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Millions Permanently Moved Out Of U.S. Cities During The Pandemic. How That Is Now Affecting CRE Is Complicated

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More than 1 million people moved out of California and New York combined after the onset of the pandemic, beginning in April 2020, a shift for these populous states that serve as business hubs for the country and the world.

Meanwhile, western states with wide open spaces like Montana, Utah and Idaho grew rapidly, and longstanding population centers Florida and Texas ballooned even further, growing by 1.6 million people combined, according to newly released data from the Census Bureau.

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Although the population losses for both New York and California slowed as the world acclimated to the new normal, these population shifts open up new possibilities for some parts of the country as development seeks to follow demographics.

“There's no doubt that the big winners from in-migration are the high-growth Sun Belt markets, cities like Nashville, Charlotte, Dallas and Phoenix and markets in south and central Florida, among others,” Boyd Co. principal and site selection specialist John Boyd Jr. said.

The highest-growth post-pandemic markets where Utah, Montana and Idaho, which grew by 3.3%, 3.6% and 5.4%, respectively, from April 2020 to July 2022.

That kind of growth comes with new challenges for those real estate markets, however, and sometimes further shifts in the patterns of migration, something Boyd expects will continue.

That is because as a crush of new people moves to more affordable places, they tend to become less affordable, and new strains are put on local infrastructure.

Eventually, migration dynamics drive relocation away from the hottest of the hot spots to other places, sometimes to adjacent markets, Boyd said, and the cycle of growth starts again — just shifting a bit.

“In Nashville, we're now looking at the I-40 submarket, out to Mount Juliet, which is away from the city,” he said. “Or at Guadalupe County, between Austin and San Antonio. And there are other examples of markets that haven't seen astronomical growth yet, but probably will.”

The I-580 south of Reno is another up-and-coming relocation market, Boyd adds.

“We're getting requests from companies and workers about northern Nevada, especially from those that want to leave the Bay Area, but who don't want to go to Denver or Phoenix or Dallas.”

But while the impact on commercial and residential properties seems like it should be straightforward, demography isn't entirely destiny, especially for properties facing overall market challenges. The picture is particularly complicated in the retail and office sectors, brokers and developers say, and even the residential industry has population-related nuances.

"Following a period of above-average migration in the south and west, 2023 will bring an increased competitiveness across markets as different parts of the country strive to remain attractive to retailers," said Northmarq Senior Vice President Will Harvey, who is in the company's Washington, D.C., office.

Developers and investors active in Florida assert that the pandemic bumped up in-migration, and thus real estate activity, quite a lot — as a continuation of the pre-pandemic trends of northerners moving to the Sunshine State.

“We are developing into population growth,” DWNTWN Realty Advisors co-founder and Managing Partner Tony Arellano told *Bisnow*.

“Go to any market like Little Haiti, historically lower-income neighborhoods, and the multifamily occupancy is at full capacity and rents are growing," Arellano said. "You have people coming from all over, in every demographic, and every socioeconomic class.”

The implications of population growth and decline for real estate vary across the country, but there are common patterns, according to Placer.ai. The company said its foot traffic data shows that areas with population decreases are seeing a more difficult office recovery, while the reverse is true for places with growing populations, whose office markets tend to show more strength.

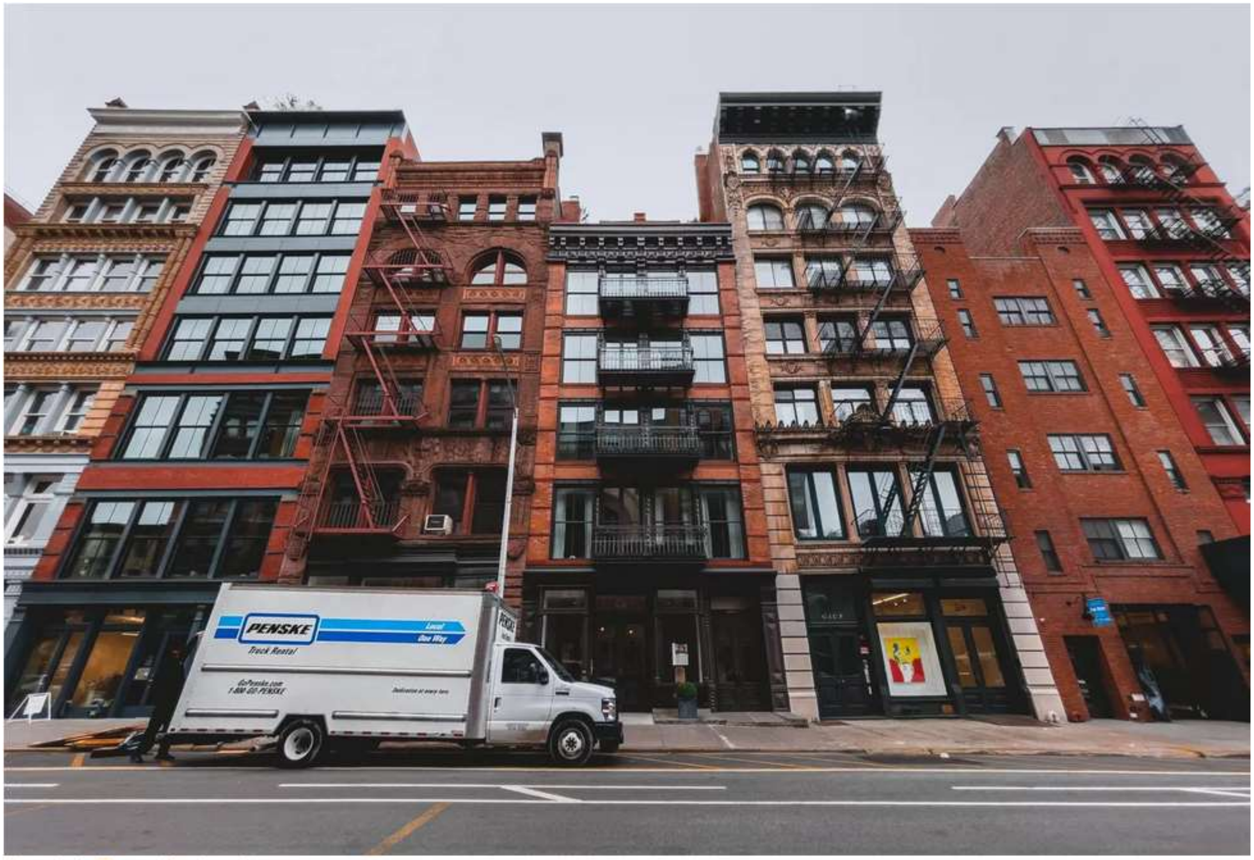
That includes office subspecialties, such as coworking, which has made a guarded recovery since the worst of the pandemic.

And beyond population growth, companies like to understand the factors that drive that growth, so that they can leverage an area’s strengths.

"While we do focus pretty heavily on the population growth trend of a market, we also try to understand the key drivers behind that trend," Carr Cos. CEO Austin Flajser said.

The company tries to hone in on the factors that will lead to growth in contracting business, startups, legal and consulting work, Flajser said.

"We also heavily weigh the characteristics of the surrounding community: what’s healthy about it, what might it be missing, and whether it's a place people will want to continue living in, raising families and growing businesses for the next 10 years," he said.



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For retail, the impact of migration isn't always about sheer numbers, but the demographics and preferences of those moving. The well-known migration from California to Texas is an example.

Between July 2019 and July 2022, more new Texas residents — 11.1% of the total to Texas from within the United States — relocated from California, more than from any other state, Placer.ai reported, with the largest group of those former Californians going to the Dallas-Fort Worth metroplex.

One good way to gauge the impact of Californians on Texas? The dramatic uptick in business Placer.ai has tracked at In-N-Out and Trader Joe’s, both of which are favorites in California.

Also, not all is necessarily lost for retail in markets with shrinking populations. The Northeast will continue to benefit from its strong e-commerce logistics, for instance, but will need to be hypercompetitive on urban revitalizations, specifically in metro areas where weekday foot traffic remains below 2020 levels, Northmarq's Harvey said.

The Midwest will be a tale of two kinds of cities, with some winners and some losers, as the return to office limits growth in "Zoom" towns, he adds.

"More established retailers will likely follow the national trends and plan most of their growth into the South," Harvey said. "However, with rising rents and tempered job growth in tech-denominated cities in the West, we'll likely see a flight to quality back to core, gateway markets that have proven resiliency."

But even success stories among high-growth states can stall, as popular places can become victims of their own success.

“For the last several years, Idaho was a top destination, as Americans migrated from Northern California, Washington and even Oregon due to a similar lifestyle in the state," United Van Lines Vice President of Corporate Communications Eily Cummings said. "With an influx of new residents, housing prices and other living costs start to increase over time, and these popular destinations become hot spots for inflation.”

Even so, demand for housing in U.S. population growth hubs will probably drive development in the longer run, particularly for the senior housing and build-for-rent niches, as they are also being spurred by underlying demographic and economic trends — namely, the aging baby boomers and the gap between income growth and the cost of a for-sale house.

"We believe our product is most accepted in markets where people are migrating to, such as cities in the Sun Belt," Headwaters Group Managing Partner Ben Burke said regarding the opportunity in the for-rent, age-restricted multifamily sector.

"Our development thesis is to target markets with a sizable population (more than 300,000) across the western U.S.," Burke said. "We dive deep into a market's demographics, but not necessarily targeting known growth markets like Salt Lake. Our current plan is to grow market-by-market to establish operational efficiencies across our portfolio."

For build-to-rent, the combination of growing population and a shortfall of residential properties is an attractive mix.

"Demand for homes will likely continue to expand, given rapid population growth in the markets in which we operate, as well as a more limited supply," Wolfson Development Co. CEO Adam Wolfson said.