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News & Information

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Why Investors Are Seeing First-Rate Opportunities in Secondary Markets

Earlier this year, the PwC Emerging Trends in Real Estate 2022 report highlighted an interesting fact. While primary real estate markets, like New York and San Francisco were under performing amid pandemic uncertainty, so-called “secondary” markets, like Nashville and Denver, have been seeing a renewed wave of investor interest.

Though, as PwC points out, this is part of an ongoing trend that predates 2020, there are still some interesting developments to keep an eye on. For instance, for the first time in a decade we are seeing new metros, like Phoenix, crack the PwC top ten ‘markets to watch.’

A Place in the Sun

Many of the other markets generating new interest also occur in the Sun Belt states, the region encompassing Arizona, Texas and the Carolinas that stretches across the Southern US.

As the rest of the country has faced an uphill struggle in terms of regaining economic productivity, the Sun Belt metros seem to be bucking the trend. In many cases, these areas have shown a much faster economic recovery and a tendency for solid performance under difficult conditions.

Coupled with the fact that Sun Belt metros are known for enhanced quality of life, and a business-friendly environment, it’s not really surprising that their popularity has sky-rocketed.

‘Supernova’ Metros

In their report PwC also included a new classification: Supernova markets. Described as markets with superior investor appeal and exceptional growth prospects, the category includes star performers like Austin and Raleigh/Durham.

Further north, the city of Boise is an unexpected entrant on the list, with a population of only 800,000 people. Despite its small size, Boise metro has ranked among the US top twenty over the last two years.

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While some of these names may come as a surprise, the rise to prominence of smaller metros is perhaps to be expected in the current climate. Given the global trend towards better work-life balance and a flight to quality, it seems only natural that people would want to live and work in places that offer a different pace of life.

A Broad Investor Base

With both businesses and individuals moving into these areas, demand for properties has grown across multiple sectors. For example, many are seeing increased investment in multifamily, as well as strong demand for warehouse and industrial. And, while it's worth noting again that this is part of a larger long-term trend, investment activity in these metros certainly seems to have accelerated over the last year and a half.

A more recent force driving the rise of secondary markets is unprecedented levels of interest from foreign investors. According to data from the Association of Foreign Investors in Real Estate (AFIRE), around 71% of investors intend to buy property in secondary US markets over the next 3-5 years. By contrast, AFIRE says only 32% are looking to buy in larger gateway cities.

Shifting Perspectives

While it's never a good idea to make snap judgments on the market, these figures certainly seem to indicate a sea change in the attitude of cross-border US investors. Whereas big city real estate was once considered the obvious staple of any portfolio, it's now properties in the smaller, scrappier metros that are attracting attention. In a climate of uncertainty, these smaller metros often offer an attractive combination of safer investment opportunities and strong returns.

From the perspective of the commercial real estate (CRE) professional, it's a market full of interesting opportunities and new ways to build value through both local and foreign investment. But, as always, the key to capitalizing on those opportunities lies in smart analysis of current trends and performing due diligence for every investment.

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