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Zacks Small-Cap Research

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Tom Kerr
312-265-9417
tkerr@zacks.com

scr.zacks.com
10 S. Riverside Plaza, Chicago, IL 60606

Harbor Custom Development (HCDI-NASDAQ)

UPDATE: Harbor reports 4th quarter and full year 2022 financial results and updates investor community on project status and the current real estate market environment.

Utilizing a DCF valuation process containing conservative estimates combined with other valuation methodologies, we believe HCDI could be worth $13.00 per share. An economic or real estate downturn may lower this value.

Current Price (4/14/23)	$4.34
Valuation	**$13.00**

OUTLOOK

Harbor Custom Development is a unique and diversified real estate development company involved in all aspects of the land development cycle including land acquisition, entitlements, permitting, development, construction of project infrastructure, single and multi-family vertical construction, marketing, sales, and management of various residential projects. The company operates in high growth market areas which currently includes locations in Washington, California, Florida and Texas. The company went public in 2020 and has adequate liquidity and access to the capital markets at this time. 2023 should be a transformative growth year for the company.

SUMMARY DATA

52-Week High	**$76.80**
52-Week Low	**$3.58**
One-Year Return (%)	**-87.1**
Beta	**0.75**
Average Daily Volume (sh)	**612,186**
Shares Outstanding (mil)	**718,835**
Market Capitalization ($mil)	**$3.7**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**13**
Insider Ownership (%)	**21**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2022 Estimate	**N/A**
P/E using 2023 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**Above Avg.**
Type of Stock	**Small-Growth**
Industry	**Real Estate**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2020					$50.4 A
2021	$13.8 A	$14.1 A	$18.0 A	$26.3 A	$72.4 A
2022	$28.6 A	$10.3 A	$11.7 A	$4.8 A	$55.4 A
2023	$11.9 E	$26.2 E	$37.5 E	$69.4 E	$145.1 E

EPS / Loss Per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2020					*-0.84 A*
2021	*-$0.12 A*	*$0.06 A*	*$0.17 A*	*$0.16 A*	*$0.41 A*
2022	*-$0.03 A*	*-$0.46 A*	*-$0.37 A*	*-$0.87 A*	*-$1.77 A*
2023	-$5.46 E	-$2.28 E	$0.31 E	$7.38 E	-$0.04 E

Quarterly revenues may not equal annual revenues due to rounding. Quarterly EPS may not equal annual EPS due to rounding, dilution or intangibles. 2020-2022 results not adjusted for reverse stock split.

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WHAT'S NEW

Harbor Custom Development announces 4th quarter and full year 2022 financial results.

4th quarter 2022

The company's 4th quarter and 2022 financial results came in below internal expectations. Sales for the 4th quarter decreased substantially to $4.8 million compared to sales of $26.3 million in the 4th quarter of 2021. The decline was due to decreases in sales of developed lots of $18.6 million, fee build revenue of $1.3 million, entitled land sales of $0.9 million, and home sales of $0.8 million. The drop in developed lots sales was mainly due to large prior year sales in Blaine, Washington and Horseshoe Bay, Texas that did not recur in the 4th quarter of 2022.

Gross profit (loss) for the 4th quarter of 2022 decreased to ($5.0) million compared to $10.9 million for the 4th quarter 2021. Gross margin for the 4th quarter 2022 decreased to (104.5%) compared to 41.2% for the 4th quarter 2021. The decrease in gross profit and gross margin were primarily due to the non-recurrence of higher margin developed lot sales in 2022, $2.4 million of impairment loss from the Pacific Ridge multi-family project, $1.2 million of impairment loss from the Winding Lane developed lots, and $1.3 million of additional cost overruns from fee builds that were incurred in the 4th quarter 2022. The developed lot sales in the 4th quarter 2021 generated $10.7 million in gross profit at a gross margin of 56.2% that did not recur in the 4th quarter of 2022.

Operating expenses for the 4th quarter of 2022 were $4.2 million compared to $3.5 million for the prior year period. The $0.7 million increase in operating expenses was primarily due to $1.2 million of bad debt expense related to a note receivable from the sale of Horizon Tract Q land in March 2022 and $0.4 million for compensation related costs. Increases in marketing and advertising of $0.1 million and depreciation expense of $0.1 million also caused the increase in operating expenses. These increases were partially offset by declines of $0.3 million in insurance expense, $0.3 million in professional fees, $0.2 million of banking and loan fees, $0.2 million right of use expense, and $0.1 million of investor relations expense. Operating expenses as a percentage of sales for the 4th quarter 2022 were 88.0% compared to 13.3% for the prior year period. The increase in operating expenses as a percentage of sales was primarily due to significantly lower sales in the 4th quarter 2022 as compared to the 4th quarter 2021.

Other expense for the 4th quarter of 2022 was ($3.9) million compared to other income of $0.1 million for the 4th quarter 2021. The increase in other expense was primarily due to a $3.3 million loss incurred from selling a large portion of the company's machinery and equipment which was primarily used for fee build projects and quarry operations since these projects are nearing completion and the use of the quarry is wrapping up.

For the 4th quarter of 2022, net loss was ($10.6) million compared to net income of $5.6 million for the 4th quarter of 2021. Net loss attributable to common stockholders for the 4th quarter 2022 was ($12.5) million or ($17.47) basic loss per share compared to net income of $3.7 million, or $5.14 basic earnings per share for the 4th quarter of 2021.

EBITDA for the 4th quarter decreased from $8.0 million in the 4th quarter 2021 to a loss of ($11.9) million for the 4th quarter of 2022. Adjusted EBITDA, which excludes the impact of stock compensation and other non-recurring costs decreased to a loss of $(8.5) million compared to Adjusted EBITDA of $8.3 million for the 4th quarter of 2021.

Based on the 4th quarter financial results, the company failed to meet two financial covenants on their loan facility with BankUnited. These were related to the minimum interest coverage ratio and consolidated liquidity. On February 23, 2023, the company entered into a Loan Agreement Amendment with the Lender where the Lender agreed to waive its right to accelerate and declare all of the debt

immediately due and owing. In addition, the Lender waived the requirement that Harbor comply with certain financial covenants through the maturity of the debt.

These concessions were made as a result of Harbor granting the Lender second mortgage positions for certain properties owned by the company as well as transferring to the Lender membership certificates pledging certain properties as collateral and perfecting the Lender's security interest in the pledged LLCs.

Additionally, the company agreed to make principal reduction payments, including paying the Lender $0.6 million on the 20th of every month, which otherwise would have been paid to preferred shareholders as a dividend on preferred stock and 25% of all net cash proceeds from asset sales or public equity offerings. Harbor also agreed not to repurchase any of its own securities. The company also agreed that it will not close on any new projects without the Lender's written consent, however, the company may continue to tie up property through the signing of Purchase and Sale agreements and earnest money deposits, as well as conduct due diligence to continue to build up its future pipeline.

The loan matures in March 2024 and if the company successfully completes the sale of its six multi-family property portfolio that is currently listed for sale, the loan may be repaid in full before the due date.

Full year 2022

Sales for the full year of 2022 decreased by (23.4%) to $55.4 million compared to sales of $72.4 million in 2021. This decline was primarily due to decreases in sales of developed lots of $17.3 million and sales of entitled land of $12.7 million which was partially offset by increases in home sales of $11.0 million and fee build of $2.3 million. The decreases in developed lots and entitled land sales were mainly due to large prior year sales in Blaine, Belfair, and Bremerton, Washington, and Horseshoe Bay, Texas, that did not recur in 2022. The 2022 home sales largely increased due to continued expansion into a new geographic location in Texas where homes sold at a higher average prices.

Gross profit (loss) for the full year of 2022 decreased to ($0.5) million compared to $21.9 million for the full year of 2021. Gross margin loss for the full year of 2022 was (0.8%) compared to gross margin of 30.3% for the prior year period. The decrease in gross profit was primarily due to decreases in developed lots gross profit of $11.2 million, fee build gross profit of $5.3 million, entitled land gross profit of $5.1 million, and multi-family gross profit of $2.4 million. This was partially offset by an increase in home sales gross profit of $2.2 million. The decrease in gross margin was primarily driven by a (43.8%) decline in developed lots gross profit, including a $1.2 million impairment loss related to the Winding Lane property, a $4.5 million gross loss due to cost overruns with fee build projects, and a $2.4 million impairment loss incurred on the Pacific Ridge apartment project. These gross margin declines were partially offset by gross margin increases from homes and entitled land sales.

Operating expenses in 2022 were $16.2 million compared to $11.2 million for the full year of 2021. This increase in operating expenses is primarily attributable to the investment made in Harbor's public company infrastructure and to support future growth plans as well as bad debt expense associated with the Horizon Tract Q note receivable and Winding Lane note and interest receivable, and pre-acquisition diligence costs associated with the Westry Village project that was canceled.

Payroll and benefits related costs, bad debt expenses, and project cancellation costs were the largest contributors to the increase in operating expenses of $1.6 million, $2.1 million, and $0.5 million, respectively. Other less significant increases include a right of use expense for a new corporate office, depreciation expense, marketing and advertising, and professional fees. These increases were partially offset by decreases in banking and loan fees, insurance, and brokerage fees. Operating expenses as a percentage of sales for the full year of 2022 were 29.3% compared to 15.4% for the full year of 2021.

Other expense in 2022 was ($4.7) million compared to ($0.2) million for the full year of 2021. The increase in other expense was primarily due to a loss incurred from selling a significant portion of Harbor's machinery and equipment primarily used in its fee build operations. The increase was also

attributable to $1.6 million of interest expense from the revolving line of credit, partly offset by $0.5 million of interest income from notes receivables.

For the full year of 2022, net loss was ($16.9) million compared to net income of $8.9 million for the full year of 2021. Net loss attributable to common stockholders for the full year of 2022 was ($24.7) million or ($35.29) basic loss per share compared to net income of $6.1 million or $8.56 basic earnings per share in 2021.

EBITDA for the full year of 2022 decreased to a loss of ($16.5) million compared to EBITDA of $14.2 million for 2021. Adjusted EBITDA, which excludes the impact of stock compensation and other non-recurring costs was ($12.5) million for the full year of 2022 adjusted EBITDA of $14.9 million for 2021. Adjusted EBITDA margin was (22.5%) compared to 20.6% of 2021.

Harbor CEO Sterling Griffin, stated, *"Our fourth quarter and full-year 2022 results came in below internal expectations. Challenges in the market environment include supply chain disruption contributing to delays in the construction of multi-family projects, rising interest rates, and overall decreased buyer demand. Despite these challenges, we made strategic progress transitioning focus towards our multi-family projects to help offset the impact of the fastest interest rate increase cycle since the 1980s. We also enacted significant cost control measures which better positions us to navigate near-term uncertainty."*

Balance Sheet & Liquidity

At year-end, the company had $10.3 million in cash and equivalents and $9.7 million in unrestricted cash. Total debt stood at $142.6 million and shareholders equity was $75.6 million. Construction and related party construction Loans totaled $115.6 million and real estate assets were valued at $205.5 million which is a real estate leverage ratio of 56.3%.

Development & Market Updates

The company remains committed to a strategy focused on the multi-family housing market, however the transition of resources to multi-family construction and development in Western Washington negatively affected 2022 operating results. Projected apartment sales for 2022 were not realized due to construction delays caused by supply chain disruption, skilled labor shortages and delays with city inspections and permitting. In addition, financial performance was further impacted by the industry-wide decline in sales due to the changing lending environment caused by Federal Reserve driven interest rate increases.

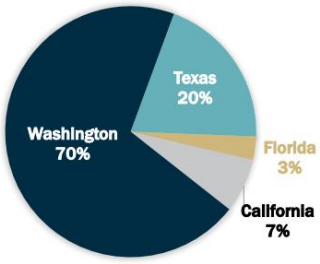
To mitigate the impact of these challenges, the company began implementing certain market adjustments during the second half of the year. To help improve overall affordability, the company introduced new pricing strategies and increased incentives across the majority of their markets. Project costs are expected to remain elevated in the near term, however the company believes that land costs, material costs and labor costs will begin returning toward pre-pandemic levels by the end of 2023.

The markets in which Harbor operates continue to show an inventory imbalance in terms of available homes for sale. The company's primary markets have 0.8 to 2.6 months of supply on hand, whereas a normal balanced market is considered to have 4-5 months of supply. The company's markets also experience low unemployment rates in the range of 2.2%-3.3% as well as above average income growth in the 4%-5% range.

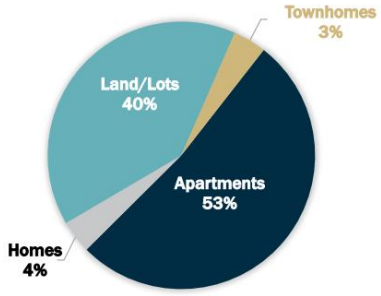
Geographic and Product Diversification

Market	Total Units/Lots Owned	Total Units/Lots Controlled	% Owned	% Controlled	Real Estate Assets
Washington	870	1,385	39%	61%	$142,976,889
California	72	0	100%	0%	$15,353,073
Florida	180	0	100%	0%	$5,510,681
Texas	192	0	100%	0%	$41,637,519
Total	1,314	1,385	49%	51%	$205,478,162

**Unit and lot counts of our owned and controlled properties are as of March 28, 2023.*
**Real estate assets are as of December 31, 2022.*



OWNED UNITS BY EXPECTED SALES



Source: HCDI Investor Presentation

Committed to Investing in Our Future

HARBOR CONTINUED TO BUILD OUR REAL ESTATE ASSETS DURING THE FOURTH QUARTER 2022, POSITIONING US TO ACHIEVE SUSTAINED FUTURE GROWTH

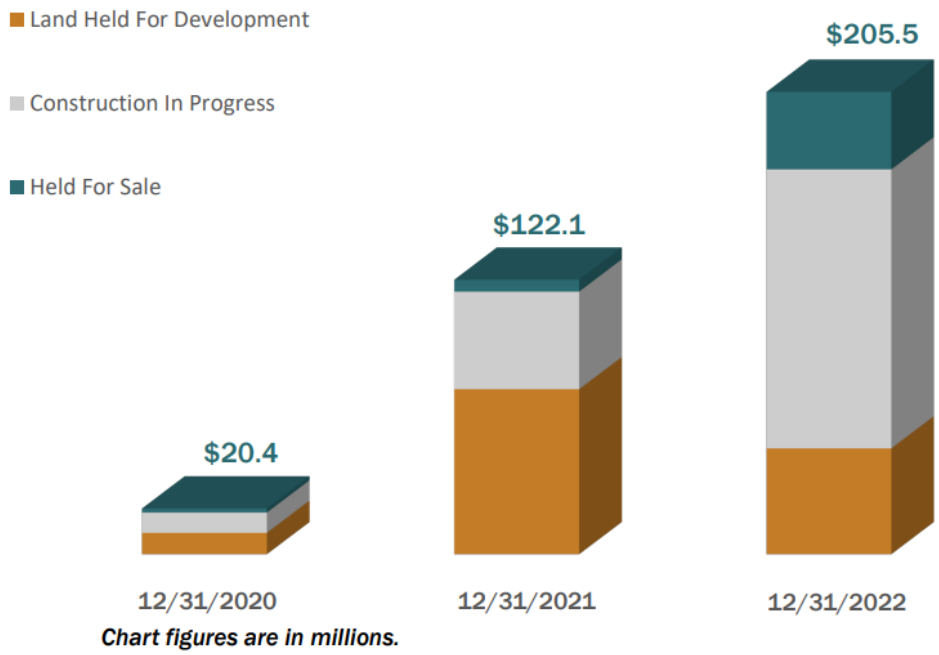


Chart figures are in millions.

Source: HCDI Investor Presentation

Harbor Custom Development announces restructuring of loan with Bank United

In October 2022, the company announced that it failed to meet certain financial covenants associated with an outstanding bank loan from Bank United. The bank informed the company the loan was being sent to its restructuring department and did not provide an official notice of default to Harbor. The outstanding balance as of 12/31/22 was approximately $24.3 million.

On February 24th, 2023, Harbor announced they had successfully restructured the loan with the bank. The lender agreed to not place the loan in default. In exchange, Harbor agreed to not engage in any share repurchases, suspend dividend payments on the company's Series A Preferred shares and redirect those amounts to the bank, and remit 25% of the net cash proceeds of any asset sales to the bank. These payments will continue until the earlier of i) March 7, 2024, or ii) full repayment of the loan.

CEO Sterling Griffin stated*, "We have successfully amended our loan agreement with Bank United providing for full compliance. We are now able to address our current and future pipeline of multi-family projects."* CFO Lance Brown said, *"Completing this process allows us to progress confidently in pursuit of our business objectives and move forward with project lenders and industry partners."*

Harbor Custom Development sells first piece of 6-property portfolio

On February 21, 2023, the company announced it was under contract to sell the 36-unit Mills Crossing townhome development in Bremerton, Washington for $14.25 million. Mills Crossing was finished in 2022 and will trade for about $395,000 per unit, which is about 70% higher than last year's $233,000-per-unit median sales price in Kitsap County, according to real estate broker Kidder Mathews. The sale is expected to close by April 28, 2023.

The five other properties Harbor has put up for sale are the 80-unit Pacific Ridge Apartments in Tacoma, the 177-unit Meadowscape Apartments in Olympia, the 138-unit Bridgeview Trails in Port Orchard, the 228-unit Belfair View Apartments in Belfair, and the 76-unit Wyndstone Apartments in Yelm. The entire portfolio was listed for sale in April 2022 for $278 million, although due to current market dynamics, realized sales prices are expected to be lower than original list prices.

Harbor CEO Sterling Griffin stated, *"The Company is excited to announce the purchase and sale agreement for Mills Crossing, the first of our six current multi-family projects under construction. In addition to the positive financial outcome for Harbor, we are pleased to work with Kitsap Community Resource's on the sale of Mills Crossing which will provide essential, affordable housing for families in Kitsap County."*

Harbor Custom Development stockholders authorize reverse stock split at special meeting

On February 17, 2023, the company announced that stockholders voted in favor of a future Reverse Stock Split during a virtual special meeting held on that same date. On March 6, 2023, the company effected a 1-for-20 reverse stock split. This transaction increased the stock price and on March 20, 2023, the company regained compliance with the Nasdaq Listing Rule 5550(2). The reverse stock split also provided the company available shares to access the capital markets, if needed.

2023 Guidance

Due to the ongoing uncertainties impacting the real estate market currently, the company is not providing annual guidance for fiscal year 2023 and beyond. The company stated they will reconsider providing guidance in the future when there is sufficient visibility into market conditions and a better idea of the timing of the multi-family portfolio sales.

Valuation

Our primary valuation methodology is now focused on Price/Book value. Currently, HCDI is selling at approximately 4.5% of stockholders equity which uses total common shares outstanding of 718,835 shares. On a more conservative basis utilizing fully diluted shares of 2,748,677 as of 12/31/22 and includes warrants and converted preferred stock, HDCI stock is trading at approximately 17.1% of book value.

The home builder industry Price/Book ratio has declined year-to-date due to higher interest rates and recessionary fears, yet still trades at an average Price/Book value of approximately 1.0x currently. Certain smallcap homebuilder stocks sell for below book value per share.

Until Harbor shows consistent profitable results on a quarterly basis (albeit still lumpy), we believe the company should sell at a discount to the industry. 50% of book value using our more conservative assumption of 2,748,677 shares would create a value of approximately $13.70.

We lower our valuation target to **$13.00**, which still creates substantial upside for the stock. We believe even with volatile earnings that may be associated with real estate development companies, Harbor can continue to add earnings to shareholders equity and increase book value over time.

We are changing our 2023 estimates to account for the prevailing real estate environment and the timing of the sale of multi-family projects. We now expect 2023 revenues of $145.1 million and EPS of ($0.04).

KEY POINTS

HARBOR
Custom Development, Inc

Source: HCDI Investor Presentation

- Founded in 2014, Harbor Custom Development Inc. (HCDI) is a real estate developer that is active in all phases of the land-to-home development cycle. The company's uncommon business model provides flexibility for the monetization of land and properties at various stages of development.

- In 2021, the company shifted its strategic focus on developing and marketing multi-family housing projects. Multi-family properties have historically fared well in economic downturns and in addition, multi-family properties are usually a more affordable alternative for housing needs than purchasing a single-family home. This is more pronounced now due to higher home prices, a slower economy, higher mortgage rates and low levels of single-family housing inventory in the company's geographic markets. Multi-family housing projects comprise approximately 55.7% of real estate assets as of December 31, 2022.

- Harbor is currently operating in four high growth markets in Washington, Texas, California and Florida and is seeking opportunities in other high growth markets around the country.

- The company is led by an experienced management team with the CEO and founder having 37 years of experience in land acquisition and development, residential construction, and syndication of apartment properties.

OVERVIEW

Harbor Custom Development is a unique and diversified real estate development company involved in all aspects of the land development cycle including land acquisition, entitlements, permitting, development, construction of project infrastructure, single and multi-family vertical construction, marketing, sales, and management of various residential projects. The company operates in high growth market areas which currently includes locations in Washington, California, Texas and Florida. As a land developer and builder of single-family homes, luxury homes, townhomes, condominiums and apartments, the core business strategy is to acquire and develop land strategically based on an understanding of population growth patterns, entitlement restrictions, land use evaluation, infrastructure development, and geo-economic forces.

The company strives to acquire land with scenic views to develop and sell residential lots, new home communities, townhomes and multi-story condominium or apartment properties within a 20-to-60 minute commute of some of the country's fastest-growing metro employment corridors such as Austin, Texas or Seattle, Washington.

Harbor's portfolio of land, lots, home plans, and finishing options, coupled with a historic low inventory of residential and multi-family housing in their principal geographic areas of operation provides an opportunity to increase revenue and overall market share. In addition to single-family residential projects, the company is actively involved in the apartment market with six multi-family projects in the state of Washington.

The company's infrastructure development division constructs a diverse range of residential communities and improved lots in a cost-effective manner. Harbor owns and leases heavy equipment which is used to build and develop residential subdivisions and multi-family communities. The equipment is primarily used for land clearing, site development, public and private road improvements, installation of wet utilities such as sewer and, water sewer lines in addition to construction of dry utility lines for power, gas, telephone, and cable service providers. The company typically acts as a general contractor to construct single-family homes, townhomes, condominiums, and apartments utilizing a base of employees in conjunction with third-party subcontractors.

STRATEGY

The company's operating and long-term strategy is driven by a number of factors and strategic goals.

The company's expertise allows for a diversified product strategy that enables them to better serve a wide range of buyers, adapt quickly to changing market conditions, and optimize performance and returns while strategically reducing overall portfolio risk. The company has the resources and skills to build to the surrounding communities' needs, including single family homes, townhomes, condominiums, and apartments. This flexible business model allows for the targeting of a wide and diverse range of customers including those looking at lower income housing options through condominiums and apartments, to those seeking to buy high-end luxury single-family homes.

The company stated goal is to provide a "positive and memorable" experience to homeowners and residents. Homes are built with quality materials and advanced craftsmanship, thoughtfully designed floor plans, and located with a 20-to-60 minute commute from major metropolitan areas. The company engineers the homes to be energy-efficient which reduces the homeowner's environmental impact and overall energy costs. The company's competitive advantage in the selling process focuses on the home's features, design, and premium locations with scenic views. New homebuyers' needs are met across

multiple communities and price points by maintaining a substantial inventory of ready-to-build lots and designer home plans.

The significant appreciation in rental rates over the past year, combined with moderate capitalization rates and low inventory of rental housings in the company's target markets, have created a substantial opportunity to expand the company's product portfolio within the multi-family vertical space. A product agnostic building model provides the flexibility to accommodate the current rapidly changing market conditions.

The company is very focused on cost control through a disciplined planning process. Detailed budgets are prepared for all cost categories. Budgets are closely monitored throughout the building process as budgets are revisited and updated on an ongoing basis. Many development components are provided by subcontractors and significant efforts are made to ensure that the scope of work are complete and satisfactory. Contract variances and change orders are closely scrutinized for appropriateness.

At the sale and closing of each home in a project, the estimated and final margins are compared and variances are identified and investigated to better control future project costs. The company believes their disciplined process of setting realistic budgets and expectations, monitoring, and evaluating them and making any necessary adjustments to correct deviations going forward enables us to prudently control costs.

The business model is flexible and facilitates partnering with companies that specialize in their local markets, including residential builders, general contractors, and land developers. By partnering with these specialists, the overall cost structure can be closely managed. Further, all internal shared services are centralized at a corporate office in Washington state. Centralized functions include purchasing, accounting, finance, operations, legal, human resources, transaction coordination, and permitting. Centralizing these important functions keeps infrastructure costs under tight control.

REAL ESTATE PORTFOLIO

Harbor operates in four distinct high growth regions at this time, Washington, California, Texas and Florida. As of April 1st, 2023, the company owns or controls 23 communities in these states. The company engages in comprehensive research to identify prime markets to make real estate investments. Some of these factors include population growth, employment growth, proximity to major shipping and rail transportation hubs, diversified employment base, and above average household income.

Washington

The company owns or controls 2,225 units or lots in the state of which 39% are owned by the company and 61% are controlled. The controlled properties are those that are under contract to be purchased and the company is typically engaging in due diligence on these assets.

The real estate is diverse across most of the company's offerings and includes developing and selling lots, building and selling apartment complexes, building and selling townhomes, selling entitled land and building homes. The communities are principally based in the cities of Blaine, Belfair, Bremerton, Tacoma, Olympia, Port Orchard, Poulsbo and Yelm.

Washington Portfolio:

Owned, Controlled, & Current Projects



TOTAL LOTS /UNITS	REMAINING LOTS/UNITS	COMMUNITY	STATUS	BUSINESS PLAN	PHASE
143	72	Horizon at Semiahmoo	Own	Develop + Sell Lots	Phase 1: Now Selling Phase 2: Preliminary Plat
145	145	Fircrest Ridge	Control	Develop + Sell Apartments	Due Diligence
76	76	Wyndstone	Own	Build + Sell Apartments	Under Construction + Now Leasing
18	18	Broadmoor Commons	Control	Build + Sell Apartments	Site Development
36	36	Mills Crossing	Own	Build + Apartments	Complete + Now Leasing
138	138	Bridgeview Trails	Own	Develop + Sell Land or Build + Sell Apartments	Site Development
177	177	Meadowscape	Own	Build + Sell Apartments	Under Construction
80	80	Pacific Ridge	Own	Build + Sell Apartments	Complete + Now Leasing
228	228	Olympic Sunset	Own	Build + Sell Apartments	Under Construction + Now Leasing
997	997	Grandis Pond	Control	Develop + Sell Lots	Due Diligence
63	63	Inverness	Own	Develop + Sell Lots / Build + Sell Apartments	Preliminary Plat
225	225	Stanwood	Control	Build + Sell Apartments + Townhomes	Due Diligence

**Some of these projects are under contract, but not yet closed. There can be no assurance that we will ultimately purchase these properties after completing our internal due diligence process.*

**Data presented in this table is as of April 1, 2023*







Source: HCDI Investor Presentation

California

Operations in this state are focused on developing and entitling residential lots to be sold to the public. The company is not building homes in this community. The Darkhorse community is located in the city of Auburn, a growing city located approximately 30 miles northeast of Sacramento, which is California's state capital. The company originally purchased 68 lots for this project and as of April 1, 2023, 61 remain unsold. The company also has 22 lots in the community of Winding Lane of which 11 remain unsold.



California Portfolio:

Owned, Controlled, & Current Projects

TOTAL LOTS /UNITS	REMAINING LOTS/UNITS	COMMUNITY	STATUS	BUSINESS PLAN	PHASE
68	61	Darkhorse	Own	Sell Lots	Now Selling
22	11	Winding Lane	Own	Sell Lots	Now Selling

*Some of these projects are under contract, but not yet closed. There can be no assurance that we will ultimately purchase these properties after completing our internal due diligence process.
*Data presented in this table is as of April 1, 2023





Source: HCDI Investor Presentation

Texas

The company operates in various communities in the Austin metropolitan area and is involved in all aspects of the residential real estate life cycle including building and selling residential homes. The original project purchased 242 lots on which the company will develop the land and construct homes. The company will sell both lots and completed homes. Of the 233 original lots or homes, 192 remain unsold as of April 1, 2023.

Cities in which the company operates development projects include Austin, Driftwood, Horseshoe Bay, Dripping Springs, and Georgetown. The company has indicated that luxury homes in this region started closing during the 1st quarter with sales prices of approximately $400 per square foot.

This region is known as the Hill Country of Texas and remains one of the fastest growing metro areas in the nation. It is considered one of the most beautiful regions in Texas with its rolling hills, spring-fed rivers, and many lakes. Many of Harbor's communities are close to prestigious golf courses, prominent wineries, and unique shopping. The Hill Country is home to the state's capital, Austin.

A detailed portfolio breakdown of the original lots includes the following communities in the Austin MSA:

- Bunker Ranch, Dripping Springs (4 lots)
- Cimarron Hills, Georgetown (5 lots)
- Creek's Edge, Austin (2 lots)
- Flintrock Falls, Austin (1 lot)
- La Ventana, Driftwood (9 lots)
- Siena Creek, Horseshoe Bay (35 lots)
- Stone House, Horseshoe Bay (68 lots)
- Summit Rock, Horseshoe Bay (108 lots)
- The Trails of Horseshoe Bay, Horseshoe Bay (10 lots)

Harbor's luxury homes in this region range from 2,200 to 4,200 square feet, with prices ranging from $900,000 to more than $2,000,000. Most homes feature four-five bedrooms, three-four bathrooms, and two-three car garages. The design encompasses styles of that region with contemporary modern farmhouse elements reminiscent of Hill Country, such as vaulted ceilings, accent beams, stone and natural wood tones, modern light fixtures, barn doors, metal or tile roofing, quartz countertops, and high-end appliances.



Texas Portfolio:

Owned, Controlled, & Current Projects

TOTAL LOTS /UNITS	REMAINING LOTS/UNITS	COMMUNITY	STATUS	BUSINESS PLAN	PHASE
2	2	Creeks Edge	Own	Build + Sell Homes	Under Construction
4	1	Bunker Ranch	Own	Build + Sell Homes	Now Selling
1	1	Flintrock Falls	Own	Build + Sell Homes	Under Construction
35	31	Siena Creek	Own	Sell Lots / Build + Sell Homes	Now Selling Homes + Lots
108	76	Summit Rock	Own	Sell Lots / Build + Sell Homes	Available Lots
68	68	Stone House	Own	Develop + Sell Lots / Build + Sell Homes	Preliminary Plat
5	5	Cimarron Hills	Own	Build + Sell Homes	Under Construction
10	8	Trails of Horseshoe Bay	Own	Sell Lots / Build + Sell Homes	Available Lots

*Some of these projects are under contract, but not yet closed. There can be no assurance that we will ultimately purchase these properties after completing our internal due diligence process.
*Data presented in this table is as of April 1, 2023





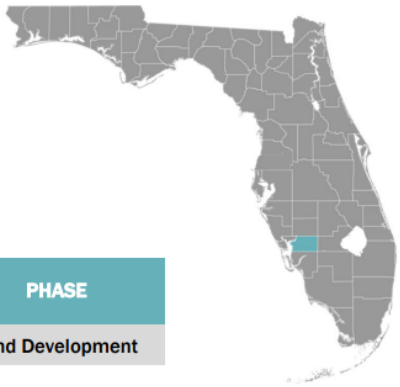


Source: HCDI Investor Presentation

Florida

The company is developing a waterfront condominium project in the city of Punta Gorda which is located 25 miles north of Fort Meyers and 100 miles south of Tampa. The property is under development at this time and when finished will contain 180 luxury condominiums.

In October 2022, the company announced it has contracted to sell 56.6 acres of land in Punta Gorda, Florida for $7,250,000 to Historical Fund, Inc. In December 2022, the contract was cancelled and the sales transaction did not occur. The real estate has been relisted for sale and the company expects this to be monetized at some point in 2023.



Florida Portfolio:

Owned, Controlled, & Current Projects

TOTAL LOTS /UNITS	REMAINING LOTS/UNITS	COMMUNITY	STATUS	BUSINESS PLAN	PHASE
180	180	Punta Gorda	Own	Sell Entitled Land	Land Development

*Some of these projects are under contract, but not yet closed. There can be no assurance that we will ultimately purchase these properties after completing our internal due diligence process.
*Data presented in this table is as of April 1, 2023

The company further breaks down revenues and gross profit by six reportable segments:
1) Homes, 2) Developed lots, 3) Entitled land, 4) Multi-Family, 5) Fee build, and 6) Other.

	Year Ended December 31, 2022	Year Ended December 31, 2021
Revenue by segment		
Homes	$ 28,670,000	$ 17,654,600
Developed lots	9,510,000	26,825,500
Entitled land	7,880,000	20,625,000
Multi-family	175,900	—
Fee Build	9,124,000	6,802,900
Other	54,400	444,700
	$ 55,414,300	$ 72,352,700

Source: HCDI SEC filings

MANAGEMENT TEAM

Sterling Griffin
Chief Executive Officer

Mr. Griffin began his career at James S. Griffin Co. in January 1985 as a principal and Vice President of Marketing, where he focused on the syndication of apartment properties, raw land, and retirement home facilities in the Puget Sound region of Washington State. Beginning in June 1989, Mr. Griffin co-founded several businesses over a 12-year period, while actively self-employed as a real estate broker, investor, and developer. In January 2012, he became the Chief Operating Officer for Hudson Homes LLC, a Washington-based residential builder and developer focused on construction of upscale homes in Pierce and Kitsap Counties, where he was responsible for land acquisition, construction, marketing, and sales. In 2014, Mr. Griffin founded Harbor Custom Development, Inc. Mr. Griffin is a lifelong Washington resident who graduated from Colorado College with a BA in History in 1984.

Jeff Habersetzer
Chief Operating Officer

Mr. Habersetzer serves as Chief Operating Officer, General Counsel and Corporate Secretary. Mr. Habersetzer has ten years of experience in real estate, contracts, and corporate governance. Mr. Habersetzer has served as General Counsel since 2019, playing an integral role in four successful capital raises for Harbor; was extensively involved in taking Harbor public in 2020, and currently chairs the acquisitions and due diligence committee. Prior to joining Harbor, Mr. Habersetzer owned a legal practice specializing in real estate, corporate law, multi-family leasing and acquisitions. Mr. Habersetzer holds a Bachelor's degree from the University of Washington, and a law degree and a Master's in Business Administration from Seattle University, graduating Cum Laude in both programs simultaneously. Mr. Habersetzer has been a licensed attorney in the state of Washington since 2017.

Lance Brown
Chief Financial Officer

Mr. Brown serves as Chief Financial Officer. His primary focus is raising capital, providing financial support and oversight for operations, investor relations, financial planning & analysis, general ledger accounting, SEC reporting, and tax. Prior to joining Harbor, Mr. Brown was Vice President and Chief Accounting Officer at Select Interior Concepts (NASDAQ: SIC), where he was responsible for Finance, Accounting, SEC Reporting, and Tax. During his time at SIC, Mr. Brown developed the public company accounting and reporting infrastructure; was extensively involved in the diligence and integration for multiple completed acquisitions; assisted with the sale, divestiture, and de-integration of SIC's largest business unit to a major competitor; and provided significant support for the sale and going private transaction of SIC. Mr. Brown started his career in public accounting at PricewaterhouseCoopers. He holds a Bachelor of Business Administration degree from the University of Georgia and a Master of Accountancy from Auburn University. Mr. Brown is a Certified Public Accountant.

RISK FACTORS

- The housing market may not continue to grow at the same rate as it has in the past, or may decline, and any decline in the company's markets or for the homebuilding industry in general may materially and adversely affect the business and financial condition. Other areas of unpredictability include regional difficulties, higher mortgage rates, land costs, construction costs, consumer lending, reduced consumer income, tighter bank requirements, and the effect of pandemics.

- Substantially all of the company's home buying customers finance their home purchases through lenders that provide mortgage financing. Mortgage interest rates have generally trended downward for the last several decades and reached historic lows in 2020 and 2021, which made the homes the company sold more affordable. Starting in the 1st quarter of 2022, mortgage lending rates began to rise as the U.S. Federal Reserve began raising short-term rates to fight inflation. Higher mortgage rates may negatively affect the company's financial results.

- Real estate is an illiquid asset and typically cannot be sold quickly. The capitalization rates at which properties may be sold could be higher than historic rates, thereby reducing the potential proceeds from sale. Consequently, the company may not be able to change real estate or land inventory promptly in response to changes in economic or other conditions. These factors could adversely affect the company's core business, financial condition, and operating results.

- Inflation could adversely affect the real estate business and the company's financial results by increasing the costs of land, raw materials and labor needed to operate the business. If the markets in which the company operates have an oversupply of homes, relative to demand, the company may be unable to offset any such increases in costs with corresponding higher sales prices for home sales.

- The company operates in a very competitive environment that is characterized by competition from a large number of other homebuilders and land developers in each geographical market in which the company has operations. There are relatively low barriers to entry into the homebuilding business and the company competes with numerous large national and regional homebuilding companies as well as smaller local homebuilders and land developers.

- The company's operations are located in many areas that are subject to natural disasters, severe weather or adverse geological conditions such as hurricanes, tornadoes, droughts, floods, brushfires, wildfires, prolonged periods of precipitation, landslides, soil subsidence, and earthquakes. The occurrence of any of these events could damage land parcels and projects, cause delays in completion of certain projects, or reduce consumer demand for housing or land.

- The homebuilding and land development industry is capital-intensive and requires significant up-front expenditures to acquire land parcels and begin development. If internally generated funds are not sufficient, the company would need to seek additional capital in the form of equity or debt financing from a variety of potential sources, including additional bank financing and/or securities offerings. These sources of capital may not be available during times of economic distress.

SUMMARY

The company's recent strategic shift to focus on multi-family projects will likely pay off in the mid to long term as a difficult single-family housing market may drive consumers to rental properties as opposed to home purchases. This will increase activity in the multi-family development industry, a trend in which Harbor can capitalize on due to its current listed projects, new projects under development, and overall flexible business model.

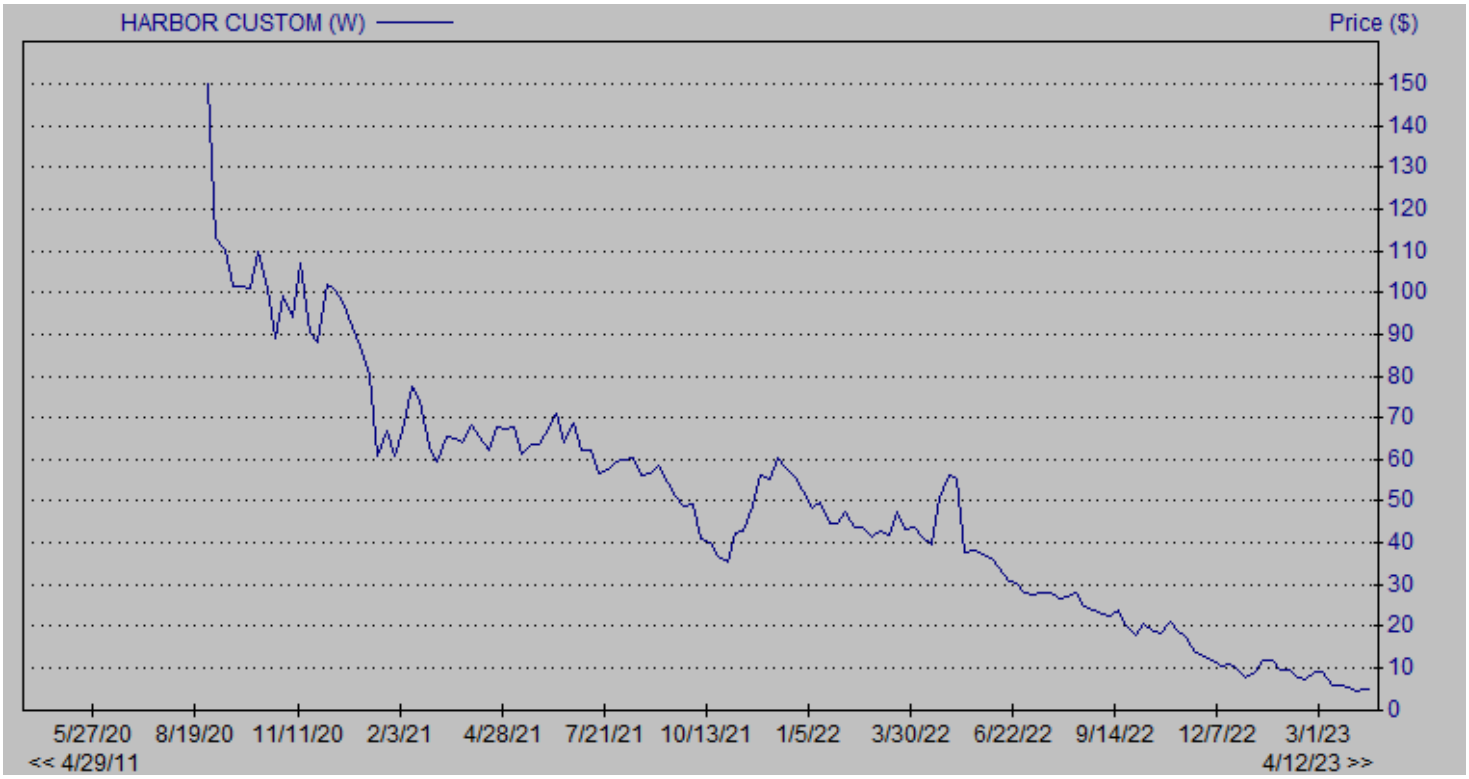
The recent increase in prevailing interest rates may affect the company negatively to some degree, however we feel Harbor may be well positioned to manage a rising rate environment. In certain markets such as Texas, there exists a very strong supply/demand imbalance which could support home sales going forward. In addition, many buyers in Texas markets come from high real estate value states such as California in which cash purchases are common. Further, if a high mortgage rate environment does eventually affect home or lot sales, this may drive individuals and families to rental situations in which the company also participates through multi-family projects in certain regions in which the company operates.

From a longer-term perspective, the home ownership sector does have positive tailwinds due to the demographics of the millennial population. Aging millennials are expected to drive home ownership rates higher from the 30% range for those in their late 20's to over 60% once they reach the age of 30 or above.

In addition, there still appears to be a shortage of homes in the country based on current needs and population growth. Mark Zandi, chief economist at Moody's Analytics, estimates there could be a shortfall of close to 1.6 million homes. The biggest culprit in the recent phenomenon of rising home prices is the historic housing shortage. There is also a shortage in multi-family rental properties due to years of underinvestment in the sector.

Currently, investor sentiment remains very low on real estate stocks due to rising mortgage rates and investor fears about a potential recession in 2023 or beyond. Homebuilder stocks tend to underperform the market during periods of rising rates and ahead of recessions, however this effect may already be priced in for real estate related equites.

HISTORICAL STOCK PRICE



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