CLARION PARTNERS

The Sun Belt's ongoing boom

The continuing boom

The ongoing and outsized growth in the U.S. Sun Belt has been an extraordinary boon to commercial real estate investors. The region stretches across 18 states in the Southeast and Southwest and includes seven of the 10 largest U.S. cities, as well as many midsize metropolitan statistical areas (MSAs).[1] (See Figure 1.) The Sun Belt now holds more than 50 percent of the national population (335 million), which is expected to rise to about 55 percent by 2040.[2] During the past decade, the region has accounted for 80 percent of total U.S. population growth (12 million out of 15 million).

Figure 1: The Sun Belt region and major cities

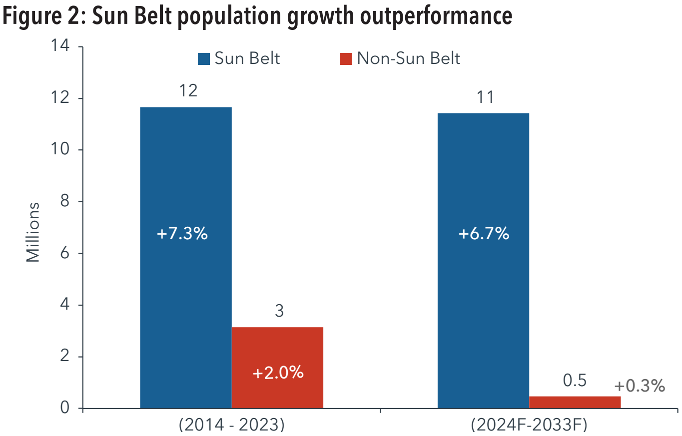
Note: The Sun Belt region analysis is based on the totals from the 18 states it spans.
Source: Moody's Analytics, Q1 2024

Over the next decade, the Sun Belt population is forecasted to grow by another 11 million (+7.0 percent). Non–Sun Belt states are forecasted to rise by only about 500,000 (+0.3 percent).[3] (See Figure 2.) All ages are drawn to the area for its business-friendly environment, lower cost of living, quality of life and mild climate. Clarion Partners expects the ongoing rise in workers and residents will continue, from both in-migration and natural births, driving the expansion of live-work-play environments.

Outsized regional growth trends

The Sun Belt boom and ongoing regional influx by people and corporations is motivated generally by greater economic opportunity and affordability. Lower state, income and property taxes are a significant draw, along with a rapidly increasing senior citizen and retiree cohort. The appeal of the warmer weather is also a critical factor for all age cohorts.

Figure 2: Sun Belt population growth outperformance



Note: Based on population totals from the 18 Sun Belt states
Sources: Moody's Analytics, Clarion Partners Investment Research, April 2024

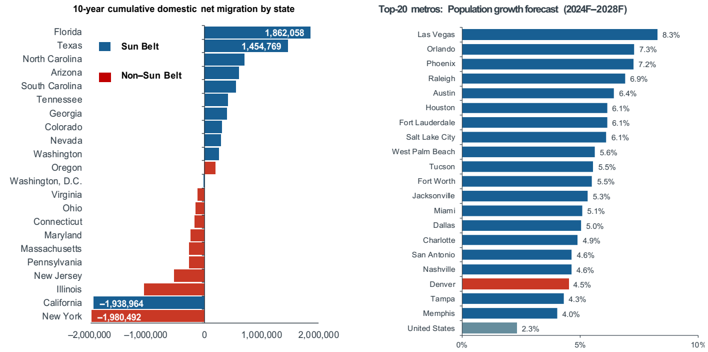
Noteworthy statistics in recent history

- **Many large and fast-growing U.S. cities in region.** Throughout the Sun Belt, there are 27 markets with a population greater than or near 1 million. The seven largest cities are Los Angeles, Houston, Atlanta, Dallas, Phoenix, San Francisco and Riverside (Calif.). Most of the large Sun Belt metros report population and employment growth above the national average.
- **Domestic net-migration boom.** Over the past decade, national relocations to the Sun Belt, measured by domestic migration, totaled nearly 5 million people, largely driven by outflows from the Northeast and Midwest (Figure 3).
- **High concentration of *Fortune* 500 companies.** Today, Texas, Florida and California boast the most *Fortune* 500 companies, outside of New York, Illinois and Ohio.[4] During the past decade, total employment in the region grew by 13 million (+20 percent) versus 6 million (+9 percent) in the non–Sun Belt.
- **Stronger economic growth.** The tremendous business expansion has led to faster job and wage growth in most Sun Belt cities, well above the U.S. and non–Sun Belt metro averages. During recent years, many Sun Belt metros' GDP, retail sales and home appreciation growth have outpaced national averages.[5]
- **Increasingly young workforce.** With about half of all U.S. jobs currently located in the Sun Belt, about 52 percent of millennials now live in the region. The millennials' share of population is now highest in Austin, Denver, Salt Lake City, San Diego and San Jose.[6] With millennials expected to be about 75 percent of the workforce by 2030, we expect Sun Belt markets will continue to capture more jobs and more young professionals will live in these areas.[7]
- **More affordable housing overall.** Major Sun Belt cities generally report much lower comparable housing costs relative to coastal gateway cities.[8] Select areas of California, Texas and coastal Florida have become increasingly expensive and have a more acute shortage of affordable housing. But overall, the homeownership rate in most Sun Belt metros is above or near the national average; a few examples include Nashville, Raleigh, Jacksonville, Charlotte and Phoenix.[9]
- **Accelerated growth of senior cohort.** Today, seniors account for about 18 percent of the U.S. population, a share expected to rise to about 21 percent by 2030. The Sun Belt now holds about 50 percent of the age 65-plus group nationwide. This is currently one of the fastest-growing U.S. age cohorts. At the same time, about 50 percent of all age-restricted and senior housing inventory is now located in the Sun Belt region.[10]

Noteworthy statistics, forward looking

- **Through 2033, Texas and Florida to lead in population growth.** Through 2033, the populations of Texas, Florida, Arizona and North Carolina are forecasted to grow by 3.5 million, 2.6 million, 1.1 million and 1 million, respectively. During the next five years, the fastest-growing metros are

Figure 3: Sun Belt population growth outperformance

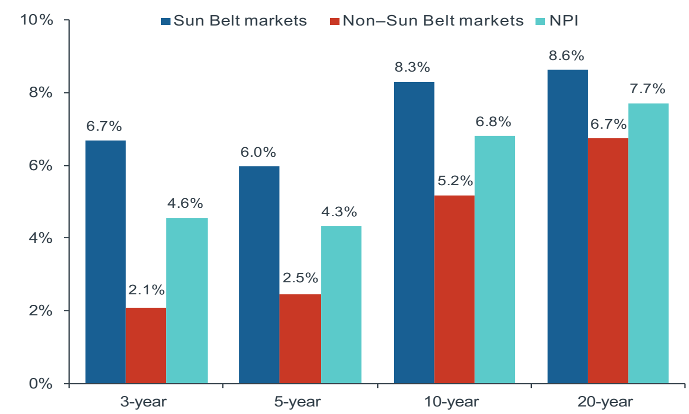


Note: Total migration growth from 2013 to 2023
Sources: Moody's Analytics, Clarion Partners Investment Research, Q4 2023

estimated to be Las Vegas, Orlando, Phoenix, Raleigh and Austin (Figure 3).

- **Sun Belt metros lead in office-using job growth.** From 2024 to 2033, 19 of the top-20 ranking metros for office-using job growth are forecasted to be in the Sun Belt. The top 10 markets are Las Vegas, Orlando, Phoenix, Austin, Raleigh, Tucson, Tampa, West Palm Beach, Jacksonville and Fort Lauderdale.
- **Retirement hubs serving aging population will continue to rise.** During the next decade, Orlando, Las Vegas, Phoenix, West Palm Beach, Austin, Jacksonville, Fort Lauderdale, Tampa and Charleston are forecasted to have the fastest-growing 65-plus populations. Demand for professionally managed, specialty rental housing catering to the elderly should only continue to grow.

Figure 4: Sun Belt NCREIF returns significantly outperform the overall index



Source: Clarion Partners Investment Research, April 2024

Sun Belt markets have consistently outperformed the NPI

Clarion Partners believes the investment outlook for the West and South remains attractive. The Sun Belt markets within the NCREIF Property Index (NPI) returns have also performed extremely well during the past 20 years, which we expect to continue in the years ahead (Figure 4).

Top Sun Belt real estate investment opportunities

Through 2030, anticipated economic growth will be outsized in California, Texas and Florida. Many other Sun Belt areas will also become increasingly popular destinations for professionals, families, retirees and world travelers. Most importantly, the expanding "innovation" economy in the West and South is expected to become increasingly dominant and will continue to attract top talent and boost prosperity, overall. These dynamics should greatly improve and catalyze cultural, institutional, leisure, household and intellectual property growth in new and established urban and suburban areas, as well as strong commercial real estate appreciation. In 2024, Clarion Partners is currently focused on the below outperforming Sun Belt markets, which have ranked highly in rent growth in recent years (Figure 5), as well as the core and alternative property types listed below.

- Small, midsize and big-box industrial warehouse and distribution properties near large population centers
- Professionally managed, well-amenitized multifamily rental housing
- Single-family rental (SFR)/build-to-rent (BTR) communities
- Top medical office building (MOB) properties and specialty outpatient healthcare facilities
- Select age restricted, active adult and senior housing
- Grocery-anchored or other necessity neighborhood retail
- Open-air, mixed-use "lifestyle" shopping centers

Figure 5: Top 10 Sun Belt markets
Five-year effective rent growth ranking by sector

#	MULTIFAMILY	OFFICE	INDUSTRIAL	RETAIL
1.	Tucson	West Palm Beach	Riverside	Miami
2.	West Palm Beach	Miami	Miami	West Palm Beach
3.	Tampa	Charlotte	Los Angeles	Charlotte
4.	Fort Lauderdale	Las Vegas	Fort Lauderdale	Raleigh
5.	Phoenix	Phoenix	Phoenix	Las Vegas
6.	Riverside	Atlanta	Orlando	Jacksonville
7.	Las Vegas	Orlando	Atlanta	Nashville
8.	Miami	Raleigh	West Palm Beach	Atlanta
9.	Raleigh	Fort Lauderdale	Jacksonville	Tampa
10.	Charlotte	Nashville	Charlotte	Orlando

Note: Ranking based on the 26 largest Sun Belt markets tracked by CBRE-EA
Sources: CBRE-EA, Clarion Partners Investment Research, Q4 2023

[1]Moody's Analytics, Clarion Partners Investment Research, April 2024; [2]Moody's Analytics, April 2024; [3]Ibid.; [4] Wikipedia, 2024; [5] Moody's Analytics, April 2024; [6] Ibid.; [7] BlueCross BlueShield, *Millennial Health: Engaging and Empowering A Generation At Work*, 2020; [8] Moody's Analytics, April 2024; [9] Ibid.; [10] Yardi Matrix, CBRE, 2024

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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 $76.6 billion in total assets under management as of Dec. 31, 2023, Clarion Partners offers a broad range of both debt and equity real estate strategies across the risk/return spectrum to its approximately 500 domestic and international institutional investors.

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