Housing Morsel

Red hot region: what is driving the Sun Belt boom?

27 March 2023

Key takeaways

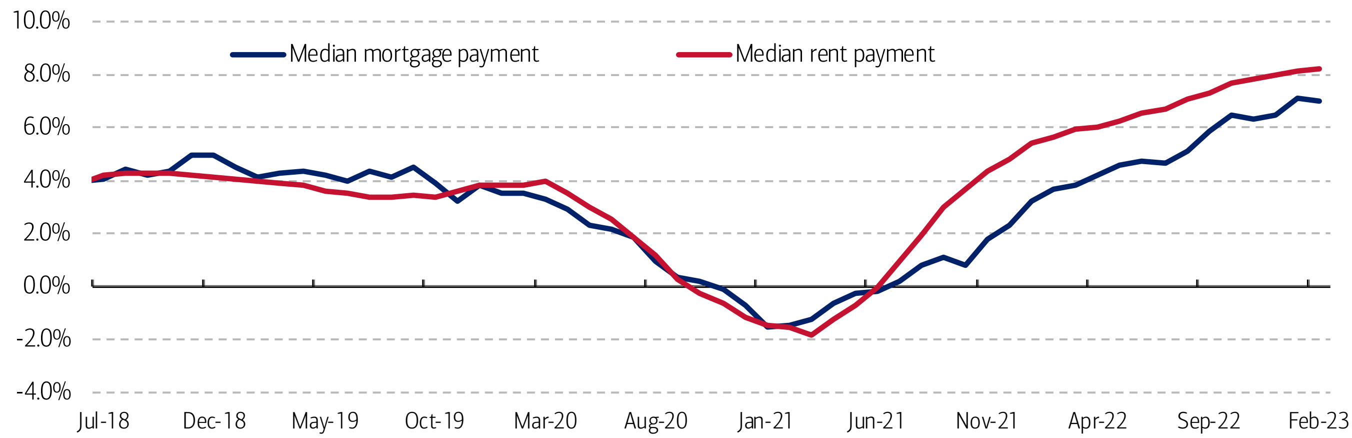
- Beneath the surface of the aggregate US housing trends, we find meaningful variations between major Metropolitan Statistical Areas (MSAs). For example, in February median rent and mortgage payments for all Bank of America customers were up 8% and 7% year-over-year (YoY), respectively, but some Sun Belt cities are seeing a much bigger surge.
- In Phoenix, median rent payment grew by a staggering 26% YoY in February on a six month moving average basis, compared with just 2.5% in San Francisco, according to Bank of America internal data. Mortgage payments show a similar regional divide.
- So why have some MSAs experienced a much bigger housing boom than the others? The underlying reason may be complex but we propose some potential explanations: domestic migration driven by affordability, above- average employment gains and an increasing share of higher paid jobs.

Housing market: from national to regional

Housing remains a focal point in the economy as it constitutes the biggest consumption category for consumers. While rising borrowing costs have dampened home sales over the last year, shelter costs continue to rise at record pace. Utilizing Bank of America internal data, we find that median rent payments across debit/credit card, ACH (automated clearing house), and bill pay for Bank of America customers were up over 8% year-over-year (YoY) in February 2023 on a six-month rolling basis, double the average growth rate in 2018-19 (Exhibit 1). Meanwhile, median mortgage payments were up 7% YoY in February, at a slower pace than rents.

While the overall strength in housing costs is notable, the differences across regions are even more striking. We therefore take a closer look at Bank of America housing data at the city level to uncover the different regional patterns underneath national trends.

Exhibit 1: Median rent payment and median mortgage payment, based on Bank of America internal data (%YoY, 6-month moving average)
Median rent payments for Bank of America customers were up over 8% YoY in February 2023 on a six-month rolling basis



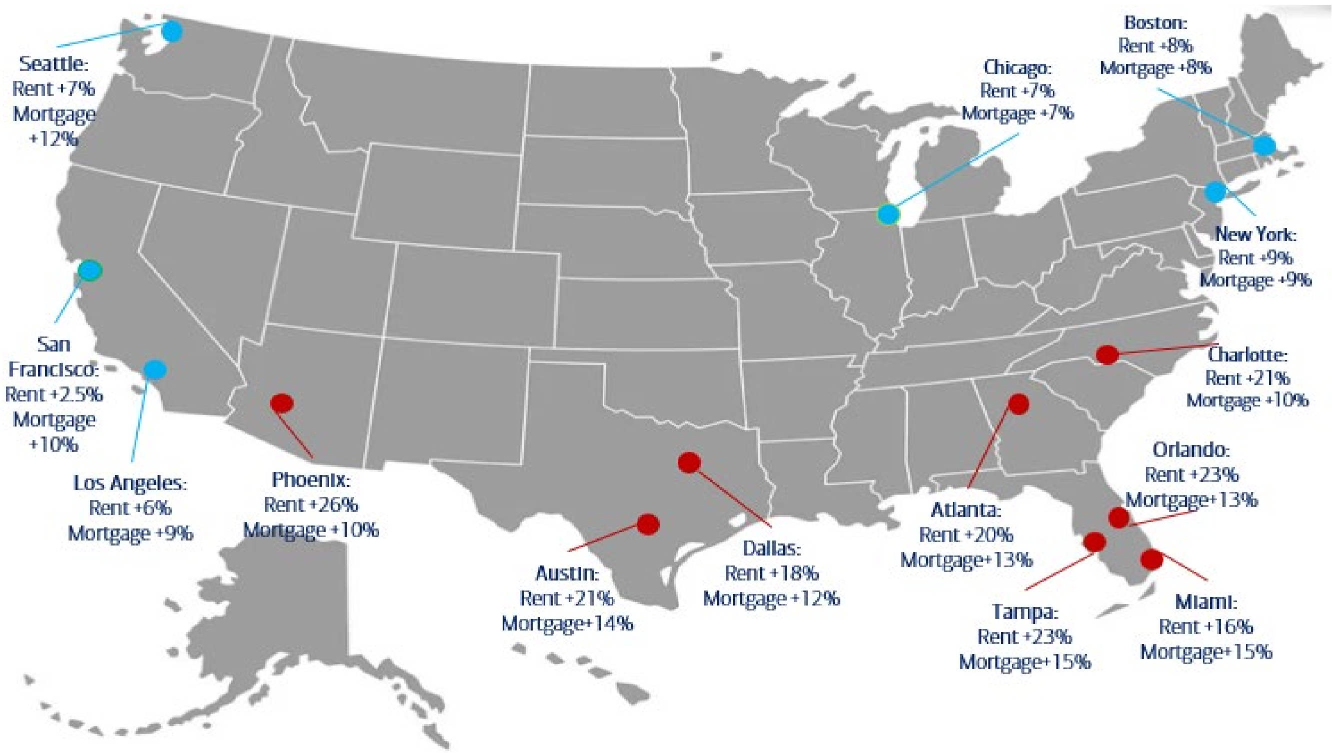
Source: Bank of America internal data

Rising like a Phoenix

Let's start with rent increases. Bank of America internal data shows that the pace of rent increases has varied greatly across major cities. Top of the spectrum is Phoenix, which saw a staggering surge of 26% YoY for the six months through February, followed by 23% for Tampa (Exhibit 2). In both cities, the YoY increase in rent payments are at a record high pace, despite the series of interest rate hikes by the Fed that is aimed at taming price increases. On the flip side, median rent payments in San Francisco for the six months through February were up just 2.5% compared with the same time a year ago. The Consumer Price Index report from the Bureau of Labor statistics (BLS), which includes a smaller list of MSAs, shows a similar result, with Phoenix seeing the largest shelter inflation and San Francisco the lowest.

The growth in median mortgage data shows a similar pattern. Metropolitan areas such as Tampa, Orlando and Atlanta are seeing the biggest rise in mortgage payments while Chicago, D.C. and Boston see only modest gains. Like rent payments, the growth in mortgages payments in these Sun Belt cities have also not shown signs of easing although this is likely due to higher interest payments more than offsetting the moderation in home prices since the start of the Fed rate hike in early 2021.

Exhibit 2: Median rent and mortgage payments in major MSAs, based on Bank of America internal data (%YoY, for the 6-month ending February 2023)
Phoenix saw a staggering surge of 26% YoY for the six months through February, followed by 23% for Tampa



Source: Bank of America internal data. Rent and mortgage payment include all payments across debit/credit card, ACH (automated clearing house), and bill pay
Note: Blue means the increase in rent and mortgage in lower than 10% YoY for the six-month ending February, red means above 10% YoY

Deciphering the regional divide

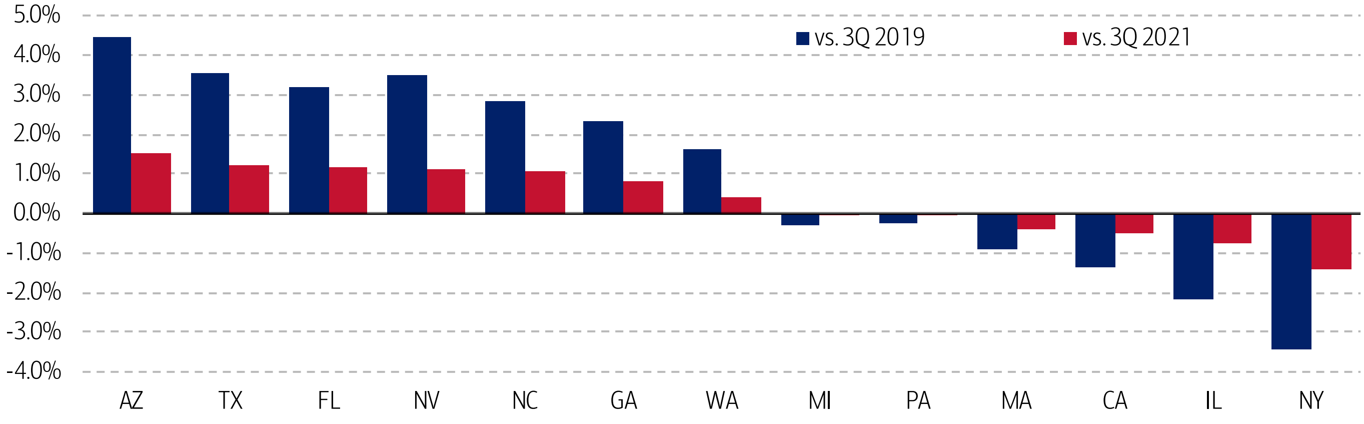
So why have MSAs in the Sun Belt region such as Phoenix, Miami, Tampa, and Atlanta, experienced a bigger housing boom driving up rents and mortgages than MSAs in the Northeast (Boston, New York) and the West (San Francisco and Los Angeles)? The underlying reason may be complex, but we propose some potential explanations: domestic migration driven by affordability, above-average employment gains and an increasing share of higher-paid jobs.

#1 The great migration

As we have discussed before (see Housing Morsel), there has been a jump in domestic migration between US states since the start of the pandemic, which has had a meaningful impact on regional housing markets. Here we use state-level data to gauge the latest trends given that government MSA-level population statistics lags by two years.

Bureau of Economic Analysis quarterly data through 3Q 2022 shows that states with the biggest gains in resident population – Arizona, Florida, and Texas – are in the MSAs that have high rent and mortgage increases (Exhibit 3). Meanwhile, in California and Illinois, where rent increases have been lower, the population has declined over this period.

Exhibit 3: Change in the resident population for select states (% change, data as of 3Q 2022)
States with the biggest gains in resident population – Arizona, Florida, and Texas – are in the MSAs that have high rent and mortgage increases



Source: Bureau of Economic Analysis

#2 Affordable housing might be one attraction

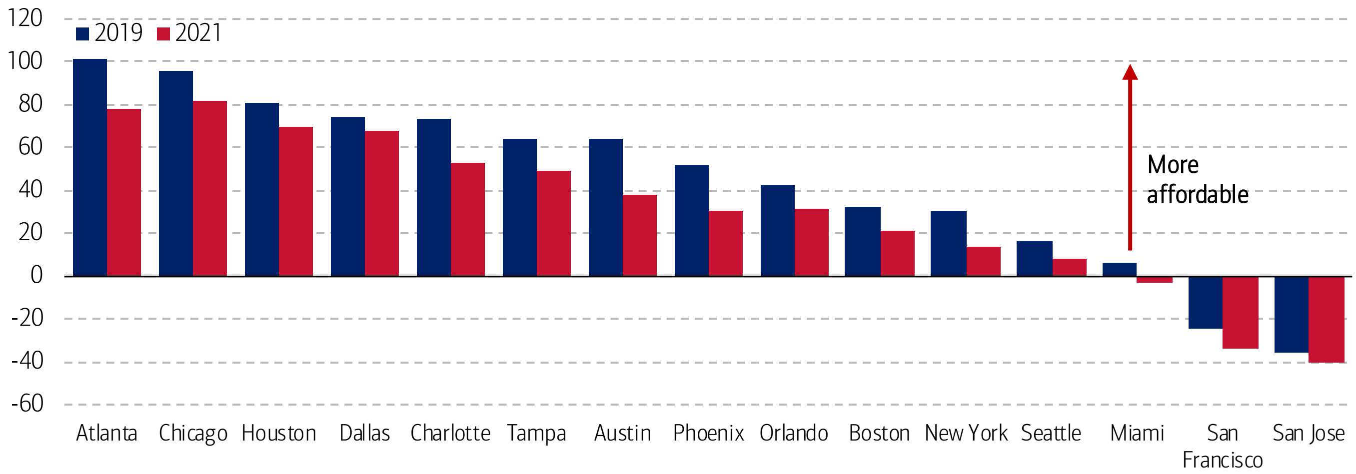
So why did Arizona, Florida, and Texas see the biggest population jump? One reason could be that housing is more affordable in these places, even after the surge in home prices and rents. In our view, affordable housing had already started to attract people to these southern cities before 2020, while the pandemic and working from home polices accelerated these trends.

Exhibit 4 shows the housing affordability index by the National Association of Realtors where a positive reading suggests median family income is above the levels needed to purchase a median priced house (i.e. more affordable). The data is through 2021 but we still think it offers important information.

Specifically, MSAs with the most affordable housing were concentrated in the Sun Belt region. It's worth noting that while massive home price appreciation in 2021 has brought down affordability in places like Atlanta, Houston and Charlotte, their affordability index was still well into the "affordable" territory compared with MSAs in the Northeast and the West.

One outlier was Chicago, where housing was affordable but still saw an exodus of residents. This could be residents moving to warmer places, as suggested by an analysis from the Chicago Fed. Another interesting example is Miami, where housing was fairly affordable pre-pandemic but has slipped into "not-affordable" territory since 2021.

Exhibit 4: Housing affordability index by major MSA (>0 means more affordable, annual data for 2019 and 2021)
MSAs with the most affordable housing were concentrated in the Sun Belt region.



Source: National Association of Realtors

#3 More jobs, more income, more housing demand

But higher population alone is not sufficient to drive up rent prices. Consumers depend on labor income to be able to afford housing. Our analysis finds that MSAs with the highest rent increases also saw much faster job creation than the national average. For example, in January 2023, total employment in Tampa and Phoenix was around 7% higher than in January 2020, compared with just 1% growth for the national payroll (Exhibit 5).

On the flip side, MSAs with the lowest rent increases, such as San Francisco and Los Angeles, have lagged the national average job creation rate since the start of the pandemic.

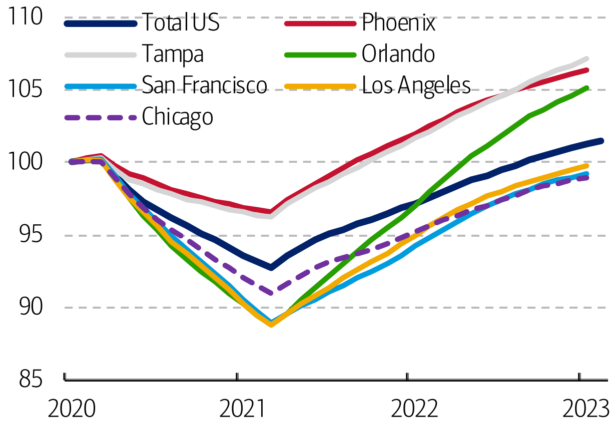
#4 Higher-paid jobs add to the housing boom

To take the analysis a step further, it is also important to look at what kind of jobs are being added. For example, the creation of higher-paid jobs would likely put greater upward pressure on the local housing market. This view is supported by anecdotal evidence of high-profile finance and technology firms relocating to Texas, Florida and Georgia and driving up the local demand for housing. We therefore specifically look at job gains in the information and financial services sectors, which have higher average hourly earnings, according to data from the BLS.

Exhibit 6 suggests that our hypothesis might be correct: between January 2023 and January 2020, booming housing MSAs such as Tampa, Atlanta and Orlando saw around a 12% increase in employment in information and financial services on a 12-month moving average basis, compared with below 1% for Chicago and Los Angeles.

Exhibit 5: Total nonfarm payrolls by select MSA (non-seasonally adjusted, 12-month moving average, index, Jan 2020=100)

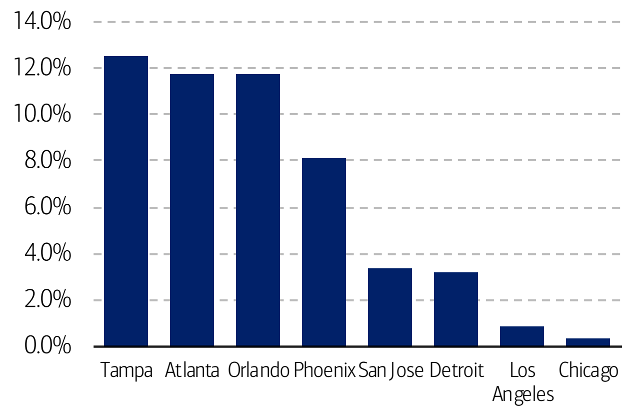
Total employment in Tampa and Phoenix was around 7% higher than in January 2020, compared with just 1% growth for the national payroll



Source: Bureau of Labor Statistics

Exhibit 6: Change in payrolls in information and financial services sectors (% change between January 2023 and January 2020 of the 12-month moving average)

Between January 2023 and January 2020, Tampa and Atlanta saw a 12% increase in employment in information and financial services



Source: Bureau of Labor Statistics

Methodology

Selected Bank of America transaction data is used to inform the macroeconomic views expressed in this report and should be considered in the context of other economic indicators and publicly available information. In certain instances, the data may provide directional and/or predictive value. The data used is not comprehensive; it is based on **aggregated and anonymized** selections of Bank of America data and may reflect a degree of selection bias and limitations on the data available.

Rent and mortgage payment data include payments through debit/credit card, ACH (automated clearing house), and bill pay. Data is not adjusted for seasonality, processing days or portfolio changes, and may be subject to periodic revisions.

Bank of America credit/debit card spending per household include spending from active US households only. Only card holders making a minimum of five transactions a month are included in the dataset. Spending from corporate cards are excluded. Data regarding merchants who receive payments are identified and classified by the Merchant Categorization Code (MCC) defined by financial services companies. The data are mapped using proprietary methods from the MCCs to the North American Industry Classification System (NAICS), which is also used by the Census Bureau, in order to classify spending data by subsector. Spending data may also be classified by other proprietary methods not using MCCs.

Additional information about the methodology used to aggregate the data is available upon request.

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Disclosures

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