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How Covid-19 migration, housing trends will remake the suburbs

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Millennials, the biggest homebuying generation, were starting to decamp urban apartments for suburban homes in the years leading up to the pandemic, seeking space, affordability and desirable school districts. Companies were leaving pricey Northeastern and California cities for tax-favorable cities in states like Texas, Florida and the Carolinas, with their workers following suit.

Since the onset of the Covid-19 pandemic, those trends have sped up and are fundamentally reshaping high-growth markets across the United States.

An analysis of U.S. Census and Internal Revenue Service data by *The Business Journals* found, for example, more people moved out of Davidson County, Tennessee, where Nashville sits, than into Davidson: 15,468 moved to Davidson while 20,249 moved out in tax-filing years 2019 and 2020. Harris County, Texas, the home of Houston, saw 52,923 tax filers move there in 2019 and 2020, while 66,477 moved out.

Also consider Charlotte, North Carolina: 20,223 moved to Mecklenburg County, where Charlotte is located, compared to 24,210 who moved out in tax-filing years 2019 and 2020.

But the bulk of tax filers who moved out of Mecklenburg stayed in the Charlotte metro. Cabarrus County, which is north of Charlotte, saw 3,413 tax filers relocate from Mecklenburg in 2019 and the first year of the pandemic. Union County and York County, South Carolina, both south of Charlotte, saw 3,051 and 2,514 tax filers, respectively, come from Mecklenburg in 2019 and 2020.

A combined 27,914 tax filers who moved out of Harris County, Texas, relocated to Fort Bend and Montgomery counties in 2019 and 2020 — the former a western suburb of Houston, the other north of Houston. Going back to Music City, the top 10 counties where most households relocated out of Davidson were also in Tennessee. All but one (Shelby County, part of the Memphis MSA) were in the greater Nashville region.



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Migration and suburbanization trends observed since the Covid-19 pandemic are closely tied to housing, as households seek inventory and affordability and, perhaps, have new priorities since the pandemic.

Those migration and suburbanization trends are closely tied to housing, as households seek inventory and affordability. After all, the median home value in Nashville's Davidson County, as of July 31, was \$458,999, compared to \$419,325 in nearby Rutherford County, according to Zillow Group Inc. (Nasdaq: ZG) data. Mecklenburg's median home value of \$419,619 at the end of July is more expensive than Cabarrus County's \$383,928 median home value.

It's also likely buyers have new priorities since the pandemic began. Commuting to an office only once or twice a week, if at all, may be an acceptable compromise for employees who now have to drive a longer distance.

But housing inventory in a metro like Nashville or Charlotte was tight even before the pandemic, and relocations to suburban and Sun Belt cities were already being observed.

"It was the perfect storm at the beginning of the pandemic," said Anne Marie DeCatsye, CEO of Canopy Realtor Association, which represents Charlotte-area Realtors. "So many millennials are moving to Charlotte, as well as their retirees, parents, grandparents. People were staying in their homes, so the move-up buyers weren't moving, and boomers were aging in place, so the inventory became tighter and tighter."

"Between the pandemic and work-from-home phenomenon, it really accelerated the activity in the outlying counties," she continued.

Doughnut effect of suburb migration

What's being observed in a city like Charlotte may prompt concern a doughnut effect is starting to take place, a phenomenon of city centers being hollowed out as migration and housing demand shift to suburban counties.

Michael Spotts, senior visiting research fellow at the Urban Land Institute's Terwilliger Center for Housing, said the pandemic's effect on housing and other sectors will have a long tail. It remains too early to say exactly how much things like remote work will continue to influence homebuying trends.

Most economists and observers are quick to note the housing and population boom of the suburbs isn't correlating with a cratering effect in the urban core. Joe Kane, a fellow at Brookings Metro (part of the Brookings Institution), said the shift to the suburbs isn't a zero-sum game.

"I have a fundamental belief that there's always an economic need, to say nothing of a personal and cultural need, for cities to survive and thrive," he continued. "That should go beyond budgets and short-term dollars and cents. But the suburbs, I think, excluding the climate question, are in a position of greater strength financially."

BIGGEST COUNTY-TO-COUNTY MIGRATION

Based on tax-filing years 2019 and 2020

Source: IRS and U.S. Census Bureau data

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Still, if households continued to be priced out of housing in or near a center city — where many jobs are still based — or choose to relocate to nearby jurisdictions, that will have long-term fiscal implications for cities. Less tax revenue from sources like property taxes, commercial or residential, would have a significant ripple effect that local politicians would have to contend with.

"That gets into issues of paying for infrastructure, schools and subsidies for the most vulnerable members of society and other needs," Spotts said.

A study he recently conducted for ULI found while growing regions still offer a large supply of attainable housing, many haven't demonstrated they can produce enough housing of the right type in the right locations — what Spotts called the dimensions of supply — to keep from following the same trajectory of established, higher-cost markets.

Spotts' study categorized major U.S. cities into four buckets: establishment (gateway markets), magnet (high-growth cities), niche (slower growth) and backbone (affordable markets not seeing much growth but are overall stable).

In "magnet" cities like Nashville, 35.4% of households are renters, and 79.3% of two-bedroom units are affordable for a four-person household earning 80% of the area median income, according to ULI. The study estimated it would take about 30 months to save for a rental unit for a four-person household earning 50% of the AMI.

"When you look at the magnet markets, these areas people are talking about as the economic engines of America, the affordability trends are starting to converge with establishment markets," he said. "Austin and Nashville are not as expensive as (Washington,) D.C. and Silicon Valley but they look a lot more like your high-cost coasts than they do your Pittsburghs and Columbus." "

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Builders starting to pull back as the housing market slows may keep inventory stymied in high-growth markets that are already undersupplied, exacerbating affordability challenges. If a region has a diverse range of housing developers — including those that specialize in smaller, denser residential developments — those groups are likely pulling from different capital sources than, for example, big homebuilders, Spotts said. Allowing a range of density in zoning regulations may help a market avoid going from boom to bust in housing production.

And because growth in the suburbs means growth in multiple, separate jurisdictions, a patchwork of different rules, regulations and taxes in a single MSA is not uncommon. Managing the growth of that broader region then becomes a bigger challenge.

In fact, laws around housing and zoning remain jurisdictionally fractured, Kane said, which has implications for not only suburban housing but a region's transportation network and the impact of that growth on climate change.

"There is no go-to blueprint of how a region prices this risk and encourage jurisdictions to work with one another," Kane said.

It's also politically difficult for an organization focused on regional growth and planning issues, rather than a single county, to be successful, DeCatsye said. Still, she continued, a regional approach to affordable housing — for those earning less than 80% of the AMI — could make sense, as workforce and low-income housing should be available in every jurisdiction and typically requires public-private partnerships to be successful, she added.

Home affordability remains key

But if more households locate to the suburbs, and the pace of homebuilding slows in response to current weaker buyer demand, could the affordability advantage a typical suburban community offers eventually be diminished?

George Ratiu, senior economist and manager of economic research at Realtor.com, said affordability continues to have an advantage in the suburbs over urban areas, despite the run-up in demand there. Urban areas have limitations related to geography, space, zoning and other economics, which drives up the cost to build and lease or sell housing, he added.

"That being said, we have seen that spread between urban and suburban prices narrow as so many people move towards the suburbs," Ratiu said.

The rental market is one indicator of that. Realtor.com recently found, among the country's largest metro areas, the rental price advantage of living in the suburbs as compared to urban areas declined by 52.9% between July 2019 to July 2022 — from \$175 to \$107.

To be sure, some major urban markets continue to outpace rent growth in their region's suburban areas, namely New York, Chicago, Boston and Miami. New York's urban rents have grown 25.4 percentage points faster than its suburban counterparts, according to Realtor.com.

But the gap in affordability between urban and suburban areas in places like the Sun Belt could potentially narrow if demand holds up, which may compel some households to stay or go back to urban counties. And while suburban counties generally remain more affordable, the pace of growth in home values in the suburbs has largely outpaced the counties where the central city is located.

BIGGEST HOME VALUE CHANGES

Source: Zillow Group Inc.

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Take Prince George's County, Maryland — a suburb of Washington, D.C. — which has seen its home values grow 118.8% between Dec. 31, 2020, and July 31, 2022, from \$352,046 to \$418,288, according

to Zillow data. The District of Columbia's home values have grown 7.3% in the same time period, from \$659,316 to \$707,720.

Summit County, Utah, northeast of Salt Lake City, saw its median home values grow 68.9% between late 2020 and July 2022, outpacing the 39.6% growth seen in Salt Lake County. Notably, the median home value in Summit County (home to ski-resort town Park City) in July was markedly higher than that of Salt Lake County's — \$1.5 million versus \$615,281 — suggesting recent migration and housing patterns are driven by more than affordability.

Some households have relocated farther away from city centers not because of choice but because they've been priced out of urban cores or close-in neighborhoods. That's marooned them in suburban or exurban locations, farther away from jobs, services and amenities, Kane said.

Suburbs today are also more diverse than they've been historically. In 1990, roughly two out of 10 suburbanites were people of color, which rose to 30% in 2000 and 45% in 2020, the Brookings Institution found in a June report. People of color comprised more than half the suburban populations in 15 of the nation's 56 major metro areas, compared to 10 in 2010 and five in 2000, according to Brookings.

"We can't just measure our needs in terms of (traffic) congestion but can all individuals access where they need to go?" Kane continued. "As there's continued suburban growth, I think about the who — who is in the suburbs — and it's very different" than it's been historically.

Even housing on the fringes of a booming metro area are already seeing eye-popping rates of growth, despite remaining affordable compared to the broader region.

Chester County, South Carolina, is about 50 miles from Charlotte and represents the southwestern edge of the Charlotte MSA. Median home prices there have risen 39.8% between December 2020 and July 2022, according to Zillow data.

"It frustrates me because ... even those outlying counties are becoming unaffordable also," DeCatsye said. "It will take longer, I hope, for them to feel the effect on affordability, and my hope is they will be the place where families can find affordability — even if it does mean, for some, a longer commute."

Ashley Fahey

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