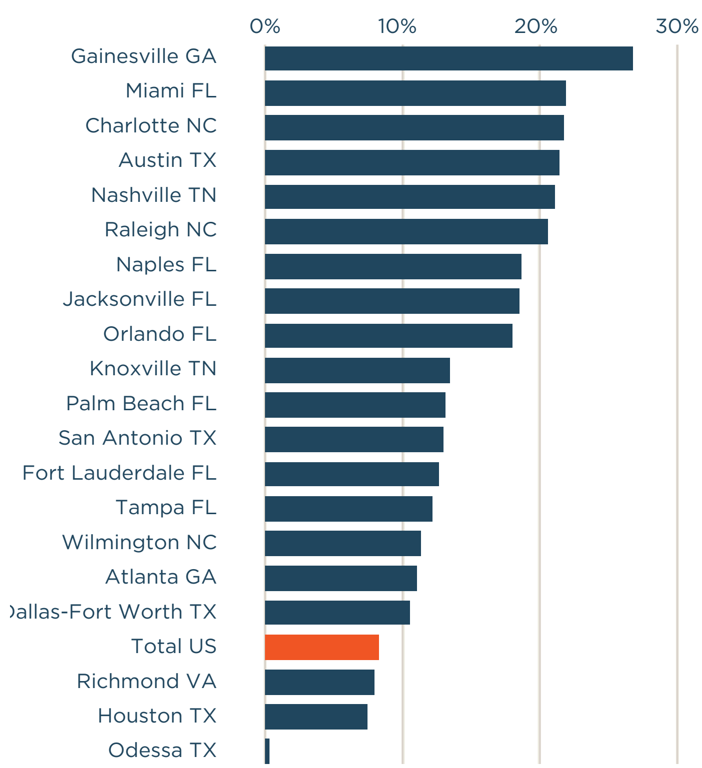
Stabilized Class A Vacancy Rate



Class A Net Absorption



Delivered & Under Const as % of Inventory



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.

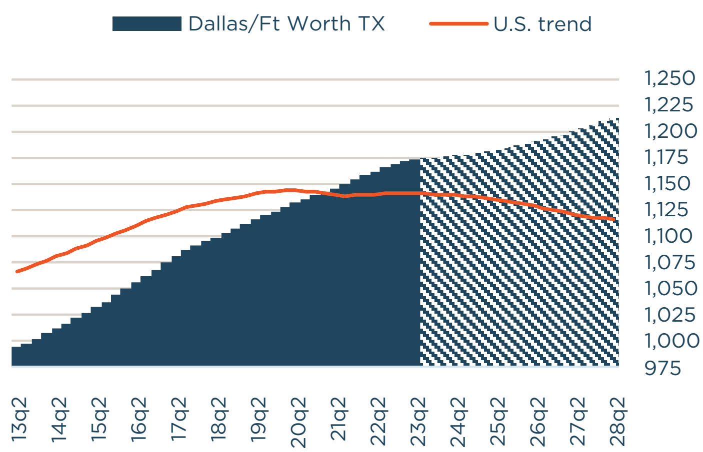
MIDDLEBURG'S RANK #5 AMONG 15 LARGEST METROS

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.

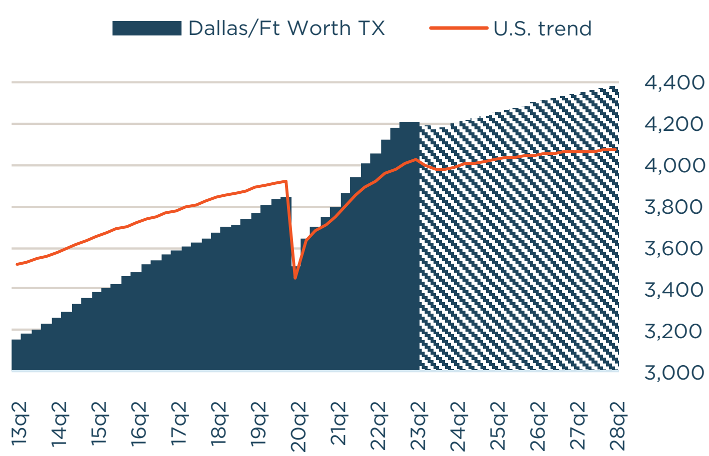
Dallas's population already skews young, but Oxford Economics forecasts that over the next five years the metro area will grow by an additional 40 thousand **Young Adults** (0.7 percent per year), 167 thousand new **Employees** (0.8 percent per year) and 212 thousand new **Households** (1.4 percent per year) all total numbers that lead every other metro area in Middleburg's part of the country.

Both house price appreciation (2.2 percent per year) and median household income (2.3 percent per year) are forecast to grow less rapidly in the Dallas / Fort Worth metro area than in the nation as a whole (2.7 percent and 2.5 percent respectively); in fact, the house price to income ratio is forecast to ease very slightly in Dallas even as it continues to worsen in the rest of the country. Demand for class A rental housing units is expected to grow by 36.4 thousand units—surpassing every other metro in Middleburg's territory—but in percentage terms the growth rate is expected to be quite weak by Middleburg's standards at just 2.9 percent per year, outpacing only Houston. Nevertheless, **Effective Rent per Unit** and **Net Operating Income** are expected to continue growing robustly at 2.4 and 2.6 percent per year respectively. **New Construction** and **Net Deliveries**, relative to existing inventory, have exceeded the national average only moderately over the past several years, providing some reassurance against oversupply concerns.

Young Adult Population (000s)

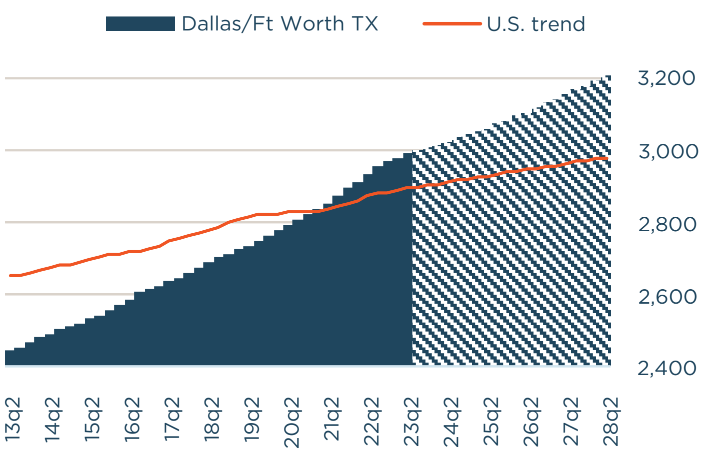


Total Employment (000s)

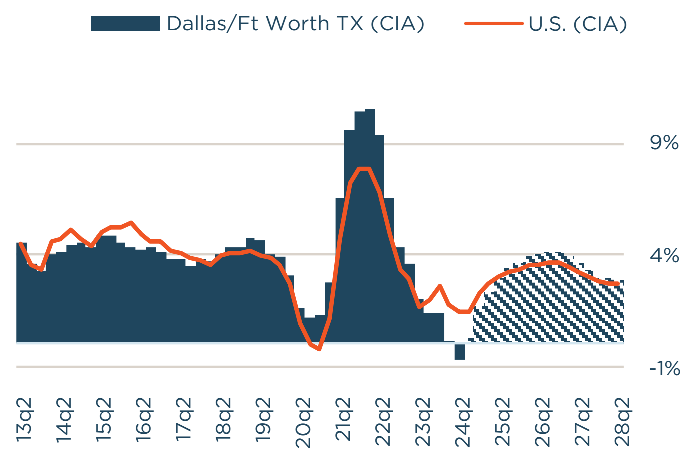


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
259,847	18,252	$248,940	2,549
↑ 0.5%	↑ 2.5%	↓ 0.2%	↑ 378%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
-2.9%	$84,880	6.4%	+14 bps
↓ 9.2%	↑ 0.4%	↓ 0.1%	above US avg

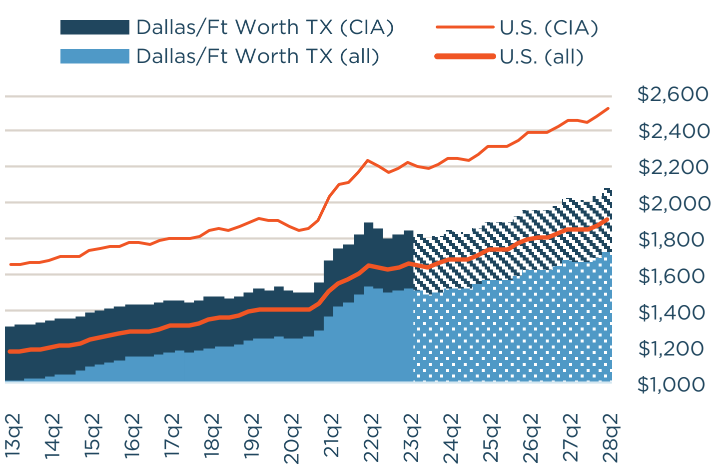
Number of Households (000s)



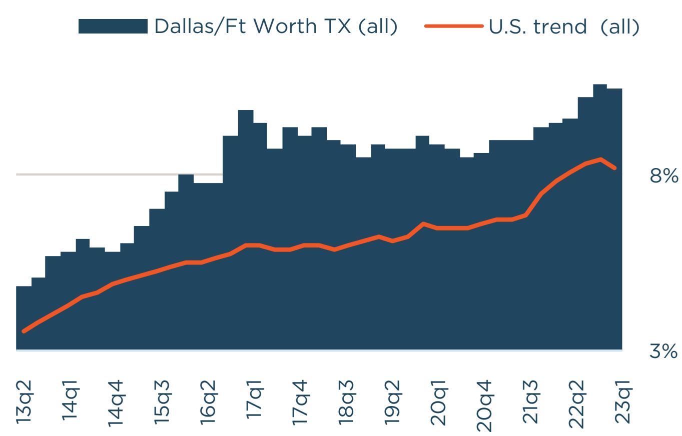
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



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

Houston, TX

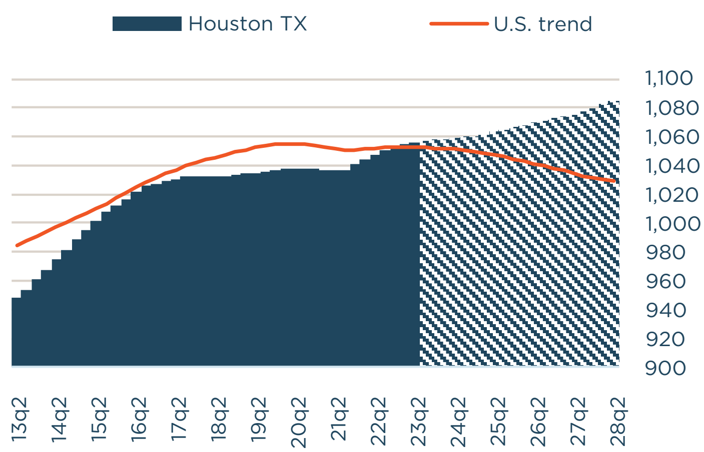
Houston's reduced exposure to the oil & gas industry makes what was already a strong market more appealing to long-term investors.

MIDDLEBURG'S RANK #11 AMONG 15 LARGEST METROS

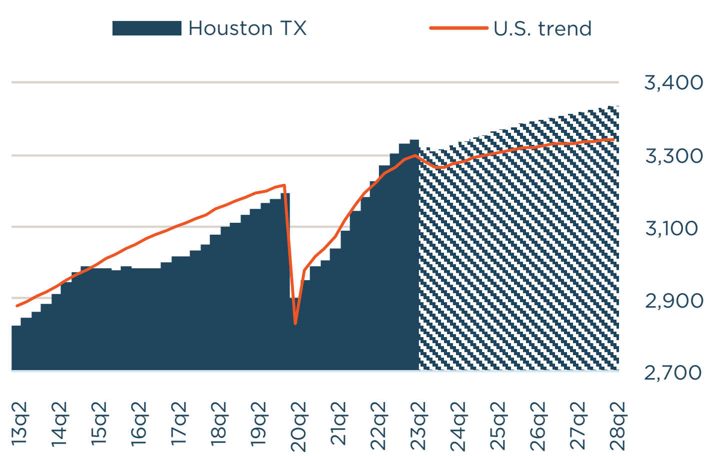
The demographic drivers of rental housing demand in Houston should continue to be strong: for example, Oxford Economics forecasts that the city's **Young Adult Population** will grow by 29 thousand over the next five years (0.5 percent per year), and growth in both **Number of Households** and **Total Employment** should lead all other metro areas in Middleburg's arc except Dallas / Fort Worth at 209 thousand (1.5 percent per year) and 97 thousand (0.6 percent per year) respectively. House price appreciation is expected to exceed growth in median household income over the next five years (2.7 percent per year versus 2.4 percent per year, implying a slight worsening in the house price to income ratio.

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 the lowest of any large metro area in Middleburg's territory at just 2.7 percent per year, while **Effective Rent per Unit** and **Net Operating Income** are expected to trail the national average very slightly at 2.5 and 2.7 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.

Young Adult Population (000s)

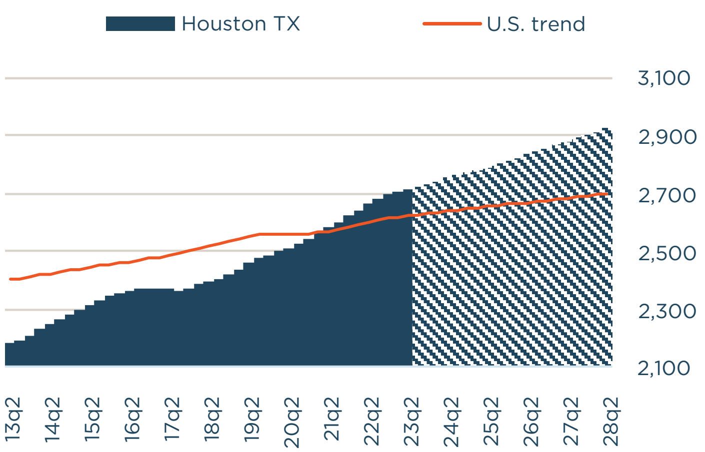


Total Employment (000s)

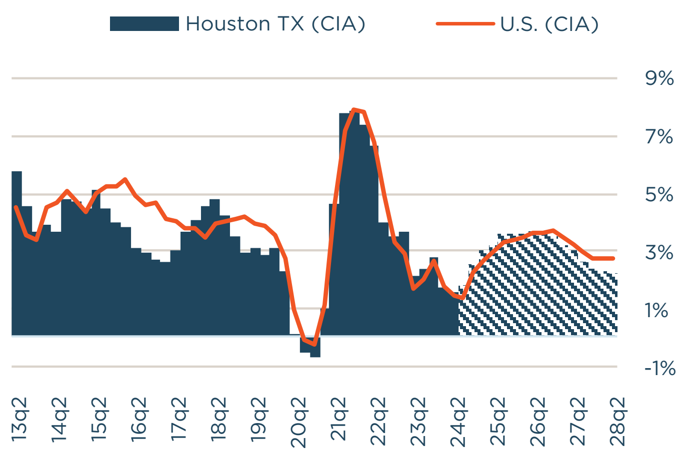


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
203,036	8,082	$228,382	2,136
↑ 1.3%	↓ 24%	↓ 0.7%	↓ 6.0%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
2.1%	$78,720	6.9%	+40 bps
↓ 4.1%	↑ 0.6%	↓ 0.2%	above US avg

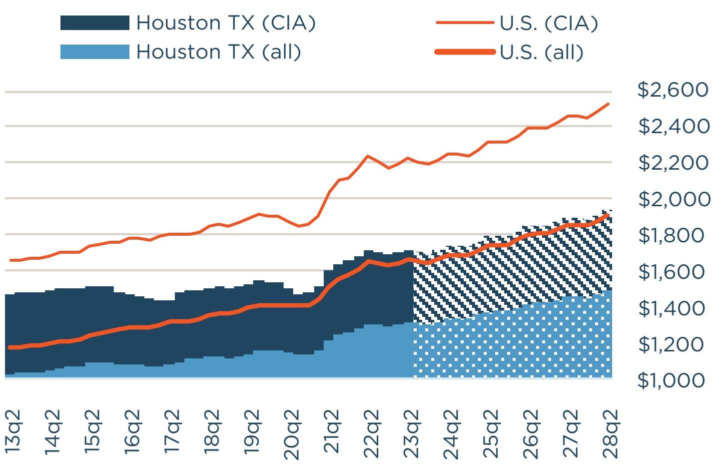
Number of Households (000s)



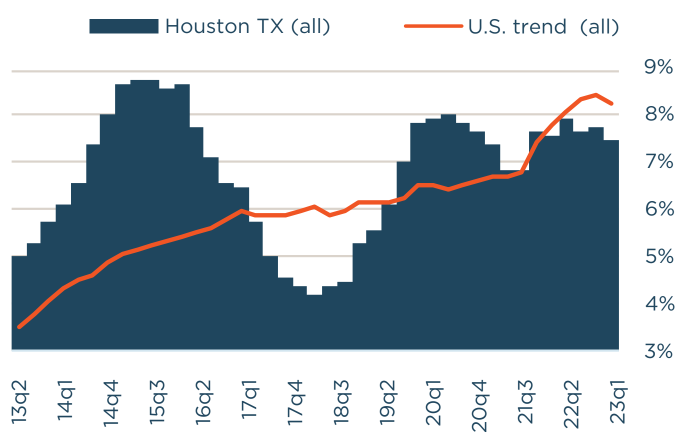
Net Operating Income (trailing 4-qtr)



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

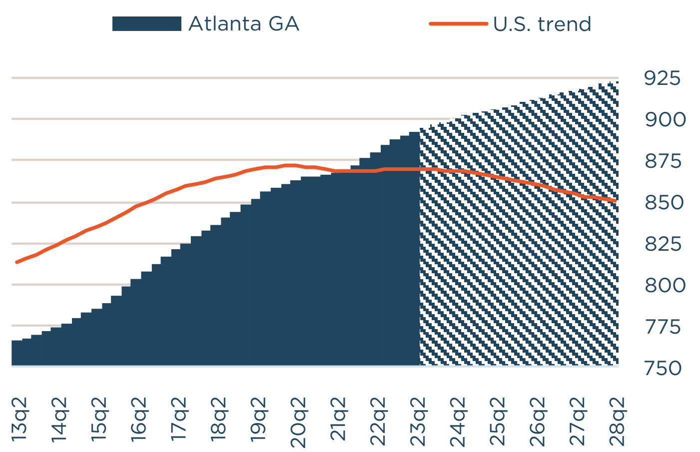
Atlanta is similar in many respects to the Dallas / Fort Worth metro area, but at a slightly smaller and slightly less dynamic scale.

MIDDLEBURG'S RANK #10 AMONG 15 LARGEST METROS

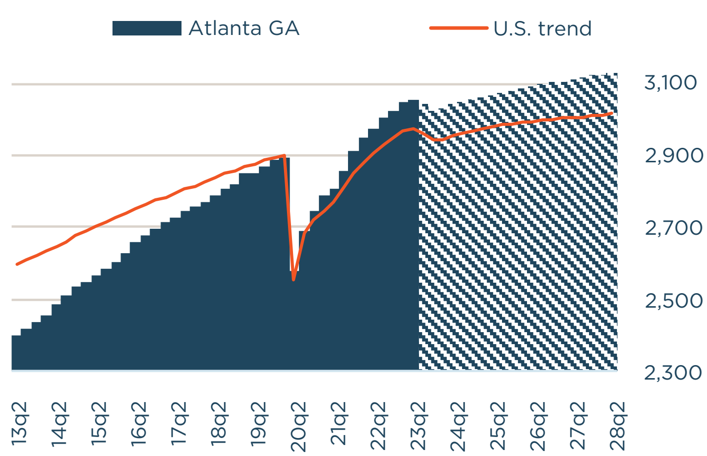
The largest market in Middleburg's territory outside of Texas, Atlanta is projected to see growth over the next five years of 0.7 percent per year in the number of **Young Adults** (31 thousand), 1.2 percent per year in the **Number of Households** (146 thousand) and 0.5 percent per year in **Total Employment** (73 thousand), all at least 75% 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 1.6 percent per year (compared with 2.7 percent for the nation as a whole) while median household incomes rise at 2.0 percent per year (compared with 2.5 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, higher than the national average of 4.6 percent, implying 34 thousand new units, but growth in **Effective Rent per Unit** and **Net Operating Income** are expected to fall slightly behind the national average at just 2.4 percent and 2.6 percent per year, respectively, compared with 2.6 percent and 2.8 percent for the country as a whole. Units **Under Construction or Delivered** have recently surged relative to the national average, but do not yet raise significant oversupply concerns.

Young Adult Population (000s)

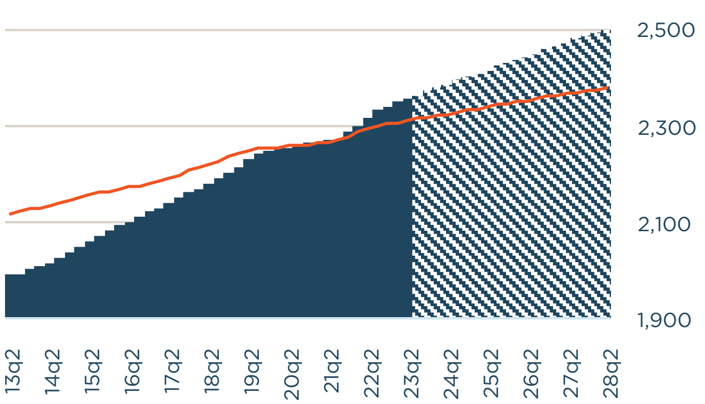


Total Employment (000s)

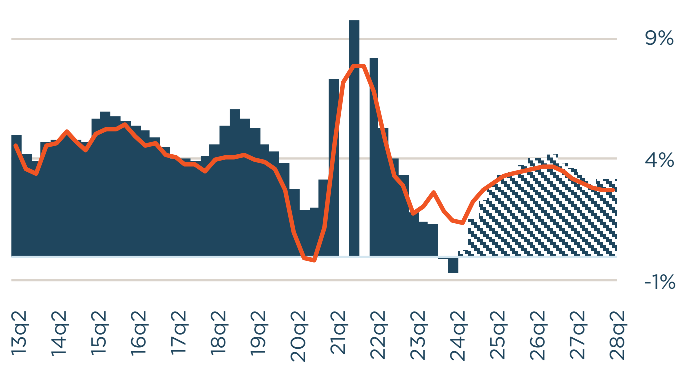


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
142,973	22,875	$310,680	1,014
↑ 3.6%	↓ 10.4%	↓ 0.9%	↑ 57%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
-0.5%	$86,440	7.4%	-1 bps
↓ 7.6%	↑ 0.7%	↑ 0.2%	below US avg

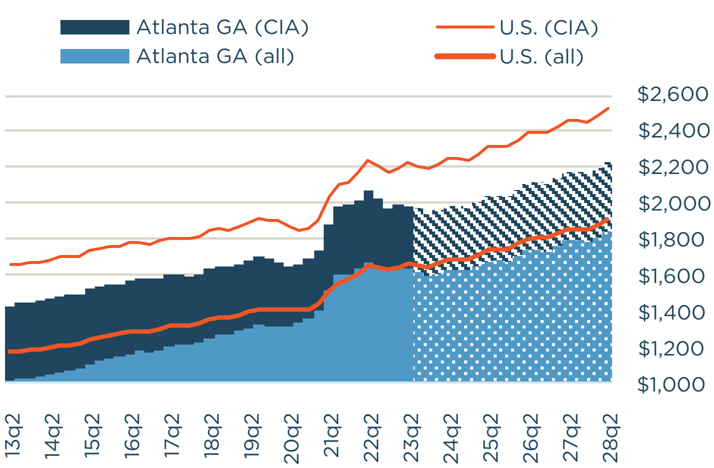
Number of Households (000s)



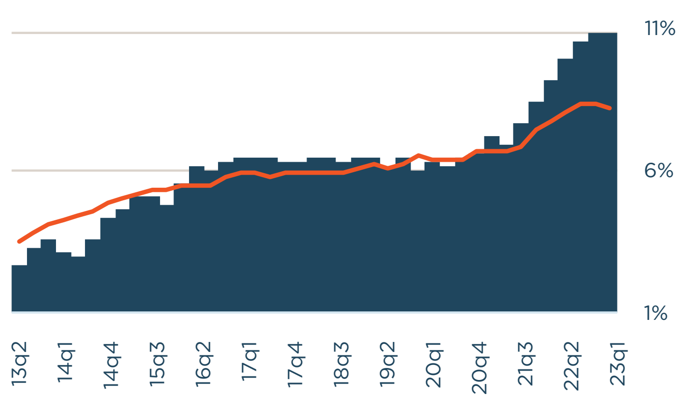
Net Operating Income (trailing 4-qtr)



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

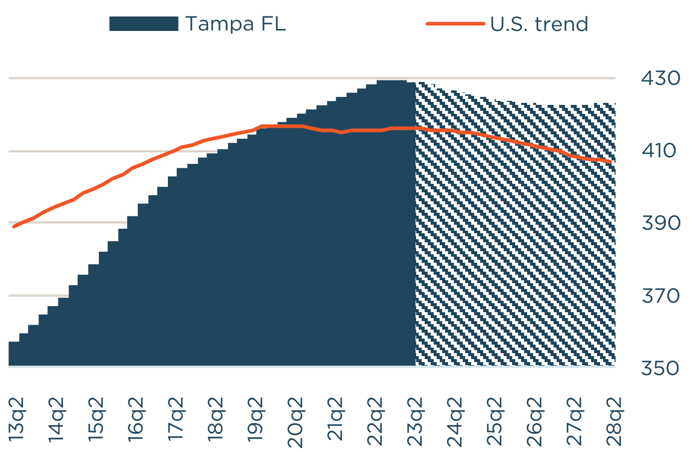
The Tampa market should continue to present appealing opportunities even though underlying demographic fundamentals are not as strong as in other metros in the area.

MIDDLEBURG'S RANK #13 AMONG 15 LARGEST METROS

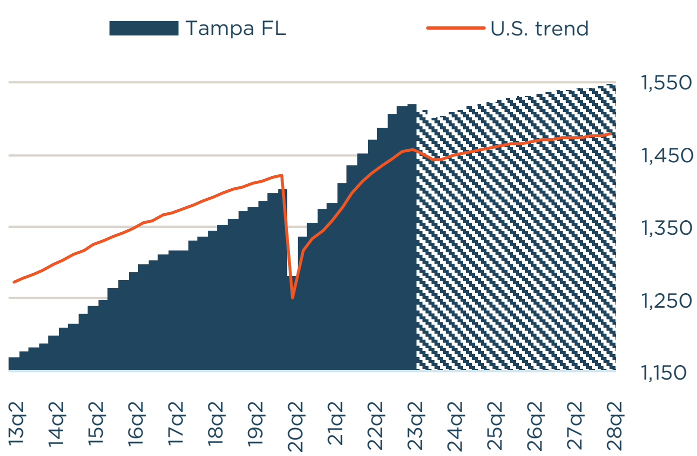
Tampa is not expected to grow as dynamically as most other large markets in Middleburg's arc. For example, Oxford Economics forecasts that over the next five years Tampa's **Young Adult Population** will shrink by 0.3 percent per year while **Total Employment** grows at just 0.3 percent per year (26 thousand) and its **Number of Households** grows at a slightly better rate of 1.0 percent per year (69 thousand). On top of that, Tampa's median household income is projected to grow slightly less than the national average at just 2.4 percent per year, reflecting its increasing appeal among retirees.

Homeownership affordability is expected to worsen only very slightly as house price appreciation is forecast to lag the nationwide average at 2.4 percent per year versus 2.5 percent nationally. Nevertheless, CoStar projects that Tampa will exceed the national average in terms of growth in both the number of units in demand (5.8 percent per year or 17 thousand) and **Effective Rent per Unit** (3.4 percent per year), while growth in **Net Operating Income** is forecast to outpace every other large market in Middleburg's territory at 3.7 percent per year. **Construction and Net Deliveries**, however, have been well above the national average relative to existing inventory, giving rise to oversupply concerns.

Young Adult Population (000s)

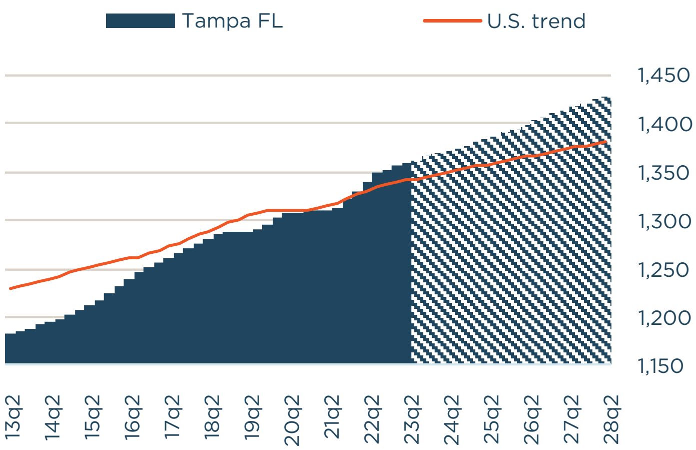


Total Employment (000s)

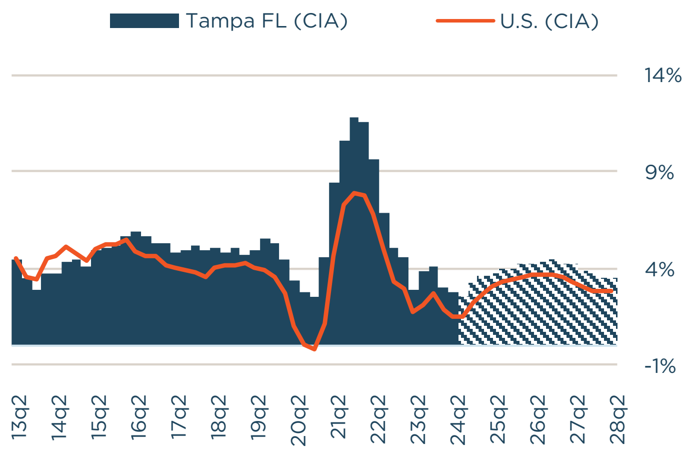


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
57,266	9,332	$306,569	112
↑ 1.4%	↑ 0.5%	↓ 0.5%	↓ 57%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
-2.8%	$69,320	6.2%	+3 bps
↓ 10.1%	↑ 0.8%	↑ 0.3%	above US avg

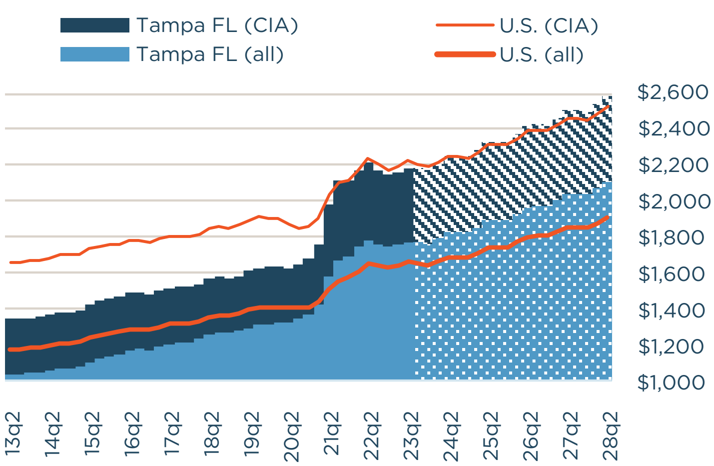
Number of Households (000s)



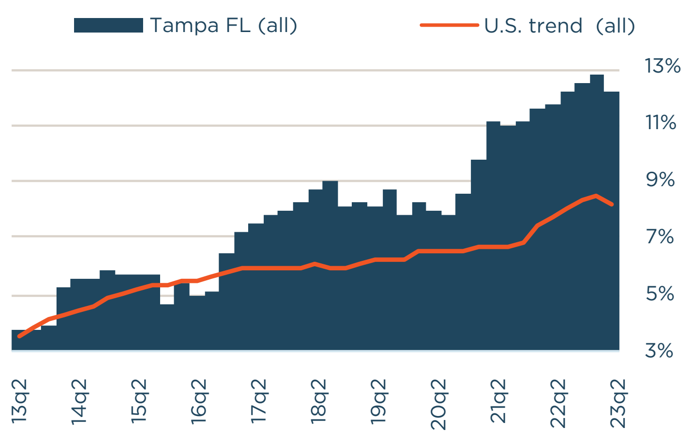
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



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

Charlotte, NC

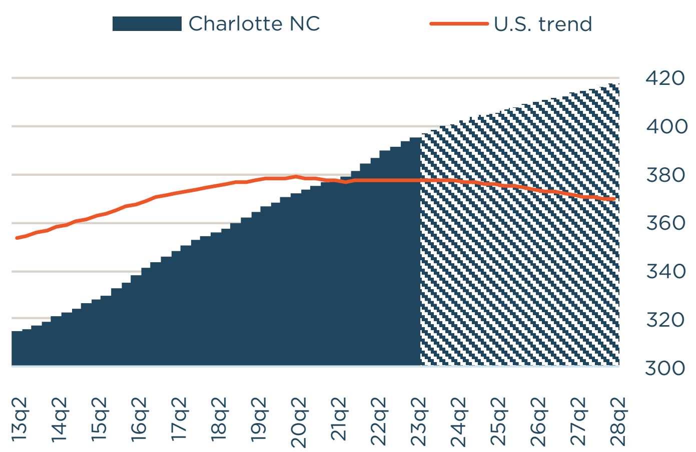
We expect demand for rental housing in Charlotte to be supported by very strong growth in all key demand drivers as it continues its fascinating transformation from a textile manufacturing hub to a diversified hub for finance and high-value manufacturing.

MIDDLEBURG'S RANK #9 AMONG 15 LARGEST METROS

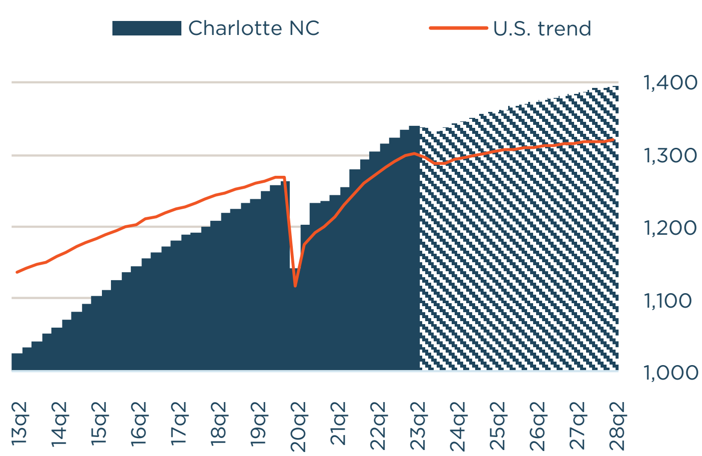
Charlotte's economy has successfully shed its dependence on low-value textiles with its nationally prominent finance sector and the growth of advanced non-textile manufacturing. As a result, over the next five years Oxford Economics forecasts that its **Young Adult Population** will grow at 1.1 percent per year (22 thousand), trailing only Austin, while growth in the **Number of Households** trails only Austin and matches Orlando and Houston at 1.5 percent per year (83 thousand) and growth in **Total Employment** also comfortably exceeds both the national average and the median of large metros in Middleburg's territory at 0.8 percent per year.

Homebuyer affordability is expected to ease slightly as house price appreciation averaging 1.8 percent per year lags median household income growth of 2.0 percent per year. Nevertheless, CoStar expects the number of class A rental units in demand to grow by 19 thousand at a comfortably above-average rate of 5.8 percent per year. **Effective Rent per Unit** and **Net Operating Income** are likely to grow less rapidly over the next five years than in many other markets in Middleburg's territory at just 2.0 and 2.5 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.

Young Adult Population (000s)

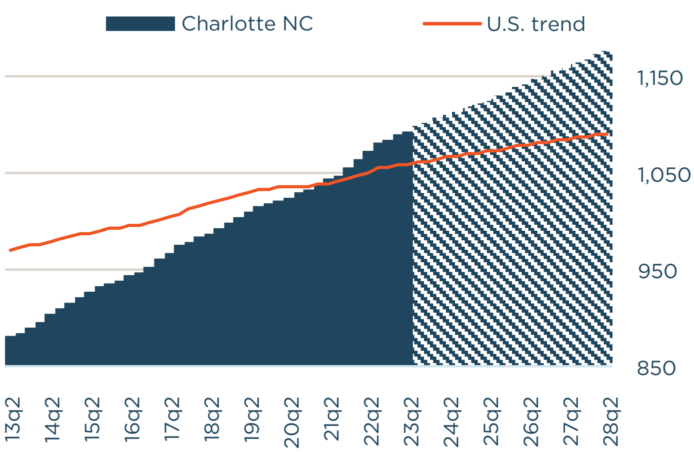


Total Employment (000s)

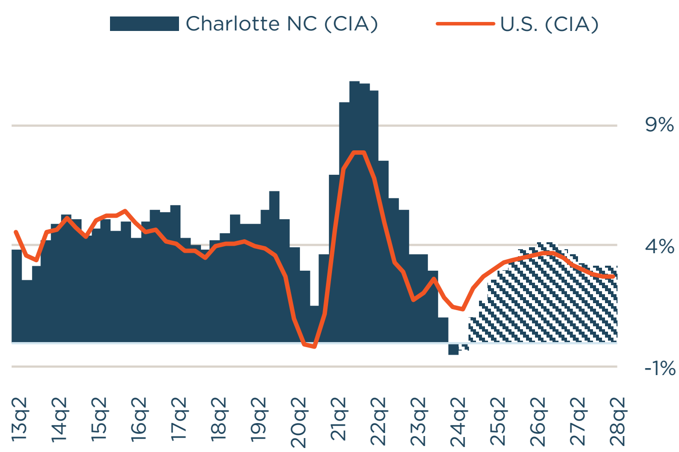


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
64,820	10,464	$308,209	637
↑ 1.4%	↓ 5.5%	↑ 0.5%	↓ 10%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
3.7%	$78,280	6.5%	-13 bps
↓ 7.3%	↑ 0.8%	↓ 0.2%	below US avg

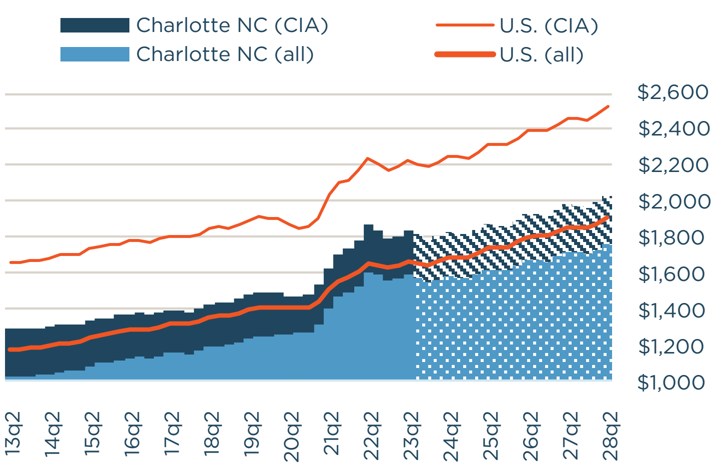
Number of Households (000s)



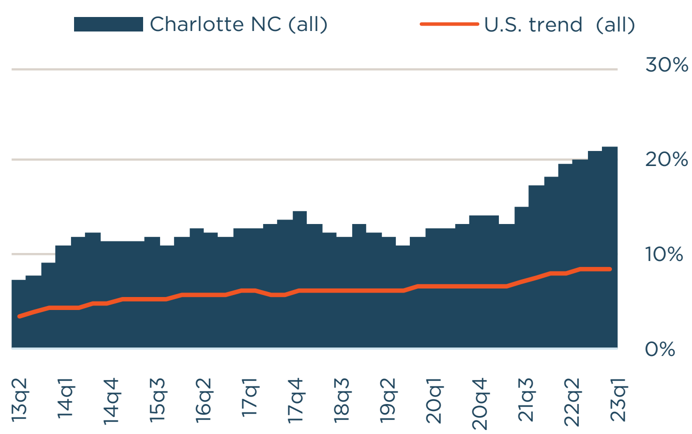
Net Operating Income (trailing 4-qtr)



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

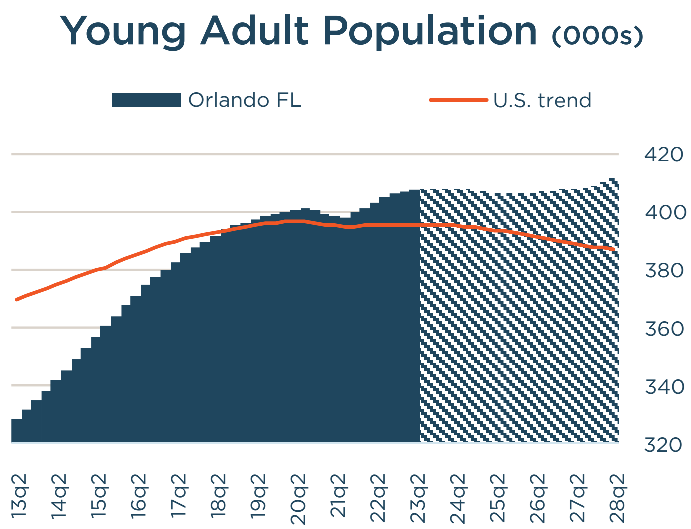
Orlando has become one of the most appealing rental housing markets in the country, but the rancor marking the state of Florida's continuing efforts to assume control of the Reedy Creek Improvement District introduces an unwelcome degree of uncertainty.

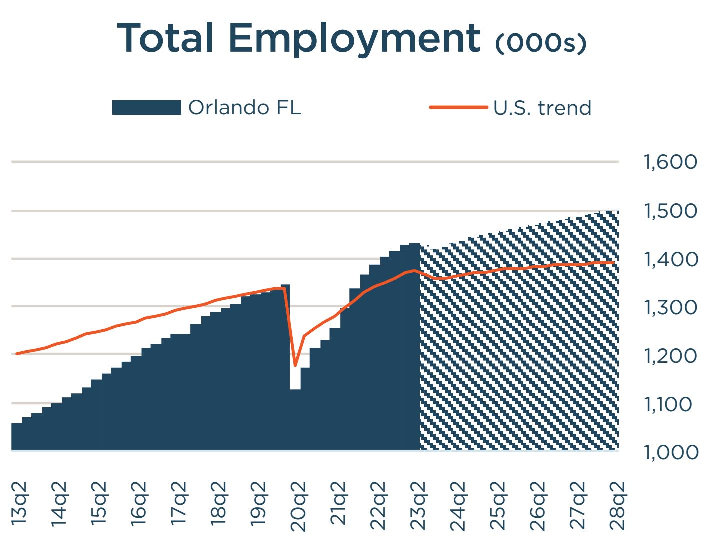
MIDDLEBURG'S RANK #6 AMONG 15 LARGEST METROS

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 0.9and 1.5 percent per year, respectively, adding 69 thousand jobs and 82 thousand households. Oxford also expects above-average growth in Orlando's **Young Adult Population** at 0.2 percent per year (4 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 remain unchanged over the next five years as median household income and house prices are expected to match growth rates at 2.4 percent per year. Nevertheless, CoStar forecasts that growth of **Effective Rent per Unit** at 2.7 percent per year and **Net Operating Income** at 3.1 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.

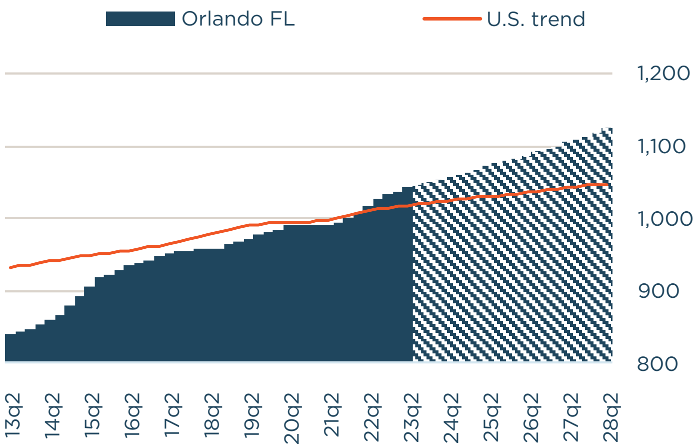
The threat posed by an ordinarily pro-growth state government to the continuing success of the Orlando economy is real, though the pre-takeover leadership of the Reedy Creek Improvement District seems to have found a way to preserve the status quo.



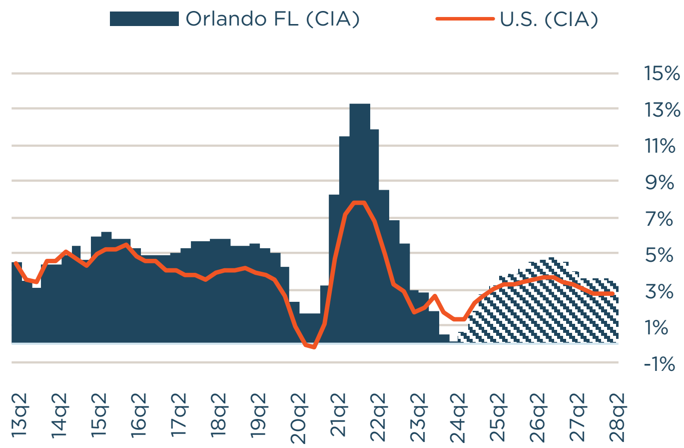


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
65,251	7,894	$311,059	--
↑ 3.2%	↓ 12%	↓ 0.9%	↓ 100%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
0.8%	$73,040	6.1%	-11 bps
↓ 8.8%	↑ 0.7%	↑ 0.2%	below US avg

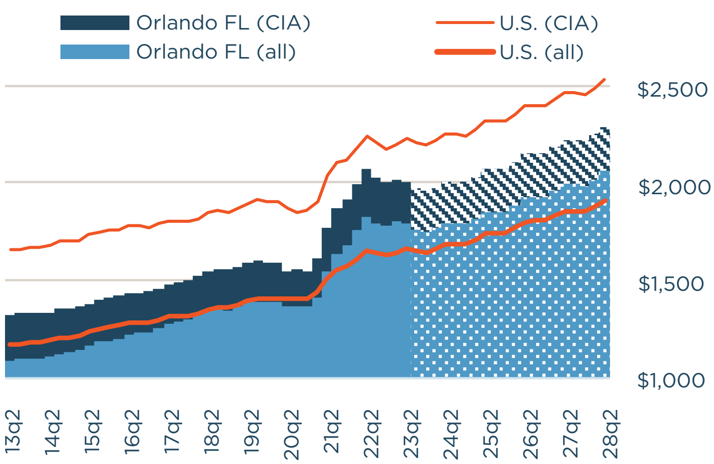
Number of Households (000s)



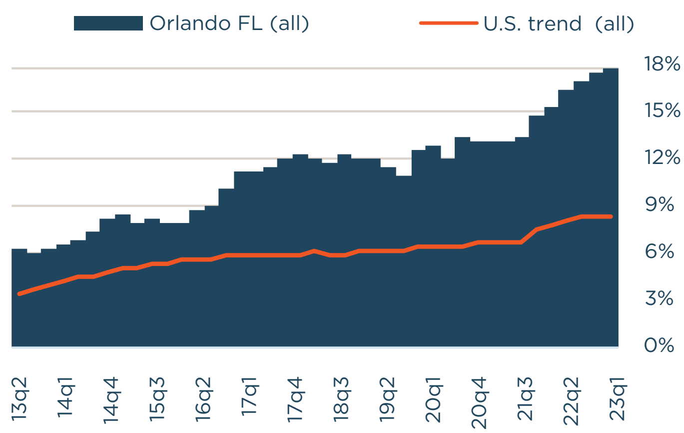
Net Operating Income (trailing 4-qtr)



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

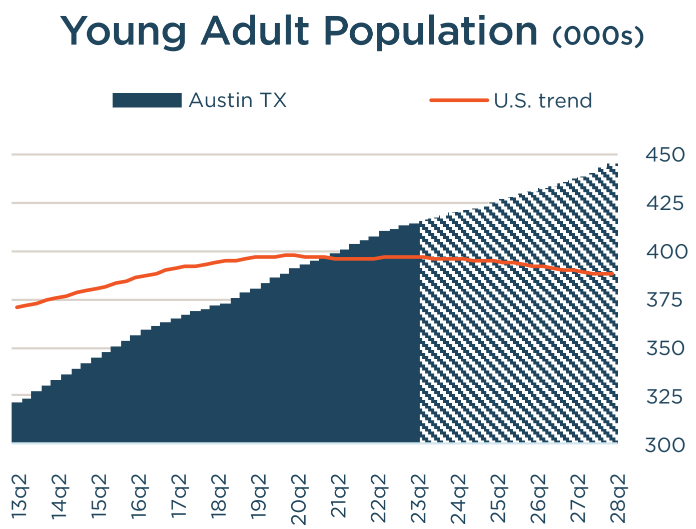
Austin, TX

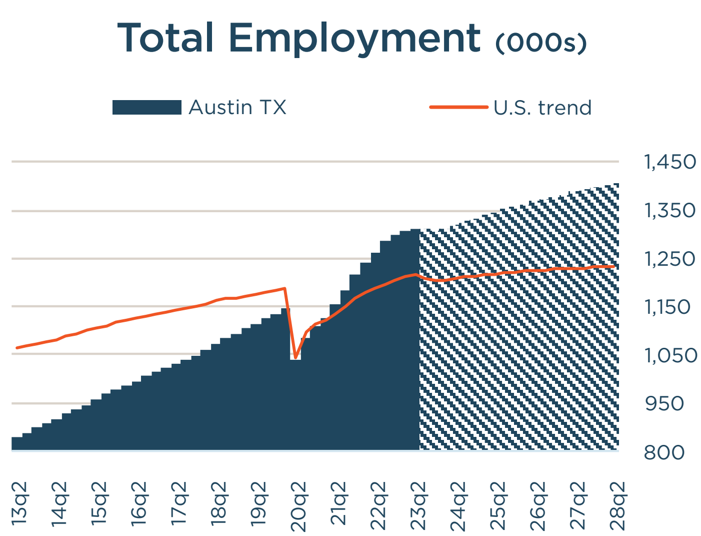
Austin's appeal as a rental housing market should surprise nobody, as the Texas capital has become known as a favorite among young professionals, thanks in large part to the University of Texas and the city's music scene.

MIDDLEBURG'S RANK #4 AMONG 15 LARGEST METROS

Over the next five years Oxford Economics forecasts that growth in Austin's **Young Adult Population**, **Number of Households**, and **Total Employment** will outpace every other metro area in Middleburg's footprint in percentage terms at 1.4, 1.4, 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 30 thousand and 93 thousand respectively, while the number of new households is expected to trail only Dallas, Houston, and Atlanta at 100 thousand.

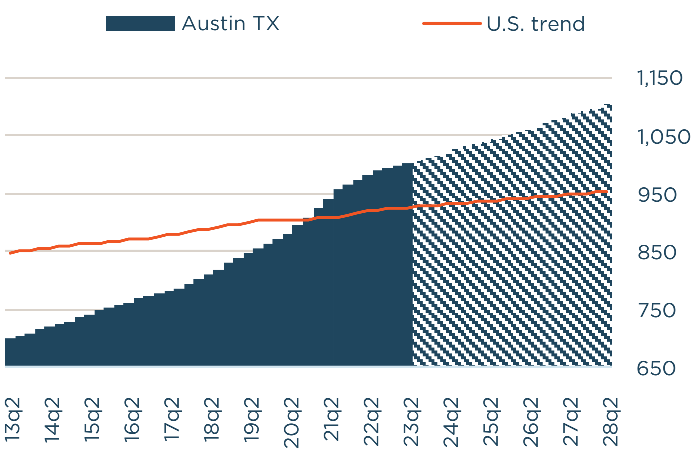
Homeownership affordability is forecast to remain both a very serious and a growing problem in Austin, with house price appreciation continuing at 3.9 percent per year—well above the national average of 2.7 percent per year—while growth in median household income struggles to keep pace with the national average at 2.5 percent per year. CoStar forecasts that rental housing demand will grow by 19 thousand units over the next five years (3.8 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 1.9 and 2.0 percent per year respectively.



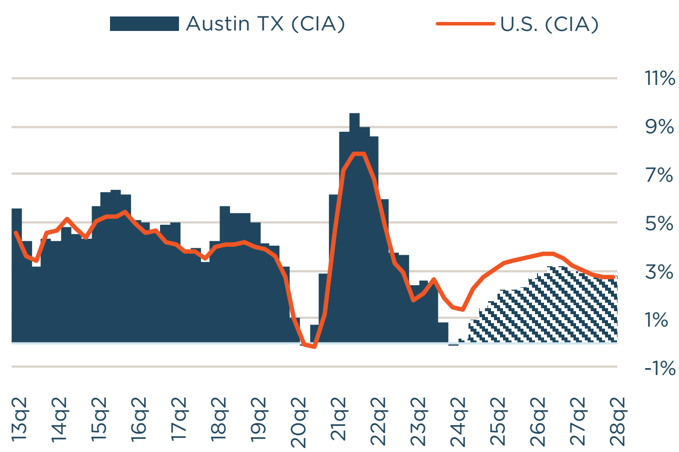


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
98,906 ↑ 1.2%	15,510 ↓ 3.7%	$287,877 ↓ 0.6%	534 ↓ 54%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
-8.4% ↓ 8.3%	$98,160 ↑ 0.5%	7.1% ↑ 0.2%	-20 bps below US avg

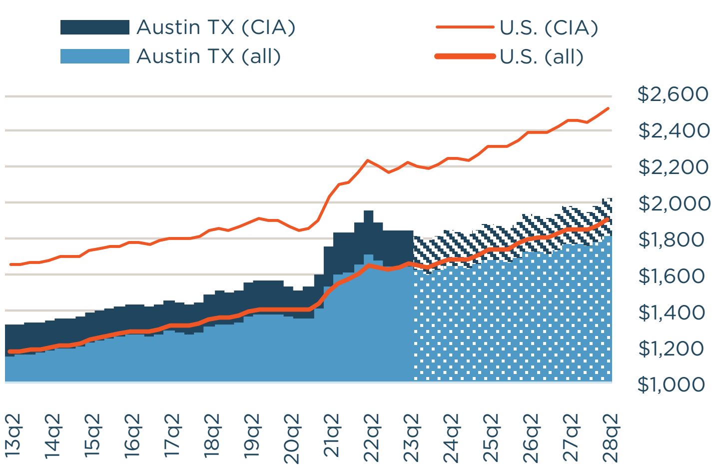
Number of Households (000s)



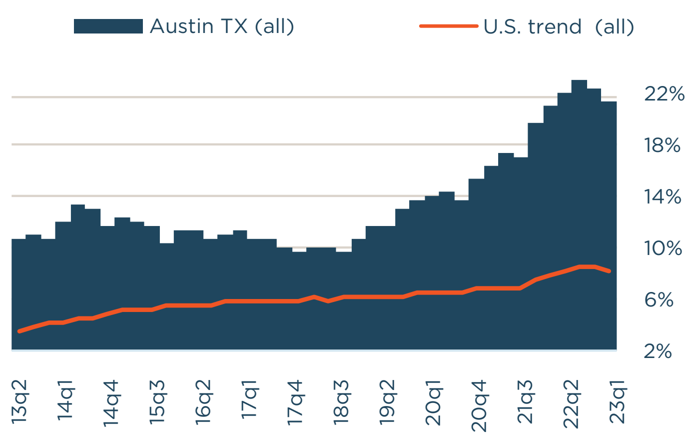
Net Operating Income (trailing 4-qtr)



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

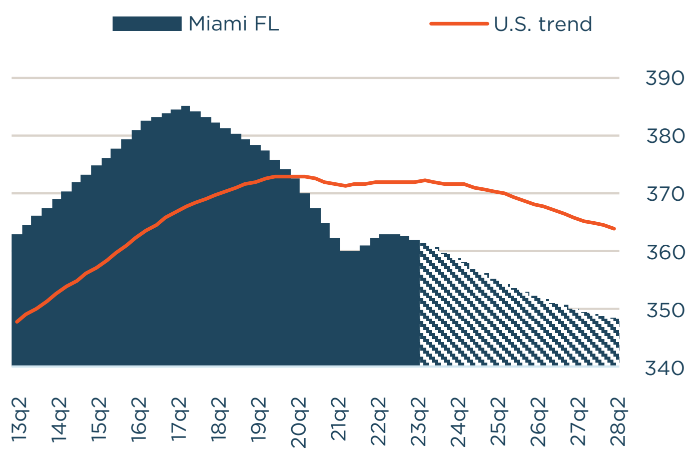
Miami is a market with some solid demand drivers—but one that, ultimately, is more likely to appeal to developers and investors other than Middleburg.

MIDDLEBURG'S RANK #2 AMONG 15 LARGEST METROS

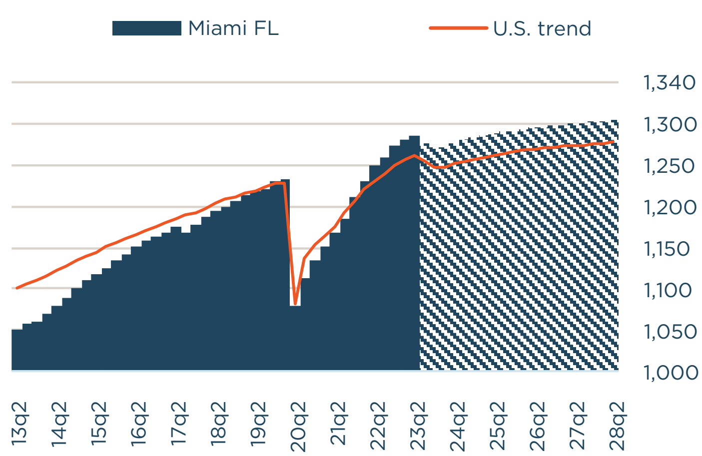
Miami has attracted (or perhaps sought) attention as a new home for tech firms relocating away from the San Francisco Bay area as well as finance firms relocating away from New York City. Even if that happens, it's probably not enough to make the Miami area especially appealing to Middleburg. Oxford 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 3.5 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 $2,880, easily the highest among markets in Middleburg's part of the country, is 6 percent higher than in neighboring Fort Lauderdale and 3 percent higher than in Palm Beach, but Miami's median household income is 11 percent lower than in Fort Lauderdale and 13 percent lower than in Palm Beach.

Young Adult Population (000s)

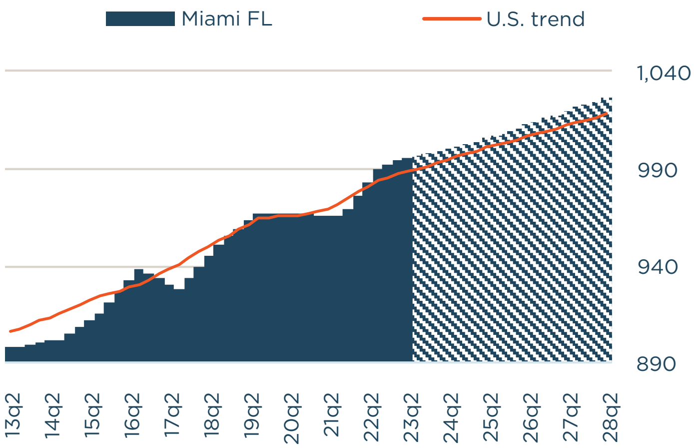


Total Employment (000s)

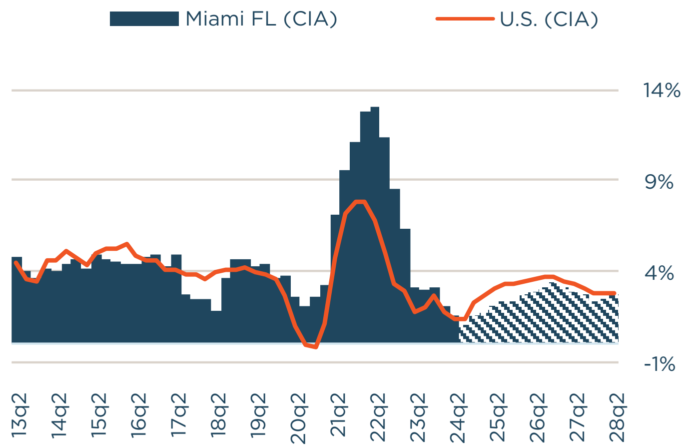


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
47,991	20,937	$431,691	1,901
↑ 1.5%	↑ 5.2%	↓ 0.6%	n/a
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
-0.6%	$65,400	5.8%	-14 bps
↓ 10.8%	↑ 0.4%	↑ 0.2%	below US avg

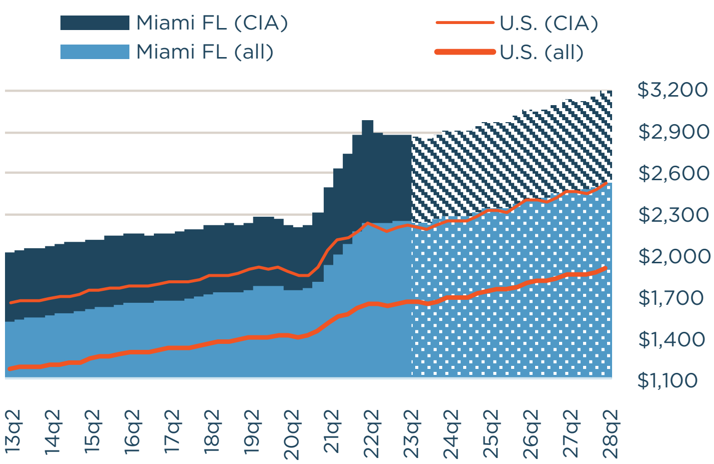
Number of Households (000s)



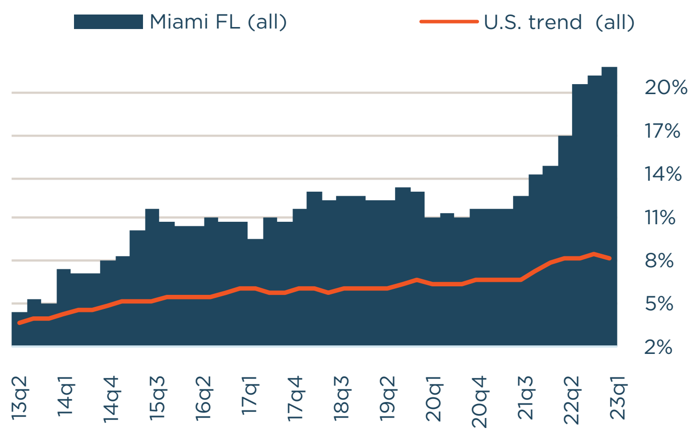
Net Operating Income (trailing 4-qtr)



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

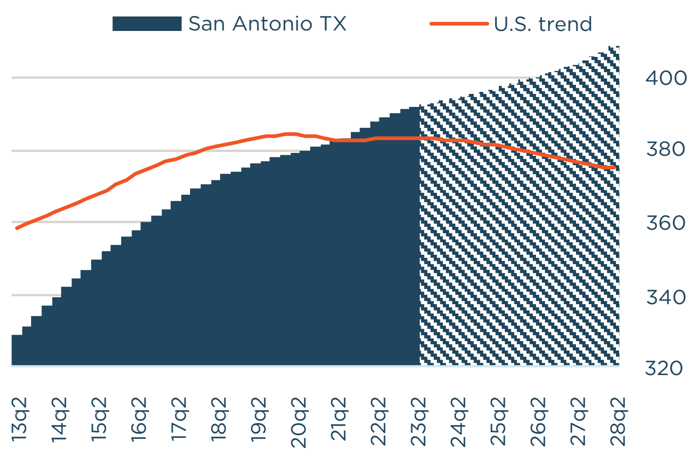
San Antonio has become an interesting market, though perhaps more for acquisition than for development. Only 80 miles from Austin, it is already seeing in-migration from its increasingly unaffordable neighbor, especially among **Young Adults**.

MIDDLEBURG'S RANK #15 AMONG 15 LARGEST METROS

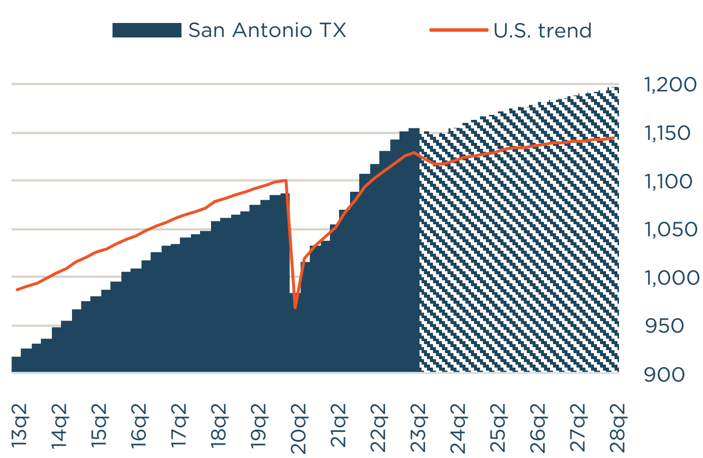
San Antonio's economic base, long dominated by nearby military installations, has diversified impressively in financial services (USAA, JP Morgan Chase), digital technologies (Rackspace Technology, TaskUs), medical care, grocery retailing, and other industries. Oxford Economics forecasts that, over the next five years, San Antonio will experience relatively strong growth in all three key demographic drivers of rental housing demand: **Young Adult Population** (up 17 thousand at 0.8 percent per year), **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 2.2 percent per year. CoStar expects demand for rental housing to increase by 14 thousand units at 4.6 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 except Austin at just 2.1 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 $1,476 per unit but also forecast to increase more sluggishly at just 2.1 percent per year.

Young Adult Population (000s)

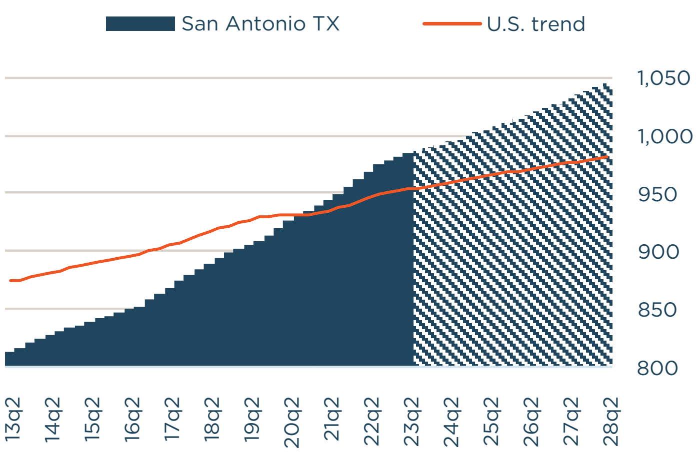


Total Employment (000s)

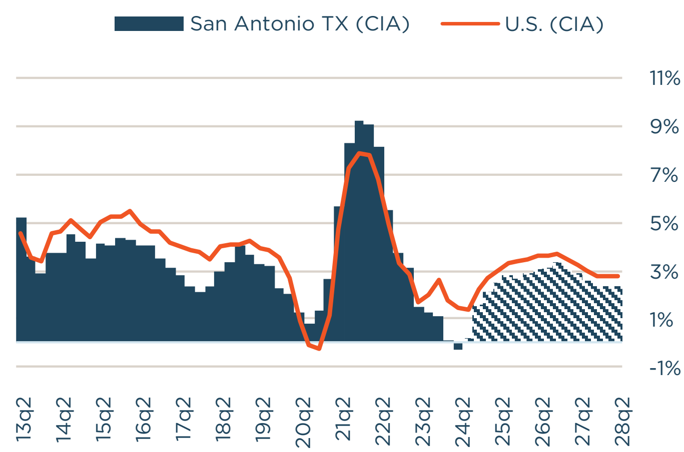


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
64,832	5,566	$186,112	370
↑ 1.9%	↓ 15%	↓ 1.1%	↓ 54%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
-0.4%	$73,200	7.8%	23 bps
↓ 8.2%	↑ 0.4%	↑ 0.3%	above US avg

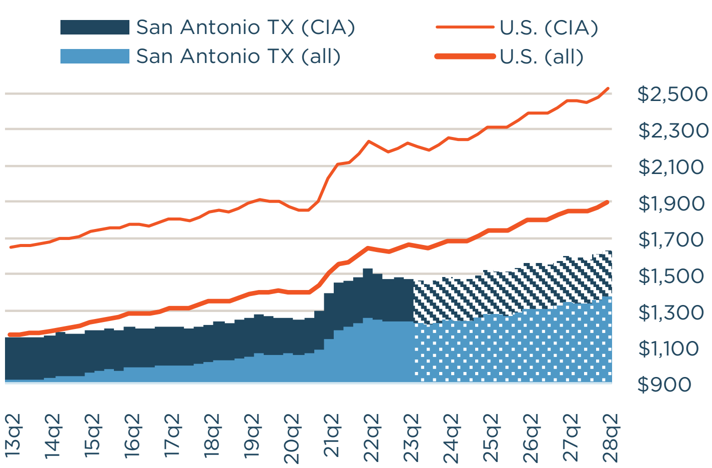
Number of Households (000s)



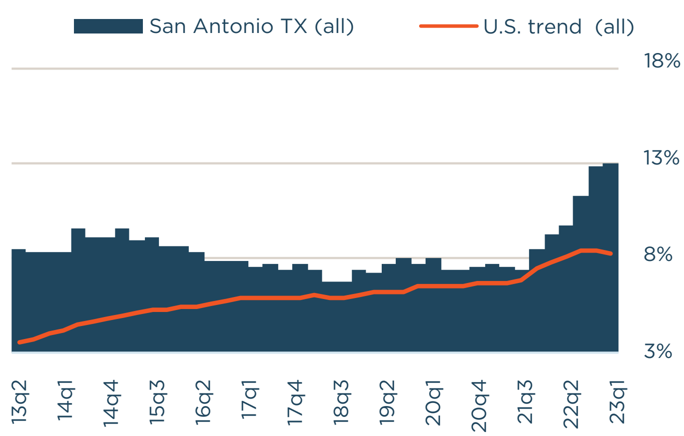
Net Operating Income (trailing 4-qtr)



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

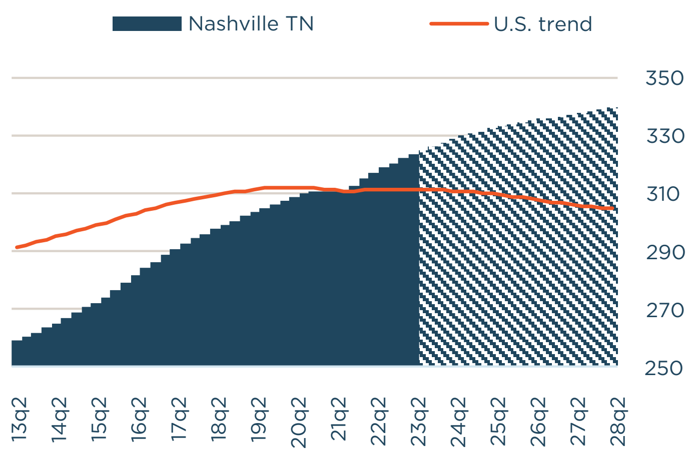
Nashville may as well be called "The New Austin." As in Austin, it's hard to find weak aspects of the Nashville rental housing market; also as in Austin, however, the strength of the Nashville market is widely recognized.

MIDDLEBURG'S RANK #3 AMONG 15 LARGEST METROS

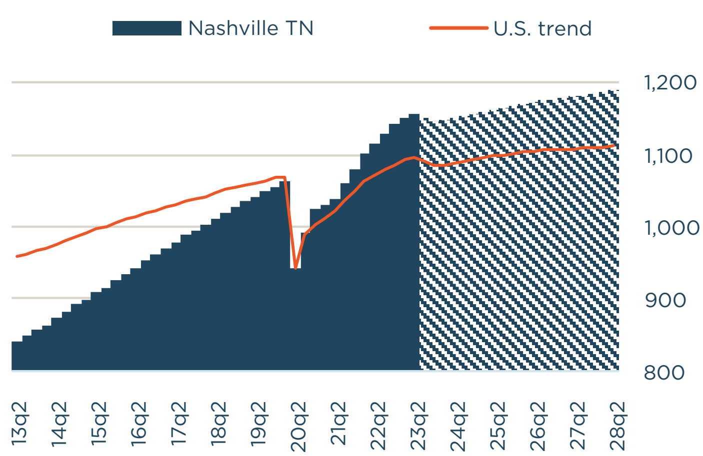
Like Austin, Nashville seems to be a growing favorite of young professionals, based partly on its music scene. Also like Austin, Nashville has seen high-profile recent corporate relocations including AllianceBernstein. As a result, the key demographic drivers of rental housing demand are all expected to continue to grow strongly in Nashville over the next five years. Oxford Economics expects that Nashville's **Young Adult Population** will grow by 16 thousand over the next five years (1.0 percent per year, trailing only Austin and Charlotte), that the **Number of Households** will grow by 46 thousand (1.1 percent per year), and that **Total Employment** will grow by 32 thousand (0.5 percent per year).

Nashville's homebuyer affordability problem is expected to continue worsening over the next five years, with house price appreciation averaging 3.5 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 22 thousand units (8.6 percent per year, highest in Middleburg's territory) 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 **Effective Rent per Unit** is expected to trail every other metro area in Middleburg's arc at just 1.7 percent per year while growth in **Net Operating Income** is expected to be similarly weak at just 2.2 percent per year.

Young Adult Population (000s)

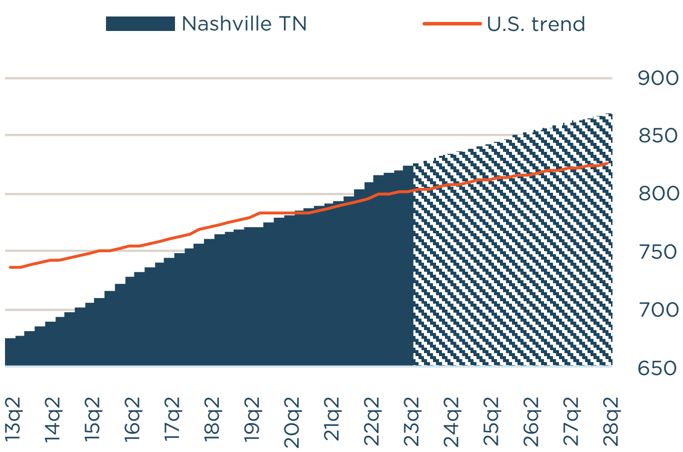


Total Employment (000s)

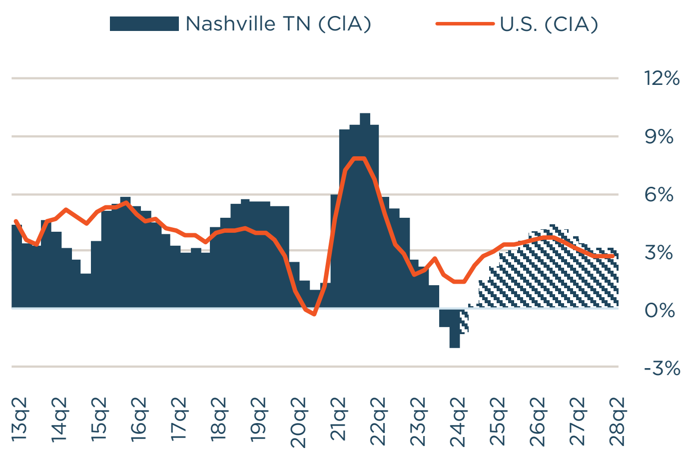


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
50,609	14,232	$330,705	271
↑ 4.8%	↓ 7.7%	↓ 0.4%	↓ 53%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
-0.6%	$82,320	6.7%	+14 bps
↓ 9.4%	↑ 0.7%	--	above US avg

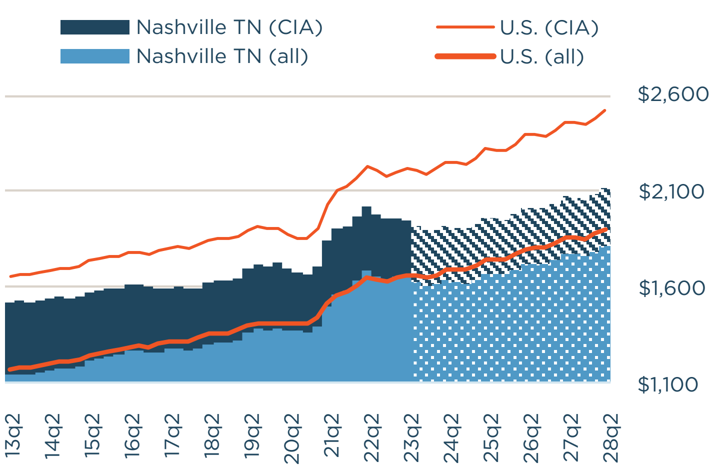
Number of Households (000s)



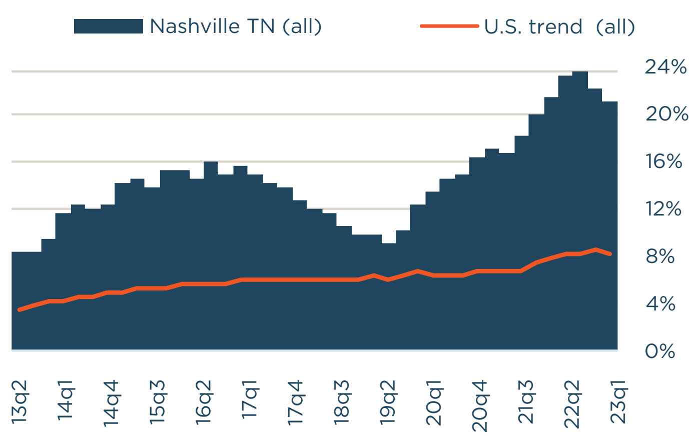
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



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

Fort Lauderdale, FL

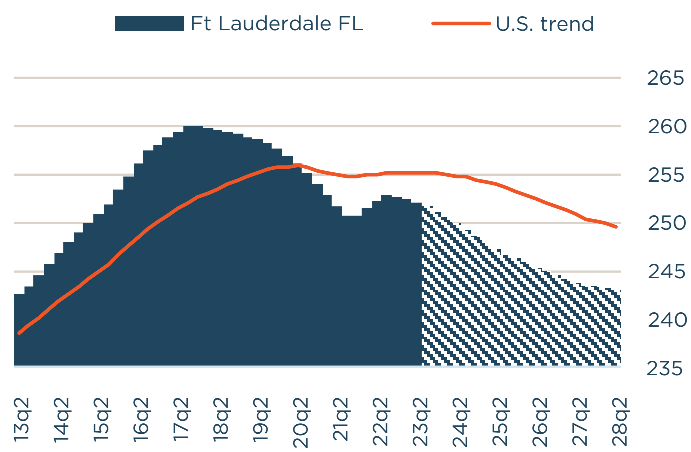
The Fort Lauderdale market shares much in common with its near neighbors Miami and Palm Beach—but those shared traits are the ones most likely to make them appeal more to other developers and investors than to Middleburg.

MIDDLEBURG'S RANK #7 AMONG 15 LARGEST METROS

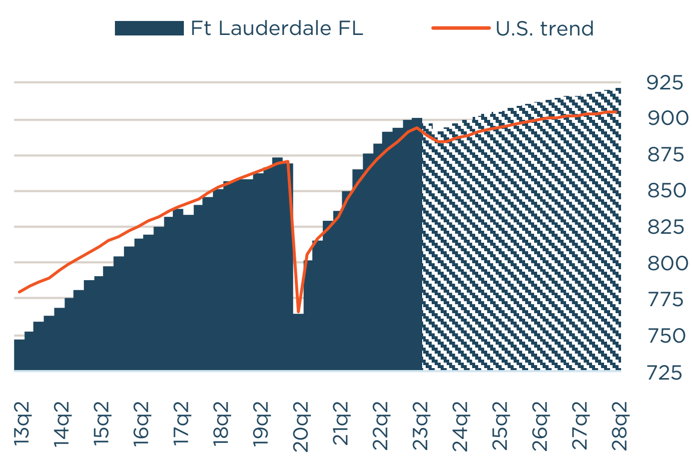
The most appealing aspect of the Fort Lauderdale market is the market rents that it can support: the metro area's $2,726 average effective rent per Class A unit trails only Miami's $2,880 and Palm Beach's $2,789. The transaction market fully reflects that strength, with Class A apartments selling at an average price of $387,798 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 price appreciation slightly outpacing the national average at 3.1 percent per year while the median household income increases by just 2.1 percent per year.

Those numbers are not necessarily enough to make Fort Lauderdale especially appealing to Middleburg, though, given that we don't typically compete at the highest end of the rental housing market. More important to us is the fact that growth in the key demographic drivers is expected to be anemic: Oxford Economics forecasts, for example, that the **Young Adult Population** will contract by 9 thousand over the next five years at -0.7 percent per year, much worse than the national average of -0.4 percent per year, while **Total Employment** will grow by just 19 thousand at 0.4 percent per year and the **Number of Households** will grow by just 25 thousand at 0.6 percent per year. On the other hand, the expected growth rates of **Effective Rent per Unit** (3.2 percent per year, trailing only Palm Beach and Tampa) and **Net Operating Income** (1.7 percent per year, trailing only those cities plus Jacksonville) make Fort Lauderdale impossible to ignore.

Young Adult Population (000s)

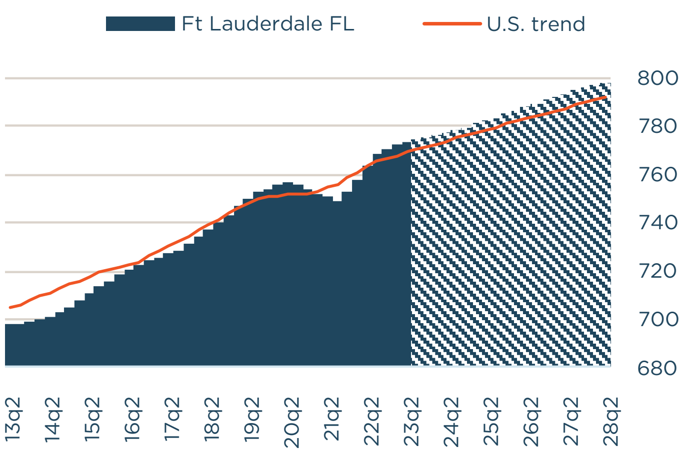


Total Employment (000s)

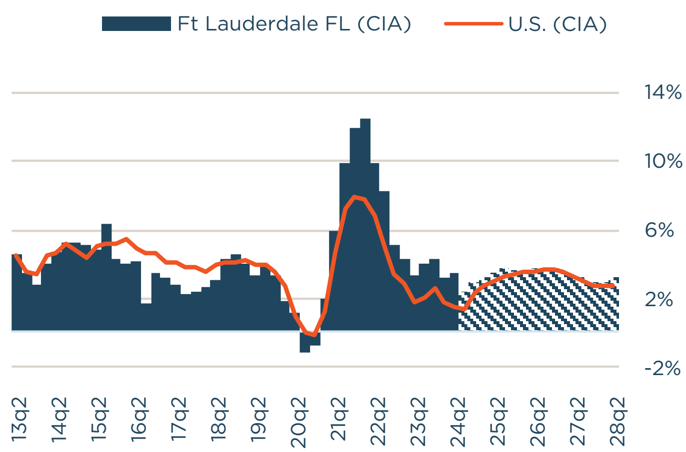


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
31,940	7,249	$387,798	2,138
↑ 2.1%	↑ 3.4%	↓ 1.6%	↑ 216%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
-2.5%	$73,520	5.0%	2 bps
↓ 11.0%	↑ 0.5%	--	above US avg

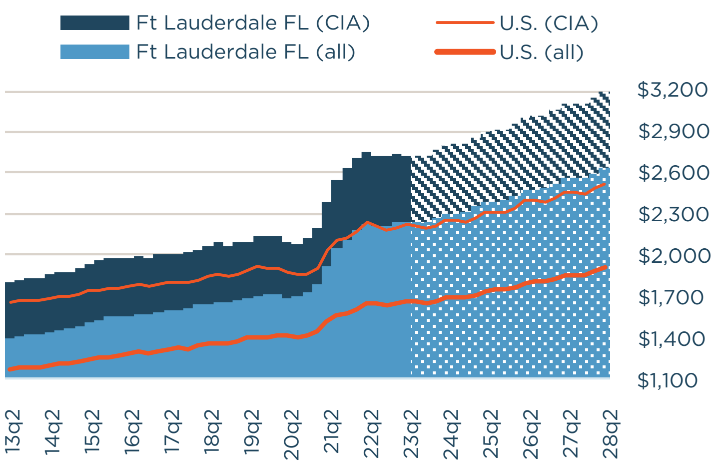
Number of Households (000s)



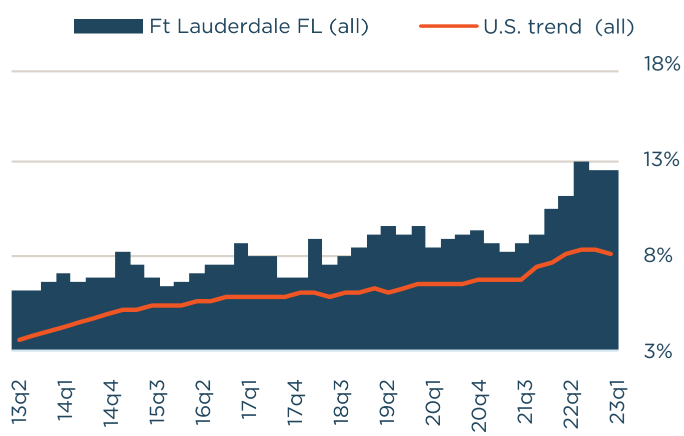
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



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

Jacksonville, FL

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

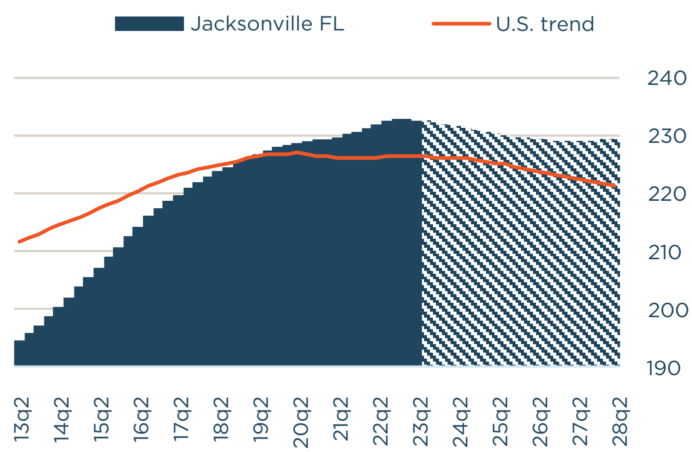
MIDDLEBURG'S RANK #14 AMONG 15 LARGEST METROS

The growth rate of GDP in the Jacksonville metro area has exceeded the national average for several years and is expected to continue. 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, 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.

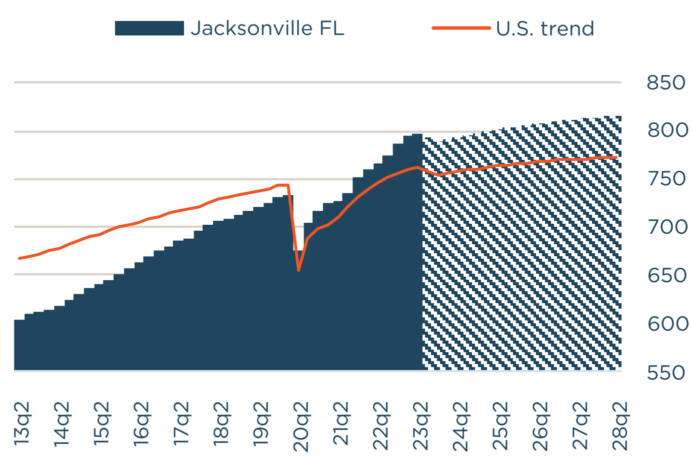
Neither is a homeownership affordability problem likely to drive apartment demand, as house prices are expected to grow substantially less than in the rest of the country at just 1.2 percent per year, significantly less than the growth rate of median household income at 2.3 percent per year.

Despite the weakness in demographic and affordability drivers, CoStar expects that demand for rental housing units will grow by 8 thousand over the same period, at 7.3 percent per year trailing only Nashville and Miami. Similarly, growth in **Effective Rent per Unit** and **Net Operating Income** are expected to grow strongly at 3.2 and 3.6 percent per year respectively, comfortably better than most other large metros in Middleburg's arc. **Construction and Deliveries**, however, have picked up considerably, raising concerns about over-supply problems.

Young Adult Population (000s)



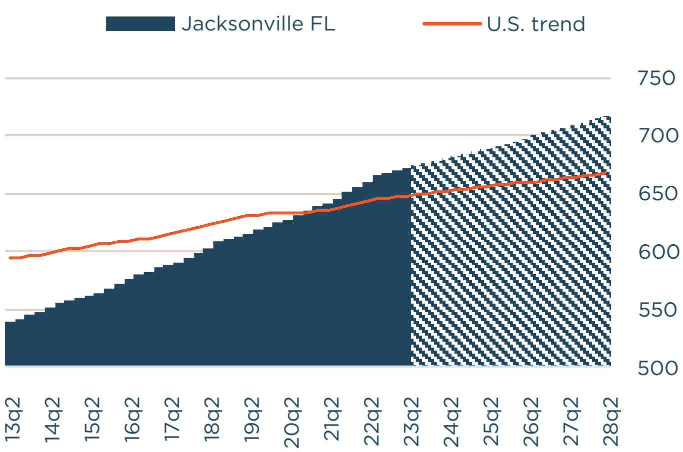
Total Employment (000s)



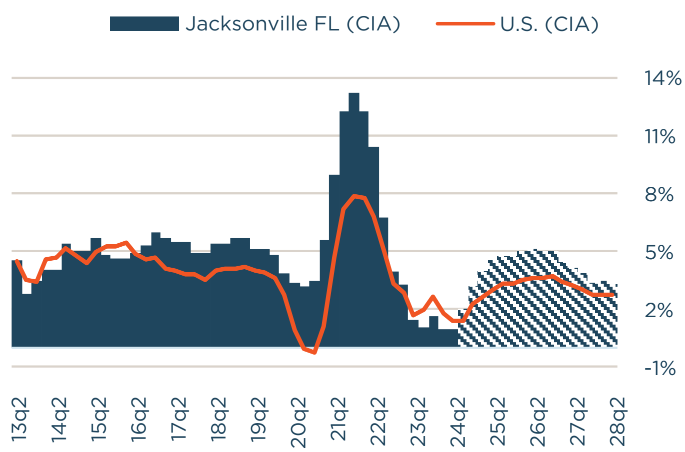
CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
20,879	4,524	$241,716	0
↑ 4.4%	↓ 6.0%	↓ 1.1%	--

12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
-0.6%	$74,280	6.3%	-2 bps
↓ 8.6%	↑ 0.6%	↑ 0.2%	below US avg

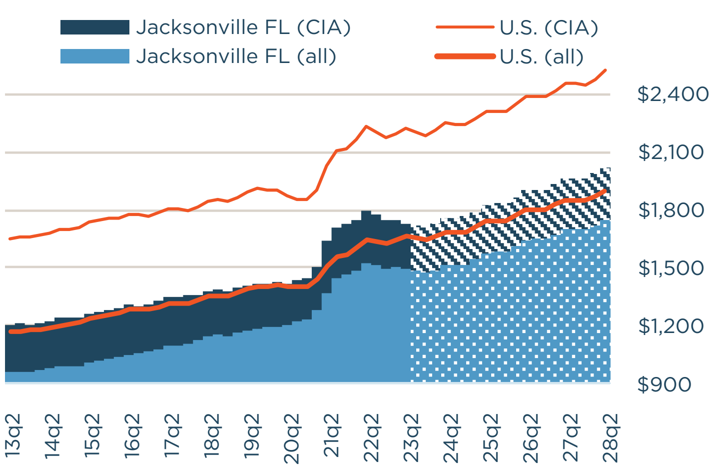
Number of Households (000s)



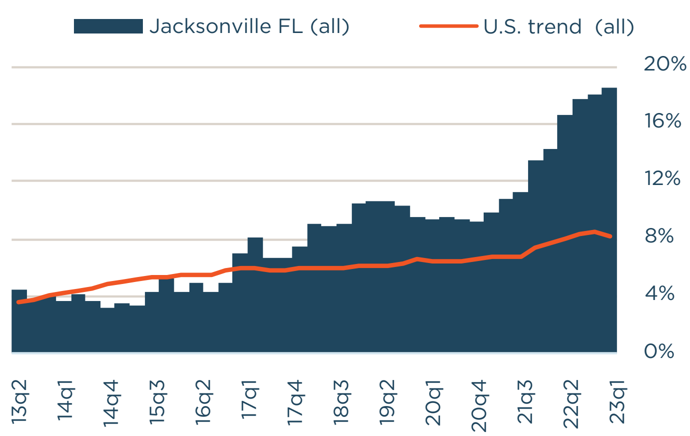
Net Operating Income (trailing 4-qtr)



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

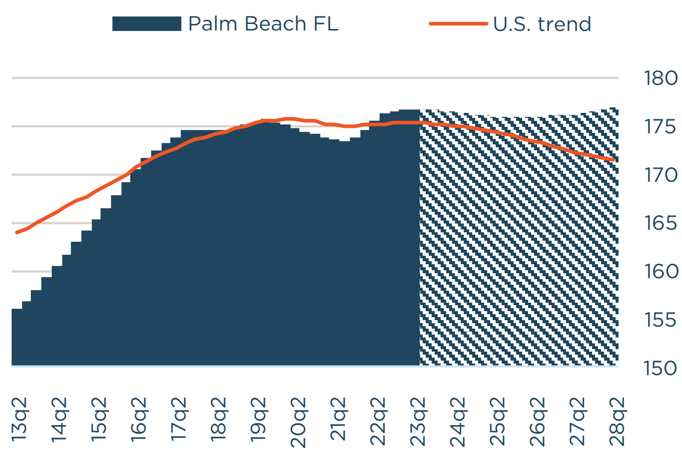
The rental housing market in Palm Beach—expensive and skewed toward wealthy retirees, like its near neighbors Miami and Fort Lauderdale, except with more promising demographic trends—will generally appeal more to developers other than Middleburg.

MIDDLEBURG'S RANK #1 AMONG 15 LARGEST METROS

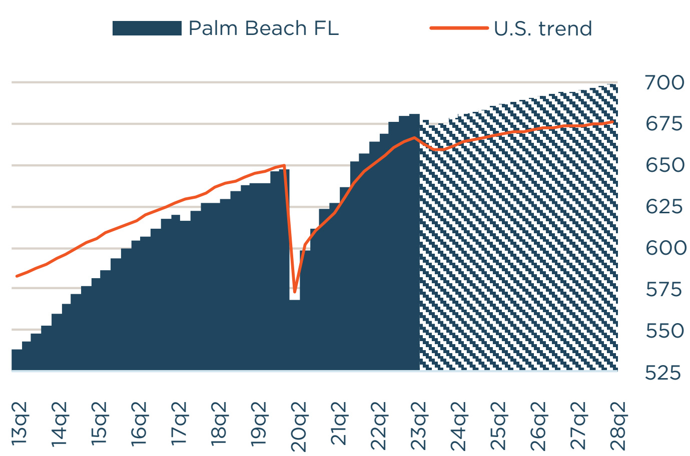
Chief among the signs of a niche housing market is effective market rent per Class A unit of $2,789 which is second only to Miami at $2,880 despite a median household income that trails the national average at just $74,760 (compared with $76,320 for the country as a whole). Nevertheless, the **Young 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 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 17 thousand).

Homeownership affordability problems should also increase demand for rental housing, with anticipated growth in house prices exceeding the national average at 3.0 percent per year while median household income lags at just 2.0 percent per year, the weakest for all large metro areas in Middleburg's territory. Partly for this reason, CoStar expects growth in **Effective Rent per Unit** to outpace every other metro in Middleburg's arc at 3.5 percent per year while growth in **Net Operating Income** is forecast to trail only Tampa at 3.6 percent per year. **Construction and Deliveries** have remained only somewhat higher, relative to inventory, than for the country as a whole, suggesting that oversupply concerns are no more than normal.

Young Adult Population (000s)

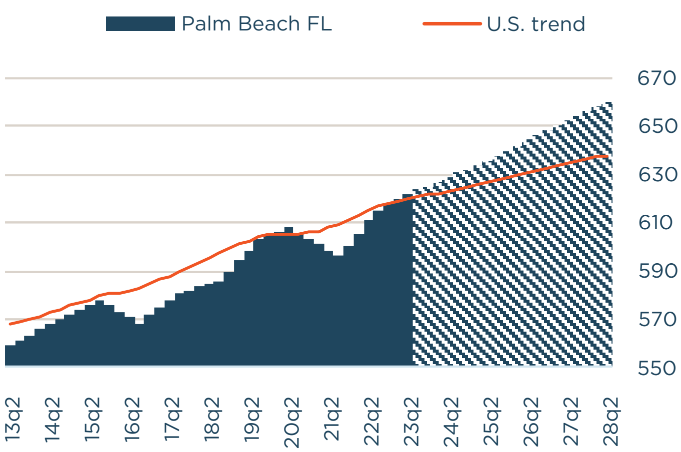


Total Employment (000s)

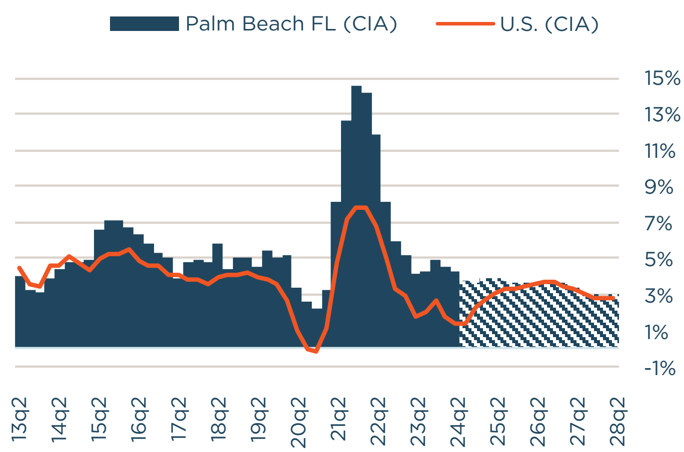


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	APARTMENT UNITS SOLD
25,388 ↑ 4.9%	3,803 ↓ 12%	$410,464 ↑ 0.2%	1,692 ↑ 190%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
-2.3% ↓ 11%	$74,760 ↑ 0.2%	5.8% ↑ 0.4%	-49 bps below US avg

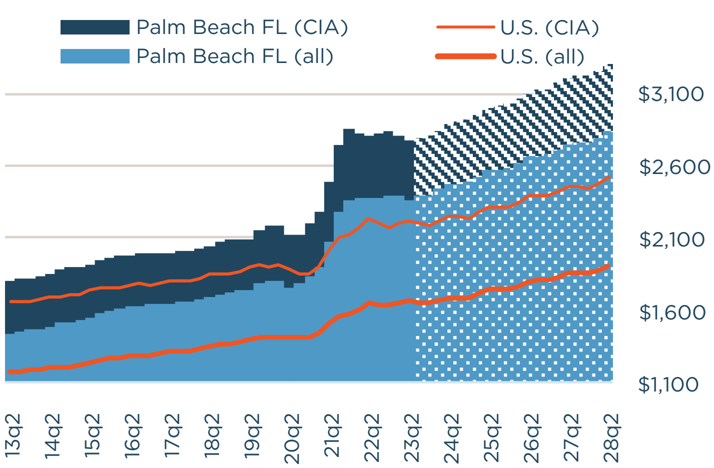
Number of Households (000s)



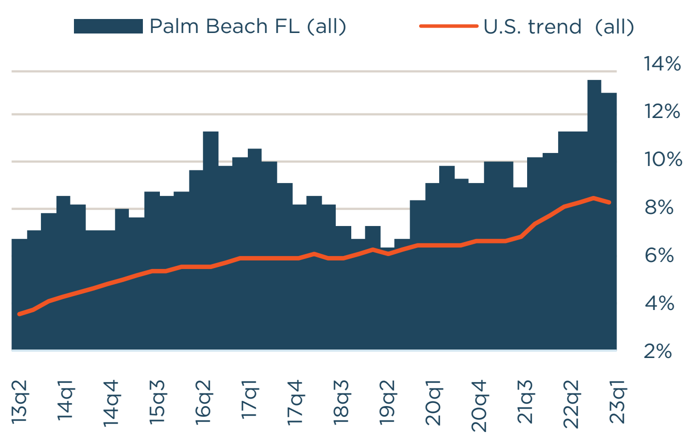
Net Operating Income (trailing 4-qtr)



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

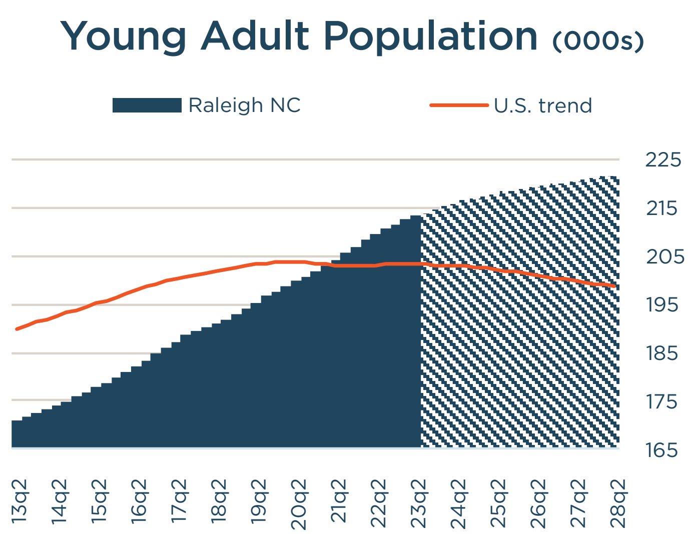
Raleigh, NC

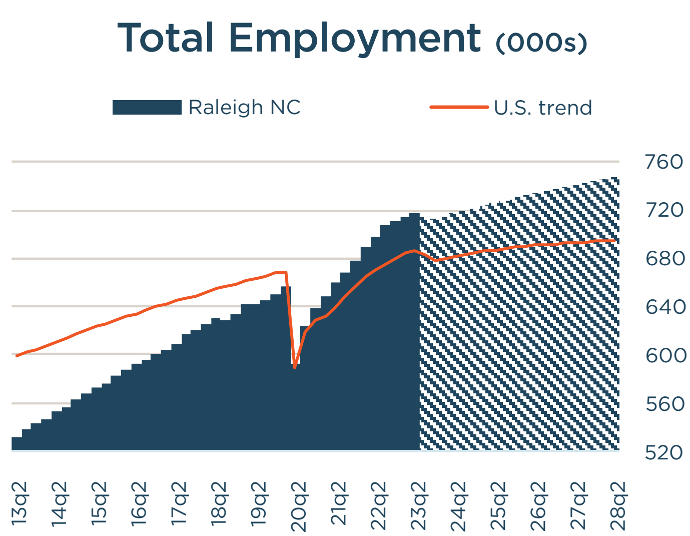
In terms of its attractiveness as a rental housing market, Raleigh can perhaps best be described as a somewhat smaller and much more affordable version of Austin or Nashville.

MIDDLEBURG'S RANK #8 AMONG 15 LARGEST METROS

Raleigh has a diverse economic base and an uncommonly high-education, high-income population—a characteristic that it is likely to retain given its reputation as "the low-cost tech hub" and decisions by a large number of tech and life-sciences companies such as IBM, GlaxoSmithKline, and SAS to expand their operations here. Oxford Economics forecasts above-average growth in Raleigh over the next five years for all three key apartment demand drivers with its **Young Adult Population** growing by 0.8 percent per year (8 thousand), its **Number of Households** by 1.2 percent per year (36 thousand), and its **Total Employment** by 0.8 percent per year (31 thousand).

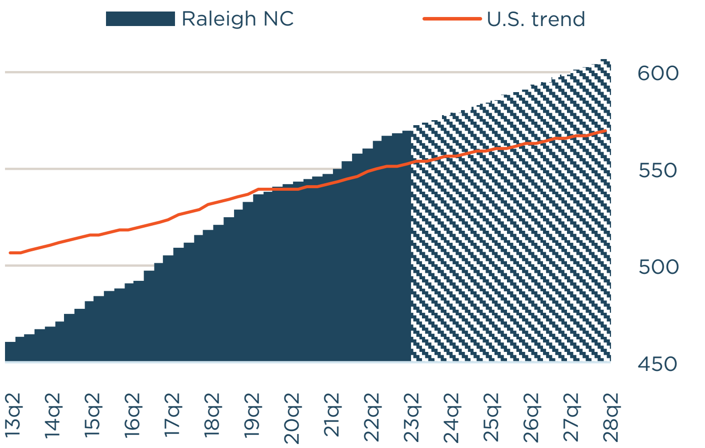
Homebuyer affordability is expected to remain constant in Raleigh over the next five years as house price appreciation equals growth in median household income at 2.4 percent per year. CoStar expects growth in demand for rental housing units, **Effective Rent per Unit**, and **Net Operating Income** to be about average for large metro areas in Middleburg's arc at 5.6 percent per year (eight thousand units), 2.3 percent per year, and 2.6 percent per year respectively. The biggest concern in Raleigh—as in Austin and Nashville—is the pace of **Construction and Deliveries**, which has remained significantly above the national average for nearly two years.



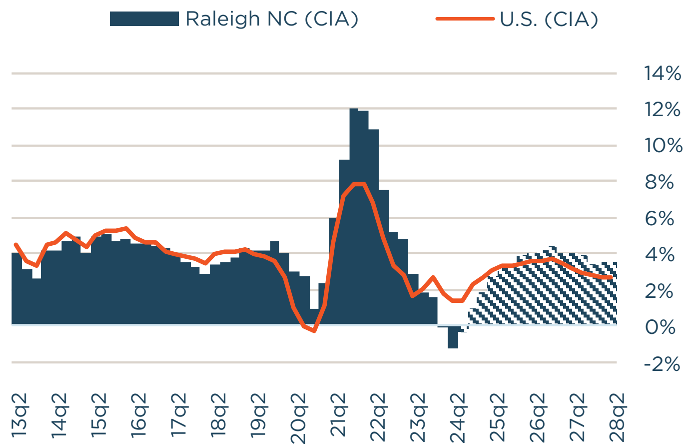


CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
29,582	5,963	$292,433	0
↑ 5.6%	↓ 6.7%	no change	--
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**CLASS A STABILIZED VACANCY RATE**	**CLASS A APT CAP RATE GUIDANCE**
-1.4%	$95,560	7.2%	-21 bps
↓ 8.2%	↑ 0.8%	↓ 0.2%	below US avg

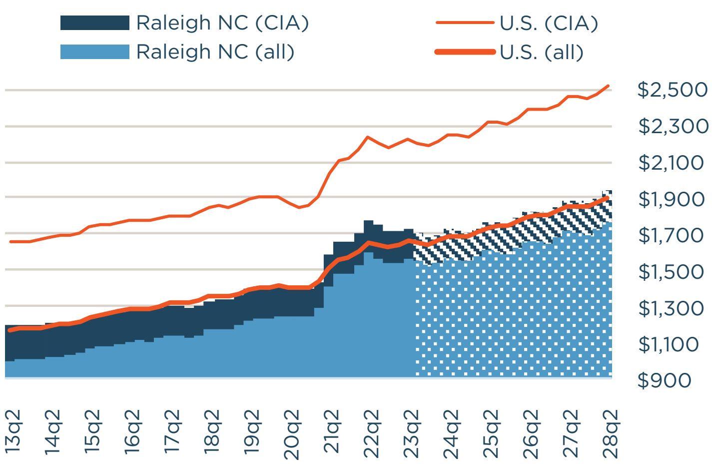
Number of Households (000s)



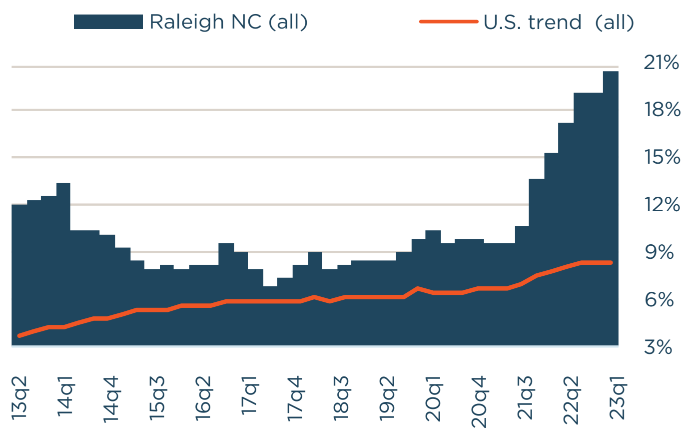
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



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

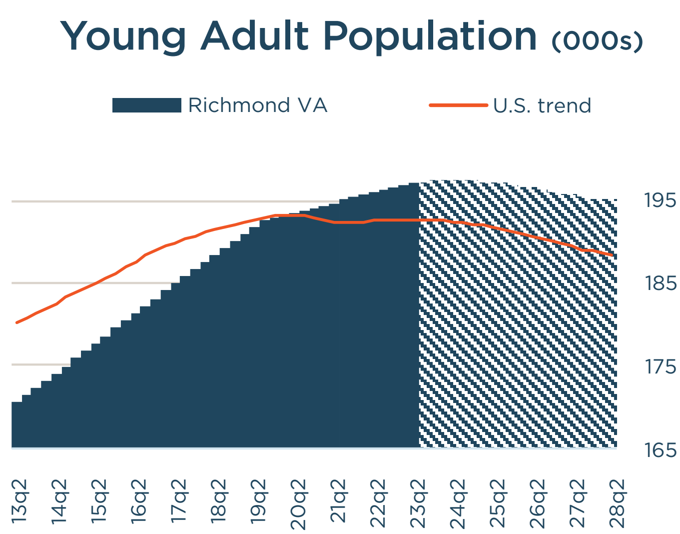
Richmond, VA

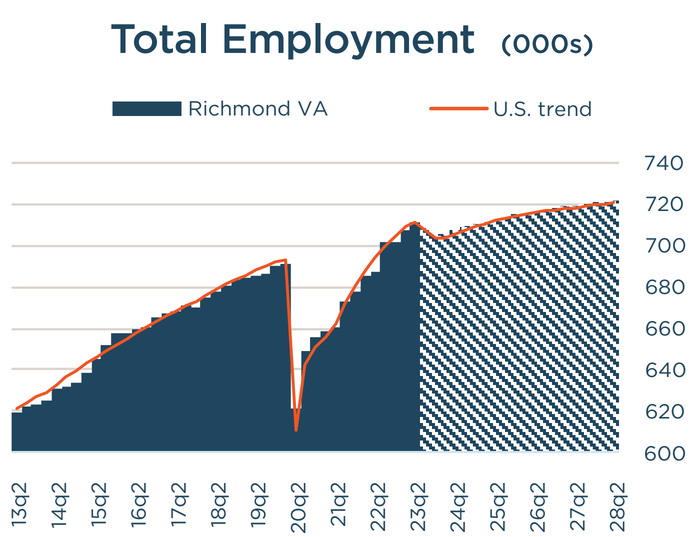
Richmond has successfully shed its over-reliance on the tobacco industry and transformed itself into a diversified regional hub with particular strength in financial services.

MIDDLEBURG'S RANK #12 AMONG 15 LARGEST METROS

Growth in the **Young Adult Population**, **Total Employment**, and **Number of Households** are expected to keep pace with other metro areas in Middleburg's arc over the next five years at -0.2, +0.3, and +0.8 percent per year respectively, all slightly better than the national pace, accounting for 21 thousand additional households and 11 thousand additional jobs. Homeownership affordability, however, is not anticipated to be a significant driver of rental housing demand, with house prices expected to grow at an anemic 1.6 percent per year, falling short of median household income growth of 2.1 percent per year.

The demographic drivers should be enough to push growth in demand by eight thousand units over the next five years at a pace of 6.6 percent per year, comparable to Tampa and Fort Lauderdale and better than most other large metro areas in Middleburg's arc. Similarly, CoStar forecasts growth in **Effective Rent per Unit** and **Net Operating Income** to lead most other large metros in Middleburg's territory at 3.0 and 3.4 percent per year, respectively. One of the most appealing aspects of the Richmond housing market for investors, though, is that it simply hasn't yet been discovered by institutional investors: cap rates have tended to be persistently above the national average, a property value discount that doesn't seem to be justified by its market conditions and that therefore may signal abnormal appreciation over the coming years.

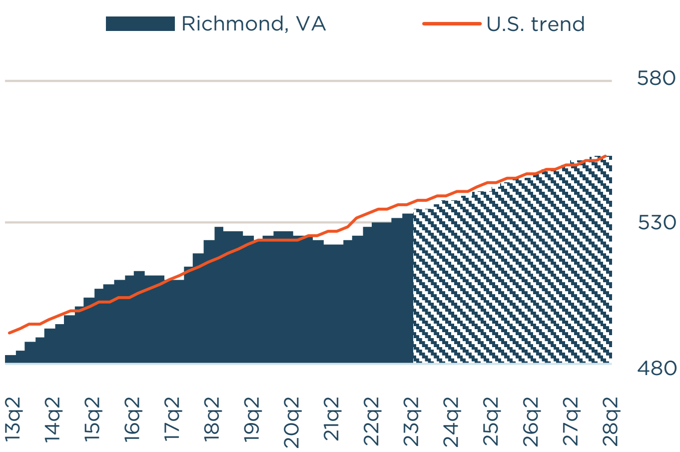




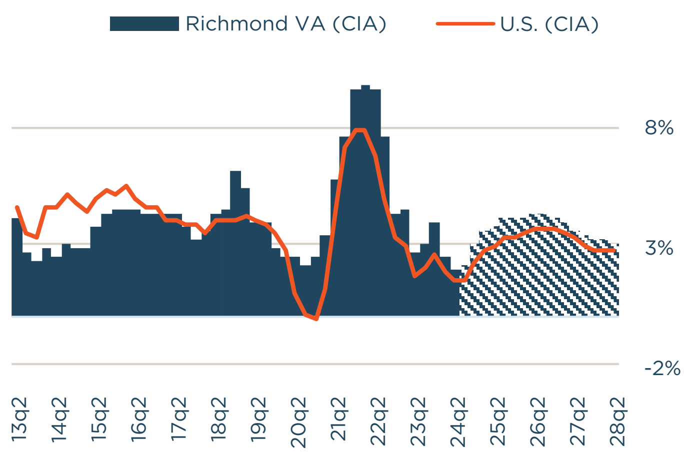
CLASS A APARTMENT INVENTORY	CLASS A UNITS UNDER CONSTRUCTION	CLASS A APT SALE PRICE PER UNIT	CLASS A APARTMENT UNITS SOLD
24,144	3,645	$267,349	0
↑ 5.5%	↓ 26%	↓ 0.1%	--

12-MONTH HOUSE PRICE GROWTH RATE	MEDIAN HOUSEHOLD INCOME	CLASS A STABILIZED VACANCY RATE	CLASS A APT CAP RATE GUIDANCE
-1.0%	$81,480	4.7%	+76 bps
↓ 8.1%	↑ 0.8%	no change	above US avg

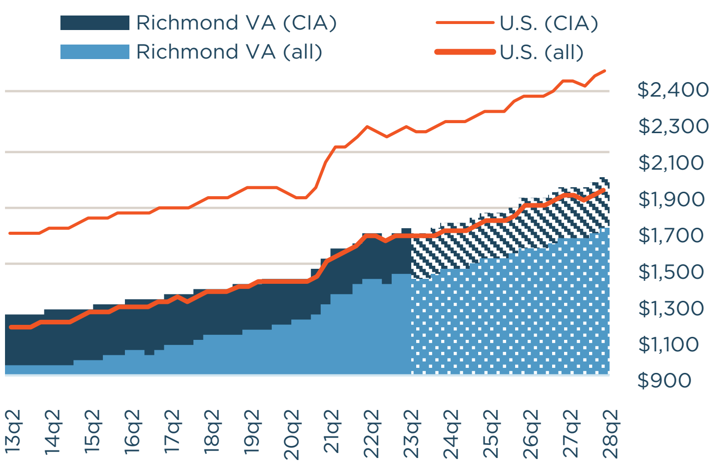
Number of Households (000s)



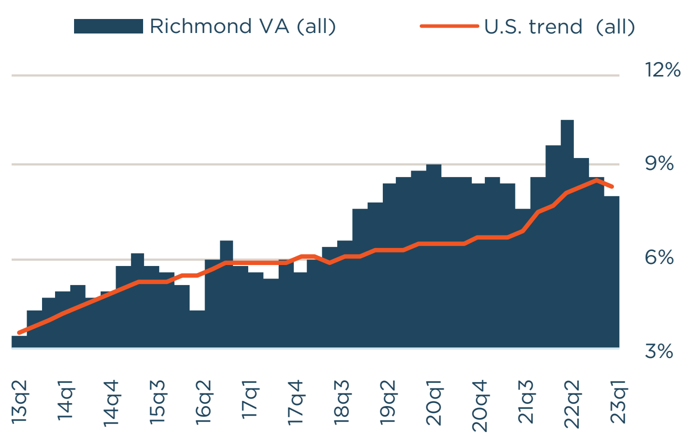
Net Operating Income (trailing 4-qtr)



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*

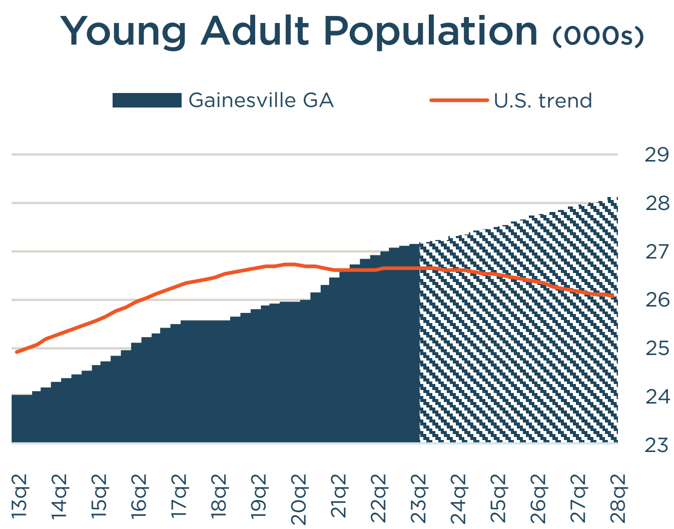
ALSO ON OUR RADAR

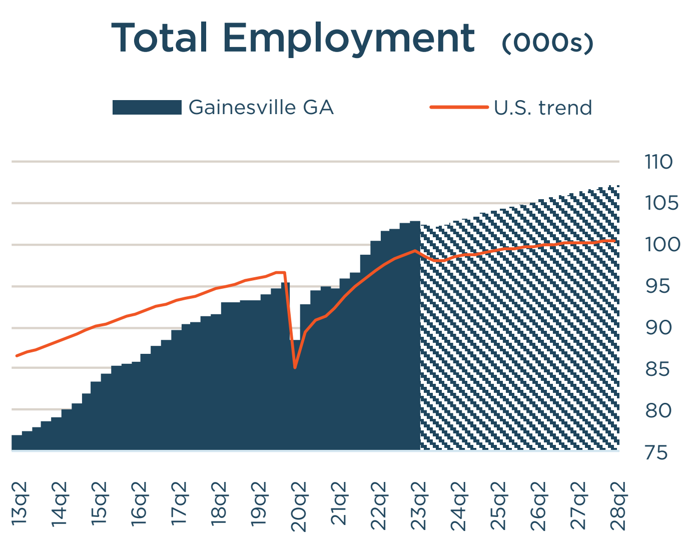
Gainesville, GA

Gainesville may be too small and undiversified for Middleburg to find opportunities that meet our risk criteria, but its expected growth will bear continued attention.

The economy of Gainesville GA is utterly dominated by poultry processing: a "diversified" economy here means that there are a multitude of processors and support services, not just one. What makes Gainesville worth keeping on Middleburg's radar is its location at the edge of Lake Lanier about 75 minutes' drive from downtown Atlanta. That location is expected to cause a hefty (considering its size) increase in Gainesville's **Young Adult Population**: by 0.7 percent per year over the next five years, according to Oxford Economics, with accompanying increases of 0.8 percent per year in **Total Employment** and 1.1 percent per year in the **Number of Households**. All of those growth rates far exceed the national average.

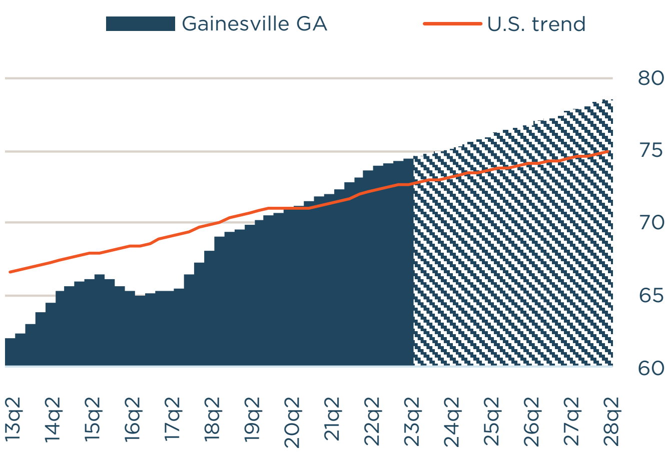
As a result of that robust growth in underlying demographics, CoStar forecasts that the number of rental housing units in demand will grow by 10 percent per year over the same period, considerably higher than the average for metro areas in Middleburg's part of the country, along with growth of 3.2 percent per year in **Effective Rent per Unit** and 3.4 percent per year in **Net Operating Income**. Any market as small as Gainesville is inherently risky, but the demographic drivers certainly make this a market worth continuing to notice.



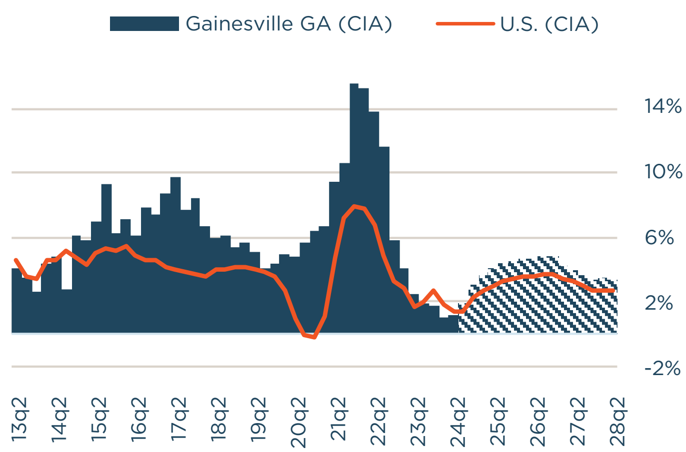


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT UNITS SOLD
8,605	1,963	$186,691	144
↑ 0.5%	↓ 2.2%	↓ 1.1%	↑ 64%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**STABILIZED APARTMENT VACANCY RATE**	**CLASS A APARTMENT CAP RATE GUIDANCE**
0.4%	$74,400	5.0%	+25 bps
↓ 9.4%	↑ 0.6%	↑ 0.6%	above US avg

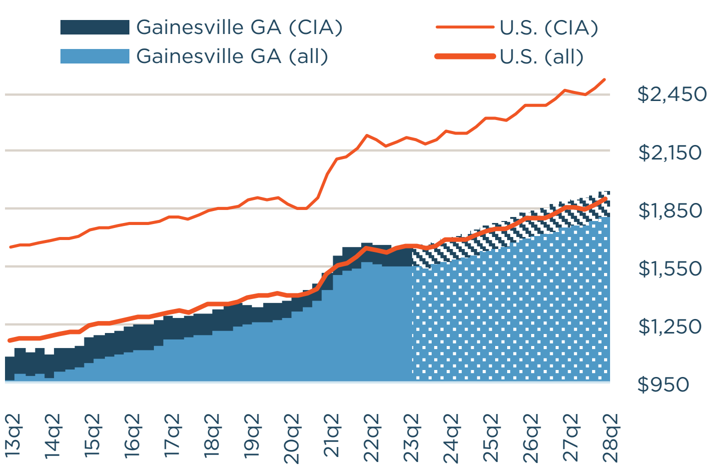
Number of Households (000s)



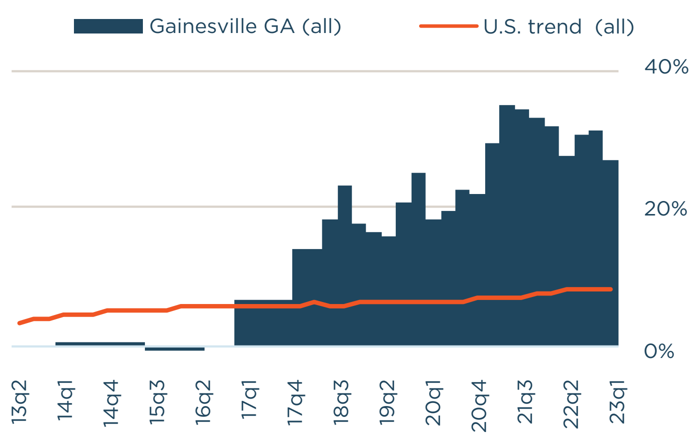
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



Representative large employers: Northeast Georgia Medical Center, Fieldale Farms, Victory Processing, Kubota Manufacturing, Pilgrim

ALSO ON OUR RADAR

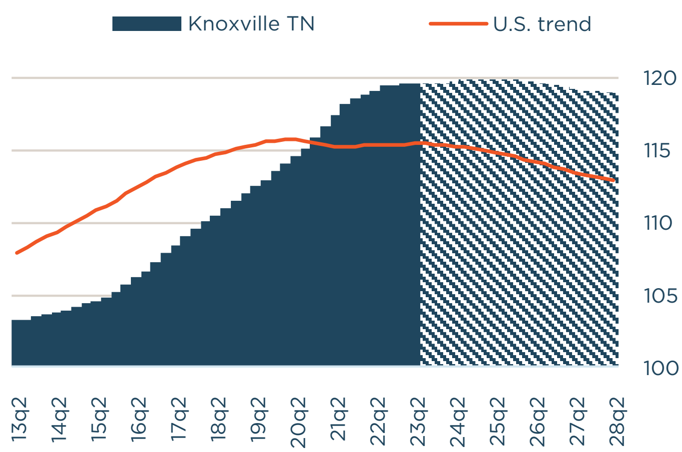
Knoxville, TN

Best known as the home of the University of Tennessee, Knoxville actually has an extraordinarily diversified economic base. Unlike many of the metro areas in Middleburg's territory, however, Knoxville is not expected to outpace the rest of the country in most drivers of rental housing demand.

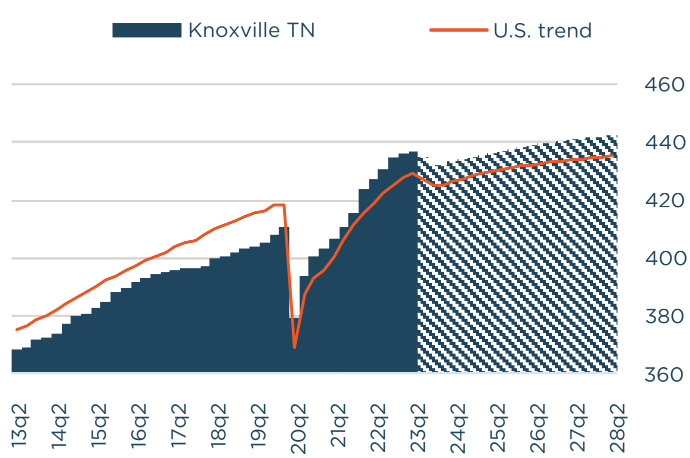
Thanks not only to the university but also to the Oak Ridge National Laboratory complex, compared with many other secondary metro areas in Middleburg's territory Knoxville has a reasonably strong median household income ($68,760 compared with the national median of $76,320) and reasonably high share of adults with at least a Bachelor's degree (31.0 percent versus 33.7 percent). Despite these strengths, Oxford Economics forecasts that Knoxville's **Young Adult Population** will shrink at a less severe pace than nationally (-0.1 percent per year versus -0.4 percent for the country as a whole), while growth in **Total Employment** and the **Number of Households** will do no better than match the national averages at +0.5 and +0.3 percent per year respectively.

Moreover, rental housing demand in Knoxville is unlikely to be supported by homeownership affordability problems as house price appreciation averaging 1.8 percent per year over the next five years (compared with a national rate of 2.7 percent per year) is expected to trail the national average by even more than growth in median household income (2.1 versus 2.5 percent per year). Despite these headwinds, CoStar forecasts that the number of units in demand will grow by 9.1 percent per year, with growth in **Effective Rent per Unit** and **Net Operating Income** also expected to be reasonably strong at 3.2 and 3.6 percent per year respectively.

Young Adult Population (000s)

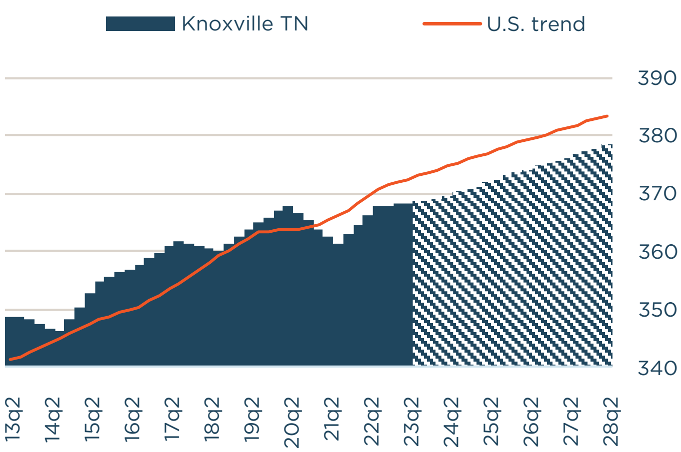


Total Employment (000s)

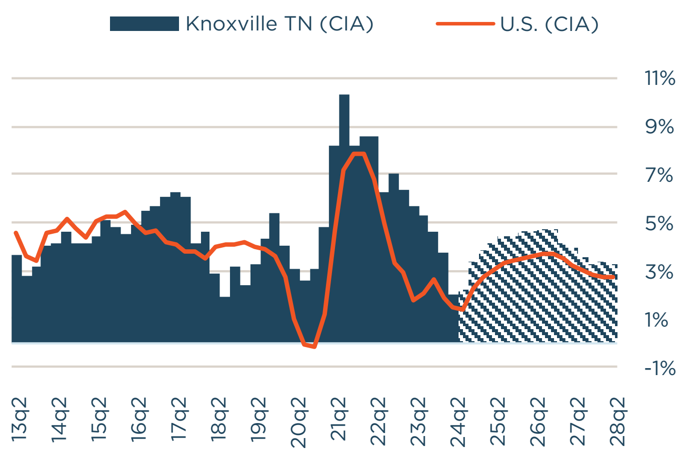


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT UNITS SOLD
41,972	3,955	$151,773	394
↑ 2.5%	↓ 3.2%	↑ 2.3%	↑ 506%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**STABILIZED APARTMENT VACANCY RATE**	**CLASS A APARTMENT CAP RATE GUIDANCE**
8.7%	$79,813	6.3%	-3 bps
↓ 8.8%	↑ 0.3%	↑ 0.1%	below US avg

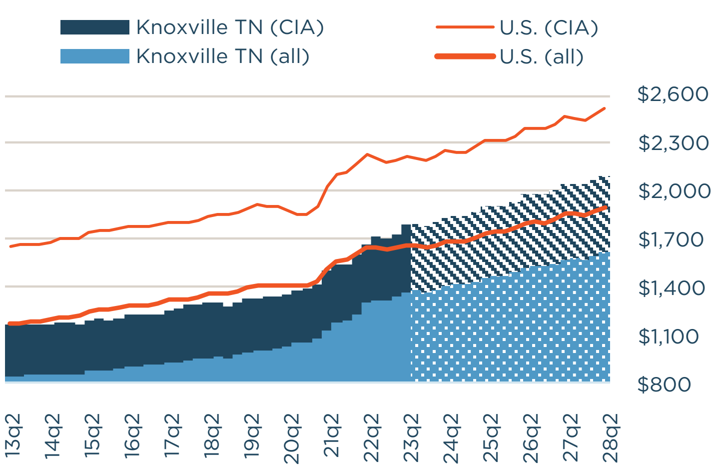
Number of Households (000s)



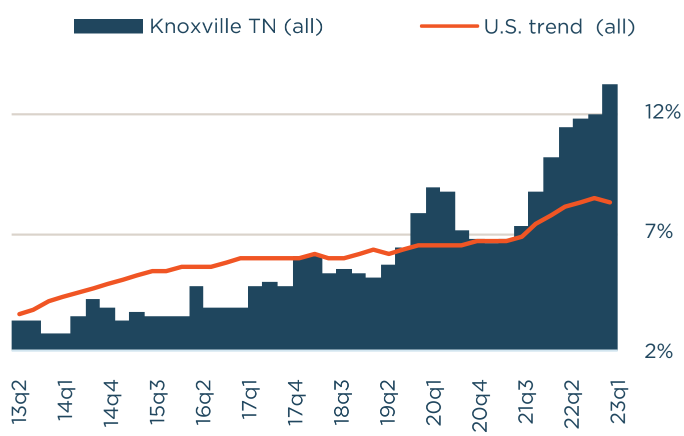
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



Representative large employers: University of Tennessee, Oak Ridge National Laboratory, Y-12 National Security Complex, Covenant Health, Clayton Homes

ALSO ON OUR RADAR

Naples, FL

A very small counterpart to Palm Beach—that is, an area that has long appealed to both vacationers and retirees with substantial income and wealth—Naples shares some of Palm Beach's appeal as a development market but, like Palm Beach, is generally not Middleburg's target type of market.

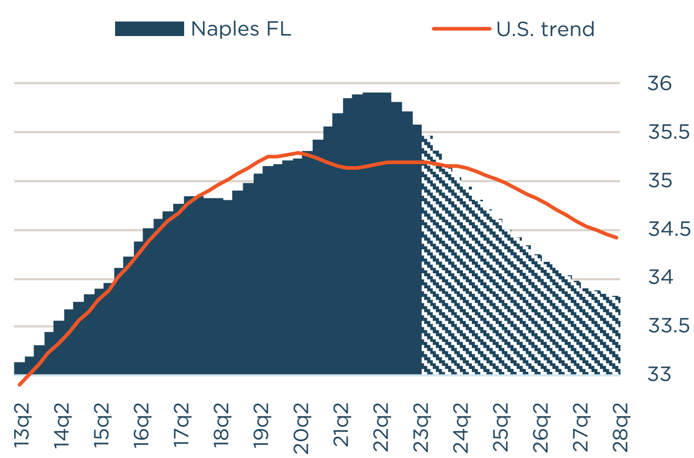
Growth in rental housing demand is not going to be driven in Naples by the **Young Adult Population**, which is expected to contract by -1.0 percent per year over the next five years, more than twice as bad as the national average. Nor will it be supported by growth in median household income—which is expected to lag behind growth in many other metro areas at just 1.6 percent per year although its starting point at $78,560 is higher than in almost any other market. Perhaps surprisingly, however, Oxford Economics forecasts that **Total Employment** in Naples will grow by a reasonably strong 0.8 percent per year, to go with similarly strong growth of 1.1 percent per year in the **Number of Households**.

Moreover, an expected increase in the house price to income ratio is likely to provide an additional stimulus to rental housing demand, which CoStar forecasts to grow at 8.6 percent per year, well above average for Middleburg's part of the country.

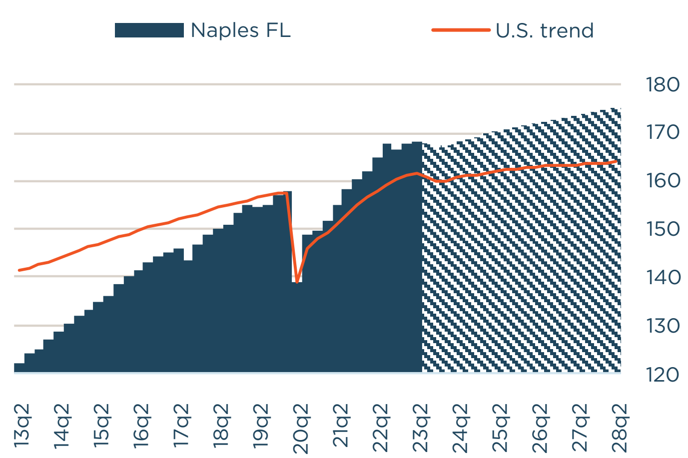
As in other smaller markets, however, it will be important to keep abreast of competing projects, as the number of units **Under Construction or Delivered** has recently been very strong, especially relative to the existing inventory.

In the end, Naples may provide attractive projects on an occasional basis but—like Palm Beach, Miami, and Fort Lauderdale—is dominated too clearly by wealthy retirees to be a continuing focus for Middleburg.

Young Adult Population (000s)

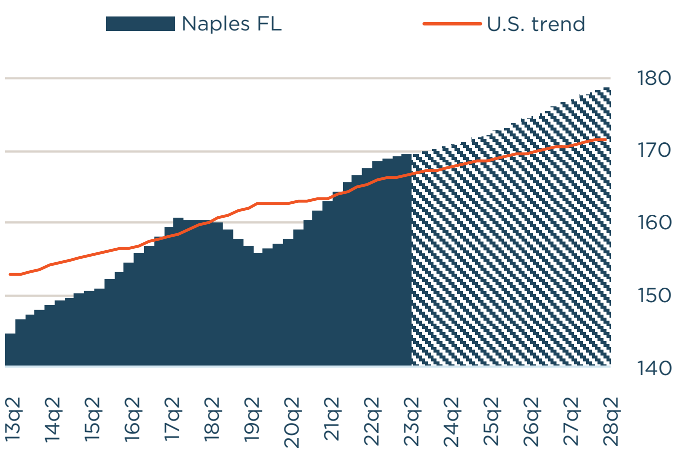


Total Employment (000s)

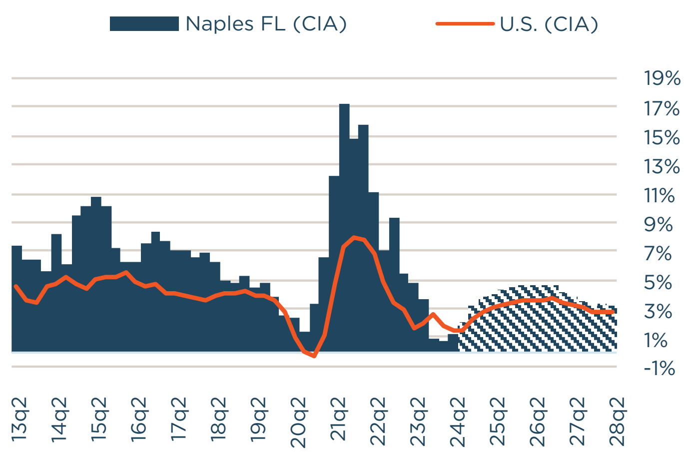


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT UNITS SOLD
13,266 no change	1,659 no change	$298,751 ↓ 1.8%	197 ↓ 64%
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**STABILIZED APARTMENT VACANCY RATE**	**CLASS A APARTMENT CAP RATE GUIDANCE**
-4.7% ↓ 10.3%	$78,560 ↓ 0.2%	8.3% ↑ 0.5%	+18 bps above US avg

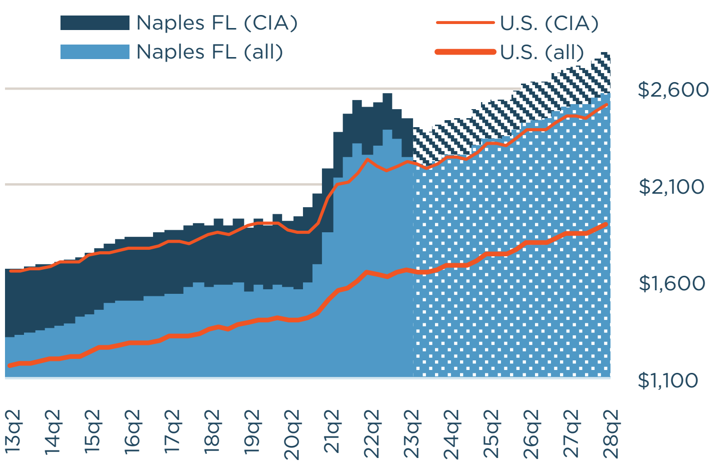
Number of Households (000s)



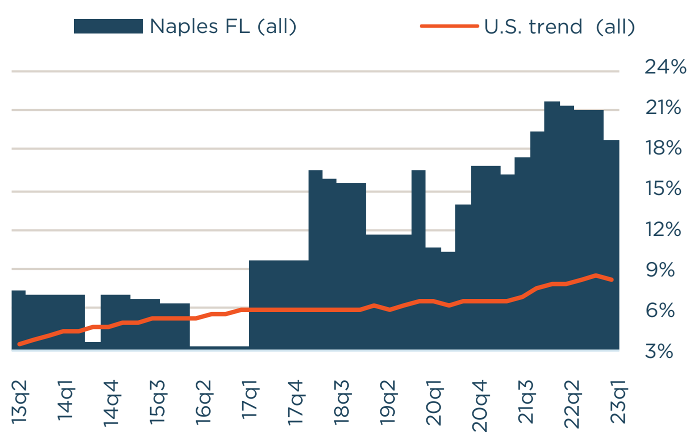
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



Representative large employers: *NCH Healthcare, Arthrex Inc., Ritz-Carlton Naples, Publix*

ALSO ON OUR RADAR

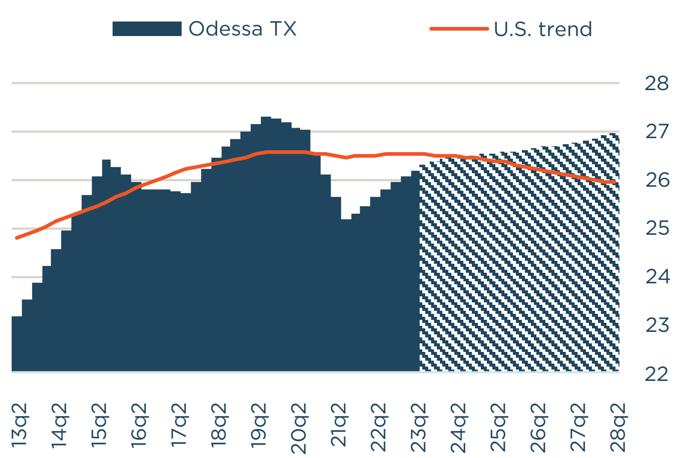
Odessa, TX

Odessa is similar to several other tertiary metro areas in Middleburg's arc: a small, undiversified market whose demographic drivers make it worth continuing to evaluate despite its risks.

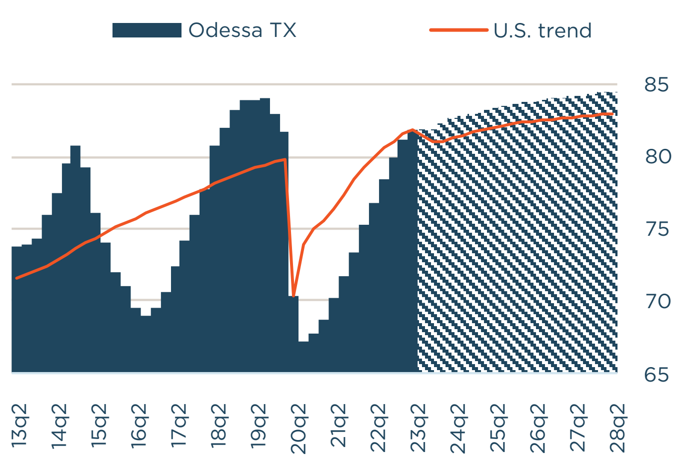
The economy of Odessa is utterly dominated by oil and gas the way the economy of Gainesville, GA is utterly dominated by chickens. What makes Odessa potentially interesting is the same as what makes Gainesville worth paying attention to: above-average growth in the key demographic drivers of rental housing demand. Oxford Economics forecasts that Midland's **Young Adult Population** will grow by 0.6 percent per year over the next five years (while the national young adult population shrinks), that its **Number of Households** will grow by 1.1 percent per year (nearly twice the national average), and that its **Total Employment** will grow at 0.6 percent per year (more than twice the national average).

That is likely not enough to call Odessa "appealing" as a rental housing market. While house price appreciation over the next five years is expected to outpace the national average at 3.0 percent per year, homeownership is expected to become more affordable as growth in median household income outstrips it at 3.1 percent per year. As a result, growth in rental housing demand is expected to be extraordinarily tepid at 0.3 percent per year, and growth in both **Effective Rent per Unit** and **Net Operating Income** are also expected to lag far behind the national average at 1.3 and 1.8 percent per year respectively.

Young Adult Population (000s)

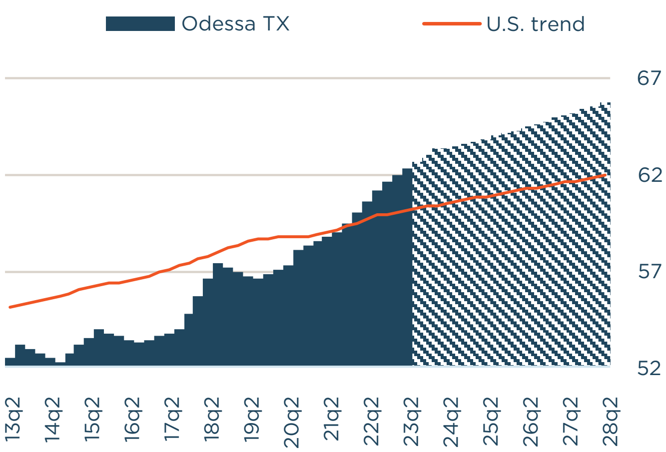


Total Employment (000s)

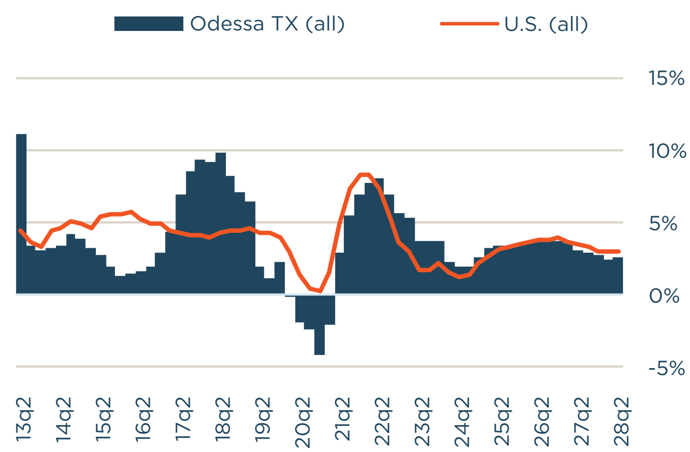


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT UNITS SOLD
9,690	0	$109,717	0
no change	no change	↓ 0.2%	no change
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**STABILIZED APARTMENT VACANCY RATE**	**CLASS A APARTMENT CAP RATE GUIDANCE**
2.9%	$69,640	11.7%	+24 bps
↓ 2.9%	↑ 1.6%	↓ 0.6%	above US avg

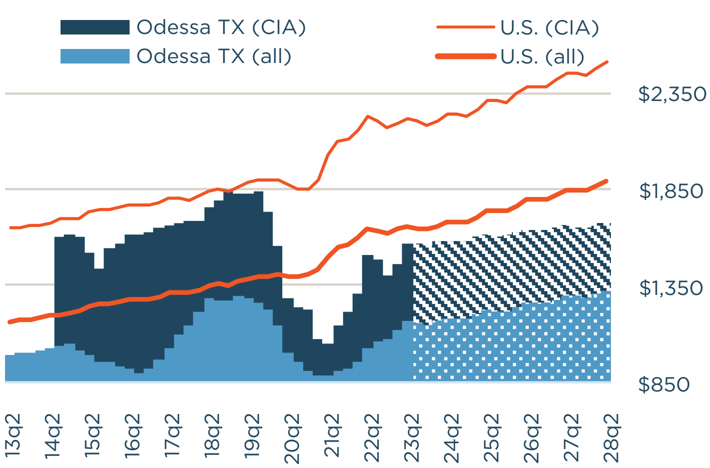
Number of Households (000s)



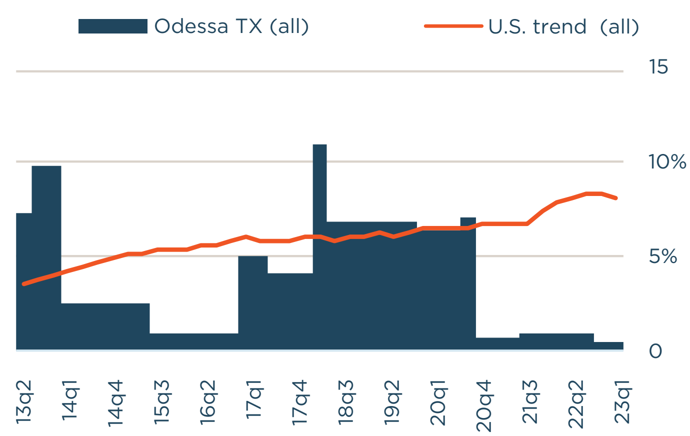
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



Representative large employers: NexTier Complete Solutions, Saulsbury Companies, Halliburton, Odessa Regional Medical Center, H-E-B

ALSO ON OUR RADAR

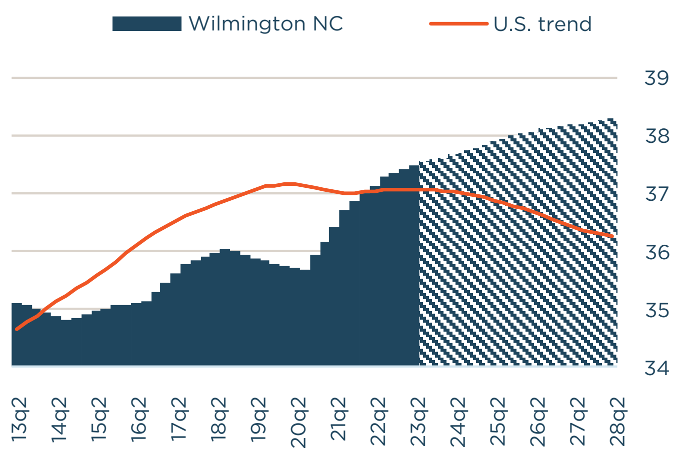
Wilmington, NC

Wilmington is expected to see relatively strong rental housing demand growth driven primarily by in-migration of younger, employed households, but the market's relatively high cap rates indicate that national capital markets have not yet recognized the area's prospects.

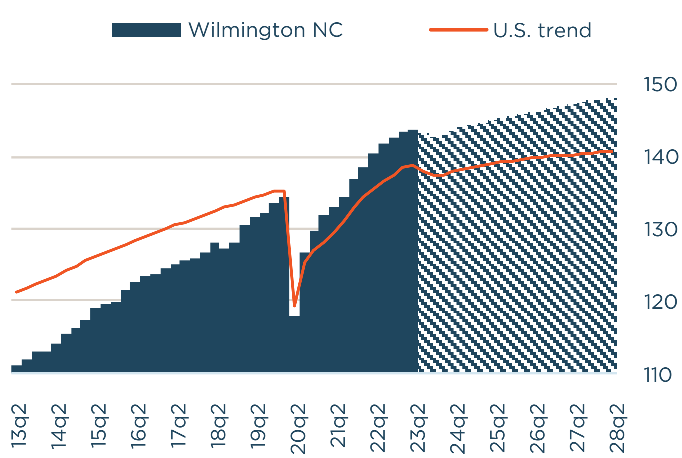
The Wilmington metro area currently skews a little bit older than the national average, but the **Young Adult Population** in Wilmington is expected to grow at a rate of 0.4 percent per year over the next five year, higher than average for metros in Middleburg's arc. As a result the **Number of Households** is forecast to grow by 1.0 percent per year over the same period, while its economy, already more diversified than the national average, is expected to support 0.6% per year growth in **Total Employment**.

Homebuyer affordability problems are not likely to drive rental housing demand in Wilmington, as house price appreciation is expected to lag behind the national average at 2.3 percent per year while median household income growth exceeds the national rate at 2.6 percent per year. As a result of in-migration, however, CoStar expects the number of rental housing units in demand to grow over the same period by 2.6 percent per year, with **Effective Rent per Unit** and **Net Operating Income** growing even more strongly at 3.2 percent per year.

Young Adult Population (000s)

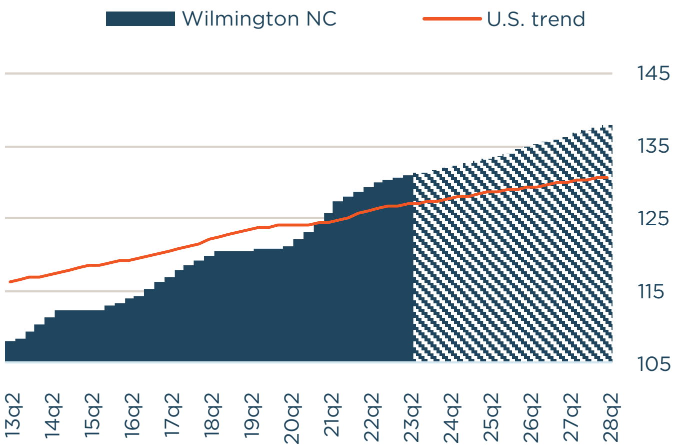


Total Employment (000s)

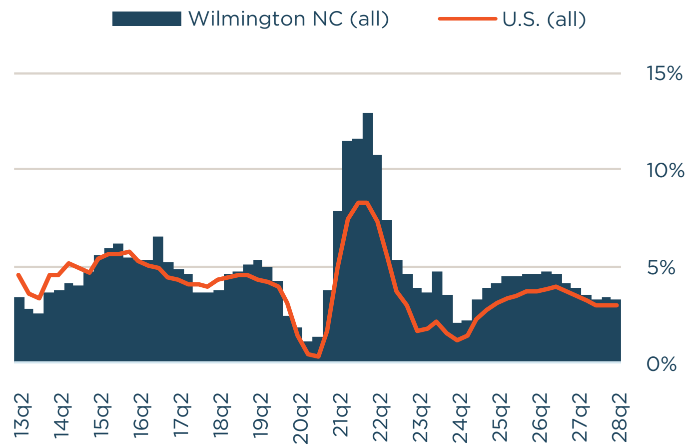


TOTAL APARTMENT INVENTORY	APARTMENT UNITS UNDER CONSTRUCTION	APARTMENT SALE PRICE PER UNIT	APARTMENT UNITS SOLD
24,278	839	$210,613	0
↑ 2.4%	↓ 24%	↑ 2.2%	no change
12-MONTH HOUSE PRICE GROWTH RATE	**MEDIAN HOUSEHOLD INCOME**	**STABILIZED APARTMENT VACANCY RATE**	**CLASS A APARTMENT CAP RATE GUIDANCE**
1.8%	$73,480	7.5%	+82 bps
↓ 8.2%	↑ 0.8%	↑ 0.2%	above US avg

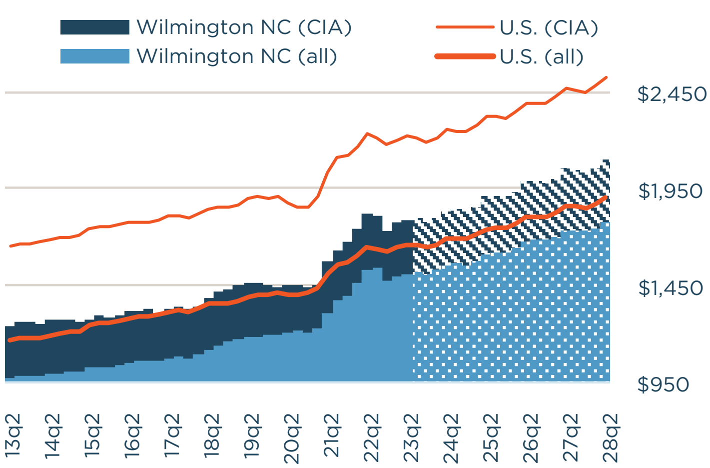
Number of Households (000s)



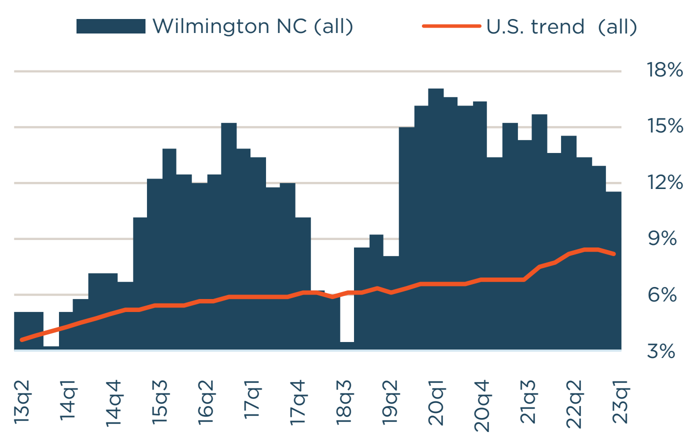
Net Operating Income (trailing 4-qtr)



Effective Rent per Unit



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



Representative large employers: New Hanover Regional Medical Center, GE Hitachi Nuclear Energy, GE Aviation, UNC-Wilmington, PPD Development