RANKING OF TOP 30 REAL ESTATE MARKETS

ANDREW CRAMPTON

Portland State University

As economic markets continue to stabilize coming out of the economic recession, an analysis of their economic strength become increasingly important. The following is a ranking of the real estate vitality of the 30 largest metro regions in the United States. The rankings were compiled based on average four-year annual employment growth, four-year GDP growth, the 2017 Urban Land Institute focus group market rankings, and the Emerging Trends Homebuilding prospects rankings. The Urban Land Institute market rankings were compiled based on 500 in-person interviews and 1,500 surveys of real estate professionals in cities throughout the county. The industry experts contributed their knowledge and insight for each impacted market to create a ranking of each metro area based on local market participants' opinions on strength of local economy, investor demand, capital availability, development and redevelopment opportunities, public/private investments, and local development community. The homebuilder prospects rankings are based on local expert confidence in future homebuilding potential for each impacted market.

Rankings are intended to reflect overall vitality of the real estate investment sectors, and are not intended as judgements on the quality of life in those locations. These rankings are experimental, and any suggestions for improvement are welcomed. Each factor was given equal weight in the ranking system.

1. Dallas: Dallas ranks as the top market for real estate due to strong rankings in employment growth, GDP and the top ranked market in the ULI Emerging Trends

■ Andrew Crampton is a Master of Real Estate Development candidate and has been awarded the Center for Real Estate Fellowship. Any errors or omissions are the author's responsibility. Any opinions expressed are those of the author solely and do not represent the opinions of any other person or entity.

2017 Survey. The Dallas/Fort Worth area has business-friendly taxation, strong employment growth, and plenty of available development ready land. The economy continues to diversify with growing medical and technology sectors.

2. Portland: strong economic and job growth has propelled the market to near the top of the ULI Emerging Trends Report. Increased manufacturing growth due to a positive global trade market combined with relatively affordable housing prices within the West Coast context has fueled unprecedented investor confidence. Looming concerns about industrial land availability could inhibit future growth in the market.

3. Riverside: an affordable tech and industial market compared to other large West Coast cities. Firms can take advantage of lower costs and educated workforce while still being able to access the Los Angeles and Long Beach ports. The region has benefitted from increased diversity and employment growth and is becoming increasingly urbanized.

4. Denver: The Denver market has consistently strong performances in employment growth, GDP and investor confidence. The Mountain West's largest city is uniquely positioned for technology expansion and utilizes strong banking and financial support services. Lingering concern exists with the declining oil and gas industry, however Denver has absorbed most of the layoffs back into the economy.

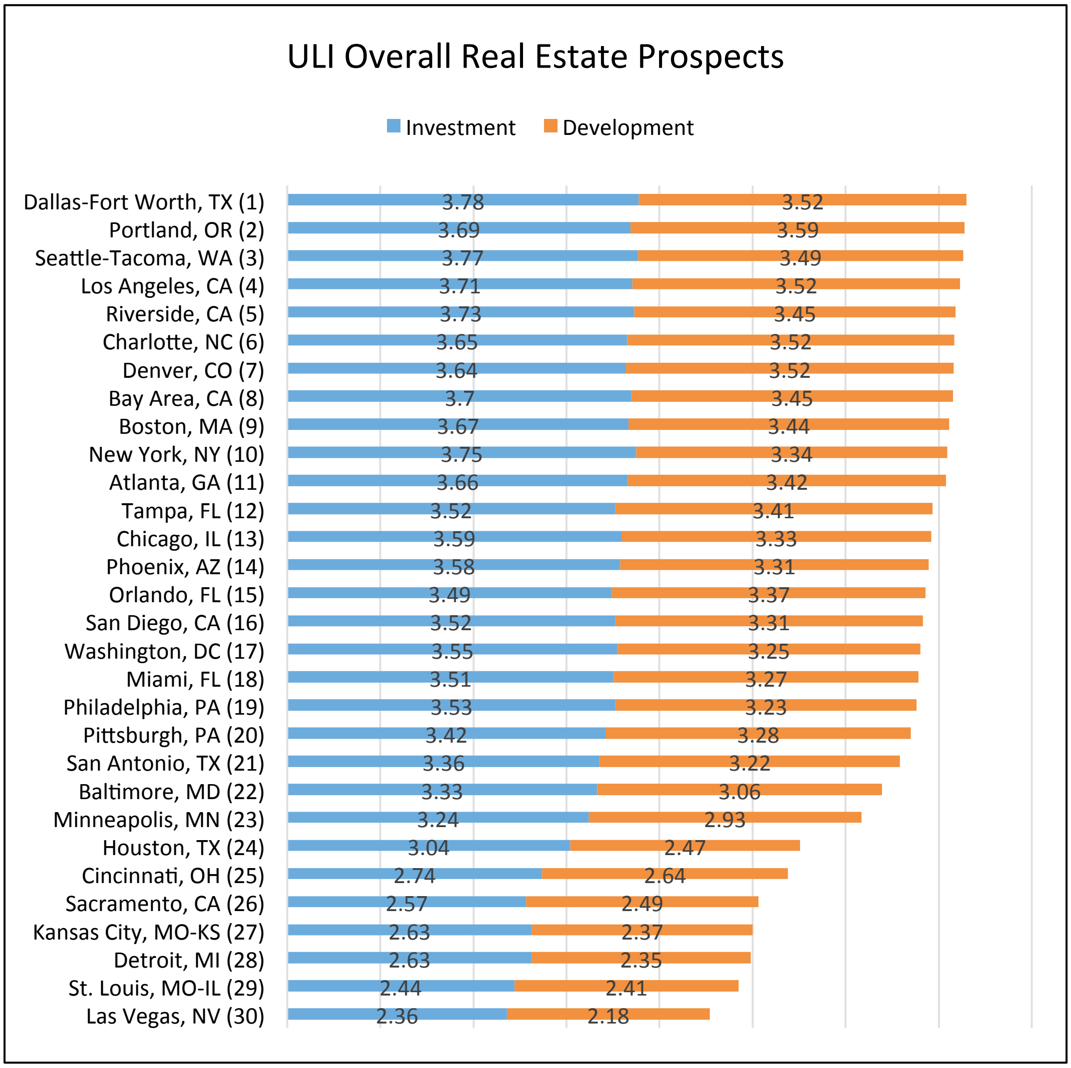

Figure 1: ULI 2017 Emerging Trends Overall Real Estate Prospects

5. Tampa experienced strong employment and GDP growth, finishing in the top five in each category. Tampa faces lagging perceptions of development feasibility that will need to be aligned with high growth rates. The downtown Tampa riverfront area has strong potential for redevelopment.

6. Los Angeles: This market has strong investor and developer outlook, ranking high in the ULI Emerging Trends Survey, however development in the region is diffcult due to a complicated entitlement process, keeping supply in check. Technology continues to become a key part of the LA economy, drawing investment from Northern California techinogy firms keen on relatively lower costs and the market upswing.

7. Orlando: The Orlando economy has experienced one of the strongest recoveries in the post-recession market, with some of the highest employment and GDP growth in the nation. Like Las Vegas, the city has benefitted from low energy costs fueling a booming tourism market. Orlando is a key test market for food and retailers considering national expansion.

8. Charlotte: Charlotte has been growing as a major financial hub in the Southeastern United States. Large growth has occurred in the downtown district, and coupled with low business costs and affordable housing options this market is emerging as a key hub in the southeastern region.

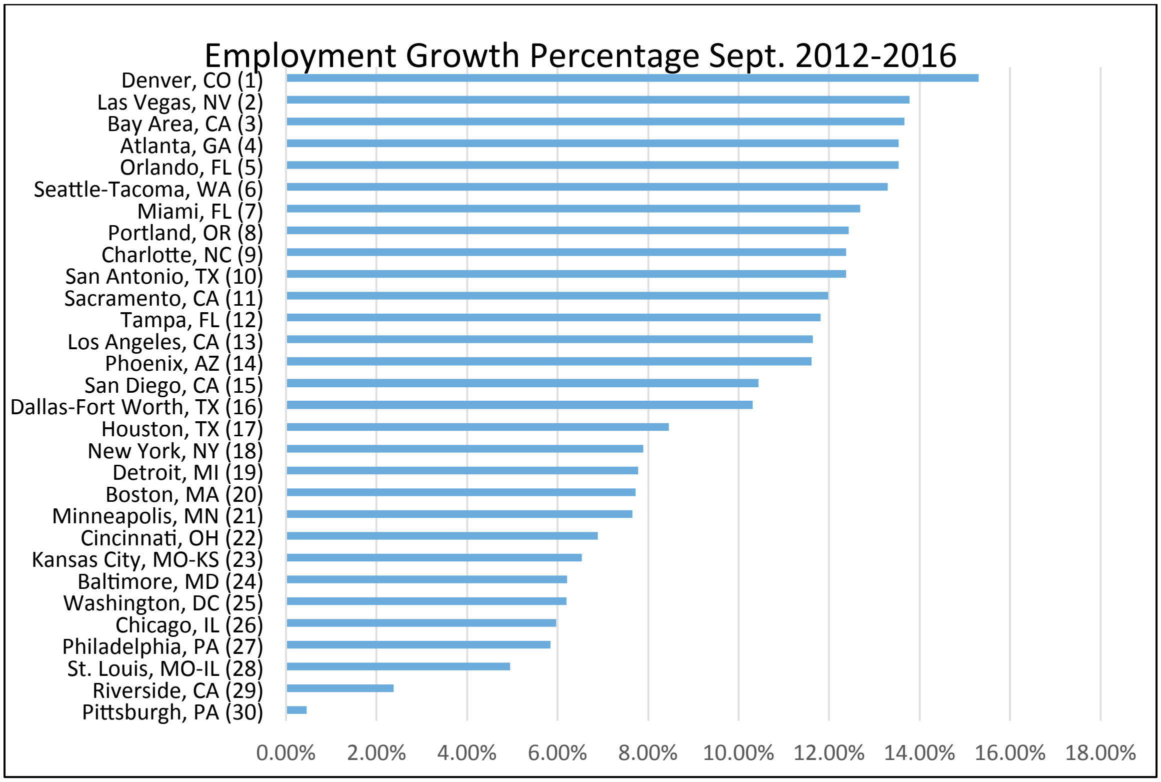

Figure 2: St. Louis Federal Reserve Bank Seasonal Adjusted Employment

9. Phoenix: has made a significant recovery from the recession housing bust by replacing all of the jobs lost during the recession. The market is viewed as a viable low cost alternative to high-priced California markets.

10. Seattle: The fundamentals for the Seattle market appear strong, with the third place among the ULI investor and developer rankings. Population growth in Seattle is projected at twice the national rate, with strong job growth and rising incomes is projected to push household formation up in 2017. Some concerns exist about pending cuts to aerospace production, however the technology market remains strong.

11. Atlanta: One of the top markets for real estate investment, Atlanta has faced growing interest from foreign investors as regulatory hurdles have limited the development capacity in the top three markets.

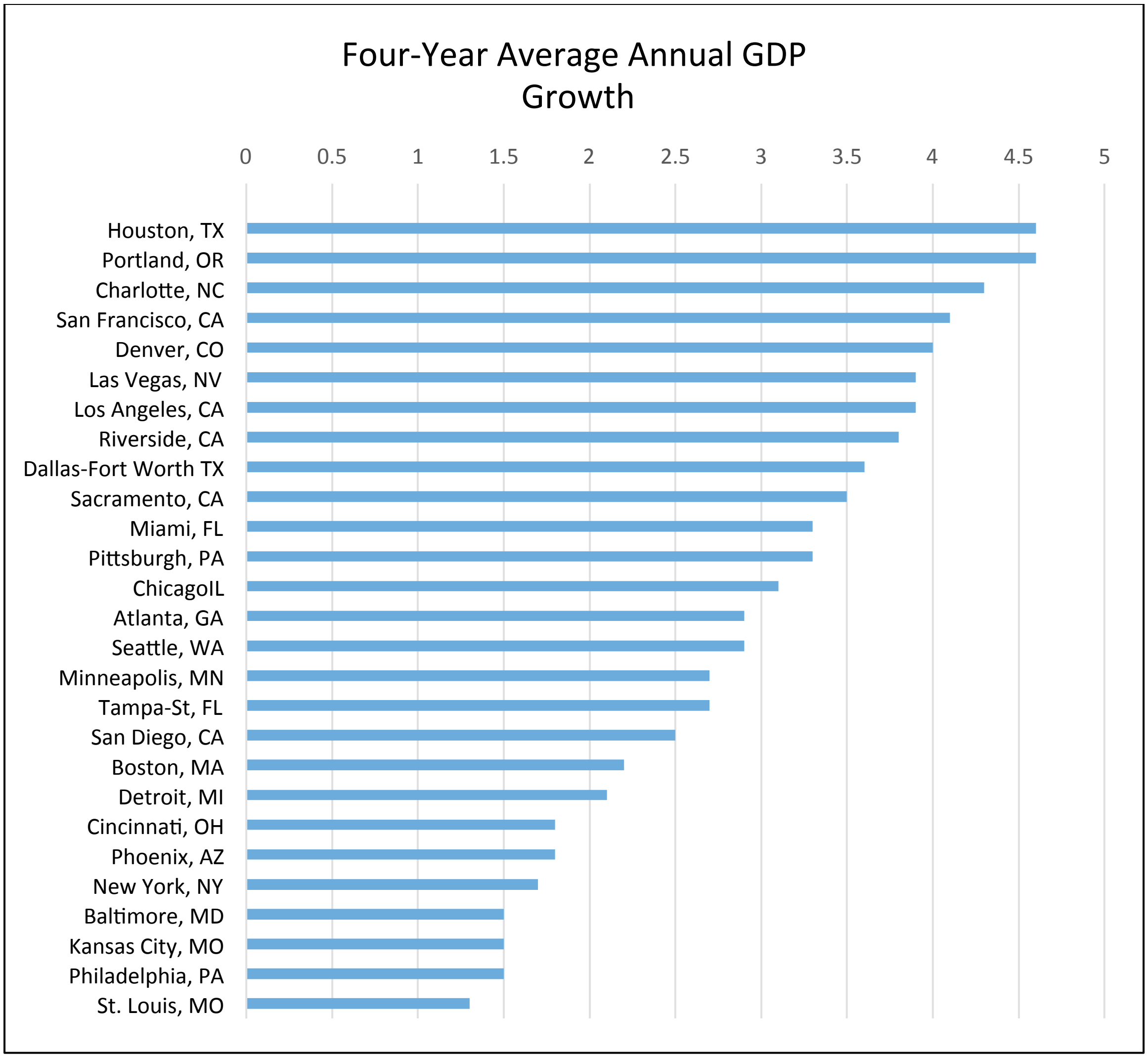

Figure 3: Bureau of Economic Analysis GDP by Metro Area 2010-2015

12. San Diego: a thriving coastal market that benefits from high-amenities but struggles with expensive land and development costs. Like most West Coast markets, technology growth fuels a strong economy.

13. San Antonio is an affordable market for both cost of living and cost of doing business, and has experienced relatively strong employment and GDP growth. The market lags behind larger Texas markets for investment and development opportunities due to smaller market size.

14. Philadelphia: as other East Coast core markets have seen limited growth opportunities, Philadelphia presents a lower-cost opportunity for global investors. An educated workforce, diverse industry and growing financial sector demonstrated a city on the rise.

15. Chicago: The urban core has benefitted from key suburban headquarter relocations. Chicago is a lower-cost alternative compared to other major markets located on the coasts, but is limited by national perceptions of crime and legacy costs. The market offers a level of stability with strong infrastructure systems.

16. Miami: a desirable lifestyle is fueling strong population growth for the South Florida city. The city is experiencing capital influx from South American countries, but homebuilder confidence remains low due to over-development pre-recession and limited available land and rising construction costs.

17. San Francisco Bay Area: Usually considered one of the strongest markets due to high-access to capital and global investors, the Bay Area market will struggle with high-costs fueling shortages in labor, housing and commercial space. Foreign investor interest will allow the market to overcome these shortages, for the time being.

18. Boston: Hobbled by low employment and population growth, the region has strong fundamentals that point to growing developer confidence in future market potential. Growing industries such as technology, financial, and academic are key industries in the region.

19. Las Vegas: heavily weakened by an over-built residential market during the economic downtown, the Las Vegas market has begun to emerge from the recession due to low energy prices fueling a booming tourist market. Investors remain skeptical however, as Las Vegas received the lowest investor confidence scores on the ULI Investor prospects rankings.

20. Sacramento: healthy job market and population growth are fueling demand, but supply of housing remains stagnant. Sacramento is currently the fastest-growing rent market in the nation, with year-over-year increases of 11 percent and occupancy rates at almost 97 percent as developers have been cautious about expanding in a market that slowly emerged from the recession.

21. Houston: One of the strongest markets during the recession, the struggling oil sector has severely impacted this market. Large amounts of supply added during the period of high-oil prices has led to short-term instability as investors and developers wait for the market to absorb excess supply.

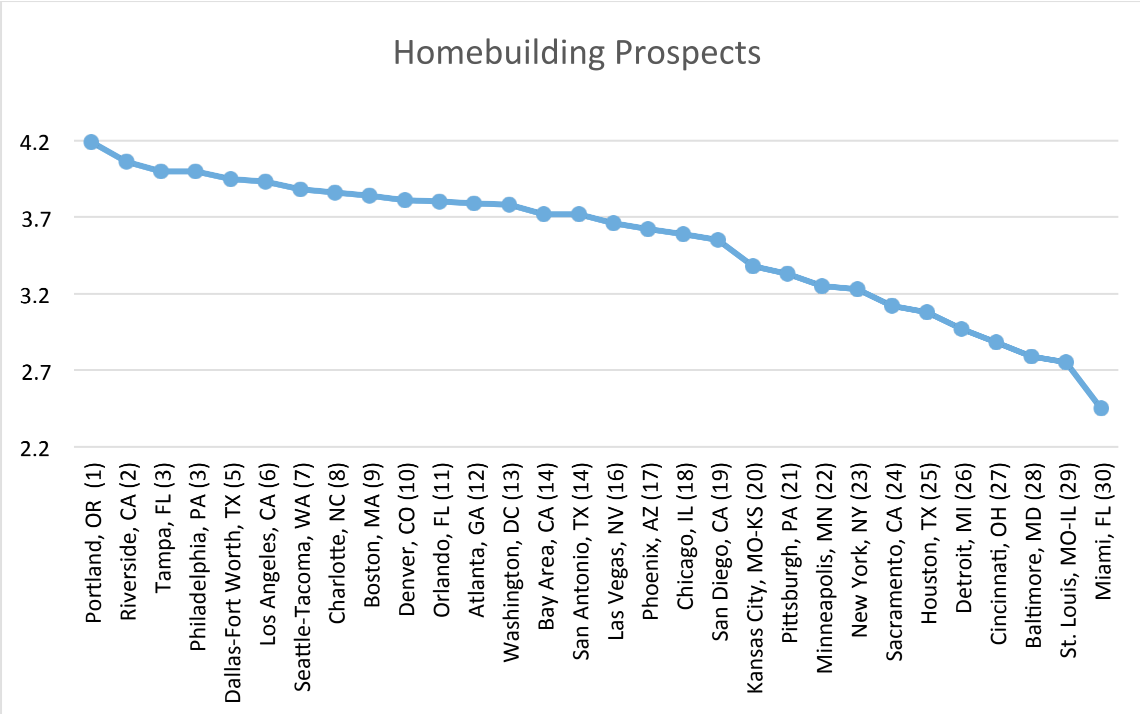

Figure 4: ULI Expert Survey: Homebuilding Prospects

22. New York has experienced low economic and employment growth but investor confidence has remained high. New York is one of the few truly global markets that benefits from global investors looking for safe havens. High costs and low employment growth has stifled mobility into the region.

23. Washington DC: market collapsed due to the 2013 government shut-down and looming austerity policies. Additionally, the market struggles with expensive housing and high-cost of doing business. Increased technology firm investment in the region's suburbs loom as a bright spot for this market.

24. Kansas City, MO: a strong financial services market and low-cost of labor have helped this historically struggling market that has faced low employment and GDP growth. A limited skilled labor supply will challenge the market to meet future growth demands.

25. St. Louis, MO: Lack of large investors and developers limits the growth of this market, coupled with an aging demographic. Advantages include low cost of living and strong freeway access.

26. Pittsburgh: Similar to Philadelphia, this market will present a lower-cost alternative to major East Coast cities for investors. Development is inhibited by slow demographic growth and legacy costs.

27. Minneapolis: Currently the market is dominated by local participants, however the strong university presence and organic fortune 500 presence could lead to stronger future development potential.

28. Detroit: Showing some improvement in developer confidence, but still faces the challenge of lingering demographic flight. The downtown has experienced some employment gains but overall the market is still struggling to add jobs post-recession.

29. Cincinnati: Low cost of living and nascent technology provide positive future growth opportunities for this struggling market.

30. Baltimore ranks last in both employment growth and four-year GDP growth. Along with Washington DC, the market has struggled dueling with Federal austerity policies, but federal job growth has slowly been rising.

LOOKING AHEAD

Coastal and sunbelt cities with low labor and land costs provide the highest development potential. These cities have skilled labor that can meet 21st Century technology demands.

Struggling markets tend to be located in the mid-west and suffer from legacy costs, limited access to capital and limited infrastructure development. Major global markets like New York and San Francisco struggle to keep up with emerging markets that provide competitive skilled labor at lower costs. ■