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REAL ESTATE

Future homeowners migrating away from coasts: Redfin

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The San Francisco metro area is seeing the highest net outflow of residents. Image credit: Redfin

By SARAH RAMIREZ

Prospective homebuyers residing in high-tax coastal markets in the United States are being drawn to more affordable metro areas.

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New research from Redfin shows that 24 percent of home searchers were looking to move to another metro area in the second quarter of 2018, up 3 percent from the second quarter of 2017. People are looking to leave metro areas that have an average tax burden three times higher than the areas attracting new residents.

"With home prices reaching new heights in many metro areas, it's no surprise people are continuing to move away from expensive metros in search of homeownership," said Taylor Marr, senior economist at Redfin, in a statement. "Last year's tax reform poured fuel on the fire. By capping mortgage interest and state and local tax deductions, there is an even greater incentive for homebuyers to consider moving to a lower-tax state."

The findings were based on more than 1 million Redfin.com users who searched for homes across 80 metro areas this April to June and was supplemented by survey conducted in May 2018 with more than 1,300 respondents.

Coastal exodus

Affordability is the main driver behind today's migration trends. Prospective and current homeowners evaluate the average local tax burden, or the relative measure of a county's average sales, income and property tax rates.

Among the high-tax areas seeing more people moving out than moving in are San Francisco, New York and Los Angeles, based on net outflow. Redfin defines net outflow as the number of people moving into a metro area subtracted by the number looking to leave the area.

More people this year are looking to leave New York than in 2017. Image credit: Store Tours

In California, 22 percent of Bay Area residents were searching for homes elsewhere while 16 percent in the Los Angeles area were looking to leave, for respective increases of 3 and 1 percent from last year. San Francisco residents are heading north to Sacramento, CA or Seattle, WA while Los Angelenos tend to settle in San Diego, CA or Phoenix, AZ.

Seattle remains desirable for homebuyers because it lacks a state income tax and has a thriving tech industry, despite home prices climbing 58 percent in the last five years. Interest in Denver, CO is waning, as its own residents are drawn to other areas in the state with lower median home prices.

Meanwhile, 36 percent of New Yorkers are looking to purchase homes elsewhere. While Boston, MA remains the favored destination, New Yorkers are also the dominant newcomers in cities including Atlanta, Miami and Nashville, TN.

Phoenix has the highest net inflow. Image credit: Redfin

The Southwest continues to draw new residents from across the U.S. More than a third of home searchers in Phoenix were from elsewhere and the region saw a net inflow, or positive gain, of more than 6,000 residents.

A quarter of Phoenix migrants were from Los Angeles, followed by Seattle at 14 percent. The median home list price in Phoenix was $275,000 in July compared to Seattle's median of $565,000.

Forty-one percent of prospective buyers in Las Vegas were from elsewhere, and median home prices have seen double-digit price growth in the last 17 months. However, low property taxes of less than 1 percent, a local tax of 8 percent and no state income tax keep Las Vegas popular among migrants.

Shifting markets

Almost a year after a new tax reform bill was passed, its impact on real estate markets is becoming clearer.

The Republican-approved tax plan lightened the tax load for many of the country's wealthiest people while placing a heavier burden on poor Americans, potentially contributing to an upswing in luxury real estate purchases as the richest Americans will have even more money to play with (see story).

More than 36 percent of recent homebuyers surveyed said tax reform affected their home purchase decision, with 8 percent moving to a state with lower taxes and 10 percent buying a more expensive home because their after-tax income grew.

Wider migrations trends are also playing out in the luxury housing market, which Redfin defines as homes with sales prices within the top 5 percent.

Cities in Florida and the Western U.S. have seen the biggest jumps in luxury home prices. While price growth may be slowing down, listing time is also down as luxury homes continue to sell quickly.

West Palm Beach, FL saw luxury price growth of 85.3 percent, followed by nearby Boynton Beach with a jump of 59.1 percent. On the West Coast, Seattle saw an increase of 27.5 percent for an average luxury sale price of $2.6 million (see story).

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