



MARKET UPDATE

Ranking the 50 Largest Metro Areas

SPECIAL REPORT | APRIL 2022



Copyright ©Morrison Street Research, April 2022. All Rights Reserved. Copying, selling or otherwise distributing copies and/or creating derivative works for commercial purposes is strictly prohibited. Although significant efforts have been used in preparing this guide, Morrison Street Research makes no representation or warranties with respect to the accuracy and completeness of the contents. Morrison Street Research does not provide tax, legal, investment or accounting advice. This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied upon for, tax, legal, investment or accounting advice. You should consult your own tax, legal, investment and accounting advisors before engaging in any transaction.

SOURCES:

Morrison Street Research
ACLED U.S. Crisis Monitor
Bureau of Labor Statistics
CoStar
FBI Uniform Crime Statistics
NOAA
Pew Research Center
Reason Foundation/Inrix data
Tax Foundation
Trepp
U.S. Census Bureau

Letter from the Editor



RANCE GREGORY
CEO

This 2022 update of Morrison Street Research's Top 50 Metro Areas incorporates factors including population and employment statistics, taxes, demographics, quality of life measurements, and detailed commercial real estate fundamentals.

In light of changes in technology and societal trends resulting from the pandemic, real estate investors must become even more cautious in selecting markets, sectors and properties that are sustainable and demonstrate long-term growth potential.

This Special Report covering market conditions in the 50 Largest Metropolitan Statistical Areas is a more detailed companion piece to the Top-Down 50 States Report and is designed to detect areas of relative strength and weakness within metro areas and property sectors.

Please let us know if you have any questions or comments regarding this report.

ABOUT US: Morrison Street Research ("MSR") is a division of Norris, Beggs & Simpson Companies, LLC, a 90-year-old commercial real estate firm based in Portland, OR. MSR publishes newsletters, special reports and white papers to serve clients of its affiliated companies, Morrison Street Capital and NBS Real Estate Consulting.

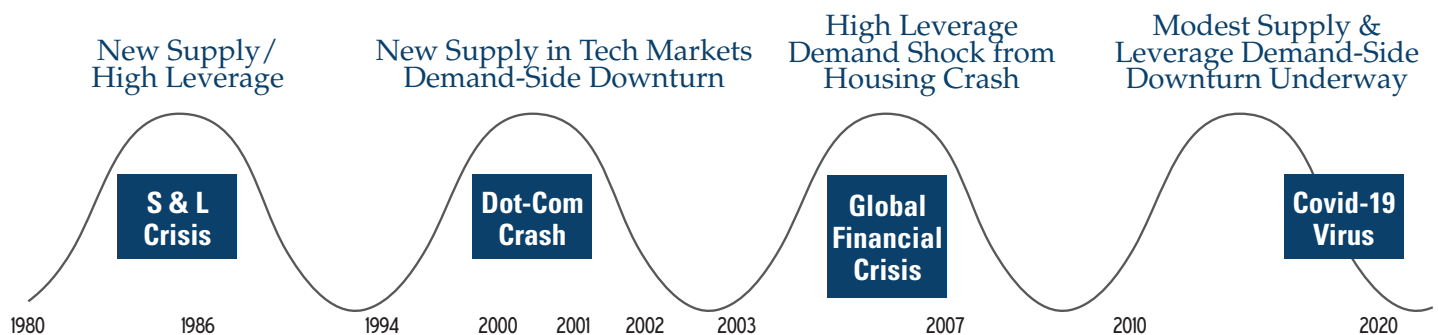
Outline and Methodology

To assess relative strength of each market, we consider relevant statistics for the past 10 years, and look ahead 4 years using likely indicators of future trends. Specifically, we study a variety of key factors impacting the status and growth potential of the largest 50 metropolitan areas, including:

- **Population Statistics**
 - Absolute population
 - 10-year growth
 - Growth percentage
 - Net migration
 - Organic growth
- **Age Demographics** (percentage of Millennials, Baby Boomers, and overall Median Age)
- **Employment Statistics**
 - Current Unemployment Rates
 - Job growth from 12/2011 to 12/2021
 - Job growth/losses since February 2020
- **Crime** (major categories of violent incidents and property crimes)
- **Social Unrest** (protests and riots per capita since May 2020)
- **Weather** (monthly temperature, precipitation, humidity)
- **State Tax Burden** (individual, sales, corporate, property)
- **Traffic** (annual peak hours of congestion)
- **Commercial Real Estate Fundamentals**
 - For each product type (office, industrial, retail, multifamily)
 - Net Absorption over 10 years (through 2021)
 - Completions over 10 years (through 2021)
 - Current Vacancy (through 2021)
 - Past 10 Year Rent Growth (through 2021)
 - Projected Average Vacancy (2022 – 2025)
 - Projected Average Rent Growth (2022 – 2025)

Covid-19 Caused an Abrupt Halt to Demand

Commercial real estate cycles are driven by supply, demand, and leverage in place. Among these three factors, the Covid-related downturn primarily demonstrated a sudden contraction in demand based on the inability of most tenants to occupy or fully utilize their spaces. Excessive fiscal and monetary stimulus have helped tenants continue to pay rent despite continued slack demand for many businesses.

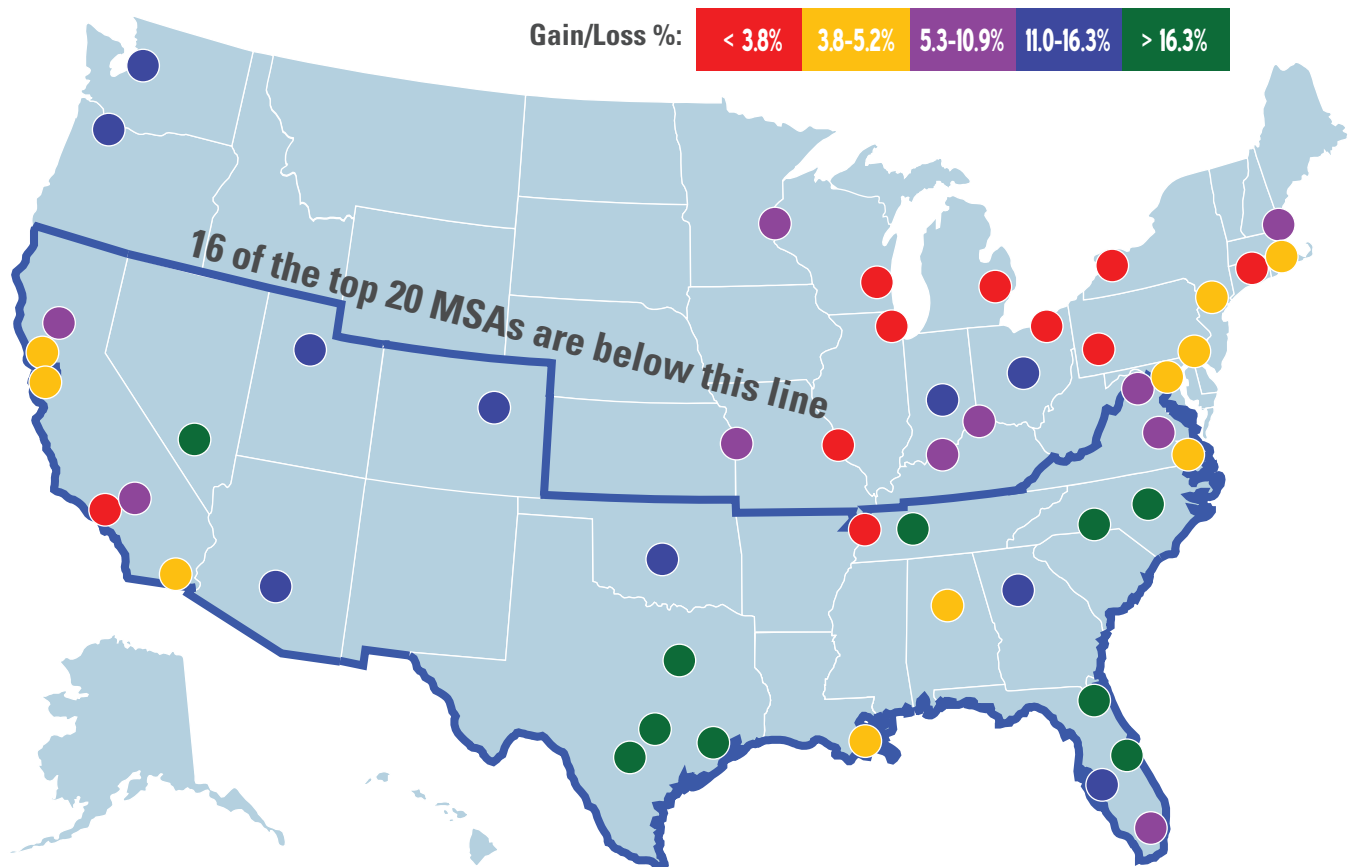




Population Statistics

MSA Population Gain/Loss (2011 to 2021)

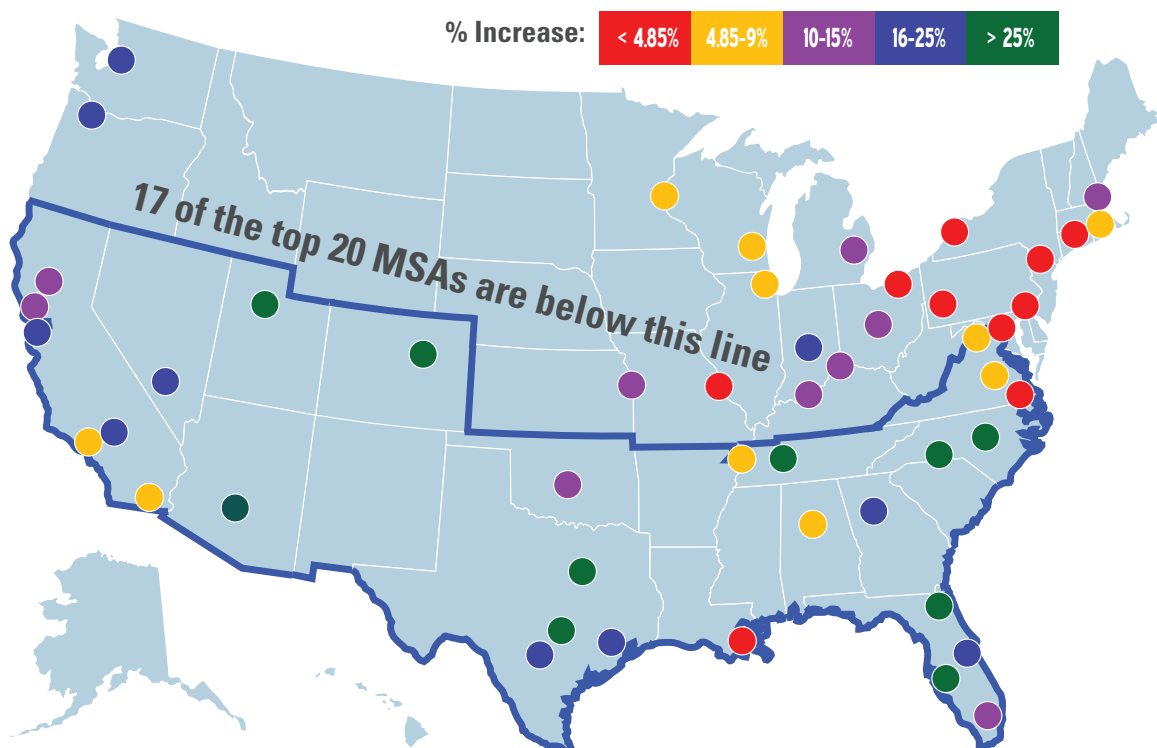
A variety of factors including warmer weather, lower taxes, and lower costs of living have continued to drive people from more dense northeastern locations into cities and states starting roughly south of the 40th parallel. Interestingly, only 18 states are included within the highlighted area. As you will soon see, this same 18-state region often contains many of the top 20 MSAs according to a variety of key growth indicators.



Employment Statistics

MSA Job Growth (2011 to 2021)

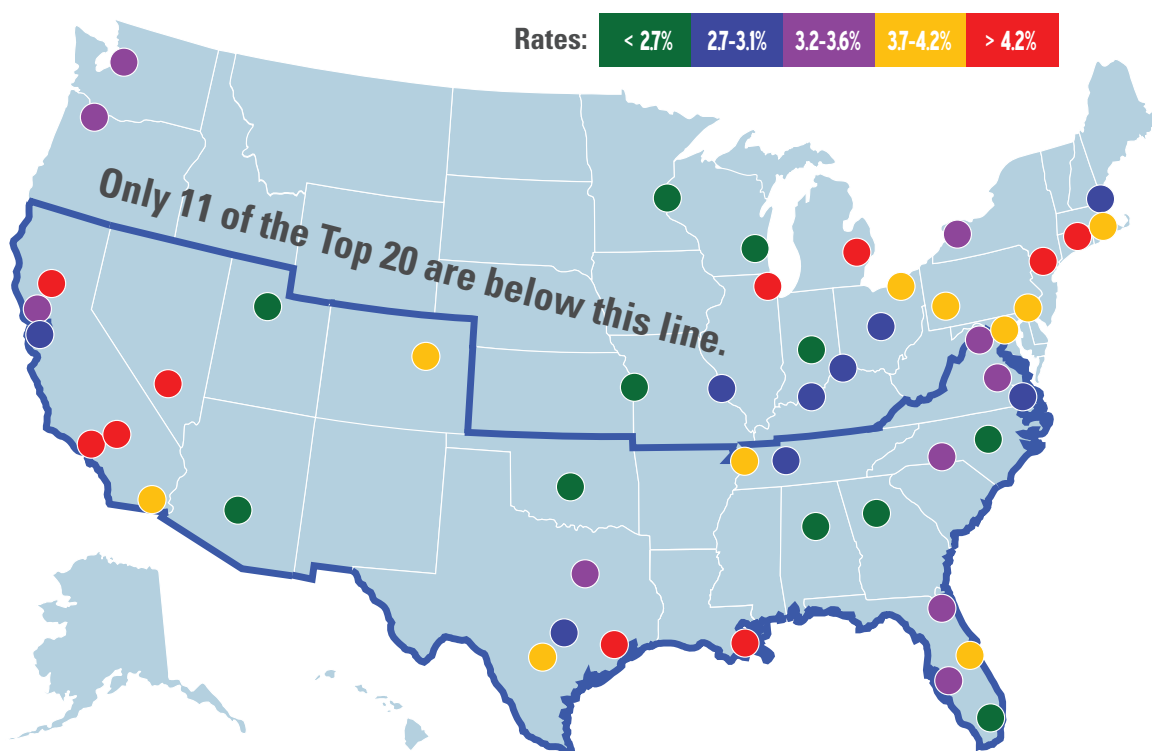
The states represented by the green dots (top 10) and blue dots (top 20) experienced the greatest percentage increase in job creation over the trailing 10-year period of 2011 to 2021.



MSA Unemployment Rates (December 2021)

Following extreme fiscal and monetary stimulus, most areas have substantially improved their overall employment levels. As of this writing, the national unemployment rate is 3.6%. Although workforce participation rates have not yet recovered, nominal unemployment rates are quite low in most major cities.

Notably, some of the high growth areas in Texas still have relatively higher rates of unemployment, and California has been slow to recover given its relatively stringent and extended Covid-management policies.

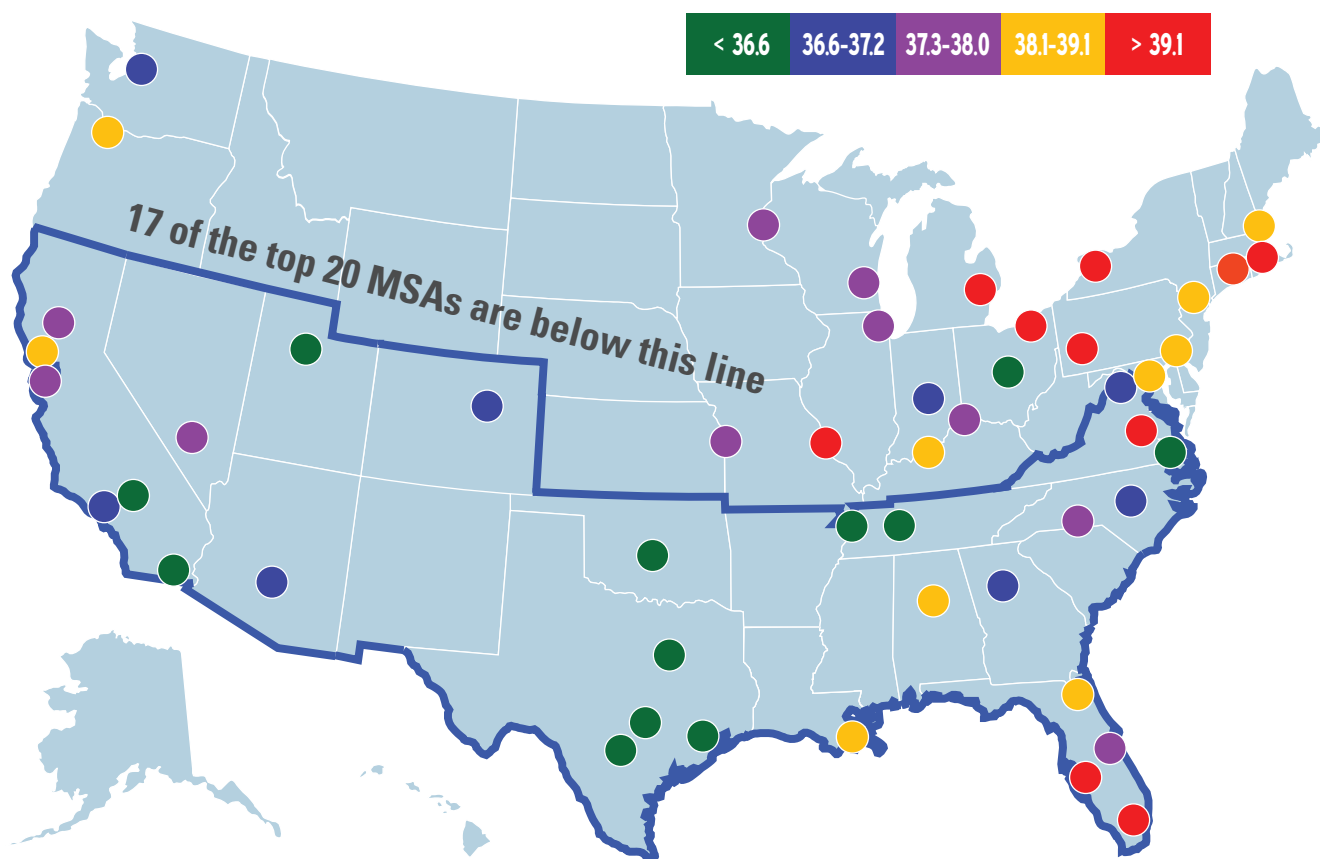




Age Demographic Analysis

MSA Age Distribution (Median Age)

As a result of slowing national birth and immigration rates, we view metropolitan areas with relatively younger populations as more promising for future growth. Generations Z and Alpha will need to replace a substantial population of Baby Boomer, Generation X, and Millennial residents in downtown locations over the next few business cycles. With the youngest average population in the country, Salt Lake City shows particular growth potential, followed closely by four major cities in Texas.

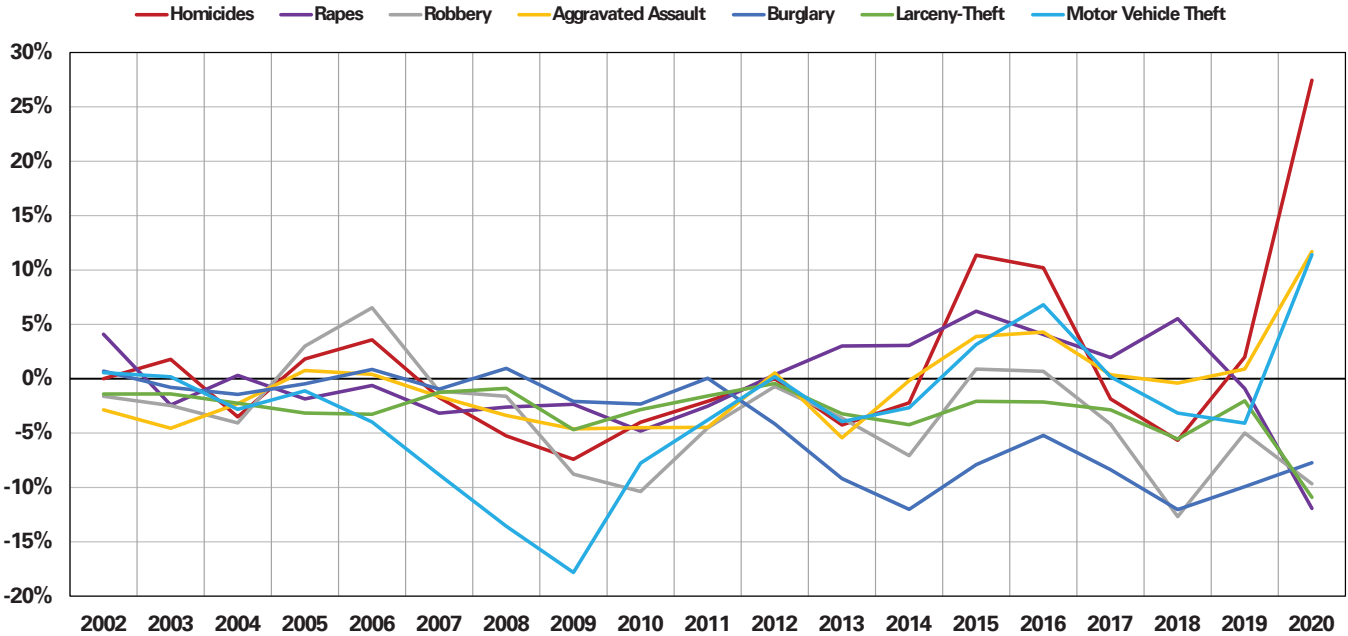




Crime and Social Unrest

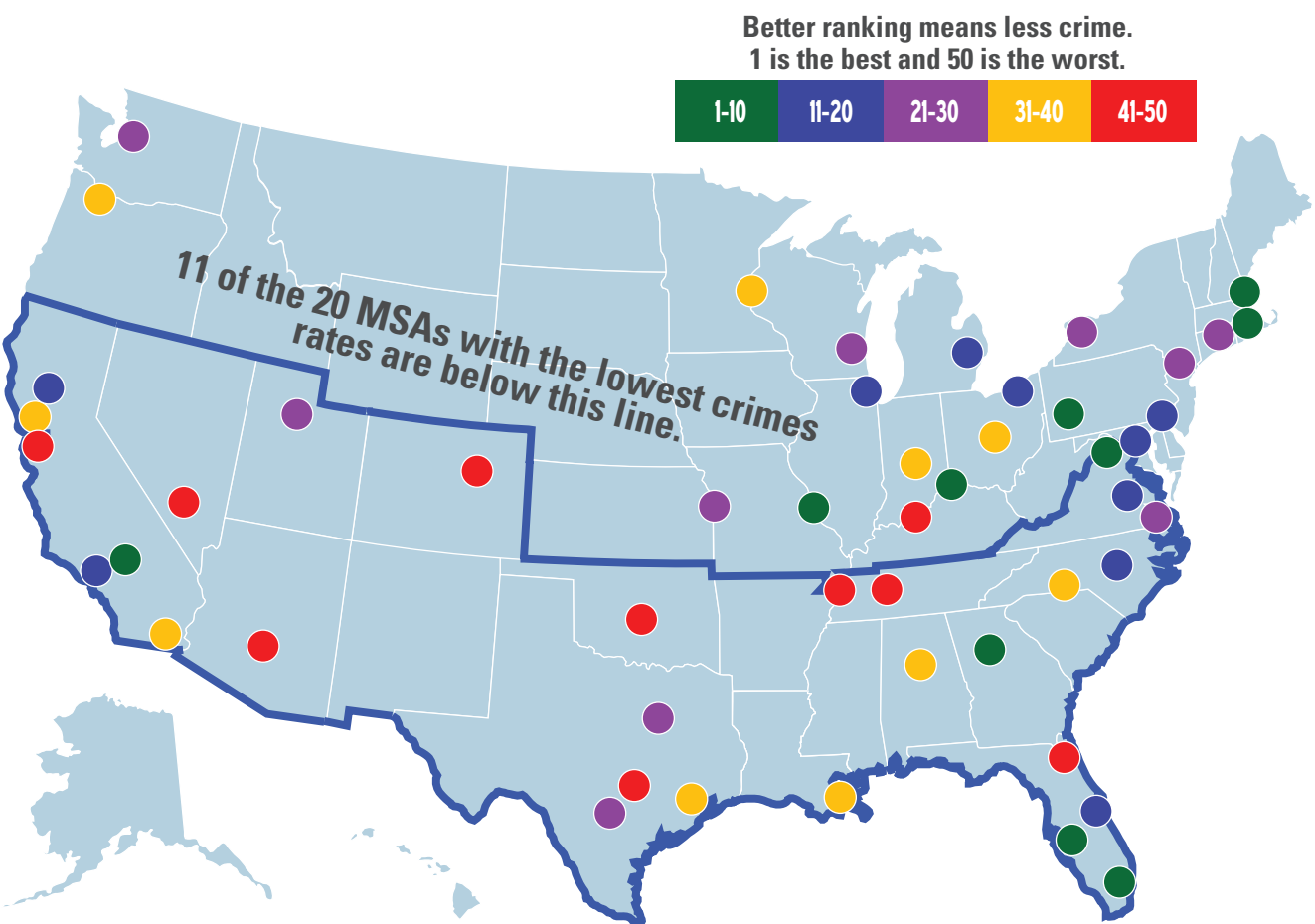
Most categories of crime had for decades been on an extended period of decline occurring in concert with economic gains and upward mobility. Since 2009, however, economic inequality, the stagnation of working-class incomes, and relaxed prosecution and incarceration rates have coincided with troubling increases in certain categories of violent crime. Although not depicted here, shootings and arsons are also on the rise.

Crime Stats (% change year-over-year - per 100,000 people)



Overall MSA Rankings for Crime and Social Unrest

In this category, other than a small cluster of low crime cities in the northeast, we don't find a clearly discernible pattern of crime trends according to geography or size of MSA. This analysis is also complicated by a new FBI crime data system, and inconsistent reporting and underreporting from certain metro areas. Ultimately, crime rates on a variety of local factors including laws on the books, enforcement, prosecution/incarceration policies, weather, and relative density. Nevertheless, the true prevalence of crime should certainly play a role in the vibrancy and growth potential of each MSA.





Movement

Population Growth and Movement by size of MSA

This report and the associated U.S. States Report have each noted weak population growth in certain regions. In addition, Covid-19 was a catalyst for a net trend of migration to lower density areas. Although this report concentrates on the top 50 metro areas, we observed another measurement demonstrating these trends--relatively stronger growth in smaller MSAs.

The chart below demonstrates that in the most recent five-year period, areas of 500,000 to 1,000,000 in population reversed the prior five-year trend to grow faster over than those 1 million and up. More striking, the data shows that when measuring only net migration (excluding organic growth from births minus deaths), large metro areas are losing population to the suburbs and smaller metro areas.

Therefore, the focus should remain on those large metro areas continuing to receive net inbound growth, as well as smaller metro areas and modern dense suburbs benefiting most from flight out of older downtowns.

Population Change	2011-2021	2011-2016	2016-2021	2019-2021
>1,000,000	14,313,645	8,623,305	5,690,340	2,188,299
% Increase	7.6%	4.6%	3.0%	1.2%
500,000-1,000,000	3,355,764	1,570,664	1,785,100	791,264
% Increase	8.2%	3.8%	4.4%	1.9%
Migration Change	2011-2021	2011-2016	2016-2021	2019-2021
>1,000,000	-1,251,756	207,361	-1,459,117	-842,802
500,000-1,000,000	1,218,488	392,082	826,406	355,054



Tying together all of these threads of population growth and movement, employment growth, age demographics, along with lifestyle factors such as traffic, taxes, and weather, we arrive at a 50% weighting in the overall Morrison Street Research ranking formula. Blended together with another 50% weight from detailed commercial real estate fundamentals in each market, we can derive an overall ranking of the Top 50 MSAs.

Each MSA has been ranked according to the following criteria and relative weights:

Socioeconomic Factors (35.75%)

- **Population Statistics:** (Total Population, Population Growth, Net Migration, Organic Growth)
- **Employment Statistics:** (Job Creation, Unemployment Rates)
- **Age Demographics:** (% of Boomers and Millennials, Median Age)
- **State and Local Tax Burden:** (Taxes Considered - Individual Income, Sales, Corporate Income, Property

Quality of Life (14.25%)

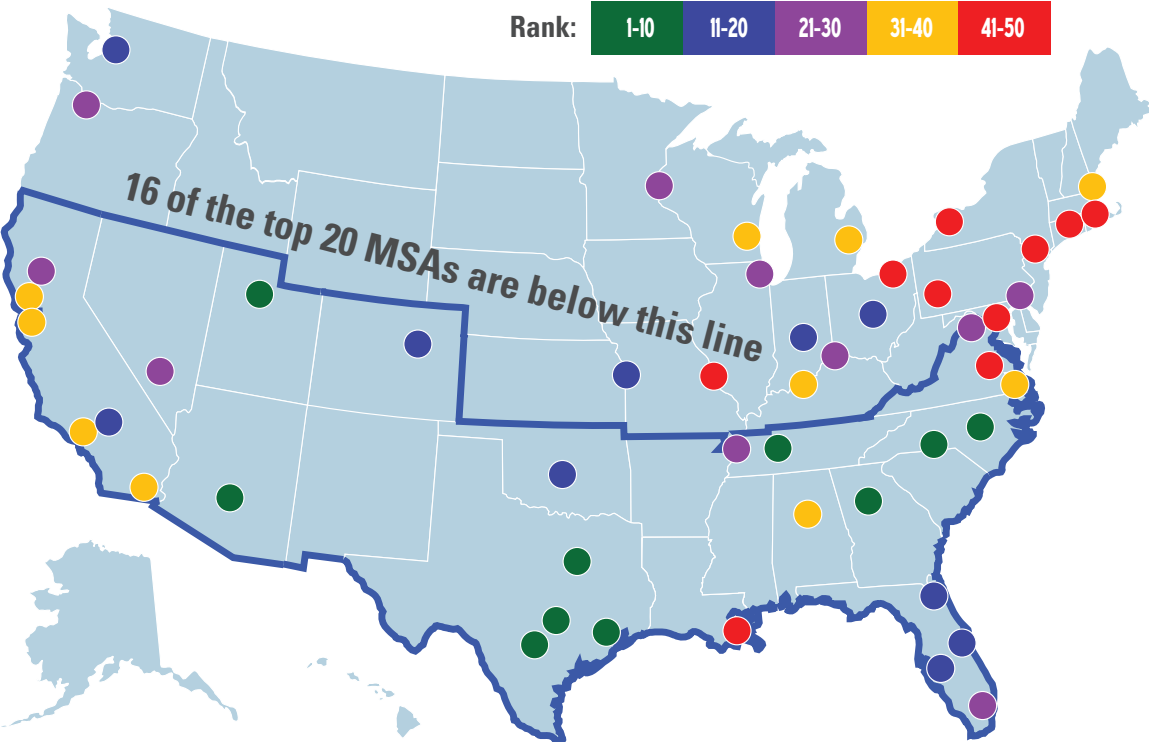
- **Weather:** (Monthly temperature, precipitation, humidity)
- **Traffic:** (Annual peak hours of congestion)
- **Crime:** (Major Categories of Violent and Property Crimes)
- **Social Unrest:** # per capita (Riots and Protests)

Commercial Real Estate Fundamentals (50%)

- Net Completion/ Absorption Surplus or Deficit, Vacancy, Change in Vacancy, Rent Growth
- Key statistics are measured 10 years past and 4 years forward for office, industrial, retail and apartment categories
- Each product type is equally weighted

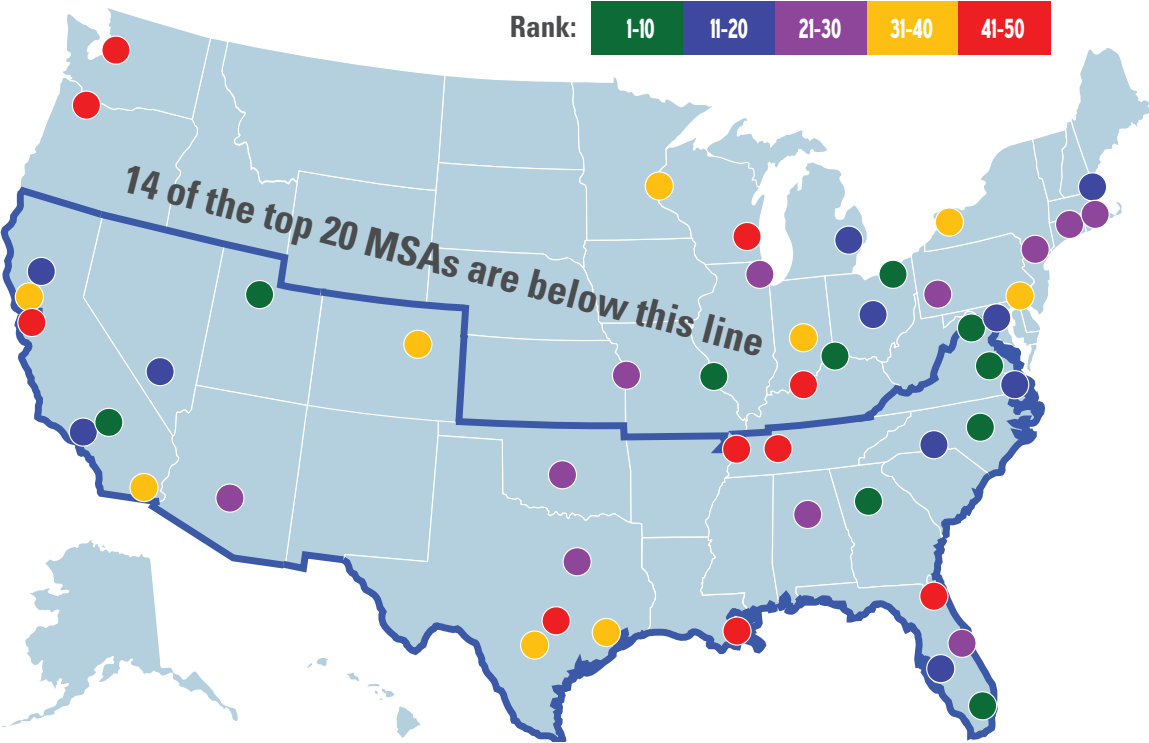
Socioeconomic Factors

Taking into account statistics for population, employment, age demographics and taxes, the following map represents the combined socioeconomic rankings, representing a 35.75% weighting in our total rankings formula.



Quality of Life

This map ranks the top 50 MSAs according to quality of life factors including weather, traffic, crime and social unrest. The factors constitute an additional 14.25% weighting in our total rankings formula.

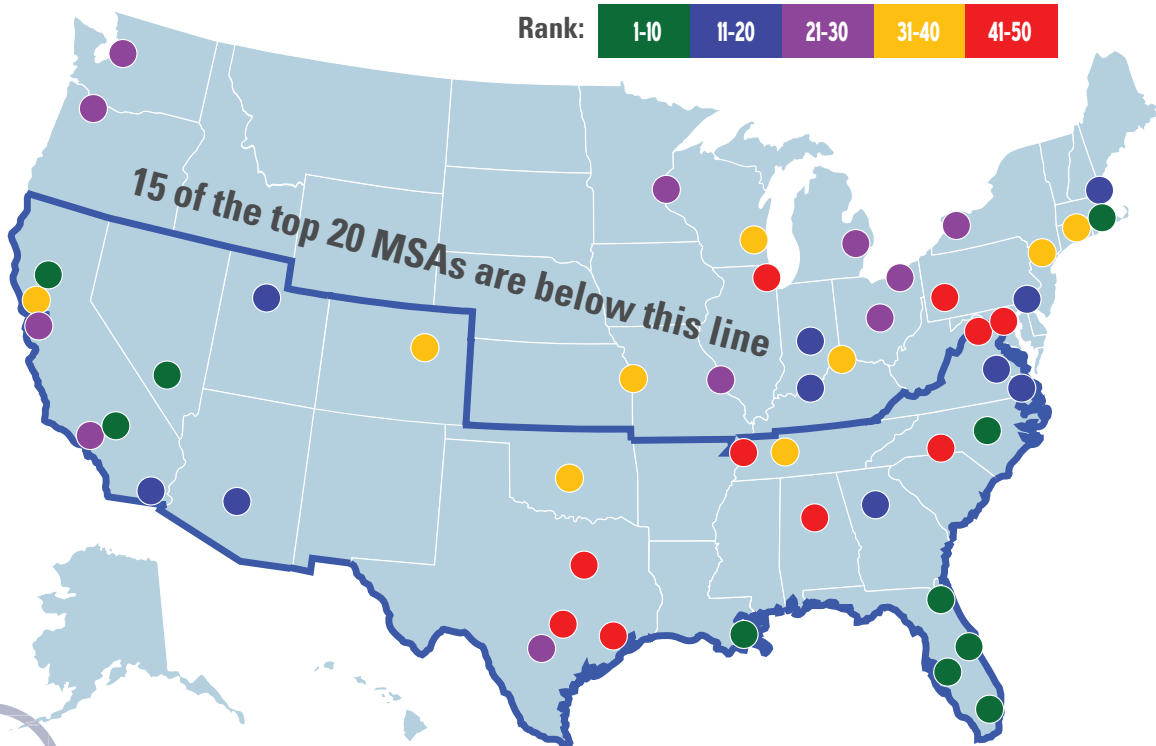




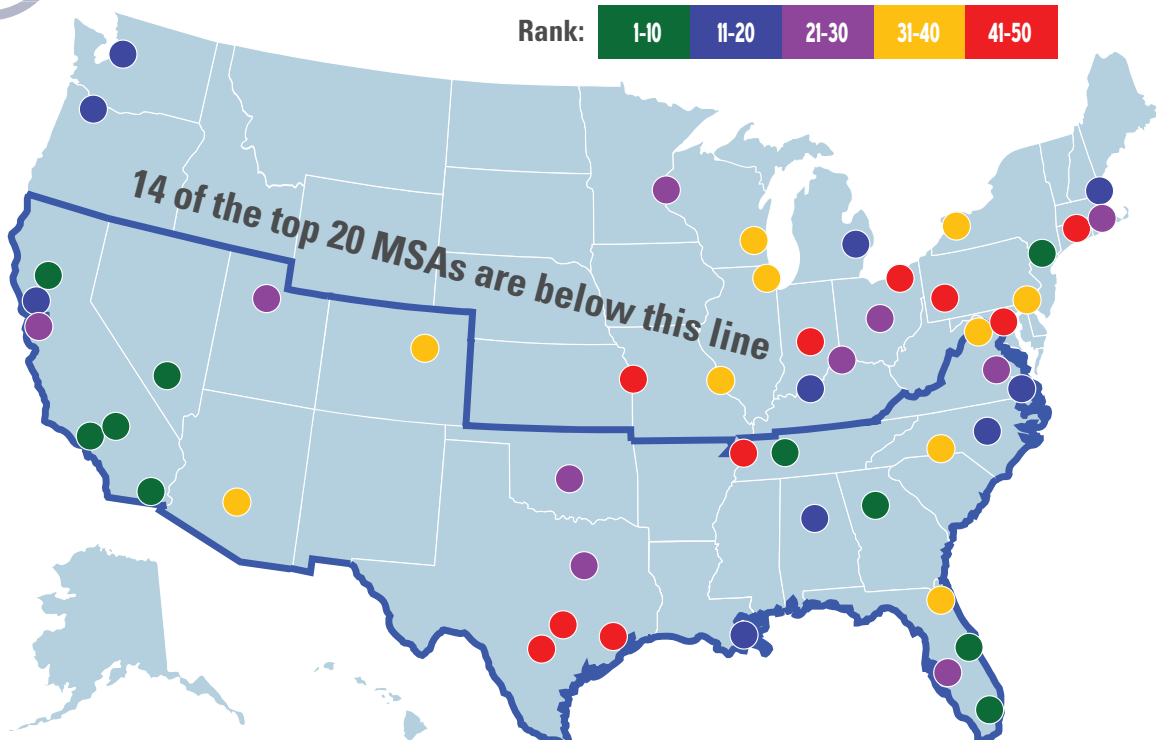
Office

This map summarizes trailing 10-year office sector fundamentals based on factors including net absorption, completions, trailing rent growth, current vacancy, and projected vacancy and rent growth through 2025.

The subsequent maps for the industrial, retail and apartment sectors account for the same factors and all four product types are equally weighted in the consolidated rankings for each MSA.



Industrial





Retail

Rank:

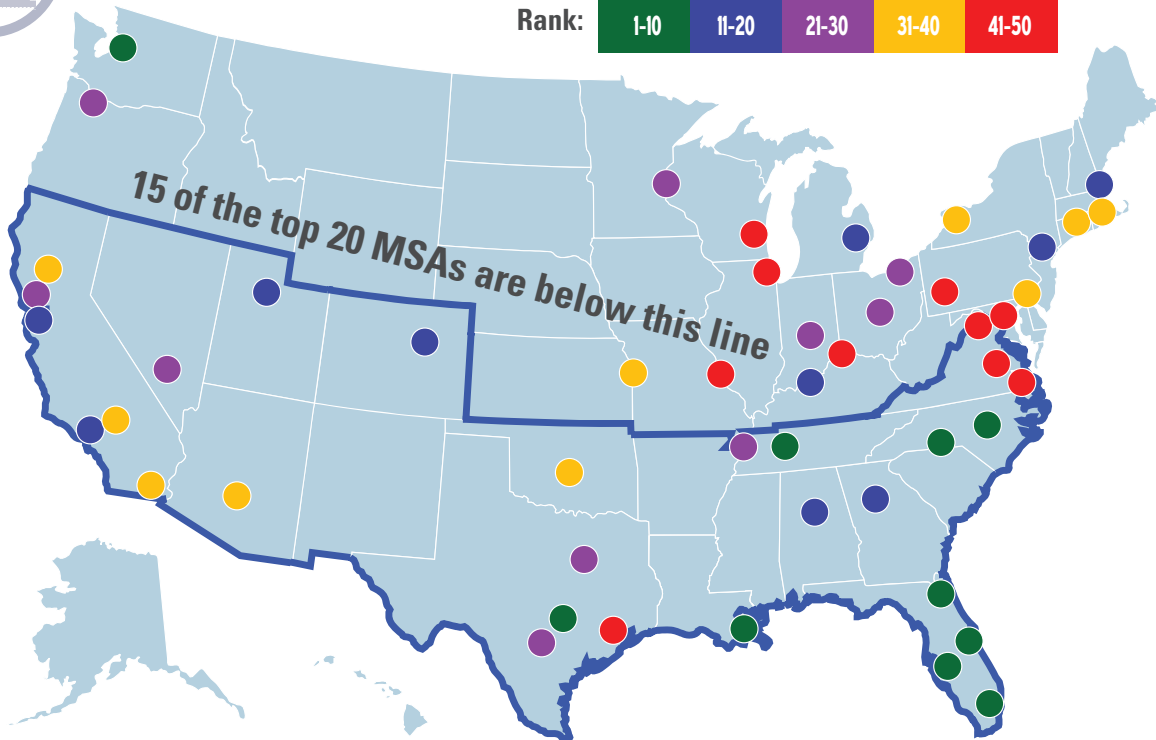
1-10

11-20

21-30

31-40

41-50



Multifamily

Rank:

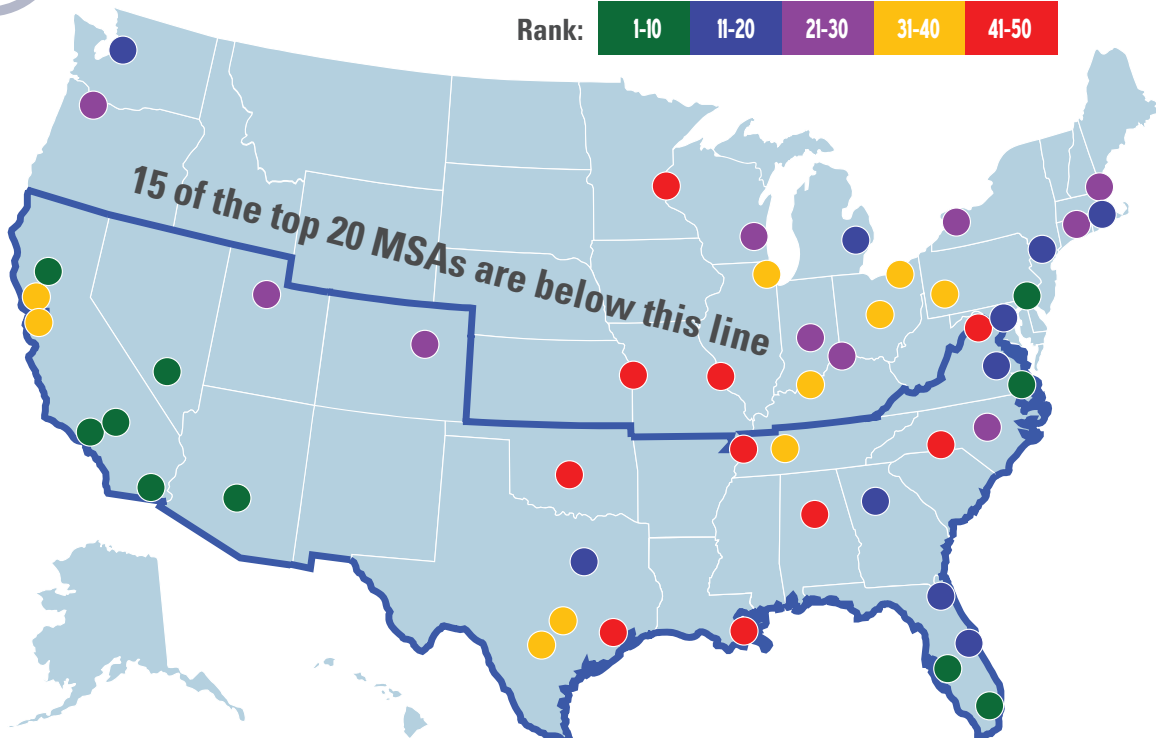
1-10

11-20

21-30

31-40

41-50

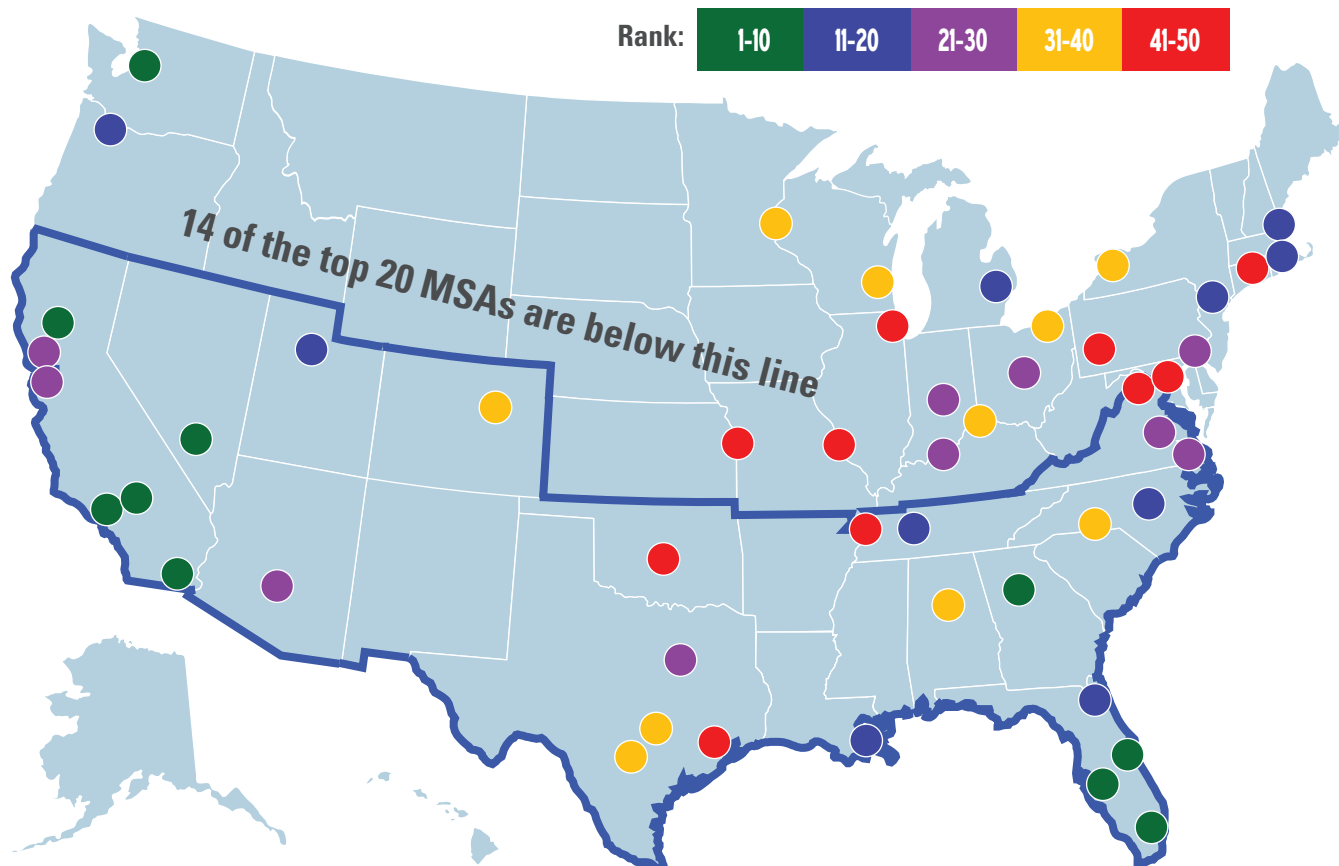


Consolidated Ranking of Commercial Real Estate Fundamentals (4 product types)



This map combines an equal weighting of all four primary property types for each major market. Note that in some high growth markets (Texas, for example) the relative weakness in the rankings reflects in part high levels of new supply delivered by developers bullish on future growth. Whereas other markets where development is more difficult (CA, for example) relatively lower levels of new supply result in higher rankings of certain property type fundamentals.

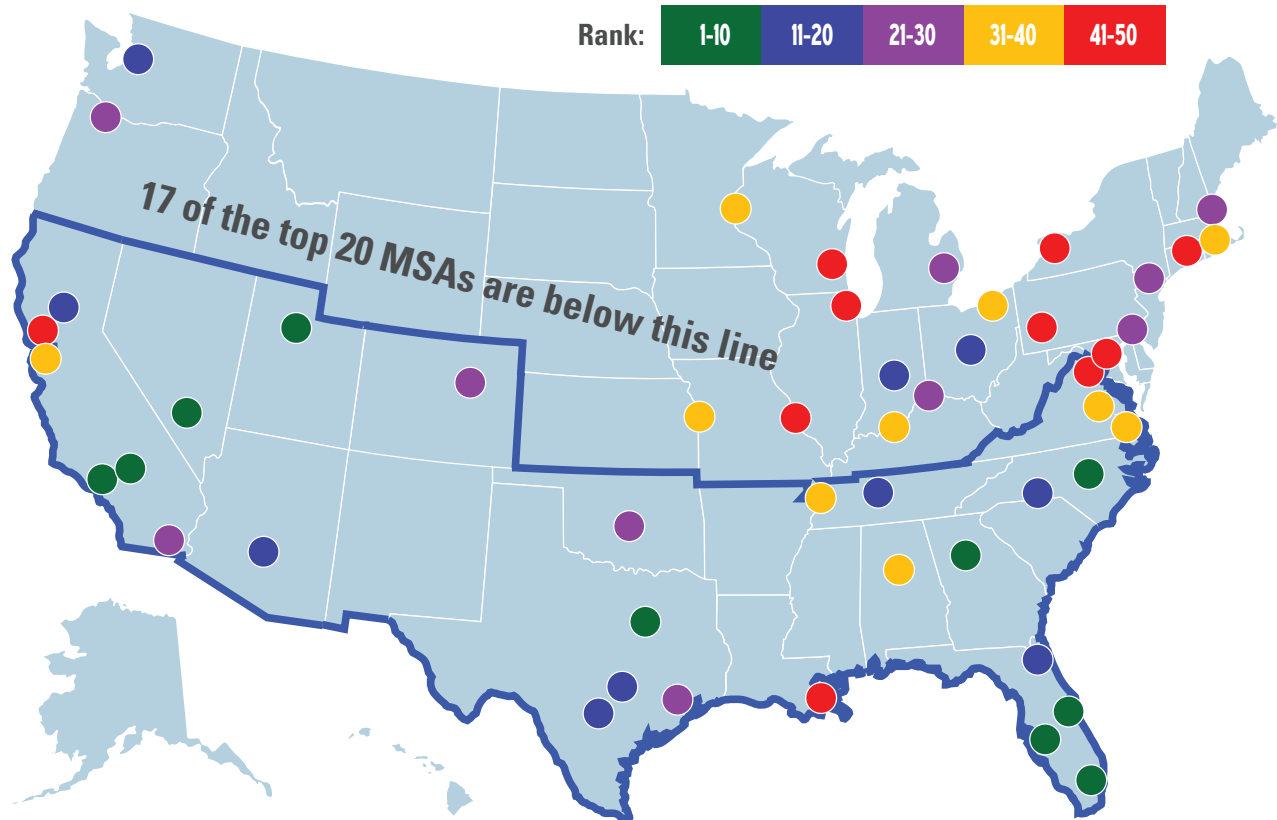
If absorption outpaces supply in strong growth markets, the red dots could improve. However, accounting for the current slowdown and using reasonable projections of future absorption between now and the end of 2025, some higher growth markets do appear to be at least temporarily over-supplied.



Morrison Street Research's Top 50 MSA Ranking

These consolidated rankings account for all factors within the categories of socioeconomic, quality of life and commercial real estate fundamentals. In total, 43 separate inputs were used to analyze each MSA and develop a consolidated picture of its overall health and growth prospects.

In this comprehensive view of the top 50 markets, we once again see a heavy concentration of states in the southern portion of the country (south of the 40th parallel).



#	METROPOLITAN STATISTICAL AREA
1	Riverside-San Bernardino-Ontario, CA Metro Area
2	Atlanta-Sandy Springs-Alpharetta, GA Metro Area
3	Orlando-Kissimmee-Sanford, FL Metro Area
4	Tampa-St. Petersburg-Clearwater, FL Metro Area
5	Raleigh-Cary, NC Metro Area
6	Miami-Fort Lauderdale-Pompano Beach, FL Metro Area
7	Salt Lake City, UT Metro Area
8	Dallas-Fort Worth-Arlington, TX Metro Area
9	Las Vegas-Henderson-Paradise, NV Metro Area
10	Los Angeles-Long Beach-Anaheim, CA Metro Area
11	Phoenix-Mesa-Chandler, AZ Metro Area
12	Nashville-Davidson-Murfreesboro-Franklin, TN Metro Area
13	Seattle-Tacoma-Bellevue, WA Metro Area
14	Sacramento-Roseville-Folsom, CA Metro Area
15	Austin-Round Rock-Georgetown, TX Metro Area
16	Jacksonville, FL Metro Area
17	Charlotte-Concord-Gastonia, NC-SC Metro Area
18	Columbus, OH Metro Area
19	San Antonio-New Braunfels, TX Metro Area
20	Indianapolis-Carmel-Anderson, IN Metro Area
21	Detroit-Warren-Dearborn, MI Metro Area
22	Cincinnati, OH-KY-IN Metro Area
23	San Diego-Chula Vista-Carlsbad, CA Metro Area
24	Portland-Vancouver-Hillsboro, OR-WA Metro Area
25	Denver-Aurora-Lakewood, CO Metro Area

#	METROPOLITAN STATISTICAL AREA
26	Boston-Cambridge-Newton, MA-NH Metro Area
27	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD Metro Area
28	New York-Newark-Jersey City, NY-NJ-PA Metro Area
29	Oklahoma City, OK Metro Area
30	Houston-The Woodlands-Sugar Land, TX Metro Area
31	Louisville/Jefferson County, KY-IN Metro Area
32	Virginia Beach-Norfolk-Newport News, VA-NC Metro Area
33	San Jose-Sunnyvale-Santa Clara, CA Metro Area
34	Richmond, VA Metro Area
35	Providence-Warwick, RI-MA Metro Area
36	Birmingham-Hoover, AL Metro Area
37	Minneapolis-St. Paul-Bloomington, MN-WI Metro Area
38	Kansas City, MO-KS Metro Area
39	Memphis, TN-MS-AR Metro Area
40	Cleveland-Elyria, OH Metro Area
41	Washington-Arlington-Alexandria, DC-VA-MD-WV Metro Area
42	Chicago-Naperville-Elgin, IL-IN-WI Metro Area
43	San Francisco-Oakland-Berkeley, CA Metro Area
44	Milwaukee-Waukesha, WI Metro Area
45	New Orleans-Metairie, LA Metro Area
46	St. Louis, MO-IL Metro Area
47	Baltimore-Columbia-Towson, MD Metro Area
48	Buffalo-Cheektowaga, NY Metro Area
49	Hartford-East Hartford-Middletown, CT Metro Area
50	Pittsburgh, PA Metro Area

Conclusions

In the context of significant technological and societal changes, commercial real estate submarkets, locations, and properties are sorting ever more so into winners and losers. Identifying and targeting sustainable assets in growing markets will prove challenging, but potentially rewarding through a post-Covid stagflationary downturn and eventual recovery.

Covid has accelerated societal and technological changes already underway



Remote work will lead to reduced office footprints.



We expect continued shifts of residential and office occupancies from older, larger downtown areas into newer transit-oriented suburbs, and from larger MSAs (>1 million pop.) to smaller MSAs (<1 million pop.).



Investment strategies should be executed with these trends in mind.



Morrison Street Research is a wholly-owned subsidiary of Norris, Beggs & Simpson Companies, LLC.



**NORRIS
BEGGS &
SIMPSON**
COMPANIES

www.nbscollc.com

Other Affiliates Include:



MORRISON STREET CAPITAL

Morrison Street Capital, LLC places investment capital nationwide on behalf of the Morrison Street series of private equity funds. MSC is a trusted source of small balance equity, mezzanine debt and preferred equity investments.

www.morrisonstreetcapital.com



**REAL ESTATE
CONSULTING**

NBS Real Estate Consulting can assist in providing advice, planning and strategic guidance for complex projects. Services include development management, acquisition/disposition guidance and execution, interim/supplemental resource, receivership, and expert testimony.

www.nbsreconsulting.com



**NORRIS
BEGGS &
SIMPSON**
FINANCIAL SERVICES

Norris, Beggs & Simpson Financial Services manages a loan portfolio backed by office, retail, industrial, multifamily and hotel properties. Our services include loan monitoring, accounting, property inspections, insurance and tax compliance/confirmations, and lender reporting.

www.nbsfinancial.com



**MORRISON
STREET
RESEARCH**