

Phoenix Economic Health and Urbanization Revisited: 6th Migration Under Way?

Recent Trends

Employment

Over the last decade, large gains in professional & business services and healthcare have transformed Phoenix into a destination for skilled labor and high paying jobs. Examples of this can be found in places such as the Price Corridor, which is currently home to companies such as Intel, Wells Fargo, General Motors, PayPal and Orbital ATK. Plans are underway to further develop these areas. A recent concept known as Innovation Square would expand the Price Corridor by turning 15 acres of agriculture land into a project modeled after the corporate campuses of Northern California.

Phoenix has made particularly large strides in establishing a world-class center for cancer research. In February, the Mayo Clinic in Northern Phoenix unveiled a \$400 million proton-beam therapy unit, which is expected to significantly increase patient draw. Also in February, a public-private partnership called, Cancer MoonShot 2020 was launched to focus on immune system therapy and targeted treatments. In 2017, The Mayo Clinic and ASU will open the Mayo Medical School.

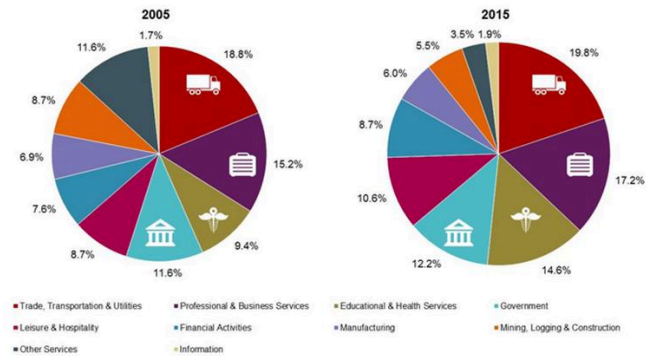
Demographics

Much focus has been given to the re-urbanization (fifth migration) America's core cities. Americans today are more likely to be single, marry later and have smaller families than previous generations. It is understood by many that millennials (and a rising class of retiring baby boomers) are renters by choice, drawn to the city for the live-work-play lifestyle that it offers.

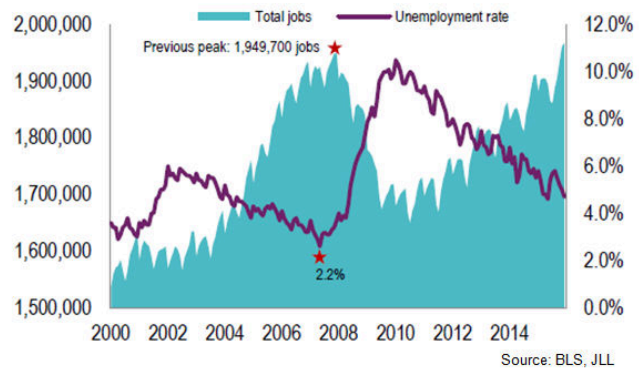
After the 2008 credit crisis, the traditional "American Dream" of owning your own house was scrutinized and put to the test. People realized that housing prices do not necessarily have to go up forever and therefore questioned the validity of thinking of their house as an investment. Today's US homeownership rate is 64%, compared to 69% in 2005. In Arizona, the rate is 62%, vs. 72% in 2005.

A final explanation for the recent surge in urban living is the additional productivity created through idea sharing. In *Triumph of the City*, Edward Glaeser argues that humanity's greatest talent is the ability to learn from each other and we learn more deeply when we are face to face. Therefore, the dense nature of cities magnifies humanity's strength and is the driving factor of progress throughout the world.

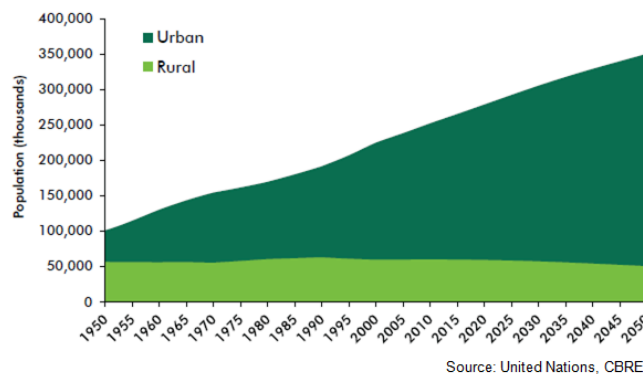
Phoenix Employment: 2005 vs. 2015



Total Jobs vs. Unemployment Rate: Phoenix



The U.S. Urban Population Will Continue to Grow



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Market Impact

Developers across the country have become subscribers to the notion that millennials will be hanging out in America's cities for the foreseeable future. It is widely understood that millennials are more educated than previous generations (Between 2000 and 2013, the share of adults living in Brooklyn who were 25 to 34 years old and had bachelor's degrees rose 50 percent. Same in Washington, D.C.) and have more disposable income, given their low propensity to start families. The market's natural response has been a dramatic increase in the supply of class A apartments.

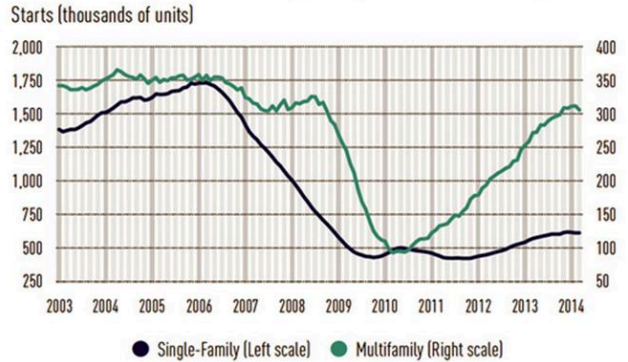
Everest Insight

If having fewer and smaller families are key inputs to the surge in urban living, why are people having fewer and smaller families? If the driver of that is short term, maybe we need to reconsider our urbanization projections. According to Brookings Institute demographer William Frey claims, "A lot of this so-called 'return to the city' has to do with people being stuck in place because they can't qualify for a mortgage, they can't get a job, they're still paying tuition, they're living in their parents' basement. All of that is a time-specific, almost generation-specific phenomenon. It's hard to pull that out and say this just means people are going to stay in the city... Americans are still moving at much lower rates than usual. During economic down times, we're more likely to stay put wherever we are because we're not moving for new jobs, or to buy new homes, or because many of us are putting off major life transitions like having a family or moving out on our own." It will be interesting to see what happens as foreclosure victims are released from the penalty box and millennials start having babies.

Opportunities

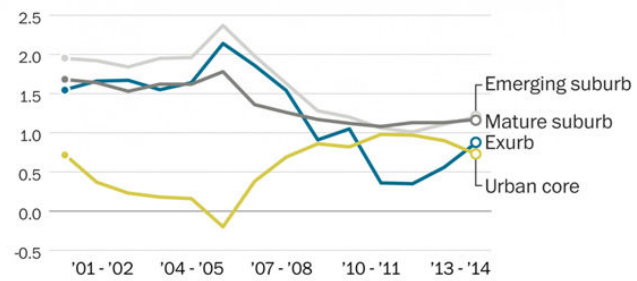
Given the data's conflicting messages, it is hard to say whether the majority of millennials will end up in the cities or the suburbs. Only time will tell. What we do know is that they have largely become accustomed to the perks of urban living. If/when they start having families and can no longer afford to live in the city, they will probably be more attracted to something in-between the city and the suburbs. Projects/communities that are able to offer the affordability and open space not found in city centers with the walkability absent from traditional suburban neighborhoods will be the big receivers of millennials as they move into the next phase of their lives.

Single-Family Construction Stagnates, While Multifamily Booms



Source: Harvard University

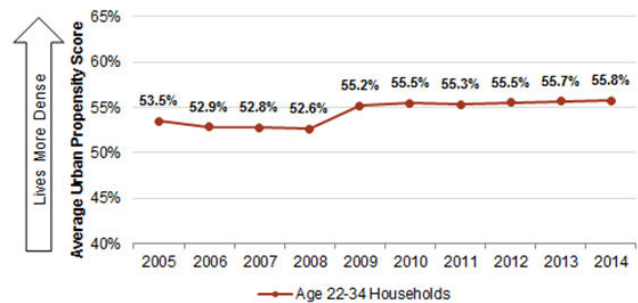
Suburbs Growing Faster Than Urban Core



Counties in metro areas with 500,000 people or more are categorized.

Source: The Brookings Institute, U.S. Census Bureau

Millennials Prefer City Living



Source: U.S. Census Bureau; RCLCO

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