Rethinking Resilience: Location Drivers in a Shifting Market Landscape

Eleven Secondary Markets That Are Positioned to Thrive in the Next Decade

CBRE

After a record economic expansion in the U.S., intermittent shutdowns caused by the COVID-19 pandemic continue to ripple through the economy. The effects of the shutdowns have fueled an uncertain future in the short term and recalibrated priorities of location strategies and the resulting real estate footprints. The COVID pandemic has amplified the need for companies to evaluate existing and new markets from fresh perspectives beyond the usual set of location drivers such as transportation costs, labor availability and cost, and taxes.

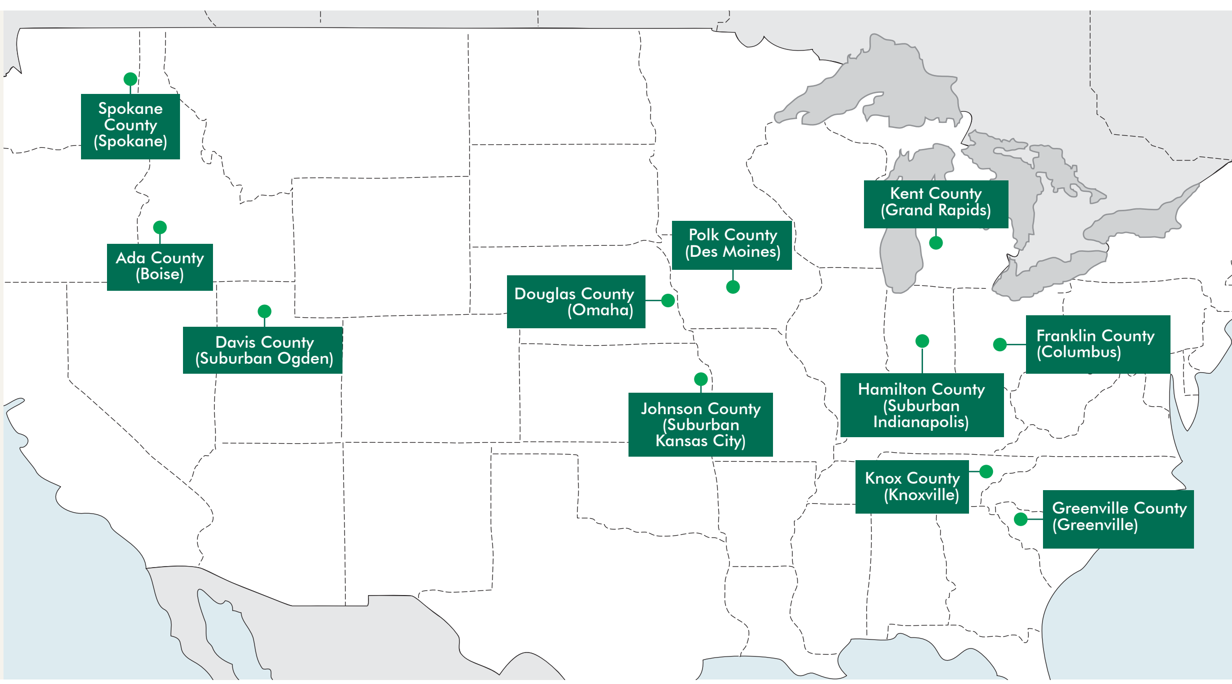
Our largest cities, which led the economic resurgence from the last recession, will always be uniquely positioned as vibrant centers of culture, talent and innovation. Despite current headwinds, that is unlikely to change in the long term. However, this analysis offers an introductory look at new considerations for a location strategy. These considerations won't necessarily overlook the dense, dynamic "superstar" cities of the last decade. Instead, they highlight less-heralded alternatives, which may provide their own advantages in the next decade. These considerations include the following factors:

- Population size and density
- Population growth and momentum
- Public transit dependence
- Housing costs and foreclosure risks
- Fiscal impacts
- University pipeline
- Major airport access
- Climate

The following analysis presents a case study for analyzing these location drivers. By evaluating U.S. counties across each topic, we can derive an applied example of the attributes that will be most valuable in meeting expected challenges. The resulting markets are not a one-size-fits-all solution for every business requirement, and many markets outside this analysis may be ideal locations for certain projects and priorities. The 11 counties below simply exhibit a representative mix of characteristics that will be prioritized in a rapidly shifting landscape.

Summary of Findings

This map highlights the most well-positioned markets in this analysis.



Location Drivers

COVID-19

While not the sole focus of this analysis, COVID-19 will be central to any near-term location strategy. Concerns about population density, public transportation, indoor crowd-driven entertainment and remote work will continue to drive decisions, even if only temporarily and to an uncertain degree. Therefore, the most resilient markets will be those that best mitigate these risks from the start.

RECESSION

The effects of the pandemic are still reverberating through the economy, and it is unclear how deep and far-reaching they will remain. But an emerging consensus agrees that this downturn could threaten to become ingrained as the pandemic persists. This means that current headwinds may require more than a temporary "ride out the storm" approach. As entire sectors are dormant and their workforces sidelined, a market's industry mix, widespread foreclosure risk and fiscal shortfalls will be increasingly critical metrics to evaluate stability.

DEMOGRAPHIC SHIFT

Independent of COVID and resulting economic challenges, a sea change in national demographics suggests new geographic priorities and implies evolving recruitment strategies for Human Resources departments to maintain their hiring advantage. At the core of this shift is the millennial generation's transition to middle age, as well as the housing and lifestyle changes that will result.

Millennials are now the nation's largest age cohort, and their tastes have long driven corporate recruitment and location strategy. The previous decade was defined by the suburbs-to-downtown movement in which newly minted professionals flocked to the dynamism and opportunity of the nation's largest cities. In an accelerating reversal of this trend, millennials are now settling down and embracing the more attainable housing costs and family friendliness of suburbs and smaller cities between the coasts.

CLIMATE CHANGE

Natural disaster risk is a growing concern in site location discussions, especially for manufacturers for which operational continuity is essential and the ability to quickly shift production to other facilities is limited. Therefore, issues like sea-level rise, wildfires and severe storms, often worsened by the effects of global climate change, are increasingly important when evaluating overall market risk.

BUSINESS FUNDAMENTALS

Despite the recent focus on change, many of the same factors that have driven business decisions in the past will maintain their importance. Proximity to major university systems, especially those graduating sizable pipelines of STEM talent, will still be valued. And market connectivity to customers, clients and suppliers will be as important as ever, even if the most pessimistic projections of diminished business travel hold true. Successful markets will always benefit from a major airport, strong interstate/rail access and other transportation infrastructure.

Combining each topic above, this analysis will highlight counties that meet certain basic criteria. These criteria were not weighted or otherwise prioritized, and the counties were not comparatively evaluated by the degree to which they display each attribute or variable. The resulting qualified counties simply meet all applied thresholds and benchmarks, which confer a baseline level of advantage across each metric. In other words, they clear every bar set before them—though by how far they clear is not considered. Some of these markets have already experienced well-documented development, while others have kept a lower profile but demonstrate the right ingredients for future resilience and growth. Some are within or adjacent to a major metropolitan area, while others are smaller markets in less-populated regions. Some have a corporate office focus, while others are industrial centers. The result is a diverse list of places that are unified in their potential for stability and growth amid the uncertainty of the current economy and beyond.

Methodology

To focus on a short list of markets representing the resilient qualities that will insulate against the challenges expected, CBRE analyzed all counties in the contiguous U.S. and ultimately filtered by the following criteria:

POPULATION SIZE AND DENSITY

Following a trend already observed in recent years but likely to accelerate in the immediate aftermath of COVID, population in the densest urban centers will continue to level off. Instead, growth will shift to smaller, less-congested, more-affordable areas to accommodate the maturing families and cost-burdened renters transitioning from big city life. Younger residents will undoubtedly replace some of this outmigration, attracted as their predecessors were to the opportunity and excitement of a major metropolis. But the millennial generation's dominant size means that it will continue to pull the pendulum of overall urban migration to the side it inhabits at any given time. However, even in the smaller markets that millennials increasingly prefer, a critical mass of residents will still be necessary to ensure a dynamic economy and vibrant labor pool.

FILTERS APPLIED:

- County Population > 25,000 (overall median)
- Population Density < 3,000 residents per square mile (top 99th percentile)

Source: U.S. Census Bureau (PopEst), 2019

POPULATION GROWTH AND MOMENTUM

Beyond size and density, populations in the most resilient markets must also be growing and attracting residents from elsewhere—often at an increasing rate. To measure this, CBRE used traditional metrics of population growth and domestic migration. Also factored in were population projections and a measure of accelerating momentum that compares 2010-2014 rate of change to 2015-2019, qualifying only counties that contained at least one incorporated city/suburb with accelerating growth. In other words, even if consistently growing overall, a county only passed this filter if at least one municipality displayed faster growth in the latter years of the last decade relative to the former.

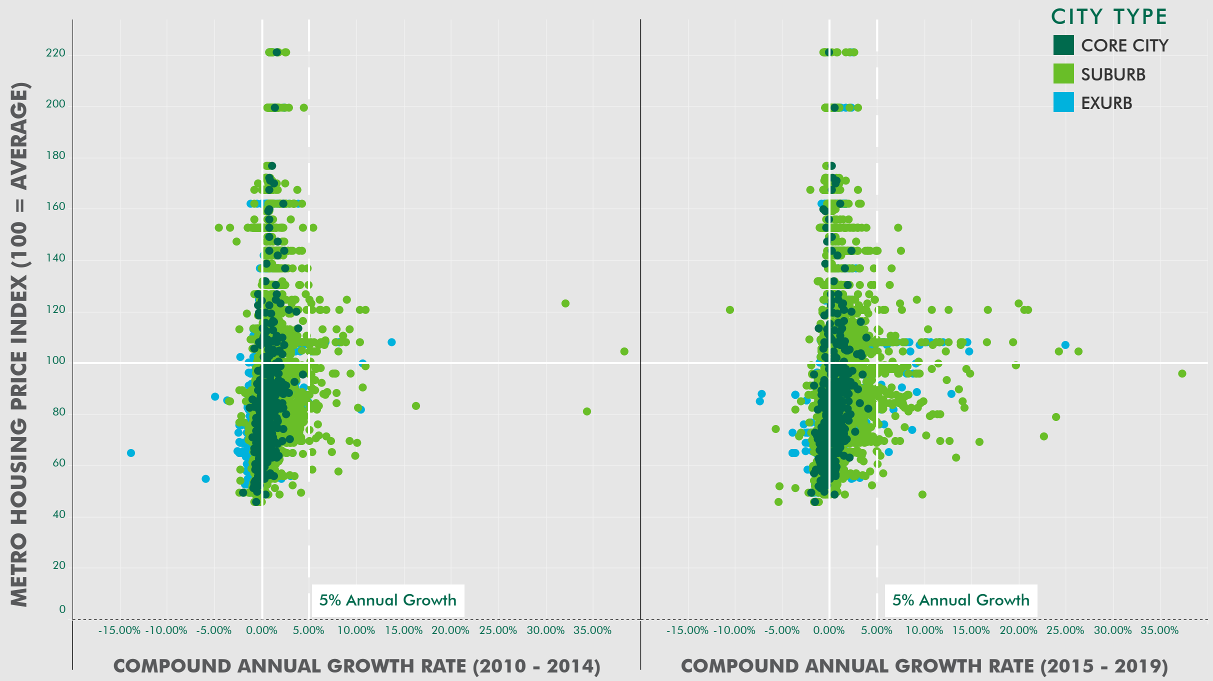
FILTERS APPLIED:

- Population Growth (2015 to 2019) = Net Positive
- Projected Population Growth (2020 to 2025) > 1%
- Domestic Migration = Net Positive
- City/Suburb with Accelerating Population Growth (2010-2014 vs. 2015-2019) >= 1

Source: ESRI Business Analyst, 2020; U.S. Census Bureau (PopEst), 2019; U.S. Internal Revenue Service (SOI), 2018

ANNUAL CITY-LEVEL POPULATION GROWTH, RELATIVE TO METRO HOUSING COSTS (2010-2014 VS. 2015-2019)

Source: CBRE Analysis of Data from the U.S. Bureau of Economic Analysis (RPP, 2018) and the U.S. Census Bureau (PopEst, 2019)



PUBLIC TRANSIT DEPENDENCE

As pandemic fears linger and strained public budgets struggle to cover maintenance and operations, public transportation systems are likely to suffer. Markets with minimal dependence on transit are likely to sidestep these risks.

FILTERS APPLIED:

- Public Transit Usage < 3% of Total Commuters (U.S. Average)

Source: U.S. Census Bureau (5-Year ACS), 2018

HOUSING COSTS AND FORECLOSURE RISK

A key obstacle to livability is rapidly rising rents in many major cities—especially on the coasts—that are pushing residents out to smaller, lower-cost metros where ownership is more attainable. Another is the risk of widespread foreclosures in markets where large shares of homeowners are shouldering outsize debt burdens. To measure costs, housing outputs were used from the Regional Price Parities (RPP) index from the U.S. Bureau of Economic Analysis. For debt burden and foreclosure risk, mortgage data collected under the Home Mortgage Disclosure Act (HMDA) was analyzed to compare the share of loans originated in 2019 to borrowers with debt-to-income (DTI) ratios higher than the standard target of 36% or lower (meaning monthly debt payments compose 36% or less of gross income).

FILTERS APPLIED:

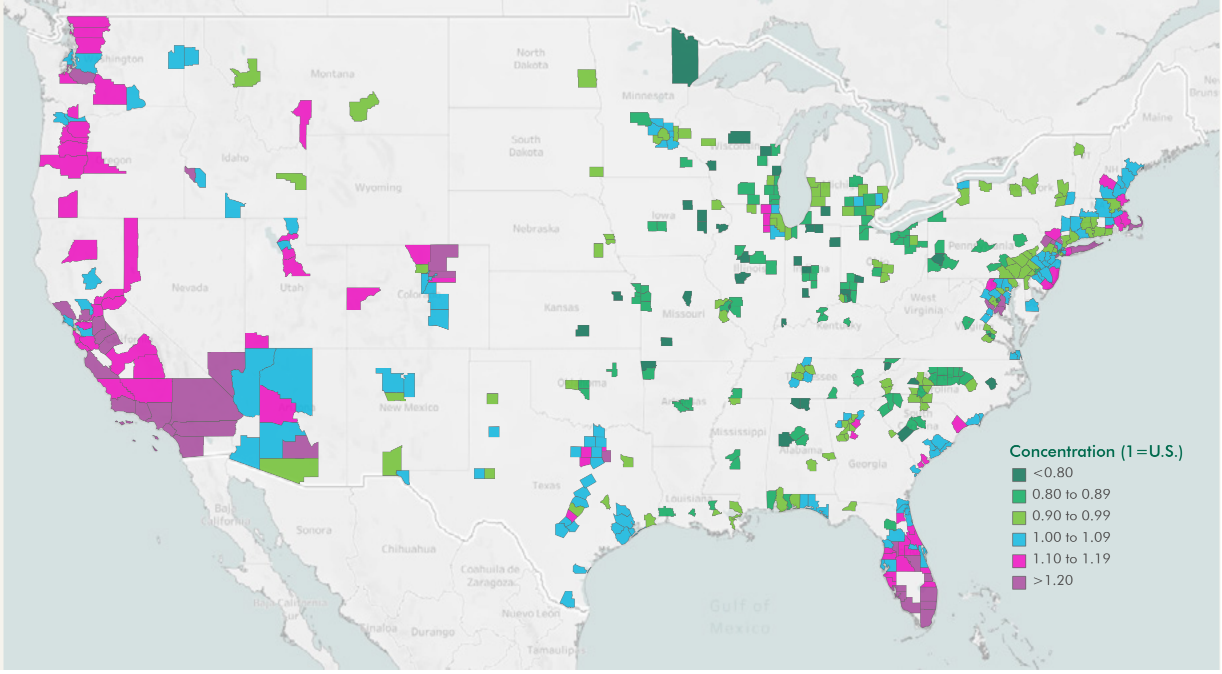
- Metro Housing Costs < 90% of the U.S. Average
- Share of 36%+ DTI Loans < 105% of the U.S. Average

Source: Home Mortgage Disclosure Act (HMDA) Data, 2019; U.S. Bureau of Economic Analysis (RPP), 2018

FORECLOSURE RISK BY COUNTY

Concentration of high debt-to-income (36%+) Conventional mortgage originations, 2019

Source: CBRE Analysis of Home Mortgage Disclosure Act (HMDA) Data. Shows counties with at least 1,000 mortgage originations in 2019. All data represent conventional (not FHA, VA, etc.) mortgage originations for borrower's primary residence.



UNIVERSITY PIPELINE

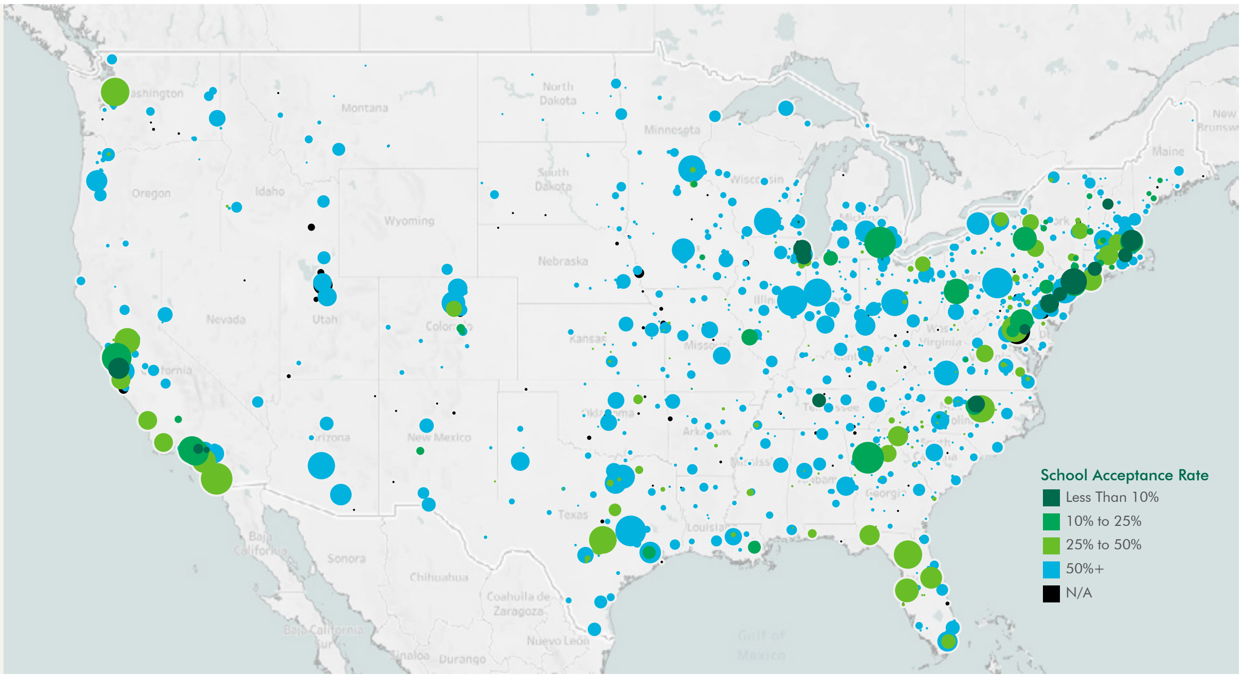
As Baby Boomers retire and production processes become more sophisticated, the war for professional, technical and advanced manufacturing talent will only intensify. Proximity to a major university, especially one with a robust pipeline of STEM graduates, will be critical for ensuring strong recruitment, training and R&D potential.

FILTERS APPLIED:

- STEM graduates (4-Year+) from a nonprofit university within 50 miles > 500 per year

Source: Integrated Postsecondary Education Data System (IPEDS), 2018

ANNUAL STEM GRADUATES (4-YEAR+)



MAJOR AIRPORT ACCESS

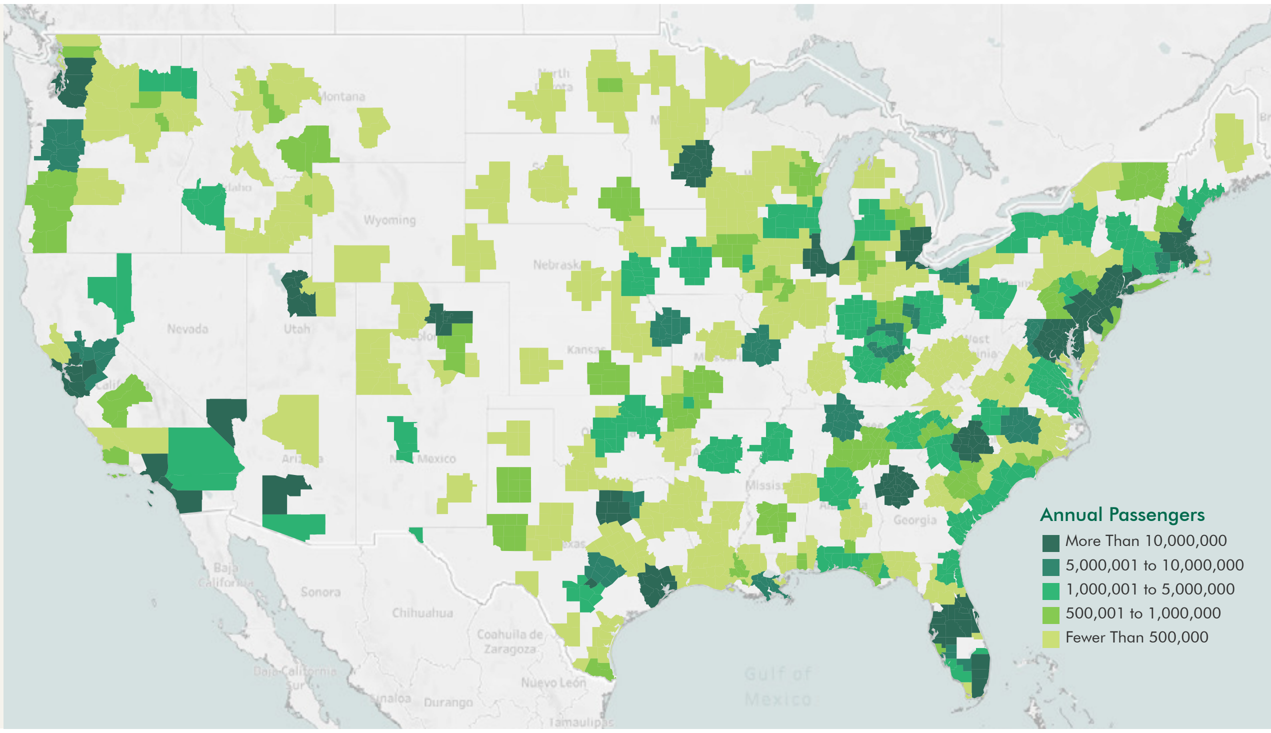
Though business travel will likely be down for the near future, connectivity to markets, suppliers and other facilities within a corporate footprint will remain essential. Regardless of the pandemic's immediate effects on air travel, markets will continue to benefit from proximity to a major airport.

FILTERS APPLIED:

- Annual Passengers Served from Airport(s) Within 50 Miles > 1 million

Source: U.S. Bureau of Transportation Statistics, 2019

ANNUAL DOMESTIC PASSENGERS SERVED BY AIRPORTS WITHIN 50 MILES



INDUSTRY MIX

The intermittent shutdowns and shifting demand caused by the pandemic have touched every corner of the economy. However, some industries—like hospitality, entertainment, retail, construction and real estate—have been more adversely affected than others. Regardless of how long the pending recovery takes, these sectors present more risk in the near term.

FILTERS APPLIED:

- Concentration of Jobs in Accommodation/Food Service; Arts/Entertainment/Recreation; Construction; Real Estate; and Retail < 110% of the U.S. Average (LQ < 1.1)

Source: ESRI Business Analyst, 2020

CLIMATE

The accelerating effects of global climate change have literally altered the landscape, disrupting established weather patterns and worsening natural disaster risk. The impact has been especially evident in the recent proliferation and intensity of wildfires and hurricanes—as well as coastal flooding threats due to sea level rise.

To measure wildfire risk, the perimeter of every domestic fire between 2010 and 2019 was mapped—and the area of this footprint was compared to total county area. On average, roughly 0.75% of each county's area has burned since 2010—that figure jumps to 2.7% when including only counties with at least one fire. However, 63 counties have experienced fires that collectively burned 10% or more of their total area since 2010.

To measure hurricane risk, every Atlantic hurricane and tropical storm between 1851 and 2019 was mapped and compared to a 100-mile buffer from the center of each county. Total hurricanes within 100 miles were aggregated and compared across all counties.

To measure sea level rise, NOAA data for Coastal Flooding Impact areas was used to identify counties that present flooding risk as global water levels increase.

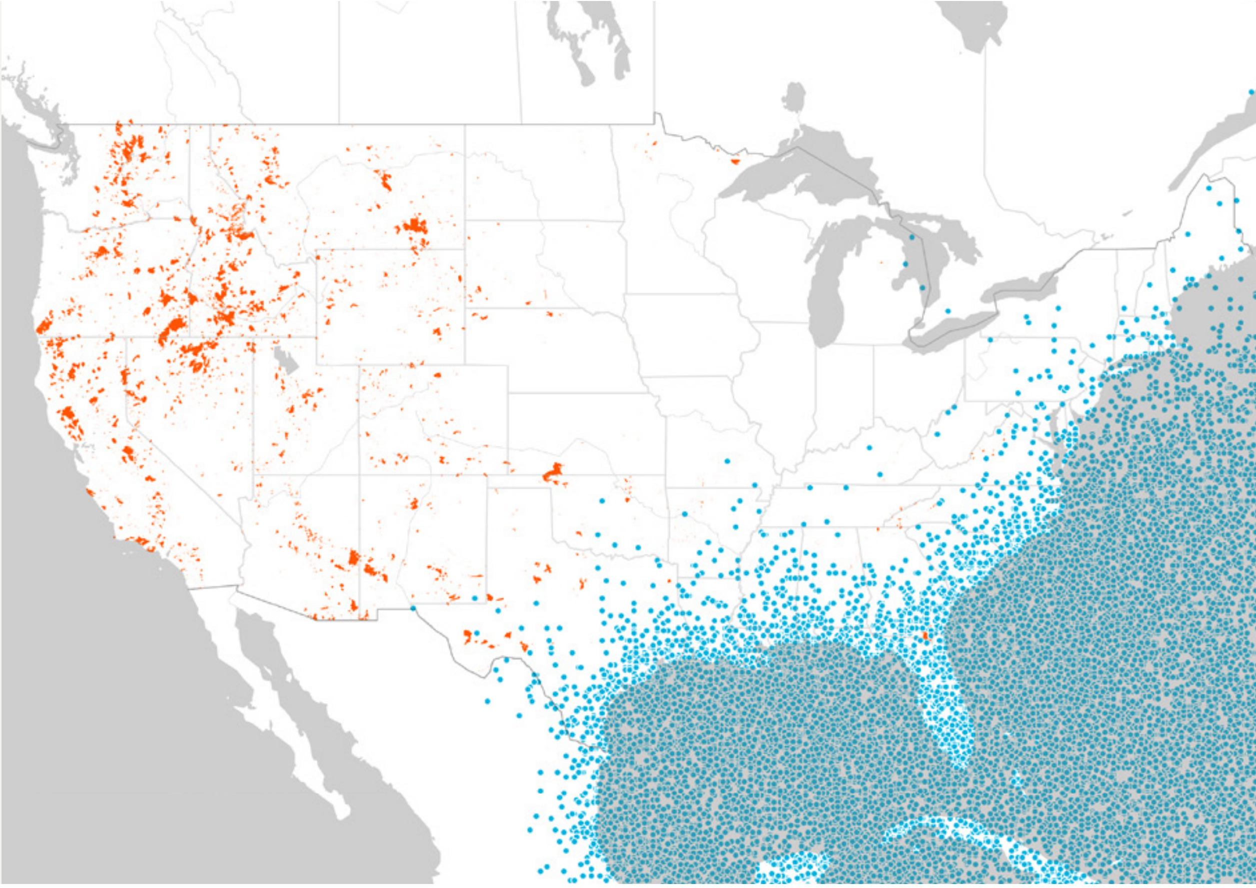
FILTERS APPLIED:

- Wildfire Perimeter Since 2010 < 7.5% of Total County Area (10x Footprint of Average of County Impact)
- Hurricanes or Tropical Storms Since 1851 <=15 (Median Among Counties Affected by at Least 1 Storm)
- Counties with a Coastal Impact Area Excluded

Source: National Interagency Fire Center (Historic Wildfire Perimeters), 2019; National Oceanic and Atmospheric Administration, 2019

HISTORIC WILDFIRE PERIMETERS AND HURRICANE TRACKS

Dots represent location (including movement at 6-hour intervals) of all known hurricanes and tropical storms between 1851 and 2019.



FISCAL IMPACTS

As tax revenues dwindle and budgets are scaled back, states starting at the strongest fiscal position are traditionally best insulated against risk. Conversely, states already weighed down with heavy debt burdens will likely be least able to meet the challenges of a protracted recession. In the most recent data from the U.S. Census Bureau, 13 states have annual debt totals that are greater than 50% of total revenues, while six states—Massachusetts, Connecticut, Rhode Island, New Jersey, New Hampshire and Illinois—have debt loads greater than 70% of annual revenue.

FILTERS APPLIED:

- Total State Debt at End of Fiscal Year < 50% of Total Revenue

Source: U.S. Census Bureau (ASFIN), 2018

Results

The **11 COUNTIES THAT PASS EVERY FILTER** are outlined below. Each of these markets show a clear combination of robust population growth; strong connectivity to talent pipelines and transportation infrastructure; widespread affordable housing; and limited climate and fiscal risks relative to other parts of the country. Regardless of what the future brings, these markets are well positioned to be resilient to the challenges of the economy ahead.

METRO	QUALIFYING COUNTY	POPULATION DENSITY	PUBLIC TRANSIT RIDERSHIP	HOUSING COST (U.S. = 101.9)	STEM DEGREES (50 MILES)	AIRPORT PASSENGERS (50 MILES)
Boise, ID	Ada (ID)	457.7	0.4%	84.4	768	2,082,476
Columbus, OH	Franklin (OH)	2,473.3	2.3%	84.7	4,862	4,178,525
Des Moines, IA	Polk (IA)	856.2	1.5%	87.8	3,401	1,443,399
Grand Rapids, MI	Kent (MI)	775.0	2.0%	86.2	1,622	1,968,328
Greenville, SC	Greenville (SC)	666.8	0.5%	73.2	3,068	1,284,074
Indianapolis, IN	Hamilton (IN)	857.2	0.1%	83.5	6,687	4,688,098
Kansas City, MO-KS	Johnson (KS)	1,272.3	0.3%	82.6	2,460	5,855,522
Knoxville, TN	Knox (TN)	925.2	0.7%	70.1	1,664	1,252,746
Ogden, UT	Davis (UT)	1,188.8	2.3%	87.1	4,631	12,372,233
Omaha, NE	Douglas (NE)	1,739.3	1.2%	85.3	2,785	2,652,737
Spokane, WA	Spokane (WA)	296.4	2.7%	85.8	1,015	1,953,780

Contact CBRE's Location Incentives Group to evaluate your location strategy and potential incentives savings for your footprint.

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Learn more about CBRE Location Incentives.

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