

COVID-19 Impacts: Urban Flight

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TAKEAWAYS: Despite a deep economic contraction, the housing markets of Corpus Christi and Texas remain tight. In response to the growing desire for space over density, an urban flight has emerged in large metro areas across the nation. Growing housing demand in Corpus Christi, especially in its coastal communities, may potentially reverse the decades-long outmigration of residents to other Texas metro areas with relatively more job opportunities and amenities, such as Austin and San Antonio.

The COVID-19 pandemic has shocked the world with a historic contraction in most economies. Historically, when unemployment rose and household income fell, housing demand also fell along with rising home foreclosures. Yet, by the end of the year 2020, the U.S. overall housing market remained exceptionally strong despite a brief interruption in the early months when most states implemented stay-at-home orders.

Texas Housing Shortages

In Texas, the public health crisis has only tightened the already tight housing market. The pandemic has exacerbated the extent of housing market imbalances across major metro areas in Texas, particularly Austin and Dallas. Housing supply, as gauged by the number of construction permits, has been strong, but it had fallen short of growth in demand still.

Before the pandemic, housing demand had been propelled by population growth, low interest rates, and strength in the statewide job market. A slowdown in the national economy in 2019 prompted the Federal Reserve to begin another rate cutting cycle, sending mortgage rates to record lows.

Today, the national average 30-year fixed mortgage rate is below 2.8%, less than half of the levels during the last recession in 2007-2009.

Housing demand typically shrinks during a recession, despite falling interest rates. Today, more than half a year after the current COVID-19 induced economic recession began, there is still no evidence of an expected collapse in the overall U.S. housing market. Instead, home sales in Corpus Christi and the rest of Texas continued to grow following a brief setback in April and May due to an economic shutdown.

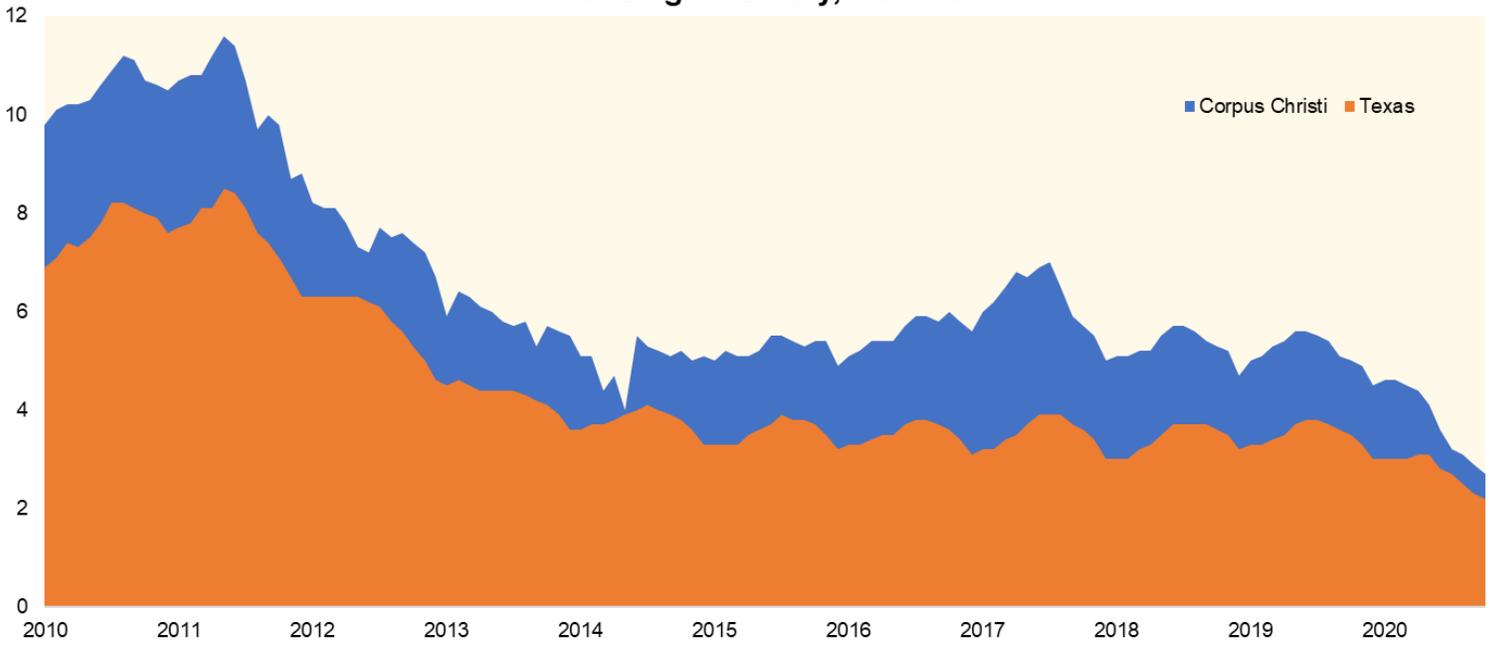
As the housing markets across major cities in Texas have continued to be constrained by limited new home construction, the amount of inventory has dipped to historic low levels. For the first time in recorded history, the housing inventory volumes in Corpus Christi and the state have dipped below three months since June.

An increasingly tight market in Corpus Christi and other cities in Texas has resulted in an unprecedented pace of home price appreciation. The median price of homes sold in Corpus Christi rose 18% in the third quarter over the previous year. The pace of price increases statewide has also accelerated persistently since June.

Home Affordability Crisis

During the past decade, local home price appreciation across Texas has tended to outpace average household income growth. The result is declining home affordability that has dis-

Housing Inventory, Months



Source: TAMU Real Estate Center.

proportionately impacted low-income families.

According to the Real Estate Center's Texas Home Affordability Index (THAI), homes are now about 20% less affordable for a typical resident in Corpus Christi and Texas today as compared to 2012 in the wake of the 2007-2009 U.S. recession.

Rising housing expenses particularly in Corpus Christi have pushed up residents' overall cost of living. According to the ACCRA Cost of Living index, it is still slightly less expensive to live in Corpus Christi than in a typical U.S. city with a benchmark of 100.

Yet, after gradual increases in its relative cost of living index through the past decade, Corpus Christi's current reading of 97.3 exceeds Houston's 95.8 for the first time.

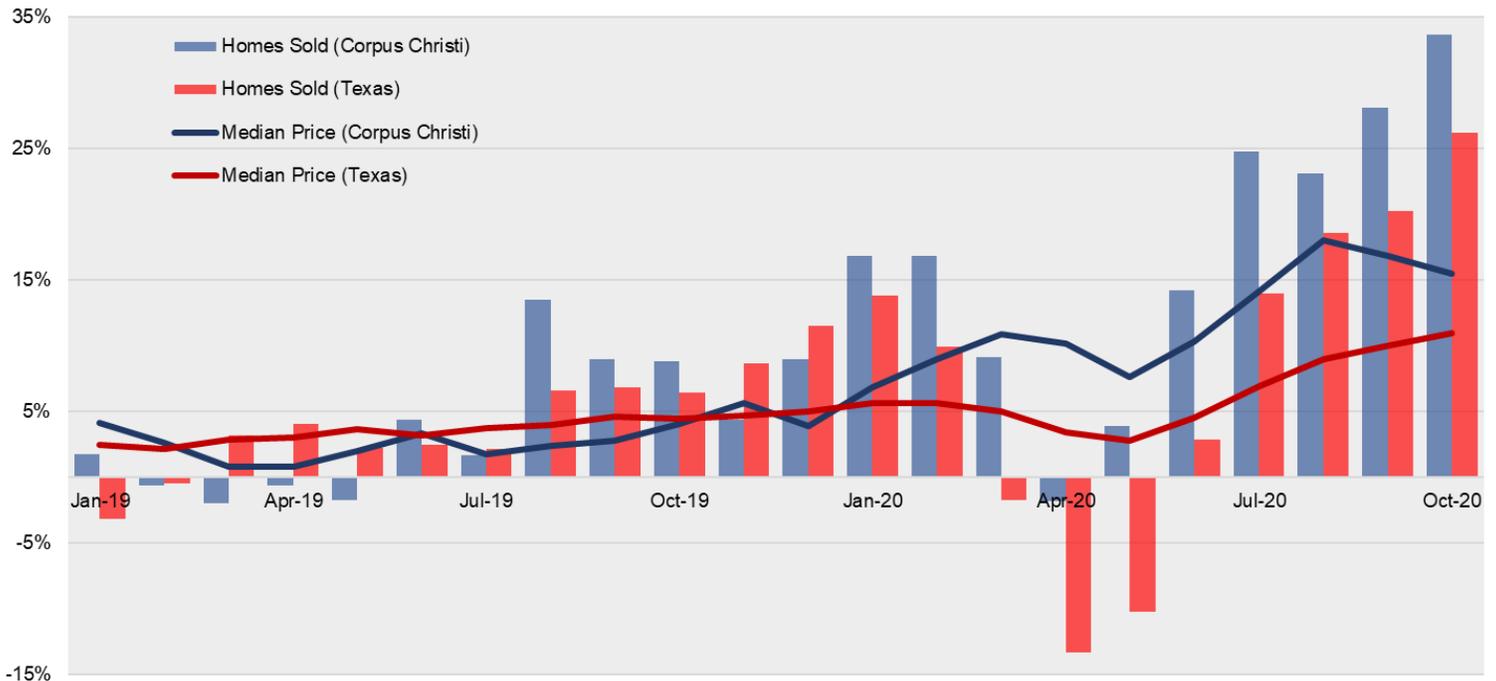
Pandemic Impacts

The COVID-19 pandemic is an unprecedented event in our lifetime. Coronavirus outbreaks across the U.S. have also exacerbated some emerging trends in the economy. One of those trends is the growth of online business and delivery services, which have increasingly replaced sales at local retailers.

The stay-at-home orders beginning in April and the practice of social distancing have also raised the share of remote workforce. A growing number of tech companies, including Microsoft and Twitter, have allowed employees to work from home permanently.

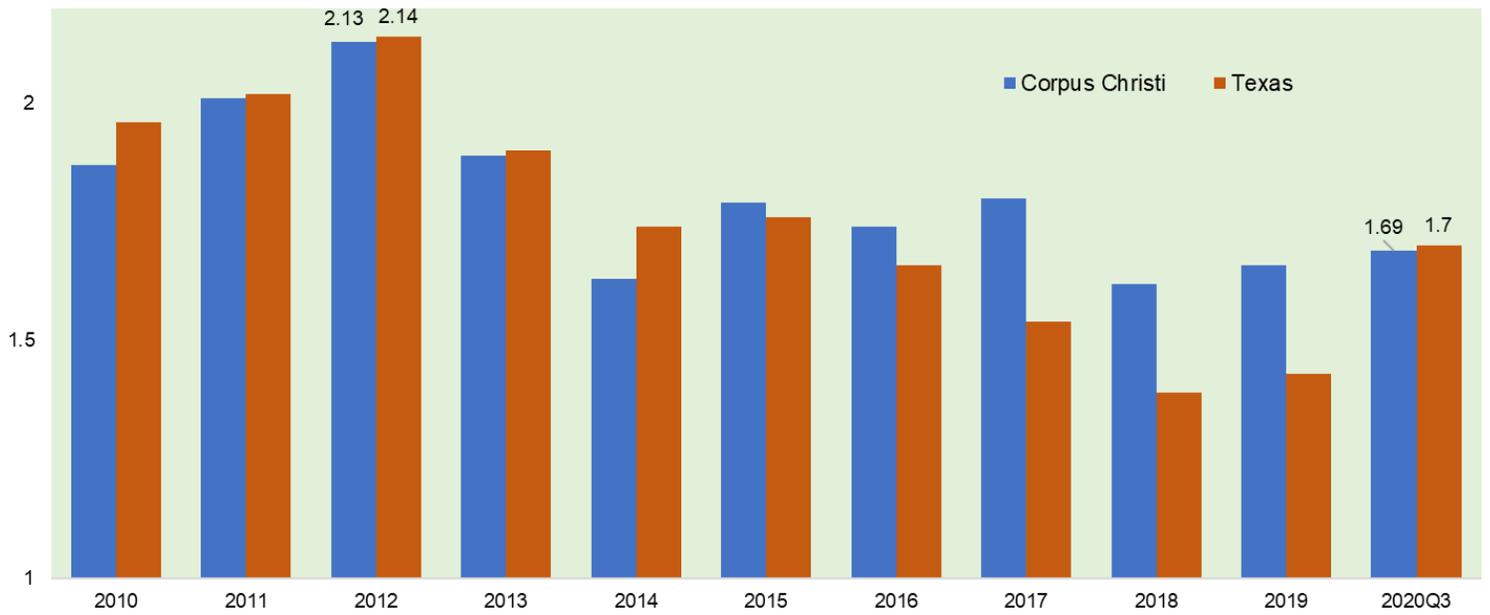
Cities, especially their core areas often known as central business districts, offer various amenities to residents in addition to relat-

Y-o-Y % Change, 3-Month Moving Average



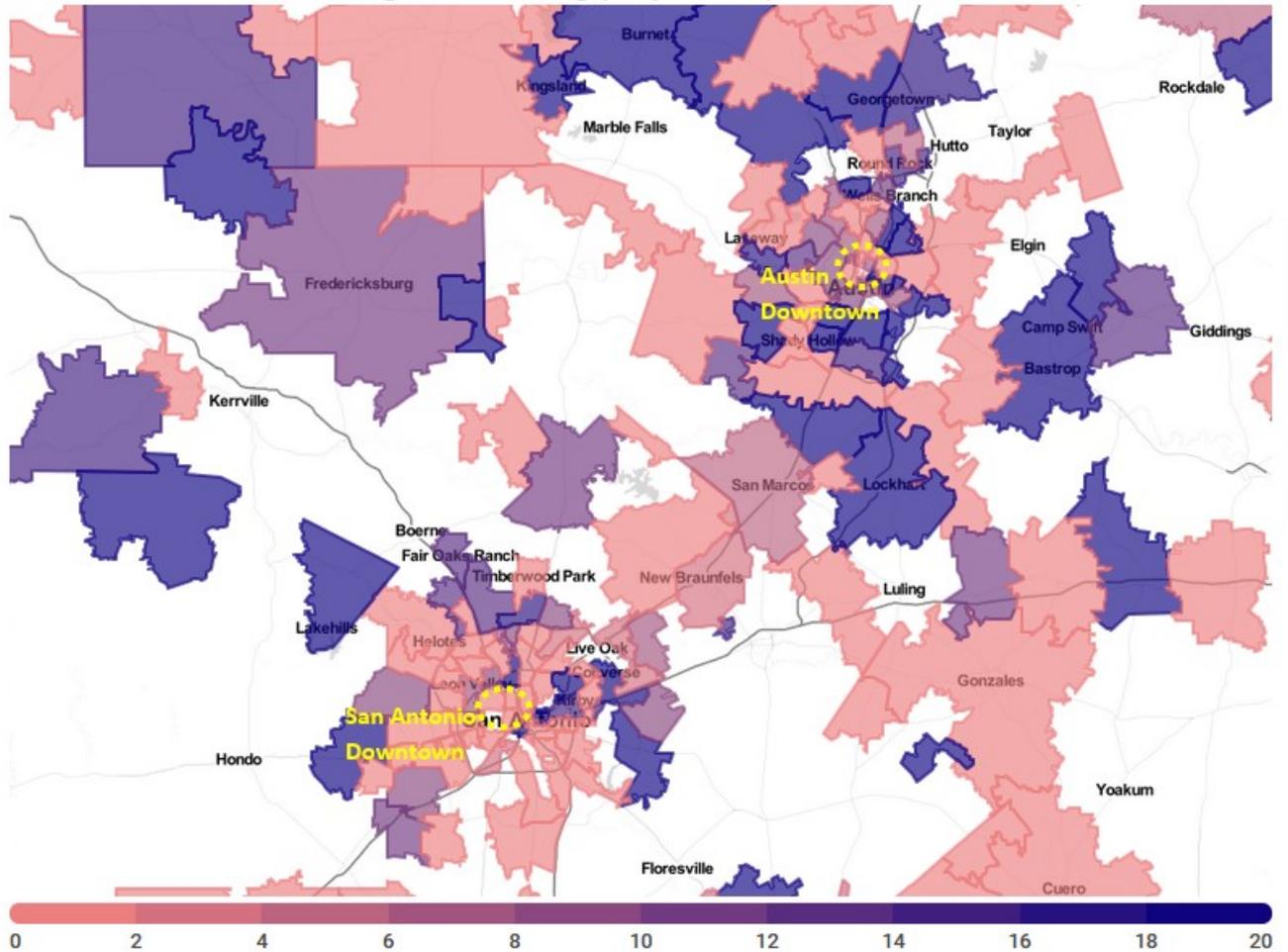
Source: TAMU Real Estate Center.

THAI of Home Affordability

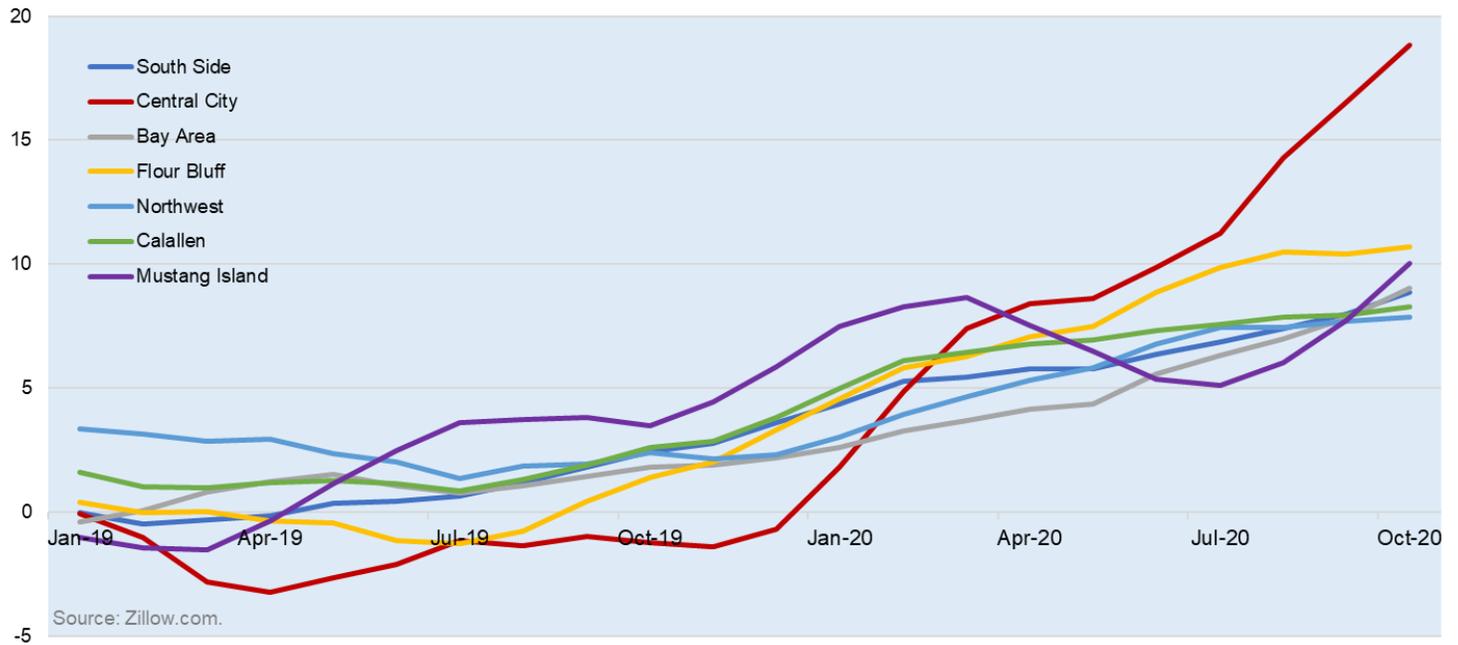


Sources: Texas Home Affordability Index (20% downpayment and 25% qualifying ratio), Real Estate Center at Texas A&M University.

Central Texas Home Sales Average Y-o-Y % Change, May-October, 2020



Corpus Christi Neighborhood Median Home Price, Y-o-Y % Change



ively more employment opportunities. Those downtown neighborhoods tend to have more restaurants and bars, and museums than those in rural communities. Proximity to these facilities has contributed to stronger housing demand and thus higher home prices in city centers versus their surrounding suburban and rural areas.

Shifting Landscape

COVID-19 has shifted the housing market landscape. As for most states, Texas still imposes social-distancing requirements and other activity restrictions today. Some restaurants and bars remain closed, while others are operating at less than 100% capacity by law.

More than six months after the state lifted its stay-at-home order, Texans still spent 5%-10% more of their time at home on average in comparison with the pre-pandemic levels, according to popular phone app data on people's mobility, such as Google and Facebook. Along with the increasing popularity of home deliveries and work from home, the declines of foot traffic at local businesses and workplaces have signaled an overall falling preference to live close to shopping and employment locations.

People also seem to have a growing desire for space over density. Coronavirus outbreaks have tended to be more severe in more densely populated neighborhoods in metro areas. People might have responded to the perceived infection risk by moving out of the centers of metro areas.

In September, New York City's Manhattan neighborhoods witnessed home prices as much as 50% below the levels in the previous year as residents fled the area following soaring local coronavirus cases. Meanwhile, housing demand grew in the metro area's so-called bedroom communities or suburbs.

Despite being less dramatic, housing demand shifts across different neighborhoods are also evident among Texas metro areas. In Dallas, Austin, San Antonio, and Houston, home sales have risen faster in some communities further away than closer to their downtown areas. Such shifts between the urban and suburban areas are attributable to the downsides of living in high density neighborhoods at least during the ongoing pandemic.

The anecdotal evidence of an urban flight across the nation is not apparent in Corpus Christi. The city's population density is about two-thirds of the average population density of the largest cities in Texas. Due in part to the ongoing downtown revitalization efforts, home prices have picked up at a more rapid pace in the city's downtown area than all other neighborhoods throughout the year.

Meanwhile, the coastal communities of the Flour Bluff area, which includes North Padre Island, and Port Aransas on Mustang Island, have also witnessed strong sales conditions at different times.

Migration Trend

It is, of course, too early to tell whether the observed population shifts will continue beyond the pandemic. For decades, Corpus Christi and its surrounding rural communities have faced the challenge of outmigration, particularly among prime working-age residents. A more permanent urban flight phenomenon may in fact lead to faster growth in the Coastal Bend region.

Related Readings:

Joshua Roberson, *Small Cities, Big Opportunities*, TAMU Real Estate Center, Publication 2253, December 2, 2019.

Joshua Roberson, *Anatomy of a Pandemic: Assessing Housing Market Damage and Recovery*, TAMU Real Estate Center, Publication 2283, August 31, 2020.

Harold D. Hunt and Clare Losey, *Under the Bridge: Relocating a Corpus Christi Neighborhood*, TAMU Real Estate Center, Publication 2252, December 4, 2019.

Laila Assanie and Yichen Su, *COVID-19 Fuels Sudden, Surging Demand for Suburban Housing*, Federal Reserve Bank of Dallas, Southwest Economy, Fourth Quarter 2020, pp.3-7.