MARKET UPDATE

Ranking the 50 Largest Metro Areas

UPDATED

SPECIAL REPORT | JULY 2023

MORRISON STREET RESEARCH

Letter from the Editor

RANCE GREGORY
CEO

This 2023 update of Morrison Street Research's Ranking of the Largest 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.

Contributors:

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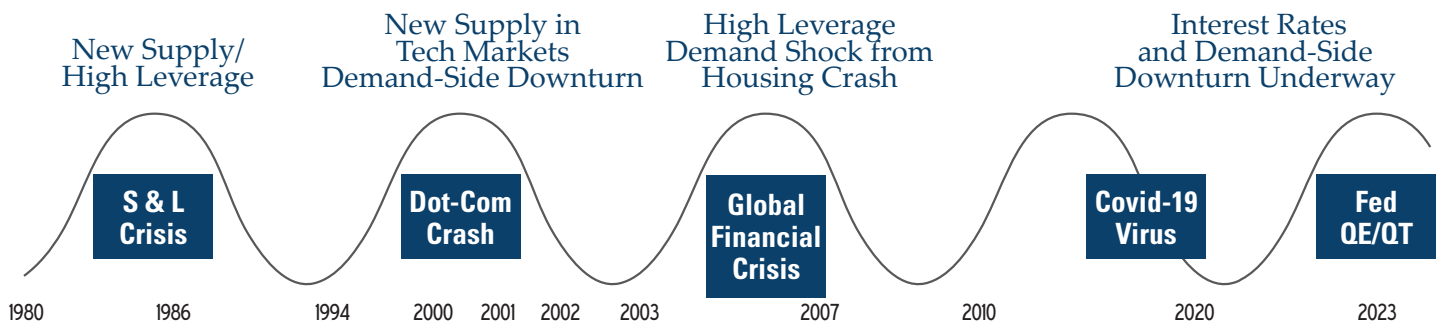
Outline and Methodology

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 12/2012 to 12/2022
  - Job growth/losses since February 2022
- **Crime** (major categories of violent incidents and property crimes)

- **Social Unrest** (protests and riots per capita since February 2023)
- **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 2022)
  - Completions over 10 years (through 2022)
  - Current Vacancy (through 2022)
  - Past 10 Year Rent Growth (through 2022)
  - Projected Average Vacancy (2023 – 2026)
  - Projected Average Rent Growth (2023 – 2026)

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 slack demand for many businesses. Following the reopening of the economy, these excesses caused an inflationary cycle the Fed has tried to end through historically fast increases in interest rates. These rate hikes are now stressing banks and reducing credit, establishing potential recessionary conditions.

New Supply/ High Leverage	New Supply in Tech Markets Demand-Side Downturn	High Leverage Demand Shock from Housing Crash		Interest Rates and Demand-Side Downturn Underway
S & L Crisis	**Dot-Com Crash**	**Global Financial Crisis**	**Covid-19 Virus**	**Fed QE/QT**

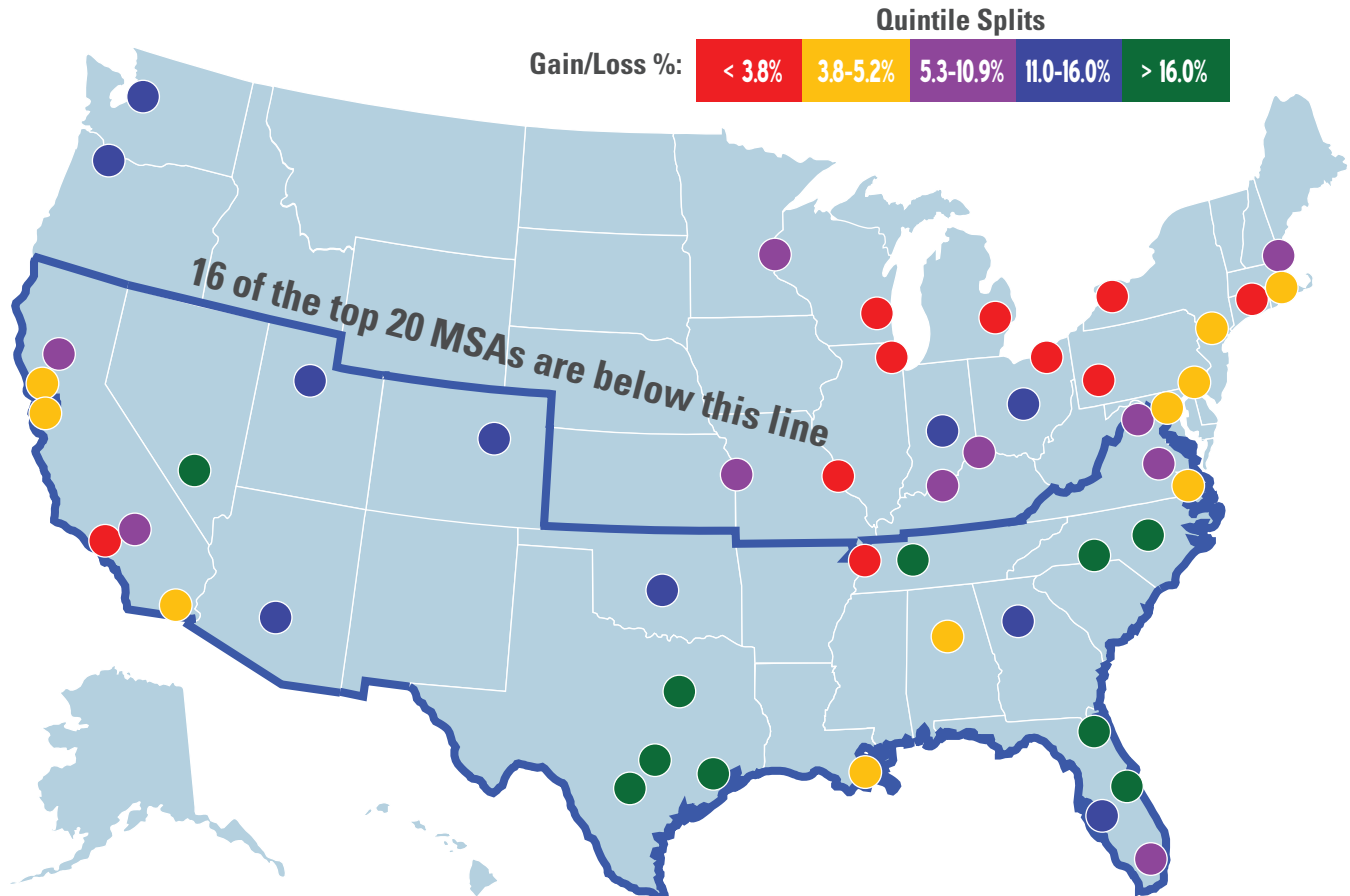| 1980 | 1986 | 1994 | 2000 | 2001 | 2002 | 2003 | 2007 | 2010 | 2020 | 2023 |

* Illustrative only. Not to Scale.

Population Statistics

MSA Population Gain/Loss (2012 to 2022)

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.

	Quintile Splits				
Gain/Loss %:	< 3.8%	3.8-5.2%	5.3-10.9%	11.0-16.0%	> 16.0%

16 of the top 20 MSAs are below this line

Employment Statistics

MSA Job Growth (2012 to 2022)

The metro areas represented by the green dots (top 10) and blue dots (ranked 11 to 20) experienced the greatest percentage increase in job creation over the trailing 10-year period of 2012 to 2022.
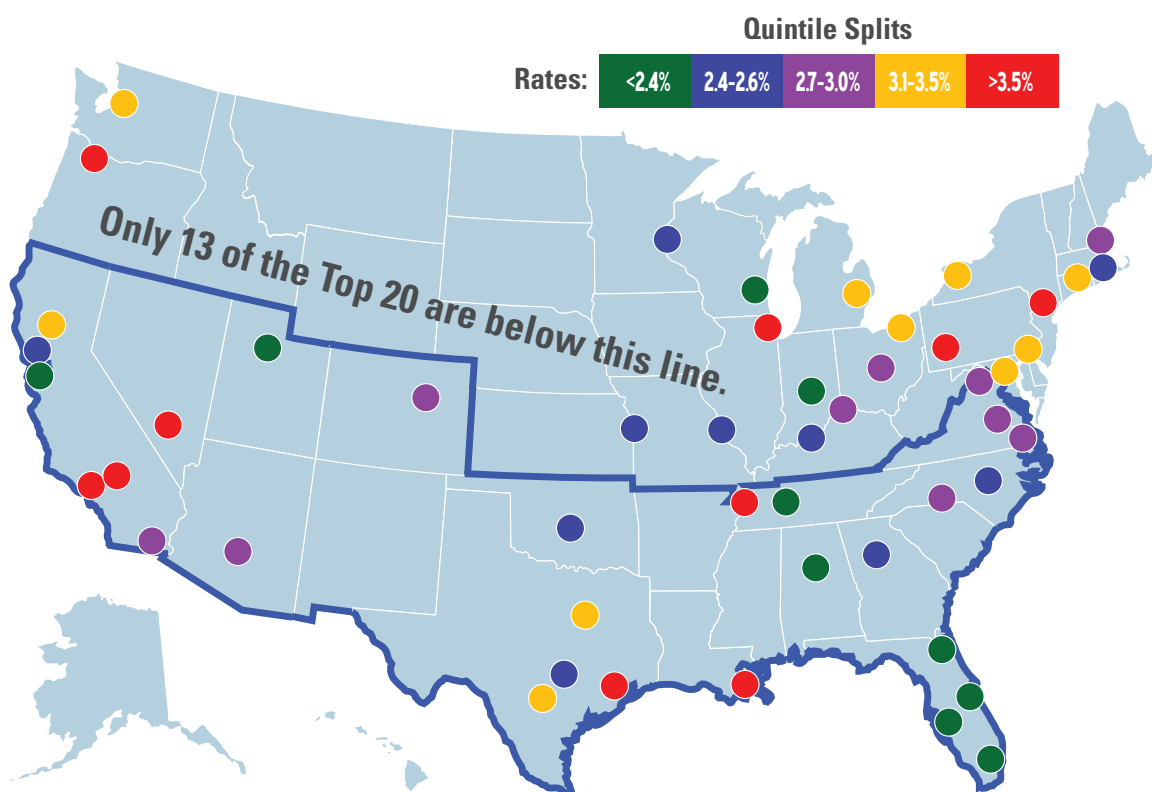

Quintile Splits

% Increase:	< 6.5%	6.5-10.0%	10.1-16.1%	16.2-25.5%	> 25.5%

17 of the top 20 MSAs are below this line
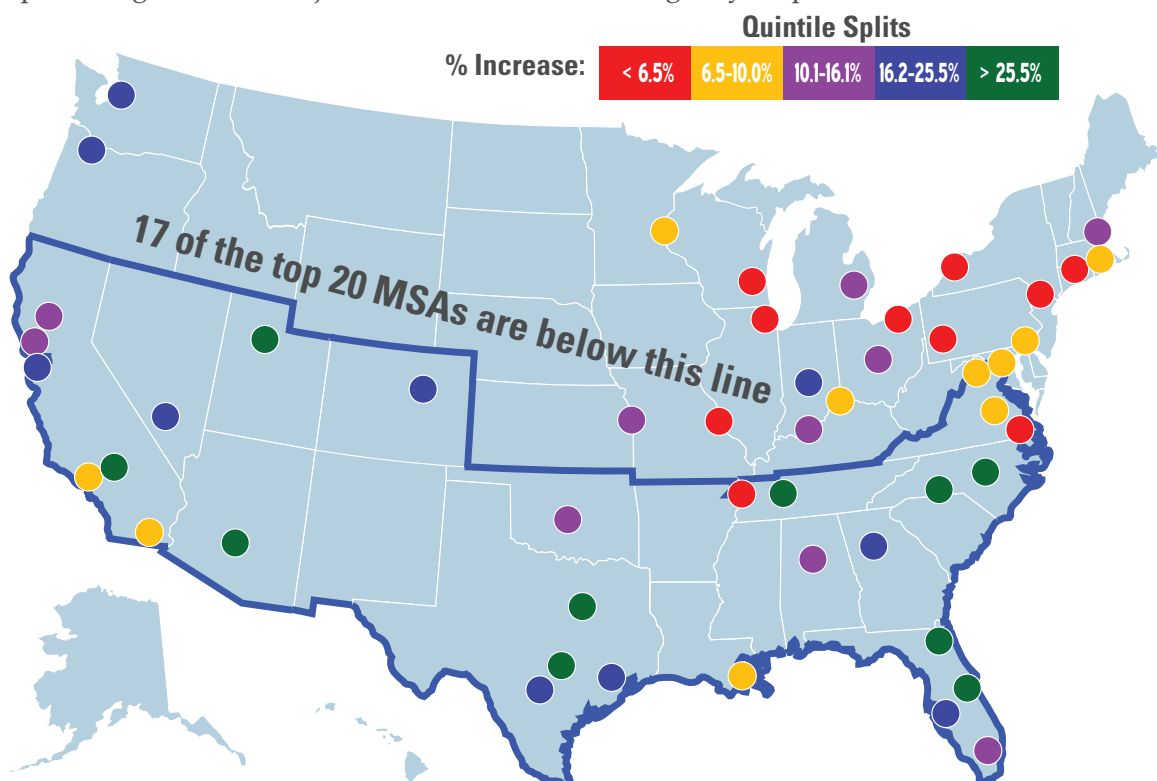
MSA Unemployment Rates (December 2022)

Following extreme fiscal and monetary stimulus, most areas have substantially improved their overall employment levels. As of this writing, the national unemployment rate is 3.7%. Although workforce participation rates have not yet recovered, nominal unemployment rates are quite low in most major cities.

Notably, Florida stands out in its low unemployment rates. Texas still lags a bit despite its high overall growth trajectory. California remains mixed depending on localized industry concentrations and the pace of post-Covid recoveries.
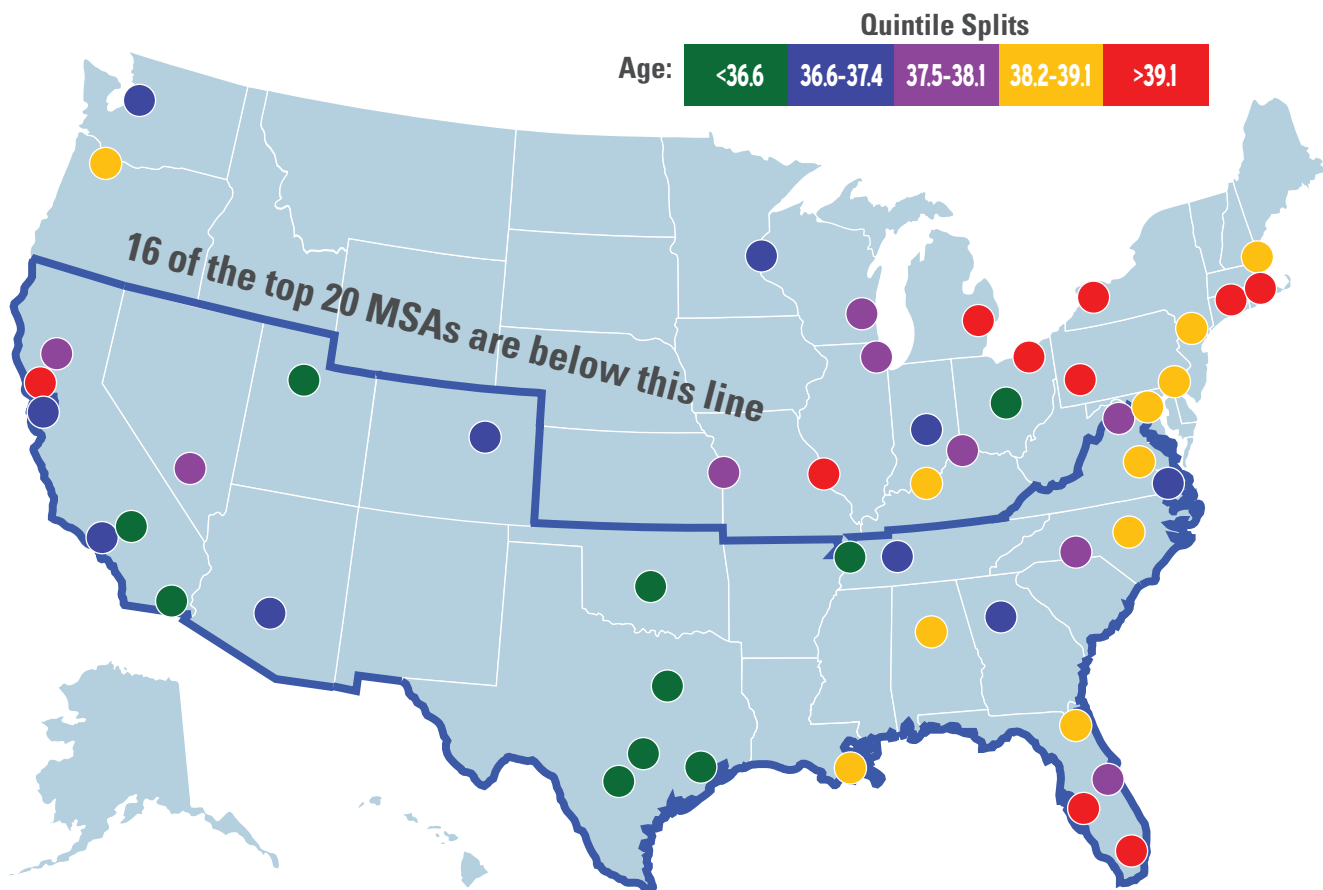

Quintile Splits

| Rates: | <2.4% | 2.4-2.6% | 2.7-3.0% | 3.1-3.5% | >3.5% |

Only 13 of the Top 20 are below this line.

Age Demographic Analysis

MSA Age Distribution (Median Age)

As a result of slowing national birth and legal 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. When considering each metro area's percentage of Millennials, Boomers, and overall median age as a way to measure population growth potential, we find Riverside, Salt Lake City, and the four Texas metro areas to be especially compelling.

Quintile Splits

Age:	<36.6	36.6-37.4	37.5-38.1	38.2-39.1	>39.1

16 of the top 20 MSAs are below this line

Crime and Social Unrest

Overall MSA Rankings for 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. Stability was negatively impacted by the 2009 Global Financial Crisis, and progress was again disrupted by post-Covid economic conditions and societal changes. Most categories of crime began worsening in the summer of 2020, disrupting urban areas now suffering from economic inequality, stagnation/erosion of working-class incomes, drug addiction and mental health crises, and relaxed prosecution and incarceration rates.

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 actual prevalence of crime undoubtedly plays a role in the vibrancy and growth potential of each MSA.

**Better ranking means less crime.
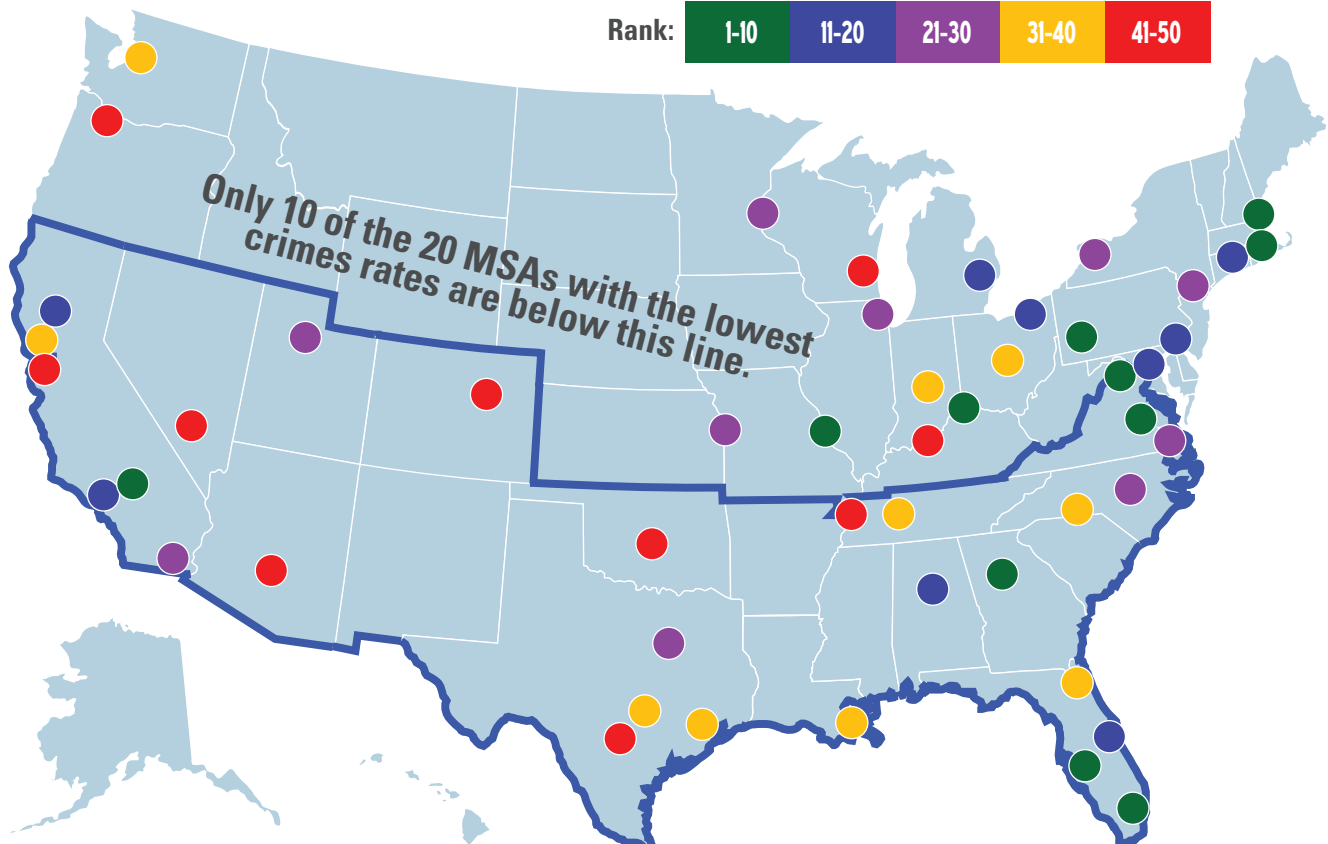1 is the best and 50 is the worst.
(Quintile Splits)**

| Rank: | 1-10 | 11-20 | 21-30 | 31-40 | 41-50 |

Only 10 of the 20 MSAs with the lowest crimes rates are below this line.

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	2012-2022	2012-2017	2017-2022	2020-2022
>1,000,000	13,222,024	8,270,842	4,951,182	2,842,989
% Increase	7.0%	4.4%	2.6%	1.5%
500,000 - 1,000,000	3,583,989	1,686,039	1,897,950	1,252,927
% Increase	8.4%	3.9%	4.4%	2.9%
250,000 - 500,000	855,464	461,338	394,126	105,155
% Increase	5.0%	2.7%	2.3%	0.6%

Morrison Street Research Top 50 MSA's Ranking Criteria

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
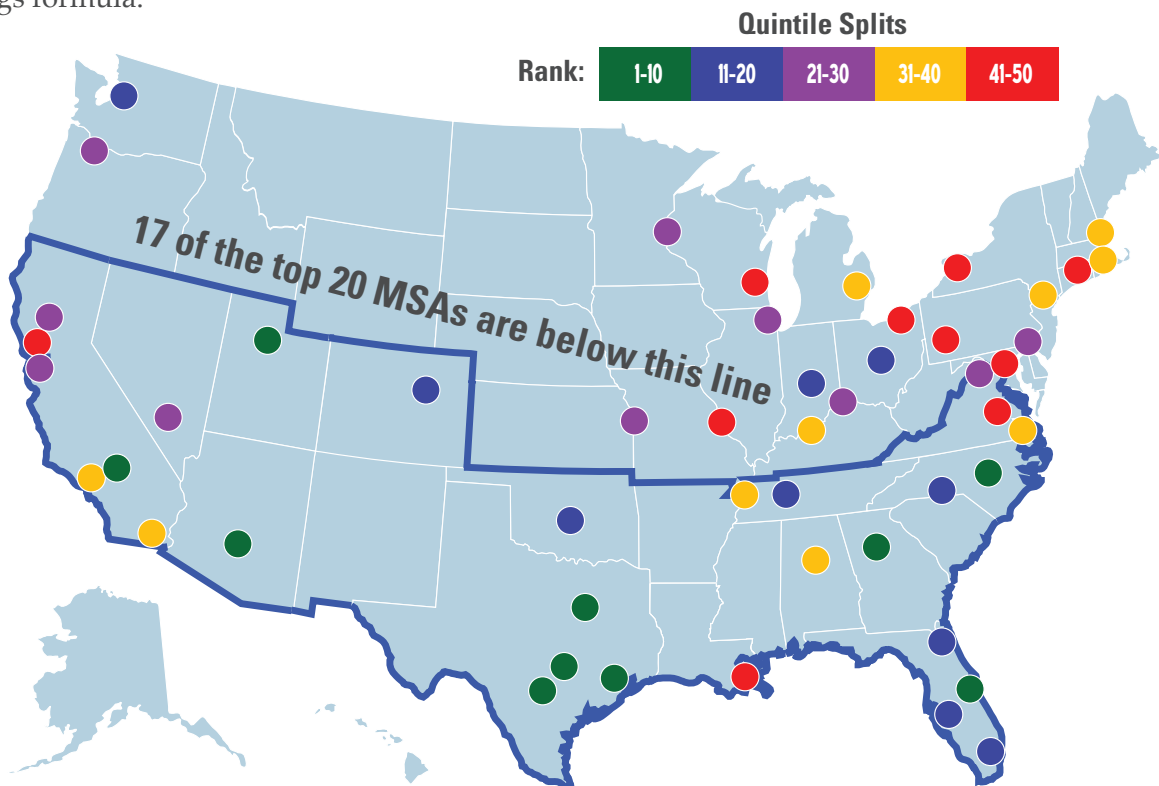
Quality of Life (14.25%)

- **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.

Quintile Splits

Rank:	1-10	11-20	21-30	31-40	41-50

17 of the top 20 MSAs are below this line

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.

Quintile Splits

Rank:	1-10	11-20	21-30	31-40	41-50

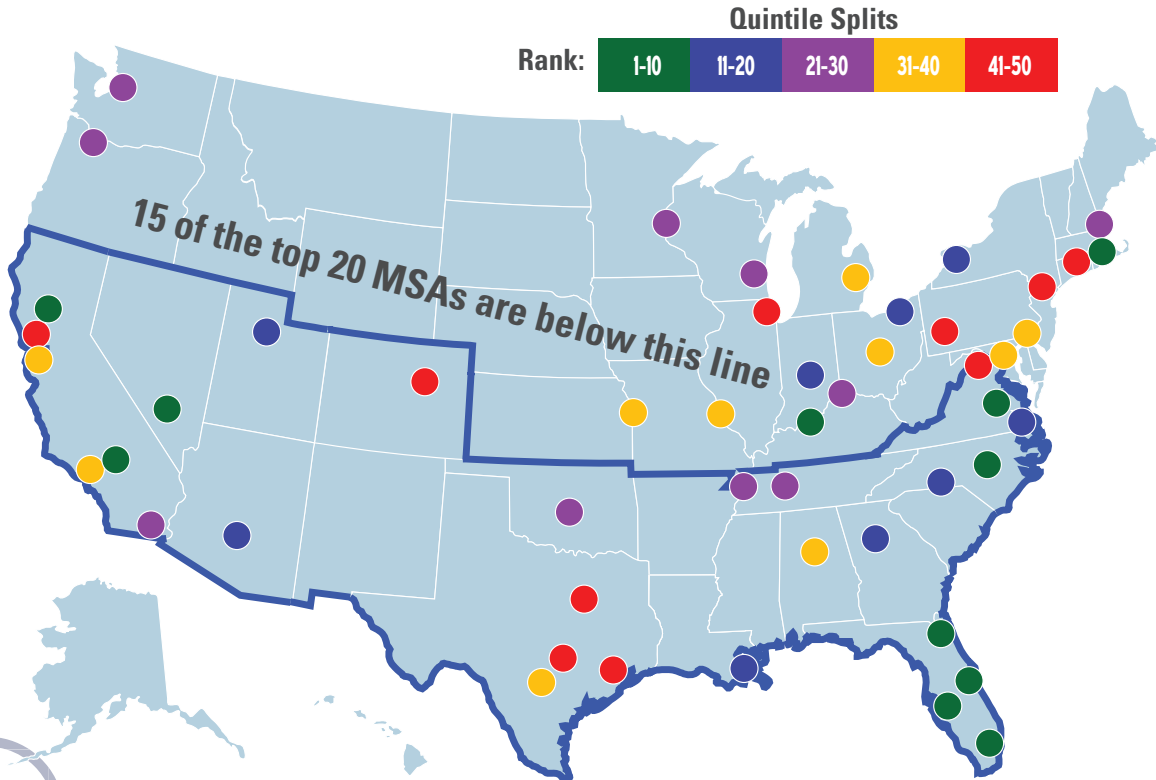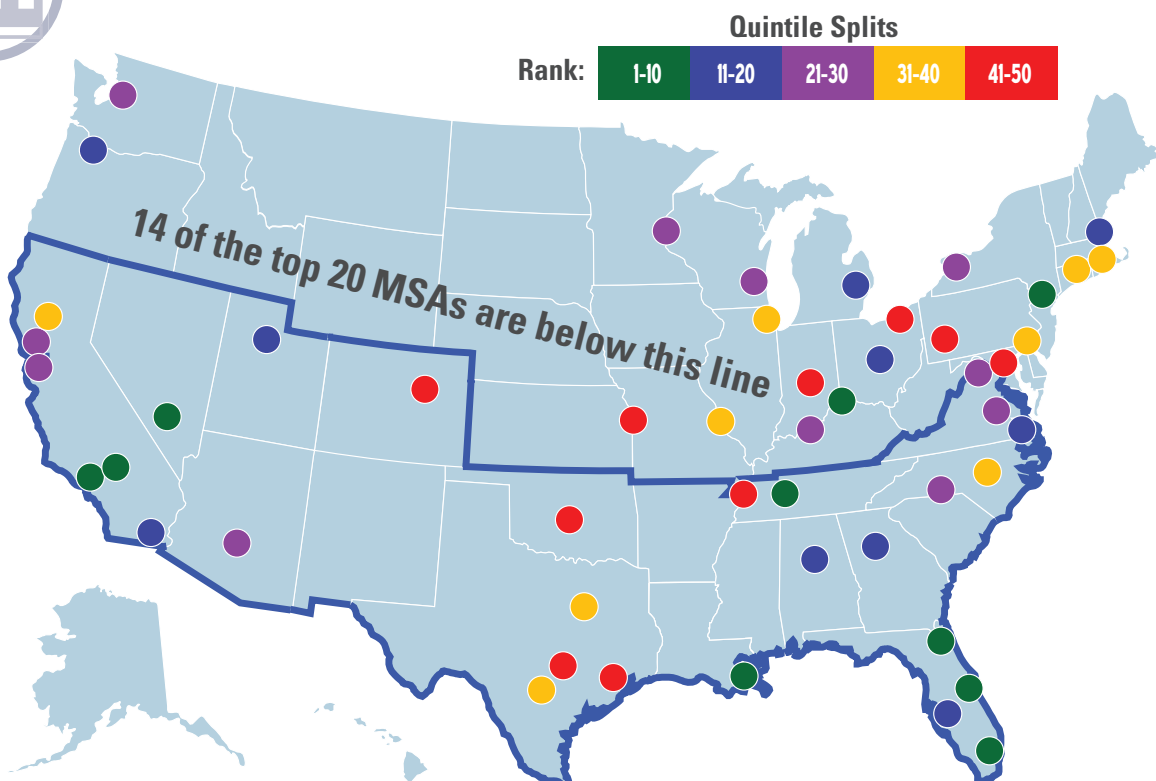*13 of the top 20 MSAs are below this line*
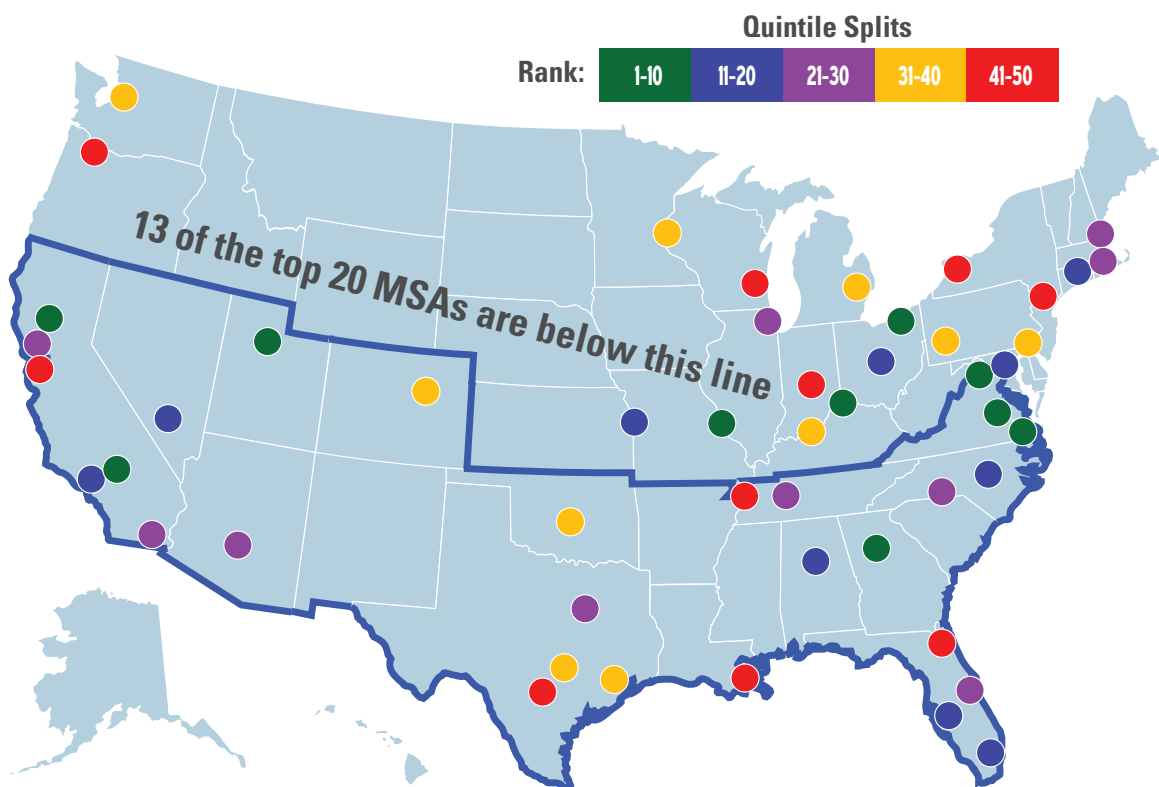
Office

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 2026.

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.

Quintile Splits

Rank: | 1-10 | 11-20 | 21-30 | 31-40 | 41-50

15 of the top 20 MSAs are below this line

Industrial

Quintile Splits

Rank: | 1-10 | 11-20 | 21-30 | 31-40 | 41-50

14 of the top 20 MSAs are below this line

Retail

Quintile Splits

Rank: | 1-10 | 11-20 | 21-30 | 31-40 | 41-50 |

16 of the top 20 MSAs are below this line
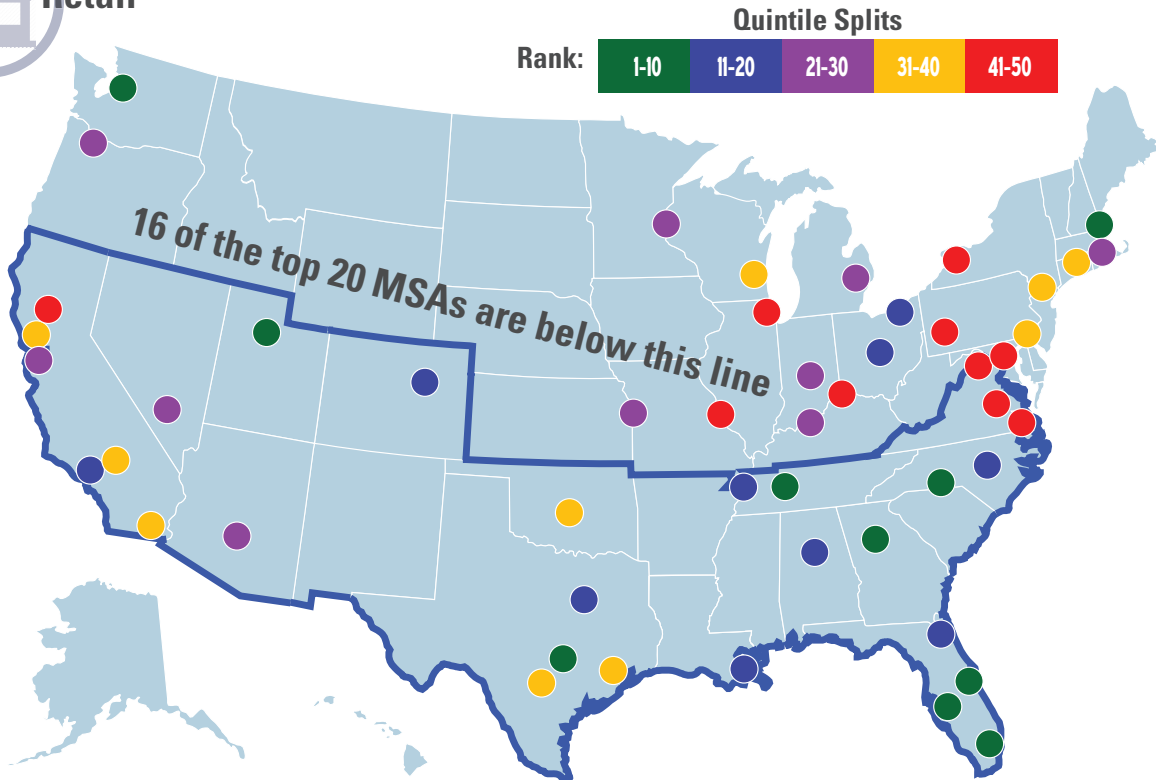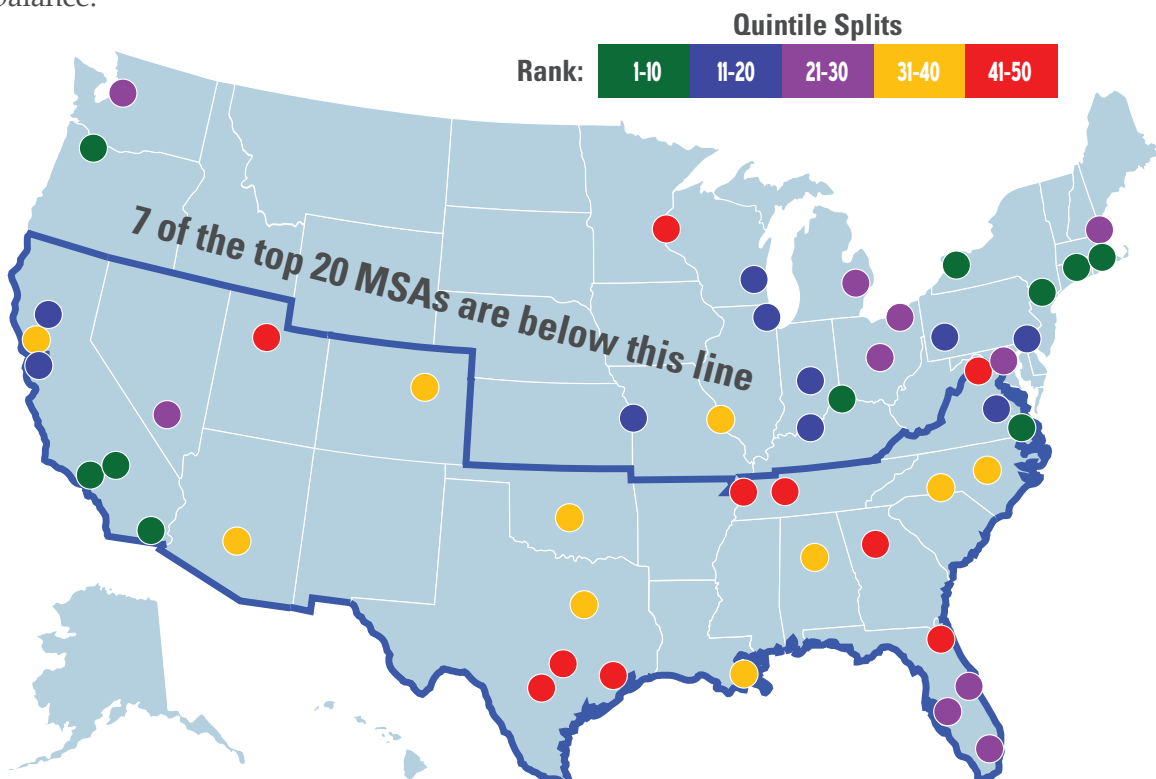
Multifamily

Population growth in the south and southeast has been so notably strong that developers added abundant new apartment supply. More years of net absorption are needed to bring these high growth markets into better balance.

Quintile Splits

Rank: | 1-10 | 11-20 | 21-30 | 31-40 | 41-50 |

7 of the top 20 MSAs are below this line

MARKET CONDITIONS IN THE LARGEST 50 MSAs

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.

Quintile Splits

Rank:	1-10	11-20	21-30	31-40	41-50

13 of the top 20 MSAs are below this line
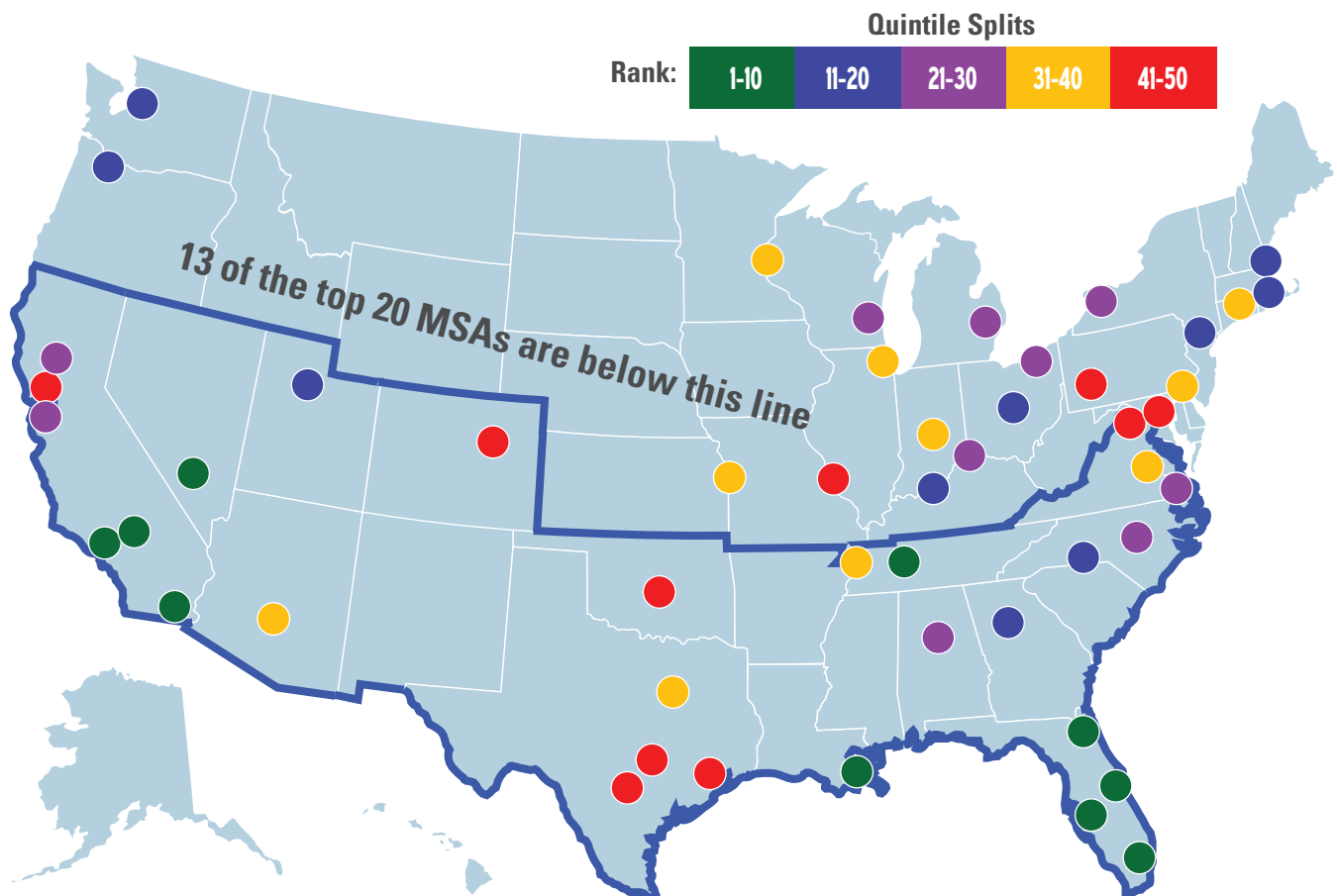
Morrison Street Research's Top 50 MSA Ranking

These consolidated rankings account for all factors within the categories of socioeconomic, quality of life and commercial real estate fundamentals. In total, 44 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).

Quintile Splits

Rank: | 1-10 | 11-20 | 21-30 | 31-40 | 41-50

16 of the top 20 MSAs are below this line
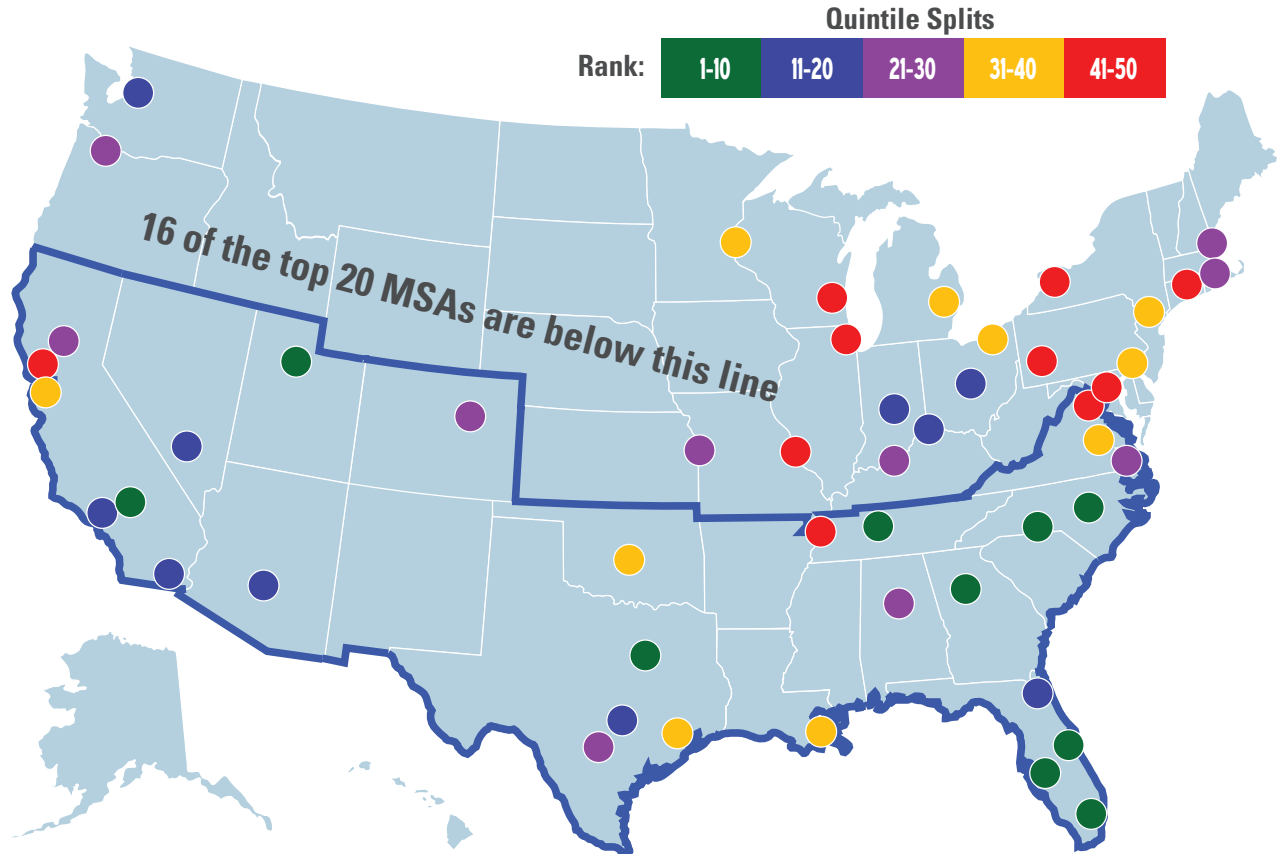
#	CHG.	METROPOLITAN STATISTICAL AREA	#	CHG.	METROPOLITAN STATISTICAL AREA
1	●	Riverside-San Bernardino-Ontario, CA Metro Area	26	▲9	Providence-Warwick, RI-MA Metro Area
2	▲1	Orlando-Kissimmee-Sanford, FL Metro Area	27	▼1	Boston-Cambridge-Newton, MA-NH Metro Area
3	▲3	Miami-Fort Lauderdale-Pompano Beach, FL Metro Area	28	▼3	Denver-Aurora-Lakewood, CO Metro Area
4	▼2	Atlanta-Sandy Springs-Alpharetta, GA Metro Area	29	▲3	Virginia Beach-Norfolk-Newport News, VA-NC Metro Area
5	▼1	Tampa-St. Petersburg-Clearwater, FL Metro Area	30	▲1	Louisville/Jefferson County, KY-IN Metro Area
6	▲1	Salt Lake City, UT Metro Area	31	▼1	Houston-The Woodlands-Sugar Land, TX Metro Area
7	▼2	Raleigh-Cary, NC Metro Area	32	▼3	Oklahoma City, OK Metro Area
8	●	Dallas-Fort Worth-Arlington, TX Metro Area	33	▼12	Detroit-Warren-Dearborn, MI Metro Area
9	▲8	Charlotte-Concord-Gastonia, NC-SC Metro Area	34	▲3	Minneapolis-St. Paul-Bloomington, MN-WI Metro Area
10	▲2	Nashville-Davidson–Murfreesboro–Franklin, TN Metro Area	35	▼1	Richmond, VA Metro Area
11	▼2	Las Vegas-Henderson-Paradise, NV Metro Area	36	▼3	San Jose-Sunnyvale-Santa Clara, CA Metro Area
12	▼1	Phoenix-Mesa-Chandler, AZ Metro Area	37	▼10	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD Metro Area
13	▲5	Columbus, OH Metro Area	38	▲2	Cleveland-Elyria, OH Metro Area
14	▲2	Jacksonville, FL Metro Area	39	▼11	New York-Newark-Jersey City, NY-NJ-PA Metro Area
15	▲7	Cincinnati, OH-KY-IN Metro Area	40	▲5	New Orleans-Metairie, LA Metro Area
16	▼3	Seattle-Tacoma-Bellevue, WA Metro Area	41	▲1	Chicago-Naperville-Elgin, IL-IN-WI Metro Area
17	▲3	Indianapolis-Carmel-Anderson, IN Metro Area	42	▼3	Memphis, TN-MS-AR Metro Area
18	▼8	Los Angeles-Long Beach-Anaheim, CA Metro Area	43	▲3	St. Louis, MO-IL Metro Area
19	▼4	Austin-Round Rock-Georgetown, TX Metro Area	44	▼3	Washington-Arlington-Alexandria, DC-VA-MD-WV Metro Area
20	▲3	San Diego-Chula Vista-Carlsbad, CA Metro Area	45	▼1	Milwaukee-Waukesha, WI Metro Area
21	▼7	Sacramento-Roseville-Folsom, CA Metro Area	46	▼3	San Francisco-Oakland-Berkeley, CA Metro Area
22	▲2	Portland-Vancouver-Hillsboro, OR-WA Metro Area	47	▲2	Hartford-East Hartford-Middletown, CT Metro Area
23	▲15	Kansas City, MO-KS Metro Area	48	▼1	Baltimore-Columbia-Towson, MD Metro Area
24	▼5	San Antonio-New Braunfels, TX Metro Area	49	▼1	Buffalo-Cheektowaga, NY Metro Area
25	▲11	Birmingham-Hoover, AL 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 following an expected brief stagflationary slowdown and eventual recovery.

Covid 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.

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