CLARION PARTNERS

Accelerated migration post-pandemic drives real estate returns

Introduction: A summary of recent relocation activity

The onset of the COVID-19 pandemic largely accelerated many location changes that began before March 2020. Nationwide, some migratory patterns related to American industry and demographic shifts became more pronounced by type of region, metro and location — some areas experienced unprecedented booms, while others reported sizeable declines. Clarion Partners' analysis indicates that post-pandemic U.S. relocation activity showed mainly four trends:

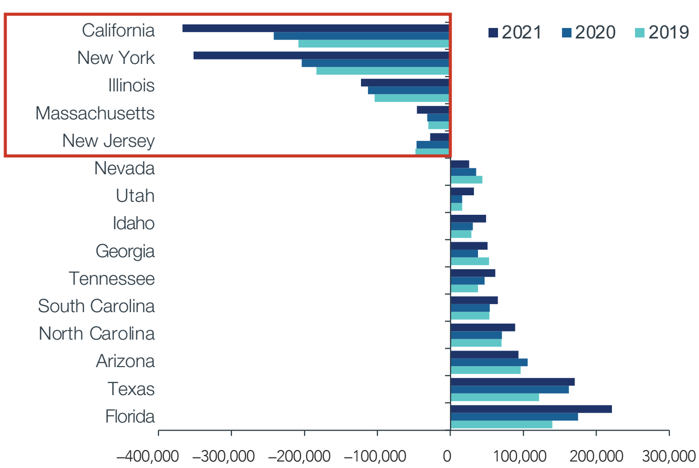
1) Out-migration from large "blue" states
2) Stronger growth in certain small and mid-size cities
3) Relocations to many Sun Belt markets
4) A move to the suburbs

Much of this movement is driven by relative cost of living, quality of life, lower taxes, a business-friendly environment and demographics, such as both a baby and retirement boom. At the same time, new job creation and remote work are more and more dispersed outside of the six major markets.[1]

Accelerated out-migration from large blue states

In 2021, departures from large "blue states" hastened the population losses in many big U.S. cities (Figure 1). While exits on such a scale may very well be a temporary phenomenon related to the pandemic, domestic out-migration from these areas has been a longer-term shift, with cities in the Southeast and Southwest benefiting.

Figure 1: Annual domestic migration by state (2019-2021)



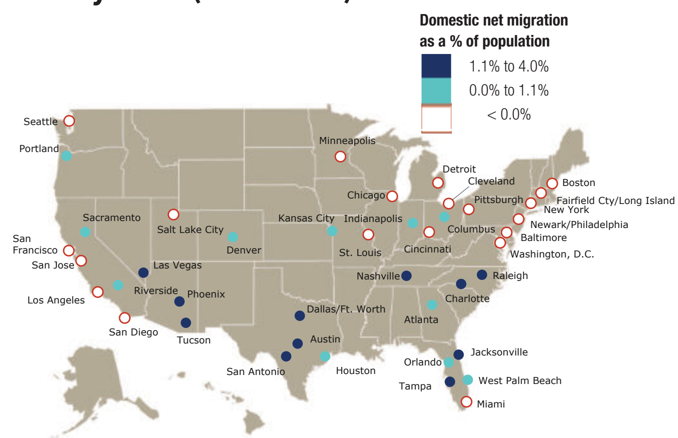
Sources: Brookings Institute; U.S. Census Bureau; Clarion Partners Investment Research, first quarter 2022

Robust in-migration to Sun Belt markets

The in-migration to the Sun Belt has persisted for decades now; however, the pace of growth in a few of these markets has strengthened in the past few years. The 10 fastest-growing U.S. counties in absolute terms last year accounted for nearly 80 percent of the national total and were all located in Arizona, Texas, California and Florida.[2] From 2020 to 2021, the top-ranking markets for total net migration as a percent of population were Austin; Phoenix; Raleigh, N.C.; Jacksonville, Fla.; Tampa, Fla.; Charlotte, N.C.; Las Vegas; Dallas; and Nashville (Figure 2).

Not surprisingly, secondary markets, largely in the Sun Belt, have also reported stronger post-COVID job recoveries. Many of the metros slower to rebound also report some of the highest home prices nationwide, a sign that people increasingly are relocating for a lower cost of living.

Figure 2: Two-year cumulative total domestic migration growth by metro (2020-2021)



Sources: U.S. Census Bureau; Clarion Partners Investment Research, first quarter 2022. Note: Total net-migration growth is calculated as a percent of the previous year's population and is based on the cumulative growth for 2020 and 2021. The analysis uses annual data from July 2019 to July 2021; 2020 is preliminary and may be revised.

Stronger growth in small to mid-size cities and suburbs

Small to mid-size cities

A number of small and mid-size metro areas benefited from migration trends last year as many Americans left larger cities for less densely populated environments.[3]

Last year, the major metro areas combined saw an absolute population loss during the pandemic. The fastest-growing, mid-size cities were in South Carolina, Idaho, Utah, Florida, Arkansas and Alabama. These include Myrtle Beach, S.C.; Boise, Idaho; Lakeland, Fla.; Provo-Orem, Utah; Fort Myers, Fla.; Port St. Lucie, Fla.; Sarasota, Fla.; Daytona Beach, Fla.; Fayetteville, Ark.; and Huntsville, Ala.

Small towns in nonmetropolitan areas also saw solid population increases, which were coined pandemic "boom towns."[4]

CBDs vs. suburbs

At the same time, many urban core counties within major U.S. metro areas reported an exodus to fringe areas. This was largely due to broader desires for more living space and access to outdoor natural amenities, as well as rising urban crime.

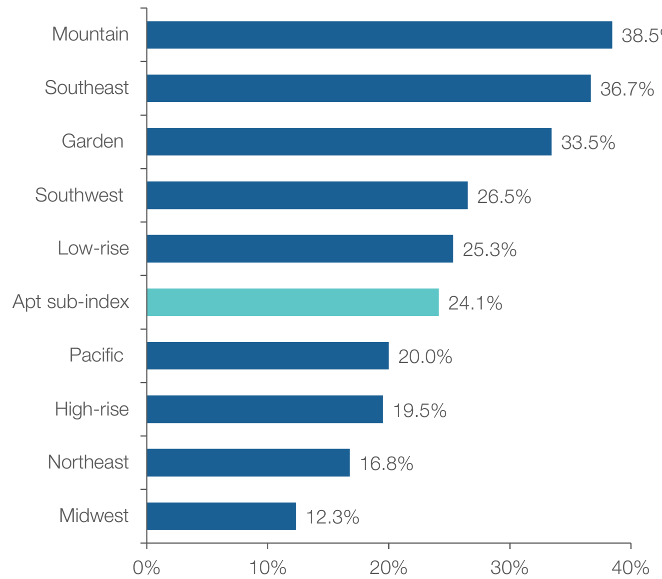
Outer-ring suburban counties in major gateway metros saw steady and, in some instances, robust population growth. Subsequently, most major markets reported a significant pick-up in suburban multifamily rent growth in 2021 relative to the five-year pre-pandemic period, with the Sun Belt and Mountain markets leading the way.

Nevertheless, Clarion Partners remains optimistic about the future vibrancy of the central business districts of the largest U.S. employment hubs. Many large cities, such as San Francisco, San Jose, Seattle and Boston, still report the greatest shares of high-paying jobs, as well as a robust inflow of young Gen Z and millennial workers. However, competitive salaries have become more common in Sun Belt cities, such as Austin; Dallas; Nashville; and Jacksonville, Fla. At the same time, hybrid work arrangements will continue to affect the pace of recovery in large CBDs, where the current physical office occupancy level, on average, is still below 50 percent pre-COVID levels.[5]

Accelerated migration drives real estate returns

Clarion Partners believes commercial real estate investors should prepare investment strategies expecting more de-densification in the future. Recent NCREIF Property Index returns have also indicated strong outperformance in multifamily returns in the Mountain, Southeast and Southwest regions, along with the two lower-density multifamily formats (garden-style and low-rise apartments) (Figure 3). Both suburban office and community/neighborhood retail returns, in particular, in the Sun Belt, also have been robust in recent years.

Figure 3: Multifamily one-year NCREIF Property Index returns by region and subtype



Sources: NCREIF Property Index, Clarion Partners Investment Research, first quarter 2022

Conclusion

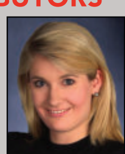
Prudent real estate investing may depend more than ever before on understanding where Americans want and are able to live, work and play, post-pandemic. The following factors escalated the recent shifts and will likely continue to drive migration in the future:

- Acute affordability issues in many large U.S. metros
- Lower taxes/business-friendly environment
- Potentially more hybrid/remote work
- Rising urban crime
- A warmer climate
- Aging millennials
- The baby boomer retirement boom

Notes: [1]Six major markets include Boston, New York, Chicago, San Francisco, Los Angeles and Washington, D.C.; [2]U.S. Census Bureau, March 2022; [3]Ibid. A nonmetropolitan area is not within a standard metropolitan statistical area (MSA) with < 50,000 people, while a micropolitan area is one that is in an MSA with >10,000 and < 50,000 people; [4]Brookings, *New Census Data Shows a Huge Spike in Movement Out of Big Metro Areas During the Pandemic, April 2022*; [5]Kastle Systems, May 2022

CONTRIBUTORS

Tim Wang
Managing Director
Head, Investment Research



Julia Laumont
Vice President, Investment Research

CORPORATE CONTACT

Hugh Macdonnell
Head of Client Capital Management, Clarion Partners
clarionpartners@clarionpartners.com
+1 (212) 883-2500 | www.clarionpartners.com

CORPORATE OVERVIEW

Clarion Partners has been a leading U.S. real estate investment manager for more than 40 years. Headquartered in New York City, the firm has offices in major markets throughout the United States and Europe. With $75.9 billion in total assets under management as of March 30, 2022, Clarion Partners offers a broad range of both debt and equity real estate strategies across the risk/return spectrum to its more than 500 domestic and international institutional investors.