August 21, 2023

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Harbor Custom Development (HCDI-NASDAQ)

HCDI: Harbor reports 2nd 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 $6.00 per share. An economic or real estate downturn may lower this value.

Current Price (8/18/23)	$1.68
Valuation	**$6.00**

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	**$26.40**
52-Week Low	**$1.53**
One-Year Return (%)	**-93.3**
Beta	**0.42**
Average Daily Volume (sh)	**217,877**
Shares Outstanding (000's)	**2,329**
Market Capitalization ($mil)	**$5.0**
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**

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)
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	$19.8 A	$34.7 E	$66.5 E	$141.3 E
2024					$130.2 E

EPS / Loss Per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
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	-$3.79 A	$0.49 E	$1.51 E	-$11.1 E
2024					-$0.02 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 2nd quarter 2023 financial results.

The company reported 2nd quarter financial results which showed substantial revenue growth due to the sale of a multi-family property. Sales increased 92.9% to $19.8 million compared to sales of $10.3 million in the prior year period. The increase was primarily attributed to the sale of the Mills Crossing townhomes for $14.3 million and $1.9 million in lot sales in Texas and California. Home sales declined to $2.6 million from $8.8 million in the prior year period and fee-build revenue decreased to $263,300 from $1.5 million in the prior year period. Fee build revenue continued to decline as those projects are near completion.

Gross loss for the 2nd quarter increased to ($2.9) million compared to ($1.9) million for the prior year period. The $(1.0) million increase in gross loss was primarily due to $4.7 million of additional impairment losses recorded on the Pacific Ridge and Darkhorse properties and decrease in home profit of $1.6 million. This was partially offset by a $1.5 million gross profit at 10.2% gross margin from the sale of Mills Crossing townhomes as well as non-recurrence of significant losses from Harbor's legacy fee build projects in 2023.

Operating expenses for the 2nd quarter were $2.4 million compared to $3.7 million in the 2nd quarter 2022. The ($1.3) million decrease in operating expenses was primarily due to a reduction of general and administrative costs such as compensation costs, depreciation, insurance expense, right of use expense, and professional fees. Operating expenses as a percentage of sales for the 2nd quarter were 12.0% compared to 35.5% for the prior year period.

EBITDA loss for the 2nd quarter decreased from ($4.9) million in the 2nd quarter of 2022 to a loss of ($3.1) million. Adjusted EBITDA, which excludes the impact of stock compensation and other non-recurring costs, decreased to a loss of ($3.0) million compared to ($4.8) million in the prior year period.

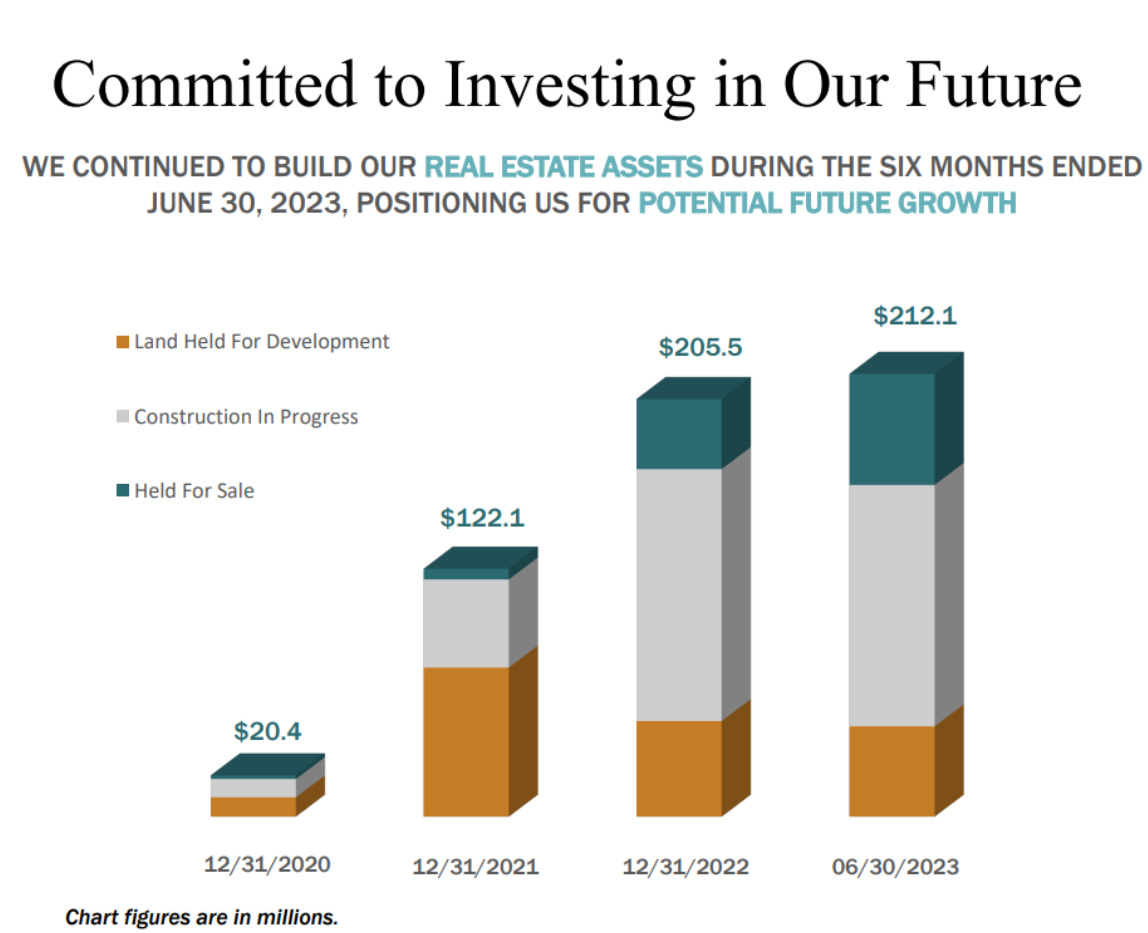
Net loss in the quarter was ($4.4) million compared to ($4.5) million in the prior year period. Net loss attributable to common stockholders in the 2nd quarter 2023 was ($6.3) million, or ($3.79) loss per share compared to net loss attributable to common stockholders of ($6.4) million, or ($9.20) loss per share for the 2nd second quarter of 2022.

CEO Jeff Habersetzer stated*, "Despite a challenging real estate market, we achieved notable successes in the second quarter. Sales increased 93% compared to the previous year, primarily due to the closing of the first and smallest of our multifamily projects - Mills Crossing. Additionally, we secured $10 million in gross proceeds from our public offering with H.C. Wainwright & Co. and partnered with Sound Capital to refinance phase one of Belfair View. Our apartment communities are experiencing excellent lease-up velocity, with Pacific Ridge and Wyndstone expected to reach rental stabilization soon. Our luxury Texas homes have generated significant interest, and our California lots are seeing significant momentum,"*

Balance Sheet & Liquidity

At the end of the 2nd quarter of 2023, the company had $8.3 million in unrestricted cash and equivalents and $597,600 in restricted cash. Total debt stood at $150.3 million and shareholders' equity was $71.6 million. Construction loans totaled $131.8 million and real estate assets were valued at $212.1 million which is a real estate leverage ratio of 62.2%.

In May 2023, the company announced the closing of a public offering of 160,000 shares of common stock and warrants to purchase 1,790,718 shares of common stock, at a combined public offering price of $5.125 per share. The warrants have an exercise price of $0.0001 per share, are exercisable immediately upon issuance, and expire five years from the date of issuance. Gross proceeds to the company from this offering were approximately $10 million.



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 was 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.

On June 26th, the company announced the resignation of Chief Financial Officer Lance Brown. The company promoted Yoshi Niino, Harbor's Director of Accounting since February 2022, to Chief Accounting Officer effective July 21, 2023. Upon assuming this role, Mr. Niino will take over the duties of the principal financial officer and principal accounting officer until the company hires a new CFO.

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 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 closed on June 20, 2023.

Texas Market Update

The company continues to see homebuyer demand in the Austin regional market. Harbor has eight 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 $71,607,300 as of 6/30/23 and the stock price on that date, HCDI is selling at approximately 7.6% of stockholders' equity which uses common shares outstanding of 1,802,295 shares. Using common shares of 2,329,322 as of 8/9/23, HDCI stock is trading at approximately 9.8% 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.

We lower our valuation target to **$6.00**, 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).

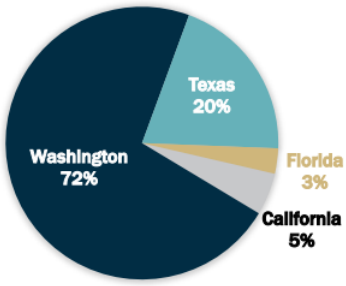
Geographic and Product Diversification

Market	Total Units/Lots Owned	Total Units/Lots Controlled	% Owned	% Controlled	Real Estate Assets
Washington	834	1,587	34%	66%	$153,608,273
California	62	0	100%	0%	$10,441,425
Florida	180	0	100%	0%	$5,647,300
Texas	183	0	100%	0%	$42,375,565
Total	1,259	1,587	44%	56%	$212,072,563

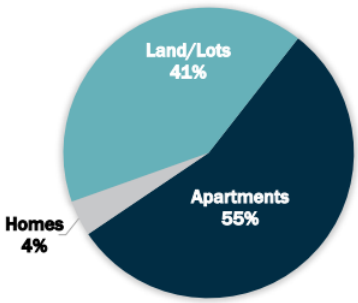
**Unit and lot counts of our owned and controlled properties are as of August 09, 2023.*
**Real estate assets are as of June 30, 2023.*

Source: HCDI Investor Presentation

REAL ESTATE ASSETS BY STATE



OWNED UNITS BY EXPECTED SALES



KEY POINTS



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 58.3% of real estate assets as of June 30, 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 August 9, 2023, the company owns or controls 21 communities in Washington, Texas, California, and Florida containing approximately 2,846 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

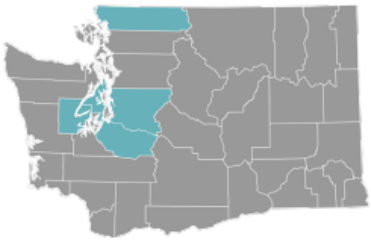
Harbor operates in four distinct high growth regions at this time, Washington, California, Texas and Florida. As of August 9th, 2023, the company owns or controls 21 communities in these states. The company engages in comprehensive research to identify prime markets to make real estate investments.

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 2,421 units or lots in the state of which 34% are owned by the company and 66% 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	SOLD
138	138	Bridge View Trail	Own	Develop + Sell Land or Build + Sell Apartments	Land Develop Complete
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 Phase One
992	992	Grandis Pond	Control	Develop + Sell Lots	Due Diligence
63	63	Inverness	Own	Develop + Sell Lots / Build + Sell Apartments	Preliminary Plat
TBD	TBD	Arlington	Control	Develop + Sell Apartments	Raw Land
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 July 20, 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 July 11, 2023, 57 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	57	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 July 11, 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 229 original lots or homes, 185 remain unsold as of July 11, 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	73	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	4	Cimarron Hills	Own	Build + Sell Homes	Under Construction
10	6	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 July 11, 2023



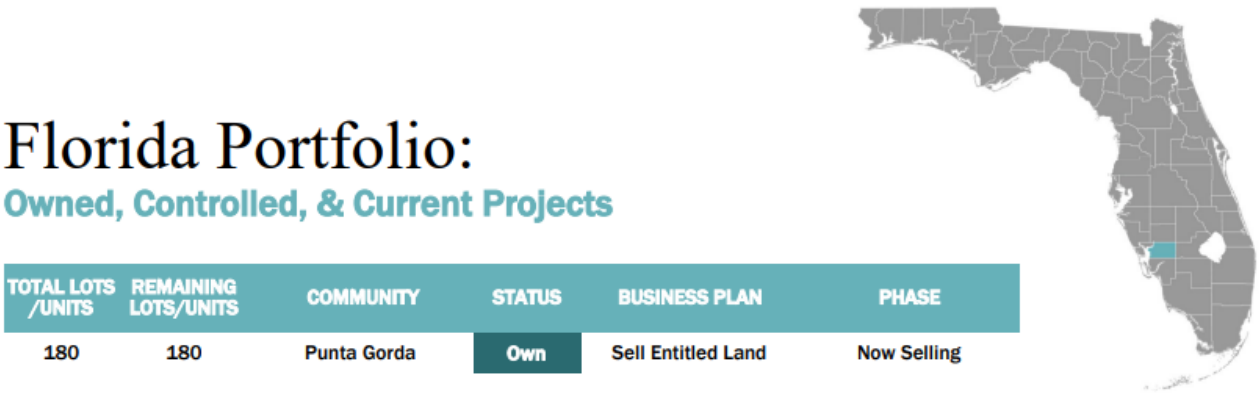


Source: HCDI Investor Presentation

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 June 30,	
	2023	2022
Homes	$ 2,649,000	$ 8,789,700
Developed Lots	1,900,000	—
Entitled Land	—	—
Multi-family	15,032,200	—
Fee Build	263,300	1,487,800
Construction Materials	—	8,900
Total Revenue	$ 19,844,500	$ 10,286,400

Source: HCDI SEC filings

MANAGEMENT TEAM

Jeff Habersetzer
Interim Chief Executive Officer

Mr. Habersetzer serves as our Interim Chief Executive Officer and Interim President. Mr. Habersetzer has more than ten years of experience in real estate, contracts, and corporate governance. Mr. Habersetzer has been with the Company since 2019 and has served as Harbor's Chief Operating Officer, Corporate Secretary, and General Counsel. Mr. Habersetzer has played 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

Yoshi Niino
Chief Accounting Officer

Mr. Niino serves as our Chief Accounting Officer. Mr. Niino oversees accounting, SEC reporting, and tax for the Company and has been building the public company accounting, reporting, and internal control infrastructure. Mr. Niino has been with the Company since 2022 and has served as the Director of Accounting. Prior to joining Harbor, Mr. Niino was the Senior Internal Audit Manager at Weyerhaeuser Company (NYSE: WY), responsible for financial and operational audits. During his time at WY, Mr. Niino was extensively involved in the financial integration of a large acquisition and assisted with multiple system conversions and business process changes. Mr. Niino started his career in public accounting at Deloitte & Touche, LLP. He graduated from the University of Washington with a B.A. in Economics and Business Administration, Accounting. Mr. Niino has been a Certified Public Accountant since 2009.

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.

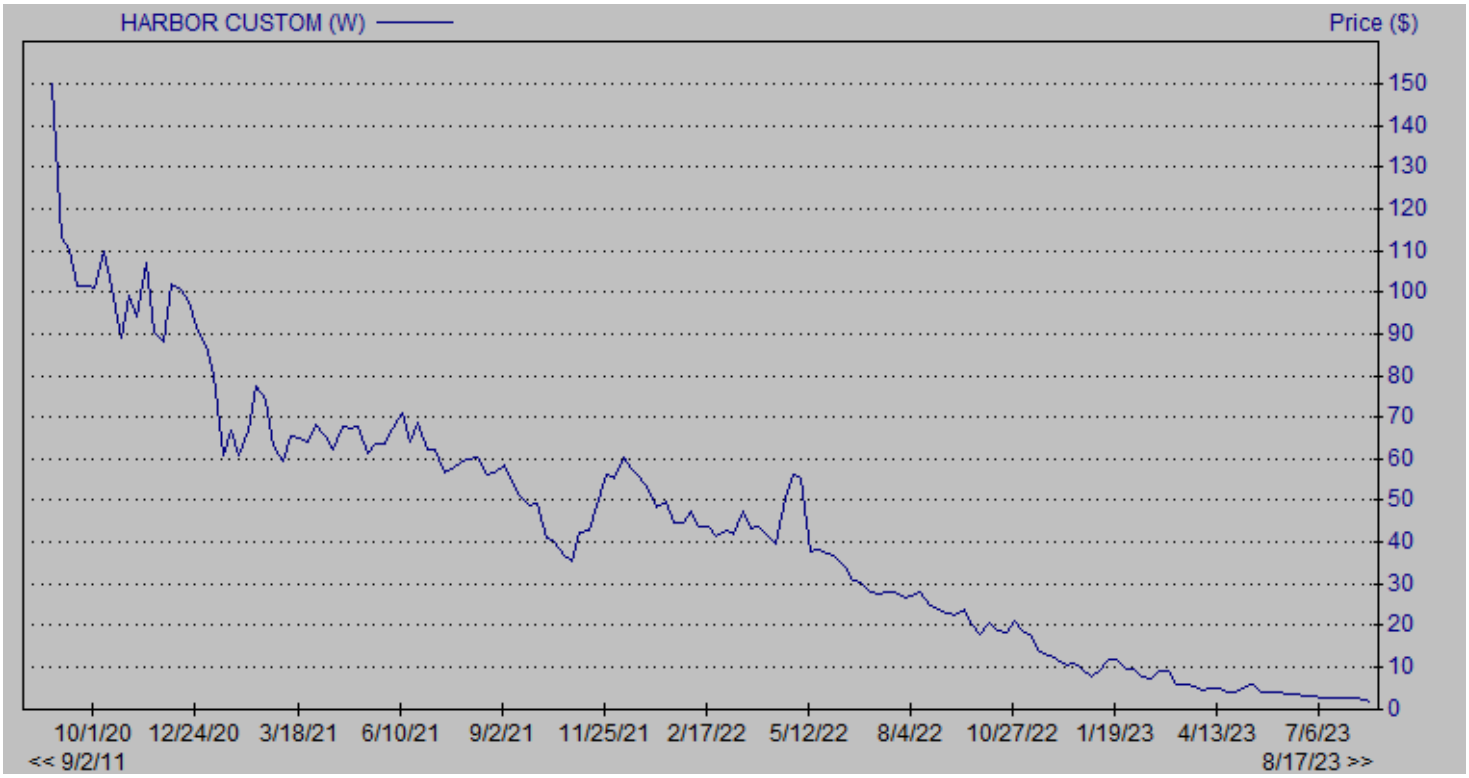
Currently, investor sentiment remains very low on real estate stocks due to rising mortgage rates and investor fears about a potential recession in 2023 or beyond. Homebuilder stocks tend to underperform the market during periods of rising rates and ahead of recessions, however this effect may already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

PROJECTED INCOME STATEMENT

Income Statement		Dec-20	Dec-21	Dec-22	Dec-23	Dec-24
Net Sales		**50,397,000**	**72,352,700**	**55,414,300**	**141,262,500**	**130,224,000**
Growth		*#DIV/0!*	*43.6%*	*-23.4%*	*154.9%*	*-7.8%*
Cost of Goods Sold		**47,774,000**	**49,335,200**	**54,459,400**	**129,037,840**	**109,187,796**
%		*94.8%*	*68.2%*	*98.3%*	*91.3%*	*83.8%*
Depreciation & Amort		**619,800**	**1,084,200**	**1,407,400**	**353,210**	**353,210**
Gross Profit		**2,003,200**	**21,933,300**	**(452,500)**	**11,871,450**	**20,682,994**
Margin		*4.0%*	*30.3%*	*-0.8%*	*8.4%*	*15.9%*
SG&A Expenses		**5,493,900**	**11,151,600**	**16,237,700**	**10,142,493**	**10,041,068**
% of sales		*10.9%*	*15.4%*	*29.3%*	*7.2%*	*7.7%*
Other		**0**	**0**	**0**	**0**	**0**
% of sales		*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Research & Development		**0**	**0**	**0**	**0**	**0**
% of sales		*0.0%*	*14`%*	*0.0%*	*0.0%*	*0.0%*
Amortization		**0**	**0**	**0**	**0**	**0**
% of sales		*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Operating Income		**(3,490,700)**	**10,781,700**	**(16,690,200)**	**1,728,957**	**10,641,926**
Margin		*-6.9%*	*14.9%*	*-30.1%*	*1.2%*	*8.2%*
EBITDA		**(2,755,200)**	**12,365,800**	**(14,767,300)**	**2,082,167**	**10,995,136**
Margin		*-5.5%*	*17.1%*	*-26.6%*	*1.5%*	*8.4%*
Other Expenses/(Income)		**(228,300)**	**(91,300)**	**2,930,200**	**(283,948)**	**(34,679)**
%		*-0.5%*	*-0.1%*	*5.3%*	*-0.2%*	*0.0%*
EBIT		**(3,262,400)**	**10,873,000**	**(19,620,400)**	**2,012,905**	**10,676,605**
%		*-6.5%*	*15.0%*	*-35.4%*	*1.4%*	*8.2%*
Total Interest Exp (net)		**382,900**	**249,300**	**1,760,000**	**2,798,900**	**2,798,900**
%		*0.8%*	*0.3%*	*3.2%*	*2.0%*	*2.1%*
Net Profit Before Tax		**(3,645,300)**	**10,623,700**	**(21,380,400)**	**(785,995)**	**7,877,705**
%		*-7.2%*	*14.7%*	*-38.6%*	*-0.6%*	*6.0%*
Income Tax		**116,800**	**1,766,900**	**(4,458,200)**	**(31,731)**	**318,029**
% Effective Rate		*-3.2%*	*16.6%*	*20.9%*	*4.0%*	*4.0%*
% Cash Tax Rate		*-3.2%*	*16.6%*	*20.9%*	*4.0%*	*4.0%*
Minority Interests or Preferred Stock		**229,300**	**2,726,600**	**7,759,400**	**7,614,800**	**7,614,800**
Net Profit		**(3,991,400)**	**6,130,200**	**(24,681,600)**	**(8,369,064)**	**(55,124)**
%		*-7.9%*	*8.5%*	*-44.5%*	*-5.9%*	*0.0%*
Non-recurring income (expense)						
Average Diluted Shares Outstanding		4,214,418	21,793,582	699,490	1,759,243	2,682,100
Reported FD EPS						
Zacks EPS		**(0.89)**	**0.41**	**(35.29)**	**(11.17)**	**(0.02)**

Source: Zacks analyst

HISTORICAL STOCK PRICE



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