



The Bill Will Come Due' — Can Texas Support Its Massive Growth?

February 25, 2021 Christie Moffat and Kerri Panchuk

Texas entered 2021 from a position of relative strength. People continued to flow into the state even during the coronavirus pandemic, or perhaps because of it — the prospect of more space, lower costs and less stringent lockdown policies all bolstered Texas' reputation as the place to be.

Then Winter Storm Uri happened.

The storm swept across the western U.S. into Texas, delivering multiple days of below-freezing temperatures, snow and ice. Wellheads, wind turbines and other equipment froze, cutting off energy supplies to power plants. Soaring power demand outstripped supply, forcing the state's electricity grid operator to implement rolling outages.

The consequences were severe. Millions of people in Texas were left without power for days, resulting in several deaths across the state. Without heat, water pipes in commercial and residential properties froze and burst. Some residents who managed to keep power are already receiving shockingly high electricity bills, a result of the state's deregulated utility market.

Texas' regulatory environment is now under intense scrutiny, as lawmakers and angry residents demand answers on how the state allowed its infrastructure to fail on such a massive scale. And questions are being raised as to whether Texas is actually able to support the rising number of people and firms looking to relocate there.

"The storms certainly challenged the myth of Texas independence and cracked the assumption of invincibility for many," University of Houston Political Science Professor Brandon Rottinghaus said. "The storms underscored how population growth is a worrisome challenge to the state's economic future."



The view south between westbound I-10 and southbound I-45 near Downtown Houston.

For the past decade, lower taxes, less regulation, cheap housing and warm weather have lured millions of new residents and hundreds of new corporations to Texas. The remote work revolution has supercharged that migration, but demographers and policy experts warn that the Lone Star State's famed quality of life is at risk if its government doesn't do more to manage its growth.

"We are not sufficiently looking down the road. And we're not sufficiently investing," former Houston Mayor Annise Parker, who led the city from 2010 to 2016, told *Bisnow*.

Over the past decade, Texas grew by 17%, or more than 4.2 million people, bringing the state's population to an estimated 29.3 million in 2020, according to the Texas Demographic Center.

More than 200 companies relocated their corporate headquarters to Texas in the past 15 years, according to YTexas, a business networking organization that assists companies looking to expand or relocate to Texas.

The pandemic has pushed interest in corporate relocations into overdrive; 25 firms chose to relocate their corporate offices to the Lone Star State in 2020 despite the pandemic leasing freeze, one more than in 2019. Brokers across Texas boast of dozens of companies calling them from other U.S. regions in the past 10 months, talking about looking to Texas for office or

manufacturing space in pursuit of low taxes or an escape from restrictive coronavirus lockdowns and regulations in states like California.

More companies means more jobs, which in turn means more people. But as the state's population grows, so does the pressure of keeping up with housing, schools, infrastructure and services, creating a housing and lifestyle affordability crisis that has been hidden under the discourse of Texas being an unstoppable economic engine.

Already, the in-migration is taking its toll on Texans. Workers moving to Austin have average housing budgets 32% higher than the average for local buyers, the third-largest differential around major markets in the country, according to data from Redfin. Houston, San Antonio and Dallas-Fort Worth all are in the top 10 markets where out-of-towner budgets outpace that of the locals.

Texas politicians say that growth combined with the state sales tax as its main revenue driver will allow Texas to raise enough money to keep up. But Rottinghaus said long-term, the state will face either financial strain or a lower quality of life if there is a deadlock between the state's desire not to raise taxes any further and its need for more revenue to meet rising population demands.

"The Texas boom in population isn't free, and it's not necessarily a net good," Rottinghaus said. "Along with the boom comes an extra list of costs ... affordable housing, transportation issues and access to health care. All of these things are connected to a booming state, and the bill will come due sooner than a lot of policymakers think."

The Double-Edged Sword

Thousands of people from expensive coastal states have found their way to the Lone Star State in search of more affordable housing in its bustling, growing cities. Texas is a bargain for relocating professionals with good salaries and cash in hand from selling their homes in other states.

People moving from California to Texas in December 2020 left behind a median single-family home price of \$718K, according to California Association of Realtors data. In comparison, the median Texas home price was \$270K during the same month, according to the Texas A&M Texas Real Estate Research Center.

California contributed 42% of all net migration to Texas in 2019, according to the Texas Demographic Center.



Courtesy of Alejandro Rioja. Flux Ventures founder and tech entrepreneur Alejandro Rioja, a recent transplant from San Francisco to Austin.

One recent California transplant is Alejandro Rioja, the 25-year-old founder of Flux Ventures and online community Future Sharks. Rioja moved to Silicon Valley after college to surround himself with other smart young people and tech startups. But when the pandemic hit, in-person networking opportunities disappeared and professional meetings pivoted online. At that point, Rioja realized he was no longer limited to living in the Bay Area.

“I think the pandemic opened up my eyes to the fact I could have almost the same relationships via Zoom,” Rioja said.

Rioja used to split a monthly rent of \$4,200 to share a two-bedroom San Francisco apartment with a roommate. He now lives alone in a luxury Downtown Austin apartment for \$1,700 a month, and he is in the process of closing on a house in Austin’s northern suburbs.

Such stories are commonplace, but with a caveat: Texas might look cheaper to forlorn coastal residents searching on Zillow or Apartments.com, but in some cases, affordability gains are being offset by higher property tax rates and competition for best-in-class housing, causing bidding wars and price inflation.

Austin real estate agent Jeremy Knight said 40% to 45% of his relocating clients come from Northern California, and many of them get sticker shock when factoring in Austin utilities, taxes and inflating home values as new residents overbid on properties.

Knight, an agent with Real Broker LLC, recently saw 90 or so bids come in on one Austin property, which sold for \$171K over market value, he said. Today, the median Austin house price is \$470K, up 20% in just the last year, according to Redfin data. Five years ago, the median home price in the same area was \$301K.

“If you come here with the mentality that it’s going to be cheaper, you are going to be let down,” Knight said.

Knight produced a YouTube video informing Californians what to expect when moving to Austin after a tech executive caused a stir online saying his move from San Diego to Austin was a mistake and not the bargain he expected.

“That is the biggest problem with our market now: With the number of corporations moving here, our affordability is tough and so is the market,” Knight said. “Corporations are going to have to figure out a way to combat [rising prices].”

The affluent North Dallas suburb of Plano is in a similar position. The median Plano home price is \$374K, Redfin data shows, up almost \$100K from February 2016. Plano’s population in 2019 hit nearly 288,000, up 10.7% since 2010, according to U.S. Census Bureau data.

“I think it is a double-edge sword. When you are in a successful community, the desire is to be there, and that drives prices up,” Plano Mayor Harry LaRosiliere said. “And that is challenging for those who are in the workforce whose incomes can’t support that. We’ve had that challenge, and there are a number of affordable housing projects that we have looked to approve, but certainly demand is outstripping supply right now.”

Rising home values are hampering the ability of younger homebuyers and lower-income Texans who have less money for down payments as prices escalate, CoreLogic Chief Economist Frank Nothaft said.

The median Texas home price grew 8.9% year-over-year in December 2020, data from the Texas Real Estate Research Center showed. That month, Austin’s median value grew 14.8% year-over-year, reaching \$367K; Houston’s median value grew by 7.5% to \$271K; and Dallas’ median value grew by 8.3% to \$320K.

Texas salaries aren't keeping up — the median Texas income was \$64,034 in 2019, the most recent data available, up 3.7% from the previous year.

“Whether its [prices] are too elevated or not depends on your perspective,” Nothaft said. “If your perspective is you are moving from Los Angeles, San Francisco or New York City, you look at Texas and say, ‘Man, things are really affordable.’ But if you have grown up in Dallas, Austin, San Antonio and Houston ... prices are starting to look pretty high. They are looking far less affordable than 10 or 20 years ago.”

Mag Mile Capital CEO Rushi Shah started to warn about a possible bubble in multifamily development in Dallas-Fort Worth in 2019, when he was worried that rising apartment prices would eventually push out renters, disrupting expected cash flow.

“[In] order for the projects to make sense, the rents have to make sense, and so the rents are also going up,” Shah said at the time. “But, at some point, the equilibrium breaks, the asking rents are just way too high for the middle class, or we’ll call it the critical mass, to afford the rents and that’s what is broken in DFW.”

Two years later, he changed his tune. The pandemic made Texas a more favorable market again in comparison to other states, he said, but the overheating risk still lingers.

“We are at dangerous levels in terms of pricing,” Shah said. “It’s like a pendulum, it surely swings one way before it corrects. It’s bound to happen. It’s inevitable.”

Texas’ rapid growth doesn’t just put pressure on its housing market. The cost of transportation, education and child care also inflates as population rises, Texas Demographic Center Senior Demographer Lila Valencia said.

When analyzing the cost of living to include transportation and housing costs, DFW in 2016 was already slightly more expensive than Los Angeles, according to a report from the Citizens Budget Commission that analyzed U.S. Department of Housing and Urban Development data. The report shows DFW’s median housing and transportation costs on a monthly combined basis came in at \$2,530 in 2016, compared to \$2,444 in Los Angeles.

Public transportation in Texas is not as robust as in areas like the Northeast, and new residents to the state are often burdened with the additional cost of acquiring a car. For those who are reluctant to drive, getting around can be a challenge.

“I have seen people from the East Coast wanting to move back if they are coming from a big city,” Knight said. “It is sparser here, and it’s harder to get around. The transportation issue is one reason people move back.”

Extreme weather events momentarily throw infrastructure woes into the spotlight. Rice University’s Kinder Institute of Urban Research Director Bill Fulton said that when natural disasters like Winter Storm Uri happen, there is pressure on state and local governments to make significant changes to regulation and improve infrastructure. However, as time goes on and the financial costs become clear, the urgency of those discussions tends to fade.

Fulton pointed to the devastating impact of Hurricane Harvey, which caused \$125B in damage to Houston. More than three years later, some regulatory changes have been introduced to mitigate intensifying rainfall, but the process has been slow and limited in scope. In the case of electricity infrastructure, discussions about hardening the Texas power grid for security purposes have been happening for years, but nothing eventuated, Fulton said.

“There will be discussion now about weathering the grid, but then the discussion becomes, ‘Who pays for that?’” he said.

Some areas of Texas are growing more rapidly than others. The suburban areas surrounding major cities are growing the fastest, and the majority of that growth is coming from migration — not just from other states, but also from other parts of Texas, Valencia said.

“[The suburbs] are going to be really challenged, because they really are going to have those pressures on their infrastructure, where they do need to immediately begin to build new housing, add new housing stock, make sure that they have large enough schools to meet the demands of the influx of children and families,” Valencia said.

While politicians and industry types have been quick to boast about Texas’ corporate relocation victories, Shah said not enough people are talking about the strain that population growth is putting on the state’s public systems.

“What is the government doing about all of this massive influx? Are schools ready to take all of the kids? Are public utilities ready to take on all of this capacity? Are other government services up to the challenge to put public infrastructure in place like roads?” Shah said. “If that is not being done, there is going to be a pent-up need for this, and where is that money going to come from?”



Wikimedia Commons/Famartin. A welcome sign along eastbound Interstate 40 entering Deaf Smith County, Texas, from Quay County, New Mexico.

‘The Revenue Has To Come From Somewhere’

As Texas grows, it is increasingly finding itself in a Catch-22: needing to increase taxes to support its growing population but at risk of losing what many consider its competitive advantage.

“Because of all of the success that Texas has gotten, it is beginning to experience inflationary wage pressures, inflationary housing costs, inflationary Class-A office space costs. So the challenge is to remember what made that winning formula. And it wasn't raising taxes, it wasn't increasing regulations,” said The Boyd Co. principal John Boyd, a site selection consultant. “That'll be the real challenge for lawmakers in the Sun Belt in the years ahead.”

Texas is often seen as a favored alternative to California because of its lack of personal income tax and corporate income tax. But some observers say it will eventually have to find a way to raise revenue to keep up with the growing demand for roads, schools and other services — just like California did last century, when its population started to explode.

"My perspective is Texas is in the same position that California was in 40, 50 or 60 years ago, and if you play that movie forward, you wind up in a very similar place," said Johnny Sanphillippo, a Northern California resident who writes about issues of growth and affordability in his home state.

He said many residents in the Bay Area are actually relieved as companies leave with their workers and head to Texas, because it has provided relief to their own housing prices. Rent has dropped in San Francisco more than 20% year-over-year as the city's population has emptied out over the pandemic.

Many of Texas' critical functions are funded by property taxes, though the state has already moved to block future increases. Texas has the seventh-highest property tax rate for owner-occupied housing in the country, sitting at 1.69% compared to California's rate of 0.74%.

"If you have growth in young families with school-age children or people in their early 30s who will soon start families, it definitely requires additional school construction," Center on Budget and Policy Priorities Senior Fellow Michael Mazerov said. "The revenue has to come from somewhere, and, in Texas, it will come disproportionately from property taxes."

In response to widespread voter dissatisfaction about rising property taxes, Texas lawmakers passed a law in 2019 that forces municipalities to put any property tax hikes greater than 3.5% on the ballot for a public vote. Previously, local governments were able to raise tax collections by 8% before the public could petition for a rollback election.

The law was passed after the real estate market — from commercial to residential property owners — complained of rising property taxes impacting ownership affordability, and in the case of multifamily properties, forced tax hikes to be passed down to renters.

Homeowners welcomed the relief, but Parker said that aggressively curbing taxation only makes it harder for cities to improve their infrastructure and cater to the future growth of the population.

"Because the state keeps ratcheting down the ability of cities to raise money, you can't put aside money to invest in the future. You're only allowed to bring in enough money to keep up with today's needs," Parker said. "It never allows you to get ahead of the curve. And cities are always playing catch-up."

The Texas legislature considered a bill in 2019 that aimed to mitigate property taxes by shifting part of the burden to sales taxes instead. That legislation didn't pass, largely because of the complexity of executing such a swap.

Sales tax has historically provided enough funding for infrastructure, according to state Sen. Paul Bettencourt, who sits on the Texas State Senate Finance Committee and served as the Harris County Tax Assessor-Collector between 1998 and 2008. He told *Bisnow* that corporate

relocations like the recently announced HPE headquarters in his north Houston district are the sort of desirable moves that bring in more revenue.

“Those mechanisms, by and large, between property taxes and sales taxes, have certainly been adequate to this point,” Bettencourt said. “As long as [home] values go up and your tax rates go down, then homeownership and business ownership are not at risk.”

Rottinghaus, the UH professor, said the state can coast on sales taxes for now, but the past few decades have taught economists that eventually, a fiscal interruption, economic downturn or natural disaster will leave the state either unable to fund resources for Texans or scrambling to find ways to raise revenue without continuing to raise sales taxes or upending cap freezes on property taxes.

His prediction that lower taxes and higher population growth would lead to business interruptions played out last week, when the Arctic blast exposed weaknesses in Texas’ energy infrastructure, revealing an underlying need for more energy capacity and more resilient facilities.



Wikimedia Commons/Matthew T. Rader. A car driving through snow in Dallas during Winter Storm Uri.

As the state ponders weathering its energy equipment to prevent future blackouts, the idea of who pays for it raises obvious questions about what happens to Texas’ reliance on its low-tax,

low-regulation structure as demand for some state services grows. Texas has a constitutional amendment preventing the rollout of an income tax, so that option is off the table.

Some proposed solutions for raising Texas revenue have included allowing an expansive gaming industry in Texas or creating a marijuana tax, but both of those proposals have been stymied by the state legislature and are unlikely to be a viable solution economically and politically, Rottinghaus said.

Ultimately, if Texas faces steep shortfalls that growth combined with sales taxes cannot keep up with in the future, Rottinghaus said politicians will have to allow the quality of life in Texas to drop to ensure they keep with the no new tax mantra, or they will have to bend their no-new-taxes beliefs.

“The short answer is there are not a lot of revenue sources around that are politically palatable that will also generate the needed revenue to facilitate the kind of budget growth that an expanded population will have,” he said.

Despite the strain that cities are experiencing when it comes to catering to a growing population, fiscally conservative politicians like Bettencourt continue to advocate for less taxation, and they say that more jobs and transplants from other states will be enough to keep Texas adequately funded — as long as local governments don’t overspend.

“The bottom line is, I’d rather have the growth problem to manage than to be in a situation with negative growth. Because there is hardly any example of that ever turning out well,” Bettencourt said.

But Rottinghaus pointed to California and New York as clear examples of growth taking a toll on infrastructure and reversing course.

“This is what happens in places where you have an inability to stem the flow of population growth,” Rottinghaus said. “Politicians in Texas like to talk about the boom as being a net plus because it means that there is political value for people to come here and economically it is a great place to live, work and raise a family. But, lack of investment in the future of the state’s infrastructure, from an education point of view and a fiscal point of view, could be damaging to the state’s long-term prospects.”

Those concerns may weigh heavily on the minds of academics and policymakers, but for now, even in the immediate aftermath of a devastating storm, the population surge is expected to continue. The California transplants are leaving after years of wildfires sweeping through their state.

“If California is your feeder state, and it is, and you see all the things happening in California, but also \$700K houses, suddenly Texas doesn’t look so bad, even with [the infrastructure breakdown

during Uri],” said Fulton, who moved from California to Houston in 2014. “The zeitgeist is different ... There isn’t that sense of doom that a lot of Californians feel, there’s still optimism.”

Rioja, the young tech professional with dreams of founding his own startup, said the storm didn’t shake his enthusiasm for his new state. He likened Winter Storm Uri to owning a stock and having to endure a bad earnings call, and said that he remains bullish on Austin’s prospects for the long term.

“Honestly, the more time I spend here, the more I want to stay,” Rioja said. “There isn’t much incentive for me to go back to California.”