Point of View is an occasional *PREA Quarterly* column offering the opinions of leading individuals in real estate. The *PREA Quarterly* welcomes opinions from PREA members on significant issues affecting our industry.

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

Russ Appel
The Praedium Group

Peter Muoio
SitusAMC Insights

Jen Rasmussen
SitusAMC Insights

Jacki Spies
The Praedium Group

This article, produced jointly by The Praedium Group and SitusAMC Insights, examines the potential implications of population, domestic migration, and income migration for investment opportunities and local economic and fiscal health.

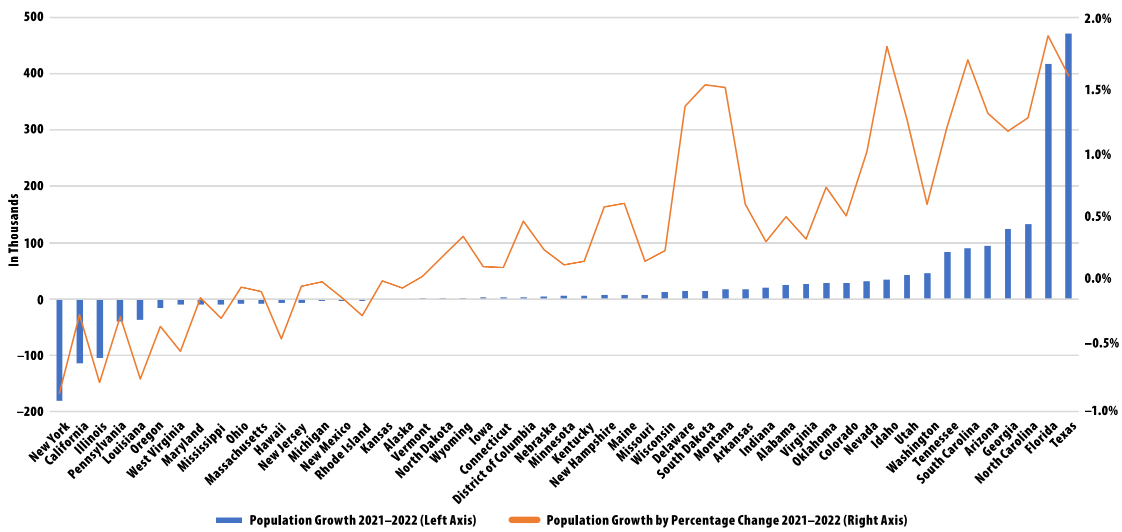
Anecdotal evidence from market participants indicates a COVID-19-related exodus of high-income residents from New York and California into Sunbelt states, particularly Florida and Texas. Migration is frequently attributed to factors such as reduced taxes and cost of living alongside improved quality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

Population Boom for Many Southern States

Population growth statistics have been and continue to be a valuable source of information in determining potential real estate demand. The most recent figures from the US Census Bureau showed a large annual increase in the populations of Florida and Texas, on both an absolute and a percentage basis (Exhibit 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, year over year in 2022. Texas took the top spot in population growth on an absolute basis at more than 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 ten states on an absolute basis. In addition to Florida and Texas, Idaho, South Carolina, South Dakota, Montana,

Exhibit 1: One-Year Population Growth, 2021–2022

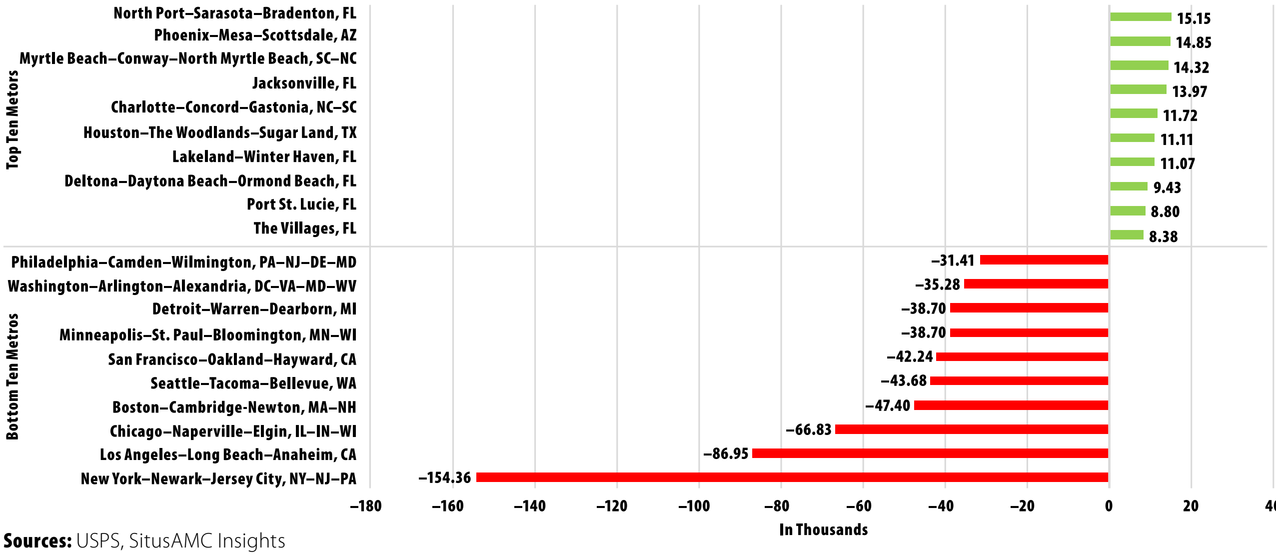
Texas and Florida populations surged in 2022.



Sources: US Census Bureau, SitusAMC Insights

Exhibit 2: Metros That Gained and Lost the Most Movers in 2022

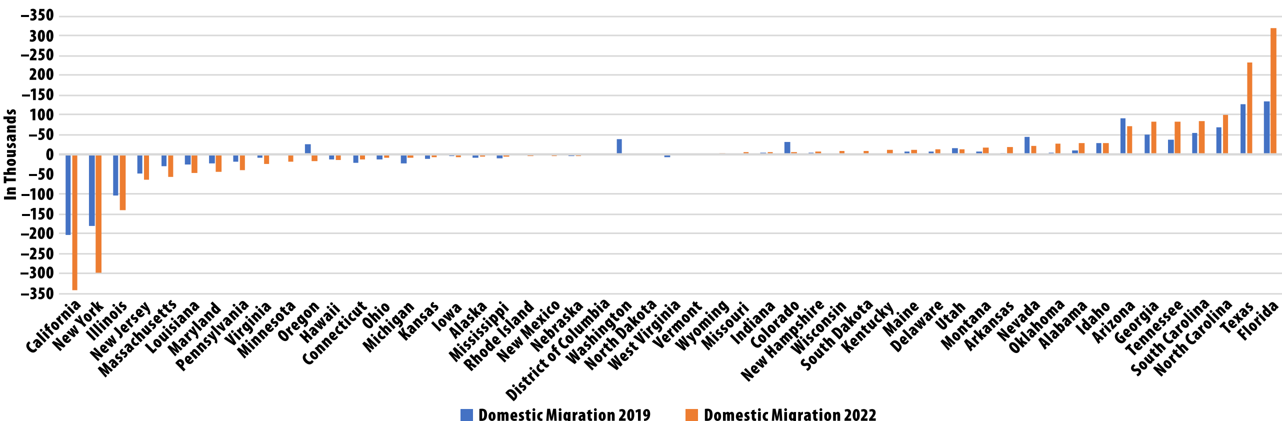
Florida markets were top destinations for movers.



Sources: USPS, SitusAMC Insights

Exhibit 3: Domestic Migration, 2019 Versus 2022

The greatest number of people flocked to Texas and Florida.



Sources: US Census Bureau, SitusAMC Insights

Delaware, Arizona, North Carolina, and Utah grew the most on a percentage basis.

Metro-level moving data from the US Postal Service generally concurred with the population data from the Census Bureau (Exhibit 2). Heavily populated markets with a high cost of living generally lost residents, and people flocked 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. Leading six of the top ten metropolitan statistical areas, 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 five.

Effects of COVID-19 on Domestic Migration Emerge

COVID-19 accelerated many existing migration trends, with people moving out of highly populated and less-affordable markets into the Sunbelt. On an absolute basis, domestic inflows to Florida and Texas strengthened between 2019 and 2022 (Exhibit 3). California suffered the most from domestic out-migration, followed by New York and Illinois. On a percentage basis, New York, Illinois, and California were also among the biggest losers. 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 less-populated states of Idaho, Montana, and Delaware.

Income Migration Trends Show Differences in Flow of Money

Income migration trends provide a more textured picture of where real estate demand will grow, particularly for the residential segment.

The most recent data from the IRS, based on 2020 tax returns, illustrate the considerable economic impact of domestic migration (Exhibits 4 and 5). Florida ranked first not only in the increase of total tax return filings but also in the number of tax returns with high levels of adjusted gross income (AGI). This resulted in an increase of more than $23.7 billion (3.1%) in state-level AGI, a boost to local economies and their abilities to increase services to residents and infrastructure. Texas had a slightly lower jump in domestic migration, and 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 composed nearly 25% of Florida's total tax return growth compared to only 8.5% for Texas. Tax benefits may be

Exhibit 4: IRS Interstate Migration Data, State Tax Data, and Rankings, 2019–2020

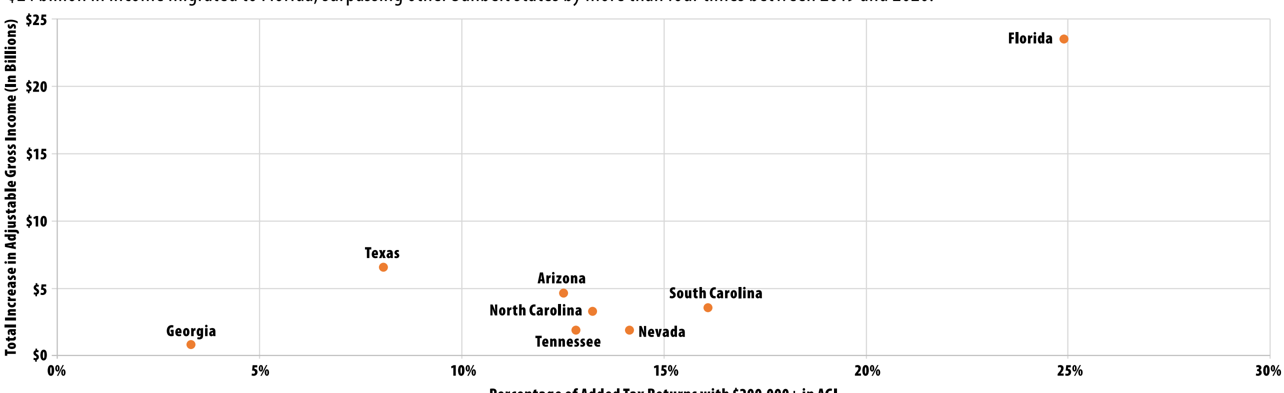
States with no income tax attracted wealthy households.

State	Total Increase in AGI*	Percentage 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 and 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
* adjustable gross income

Exhibit 5: IRS Adjustable Gross Income Data, 2019–2020

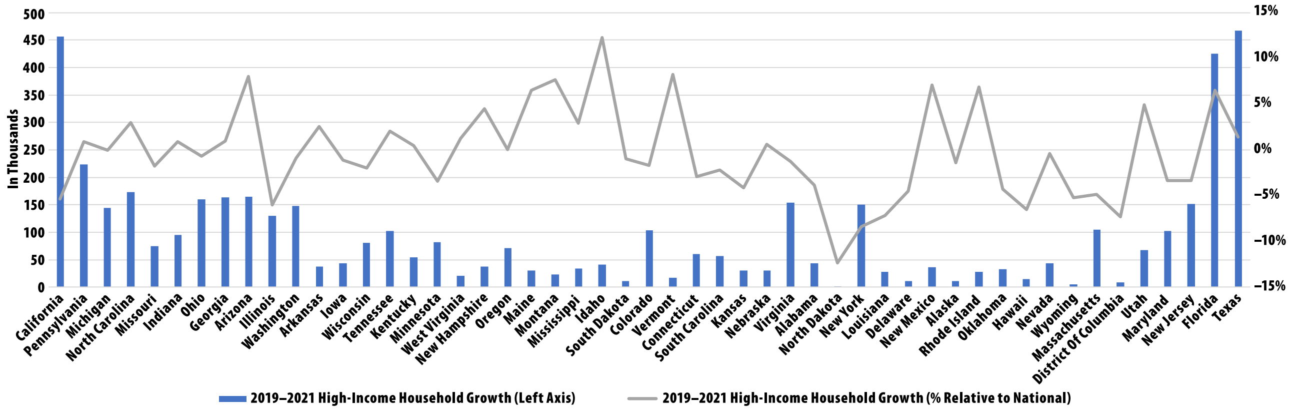
$24 billion in income migrated to Florida, surpassing other Sunbelt states by more than four times between 2019 and 2020.



Sources: IRS, Tax Foundation, SitusAMC Insights

Exhibit 6: High-Income Household Trends, 2019–2021

Texas, California, and Florida had the strongest high-income household growth on an absolute basis between 2019 and 2021.



Sources: US Census Bureau, SitusAMC Insights

at least a partial cause for the increase in flows of money. Florida and Texas have no state income taxes. Many other Sunbelt states with strong population growth had below median or little to no state income tax.

The most recent Census Bureau data reveal income migration patterns between 2019 and 2021. Texas, California, and Florida experienced the greatest increase in high-income households between 2019 and 2021 on an absolute basis (Exhibit 6). 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.

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, and Alabama and Oklahoma ranked in the bottom 20% of states for high-income household growth.

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

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 commercial real estate (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 historically have depended heavily 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.

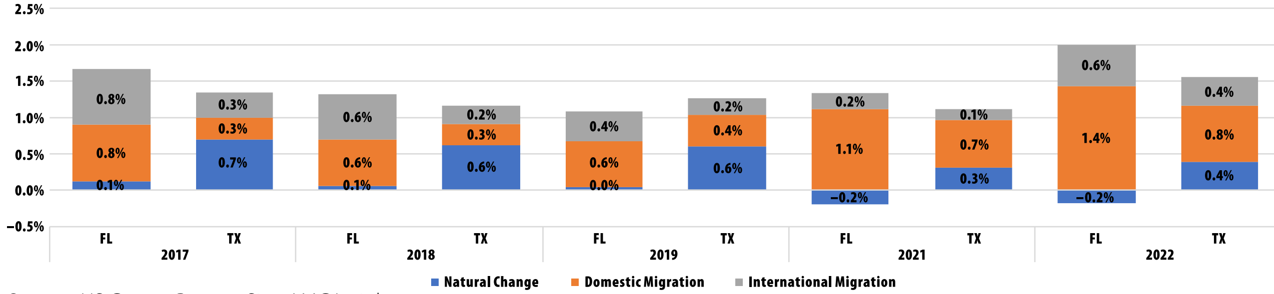
During the pandemic, several companies, such as Blackstone, Goldman Sachs, and The Praedium Group; various hedge funds; and multiple tech companies relocated their offices and personnel from expensive regions to the more affordable South Florida area. Many of these firms support high-paying jobs in the 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 will reap property tax revenues from greater office occupancy and elevated housing prices.

Case Study: Florida Versus Texas

Although both Florida and Texas had the strongest domestic migration in 2022, they differed in income

Exhibit 7: Population Growth from Components of Change, 2017–2022

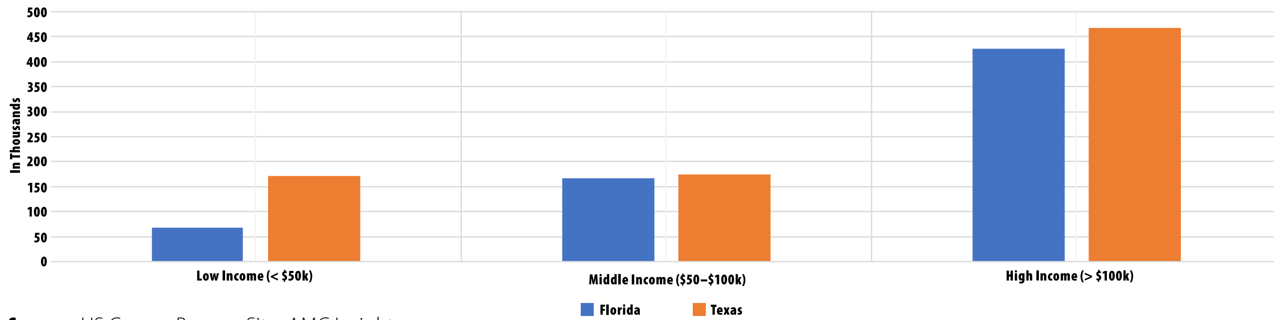
Florida and Texas experienced strong domestic migration in 2022.



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

Exhibit 8: Change in Number of Households by Income Bracket, 2019–2021

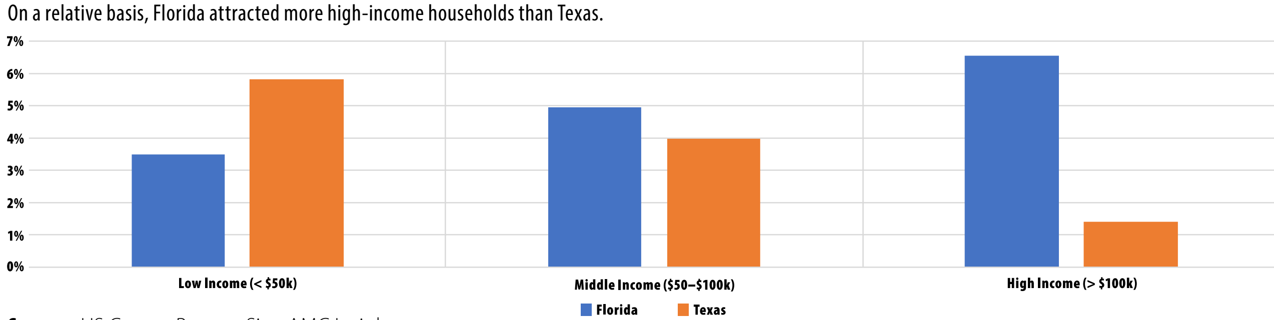
Florida and Texas grew in absolute numbers of high-income households between 2019 and 2021.



Sources: US Census Bureau, SitusAMC Insights

Exhibit 9: Household Growth by Income Bracket Relative to National Average, 2019–2021

On a relative basis, Florida attracted more high-income households than Texas.



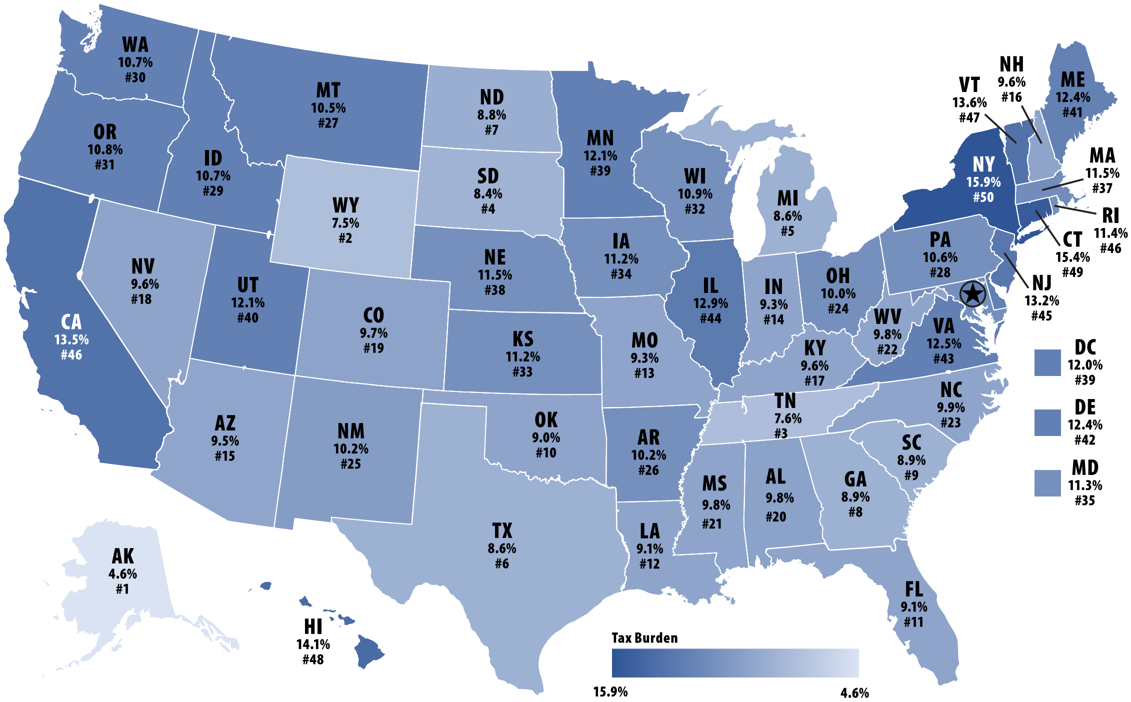
Sources: US Census Bureau, SitusAMC Insights

migration and thus the flow of money. Florida gained nearly four times the amount of wealth from in-migration relative to Texas from 2019 to 2020, but the flow of money into each state was remarkably different. In Florida, nearly 25% of the change in total tax returns came from those with high incomes ($200,000+); in Texas, it was only 8.5%.

Further, according to additional data from the US Census Bureau, in 2022, Florida and Texas ranked first and second, respectively, in domestic migration on an absolute basis, with an increase of almost 319,000 (1.4%) and 231,000 (0.8%) residents, respectively (Exhibit 7). Between 2019 and 2021, Texas and Florida both gained larger numbers of households earning more

Exhibit 10: State and Local Tax Burdens by State, Calendar Year 2022

Tax burdens were considerably less in Texas and Florida.



Sources: Tax Foundation, SitusAMC Insights

Notes: 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. DC's rank does not affect states' ranks.

Exhibit 11: April 2023 Year-Over-Year Change in Employment (Seasonally Adjusted, Based on a Five-Year Average)

Sunbelt labor market conditions consistently beat the national average.

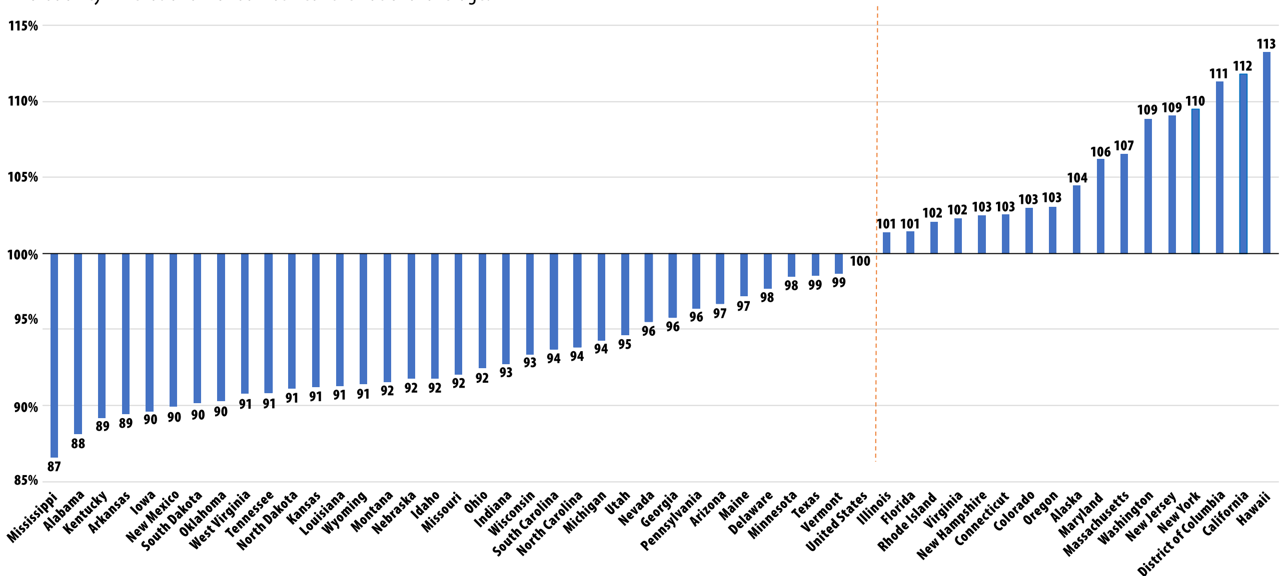
	2017	2018	2019	2020	2021	2022	2023
US	1.8%	1.8%	1.8%	1.4%	–0.2%	0.5%	0.9%
Arizona	2.4%	2.5%	2.6%	2.5%	1.4%	2.1%	2.2%
Florida	3.0%	3.0%	2.9%	2.4%	0.8%	1.5%	2.1%
Georgia	2.4%	2.4%	2.4%	1.9%	0.6%	1.2%	1.6%
North Carolina	2.1%	2.1%	2.1%	1.8%	0.7%	1.4%	1.8%
Nevada	3.0%	3.2%	3.3%	2.7%	0.0%	1.6%	2.4%
South 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

than $100,000, but they also experienced an increase in households earning less than $50,000 (Exhibit 8). Texas ranked first and Florida third for growth in households earning more than $100,000 on an absolute basis and first and second for growth in households earning less than $50,000, respectively. However, on a percentage basis, the number of households earning more than $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 less than $50,000 on a percentage basis relative to Florida, ranking 6th and 11th, respectively (Exhibit 9). The greater flow of money into Florida relative to Texas will likely boost Florida's

Exhibit 12: Regional Price Parities (All-Item RPP), 2021

Affordability in Texas and Florida was near the national average.



Sources: BEA, SitusAMC Insights

Notes: 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.

economy and demand for CRE. Texas may experience more housing affordability pressure relative to Florida because of the influx of low-income households.

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 (Exhibit 10). 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.

Strong Employment Opportunities

Consistent strong employment growth is a likely driver of migration to southern states. The focus states have employment growth above the national average (Exhibit 11). Nevada, Arizona, Florida, and Texas were the standouts in the April 2023 data.

Better Affordability

Regional price parities (RPPs) are an indicator of market affordability. RPPs, 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. Compared to some other large-population states, such as California and New York, Texas and Florida are relatively affordable, contributing to their attractiveness (Exhibit 12). Prices in Texas are just 1% lower than the national average, and prices in Florida are only 1% higher than the national average. ■

Russ Appel is a Founding Principal of The Praedium Group, Peter Muoio is a Senior Director at SitusAMC Insights, Jen Rasmussen is a Vice President at SitusAMC Insights, and Jacki Spies is a Vice President at The Praedium Group.