How You Can Profit From the 'Great Relocation' Megatrend

By Patrick Carroll

Much has been written since the COVID-19 pandemic about the "great resignation" and "quiet quitting," but as professional Americans adapt to new and emerging work routines, companies have been quietly engaging in a "great relocation." For investors, this offers a potential road to profit from real estate investments.

44% of CEOs are more open to moving their businesses than before the pandemic.

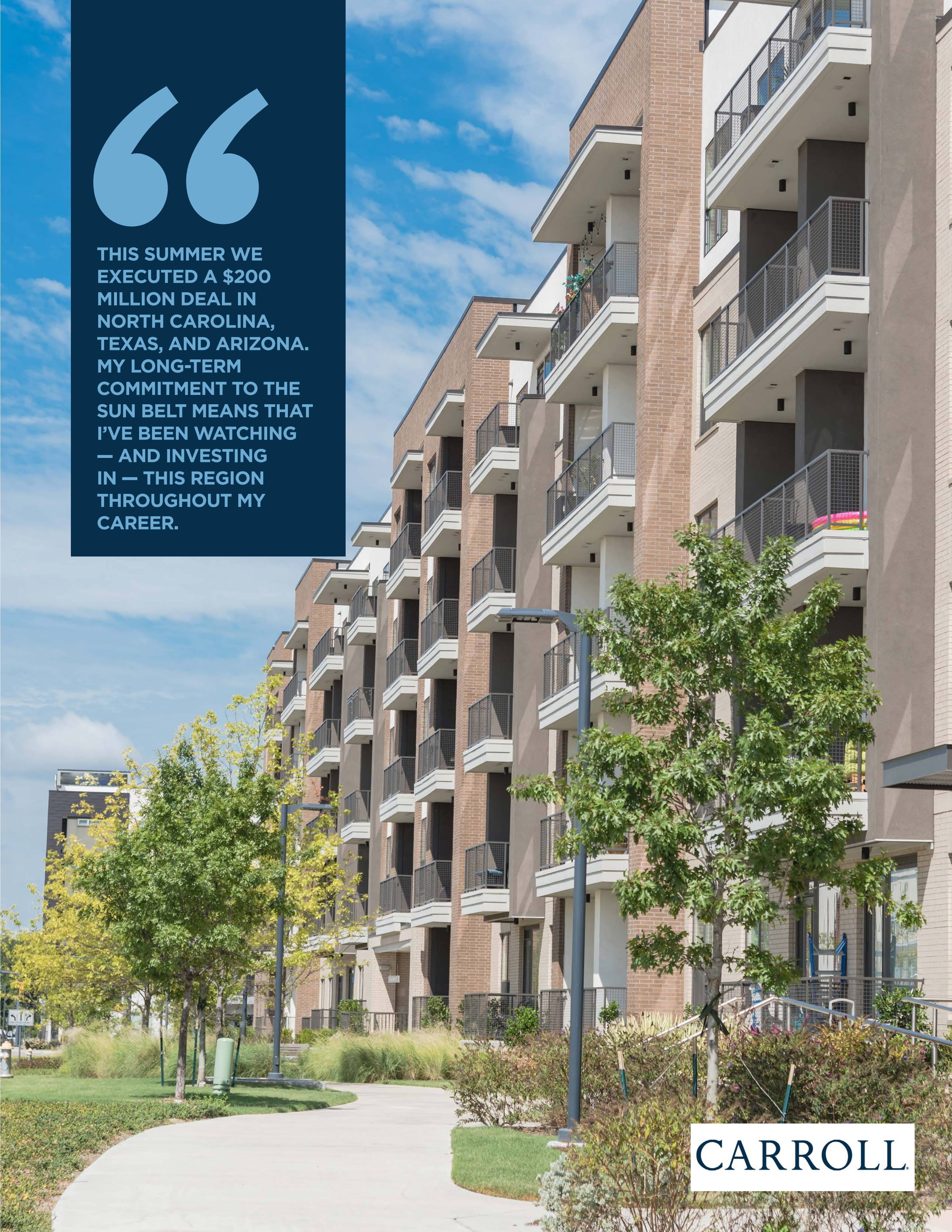
I'm certain this trend will be especially important in the coming years. As the U.S. Federal Reserve raises interest rates to rein in high inflation, pushing mortgage rates ever higher, values in the broad real estate market are expected to decline. As a result, investors in real estate will have to be selective. This means primarily deploying capital in cities that are enjoying secular tailwinds — that is, the Sun Belt states in the American South and Southwest.

At CARROLL, my own real estate firm, the topic has been on our minds for a while. This summer we executed a $200 million deal in North Carolina, Texas, and Arizona. My long-term commitment to the Sun Belt means that I've been watching — and investing in — this region throughout my career. It's gratifying to begin to see my faith in the potential of the South and Southwest shared by other industry leaders.

A 2021 survey of 383 CEOs by Chief Executive magazine reveals that 44% are more open to moving their businesses than before the pandemic and that more than one-third are considering moving their operations or opening significant facilities in a new state. This same survey found that Texas — for the 17th year in a row — is the most popular state for business, followed by Florida. The factors that sway relocation decisions are attractive tax policies, a business-friendly regulatory environment, and the availability of talent.

The pandemic taught companies that many employees can work remotely and remain productive. That means firms operating in high-tax states such as New York, California, and New Jersey can save money by moving while also retaining their existing workforce.

THIS SUMMER WE EXECUTED A $200 MILLION DEAL IN NORTH CAROLINA, TEXAS, AND ARIZONA. MY LONG-TERM COMMITMENT TO THE SUN BELT MEANS THAT I'VE BEEN WATCHING — AND INVESTING IN — THIS REGION THROUGHOUT MY CAREER.



CARROLL

Dallas has in the past year seen 38% of its office space leased by tech companies.

Firms are not alone in benefiting from moving. Employees who relocate stand to benefit, too. The numbers are compelling: By moving to business-friendly states such as Texas or Florida, employees get an effective pay boost of up to 13%, a direct result of not having to pay the notoriously high taxes in states such as California and New York.

Corporations on the Move

Commercial Property Executive reports that five Sun Belt states have attracted notable corporate relocations since the onset of the pandemic: Texas, Florida, Arizona, Georgia, and Tennessee. Texas now hosts Fortune 500 firm AECOM, a construction engineering firm with more than 50,000 workers that moved to Dallas from Los Angeles. Long known as the home of Big Oil, Dallas has in the past year seen 38% of its office space leased by tech companies, among them Hewlett-Packard, which recently moved from San Jose, California.

My own new home, Miami, is fast becoming a center for all things crypto. It should be no surprise, then, that it was one of the few office markets where vacancies declined in the past year. The city is also attracting Wall Street firms, including big names like billionaire Carl Icahn's Icahn Enterprises.

Florida isn't the only state rolling out the welcome mat for powerhouse companies. Arizona is luring tech firms such as Align Technology, maker of Invisalign orthodontic aligners. Phoenix has grown to the level of Tier 2 commercial property market, competing with the likes of Austin and Denver. Georgia is now home to Papa John's International and railroad firm Norfolk Southern. Atlanta is a popular relocation destination for tech firms drawn to its tech incubators and the Georgia Institute of Technology's graduates. Tennessee is attracting companies with tax credits, infrastructure assistance, energy credits, and subsidized loans and grants.

A long-term factor in the ongoing corporate migration to the Sun Belt is demographics, which suggests the trend has many years to run. The Sun Belt accounted for 163 million people, 50% of the U.S. population, in 2019. That number is forecast to reach 55% by 2030, according to Moody's Analytics, which found that the 18 states accounted for 75% of total U.S. population growth between 2008 and 2018. Between 2020 and 2040, the population of Texas is forecast to grow by 35.2%, Florida by 32%, Arizona by 26.1%, North Carolina by 19.8%, and Georgia by 19.5%. By contrast, the populations of New York and New Jersey are expected to grow by 4.2% each, while Illinois's population is set to shrink by 3.1%.

Investments in West, South Outperform East, Midwest

Another tailwind has been tax code changes, notably the $10,000 cap on state and local tax deductions, which has made owning a home and living in high-tax states such as California, New York, and New Jersey less attractive economically.

According to Moody's Analytics, rents in the Sun Belt have been expanding faster than those in non–Sun Belt states in multifamily, office, industrial, and retail, providing a boon for real estate investors. Those rising rents are reflected in investment returns in the Sun Belt outperforming non–Sun Belt states for the past 20 years. In fact, according to NCREIF data, through the end of June, returns on real estate investments over the previous year were up in the West by 21.45% and in the South by 24.92%. This means they've significantly outperformed returns in the East and the Midwest, which were up by 15.48% and 13.59%, respectively.

All this creates a virtuous cycle that should support real estate investing in the Sun Belt states for years to come. As more Americans move south and west, the price of land has increased, corporate relocations have buoyed demand for office space and demand for multifamily rentals has increased, pushing rental income higher. More people translates into more demand for retail and more freight deliveries to the Sun Belt, driving demand for investment in logistics properties there as well.

The stock market may be struggling, but for active real estate investors seeking strong returns, now might be the time to follow the sun.

Between 2020 and 2040, the population of these states are forecast to grow:

Texas
35.2%

Florida
32%

Arizona
26.1%

North Carolina
19.8%

Georgia
19.5%

CARROLL

Patrick Carroll is the founder and chief executive officer of real estate investment company CARROLL.