Visa Business and Economic Insights

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Deurbanization or the great reshuffle?

When the COVID-19 pandemic hit last year, forcing many businesses to embrace work-from-home arrangements with their employees, did it also trigger a massive move out of urban areas as was widely reported? Change-of-address data suggested an exodus from New York, Chicago and San Francisco, so we decided to leverage VisaNet data to see how widespread the outmigration from urban centers had become over the last year and which areas benefited. Our analysis suggests there is little evidence of a widespread deurbanization trend, but rather a *great reshuffling*[1] of the population. Specifically, among those who relocated, the majority moved from a high cost-of-living area to a lower cost-of-living area. Those who were able to work remotely, and did not have to consider commute time, had the added incentive of relocating to the suburbs and other areas that were less expensive.

This geographic resorting will have implications for the housing and commercial real estate markets in higher-cost cities. While the evidence is still early, it suggests that many of these higher-cost metro areas could suffer for a while should some remote work arrangements become permanent. The lower-cost areas, on the other hand, could present new opportunities for merchants and issuers as consumers who have migrated there increase their discretionary spending potential. These newly-relocated individuals could help boost growth for both the communities and the businesses that serve them.

Key Points:

There is evidence that larger cities have lost population during the pandemic

Middle income, older millennials, and boomers are leading the reshuffle

Implications for marketing to customers

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Change of address requests	2019	2020	Change
Permanent	14,148,295	14,423,108	1.94%
Temporary	1,224,476	1,551,718	26.73%

Source: Visa Business and Economic Insights and United States Postal Service

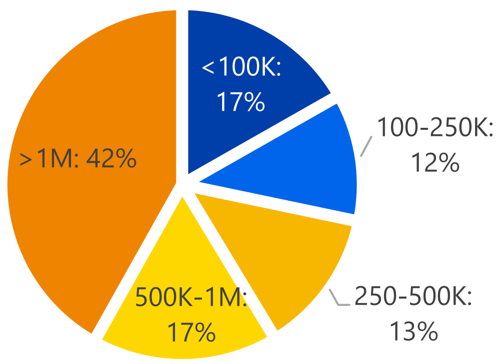
The motivation to move

At the onset of the pandemic in March 2020, concerns developed about the health and safety of densely populated areas. As many of the larger metro areas in the U.S. were among the first to impose restrictions, it became obvious that more densely-populated areas would be disproportionately impacted. In addition, the dramatic negative economic impact of the restrictions imposed by state and local governments in order to contain the pandemic led the Federal Reserve to cut interest rates and begin making asset purchases, which put downward pressure on interest rates, including home mortgage rates. As the pandemic continued, another motivation for relocating emerged—the opportunity to work from home and thus the need for more space. Combined, the virus concerns, low mortgage rates and remote working served as the motivating factors for many households. According to a survey conducted by the Pew Research Center,[2] 22 percent of U.S. adults relocated, had someone move into their home or knew someone who moved. According to U.S. Postal Service change-of-address requests, between February 1, 2020 and July 31, 2020, nearly 16 million households relocated. While temporary change of address requests rose more than permanent changes (nearly 26.7 percent vs. 1.9 percent for permanent), permanent address changes accounted for the bulk of the requests (14.4 million).

Evidence of the great reshuffle

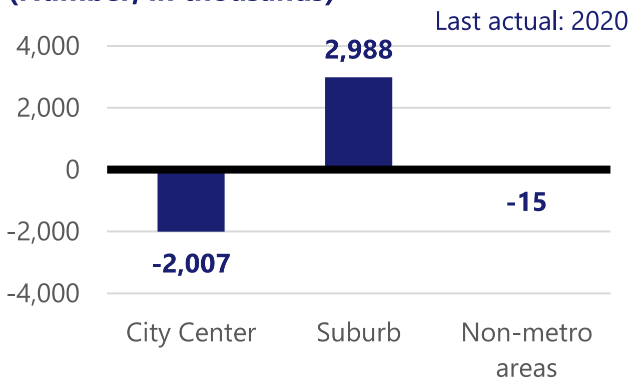
So where did these households move from? Using the power of VisaNet, we looked at the number of active, anonymized debit cards used in places associated with spending where people live (grocery, dry cleaning, etc. at the card level. Cards used in December 2019 were compared to those used in December 2020, which allowed us to calculate the number of cards that were active in different metro areas over the two time periods—a total of 6.5 million people identified as “movers” in the analysis (based on a large sample of Visa debit card users. Among the top areas with the greatest net outmigration were the metro areas of New York, Los Angeles, San Francisco, Boston and Seattle. This was also consistent with many of the media reports of outmigration from these metro areas. Our analysis also identified where these “movers” were relocating to. Roughly 42 percent of the relocations were into metro areas with greater than 1 million in population size (LH chart below. Thus, there was little evidence to support the argument of an emerging deurbanization trend. Recent data from the U.S. Census Bureau also confirmed that net migration into suburban areas, which for the purposes of this analysis were included in the metro area to account for this trend, was the largest.

Share of “net movers” into a metro area population size (percent)



Source: Visa Business and Economic Insights and Bloomberg, L.P.

Net migration including movers from abroad (Number, in thousands)



Source: Visa Business and Economic Insights and U.S. Department of Commerce

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So, if those relocating were not deurbanizing , then what other explanations exist for their movement? When we analyzed the top net in-migration metropolitan areas, we found that Detroit, Dallas, Houston, Phoenix and Riverside ranked in the top five positive net migration cities. What do these areas have in common? They are all significantly lower cost-of-living areas relative to those metro areas with the greatest outmigration. In short, rather than deurbanizing, households were geographically "re-sorting" into lower-cost metro areas from higher-cost metro areas.

Where did cardholders move to?

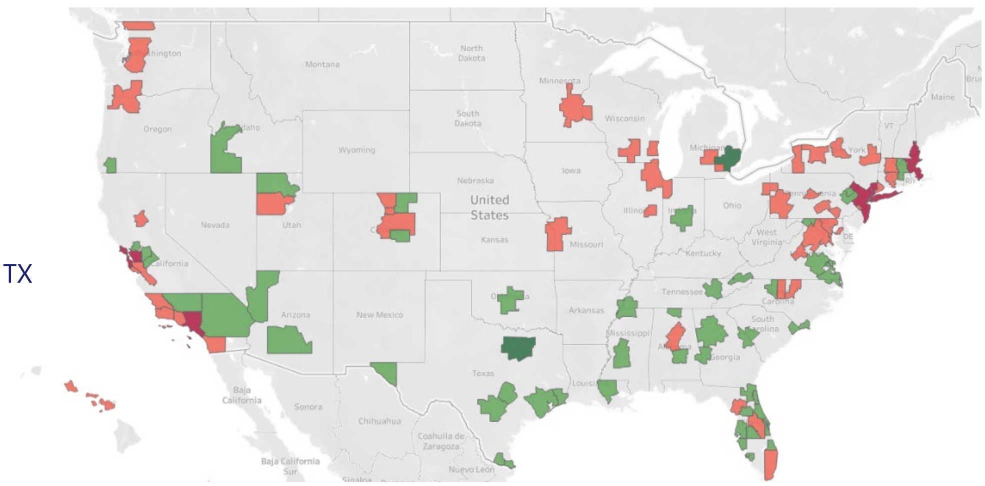
1) Detroit-Warren-Dearborn, MI
(#39 COL)

2) Dallas-Fort Worth-Arlington, TX
(#37 COL)

3) Houston-The Woodlands-Sugar Land, TX
(#41 COL)

4) Phoenix-Mesa-Chandler, AZ
(#43 COL)

5) Riverside-San Bernardino-Ontario, CA
(#27 COL)

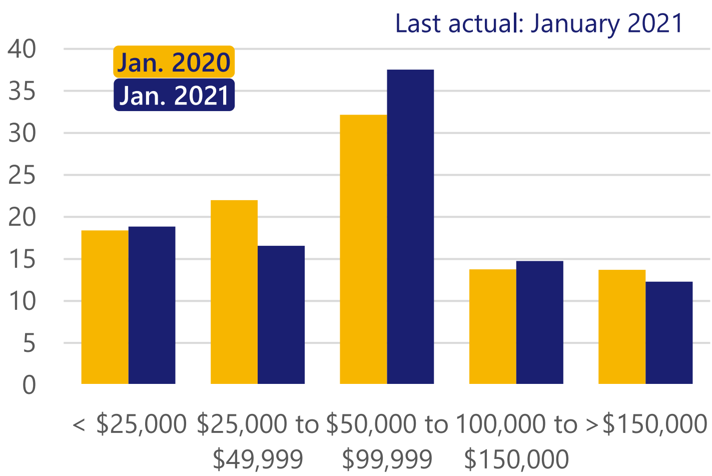


*COL=Cost of Living. Green=inflows, Red=outflows
Sources: Visa Business and Economic Insights, VisaNet and Move.org.

Who is driving the moving van?

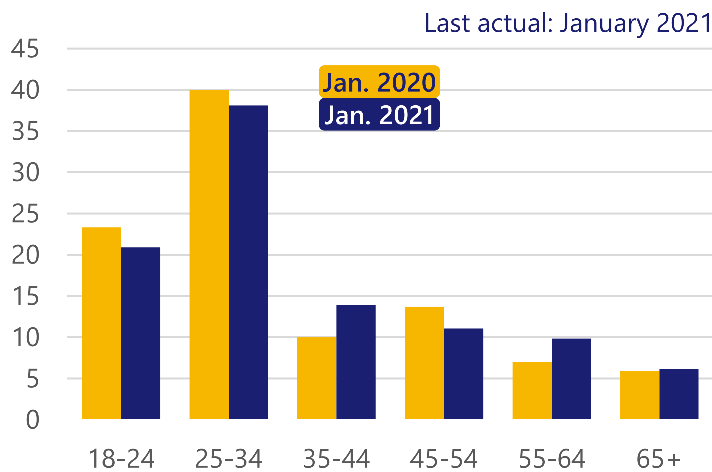
Using Visa's proprietary Prosper Analytics survey data,[3] we determined that households with income levels $50k – 150k relocated more than any other income group over the past year. Among the age demographics, there was a marked pick-up in relocations among older millennials (35-44) and baby boomers (55-64) over the last year as well. The demographic breakdown also adds another dimension to the story. We expected millennials to begin buying houses and relocate to the suburbs as they aged. It is possible that the pandemic accelerated their relocation plans with both the need for more space in the remote work environment and the prevailing low mortgage rates.

Share of movers by income level (percent)



Source: Visa Business and Economic Insights, Prosper Analytics

Share of movers by age (percent)



Source: Visa Business and Economic Insights, Prosper Analytics

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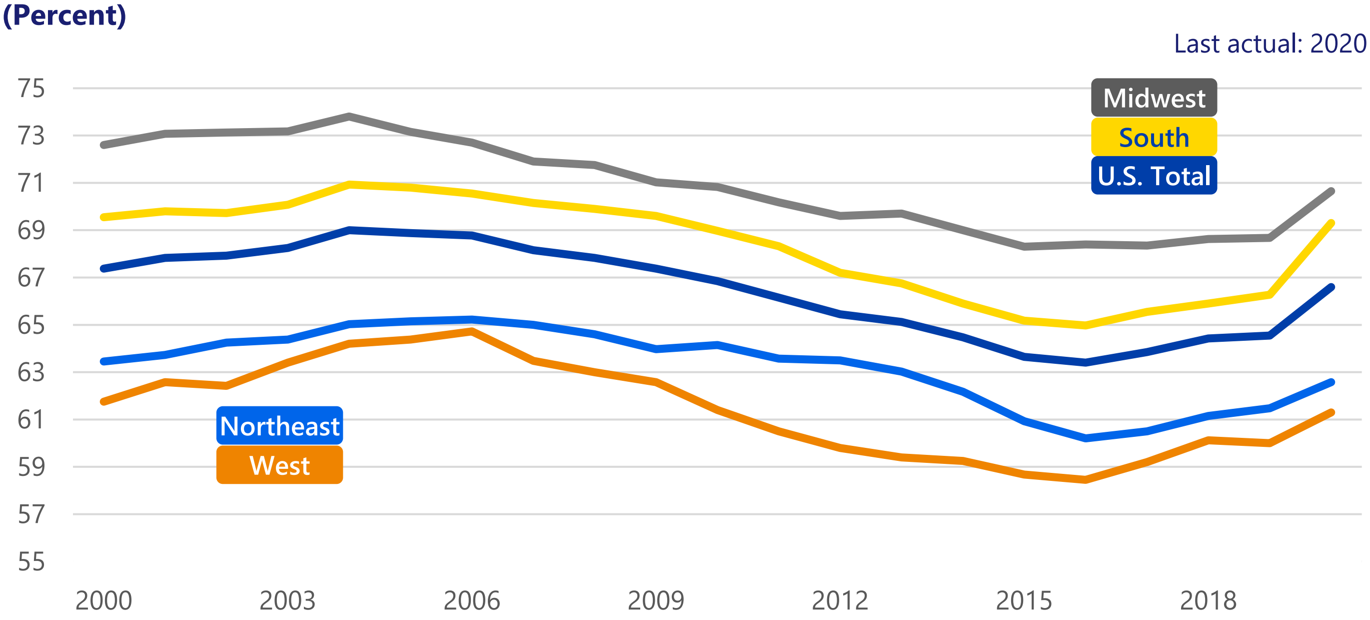
Implications of the great reshuffle

Visa's analysis also looked at how permanent the move to the suburbs might be, with the rising rate of homeownership in several regions of the country providing strong evidence of a long-lasting shift. In fact, during the pandemic, as more peopled worked remotely, homeownership in the United States increased over 2 percentage points to roughly 67 percent, the highest since 2010.Homeownership in the South spiked by 3 percentage points to 69 percent. The South continues to dominate the existing home sales market, accounting for 42.5 percent of all existing home sales across the nation.

U.S. home ownership rate by region (Percent)



Source: Visa Business and Economic Insights and U.S. Department of Commerce

If the reshuffle to the suburbs is permanent, what does that mean for the economy? One obvious implication is greater demand for single-family housing and higher mortgage originations. Strong demand for homes is pushing up prices—the median existing-home price rose 14.8 percent from January of last year to $304,000, a record high as inventories remained low. At the current sales pace, there was just 1.8 months of supply of available homes—a record low— at the end of January. Another key economic implication is that central business district commercial real estate may face continued pressure for the near future. As businesses re-assess their work arrangements and allow for more flexible work options, this will reduce the need for large office footprints and by extension restaurants and shops in some large densely populated metro areas.

Consumer spending habits will also likely change as households reshuffle between expensive, high population density urban cities and less expensive suburban areas. If households are moving to areas with lower cost of living, we could expect consumers to have a higher capacity for discretionary spending. As tax burdens decline, disposable personal income increases, creating a tail wind for discretionary spending. As a result, spending on housing-related items such as home furnishings and improvements is likely to get a boost. However, spending in other discretionary categories may also benefit as the lower cost-of-living areas allow for greater spending in categories such as dining out and travel. Vehicle sales and gasoline spending could rise as well once those who need to commute again have a longer drive to the office. While the emerging higher interest rates and reopening economy may slow the reshuffle this year, it is clear that many individuals have already relocated to the suburbs. This new dynamic in consumer housing should be considered as businesses begin to think through their post-pandemic marketing and customer acquisition strategies to address a world that will have changed dramatically on the other side of the pandemic.

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Footnotes

[1] Zillow Q2-2020 earnings call, August 2020.
[2] Cohn, D. (July 6, 2020). About a fifth of U.S. adults moved due to COVID-19 or know someone who did. Pew Research Center. https://www.pewresearch.org/fact-tank/2020/07/06/about-a-fifth-of-u-s-adults-moved-due-to-covid-19-or-know-someone-who-did/.
[3] Quarterly Prosper Analytics survey of roughly 4,000 consumers on behalf of Visa. Latest results are from January 2021.

Forward Looking Statements

This report contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These statements are generally identified by words such as "outlook," "forecast," "projected," "could," "expects," "will" and other similar expressions. Examples of such forward-looking statements include, but are not limited to, statements we make about Visa's business, economic outlooks, population expansion and analyses. All statements other than statements of historical fact could be forward-looking statements, which speak only as of the date they are made, are not guarantees of future performance and are subject to certain risks, uncertainties and other factors, many of which are beyond our control and are difficult to predict. We describe risks and uncertainties that could cause actual results to differ materially from those expressed in, or implied by, any of these forward-looking statements in our filings with the SEC. Except as required by law, we do not intend to update or revise any forward-looking statements as a result of new information, future events or otherwise.

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