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Zacks Small-Cap Research

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Harbor Custom Development (HCDI-NASDAQ)

HCDI: Harbor reports 1st quarter 2023 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 $12.00 per share. An economic or real estate downturn may lower this value.

Current Price (5/31/23)	$3.85
Valuation	**$12.00**

OUTLOOK

Harbor Custom Development, Inc. 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.2023 should be a transformative growth year for the company. We believe HCDI stock to be significantly undervalued at this time.

SUMMARY DATA

52-Week High	**$37.80**
52-Week Low	**$3.15**
One-Year Return (%)	**-89.5**
Beta	**0.54**
Average Daily Volume (sh)	**564,436**
Shares Outstanding (000's)	**2,671**
Market Capitalization ($mil)	**$10.3**
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	$9.3 A	$34.4 E	$34.7 E	$66.5 E	$144.8 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	-$9.39 A	$0.07 E	$0.18 E	$2.09 E	-$7.04 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 1st quarter 2023 financial results.

The company reported 1st quarter financial results which were up against difficult comps compared to the 1st quarter of 2022. Sales decreased by (67.9%) to $9.2 million compared to sales of $28.6 million in the prior year period. The decrease was primarily attributed to decreases in developed lot sales of $6.6 million, home sales of $6.2 million, entitled land sales of $4.5 million, and fee build revenue of $2.4 million. The decrease was partially offset by $0.4 million of rental revenues earned from multi-family projects during the quarter. The decreases in developed lots, home, and entitled land sales were mainly due to large prior year sales in California and Washington that did not recur in the 1st quarter of 2023. valuThe fee build revenue continued to decrease as the fee build projects are nearing completion.

Gross profit for the quarter decreased to a loss of ($2.0) million compared to $6.1 million for the 1st quarter of 2022. Gross margin for the quarter decreased to (22.3%) compared to 21.2% for the 1st quarter of 2022. The ($8.1) million decrease in gross profit and (43.5%) decrease in gross margin were primarily due to the non-recurrence of high margin entitled land sales that occurred in the prior year period, lower margins on home and developed lot sales in 2023, a $1.6 million impairment loss on the Pacific Ridge, Darkhorse, and Bunker Ranch properties, and a decrease in fee build gross profit due to additional cost overruns to complete Harbor's legacy fee build projects that are almost completed.

The entitled land sales in the 1st quarter of 2022 provided $3.8 million gross profit and a gross margin of 84.1% which did not recur in the 1st quarter of 2023. The gross profit for home and developed lot sales, excluding impairment charges, decreased by $1.5 million and $1.1 million, respectively, and the related gross margins decreased to 4.2% and approximately break-even, respectively, for the 1st quarter of 2023.

Operating expenses for the quarter were $2.9 million compared to $3.8 million for the 1st quarter of 2022. The ($0.9) million decrease in operating expenses was primarily due to the company's reduction in general and administrative costs. Most of the savings came from reductions of professional fees, insurance expense, depreciation, and stock compensation expense. Operating expenses as a percentage of sales for the quarter were 32.0% compared to 13.4% for the 1st quarter of 2022 due to lower sales volumes.

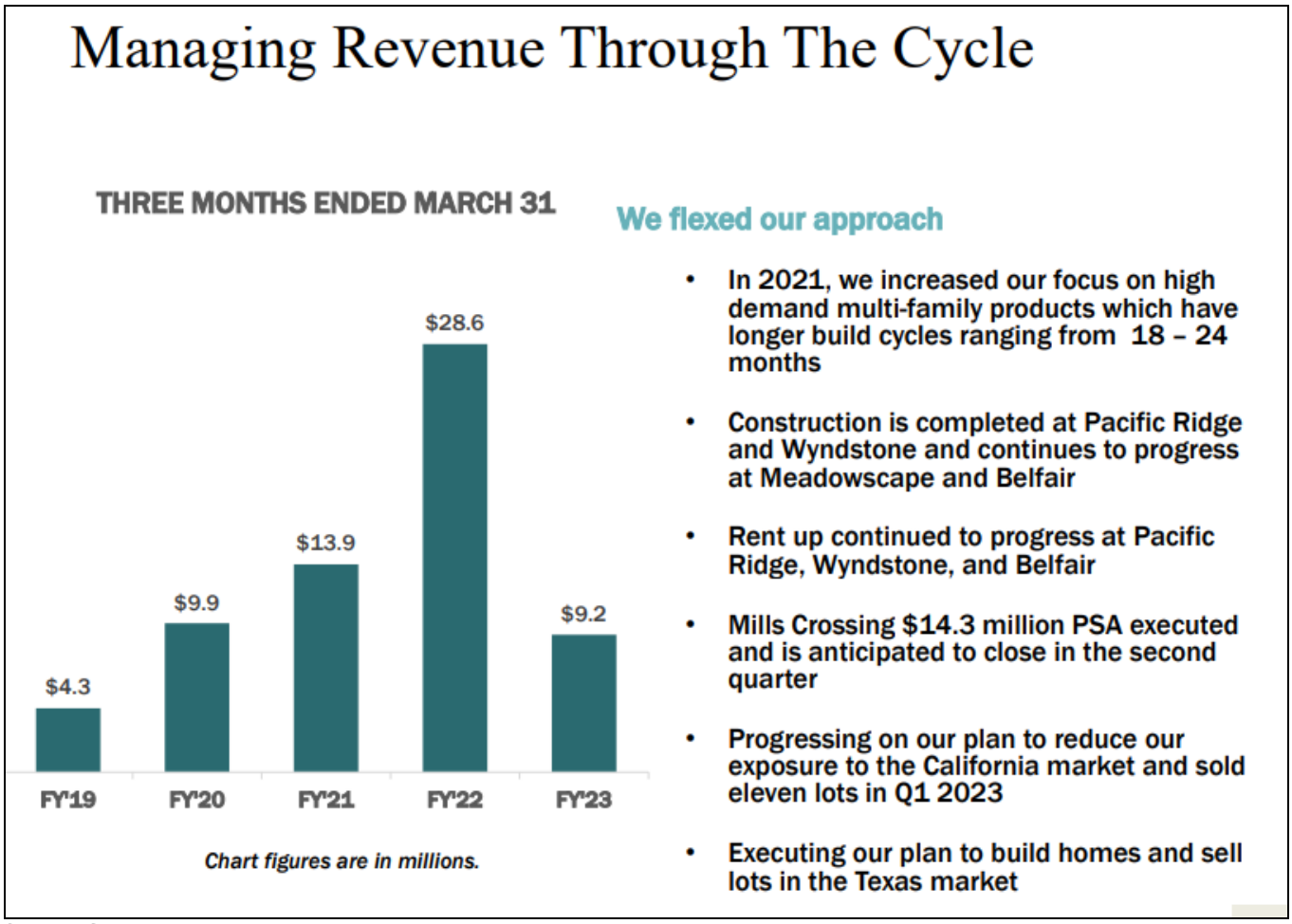
EBITDA for the quarter decreased from $3.5 million in the 1st quarter of 2022 to a loss of ($4.5) million. Adjusted EBITDA, which excludes stock compensation and other non-recurring items, decreased to a loss of ($4.4) million compared to adjusted EBITDA of $3.9 million for the 1st quarter of 2022. For the 1st quarter of 2023, adjusted EBITDA margin was (48.3%) compared to 13.6% adjusted EBITDA margin for the first quarter of 2022.

The net loss was ($4.9) million compared to net income of $1.6 million for the 1st quarter of 2022. Net loss attributable to common stockholders in the 1st quarter was ($6.8) million or ($9.39) basic loss per share compared to net loss attributable to common stockholders of ($0.4) million or ($0.56) basic loss per share for the 1st quarter of 2022.

Harbor CEO Sterling Griffin, stated, *"Compared to last year's quarter record performance, our results during this first quarter were unfavorably impacted by ongoing challenges in the broader housing market, including higher mortgage interest rates and inflationary pressures. We have taken and will continue to take cost control initiatives to help navigate changing market conditions and maintain the health of our balance sheet. We are encouraged with the progress of our multi-family projects and, the progress of our long-term strategy. Our unique portfolio enables us to adapt to changing demand trends in our key markets. Looking forward as the summer selling and rental season approaches, we are confident in our opportunities to drive future growth and rebuild shareholder value."*

Balance Sheet & Liquidity

At the end of the 1st quarter of 2023, the company had $7.7 million in unrestricted cash and equivalents and $597,600 in restricted cash. Total debt stood at $153.9 million and shareholders' equity was $68.9 million. Construction and related party construction loans totaled $130.7 million and real estate assets were valued at $217.8 million which is a real estate leverage ratio of 60.0%.



Source: HCDI Investor Presentation

Management Transition

On May 11th, the company announced that CEO Sterling Griffin will be retiring from all roles with the company effective July 12, 2023. Mr. Griffin will serve as a non-executive strategic advisor through January 12, 2025.

Jeff Habersetzer, who currently serves as the company's Chief Operating Officer is expected to be named Interim Chief Executive Officer and Interim President effective July 12, 2023. Mr. Habersetzer brings an extensive background in the real estate industry and previously owned a legal practice specializing in real estate and corporate law.

In addition, the company expects to appoint Lance Brown, Harbor's Chief Financial Officer, to an expanded role as Interim Chief Operating Officer. Mr. Brown will maintain his current role as Chief Financial Officer in order to facilitate a smooth transition and continuity of operational leadership.

Mr. Griffin stated, *"Harbor was founded as a small private builder and developer in Western Washington and is now a full-service publicly traded real estate company with assets in multiple states. I am thankful to all the employees, customers, suppliers, business partners, and investors for their support these past years. I am confident in the direction and future of the Company under Jeff's leadership."*

Mr. Habersetzer commented, *"I am honored to take on this important role of Interim CEO and President, and am thankful for the confidence the Board has placed in me. While I am proud of our great Company and what our team has accomplished to date, there is still much work to be done. Our collective team is aligned and laser-focused on achieving our immediate and long-term business objectives. As we move forward, my top priority is to get us back on the path to stability and restore public trust in the HCDI brand. Our business objectives are within reach, and by utilizing our current and future asset base, I am confident in our ability to increase shareholder value."*

Public Offering

Subsequent to the end of the 1st quarter, the company announced the closing of a public offering which consisted of an aggregate of 1,951,218 shares of its common stock (or pre-funded warrants in lieu thereof) and warrants to purchase 1,951,218 shares of common stock, at a combined public offering price of $5.125 per share and accompanying warrant. The warrants have an exercise price of $5.00 per share, are exercisable immediately upon issuance, and expire five years from the date of issuance.

The gross proceeds to the company from this offering were approximately $10 million before deducting offering related expenses. The company intends to use the net proceeds from this offering for real estate entitlements, real estate construction and development, payment toward the balance of BankUnited loan, and for working capital and general corporate purposes.

Updated Proxy Statement

The company released its latest Proxy Statement on May 17, 2023, which updated ownership positions by executives and board members.

Name and Address of Beneficial Owner(8)	Amount and Nature of Beneficial Ownership	
	Number of Shares of Common Stock	Percentage of Class
Directors and Named Executive Officers:		
Sterling Griffin, Chief Executive Officer, President, Director	141,157(1)	19.1 %
Jeffrey B. Habersetzer, Chief Operating Officer	8,198(2)	1.1 %
Lance Brown, Chief Financial Officer	3,559 (3)	*
Richard Schmidtke, Director	8,544(4)	1.2 %
Larry Swets, Director	6,023(5)	*
Dennis Wong, Director	2,842(6)	*
Wally Walker, Director	5,450(7)	*
Karen Bryant, Director	500	*
Chris Corr, Director	998	*
All directors and executive officers as a group (nine persons)	177,271	23.6 %

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 3/31/23 was approximately $22.9 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. On May 10th, the company announced the buyer had waived all contingencies on the sale and has released their $400,0000 of non-refundable earnest money to Harbor. The sale is expected to close by June 16, 2023.

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."*

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 Bridge View 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, although due to current market dynamics, realized sales prices are expected to be lower than original list prices.

On April 28th, the company announced they were selling the land and entitlements related to the Bridge View Trails project for $11.0 million. This transaction is expected to close before the end of the 2nd quarter of 2023.

On May 25th, the company provided additional updates on the portfolio. In addition to Mills Crossing, the company has completed vertical construction on Pacific Ridge and Wyndstone. The company's largest project Belfair View is a 228-unit garden-style apartment complex under construction in Belfair, Washington, currently in lease-up on the project's first phase. Harbor's second largest project Meadowscape, is a 177-unit apartment complex located in Olympia, Washington, that will commence leasing in June.

Texas Market Update

The company continues to see homebuyer demand in the Austin regional market. Harbor has seven homes under construction in the area, five of which are in a gated golf course community called Cimarron

Hills. The company anticipates selling these homes for approximately 400 per square foot. Harbor also has two other Austin area homes one in Flintlock Hills and one in Creeks Edge. These homes should generate a slightly higher selling price at approximately $410 to $420 per square foot.

Regarding Horseshoe Bay, the company has nine homes under construction in the Summit Rock subdivision and two in the Siena Creek club. Sales for these homes are also expected to be in the $400 per square foot range. As of May 15, 2023, the company does not have any finished standing inventory in either the Austin market or Horseshoe Bay.

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 with available shares to access the capital markets.

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. Based on stockholders equity of $68,873,800 as of 3/31/23 and the stock price on that date, HCDI is selling at approximately 4.5% of stockholders' equity which uses common shares outstanding of 732,245 shares.

On a more conservative basis utilizing fully diluted shares of 2,761,932 as of 3/31/23 and includes warrants and converted preferred stock, HDCI stock is trading at approximately 17.4% of book value. However, the fully diluted share count contains warrants which if exercised, could add approximately $64,000,000 to shareholders equity, which would create an even lower Price/Book ratio.

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 2,761,932 shares would create a value of approximately $12.00 (excluding warrant proceeds).

We maintain our valuation target of **$12.00**, 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.

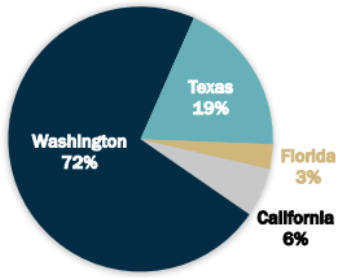
We are changing our 2023 estimates to account for the prevailing real estate environment and the timing of the sale of multi-family projects. We now expect 2023 revenues of $144.8 million and EPS of ($7.04).

Geographic and Product Diversification

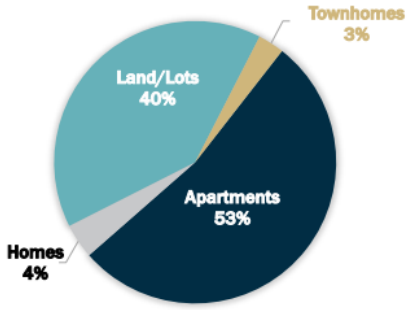
Market	Total Units/Lots Owned	Total Units/Lots Controlled	% Owned	% Controlled	Real Estate Assets
Washington	870	1,362	39%	61%	$156,780,354
California	71	0	100%	0%	$13,076,071
Florida	180	0	100%	0%	$5,592,900
Texas	190	0	100%	0%	$42,386,571
Total	1,311	1,362	49%	51%	$217,835,896

**Unit and lot counts of our owned and controlled properties are as of May 10, 2023.*
**Real estate assets are as of March 31, 2023.*

REAL ESTATE ASSETS BY STATE



OWNED UNITS BY EXPECTED SALES



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Source: HCDI Investor Presentation

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 64.0% of real estate assets as of March 31, 2023.

- 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.

- As of May 10, 2023, the company owns or controls 21 communities in Washington, Texas, California, and Florida containing approximately 2,650 lots or units in various stages of development.

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.

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 is 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.

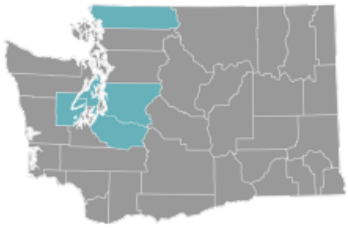
REAL ESTATE PORTFOLIO

Harbor operates in four distinct high growth regions at this time, Washington, California, Texas and Florida. As of May 10th, 2023, the company owns or controls 21 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 2,673 units or lots in the state of which 49% are owned by the company and 51% 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, 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 2: Preliminary Plat
145	145	Fircrest Ridge	Control	Develop + Sell Apartments	Due Diligence
76	76	Wyndstone	Own	Build + Sell Apartments	Complete + Now Leasing
36	36	Mills Crossing	Own	Build + Sell Townhomes	Complete + Now Leasing + Under Contract
138	138	Bridge View Trail	Own	Develop + Sell Land or Build + Sell Apartments	Develop + Under Contract
177	177	Meadowscape	Own	Build + Sell Apartments	Under Construction
80	80	Pacific Ridge	Own	Build + Sell Apartments	Complete + Now Leasing
228	228	Belfair View	Own	Build + Sell Apartments	Under Construction + Now Leasing
992	992	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 May 10, 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 10 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	10	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 May 10, 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 242 original lots or homes, 190 remain unsold as of May 10, 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	Now Selling Lots
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	75	Summit Rock	Own	Sell Lots / Build + Sell Homes	Now Selling Lots + Under Construction Homes
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	Now Selling 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 May 10, 2023



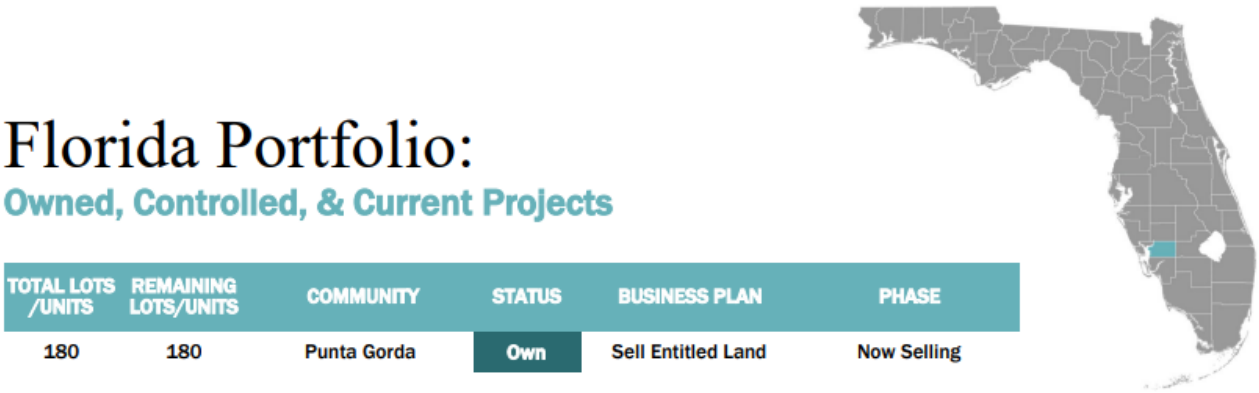


Source: HCDI Investor Presentation

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.



Source: HCDI Investor Presentation

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.

	For the Three Months Ended March 31,	
	2023	2022
Sales by segment		
Homes	$ 6,049,700	$ 12,274,500
Developed lots	2,440,300	9,080,000
Entitled land	—	4,480,000
Multi-family	424,200	—
Fee Build	266,800	2,713,900
Other	—	32,600
Total Sales	$ 9,181,000	$ 28,581,000

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.

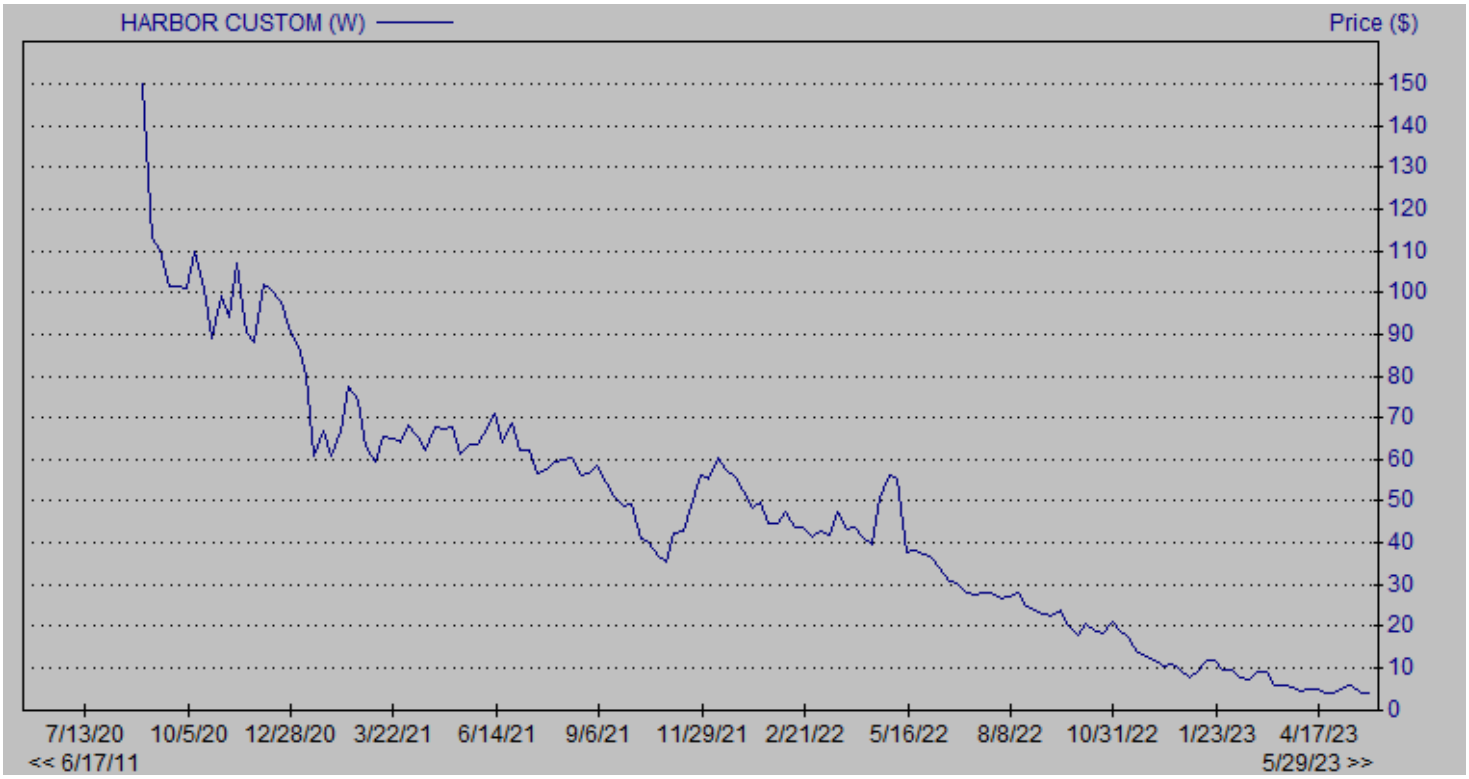
The recent increase in prevailing interest rates may affect the company negatively to some degree, however we feel Harbor may be well positioned to manage a rising rate environment. In certain markets such as Texas, there exists a very strong supply/demand imbalance which could support home sales going 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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