

A Reprint from *Tierra Grande*

The Changing Face of Texas



By Gary Maler
and Harold D. Hunt

Forty years ago, the population of Texas was largely rural and white. Forty years from now, it will be largely urban and Hispanic. The state's demographics will shift dramatically during the next several decades. The face of Texas will change. And with change comes opportunity.

Where will future Texas residents come from? Where will they want to live and why? How will this affect residential real estate markets?

Changing Sources of Growth

The primary source of population growth in Texas has shifted away from a "natural increase" to positive "net migration." Natural increase occurs when there are more births than deaths in the state. Net migration is the difference between the number of people moving into the state and the number moving out. Both are measured over a stated period.

The percent change due to natural increase fell from 94 percent of the state's total population increase during the 1950s to 50 percent in the 1990s. Alternatively, the percent change resulting from net migration expanded from a mere 6 percent during the 1950s to 50 percent between 1990 and 2000.

Implications for Real Estate. Population growth heavily weighted by positive net migration results in more adult residents sooner. Many of the new arrivals are already at the age of household formation and ready to secure some form of housing. No time is required for new births to reach adulthood.

With the increase in adult immigrants comes the possibility of increased population volatility. Adult populations can migrate in and out of the state rapidly should economic conditions or tastes and preferences change.

One example is the exodus of undocumented workers during the most recent recession. Based on a reduction in "remittances"

(money sent back to their home countries), many are believed to have migrated out of Texas. Workers returned to Mexico and other Latin American countries as job opportunities vanished with the deteriorating economy and as a result of increased border enforcement.

Another example is the recent wave of Californians relocating to Texas. Internal Revenue Service Statistics of Income Division data reveal that more than 200,000 Californians moved to Texas in the three years between 2005 and 2008. It is difficult to know whether these immigrants will return to California or remain in Texas when economic conditions improve.

Bottom Line. U.S. net domestic migration has dropped in the past three years, creating pent-up demand for relocation to more economically prosperous states. As Texas begins to experience significant job growth again, strong migration from other states may result.

Population changes brought about by net migration should increase housing transactions and result in a net positive for real estate professionals.

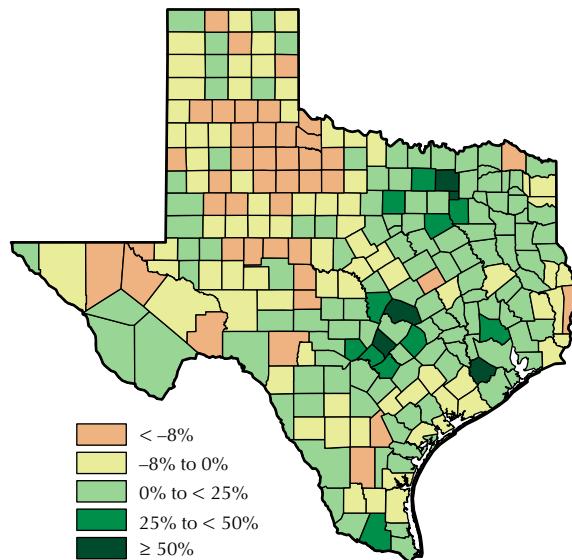
Changes in Age Structure

The Texas population is younger than the country's population as a whole. Texas' median age is the second lowest of any state at 33.2 years. The overall median age in the United States is 36.8.

The lower average age is primarily a result of the state's high fertility rate. Fertility in Texas is the fourth highest in the country at 2.34 children per woman while the U.S. rate is 2.05.

Along with the nation as a whole, the state's average age is expected to rise in the coming decades. As baby boomers continue to age, growth in the 65+ age group through 2040 will be three times the overall population growth rate in Texas.

**Figure 1. Percent Change in Total Population
Texas Counties, 2000–08**



Nevertheless, a relatively younger population than the rest of the country could make Texas' workforce more attractive. Companies should be enticed by a state whose residents have more remaining work years and less potential for collection of retirement and medical benefits.

Implications for Real Estate

Estate. The economic downturn has flattened incomes and reduced retirement savings. Fewer Texans can afford second homes. Many boomers age 55 to 64 will continue working either by choice or out of necessity, reducing the number of future relocations.

Americans born between 1977 and 1997, known as "Generation Y," are showing less interest in homeownership than their parents. Whether because of personal preference, economic reasons or both, they should be expected to occupy rental properties for an extended time.

Bottom Line. In the short-term, economic conditions may reduce the number of housing transactions as many boomers are forced to save more and rethink retirement. However, the children born of the state's higher fertility rate should provide a long-term base of residents forming new households, assuming they remain in Texas.

Changes in Geographic Distribution

Texas is rapidly becoming more urban. Most population growth in Texas counties between 2000 and 2008 occurred within an area known as the "Texas Triangle". This area encompasses the counties located in the Dallas-Fort Worth (DFW) metropolitan area, southwest through Austin to San Antonio, then east to Houston and returning northwest to DFW (Figure 1).

Most of the counties that declined in population during this time were located in the western and northern parts of the state. This area could become popular for those who want to distance themselves from the frenetic pace of urban living. Counties in the southeastern part of the Panhandle recorded the highest population losses.

The Texas State Data Center (TSDC) is forecasting that the trend toward increased urbanism will continue through 2040

(Figure 2). The 2000 Census revealed that Texas ranked 28th in density, with 79 persons per square mile. The average density of the state's five major Metropolitan Statistical Areas (MSAs) was five times as high at 405.

By 2030, the average density of the five major MSAs is forecast to more than double. The DFW MSA is predicted to have the highest population density of the five.

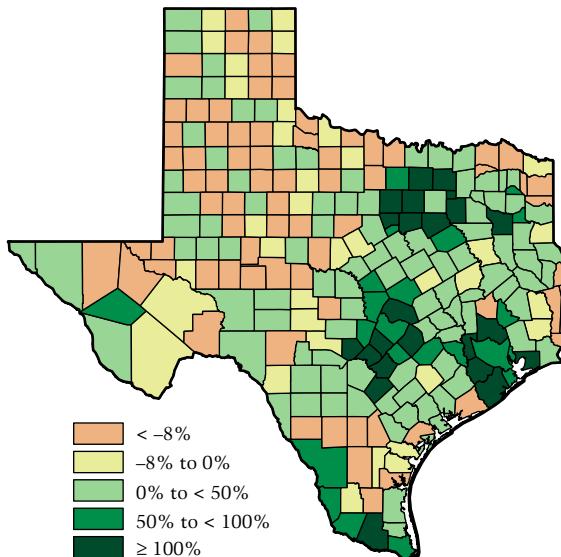
Implications for Real Estate. Increased density should result in a higher proportion of multifamily properties, both for rent and for sale. As the Texas Triangle begins to look more like the country's more urban areas, more mid- and high-rise residential properties should emerge.

Townhouses and condominiums are more like a commodity than single-family homes.

Similar units for sale, especially within the same building, compete directly with each other. The result should be a more efficient resale market in which lower-priced units sell quicker.

The state's rural counties have already been identified as primarily recreational or agricultural in use. Academic studies have shown that ag-based counties have generally lost population since

**Figure 2. Projected Percent Change in Total Population
Texas Counties, 2008–40**



Map produced by the Texas State Data Center, The University of Texas at San Antonio using Census Bureau 2008 county estimates and TSDC 2040 projected population (2000–2007 scenario).



1950. The heaviest losses are most often residents in their twenties relocating to urban areas to improve their job prospects.

Bottom Line. Texas' metropolitan areas should continue to see an increase in residential activity during the coming decades. This is especially true of the five major metros and the border areas of South Texas. Rural recreational counties should remain attractive while ag-based counties may continue to experience population losses.

Changes in Ethnic Composition

The TSDC is forecasting that Hispanics will outnumber Anglos in Texas sometime between 2015 and 2034, depending on which population growth model is used. Hispanics are on track to become an absolute majority in Texas between 2028 and 2040.

An important factor in Hispanic growth is fertility rate. For Latina women, the fertility rate in 2000 was 3.89 compared with 1.94 for Anglo women, about twice the number of children per childbearing female.

The demographics of immigrant Hispanics must be distinguished from those of Hispanic descent who are native-born Americans. Most immigrants are generally between age 20 and 40. The Urban Institute reports that immigrants as a group (both legal and illegal) represent:

- one in nine U.S. residents,
- one in seven U.S. workers,
- one in five low-wage workers and
- one in two new workers.

According to a 2008 survey by the Pew Hispanic Center, Hispanics are less likely to have credit card or installment loan debt than the general population. Only one in five immigrant Latinos and 28 percent of native-born Latinos report having more debt than they can afford.

Immigrants arriving in recent decades possess a lower skill set and make relatively lower inflation-adjusted wages than those who entered the United States in earlier decades. About two-thirds of low-wage immigrant workers do not speak English proficiently.

Estimates are that 30 to 40 percent of illegal immigrants in the United States today entered the country legally and overstayed their visas.

Implications for Real Estate. Academic studies have shown that English-language proficiency is an important determinant of homeownership. Heads of foreign-born, Spanish-speaking households are less likely to own a home.

Obtaining the broad array of information and successfully completing all the required business transactions to purchase a home is more difficult for immigrants than for native-born Hispanics.

"Mexican nationals, whether legal or illegal, are typically not familiar with the process of buying a home in the United States," says Adrian A. Arriaga, CCIM, CIPS and McAllen Realtor.

Jay Dickey, GRI and Laredo Realtor for Coldwell Banker Ana Ochoa & Co., agrees. "Mexican nationals don't feel the necessity, or appreciate the need, for the amount of paperwork that is required of a real estate transaction."

Hispanic immigrants may not have established the credit rating necessary to obtain a home loan. As a result, many will reside in ethnic enclaves or *colonias*.

Immigrants also are more likely to live in extended family or non-kin household when first arriving. However, studies have found that the percentage living in this arrangement declines significantly with additional time in the United States.

Undocumented Hispanic immigrants may turn to owner-financing as a way to purchase a home.

"Mexican nationals sometimes distrust American Realtors," says Dickey.

"There are real estate agents specializing in Hispanics residing in the United States (both legal and illegal) looking to buy," says Arriaga. Potential buyers may be attracted to an owner-financed property, which may avoid the complications that come with appraisals, inspections, loan applications and qualifying for financing.

As Hispanics' socioeconomic status rises, they begin to reach Anglo levels of homeownership. Latino residential mobility into neighborhoods inhabited by greater percentages of Anglos generally increases across generations with higher incomes and advanced English language proficiency.

"Income is the great leveler," says Arriaga. "When income is equal, there is no difference between a Hispanic buyer and any other buyer. They want their children in good schools and they want to live in safe neighborhoods. This is just as important as the creation of wealth that comes along with homeownership."

Bottom Line. Home purchases by new Hispanic immigrants will continue to be limited because of income, education and language constraints. However, as future generations become better educated, more skilled and more proficient in English, the exceptional growth in the Texas Hispanic population will result in increased home purchases in the years ahead.

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Is Current Demographic Path Certain?

Although the trend toward more Hispanic urban residents in Texas looks inevitable, trends have been known to change over a 30- or 40-year period.

The level of new technology is an especially interesting unknown. If people were unencumbered by the need for power lines, wired communications and water supplies, would they still choose to locate in the state's dense metropolitan areas?

If Mexico's economy should thrive and a strong middle class emerged, or if stringent anti-immigration legislation should be enacted in Texas, would the Hispanic population continue to rise so steeply? Alternately, if Mexico should suffer great political or economic instability, would that have a major effect on the state's Hispanic population growth?

Educating immigrant Hispanics is another important unknown. Low-wage immigrant workers are more likely than natives to drop out of high school (30 percent vs. 8 percent). Seventy-five percent of all U.S. workers with less than a ninth grade education are immigrants.

Statistics from the U.S. Bureau of Labor Statistics show that as of March 2010 workers with no high school diploma were experiencing a 15 percent unemployment rate. Those with a college degree were facing only five percent unemployment.

Would such changes translate into vastly different housing choices for future Texas residents? Only time will tell. 

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THE TAKEAWAY

Higher net migration (more people moving to Texas than moving out of the state) and the younger average age of Texas' population should prove positive for real estate professionals. Both mean that more and more people will be looking for housing. The metro areas should continue to grow, while agricultural counties may continue to lose population.



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