



# *The Future of Rural Communities: The Diversifying of Rural America*

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## **The Silver Lining in Rural Housing: Lower Prices, Less Risk**

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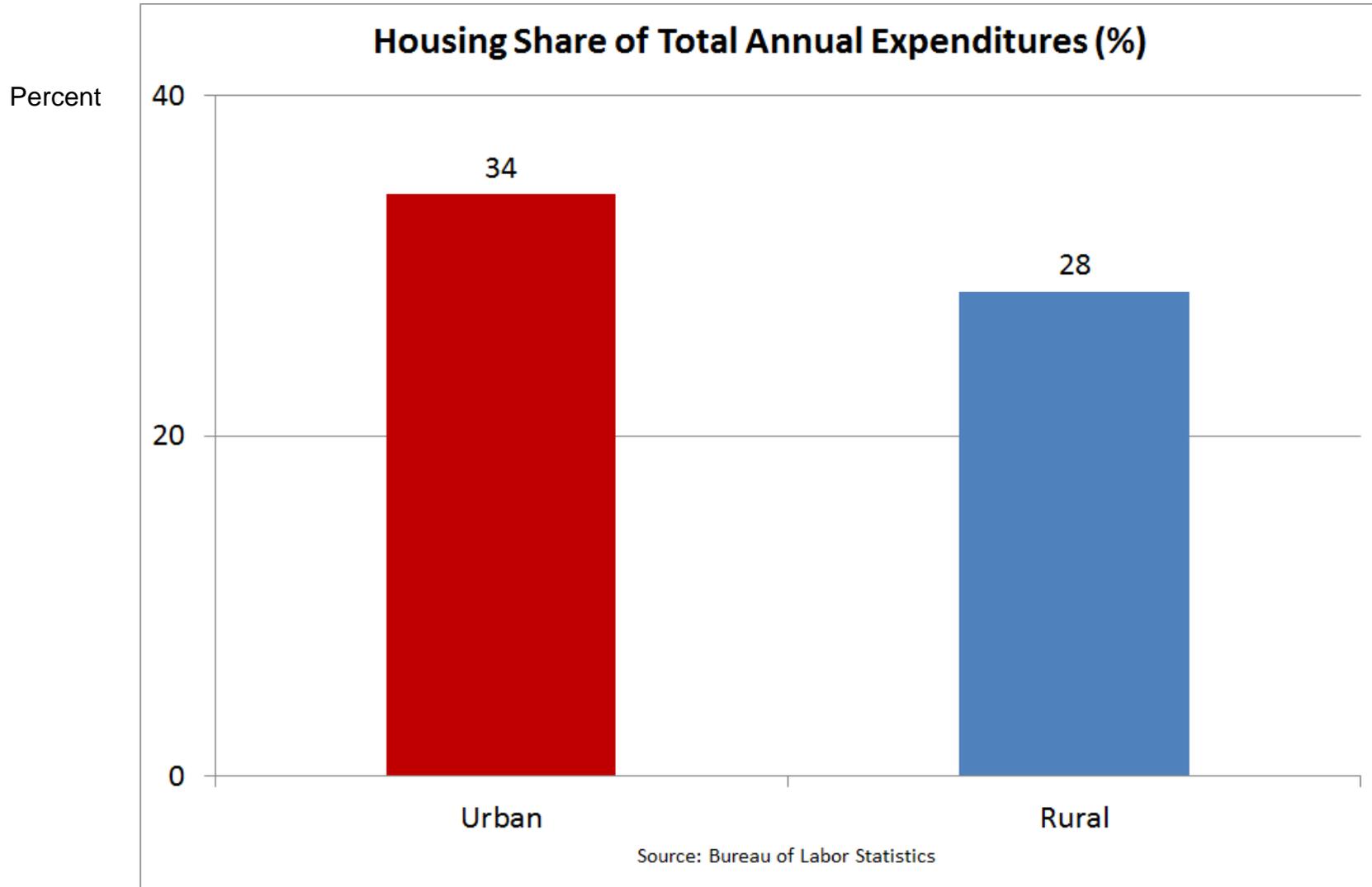
## *The Silver Lining in Rural Housing: Lower Prices, Lower Risks*

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- **Housing presents serious challenges to *all* non-wealthy families, rural and urban/suburban alike.**
- **Rural housing presents unique challenges.**
- **But there are silver linings in rural housing:**
  - **Renting is cheap (if you can find it).**
  - **Lower and less-volatile house prices can translate into lower risk and better long-term financial outcomes for rural families.**



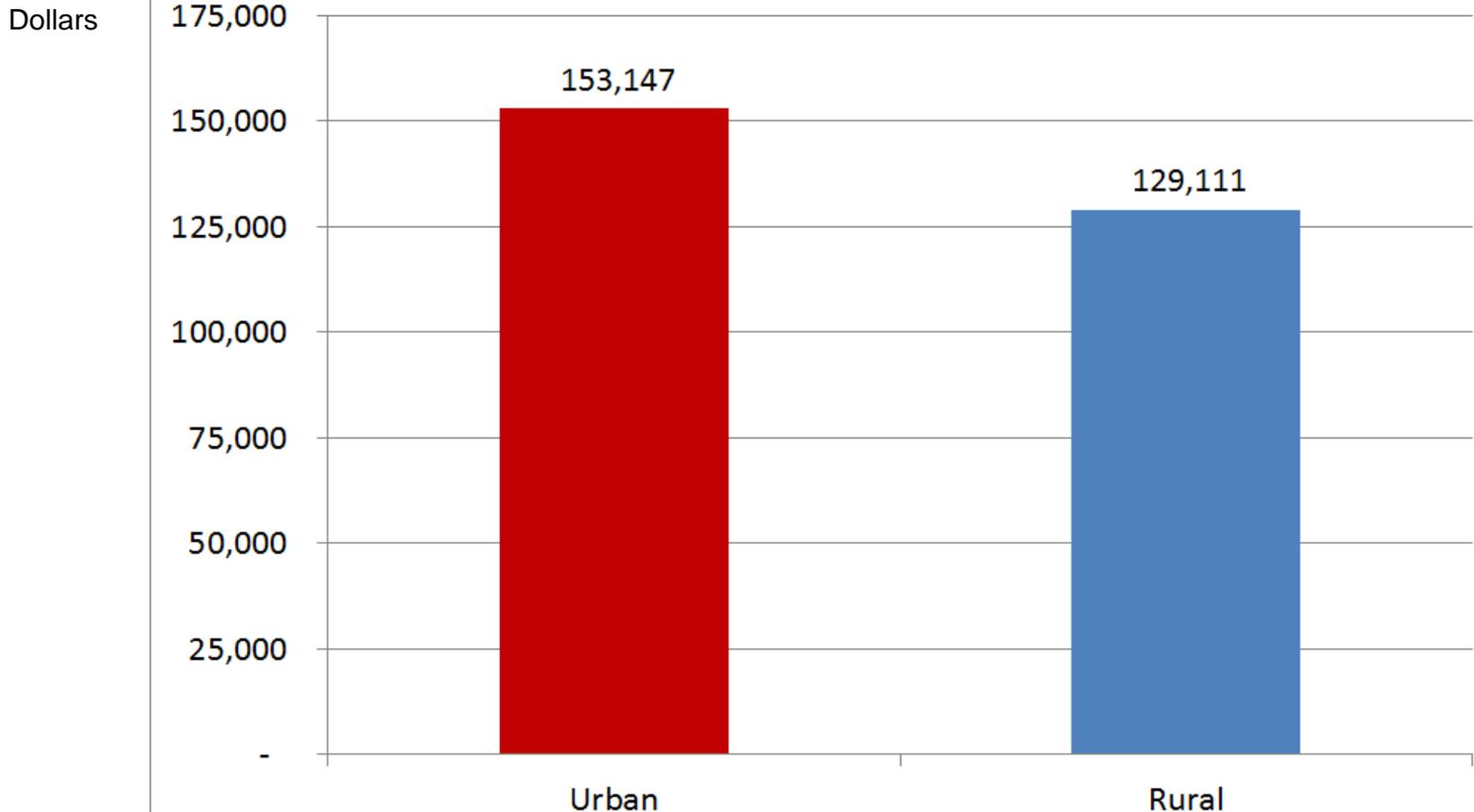
# *Housing is #1 Expense For Most— And It's Cheaper in the Country*





## *Rural Houses Generally Are Cheaper*

**Estimated Market Value of Owned Home in 2011 (\$)**



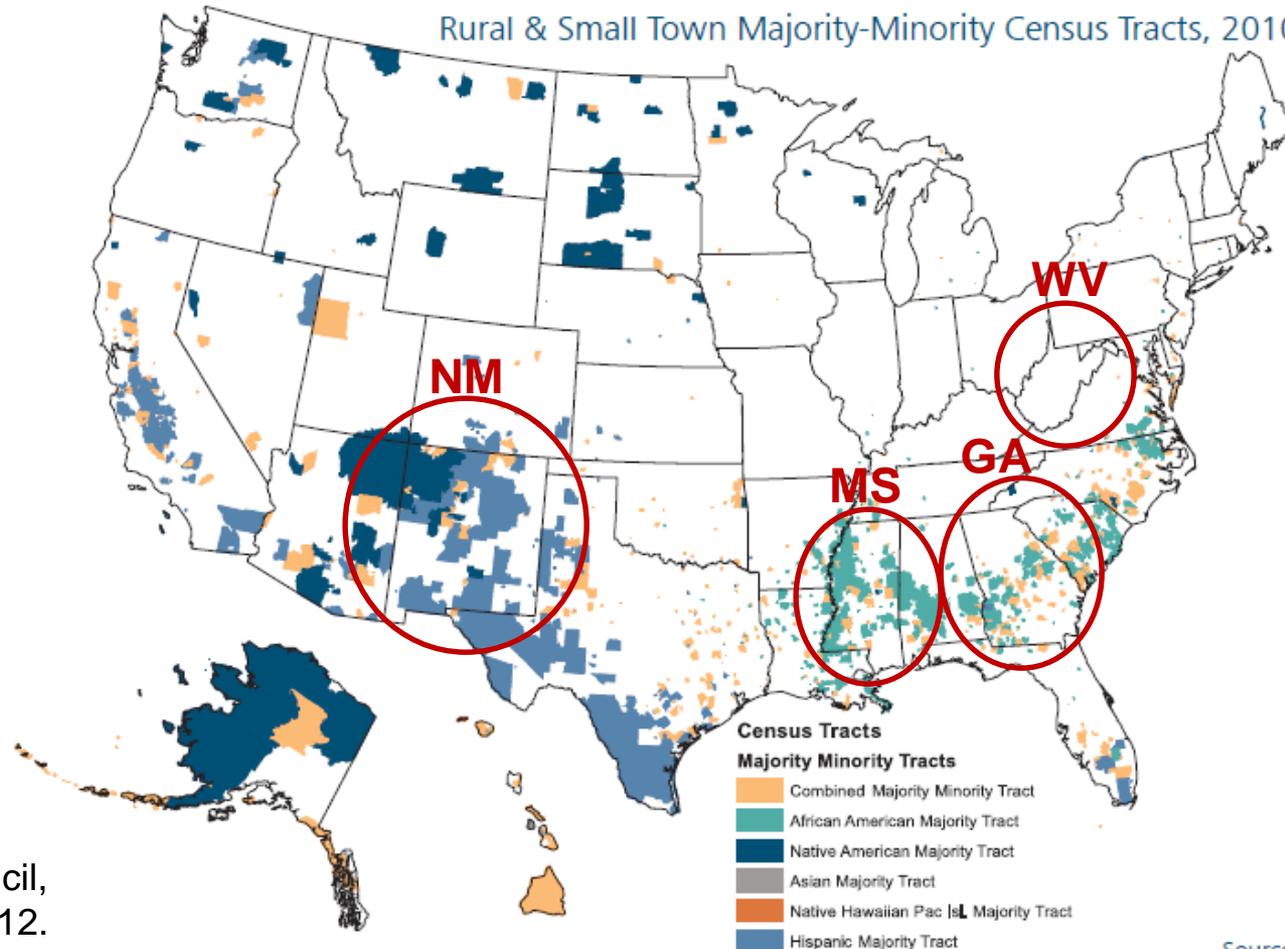
Source: Bureau of Labor Statistics



# *What About Rural Areas With High Minority or Poverty Concentrations?*

RURAL MINORITIES ARE OFTEN CLUSTERED GEOGRAPHICALLY

Rural & Small Town Majority-Minority Census Tracts, 2010



Source: Housing Assistance Council, *Taking Stock*, 2012.

Figure 9

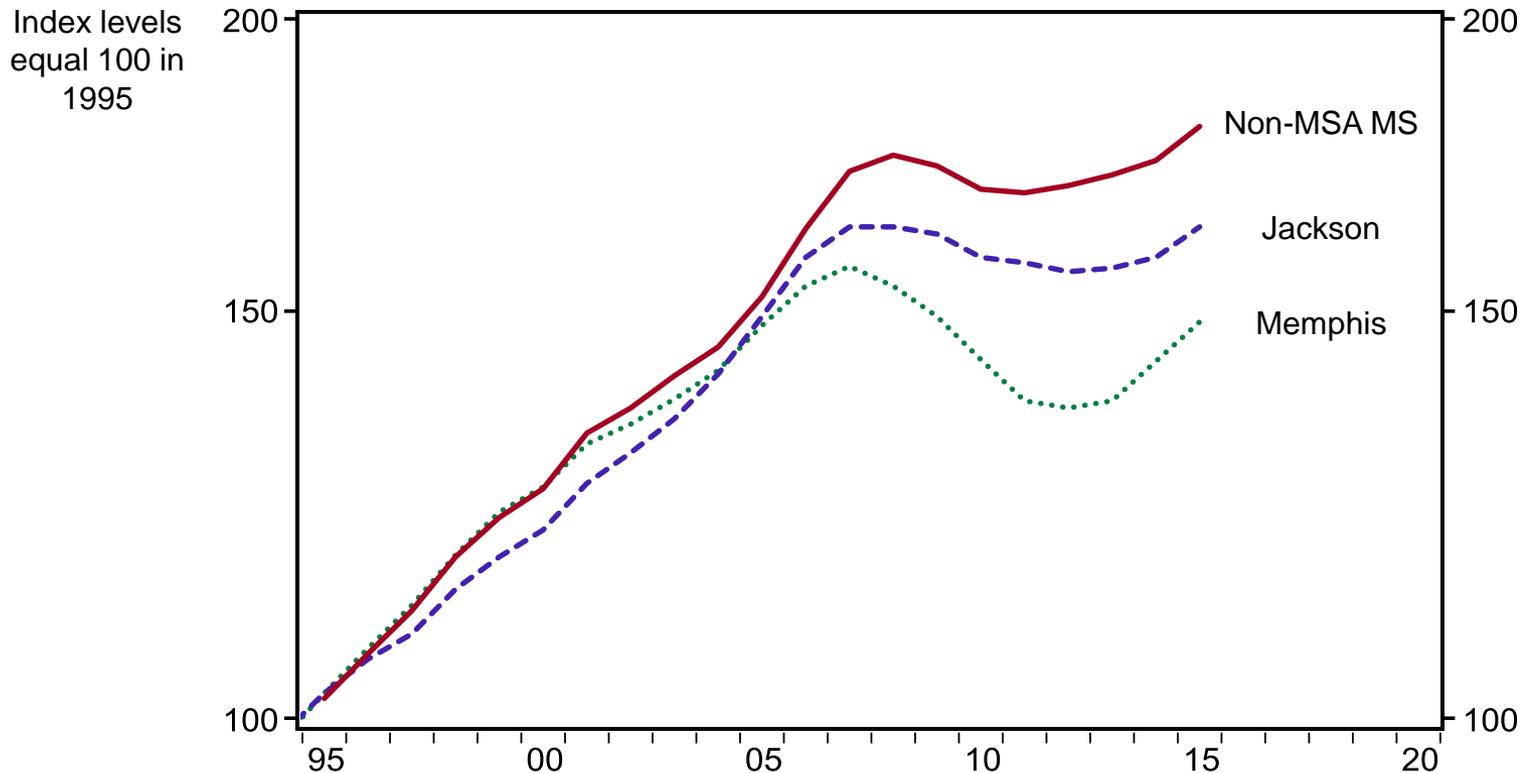
Source: HAC Tabulations of 2010 Census of Population and Housing



# More Gain, Less Risk: Mississippi Non-MSA House Prices Gained More With Less Volatility

Non-MSA Mississippi  
Jackson MS MSA  
Memphis TN-MS-AR MSA

## Surprised?



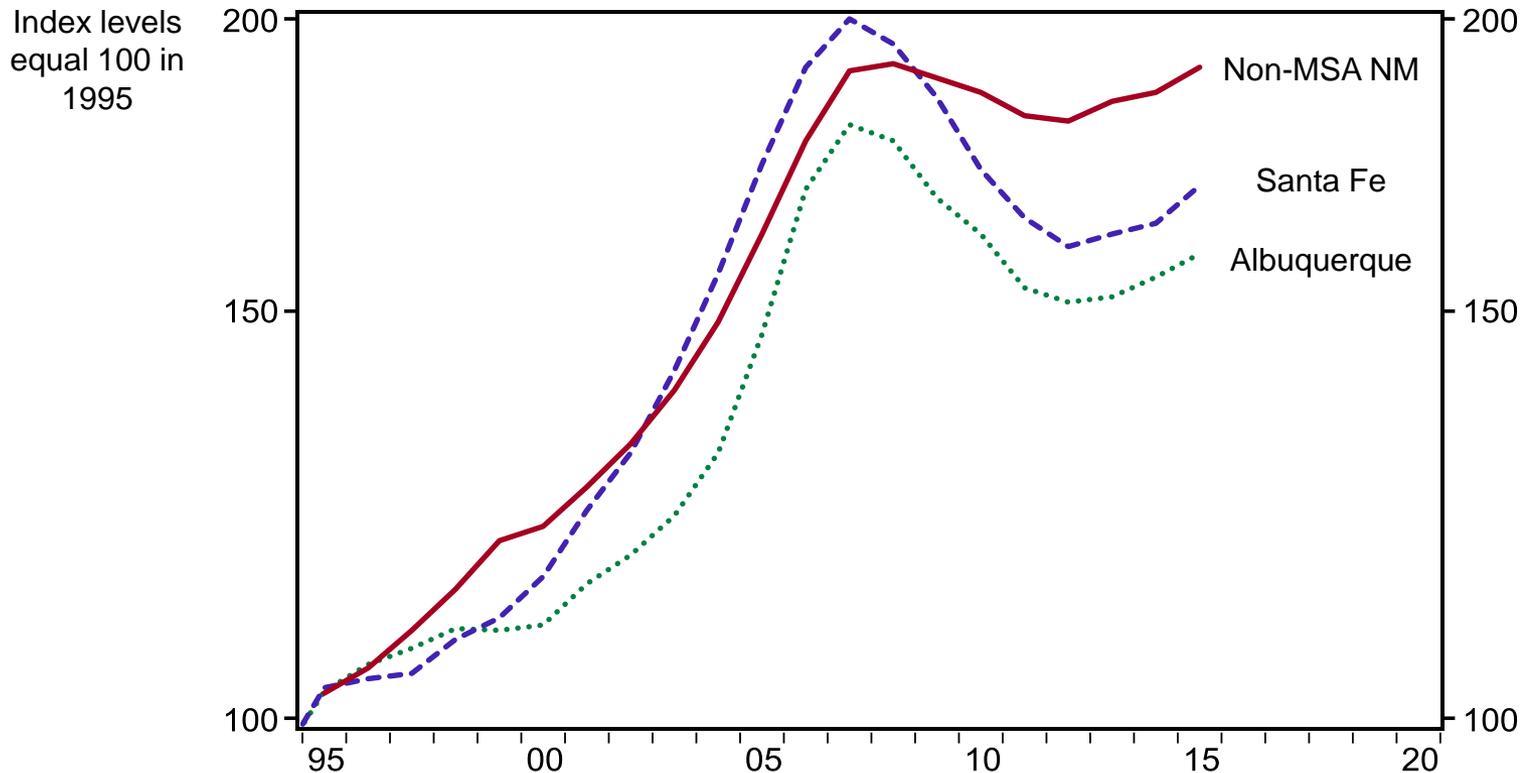
Source: Federal Housing Finance Agency /Haver Analytics



# More Gain, Less Risk: *New Mexico Non-MSA House Prices Gained More, Less Volatility*

Non-MSA New Mexico  
Santa Fe NM MSA  
Albuquerque NM MSA

## Surprised?



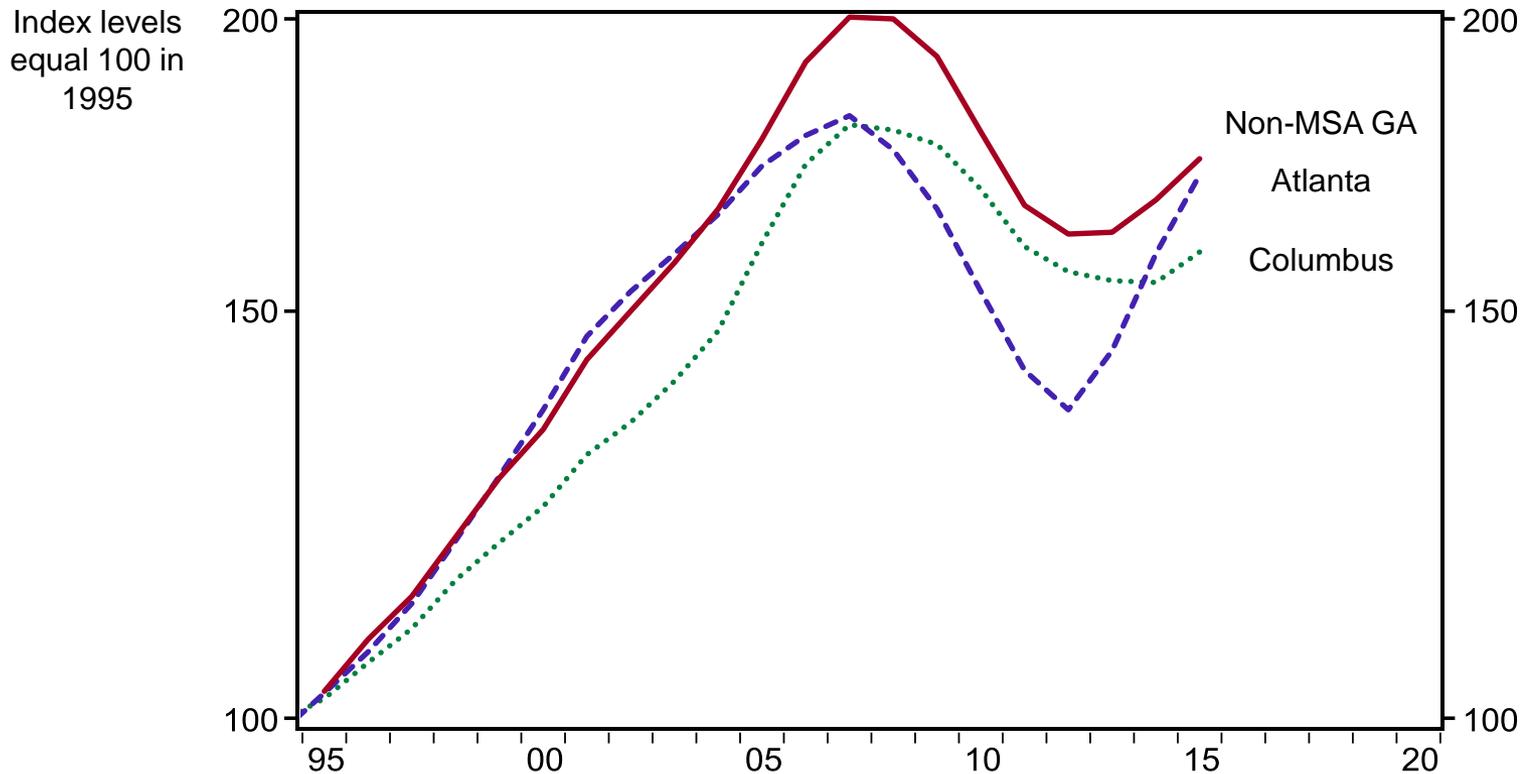
Source: Federal Housing Finance Agency /Haver Analytics



# More Gain: Georgia Non-MSA House Prices Increased More With Similar Volatility

Non-MSA Georgia  
Atlanta GA MSA  
Columbus GA MSA

**Surprised?**



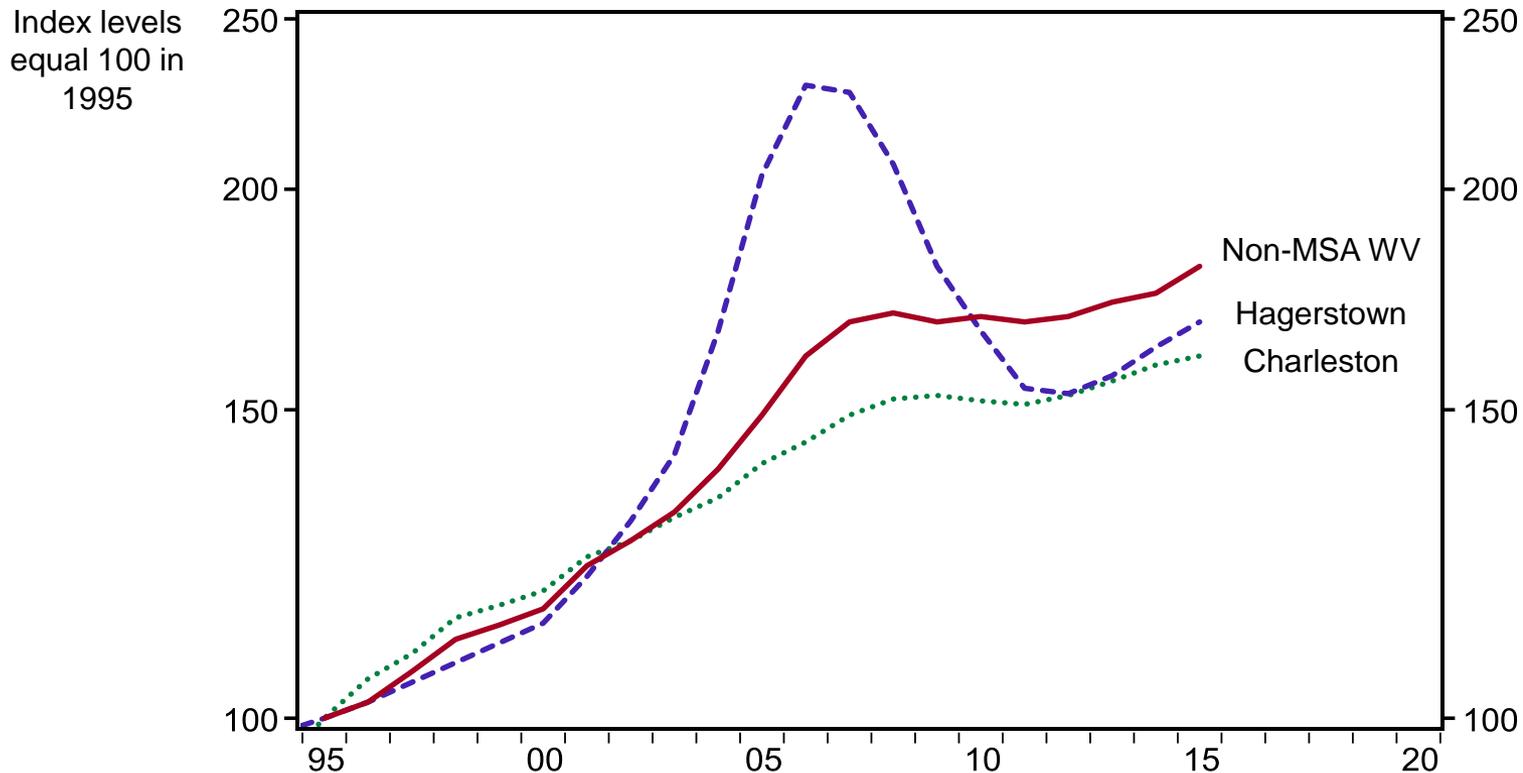
Source: Federal Housing Finance Agency /Haver Analytics



# *Much Less Risky: W. Virginia Non-MSA House Prices Increased More With Less Volatility*

Non-MSA West Virginia  
Hagerstown-Martinsburg MD-WV MSA  
Charleston WV MSA

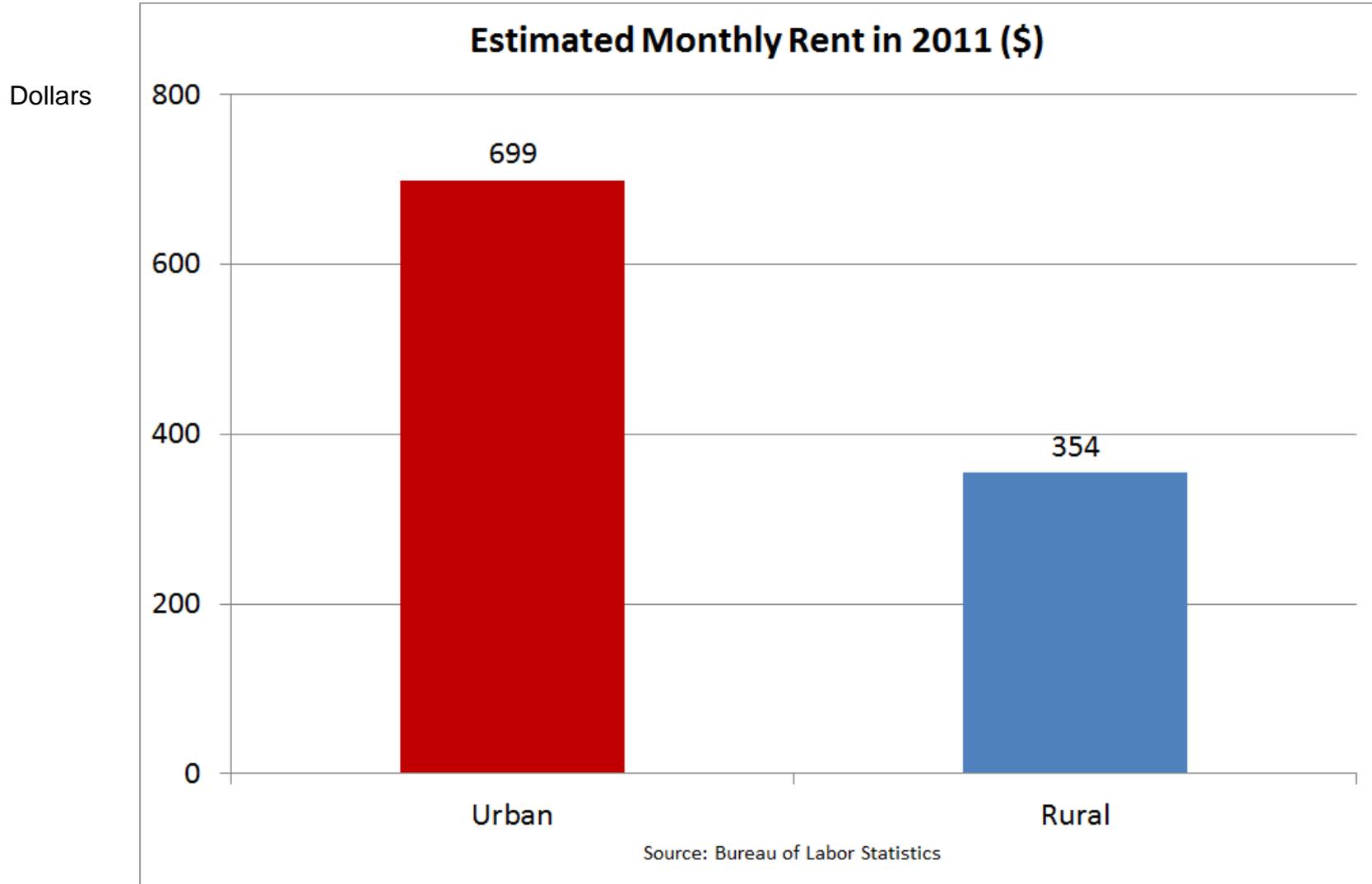
**Surprised?**



Source: Federal Housing Finance Agency /Haver Analytics



## *Non-MSA Renting is Way More Affordable, Too*





## *Why Doesn't Everyone Rent— Especially in Rural Areas?*

- **Renting is a second choice for most Americans.**
  - Rental markets are thin in most places, MSA or rural—limited choice, low quality and/or high price.
  - No “forced saving” or chance of capital gains.
  - Insecure tenure, lack of control over unit, noisy neighbors, unresponsive landlord, etc.





## *Is Homeownership Better Than Renting?*

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- **Homeownership solves some of renting's shortcomings but creates problems of its own, especially financial ones.**
  - **Responsibility and cost of ownership—you own the leaky roof and basement; property taxes and insurance; temptation to “over-improve.”**
  - **High transaction costs of buying and selling.**
  - **And then there are the financial disadvantages of owning...**



## *Financial Disadvantages of Owning*

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- **Reduced liquidity and diversification.**
- **Costly mortgage payments—you're paying retail for that money.**
- **Most lower-income families over-estimate (and overpay for) the tax benefits and potential for capital gains.**
- **Bottom line: Homeowners incur higher financial risk overall due to physical hazards to the property, leverage and exposure to house-price changes.**
- **Our research shows that homeownership can be financially advantageous (wealth-building) but you shouldn't "overdo it."**



## *Research Question: Does Homeownership Build Wealth? Yes and No*

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- **Yes, homeownership is associated with higher wealth.**
  - **Holding many other factors constant, we find that homeowners have higher wealth than non-homeowners.**
  - **This could be a “selection effect”—financially stronger families simply prefer to be homeowners.**
  - **Or homeownership could be a genuine cause of greater wealth...**
  - **... or both could be true.**



## *Research Question: Does Homeownership Build Wealth? Yes and No*

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- **But once you're a homeowner, the more of your wealth that's invested in your house the lower your wealth is likely to be.**
  - **We interpret this as “over-investment” in a low-return asset and/or poor diversification.**
  - **A home can be part of a well-diversified portfolio but it shouldn't be your only asset.**
  - **Concentration of wealth in housing is a particular problem for African-Americans and Latinos, urban and especially rural.**



## *Research Finding #2: Mortgage Debt Is OK But Keep It Under Control*

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- **Mixed effects come with mortgage borrowing, too.**
  - **Having a mortgage is a good omen for your wealth—mortgage borrowers are wealthier than those without.**
  - **This may be a selection effect, too.**
  - **Or it may show that a bank thinks you're creditworthy.**



## *Research Finding #2: Mortgage Debt Is OK But Keep It Under Control*

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- **But families with larger mortgages relative to their assets tend to be less wealthy.**
  - **Families that over-extend themselves by purchasing a home requiring a big mortgage may be poor financial decision-makers.**
  - **Another possibility: Some families who live in high-priced housing markets—mostly urban or suburban—must stretch to own, damaging their balance sheets.**
  - *Low-priced housing can be an important advantage of living in a rural area.*



## *The Unique Challenges of Rural Housing*

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- **Thin markets are inefficient markets.**
  - **Construction costs may be high.**
  - **Low transaction volumes reduce choice, can make pricing erratic.**
  - **Slow-growing or declining populations can make rural housing a risky investment for homeowners, developers, landlords, lenders.**



## *The Unique Challenges of Rural Housing*

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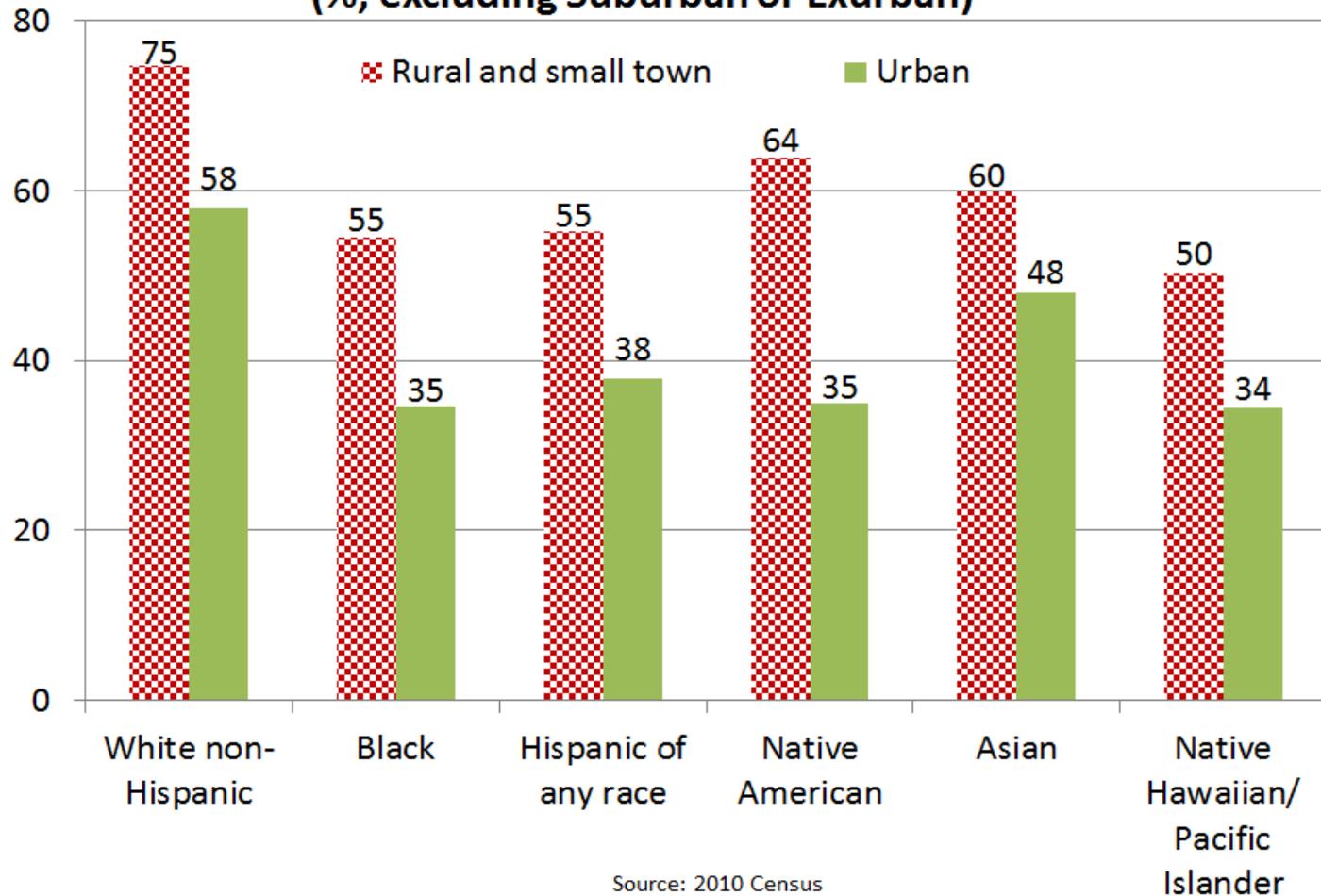
- **Typical rural demographics are not ideal for a booming housing market.**
  - **Aging populations have low income, low demand for new housing units.**
  - **Less-educated populations have low income and limited ability to finance homeownership.**
  - **Historically disadvantaged minority populations have not had access to multi-generational wealth-building so don't have as much purchasing power to stabilize housing markets.**



# *Still, Rural Homeownership Rates Exceed Urban Rates For All Demographics*

**Homeownership Rates by Race or Ethnicity and Urbanicity  
(%; excluding Suburban or Exurban)**

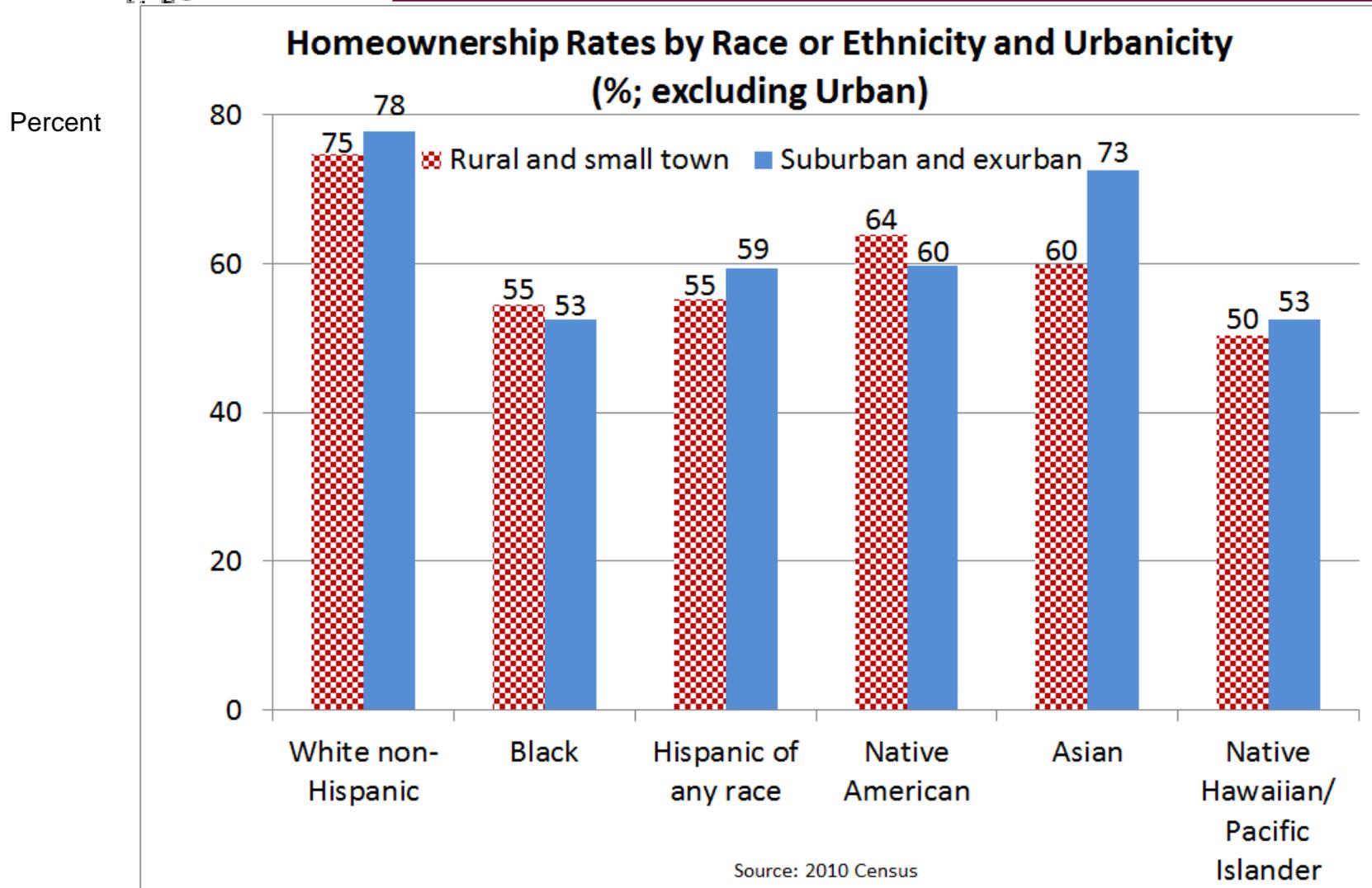
Percent



Source: 2010 Census



## *And Are Similar to Suburban/Exurban Homeownership Rates*





## *The Silver Lining in Rural Housing: Low Prices Are Good For Balance Sheets*

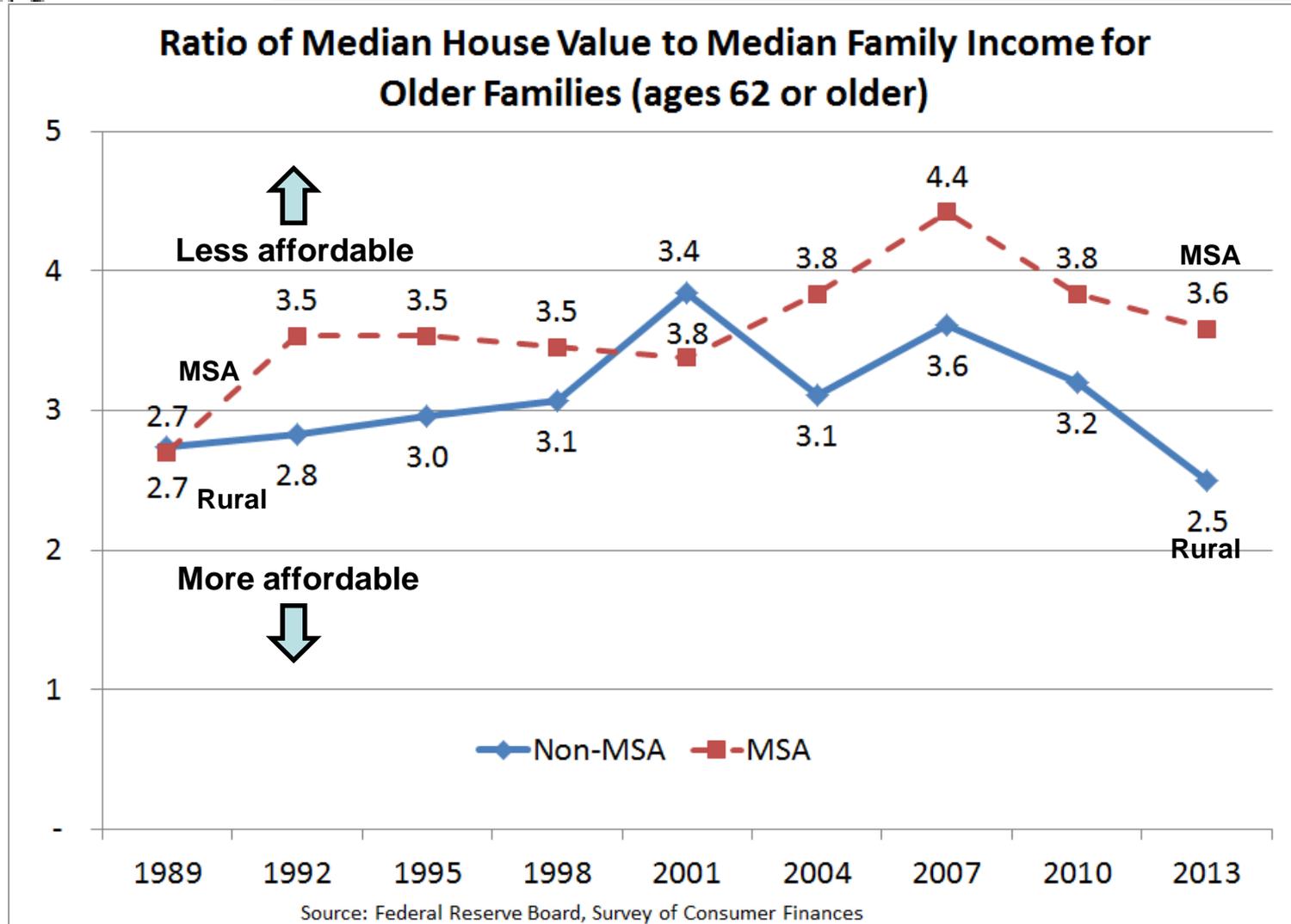
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- **Housing is relatively cheap in most rural markets.**
  - **True both in absolute and relative terms—even when adjusted for lower rural incomes.**
  - **Whether you're a homeowner or a renter, living in the countryside or a small town can be more affordable than living in a city or suburb.**



# *Rural Homeownership Is More Affordable: Older Families*

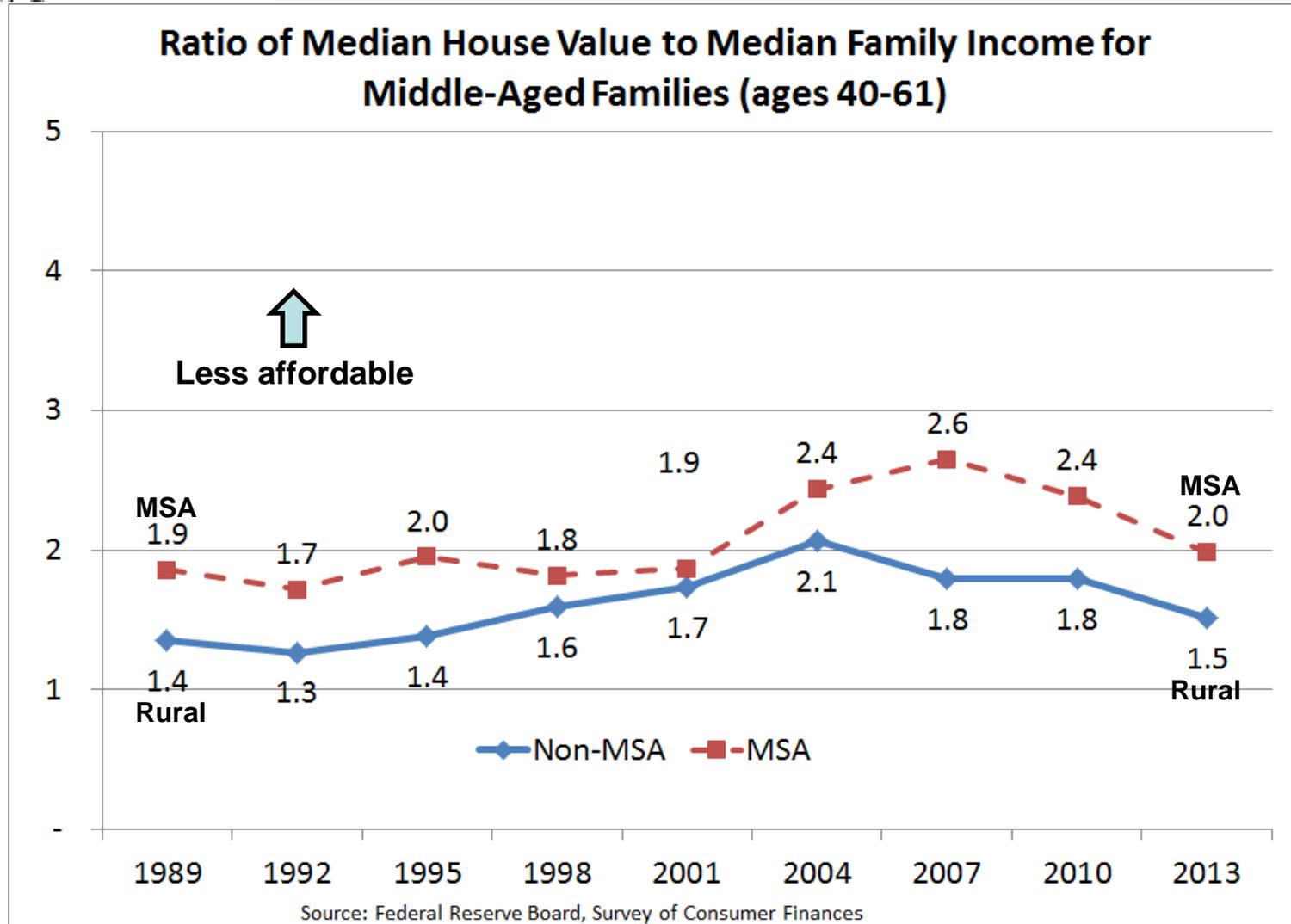
Ratio





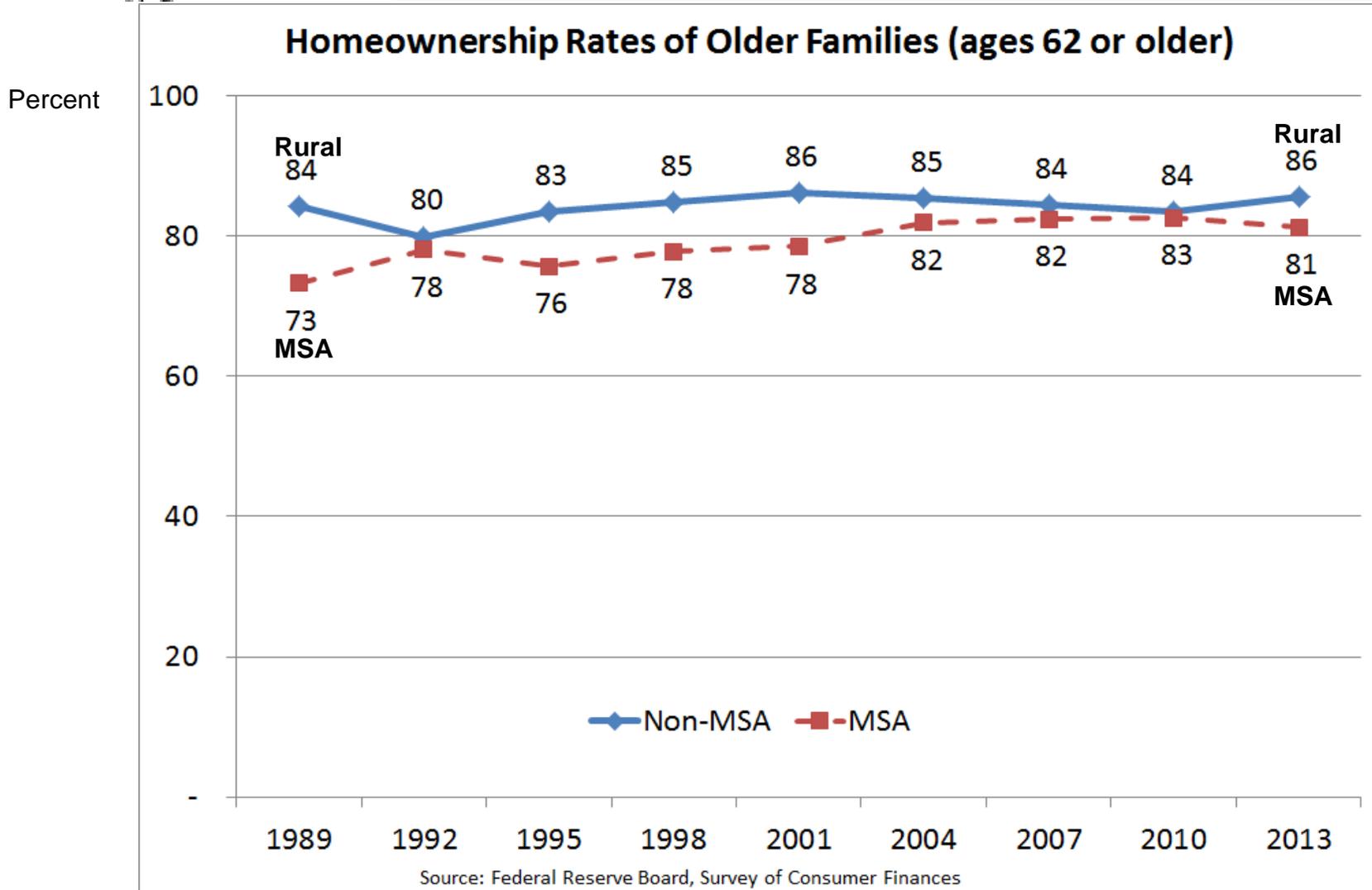
# *Rural Homeownership Is More Affordable: Middle-Aged Families*

Ratio



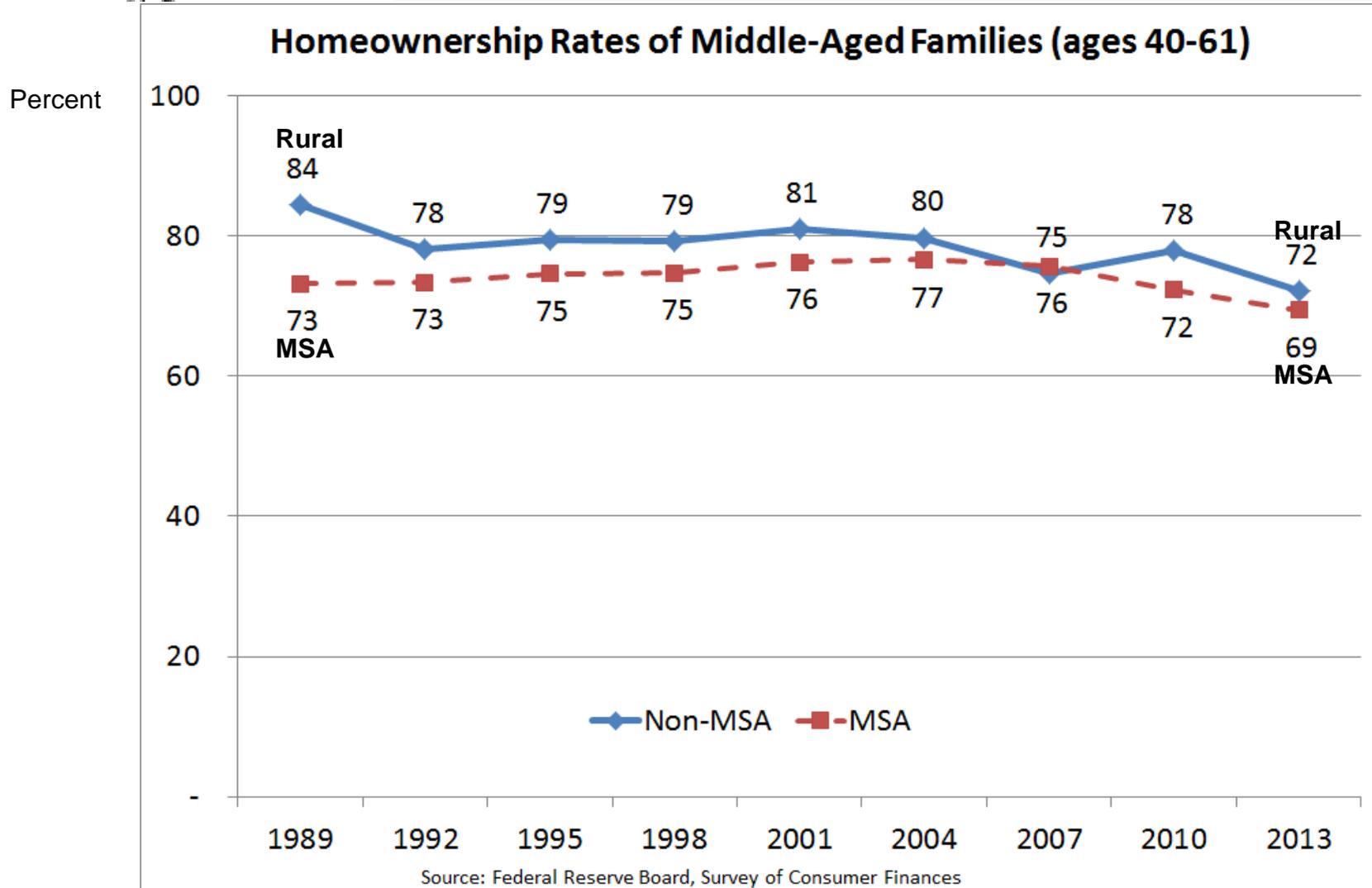


# *Affordability Supports High Homeownership Rates: Older Families*



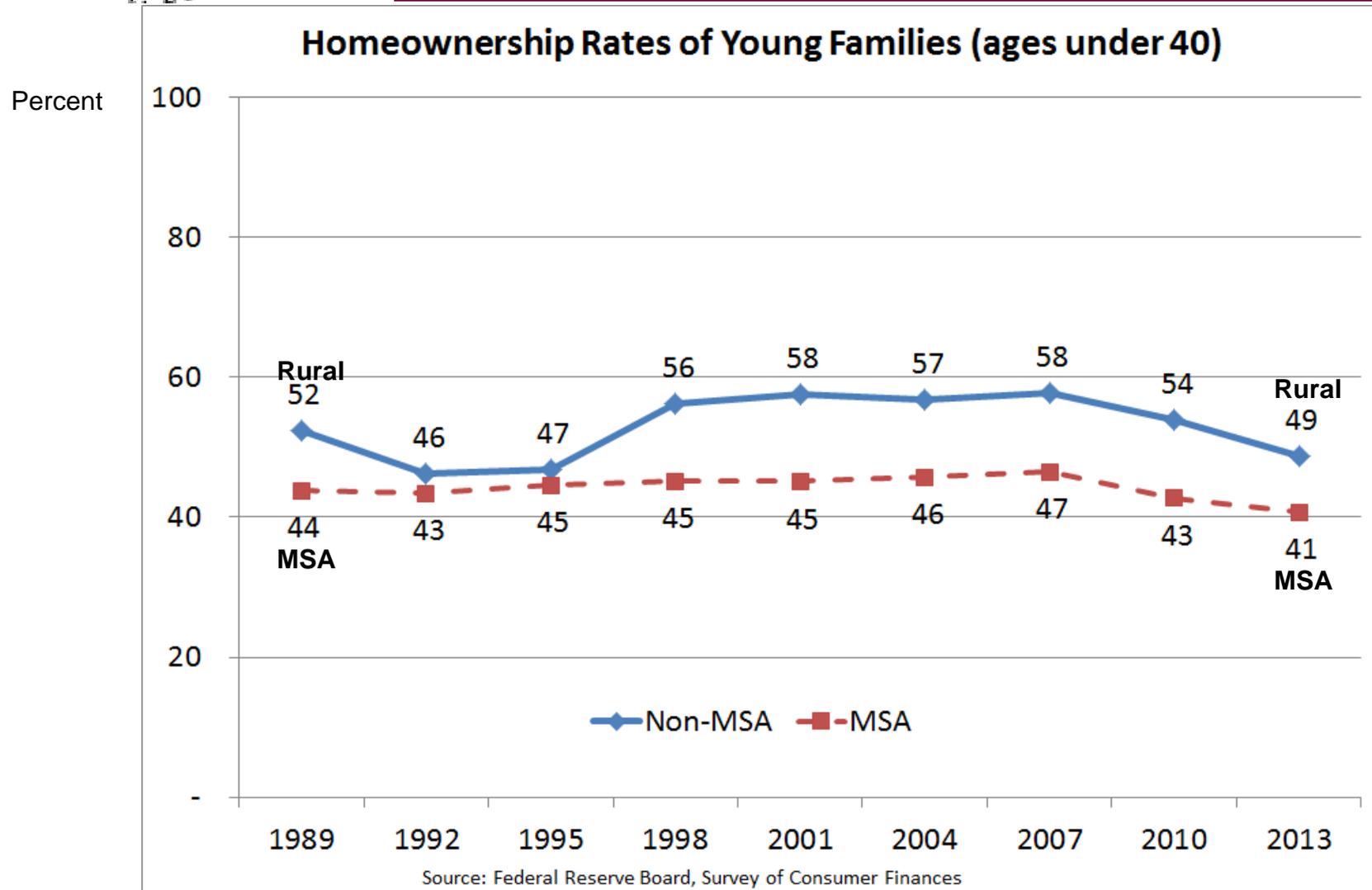


# *Affordability Supports High Homeownership Rates: Middle-Age Families*





# *Affordability Supports High Homeownership Rates: Young Families*





## *Two (Potentially) Great Things About Lower House Prices*

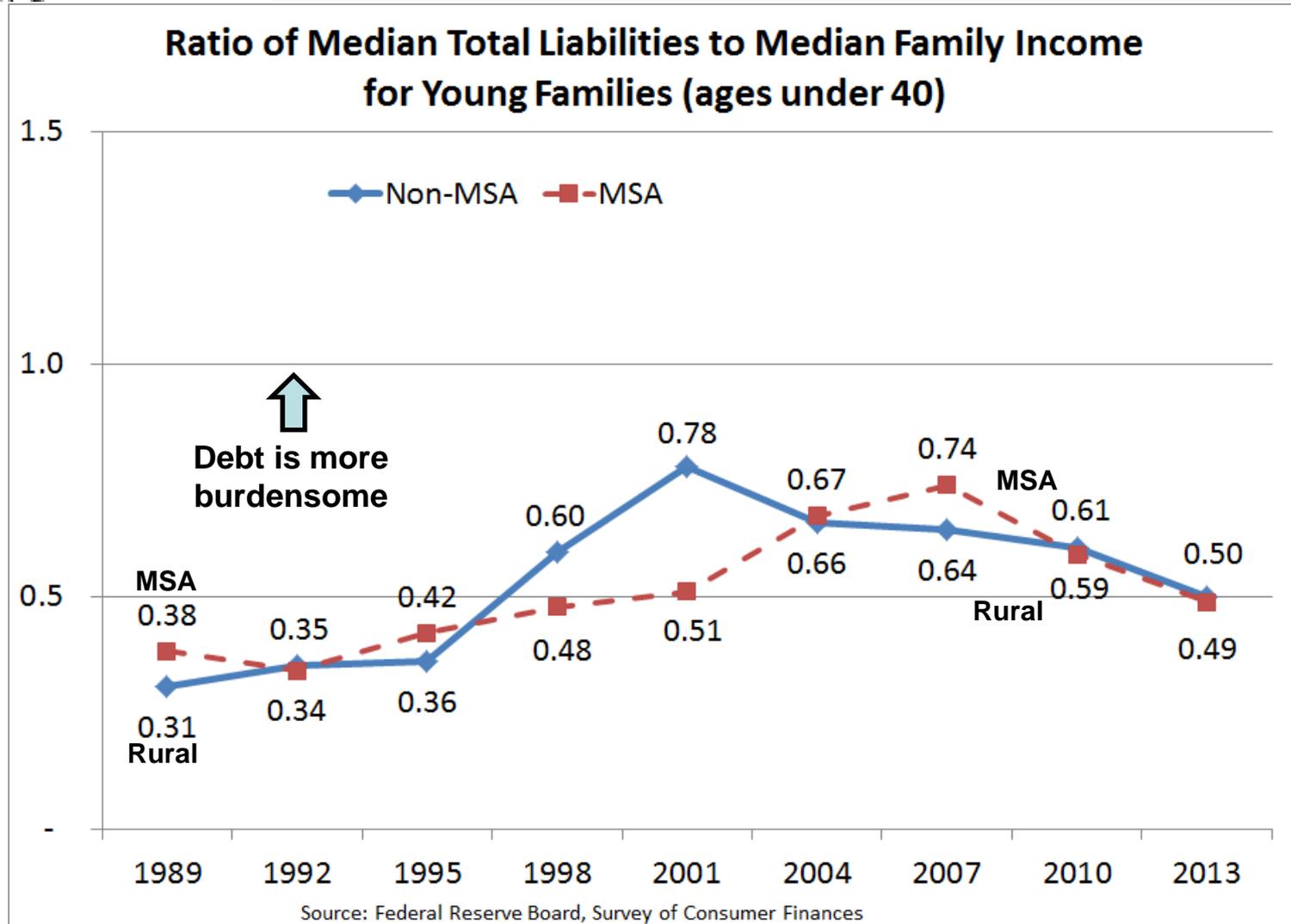
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- **Allows more diversification into other assets.**
  - **Survey of Consumer Finances suggests rural families have *not* taken advantage of this opportunity (compared to MSA families).**
  
- **Reduces the need for excessive mortgage borrowing.**
  - **SCF shows that rural families typically enjoy a lower debt burden than MSA families.**



# *Debt Burdens (Largely But Not Only Mortgage ) Don't Overwhelm Rural Young Adults*

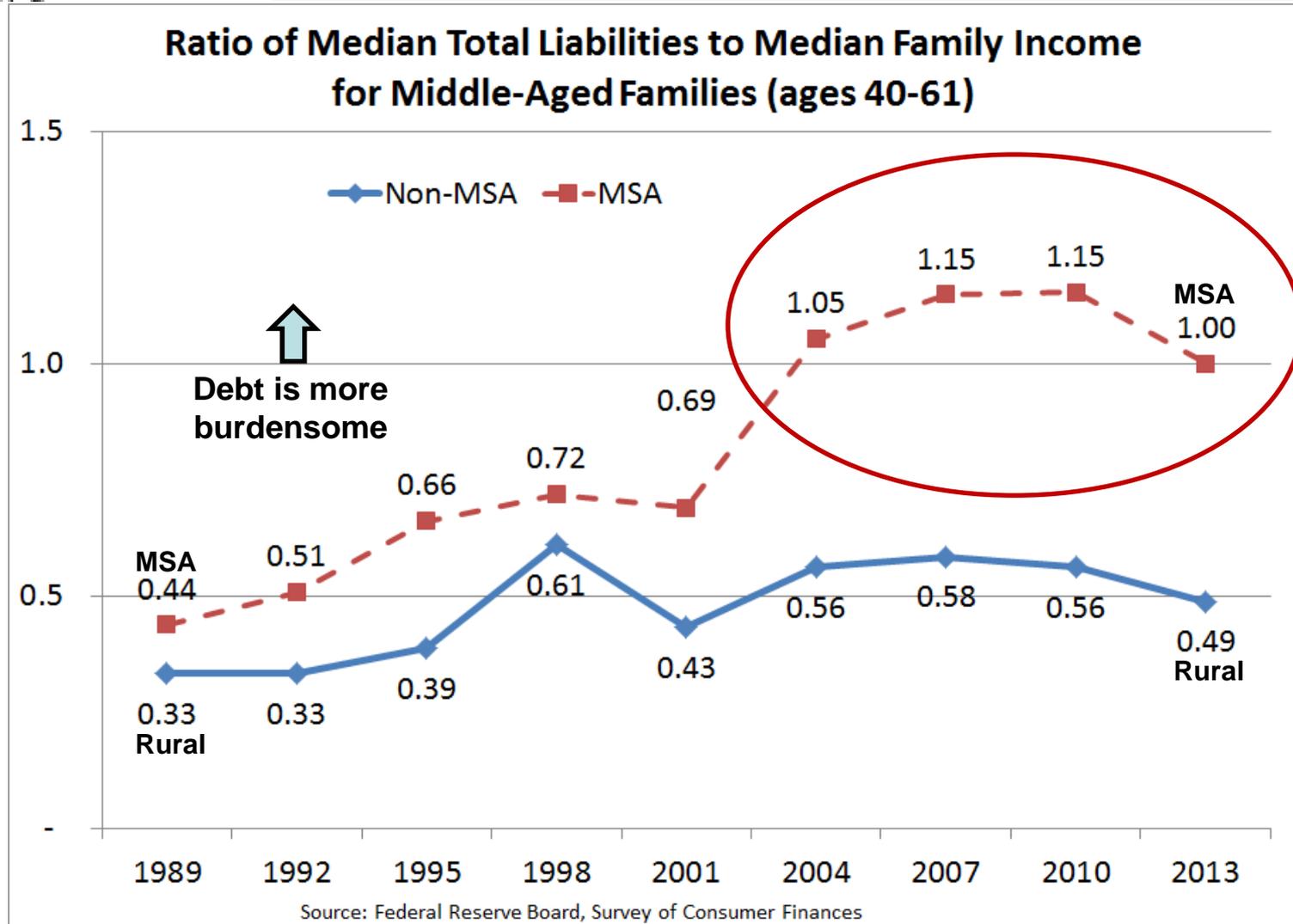
Ratio





# Middle-Aged Urban/Suburban Families Have Been Crushed by (Mortgage) Debt

Ratio





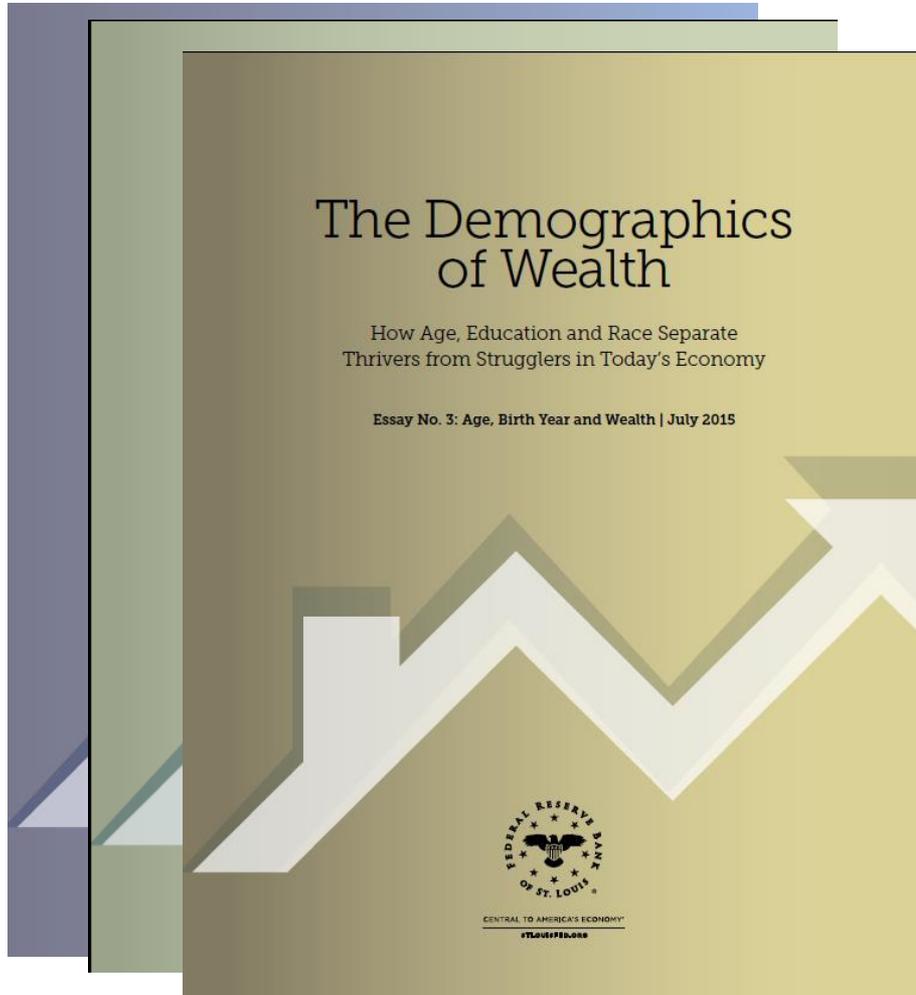
## *In Sum: Lower Prices and Less Risk Are the Silver Linings in Rural Housing*

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- **Rural housing presents unique challenges.**
- **But the silver linings in rural housing are cheap rentals and lower and less-volatile house prices, leading to less housing risk.**
- **Lower housing risk can produce better long-term financial outcomes for rural families—but there’s room for improvement on asset diversification.**



# *The Demographics of Wealth: An Essay Series*



- [www.stlouisfed.org/household-financial-stability/the-demographics-of-wealth](http://www.stlouisfed.org/household-financial-stability/the-demographics-of-wealth)
- **Part 1: Race, Ethnicity and Wealth (Feb. 2015).**
- **Part 2: Education and Wealth (May 2015).**
- **Part 3: Age, Birth Year and Wealth (July 2015).**