Empira study reveals investment potential in real estate markets of the southern U.S.

- **The Sun Belt with the 13 southernmost states is home to 110 million residents and the fastest growing regions in the USA**
- **Population and housing demand of major Sun Belt states like Texas, Florida, and Arizona are growing at rates up to double those of the U.S. average**
- **Too little new construction in economically and demographically high growth metropolitan areas like Austin, Atlanta, and Miami driving up rents for the long term**

Zug (Switzerland); August 12, 2022 – In their latest study, the Empira Group, a leading investment manager for institutional real estate investments, examined developments in the regional economies and real estate markets of the U.S. region referred to as the Sun Belt. The study compares a total of 13 southern states encompassing a population of 110 million: Arizona, New Mexico, Texas, Oklahoma, Louisiana, Arkansas, Mississippi, Tennessee, Alabama, Georgia, Florida, South Carolina, and North Carolina. The analysis includes indicators such as demographics, economic growth, income, taxes, cost of living, unemployment, and innovative strength. These are supplemented by traditional real estate metrics such as rents, purchase prices, vacancy rates, and construction activity. The study reveals that the region – in terms of its fundamental data, its market performance in the last ten years, as well as its future growth potential – is above average and extremely attractive for real estate investors.

"In an environment of rising interest and inflation rates, real estate is becoming more interesting as a means to protect investments against inflation and to generate real returns. While offering the maximum degree of liquidity and enormous potential for diversification, the U.S. real estate market features structurally higher purchase yields than the European real estate market. And yet not all regions of the U.S. are benefiting from growth, making it all the more important to identify the right sub-markets. The Sun Belt impresses through its attractive fundamental data and robust growth prospects. Investors should be considering opportunities away from the expensive and saturated metropolitan areas of the West and East Coasts," comments Prof. Steffen Metzner, Head of Research at Empira and study author.

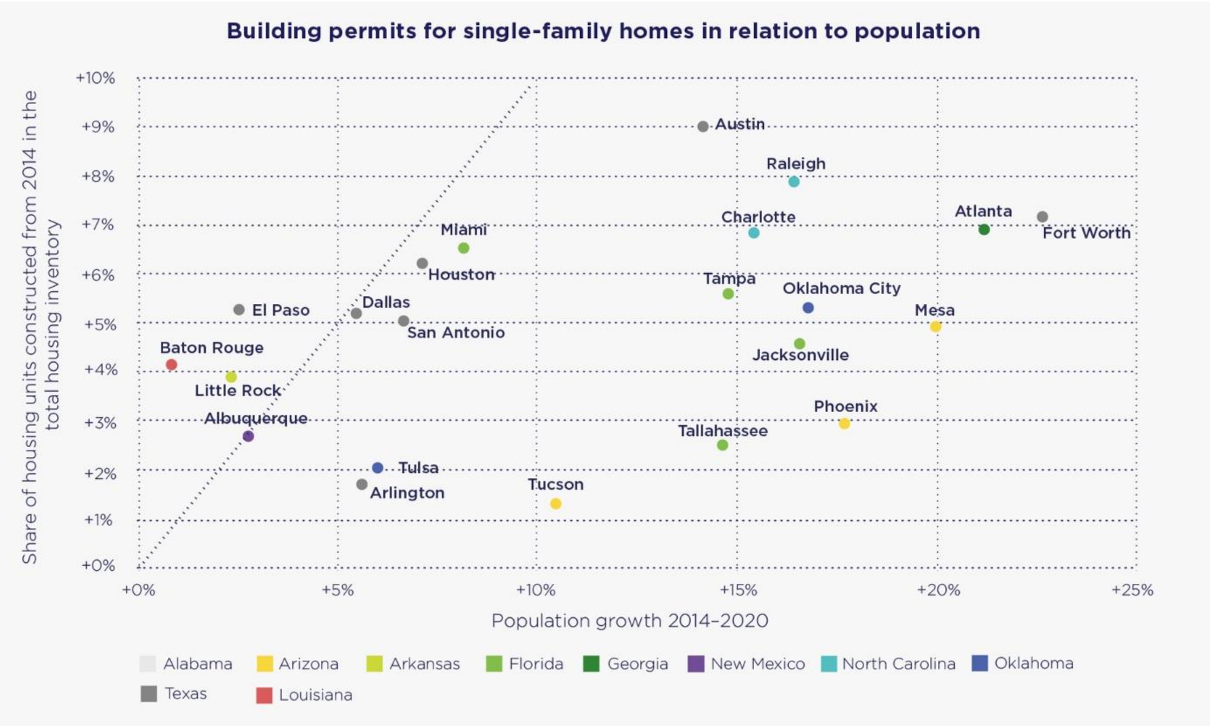
Domestic migration and favorable demographics – the Sun Belt population is growing rapidly

A key factor for the long-term development of real estate markets is demographics. While the U.S. saw an average population growth of 7.7% in the last decade, the major Sun Belt states achieved growth rates sometimes twice as high. Texas saw their population grow by 17.7%, Florida by 16.4%, and Arizona by 13.6%. In addition to positive net births, the dynamic growth is mainly attributable to an ongoing high rate of domestic migration stemming primarily from the U.S. Northeast and California.

Both companies and workers are moving to the Sun Belt by the hundreds of thousands, drawn by the attractive climate and tax conditions and lower cost of living. Texas, for instance, gained over 300,000 residents from California alone between 2010 and 2019 – a trend that gained even more traction during the coronavirus pandemic and better options for remote working.

Structural lack of residential housing offers investors attractive risk-return profile

“Similar to what we are seeing in Germany, new housing construction in the metropolitan regions in the southern U.S. growth states falls far short of meeting the rapidly growing demand. This is particularly true of the rental apartment segment, which is gaining in popularity particularly for younger, mobile generations. The risk-return ratio is correspondingly attractive for investors able to build long-term multifamily portfolios,” says Lahcen Knapp, President of the Empira Group Board of Directors.



Percentage population growth from 2014 to 2020 and share of housing units constructed from 2014 to 2020 as a percentage of total housing inventory; source: U.S. Census Bureau; own calculation and presentation.

The discrepancy between population growth and new housing construction is most severe in up-and-coming metropolitan regions such as Fort Worth (Texas), Atlanta (Georgia), Phoenix (Arizona), and Tallahassee (Florida). This shortage of residential housing has a high degree of correlation with robust fundamental data such as the education level of the residents and the number of new company start-ups in the area. Locations in Atlanta, Austin, and Raleigh exhibit shares of university graduates in excess of 50% and shares of education-intensive jobs of over 20%. Both Florida (3rd place) and Georgia (5th place) are also among the top five U.S. states with the most new company start-ups.

Rapidly rising rents, continued above-average growth potential

Consequently, rents are growing at above average rates in the Sun Belt states. Accordingly, median rents rose in Texas (22.7%), Florida (21.6%), and Arizona (20.2%) from 2015 to 2020 significantly faster than in New York (16.2%), for instance. Compared to states with especially high rents and costs of living, this dynamic offers a particularly high growth potential for rental cash flows. The median rent in New York is USD 1,315, while the same figure in Texas amounts to USD 1,082.

The full study can be downloaded here.

The Empira Group at a glance

The Empira Group offers institutional investors a vertically integrated platform for real estate investments in Europe and the United States. With investments under management totaling approximately EUR 7.0 billion, Empira is a leader in the German-speaking countries in developing novel, profitable investment approaches using both equity and debt financing. The company drives innovation as a first mover in debt products. The Empira Group's real estate and capital market experts offer one-stop shopping for services covering the entire residential and office property value chain. Empira is headquartered in Zug, Switzerland, and has a subsidiary in Luxembourg as well as branch offices in Germany, Austria, the UK and the United States.

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