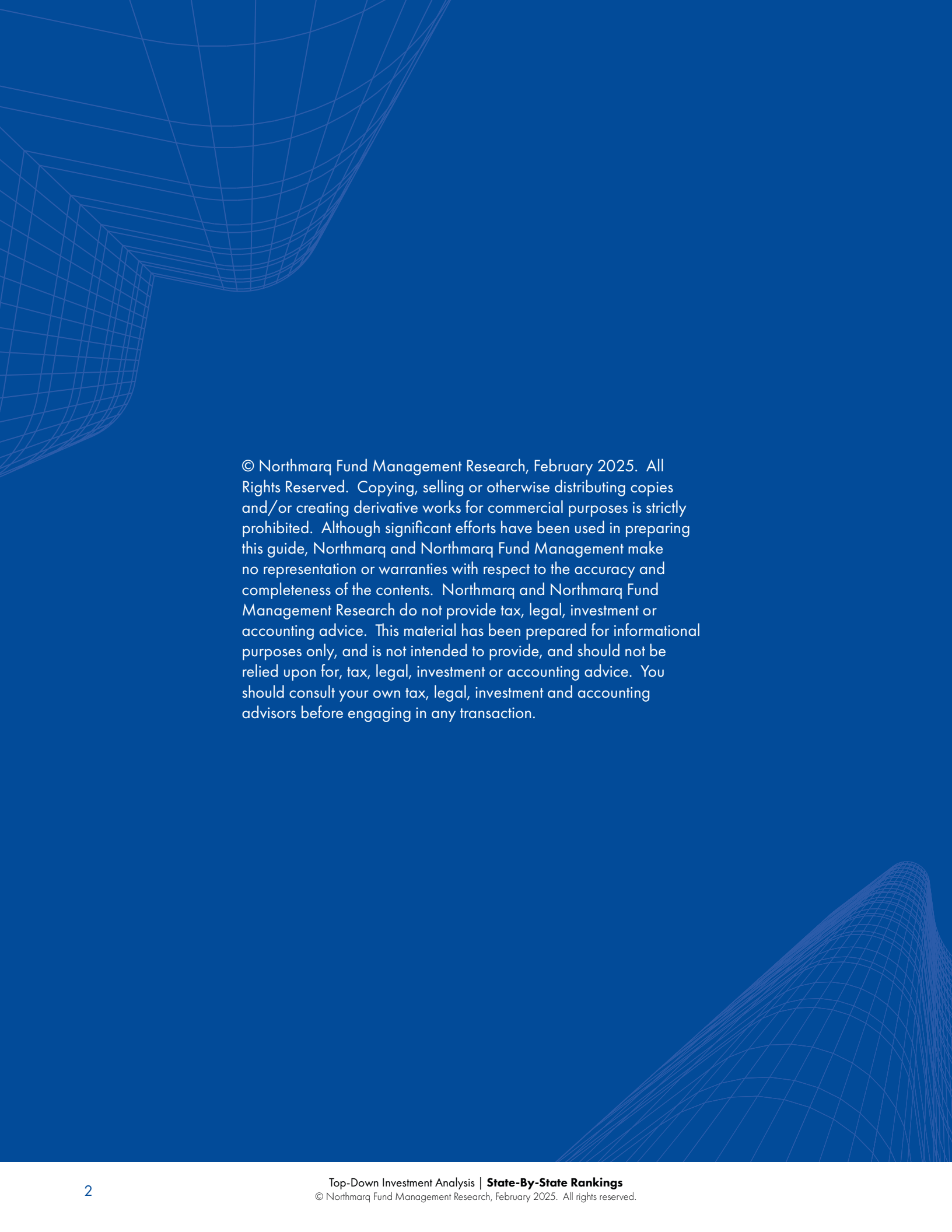




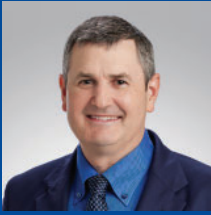
Top-Down Investment Analysis **UPDATED** State-by-State Rankings

Special Report | February 2025



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Letter from the Editor



Rance Gregory
President & CEO

We hope you enjoy our fourth annual state rankings, conducted with an emphasis on drivers of population and job growth. This report also assesses a variety of socioeconomic and quality of life factors indicative of statewide vitality and economic potential.

This year we have refined and augmented the study to incorporate a total of 50 distinct data inputs. This state-by-state study is the upper tier precursor to our more granular rankings of the top 232 Metropolitan Statistical Areas (MSAs). Whereas the MSA report focuses heavily on commercial real estate fundamentals in metro areas, including on a county-by-county basis, the higher-level states report places its focus on broader regional population, job growth and movement patterns instructive for identifying market potential. In addition to providing market context for clients of Northmarq, these expanded rankings assist Northmarq Fund Management in its broadest prioritization of investable regions.

Many other ranking methods center on current commercial real estate statistics without sufficient focus on other economic and qualitative factors that may cause organic population or job growth, or outbound and inbound mobility. While it may at first seem as though traffic, weather, natural disasters, taxes, and age demographics aren't the top priority for real-time commercial real estate analysis, these factors are precisely the sorts of influences that drive the movement of people and are predictive of a region's future prosperity or stagnation.

As an added feature, we have also included our standard due diligence supplement to frame a broad approach to investment underwriting.

We look forward to discussing any questions or observations you may have regarding the report's data and conclusions.

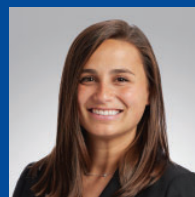
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ABOUT US:

Northmarq Fund Management is a division of Northmarq, one of the largest privately held commercial real estate firms in the nation. Northmarq provides debt origination, loan servicing, investment sales and investment management services nationwide and spanning all product categories.

Overview of the Top-Down Investment Study

Thoughtful commercial real estate investing requires an approach that considers both a top-down perspective of important economic drivers in a subject property's broader geographic area, as well as a traditional bottom-up due diligence process factoring a subject property's rent roll, income and expense information, leasing and sale comps, and supply/demand data within the relevant submarket.

Our methodology for analyzing the investment potential of states is weighted toward determining areas where employees want to live and companies want to move and grow. It is within our cities reports and county-by-county methodology that we dive deep into local commercial real estate fundamentals.

To determine the states most suited to near-term investment, we conducted the following top-down study applying 50 distinct measurements to all 50 States and the District of Columbia. We assemble our analysis using a total of 50 factors condensed into these six key categories.

As we like to say, commercial real estate houses the economy. Unless burdened by a prior oversupply of new product, areas with increasing population and jobs should produce additions to occupied space. Higher occupancies lead to greater rental rates, which can produce more net operating income, and lead to higher property values. Conversely, areas experiencing slow or negative growth in population and jobs could be expected to lose ground in achieving gains of property income and value. For many key population and employment statistics, we factored in both the absolute size of the state (the more people and the more jobs in a state, the better), and we also weighted the rate of increase on a percentage basis (to reward states experiencing faster relative growth).



Commercial Real Estate Fundamentals



Population Statistics



Employment Statistics



Financial Considerations



Quality of Life



Demographics and Education

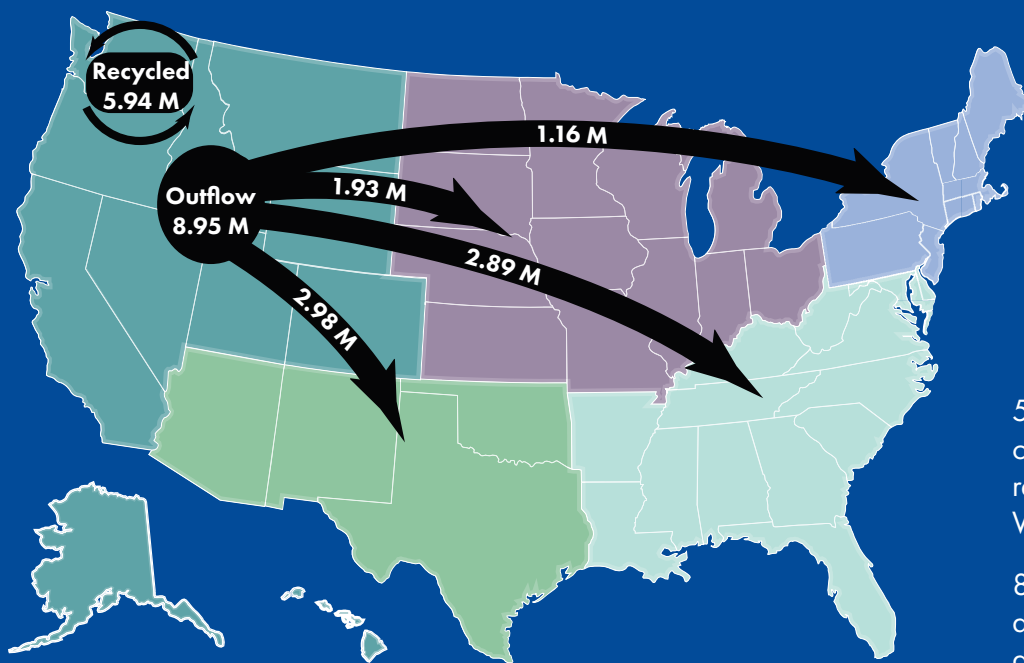
As a quick look backward, Exhibit A illustrates total population movements among regions since 1970. As you can see, there has been a long and substantial migration of residents from the Midwest and Northeast into warmer (and in many cases, lower tax) climates in the West, Southwest and Southeast regions.

Exhibit A

Region	1970 Population	2023 Population	Total Population Growth 1970-2023	% Growth 1970-2023
Northeast	48,999,999	57,398,303	8,398,304	17%
Southeast	49,042,364	96,101,586	47,059,222	96%
Midwest	56,577,067	69,186,401	12,609,334	22%
Southwest	16,544,465	44,385,963	27,841,498	168%
West	32,020,877	69,733,978	37,713,101	118%
Totals	203,184,772	336,806,231	133,621,459	66%

Gross Population Outflows

WEST REGION | 2014-2023



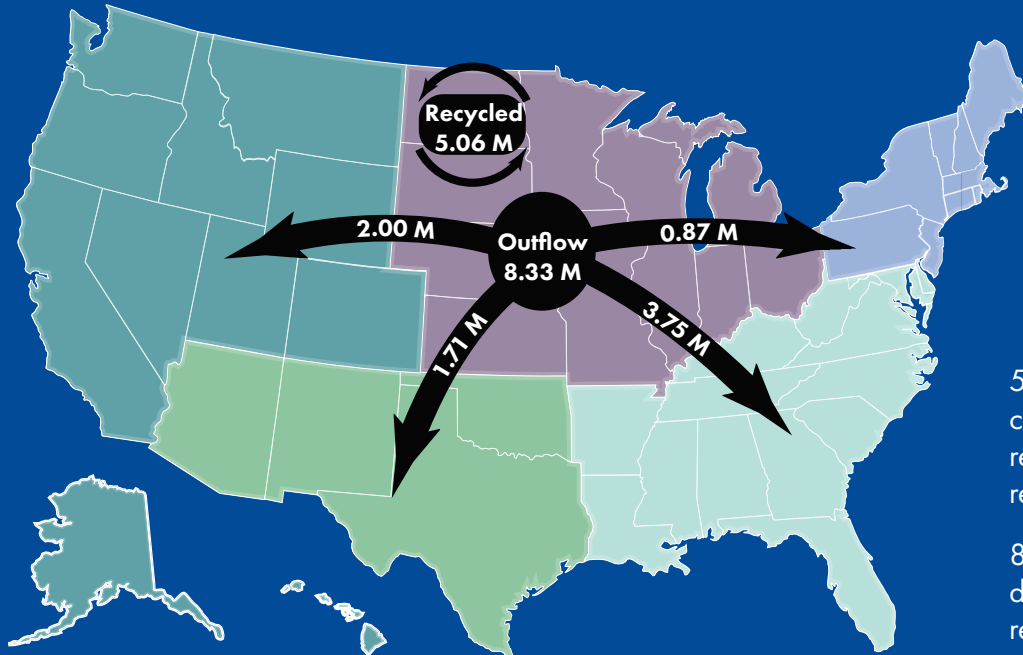
5.94 million people changed residence but remained in the West region.

8.95 million people departed the West region during the period.



Gross Population Outflows

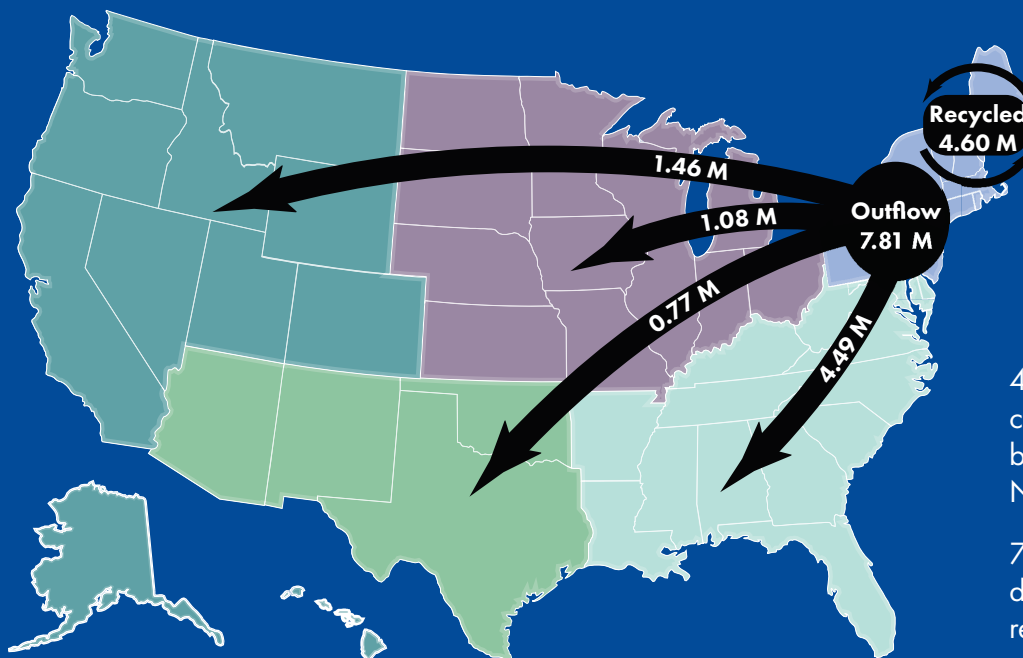
MIDWEST REGION | 2014-2023



5.06 million people changed residence but remained in the Midwest region.

8.33 million people departed the Midwest region during the period.

NORTHEAST REGION | 2014-2023



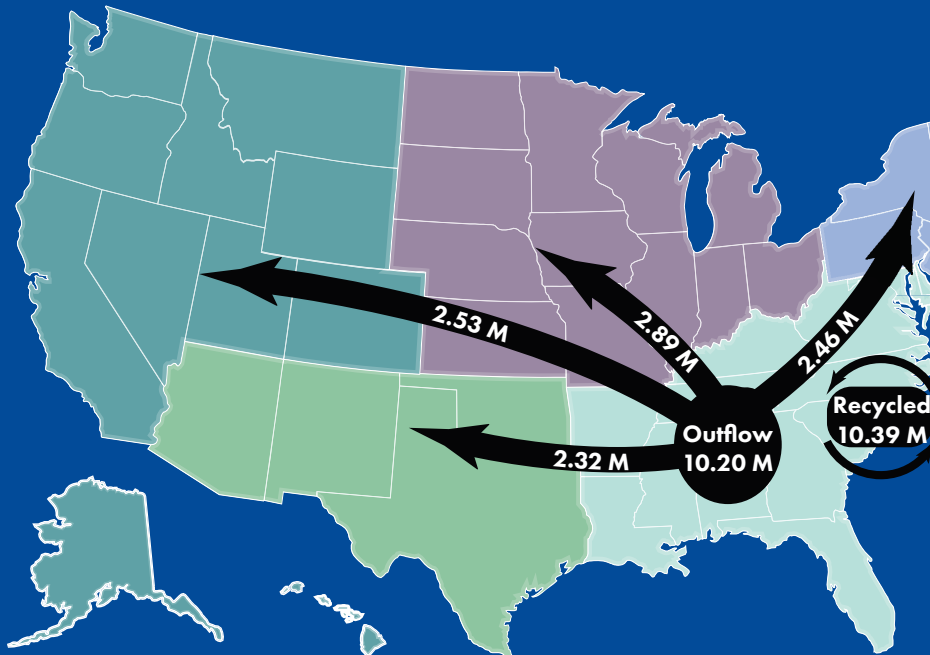
4.60 million people changed residence but remained in the Northeast region

7.81 million people departed the Northeast region during the period



Gross Population Outflows

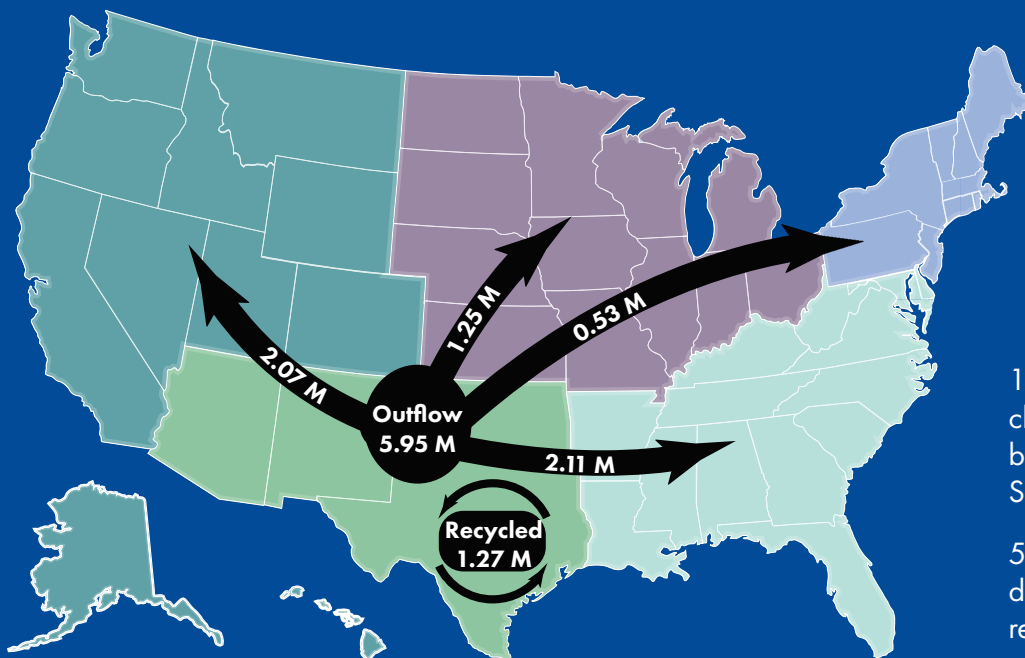
SOUTHEAST REGION | 2014-2023



10.39 million people changed residence but remained in the Southeast region.

10.20 million people departed the Southeast region during the period.

SOUTHWEST REGION | 2014-2023



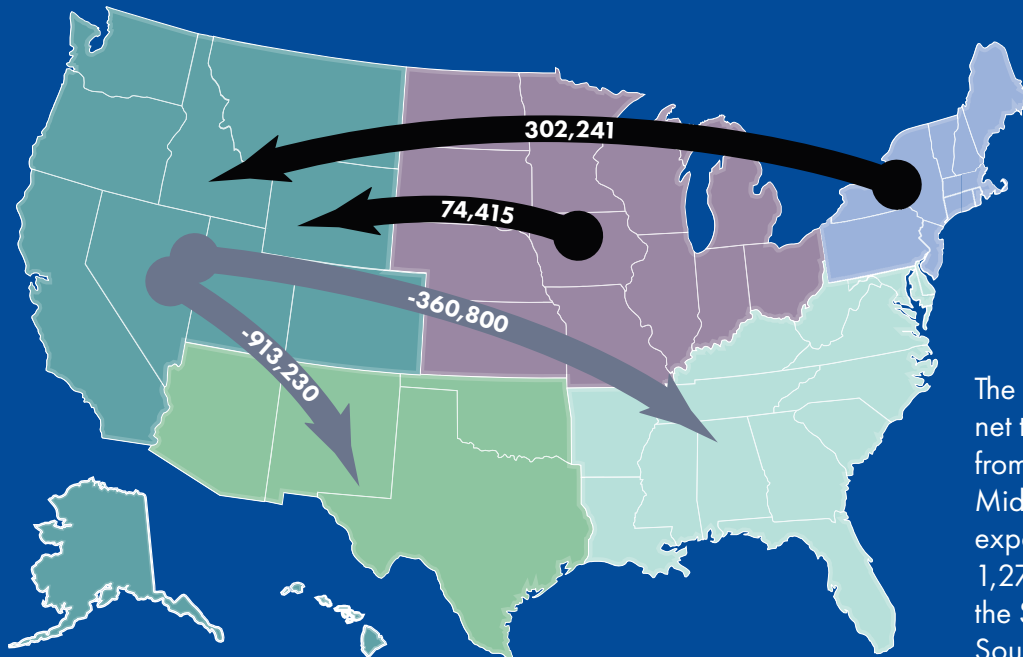
1.27 million people changed residence but remained in the Southwest region.

5.95 million people departed the Southwest region during the period.



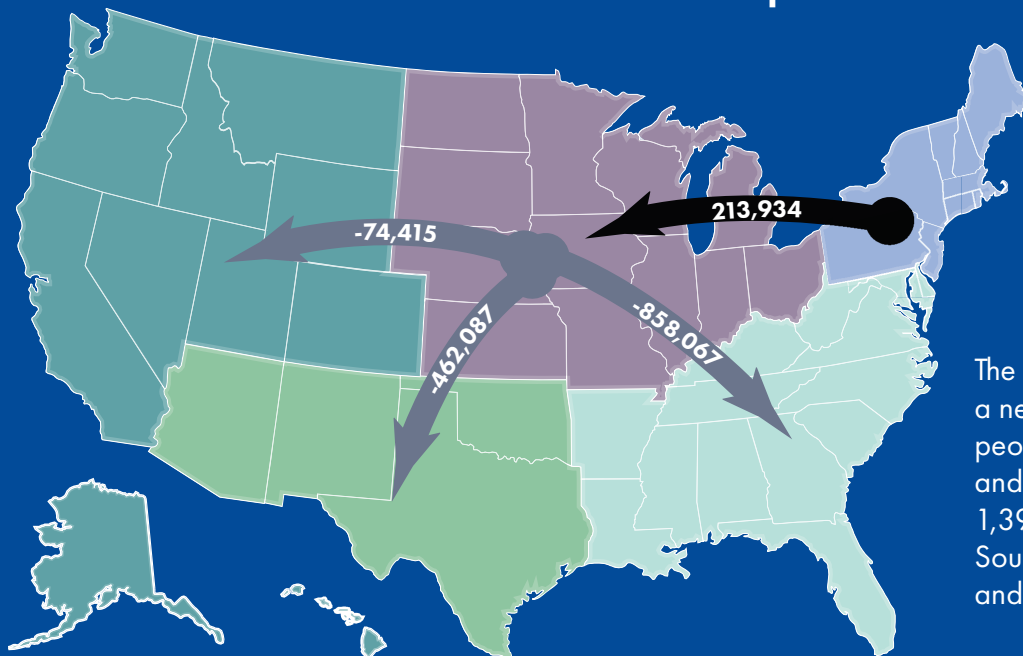
Net Migration (inflows minus outflows)

WEST REGION | 2014-2023



The West region imported a net total of 376,656 people from the Northeast and Midwest regions and exported a net total of 1,274,030 people to the Southwest and Southeast regions.

MIDWEST REGION | 2014-2023

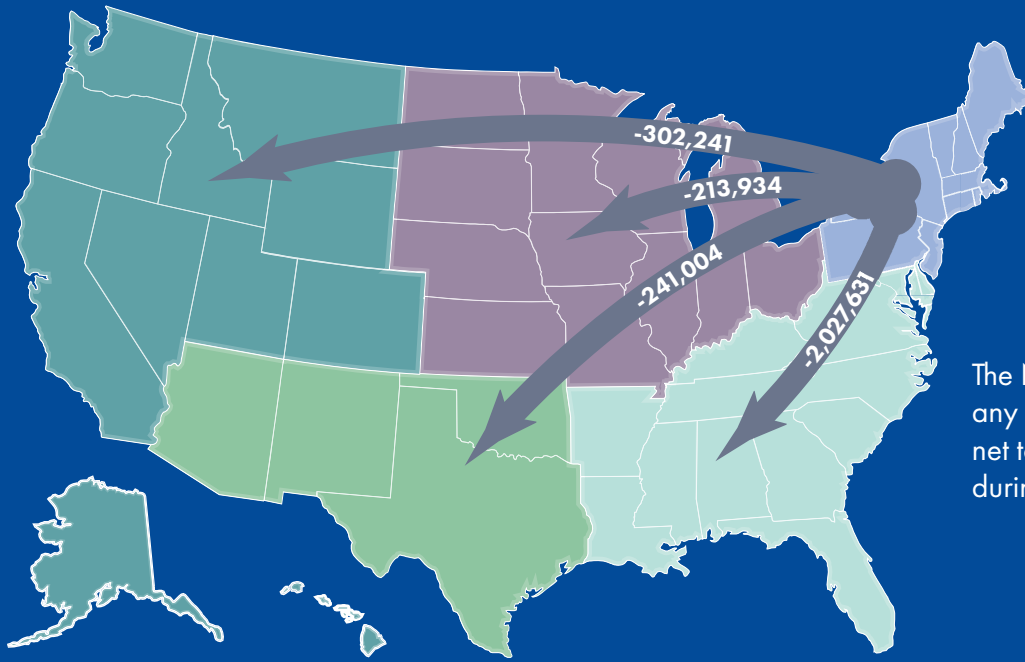


The Midwest region imported a net total of 213,934 people from the Northeast and exported a net total of 1,394,569 people to the Southeast, Southwest and West regions.



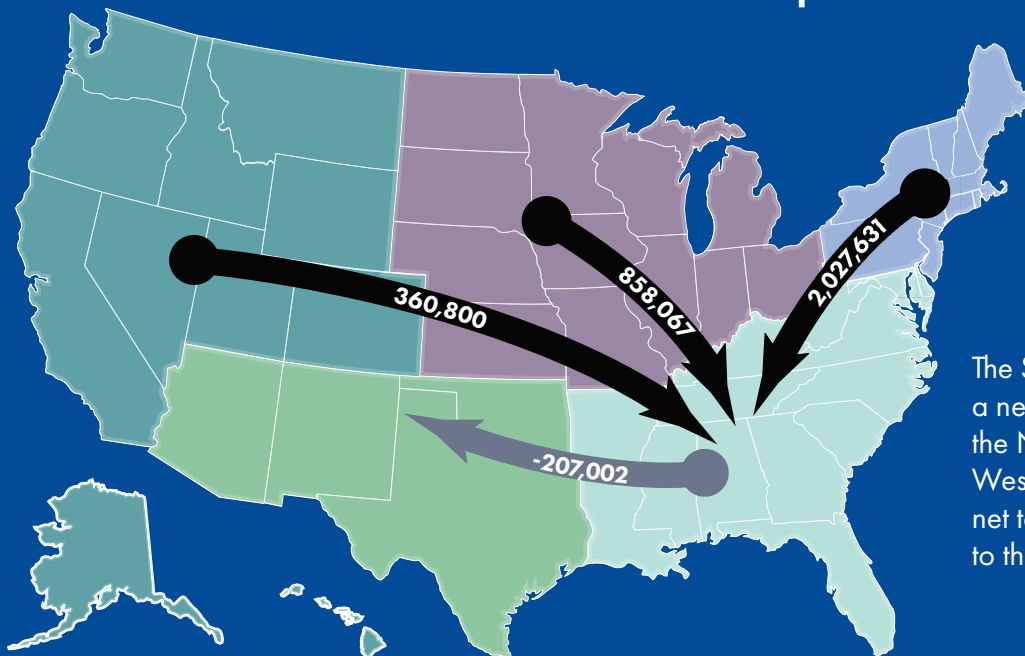
Net Migration (inflows minus outflows)

NORTHEAST REGION | 2014-2023



The Northeast did not receive any net inflows and exported a net total of 2,784,810 people during the period.

SOUTHEAST REGION | 2014-2023

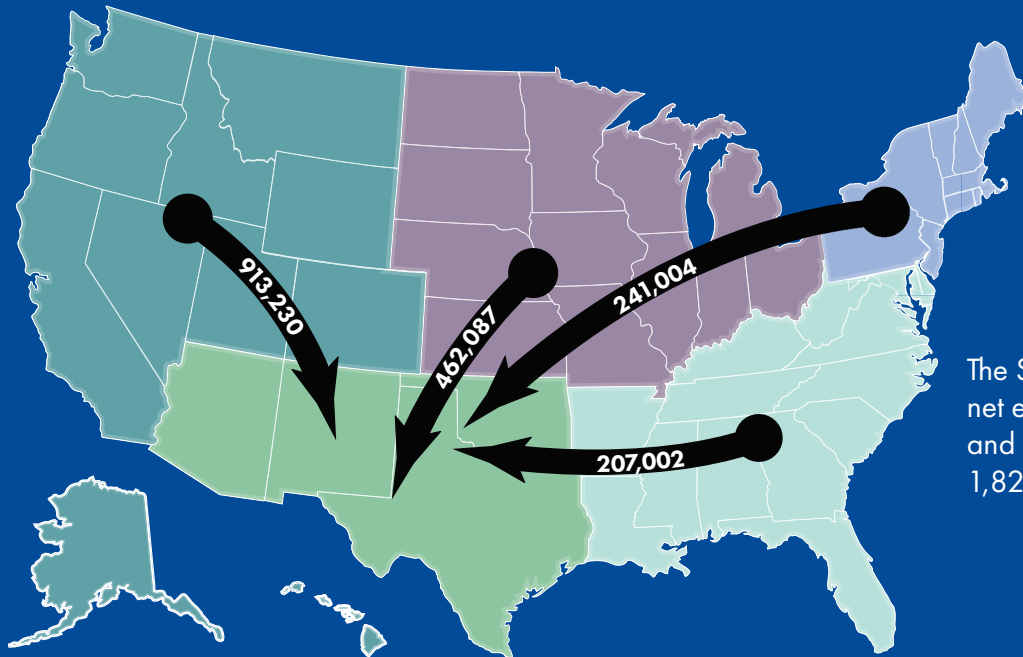


The Southeast region imported a net total of 3,246,498 from the Northeast, Midwest and West regions and exported a net total of 207,002 people to the Southwest region.



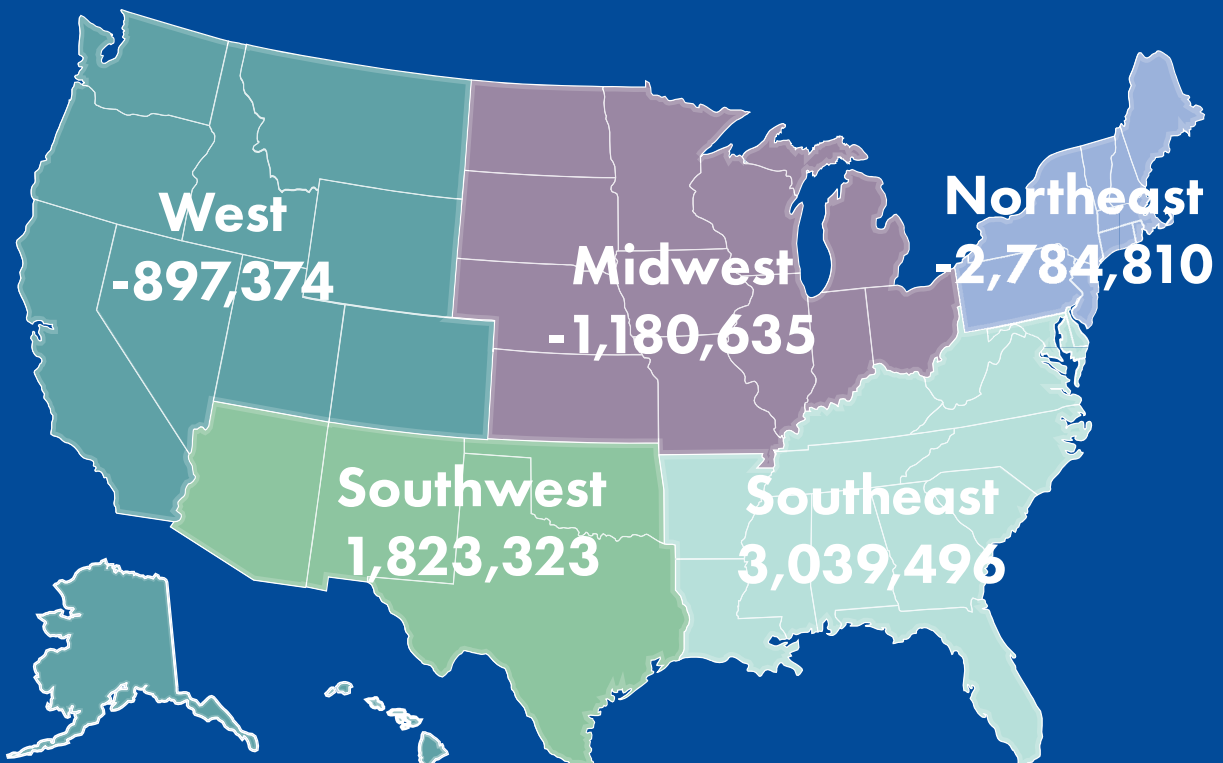
Net Migration (inflows minus outflows)

SOUTHWEST REGION | 2014-2023



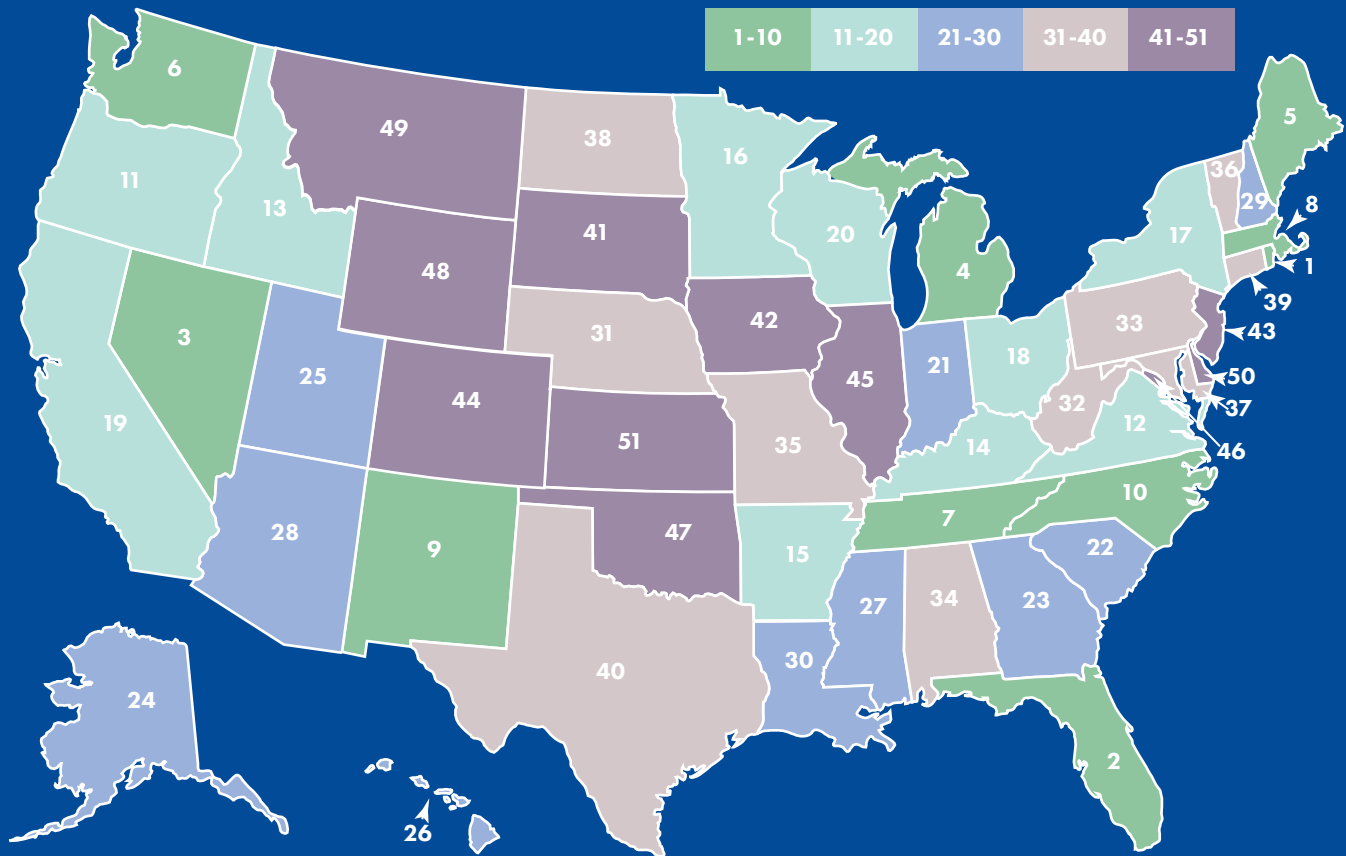
The Southwest did not have net exports to any region and imported a net total of 1,823,323 during the period.

OVERALL DOMESTIC NET MIGRATION | 2014-2023





CRE Rankings | 2014-2023



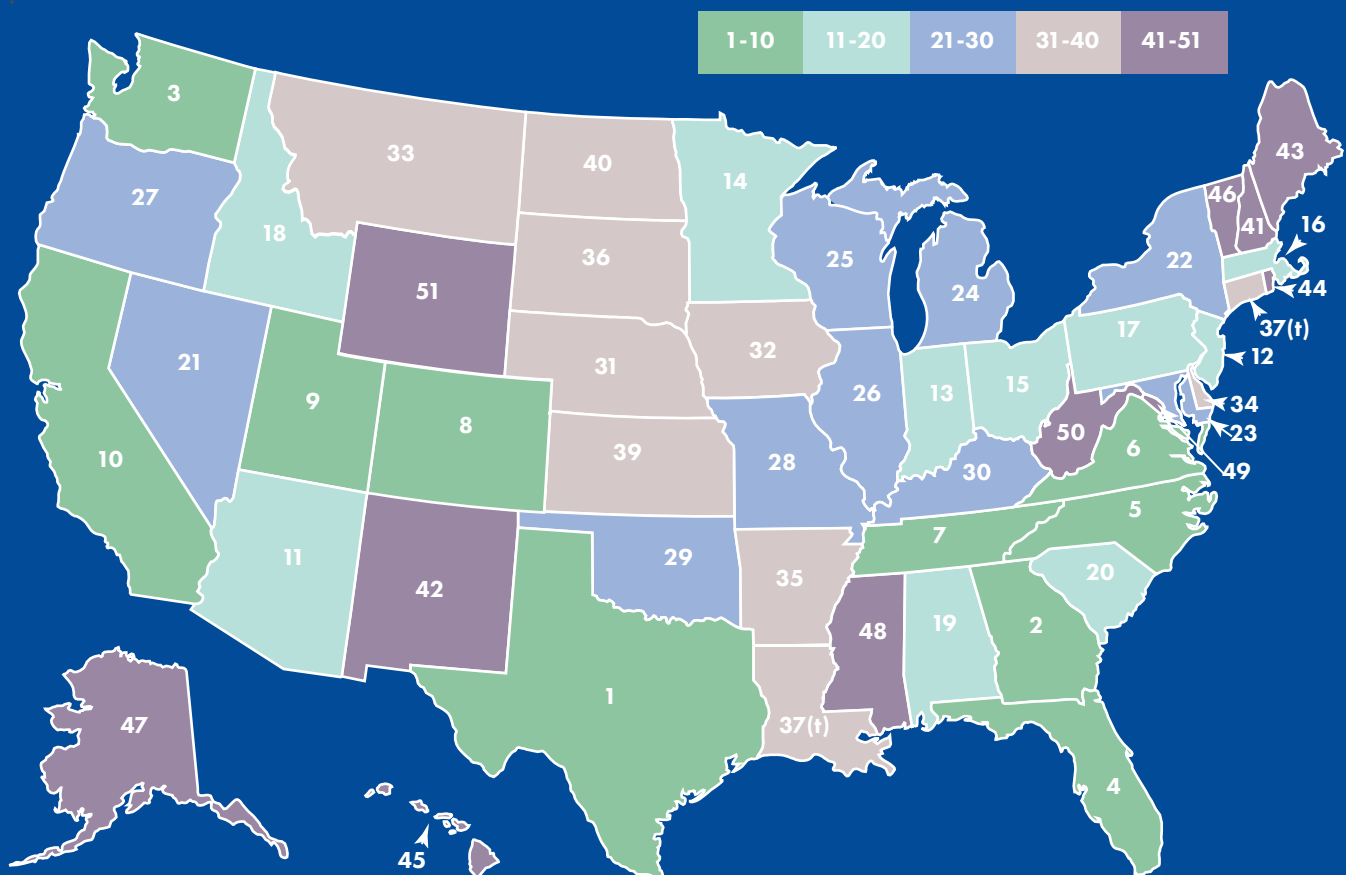
For the ranking method by commercial real estate statistics, Northmarq Fund Management Research weighted by state for the following property types (Office, Industrial, Retail, and Multifamily):

- Absolute net surplus/deficit from 2014 to 2023 (Completions - Absorption)
- Current inventory
- Average vacancy from 2014 to 2023
- Average rent growth from 2014 to 2023
- Average vacancy expected from 2024 to 2027
- Average rent growth expected from 2024 to 2027



Population Rankings | 2014-2023

For population growth statistics, we measured state-by-state changes from December 2014 to December 2023. By using both absolute growth numbers and the percentage change, we were able to take into account both the size of a state and the growth rate relative to size.

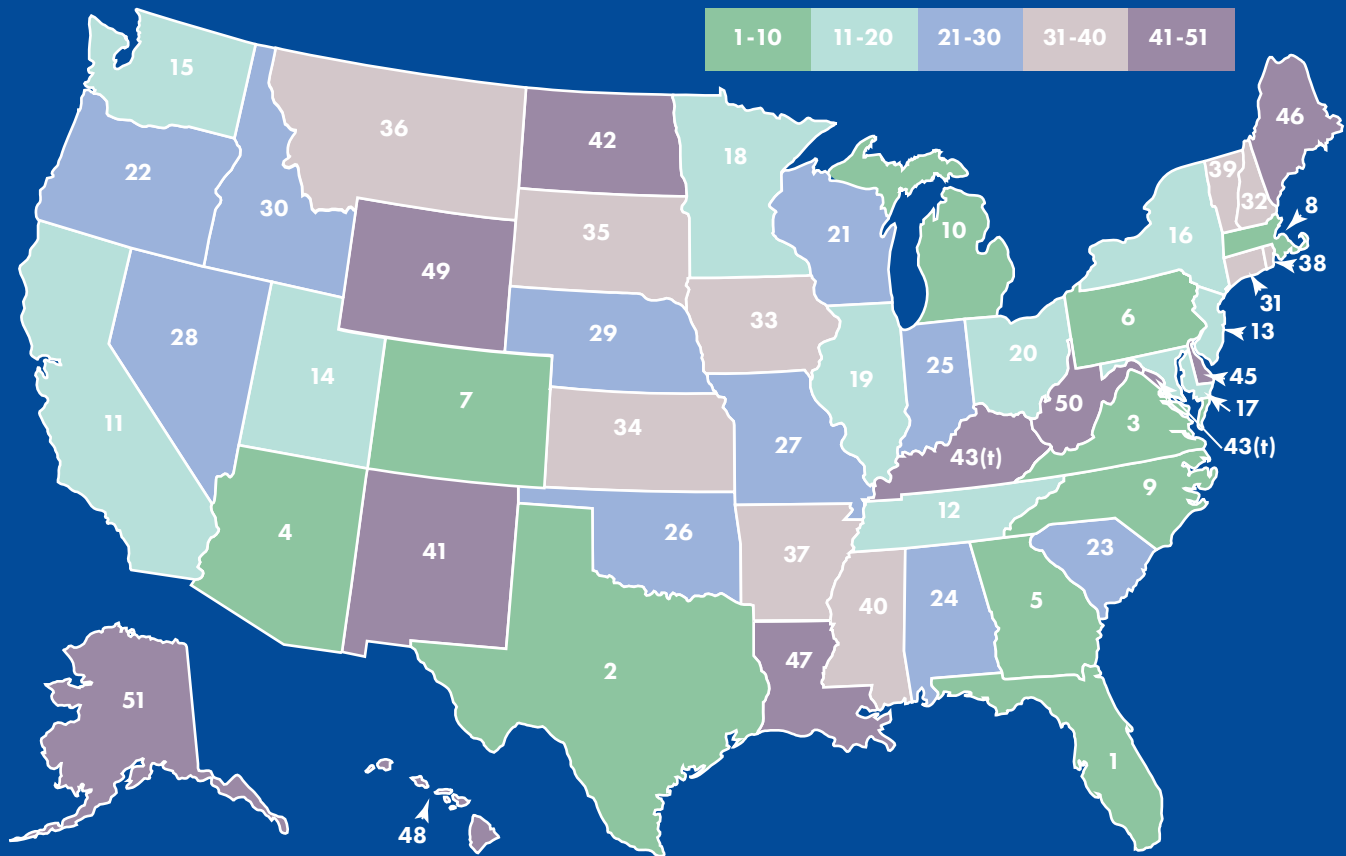


Northmarq Fund Management Research's formula weighted the following factors by state:

- State population
- Absolute population growth from 2014-2023
- Population growth as a percentage change from 2014 to 2023
- Absolute net migration from 2014 to 2023
- Net migration as a percentage change from 2014 to 2023
- Absolute organic growth (births minus deaths) from 2014 to 2023
- Organic growth as a percentage change from 2014 to 2023



Employment Rankings | 2014-2023

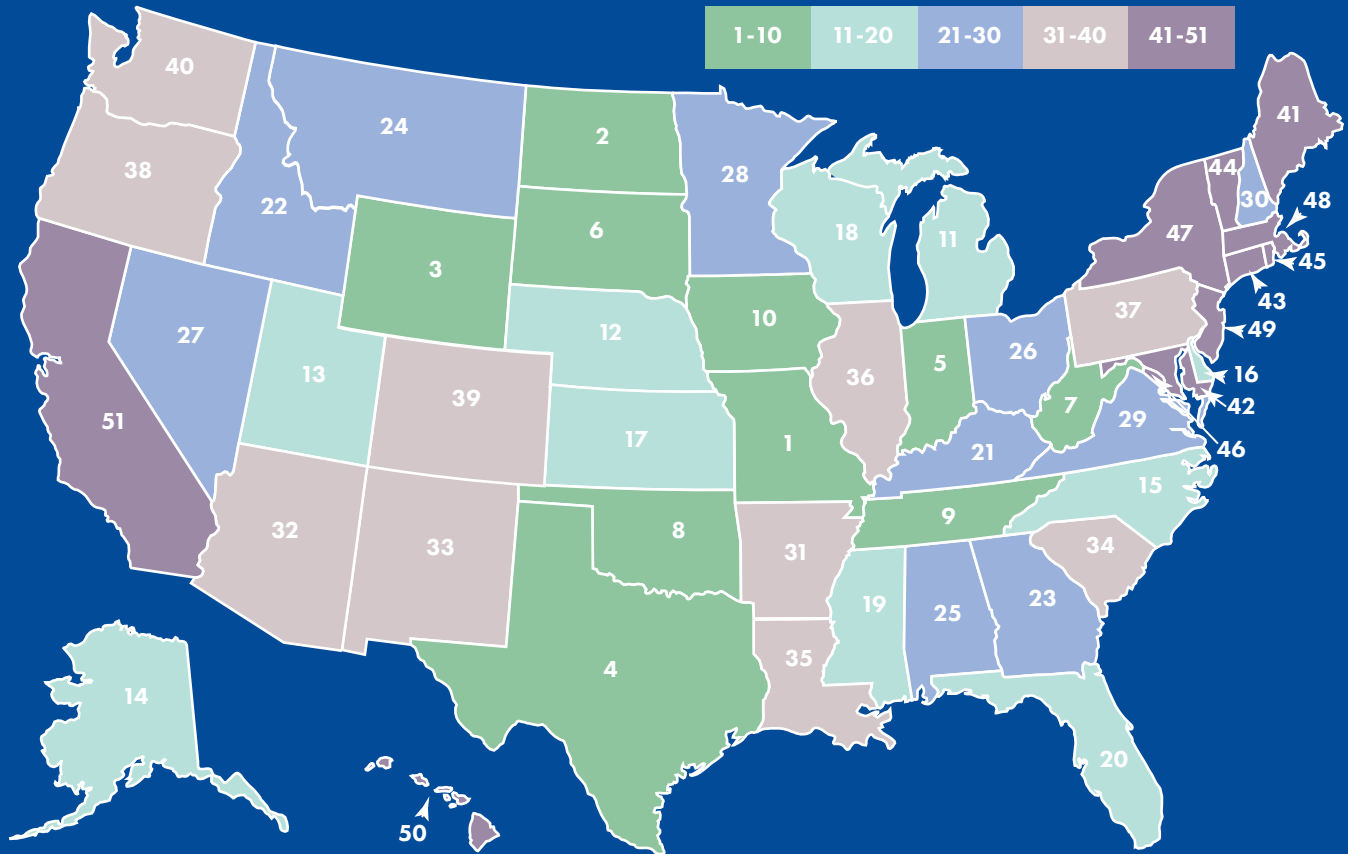


For the ranking method by employment statistics, Northmarq Fund Management Research weighted by state:

- Total employment by state
- Absolute change in employment from 2014 to 2023
- The percentage change in employment from 2014 to 2023
- The state unemployment rate
- The percentage of the state population employed



Financial Rankings | 2014-2023

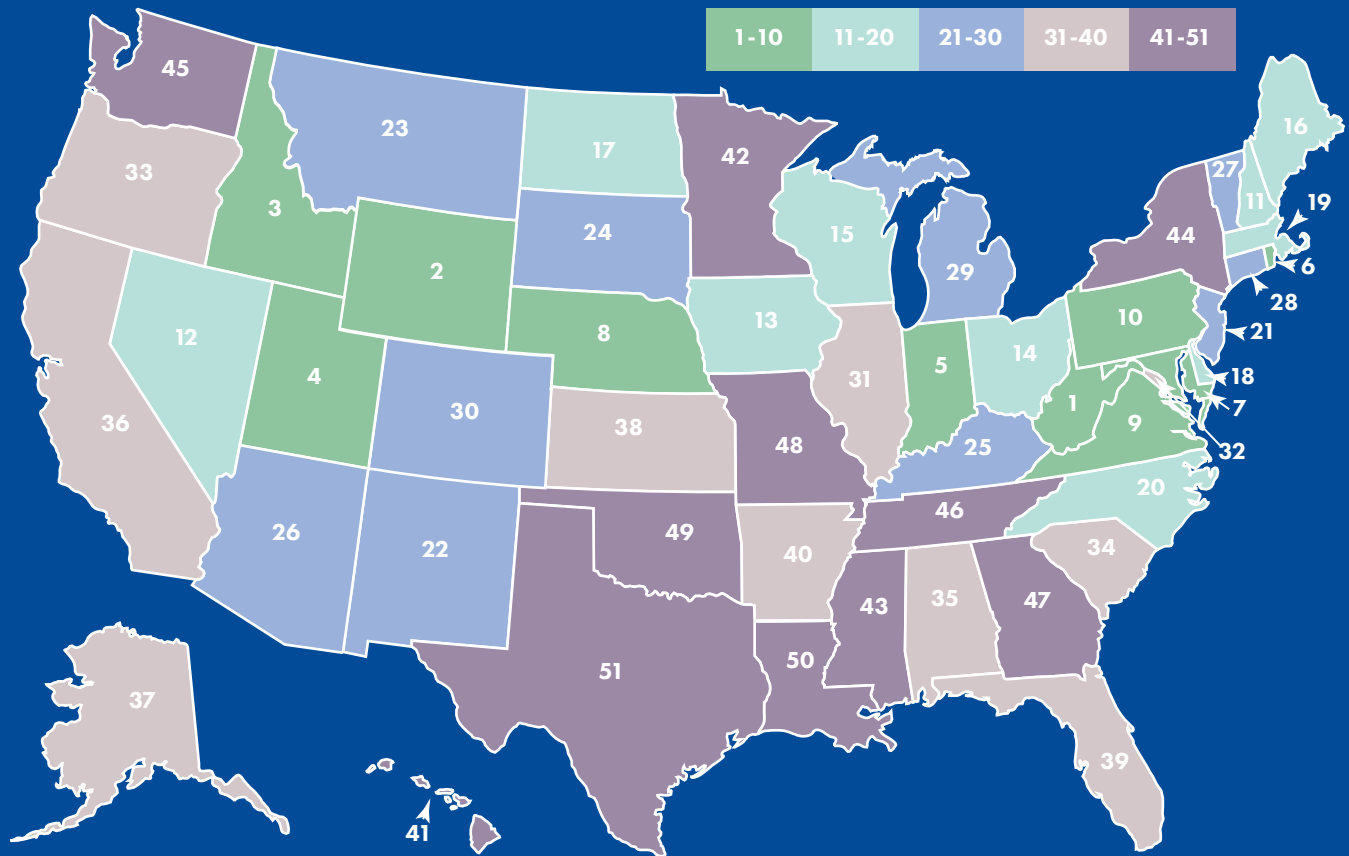


To assess the financial impact to individuals and businesses located within each state, Northmarq Fund Management Research took into account:

- Overall tax burden (combined state income, other state and local taxes, and property taxes)
- Median Home Price
- Median Income
- Ratio of Home Price to Median Income
- Cost of Living (includes groceries, housing, utilities, transportation, health care, misc)
- State Fiscal Stability (state revenue and expenses, reserves, tax revenue volatility, pension funding gap)



Quality of Life Rankings | 2014-2023

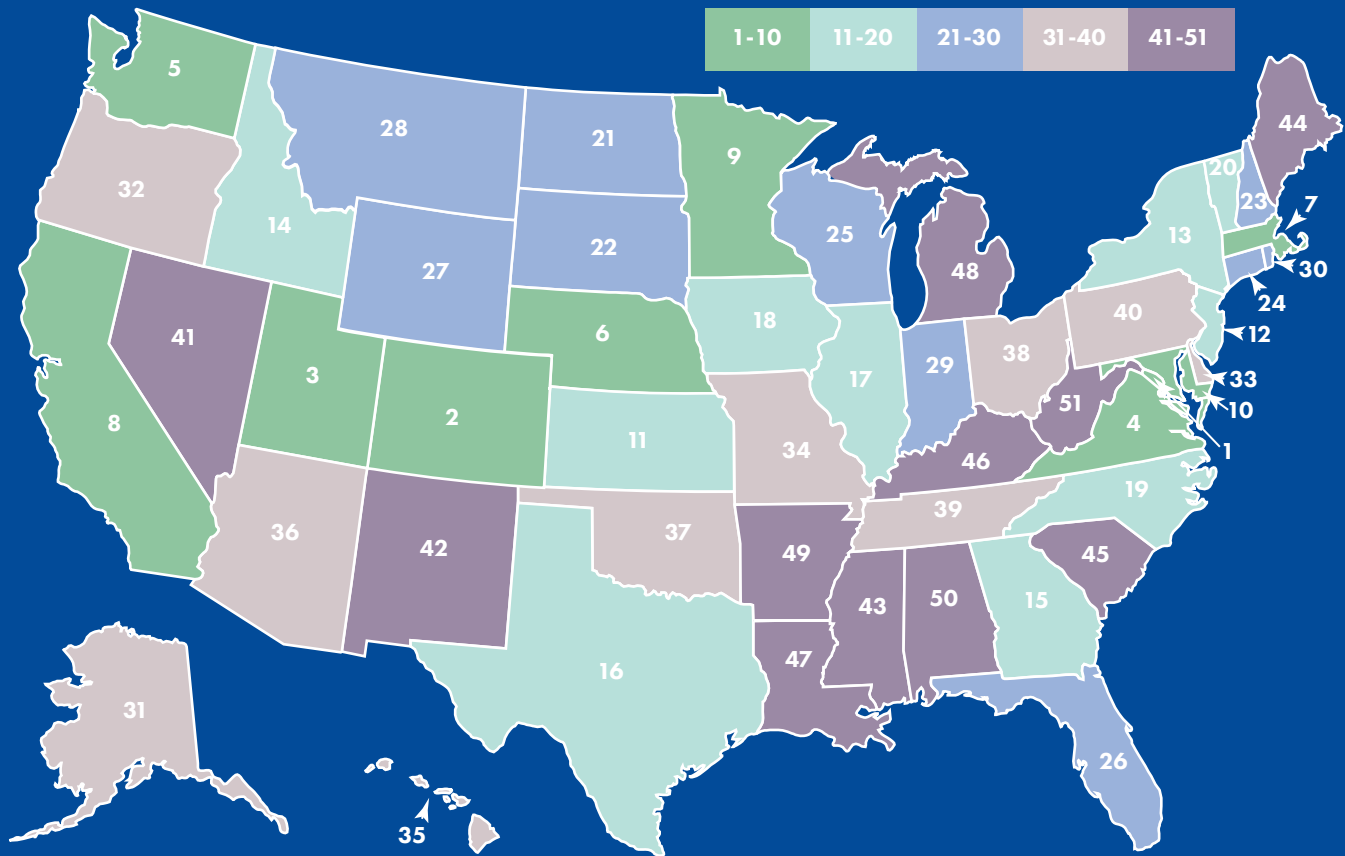


To determine the overall quality of life in each state, Northmarq Fund Management Research weighted factors including:

- Weather (month-by-month average high and low temperatures, precipitation and dew point)
- Traffic (peak hours of congestion per commuter)
- Crime (property and violent crime data)
- Number of Disaster Declarations since 1953



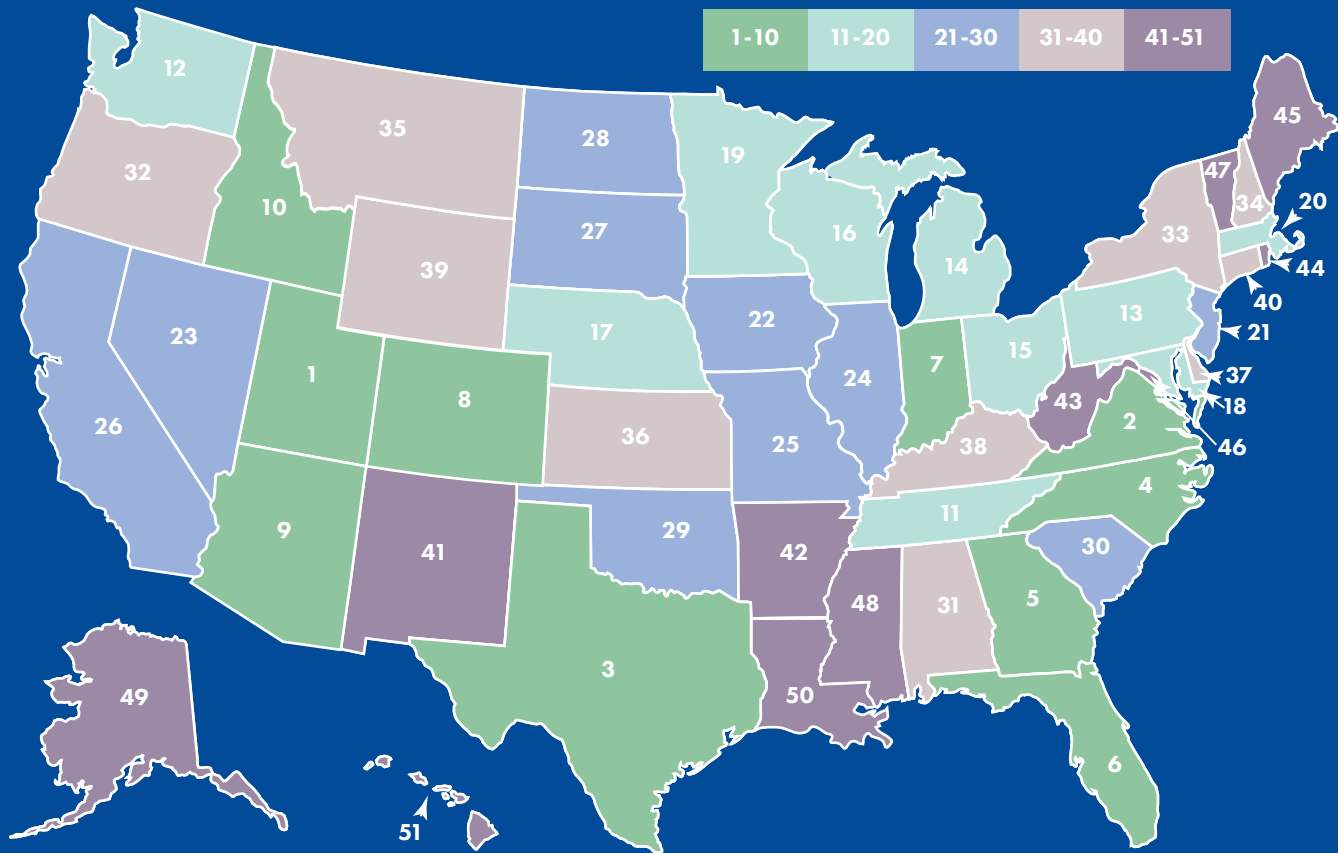
Demographic Rankings | 2014-2023



Demographic factors that affected the Northmarq Fund Management Research ranking of potential economic performance in a given state include:

- Pre-K through 12 Education Ranking
- Advanced Education Ranking
- Educational Attainment (college graduate percentage)
- Median Age (younger states favored for growth potential)

Overall Rankings | 2014-2023



The overall formula included a weighted ranking of the following number of factors in each category:

CRE Statistics:	24
Population:	7
Employment Statistics:	5
Financial Statistics:	6
Quality of Life:	4
Demographic Statistics:	4
TOTAL:	50

SUPPLEMENT



A properly trained investment team should perform multiple layers of due diligence before proceeding with each investment. That diligence process can be broken down into four major categories:

Market Study:

An analysis of demographic trends, economic drivers, employment outlook, supply and demand characteristics of the relevant property type, a comprehensive analysis of the property's competitive position in its broader market and local submarket. The market study should include consideration of relevant environmental risks specific to the property's location and its broader geographic area including probabilities for flood, wildfire, tornado, hurricane, and disruptions to availability of power or water.

Borrower/Sponsor Diligence:

An analysis of the sponsor entity including its capitalization, expertise of the management team, investment and asset management personnel and process, past performance, and background checks (legal, financial and reputational) of key members of the borrower/sponsor.

SUPPLEMENT

Property Due Diligence:

Audit of the property's historical financials, the budget and future financial projections. Review of the property's rent roll, operating expenses, contracts, leases, and tax assessments. Include a report on the physical condition of the property, a study of the environmental risks that impact (or may impact) the property directly or indirectly, a study of the seismic strength of the property and flood risk if warranted by the local area and/or property condition. Investors should also consider the property's access to energy, water and emergency services. Investors should seek to put in place appropriate levels of general property insurance, with typical casualty coverage for most assets, and special coverage for increased risks in a given location (i.e. a separate policy for fire, flood, seismic, environmental conditions, or terrorism).

Price/Investment Basis:

A comparison of the subject property's price and/or investment basis compared to replacement cost and comparable sales within the subject market and in relationship to alternative investment geographic locations. Does the price or investment basis fully account for the economic risks, including those posed by climate change?

The combination of those four focus areas (Market, Borrower/Sponsor, Property and Price) help determine which investment tool to use in a given situation – preferred equity, bridge loan, structured equity, mezzanine loan, B note, or equity. Additionally, the complete evaluation of these four key factors does allow for identification of the primary risks to each investment posed by continued climate change and/or catastrophic events.

Taken together with broader economic and climate considerations, each property's specific location, condition, age and construction will help determine the overall level of potential exposure.

Following identification of the primary environmental factors or natural hazards that could impact an investment, specific risk management techniques might

include a combination of asset-level insurance, Fund-level insurance, and investment structure (e.g. sponsor guarantees/recourse, equity subordination, reserves, etc.). In rare cases, certain mitigation or adaptation techniques may apply, such as flood management systems (levees, seawalls), earthquake retrofitting, and landscape management to reduce fire risk. These types of mitigation techniques may involve consultation with insurers to confirm the impact on cost and availability of ongoing insurance coverage.

A thorough analysis should also consider local policies, laws and regulations that may positively or negatively impact the subject property.

Of greatest concern is that as time passes, the cost and availability of property insurance could be affected in cities impacted the most by climate change and other natural hazards. In the case of specific properties or areas where there might be uncertainty surrounding whether insurance would remain available and affordable during the desired holding period, prudent investors should decline to invest.

Of paramount importance to the risk analysis is the expected holding period of a given investment or portfolio of investments. We should all be mindful of the longer-term risks of climate change and other natural hazards. Over a shorter-term investment horizon of 5 to 10 years, investors should target assets in the path of growth, and should not broadly redline potentially exposed geographies (other than very low-lying areas and those especially prone to fire) since the markets most at risk from climate change are precisely the markets currently growing at the fastest rates and which have the most potential for value appreciation.

As a result of lifestyle advantages, lower taxes and currently favorable climates, in recent years Southeastern coastal states have experienced strong increases in population and jobs. Investors with a longer-term view of portfolio allocations may need to pay special attention to the risks posed to certain geographic locations by ongoing climate change.

SOURCES:

Northmarq Fund Management Research
CoStar
FBI Crime Data Explorer
Federal Emergency Management Agency (FEMA)
Missouri Economic Research and Information Center
National Oceanic and Atmospheric Administration (NOAA)
National Weather Service (NWS)
Reason Foundation
St. Louis Fed (FRED)
Tax Foundation
U.S. Bureau of Labor Statistics
U.S. Census Bureau
U.S. News & World Report
Zillow

