Follow the Money Trail
The Influence of Income Migration on Investment Opportunity

Table of Contents

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EXECUTIVE SUMMARY

- Population growth, particularly that from domestic in-migration, has previously been examined by The Praedium Group and SitusAMC Insights as a driver of real estate demand, allowing investors to target markets with strong domestic in-migration and avoid non-growth areas.

- This white paper, produced jointly by The Praedium Group and SitusAMC Insights, also examines the potential implications of income migration for investment opportunities and local economic and fiscal health.

- Anecdotal evidence from market participants indicates a COVID-19-related exodus of high-income residents from New York and California into Sun Belt states, particularly Florida and Texas. Migration is frequently attributed to factors such as reduced taxes and cost-of-living, alongside improved quality of life and employment prospects.

- Examining several sources of population and migration data, we find strong support for movement into several Southern states. However, data also point to differences in the migration of wealth into these states, even though they have similar rates of population growth.

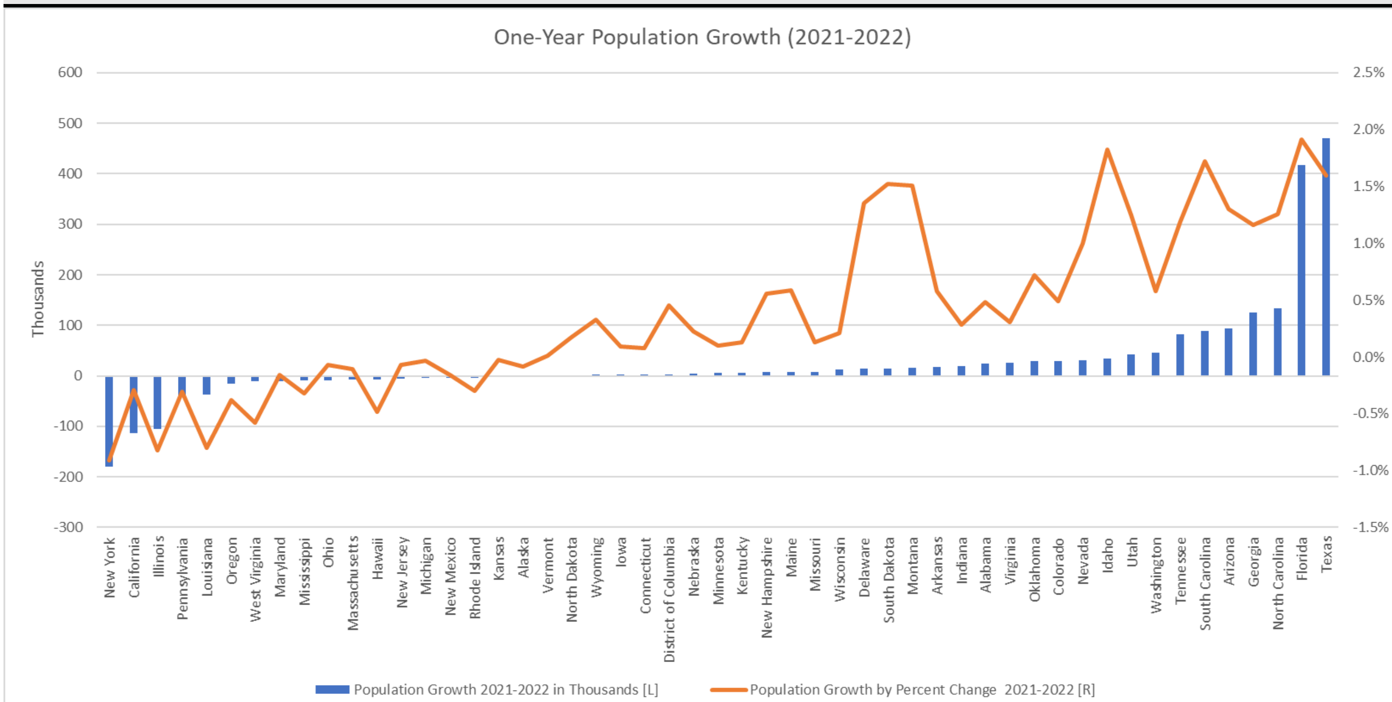
- For example, Texas and Florida experienced generally similar migration patterns between 2019 and 2022. However, Florida enjoyed a nearly four-fold increase in wealth compared to Texas based on the latest available tax data ($23.7 billion and $6.3 billion, respectively) from the 2020 filing of income earned in 2019. More remarkably, this surge of wealth into Florida was, in large part, driven by a substantial increase in the number of high-income earners; 25% of Florida's growth in the number of tax returns during that year came from those with high incomes; just 8.5% came from high-income earners in Texas.

- An influx of wealth is likely indicative of better jobs and a diverse economy and is expected to result in more tax revenue and more demand for housing, particularly newer product.

Population Boom for Many Southern States

Population growth has been, and continues to be, a valuable source of information in determining potential real estate demand. The most recent figures from the Census Bureau show a large annual increase in the population for Florida and Texas, on both an absolute and percent basis (see Figure 1). Florida exhibited the strongest population growth on a percentage basis and the second highest on an absolute basis, increasing by approximately 2% or 417,000 people YoY in 2022. Texas took the top spot in population growth on an absolute basis at over 470,000 and ranked fourth among the states on a percentage basis at 1.6%. North Carolina, Georgia, Arizona, South Carolina, Tennessee, Washington, Utah and Idaho rounded out the top 10 states on an absolute basis. In addition to Florida and Texas, Idaho, South Carolina, South Dakota, Montana, Delaware, Arizona, North Carolina and Utah grew the most on a percentage basis.

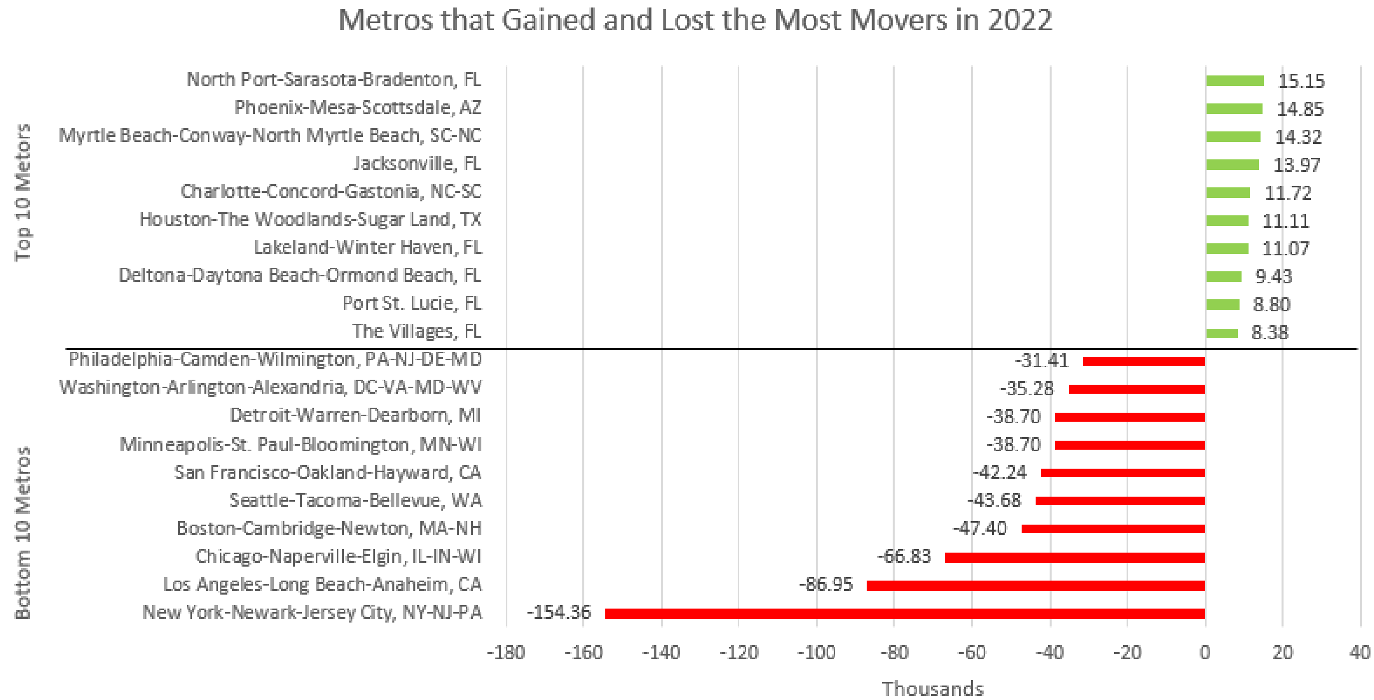
Figure 1. Texas and Florida Population Surge in 2022



Sources: US Census Bureau, SitusAMC Insights

Metro-level moving data from the U.S. Postal Service generally concur with the population data from the Census Bureau (see Figure 2). Heavily populated markets with a high cost-of-living generally lost residents, while people have been flocking to southern markets. The New York-Newark-Jersey City metro had the highest number of residents move out on a net basis in 2022, at 154,361 residents. Los Angeles came in second, losing a net of 86,948 residents; Chicago lost 66,833. Earning six of the top 10 MSAs, Florida markets dominated for net in-migration. North Port-Sarasota-Bradenton had the highest number of net movers at 15,148; Phoenix-Mesa-Scottsdale came in at a close second at 14,853. Charlotte and Myrtle Beach both ranked in the top 5.

Figure 2. Florida Markets are Top Destinations for Movers

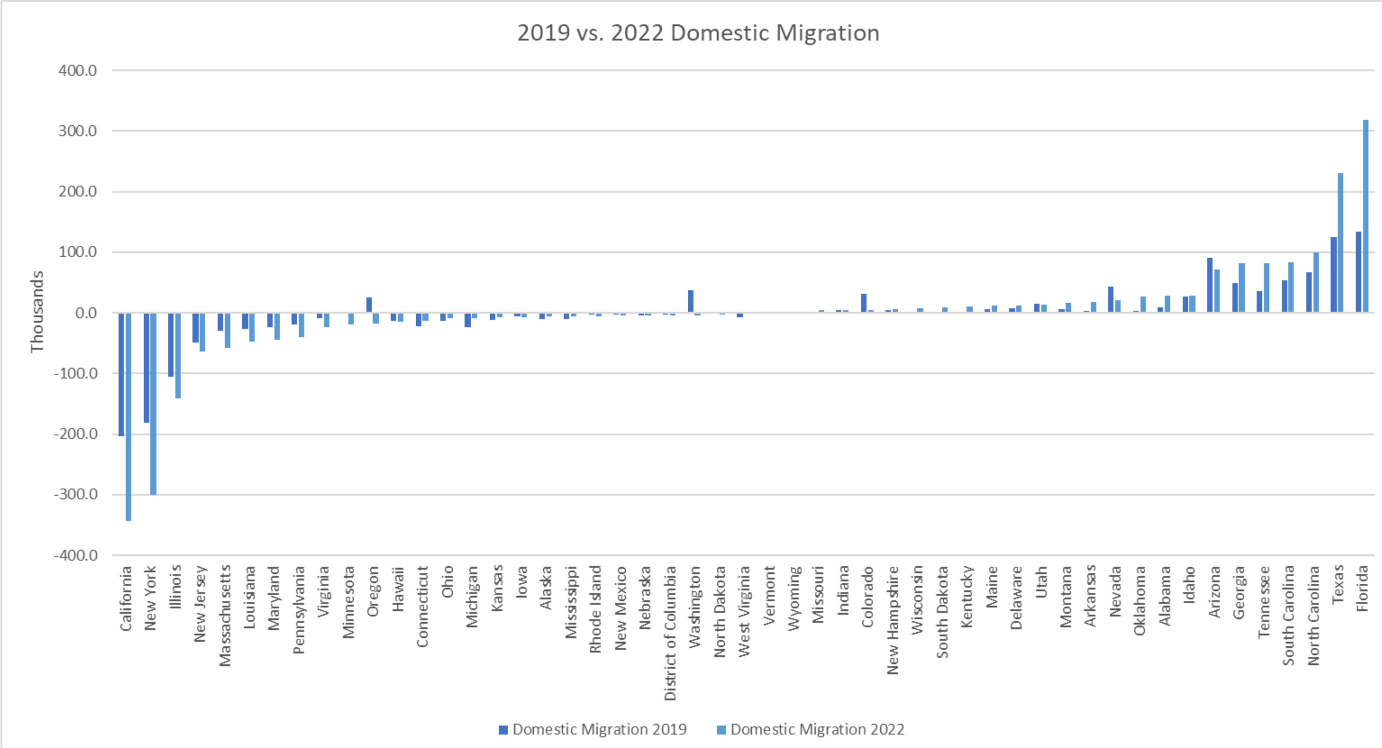


Sources: USPS, SitusAMC Insights

Effects of Covid-19 on Domestic Migration Emerge

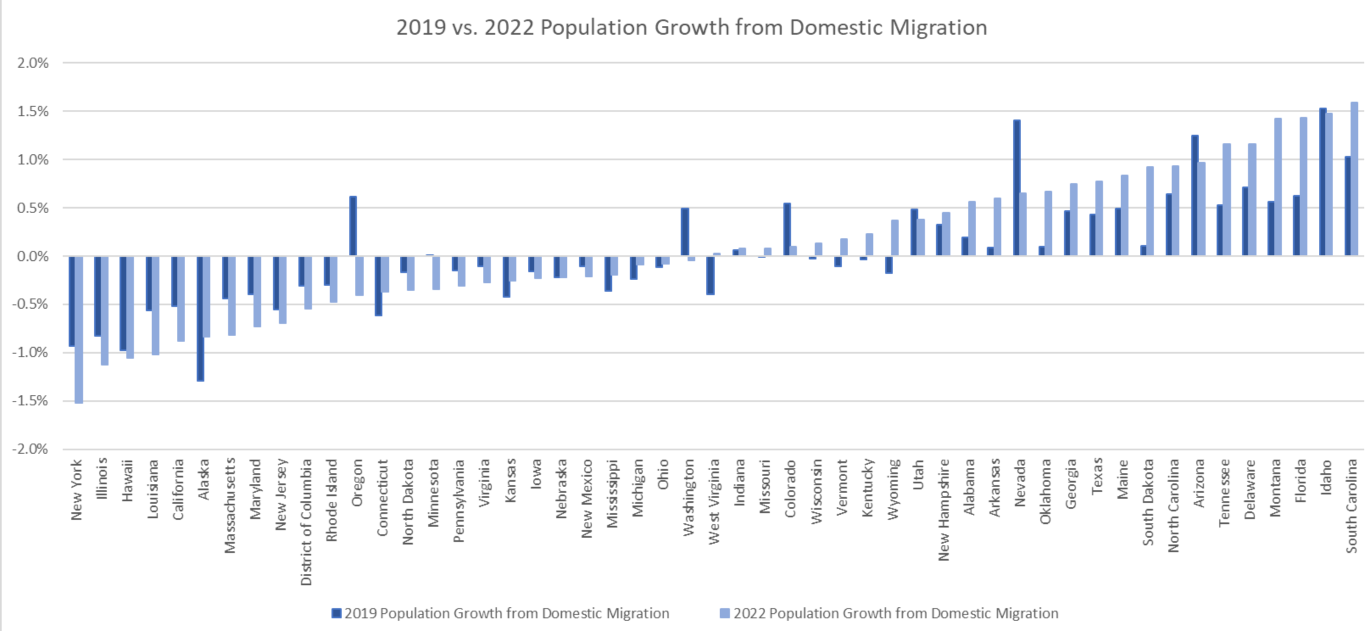
COVID-19 accelerated many of the existing migration trends, with people moving out of highly populated and less affordable markets into the Sun Belt. On an absolute basis, Florida and Texas' domestic inflows strengthened between 2019 and 2022 (see Figure 3). California suffered the most from domestic outmigration, followed by New York and Illinois. On a percentage basis, New York, Illinois and California were also among the biggest losers (see Figure 4). For states with larger populations, South Carolina, Florida, Tennessee, Arizona and North Carolina saw an influx of people with domestic migration of between 0.9% and 1.6%, as did the smaller states of Idaho, Montana and Delaware.

Figure 3. Greatest Number of People are Flocking to Texas and Florida



Sources: US Census Bureau, SitusAMC Insights

Figure 4. On a Percentage Basis, Smaller States in the West and Northeast Also Attracting People



Sources: US Census Bureau, SitusAMC Insights

Income Migration Trends Show Differences in Flow of Money

As we delve deeper into exploring migration trends, we believe income migration provides a more textured picture of where real estate demand will grow, particularly for the residential segment.

Large population states that exhibited population growth, specifically Florida, Texas, North and South Carolina, Arizona, Georgia, Tennessee, and Nevada, will be the focus of this white paper due to traditional investor interest in these markets.

The most recent data from the IRS, based on 2020 tax returns, illustrates the considerable economic impact of domestic migration (see Figures 5 and 6). Not only did Florida rank first in the increase of total tax return filings, but it also ranked first for the number of tax returns with high level of adjusted gross income (AGI). This resulted in an increase of over $23.5 billion (3.1%) in state-level AGI, a boost to local economies and their abilities to increase services to residents and infrastructure. While Texas had a slightly lower jump in domestic migration, the increase in wealth was substantially more muted than Florida's, with an increase in $6.3 billion (0.7%) in state-level AGI. To put this in perspective, high-income ($200,000+) tax returns comprised nearly 25% of Florida's total tax return growth compared to only 8.5% for Texas. Tax benefits may at least be a partial cause for the increase in flows of money. Of this paper's focus states, many had below median (or little to no) state income tax.

Figure 5. States with No Income Tax Attracted Wealthy Households

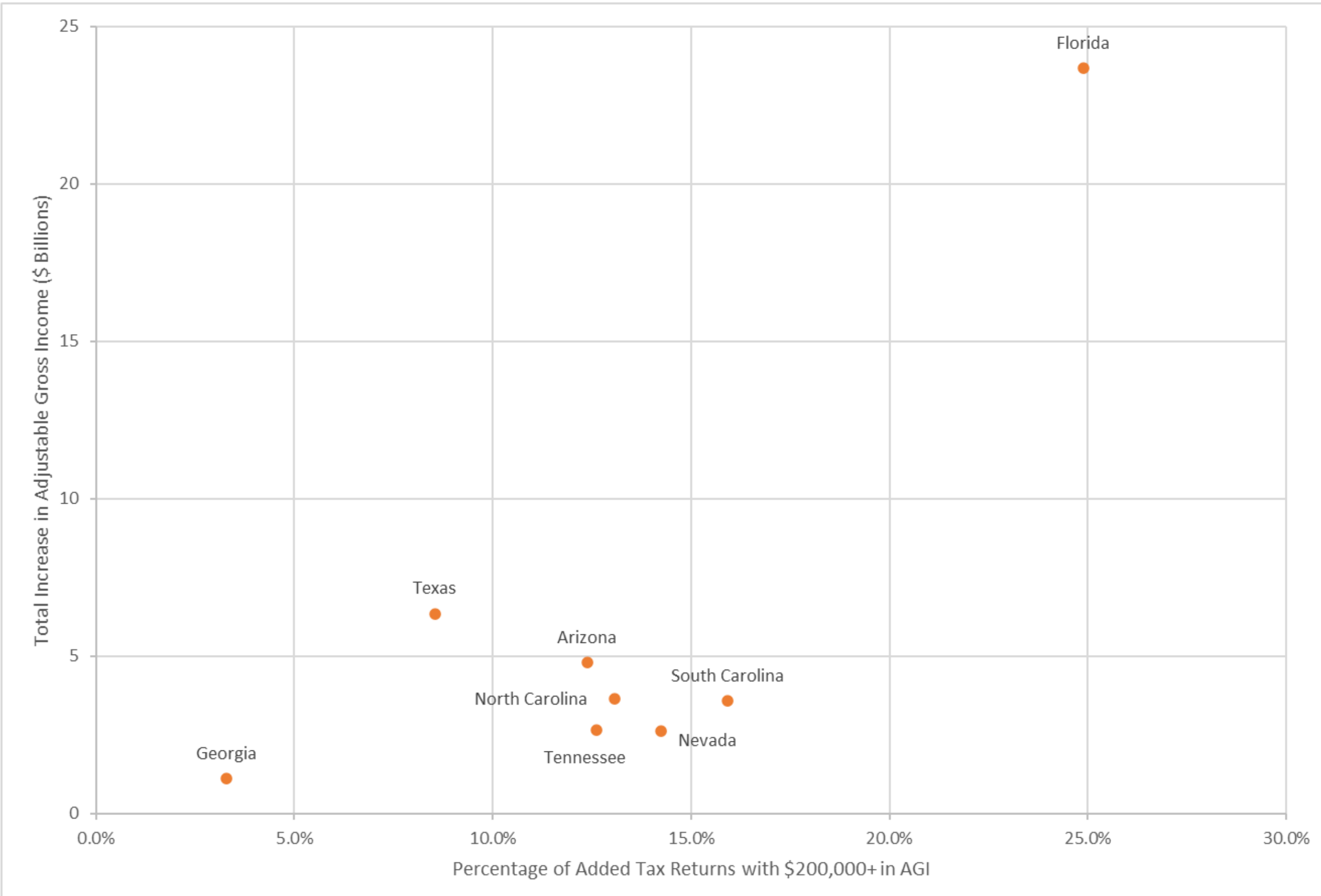
IRS Interstate Migration Data and State Tax Data and Rankings, 2019-2020

State	Total Increase in AGI	Percent Increase in AGI	State Income Tax Rate Relative to Median	Increase in Number of Tax Returns	Increase in Number of Tax Returns with $200,000+ in AGI	Percentage of Added Tax Returns with $200,000+ in AGI
Florida	$ 23,677,598,000	3.1% Rank 4	No Tax	81,401 Rank 1	20,263 Rank 1	24.9%
Texas	$ 6,346,965,000	0.7% Rank 19	No Tax	62,667 Rank 2	5,356 Rank 2	8.5%
Arizona	$ 4,800,358,000	2.3% Rank 8	Below	42,552 Rank 3	5,268 Rank 3	12.4%
North Carolina	$ 3,644,174,000	1.2% Rank 14	Below	36,086 Rank 4	4,713 Rank 4	13.1%
South Carolina	$ 3,585,618,000	2.5% Rank 5	Above	24,917 Rank 5	3,967 Rank 5	15.9%
Tennessee	$ 2,642,938,000	1.3% Rank 12	Interest & Dividend Income Only	21,758 Rank 6	2,743 Rank 6	12.6%
Nevada	$ 2,619,471,000	2.4% Rank 6	No Tax	16,380 Rank 8	2,331 Rank 8	14.2%
Georgia	$ 1,112,905,000	0.4% Rank 23	Above	17,338 Rank 7	570 Rank 17	3.3%

Sources: IRS, Tax Foundation, SitusAMC Insights

Figure 6. $24 Billion in Income Migrated to Florida, Surpassing Other States by over 4Xs Between 2019 and 2020

IRS Adjustable Gross Income (AGI) Data, 2019-2020

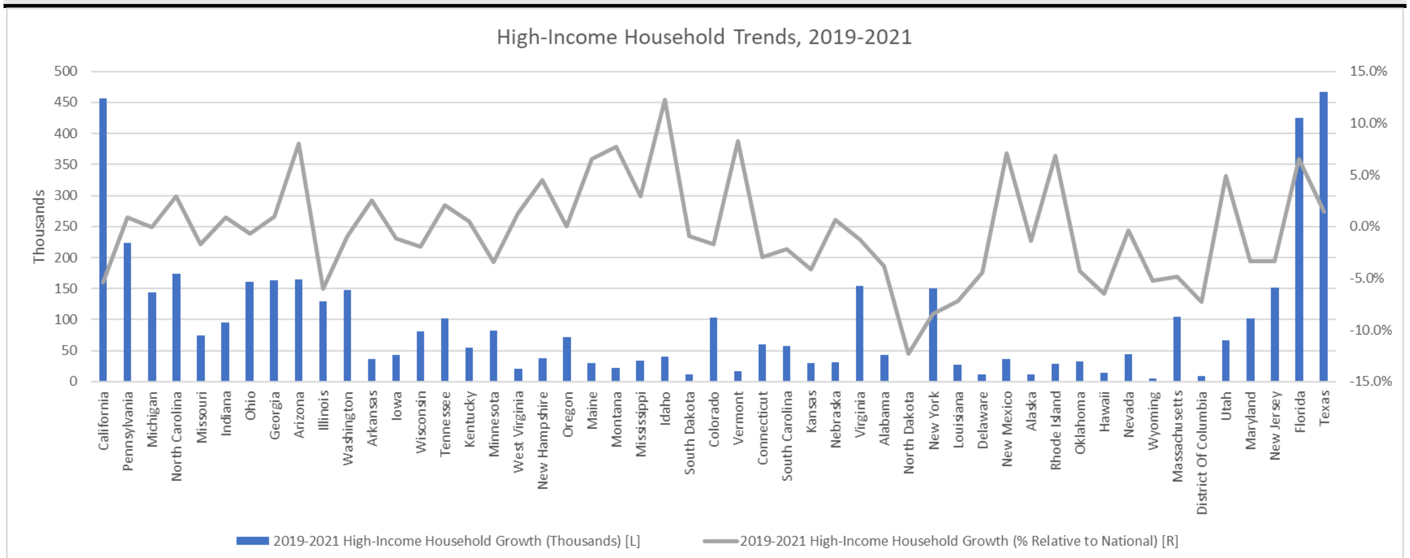


Sources: IRS, Tax Foundation, SitusAMC Insights

The most recent Census Bureau data reveals income migration patterns between 2019 and 2021. Texas, California and Florida experienced the greatest increase in high-income households between 2019 and 2021on an absolute basis (see Figure 7). Florida and Texas also attracted a substantial number of high-income households on a percentage basis among the highly populated states. Texas and Florida also gained the most low-income households between 2019 and 2021 on an absolute basis, but ranked 6th and 11th on a percentage basis, respectively (see Figure 8).

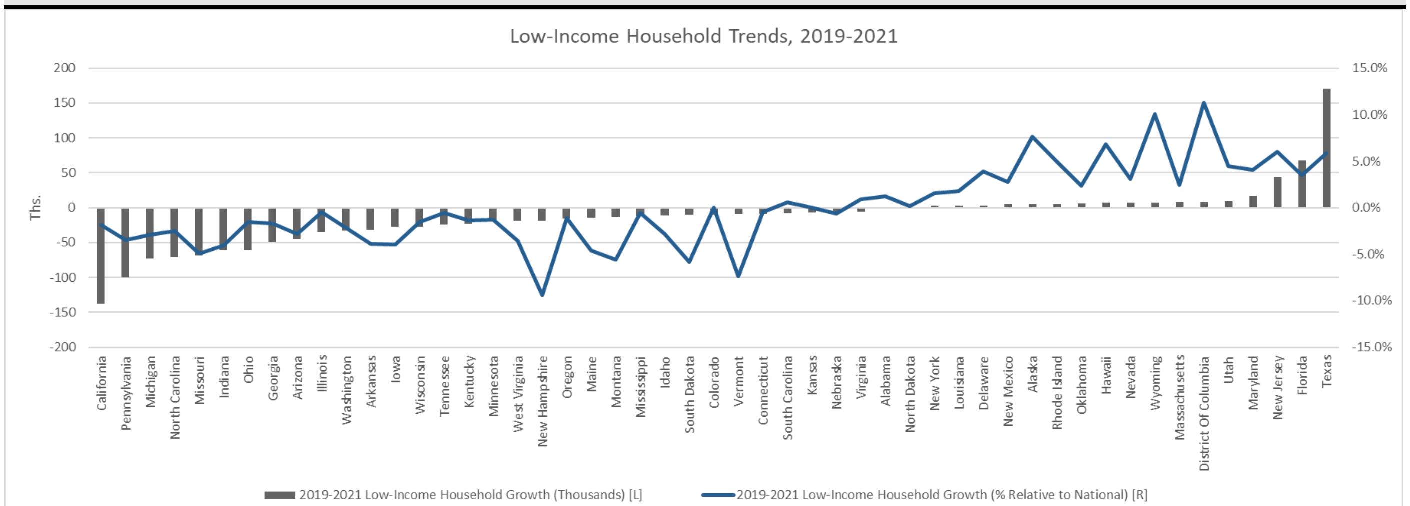
Though not typical destinations for institutional capital, some smaller-population states – Idaho, Alabama, and Oklahoma experienced a similar surge of domestic migration, but had different patterns of income migration. Idaho had the largest influx of high-income households among all states between 2019 and 2021 on a percentage basis, while Alabama and Oklahoma ranked in the bottom 20% of states for high-income household growth.

Figure 7. Texas, California and Florida Have Strongest High-Income Household Growth on an Absolute Basis Between 2019 and 2021



Sources: US Census Bureau, SitusAMC Insights

Figure 8. Texas and Florida Have Strong Low-Income Household Growth on an Absolute Basis Between 2019 and 2021



Sources: US Census Bureau, SitusAMC Insights

Benefits of Growth in High-Income Households: Better Jobs, More Diverse Economy and More Demand for Real Estate

We believe that high-income jobs offer more financial stability and often represent a wider range of industries than low-income jobs. A broader local economy means less reliance on a single industry, which allows it to better withstand cyclicality and downturns. Cyclicality also affects real estate fundamentals; more diverse economies typically mean more stable economies and steadier CRE fundamentals.

Institutional investors are typically wary of the risks associated with highly cyclical markets. For example, Las Vegas and to a lesser extent many Florida market economies have historically been heavily dependent on tourism and construction. However, strong domestic migration, particularly that associated with high-income earners, will likely dampen the effects of cyclicality and increase economic diversity.

During the pandemic, several companies such as Blackstone, Goldman Sachs, The Praedium Group, various hedge funds, and multiple tech companies relocated their offices and personnel from expensive regions to the more affordable South Florida area. Many of these firms support high-paying jobs in the tech and financial sectors, which will likely generate more office and retail demand. Demand for housing is likely to soar, especially for newer product. However, a continuing influx of high earners will likely further crimp affordability in these markets. In addition, local economies can reap property tax revenues from greater office occupancy and elevated housing prices.

State Case Studies

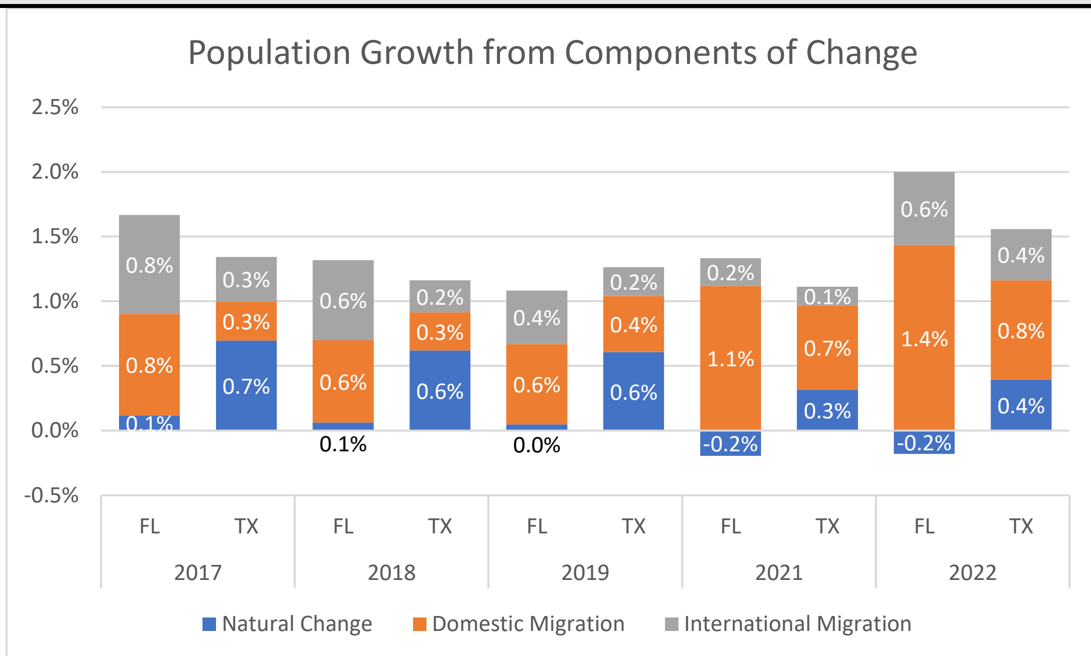
Below is a comparison of states with the strongest 2022 domestic migration that are large enough to attract institutional investment capital. These states have similar domestic migration growth, but differ in terms of income migration and thus the flow of money.

Florida vs. Texas

Florida and Texas exemplify the stark differences that can arise because of income migration. Both states experienced growth in population, but Florida gained nearly four times the amount of wealth from in-migration relative to Texas from 2019 to 2020, with incomes increasing $23.7 billion compared to just $6.3 billion (see Figure 5). The flow of money into each state was remarkably different. Nearly 25% of the change in total tax returns came from those with high income ($200,000+) in Florida; in Texas it was only 8.5%.

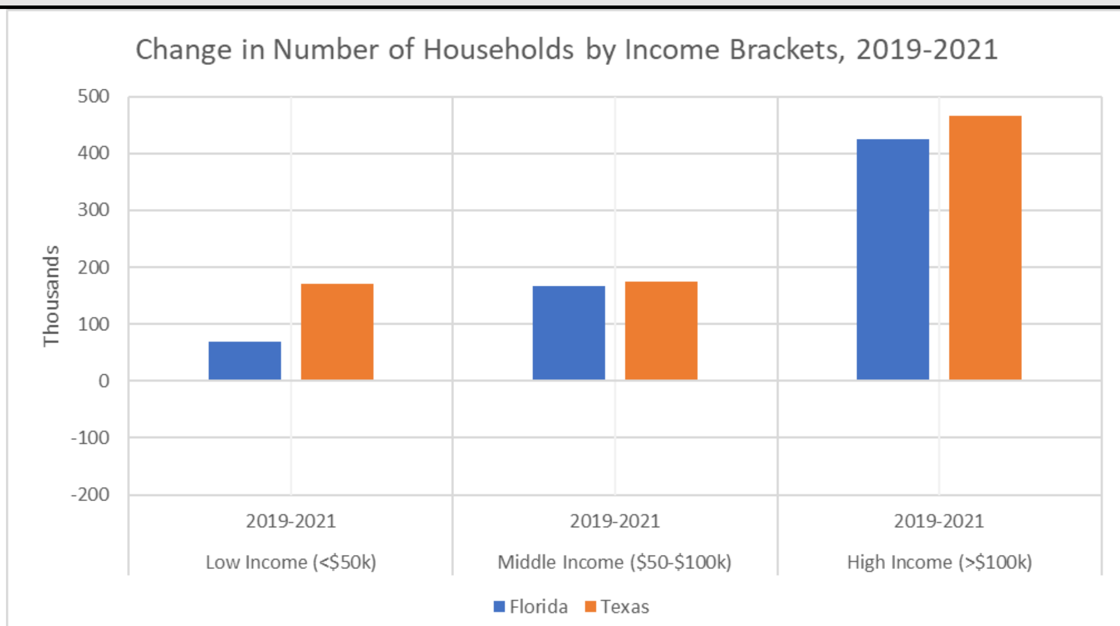
Further, according to additional data from the US Census Bureau, in 2022, Florida and Texas ranked 1st and 2nd, respectively, in domestic migration on an absolute basis, with an increase of almost 319,000 (1.4%) and 231,000 (0.8%) residents, respectively (see Figure 9). Between 2019 and 2021, Texas and Florida both gained a larger number of households earning over $100,000, but also experienced an increase in households earning under $50,000 (see Figure 10). Texas ranked 1st and Florida 3rd for growth in households earning over $100,000 on an absolute basis and 1st and 2nd for growth in households earning less than $50,000, respectively. However, on a percentage basis, the number of households earning over $100,000 soared for Florida between 2019 and 2021 (ranking 7th) but remained more muted for Texas (ranking 15th). Texas, on the other hand, experienced a much larger increase in households earning under $50,000 on a percentage basis relative to Florida, ranking 6th and 11th, respectively (see Figure 11). The greater flow of money into Florida relative to Texas will likely boost Florida's economy and demand for CRE. Texas may experience more housing affordability pressure relative to Florida because of the influx of low-income households.

Figure 9. Florida and Texas Experience Strong Domestic Migration in 2022



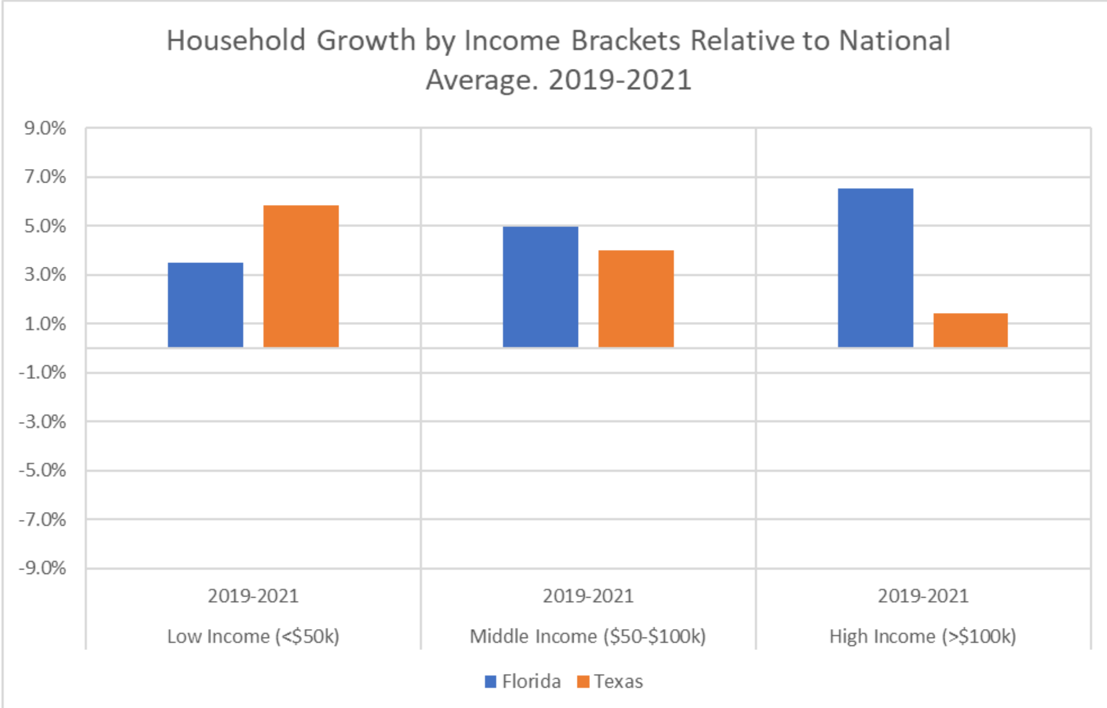
Note: 2020 data are unavailable due to COVID-19.
Sources: US Census Bureau, SitusAMC Insights

Figure 10. Florida and Texas See Growth in Absolute Number of High-Income Households Between 2019 and 2021



Sources: US Census Bureau, SitusAMC Insights

Figure 11. On a Relative Basis, Florida Attracting More High-Income Households

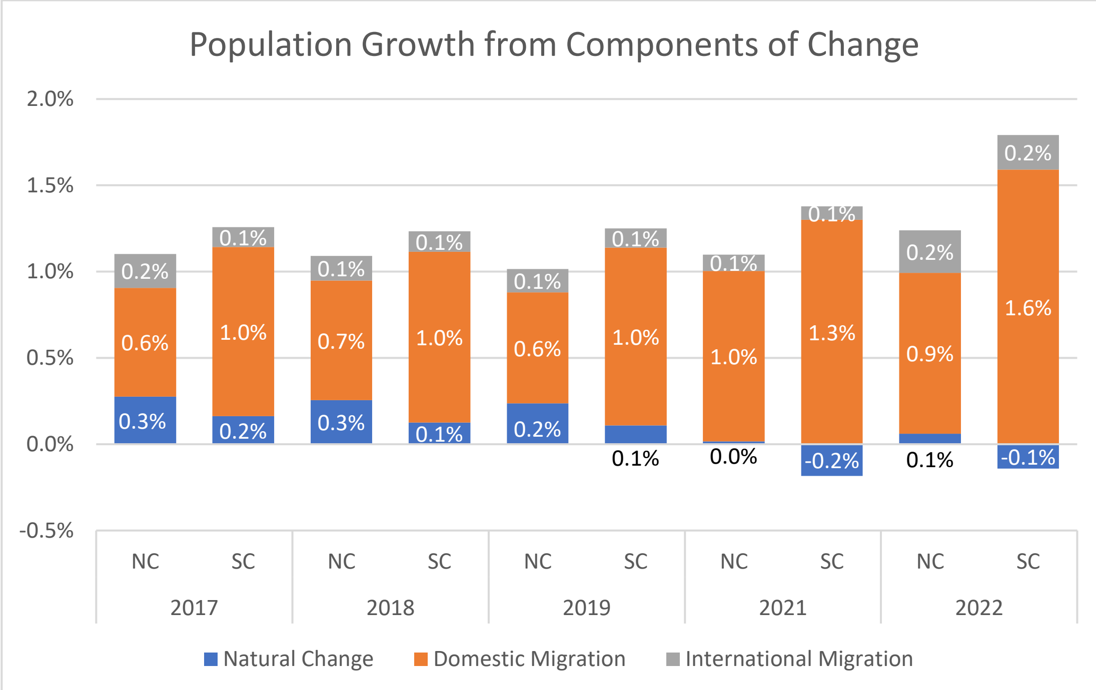


Sources: US Census Bureau, SitusAMC Insights

<u>*North Carolina vs. South Carolina*</u>

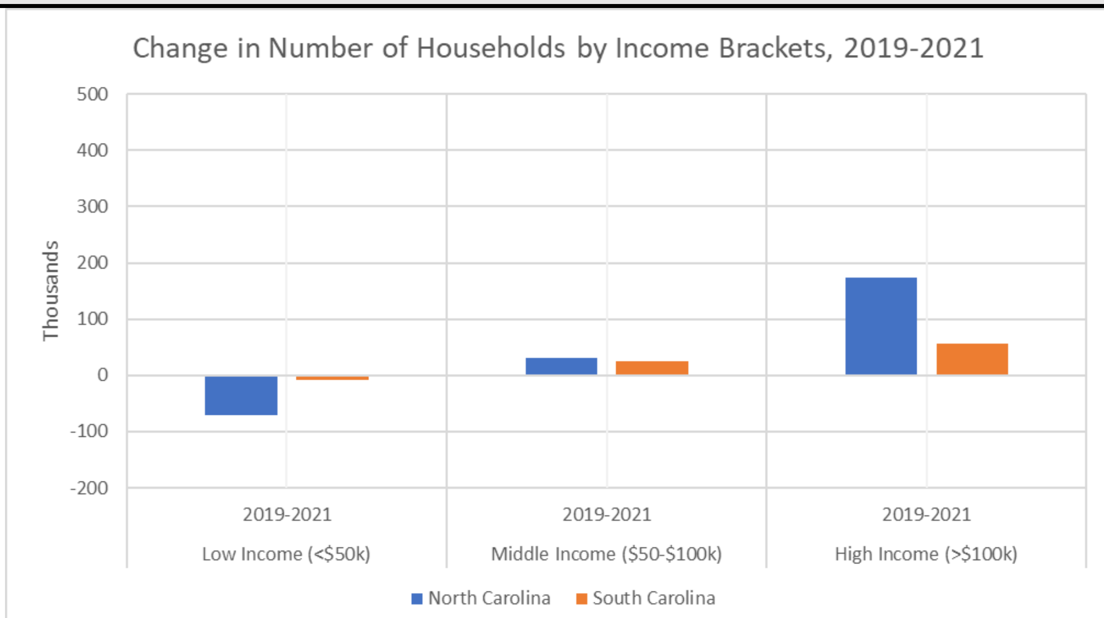
North Carolina and South Carolina ranked 3rd and 4th in 2022 domestic migration on an absolute basis, with an increase of 99,800 (0.9%) and 84,000 (1.6%) residents, respectively (see Figure 12). However, North Carolina's growth was primarily driven by households earning over $100,000, ranking 5th on an absolute basis (see Figure 13) and 11th on a percentage basis (see Figure 14). Growth of households earning over $100,000 in South Carolina lagged relative to North Carolina's, ranking 26th and 34th on an absolute and percentage basis, respectively. Local economic conditions and demand for CRE are therefore expected to be higher in North Carolina than South Carolina.

Figure 12. South Carolina Enjoys Large 2022 Percent Increase in Domestic Migration



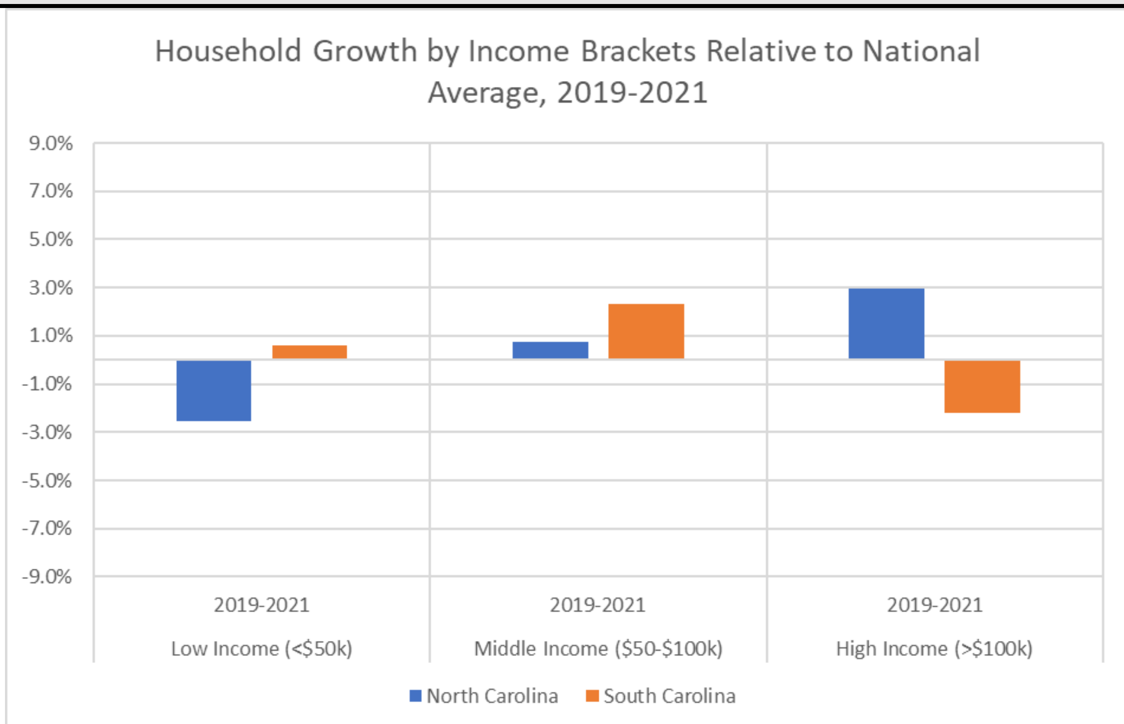
Note: 2020 data are unavailable due to COVID-19.
Sources: US Census Bureau, SitusAMC Insights

Figure 13. Greater Flow of Money into North Carolina than South Carolina



Sources: US Census Bureau, SitusAMC Insights

Figure 14. South Carolina Loses High-Income Households Between 2019 and 2021 on a Percentage Basis

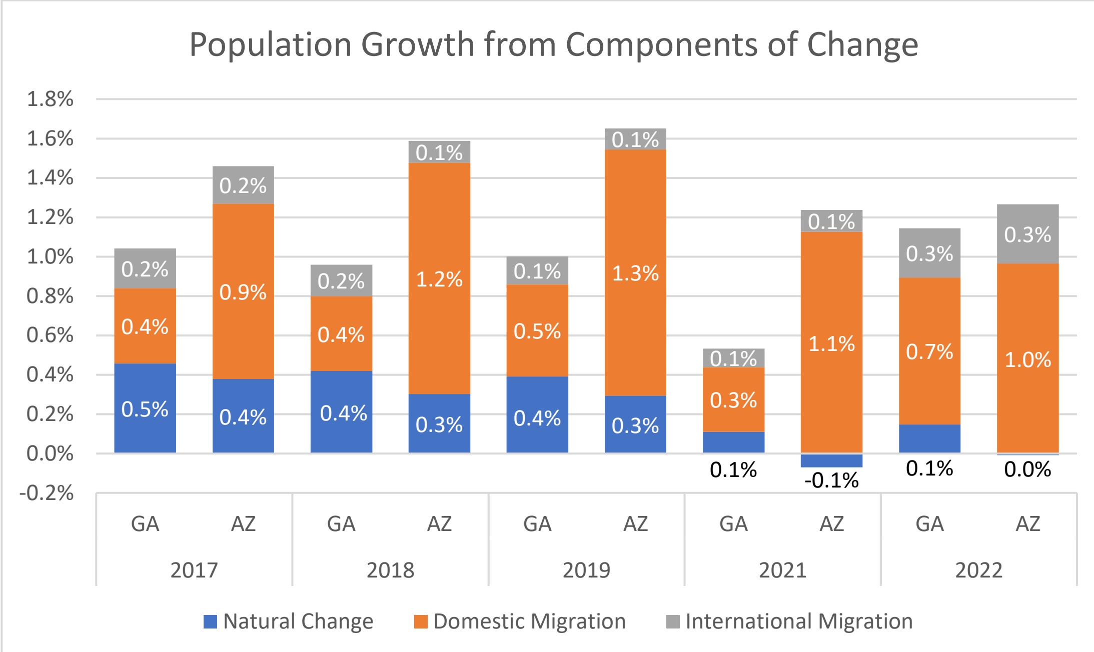


Sources: US Census Bureau, SitusAMC Insights

<u>Georgia vs. Arizona</u>

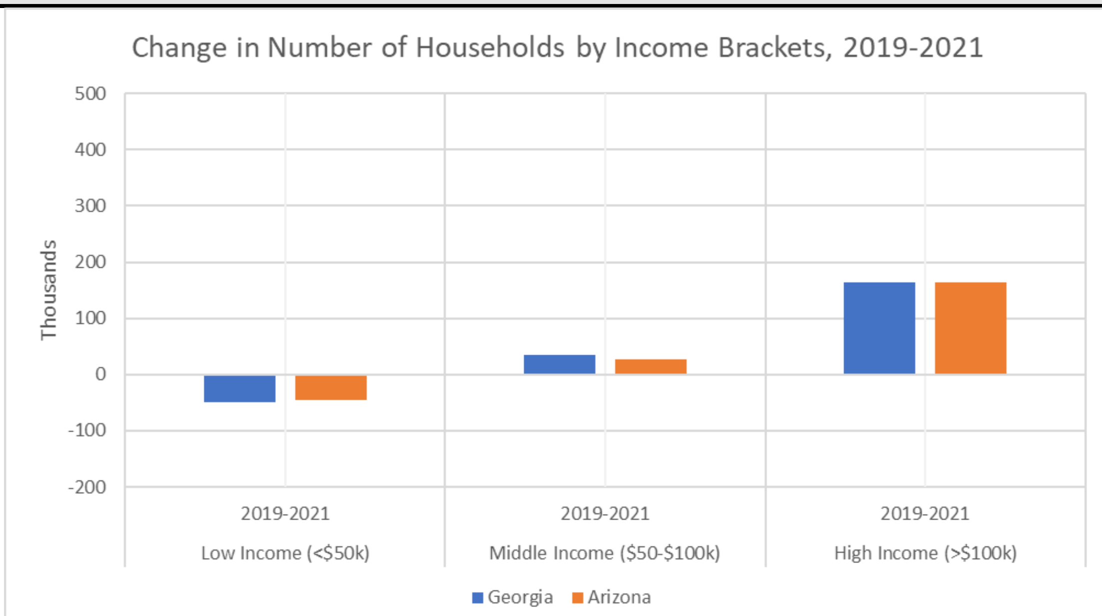
Georgia and Arizona ranked 7th and 8th in 2022 domestic migration on an absolute basis, with an increase of almost 81,400 (0.7%) and 71,000 (1.0%) residents, respectively (see Figure 15). On an absolute basis, both Georgia and Arizona benefitted from growth in households earning over $100,000 between 2019 and 2021, ranking 7th and 6th, respectively (see Figure 16). Both states also experienced a decline in households earning less than $50,000, ranking 44th and 43rd. However, because of Arizona's smaller overall population, the growth of households earning over $100,000 in the state on a percentage basis soared between 2019 and 2021 relative to Georgia (see Figure 17). Arizona ranked 3rd in growth of household earning over $100,000, while Georgia ranked 17th.

Figure 15. Georgia's 2022 Percent Growth of Domestic Migration Historically Strong



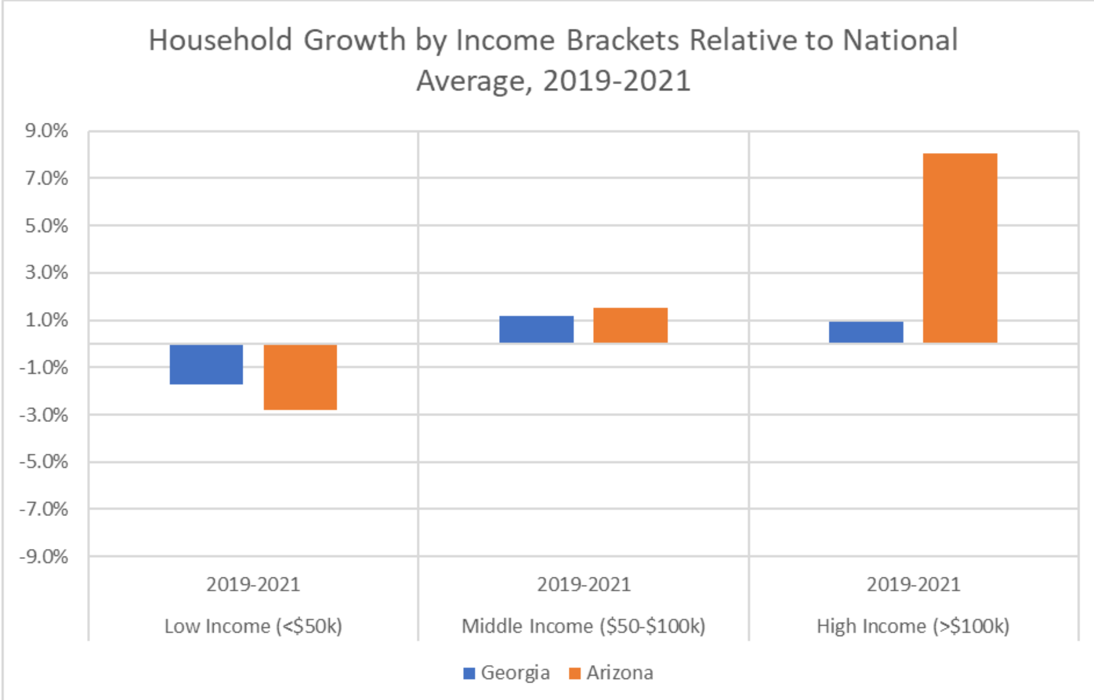
Note: 2020 data are unavailable due to COVID-19.
Sources: US Census Bureau, SitusAMC Insights

Figure 16. Georgia and Arizona Lose Low-Income Households Between 2019 and 2021



Sources: US Census Bureau, SitusAMC Insights

Figure 17. Arizona Sees Exceptionally Strong High-Income Household Growth on a Percentage Basis

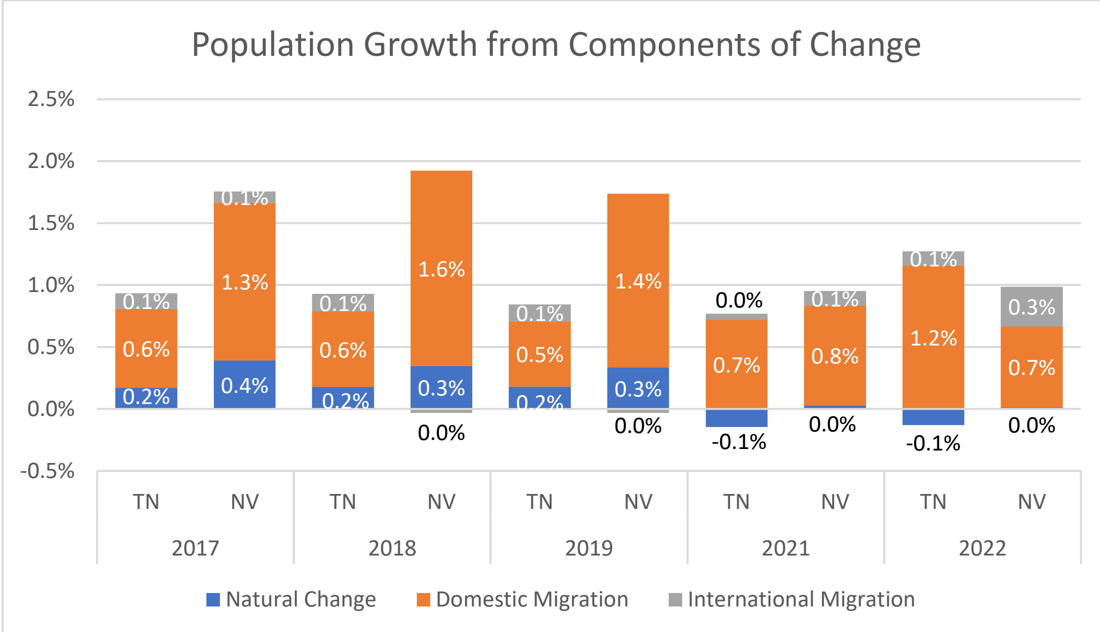


Sources: US Census Bureau, SitusAMC Insights

Tennessee vs. Nevada

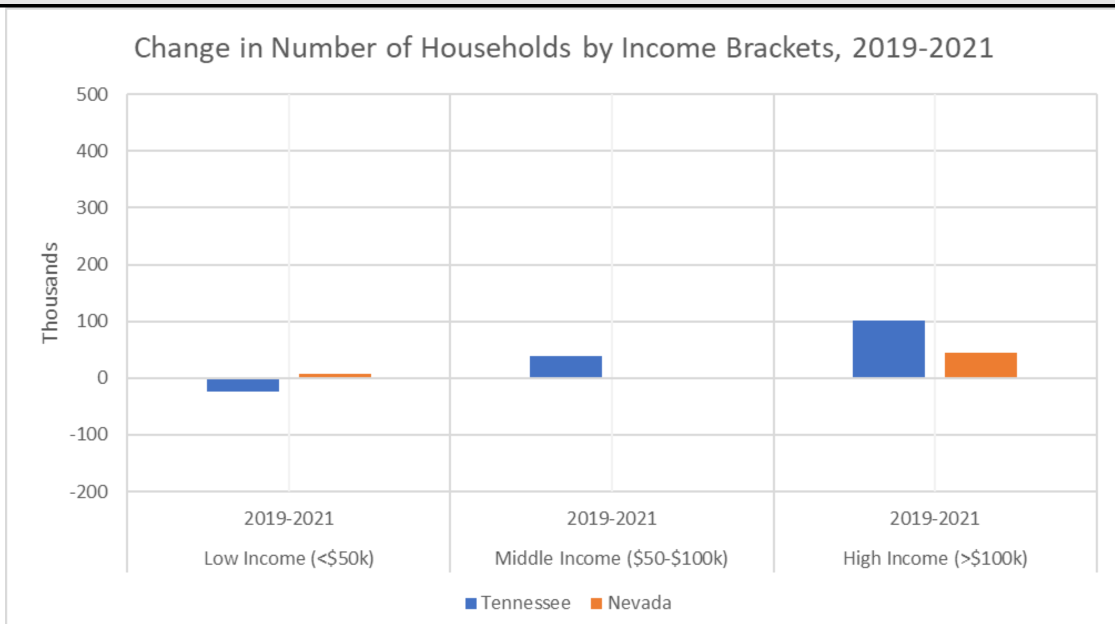
Of this paper's focus states, Tennessee and Nevada traditionally attract the least institutional interest. Tennessee has considerably more growth from domestic migration than Nevada, both on an absolute and percentage basis (see Figure 18). With an increase of over 81,500 (1.2%) residents, Tennessee ranked 5th in 2022 absolute value domestic migration; Nevada added 20,800 (0.7%) residents and ranked 11th. Tennessee and Nevada ranked 6th and 14th in 2022 domestic migration, respectively, on a percentage basis. Relative to Nevada, Tennessee experienced a greater inflow of money between 2019 and 2021 because of its stronger growth of household growth earning $50,000-$100,000 and over $100,000. Tennessee ranked 5th on growth of households earning $50,000-$100,000 and 18th on growth of household earning over $100,000 on an absolute basis; it ranked 6th for growth of households earning $50,000-$100,000 and 14th on high-income growth on a percentage basis (see Figures 19 and 20). On the other hand, Nevada ranked relatively high for growth of household earning less than $50,000, likely limiting the economic benefit of the state's high domestic migration. Nevada ranked 9th and 12th, respectively, for growth of household earning less than $50,000 on an absolute and percentage basis.

Figure 18. Tennessee's Domestic Migration Pops in 2022



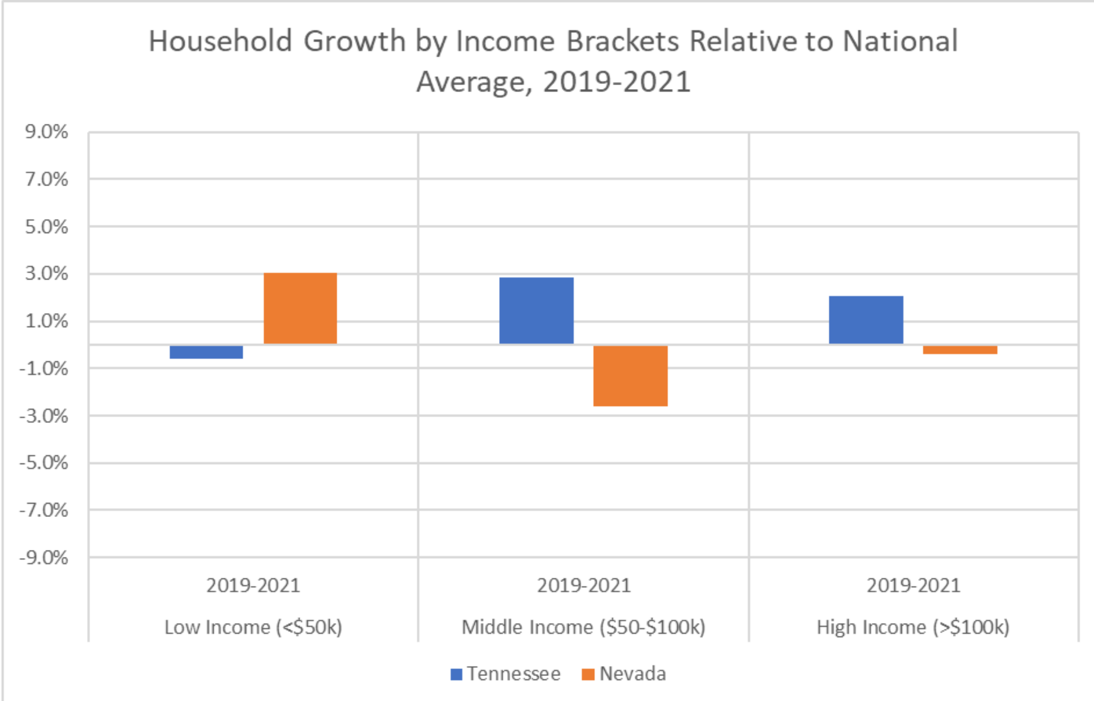
Note: 2020 data are unavailable due to COVID-19.
Sources: US Census Bureau, SitusAMC Insights

Figure 19. Greater Flow of Money into Tennessee than Nevada



Sources: US Census Bureau, SitusAMC Insights

Figure 20. Nevada's Growth Driven by Increase in Low-Income Households



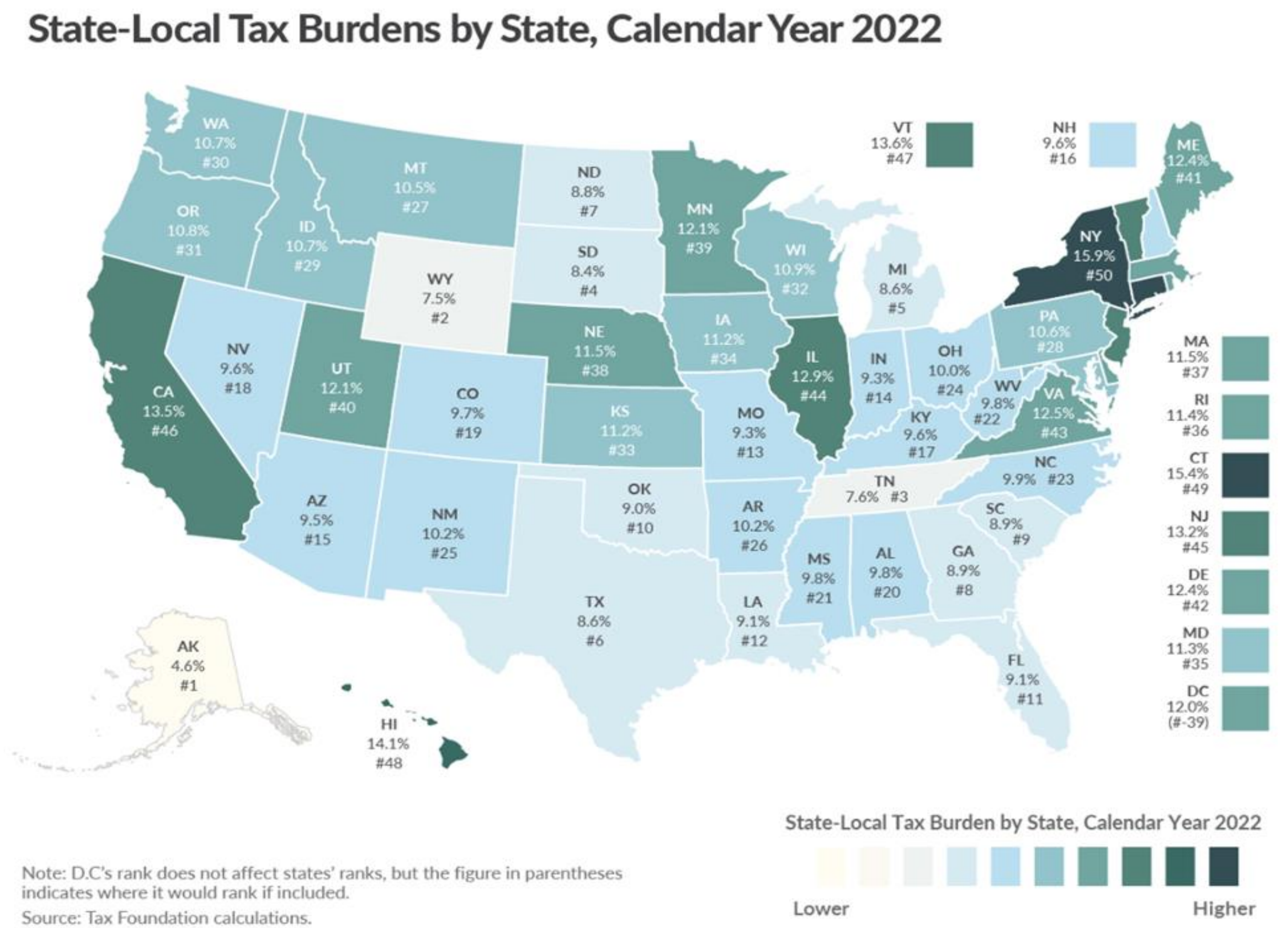
Sources: US Census Bureau, SitusAMC Insights

Evaluating the Driving Forces Behind Migration Patterns: Taxes, Employment and Affordability

Tax Benefits

Southern states generally have lower taxes, contributing to their attractiveness. Looking at total tax burden rates, which incorporate an amalgam of different tax types, Tennessee (7.6%), Texas (8.6%), Georgia (8.9%), South Carolina (8.9%) and Florida (9.1%) were among the states with the lowest tax burdens (see Figure 21). Arizona (9.5%), Nevada (9.6%) and North Carolina (9.9%) had slightly higher tax burdens, but remained relatively attractive compared to the rest of the US.

Figure 21. Tax Burden Considerably Less in Texas, Georgia, Florida and Arizona



Note: Tax burden calculated from these tax types: property, general sales, excise, license, individual and corporate income, estate/inheritance/gift, documentary/transfer, severance, special assessments for property improvements, miscellaneous,
Sources: Tax Foundation, SitusAMC Insights

Strong Employment Opportunities

Consistent strong employment growth is likely a driver of migration to Southern states. The focus states have employment growth above the national average (see Figure 22). Nevada, Arizona, Florida and Texas were the standouts in the April 2023 data.

Figure 22. Sun Belt Labor Market Conditions Consistently Beat the National Average

April 2023 YoY Change in Employment (SA; Based on a 5-Year Average)

	2017	2018	2019	2020	2021	2022	2023
U.S.	1.8%	1.8%	1.8%	1.4%	-0.2%	0.5%	0.9%
Arizona	2.4%	2.5%	2.6%	2.5%	1.4%	2.1%	2.2%
Florida	3.0%	3.0%	2.9%	2.4%	0.8%	1.5%	2.1%
Georgia	2.4%	2.4%	2.4%	1.9%	0.6%	1.2%	1.6%
North Carolina	2.1%	2.1%	2.1%	1.8%	0.7%	1.4%	1.8%
Nevada	3.0%	3.2%	3.3%	2.7%	0.0%	1.6%	2.4%
South Carolina	2.3%	2.4%	2.5%	1.9%	0.6%	1.1%	1.4%
Tennessee	2.2%	2.1%	2.1%	1.7%	0.6%	1.1%	1.6%
Texas	2.4%	2.2%	2.2%	1.8%	0.5%	1.5%	2.1%

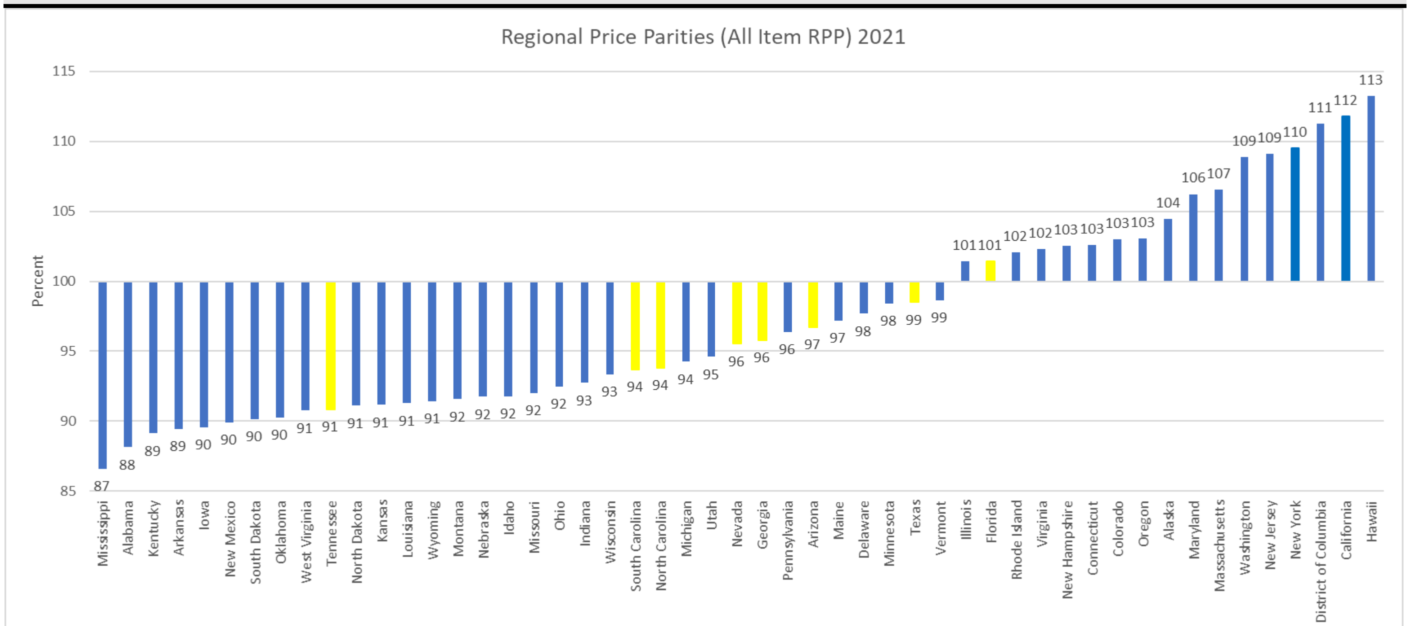
Sources: BLS, SitusAMC Insights

Better Affordability

Regional price parities (RPPs) are an indicator of market affordability. RPPs, which are based on the personal consumption expenditures price index, measure the differences in price levels across states and are expressed as a percentage of the overall national price level. RPP incorporates prices from all consumption goods and services, including housing rents.

Contributing to their attractiveness, all the Southern focus states are more affordable than the national average, except for Florida (see Figure 23). Tennessee was the most affordable of our 8 focus states, with prices 9% below the national average. Florida is slightly less affordable than the national average, with prices just 1% higher.

Figure 23. Sun Belt Among Most Affordable States



Note: RPPs higher than 100 represent state prices higher than the national average and vice versa. The all items RPP covers all consumption goods and services including housing rents.
Sources: BEA, SitusAMC Insights

Notes