MIGRATORY PATTERNS:
US Population Is Flying South and West

As the increasing availability of data highlights the value of targeting submarkets, a bigger, slow-moving shift is taking place in the US. Social and economic trends have caused a steady domestic migration of population and jobs to the South and West regions over the past half century.

Although primary real estate markets such as New York, Boston, and San Francisco retain strengths that have helped them thrive and will enable them to stay healthy, the slow-moving migration is likely to continue in the foreseeable future as a result of factors such as affordability and business climate.

The migration has many implications for the commercial real estate market, including definitions of the rapidly expanding metros that once were thought of as secondary or tertiary. What's more, investors must pay strict attention to policy, such as immigration law, and demographic and social trends that have a major impact on growth.

Migratory Patterns

From 1970 to 2018, the population of the top 50 metros in the US increased by 72.5 million (Exhibit 1).[1] More than 80% of that growth—62.5 million—took place in the South, Southwest, and West regions, with population growing by only 10 million in the Northeast and Midwest. The numbers are more striking on a percentage basis. Population growth in the Southwest (246%), Southeast (123%), and West (99%) at least doubled since 1970, while growth was more subdued in the Midwest (23%) and Northeast (12%).

Dallas (5.1 million) led metros in growth on an absolute basis since 1970, and Los Angeles, Houston, Atlanta, Miami, and Phoenix all added at least 3.8 million residents. On a percentage basis, Las Vegas led by far at 716% growth, and the populations of Austin, Orlando, Phoenix, Raleigh, and the Inland Empire all grew by at least 300%. In the current economic cycle, migration patterns have remained mostly consistent regionally. Between 2011 and 2018, Dallas (405,000) led metros in domestic migration, and Phoenix, Houston, Austin, Tampa, Atlanta, and Charlotte all topped 200,000.

Migration is a leading factor in the population shift. Between 2010 and 2018, 1.6 million domestic residents moved to the top 50 US metros in the Southwest, and an equal number moved out of the top 50 metros in the Northeast. The Southeast added 936,000 people since 2010 in domestic migration, and the Midwest lost 800,000.

The migration is being driven by a combination of economic, social, and technological factors. Individuals and corporations have moved to lower-cost markets, and corporations have relocated to metros that are more business friendly or have developed specialties in fast-growing business segments such as technology and health care. Technology makes both individuals and corporations more mobile than before, and as the economy grows, more service-oriented, businesses are less tied to physical locations.

Migration also favors metros with warm climates and attractive physical characteristics. Retirees have moved en masse to warm states such as Florida and Arizona, helping the health care and medical technology industries there to flourish. Hot spots for young workers include Seattle, Austin, and Denver, metros with growing job markets and an appealing combination of culture, parkland, and recreation.

Another issue that favors growth in the South and West is land. Coastal cities such as New York that were developed extensively in the 19th and early 20th centuries have little vacant land. Construction is focused on infill locations that often need environmental remediation. The dearth of land makes it expensive and therefore difficult to build housing that is affordable for middle-class workers, which in turn leads to out-migration. Newer cities such as Dallas and Phoenix have a greater supply of less-expensive land on which to build more affordable housing.

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Exhibit 1: Regional Population Growth, 1970–2018

Region	1970 Population	Total Population Growth 1970–2018	Population Growth 1970–2018
Midwest	26,247,159	6,134,880	23%
Northeast	33,051,056	3,920,238	12%
Southeast	18,267,546	22,423,259	123%
Southwest	8,011,860	19,697,641	246%
West	20,536,475	20,367,665	99%
Top 50 Metros	**106,114,096**	**72,543,683**	**68%**

Source: US Census Bureau

1. All population data come from the US Census Bureau.

Exhibit 2: Regional Job Numbers and Growth, 1990–2019

Region	Jan. 1990 Jobs	Jan. '90–April '19 Jobs Added	Job Growth Jan. '90—April '19
Midwest	13,447,400	3,185,600	23.7%
Northeast	15,715,596	2,945,723	18.7%
Southeast	12,548,200	7,230,100	57.6%
Southwest	6,471,900	6,437,900	99.5%
West	13,595,200	5,872,100	43.2%
Top 50 Metros	**61,778,296**	**25,671,423**	**41.6%**

Source: US Bureau of Labor Statistics

Exhibit 3: Regional Job Numbers and Growth, 2010–2019

Region	Jan. 2010 Jobs	Jan. '10–April '19 Jobs Added	Job Growth Jan. '10—April '19
Midwest	14,537,900	14,537,900	14.4%
Northeast	16,375,285	16,375,285	14.0%
Southeast	16,305,400	16,305,400	21.3%
Southwest	10,121,900	10,121,900	27.5%
West	15,682,900	15,682,900	24.1%
Top 50 Metros	**73,023,385**	**73,023,385**	**19.8%**

Source: US Bureau of Labor Statistics

Exhibit 4: Jobs Added, 1990–2009 and 2010–2018

	1990–2009	2010–2018
National Jobs Added	20,610,000	20,468,000
Top 50 Markets Jobs Added	11,245,809	14,426,335
Top 50% of Total	55.0%	70.5%

Source: US Bureau of Labor Statistics

Policy has favored continued migration from core cities. The 2017 tax law eliminated deductions for state and local taxes from federal income taxes, which adds to the burden of residents of states with high property taxes, particularly Illinois, New York, New Jersey, and California. To date, out-migration has been minimal, but the policy creates incentives, especially for retirees, to leave high-tax states.

Urbanization and Job Growth

Although job creation has migrated to the South and West over the past 30 years, more recently there are signs that the patterns are more nuanced. During the past decade, job growth has been largely concentrated in urban areas and has been more dispersed by region.

As shown in Exhibit 2, since 1990, the Southwest (99.5% growth) has led by far in the percentage of jobs added, followed by the Southeast (57.6%), West (43.2%), Midwest (23.7%), and Northeast (18.7%).[2] Exhibit 3 shows that the Southwest (27.5%) continues to be the fastest-growing region in job growth since 2010, but the difference is not as stark. Metros in the West have added 24.1% jobs, followed by the Southeast (21.3%), Midwest (14.4%), and Northeast (14.0%).

Urbanization has changed the dispersion of jobs. Since the Great Recession, the 20 million–plus added jobs have been increasingly concentrated in urban areas. Just over 70% of the jobs created in the US between 2010 and 2018 were in the top 50 markets, compared to 55% of the jobs created between 1990 and 2009 (Exhibit 4).

Like migration in general, urbanization has been driven by a combination of demographic and social forces. The 80-million-strong millennial generation has become the largest demographic cohort, surpassing baby boomers, and the largest percentage of the workforce. Corporations expand in areas where they can find talent, and young knowledge workers want to live and work in cities where they can be among peers, have access to social activities, and have shorter commutes.

Millennials are marrying later and having fewer children at a later age than their parents, which is more in line with urban living. Whether millennials will settle down into a suburban lifestyle as they age is an important debate within commercial real estate. Some argue that as millennials age and pay down college debt and have children, they will buy more single-family houses in the suburbs, but others argue that homeownership is less conducive to their lifestyle and/or not a goal of that generation.

Immigration

Domestic migration patterns show a clear regional shift, but immigration has been the ace in the hole for primary commercial real estate markets. As shown in Exhibit 5, between 2010 and 2018, the top 50 metros added 5.6 million immigrants, led by the Southeast (1.6 million),

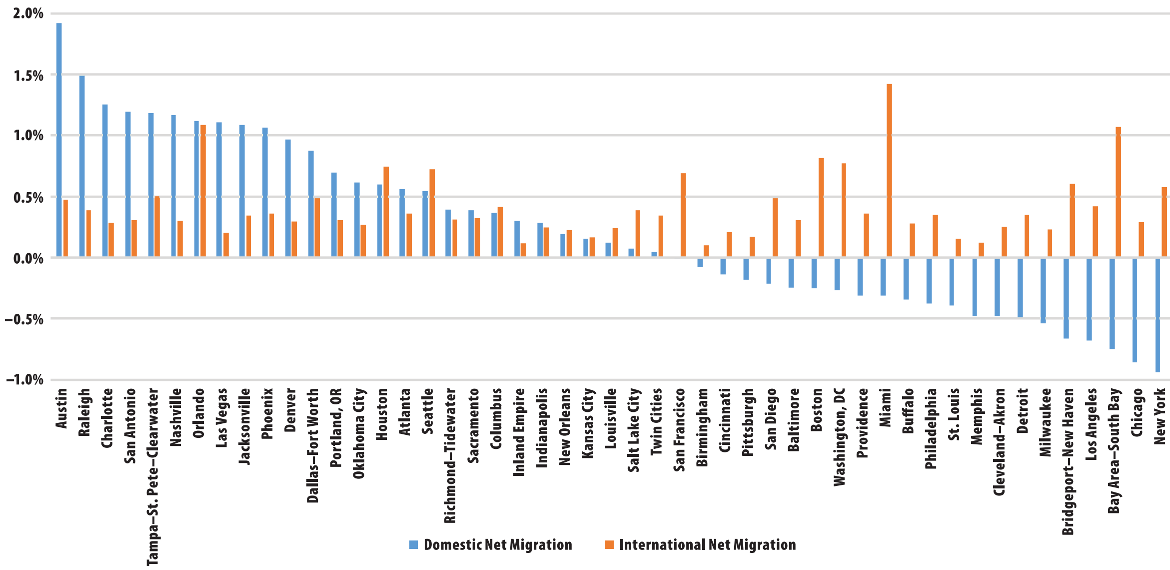
2. All employment data come from the US Bureau of Labor Statistics.

Exhibit 5: Comparison of Domestic and International Population Growth and Migration

Region	2010 Population	Total Domestic Net Migration 2011–2018	Population Growth from Domestic Migration 2011–2018	Total International Migration 2011–2018	Population Growth from International Migration 2011–2018
Midwest	31,469,949	–801,765	–2.5%	617,201	2.0%
Northeast	36,147,527	–1,620,009	–4.5%	1,351,336	3.7%
Southeast	36,677,339	936,659	2.6%	1,587,191	4.3%
Southwest	23,695,182	1,628,887	6.9%	805,703	3.4%
West	37,851,670	–164,263	–0.4%	1,242,925	3.3%
Top 50 Metros	**165,841,667**	**–20,491**	**0.0%**	**5,604,356**	**3.4%**

Source: US Census Bureau

Exhibit 6: Annualized Population Growth from Migration 2010–2017



Sources: US Census Bureau, Moody's Analytics, Yardi Matrix

Northeast (1.4 million), and West (1.2 million). Immigrants concentrate in large cities with diverse communities, particularly those in New York, New Jersey, and California, and have been responsible for boosting the populations (and filling jobs) in primary real estate markets.

Top US metros for international immigration between 2010 and 2017 were New York (804,000), Miami (579,000), Los Angeles (384,000), Houston (316,000), Washington, DC (314,000), and Boston (267,000).[3] Looking at migration from a domestic versus international perspective, primary commercial real estate markets rely on international immigration to make up for domestic outflow of population (Exhibit 6).

Immigration is important for another reason. As the birth rate of native-born women declines to below-replacement population levels, the country needs immigrants for economic growth and to fill jobs. Since 2010, the native-born population in the top 50 metros has been relatively flat, but those markets added 5.6 million immigrants.

Implications

What lessons can we draw from the trends? For one thing, it seems likely that metros in the South and West will continue to grow more rapidly than older core metros. The

3. All immigration data come from the US Census Bureau.

economic and lifestyle factors—jobs, affordable housing, and climate—that started the trend remain in effect and are not likely to change soon, even if growth is concentrated in urban parts of those regions.

At the same time, large metros in other regions have advantages that will continue to drive those markets, even as they battle issues such as affordability and development constraints. Cities such as New York, Boston, San Francisco, and Washington, DC, remain the center of business/finance and technology and are attractive destinations for young, educated workers for metros' culture and higher salaries. What's more, primary markets tend to draw immigrants, who are making up an increasing share of the growth in the workforce. Investors remain willing to pay a premium for properties in core markets because of consistent fundamental performance and high liquidity. Many studies have demonstrated that loans in primary metros perform better than loans in smaller markets.

Some other takeaways include these:

■ **The definition of primary/secondary/tertiary markets will continue to evolve.** Some institutions that focus on the top 10 or 12 markets may have to rethink strategy. Primary markets will continue to have the most real estate by square footage and total value and highest volume of transactions. But metros such as Seattle, Phoenix, and Charlotte that were at one time considered fringe for institutional investors are increasingly important as regional centers of business. Investors can find a nexus between growth and higher yield in secondary metros that are approaching primary markets in size and liquidity.

■ **Immigration Policy Counts.** The US as a country is going through some soul-searching as to immigration policy, not only border enforcement but also the numbers of and qualifications for legal immigrants. Whatever policy is set in coming years will have serious regional implications, since the largest and highest-cost markets rely on immigration for growth.

■ **Markets are impacted by the economy.** Large markets with diverse economies have tended to be safer because they perform better during downturns. Smaller markets with less-diverse economies tend to suffer more during recessions, depending on the cause. As the cycle gets closer to the end, investors must consider which metros are better poised to get through a downturn. For example, Las Vegas and Orlando have experienced booms during the current cycle, but have they diversified their job bases enough to keep growing outside of tourism and migration from retirees? By the same token, are fast-growing markets such as Dallas, Austin, Nashville, and Charlotte better poised to withstand a downturn as the job base grows larger and more diversified?

No metro is immune from recessions or downturns, but those with strong fundamental characteristics will always perform well over time. Critical factors include strong secondary educational institutions that produce skilled workers; amenities such as affordable housing, culture, and parks that are attractive to workers. Governments that work with businesses to produce economic growth will outperform over time whatever happens with the broader economy.

■ **Keep an eye on emerging demographic and social trends.** The future is not easy to predict, but investors must pay attention to developments in lifestyle and technology that have a major impact on demand for real estate. For example, demand for office space is evolving as workers increasingly seek amenities such as exercise rooms, better food options, and shared space. Signs indicate that millennials and members of Generation Z (people who were born in the late 1990s and early 2000s) have different attitudes toward homeownership, work, and commuting than their parents, which will impact demand for apartments.

And it's not just retail. Few would argue that the retail sector will return to the way it was pre-crisis. How people shop will never be the same. By that token, neither is demand for other aspects of real estate—housing or office space, for example—likely to return to some past "normal." Lifestyle and work preferences, however, always evolve in a way that changes demand, and every property type will be affected. ■

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