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

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

- 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

Housing Share of Total Annual Expenditures (%)

- Urban: 34%
- Rural: 28%

Source: Bureau of Labor Statistics
Rural Houses Generally Are Cheaper

![Bar Chart]

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

- **Urban**: $153,147
- **Rural**: $129,111

*Source: Bureau of Labor Statistics*
What About Rural Areas With High Minority or Poverty Concentrations?


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?

Index levels equal 100 in 1995

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?

Index levels equal 100 in 1995

Source: Federal Housing Finance Agency /Haver Analytics
More Gain: Georgia Non-MSA House Prices Increased More With Similar Volatility
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

Index levels equal 100 in 1995

Source: Federal Housing Finance Agency /Haver Analytics
Non-MSA Renting is Way More Affordable, Too

Estimated Monthly Rent in 2011 ($)

<table>
<thead>
<tr>
<th>Category</th>
<th>Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban</td>
<td>699</td>
</tr>
<tr>
<td>Rural</td>
<td>354</td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics
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?

- 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

- 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.”
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.

Data are from 40,000 families in the Federal Reserve Board’s Survey of Consumer Finances, spanning 1989-2013.
Research Question: Does Homeownership Build Wealth? Yes and No

- 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

- 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

- 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

- 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

- 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)

- White non-Hispanic: Rural 75%, Urban 58%
- Hispanic of any race: Rural 55%, Urban 55%
- Native American: Rural 64%, Urban 35%
- Asian: Rural 60%, Urban 48%
- Native Hawaiian/Pacific Islander: Rural 50%, Urban 34%

Source: 2010 Census
And Are Similar to Suburban/Exurban Homeownership Rates

Homeownership Rates by Race or Ethnicity and Urbanicity (%; excluding Urban)

- White non-Hispanic: Rural 75, Suburban 78
- Black: Rural 55, Suburban 53
- Hispanic of any race: Rural 55, Suburban 59
- Native American: Rural 64, Suburban 60
- Asian: Rural 60, Suburban 73
- Native Hawaiian/Pacific Islander: Rural 50, Suburban 53

Source: 2010 Census
The Silver Lining in Rural Housing: Low Prices Are Good For Balance Sheets

- 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 of Median House Value to Median Family Income for Older Families (ages 62 or older)

- Less affordable
- More affordable

Source: Federal Reserve Board, Survey of Consumer Finances
Rural Homeownership Is More Affordable: Middle-Aged Families

Ratio of Median House Value to Median Family Income for Middle-Aged Families (ages 40-61)

Source: Federal Reserve Board, Survey of Consumer Finances
Affordability Supports High Homeownership Rates: Older Families

Homeownership Rates of Older Families (ages 62 or older)

Source: Federal Reserve Board, Survey of Consumer Finances
Affordability Supports High Homeownership Rates: Middle-Age Families

Homeownership Rates of Middle-Aged Families (ages 40-61)

- **Rural**
  - 84
  - 78
  - 79
  - 79
  - 81
  - 80
  - 78

- **MSA**
  - 73
  - 73
  - 75
  - 75
  - 76
  - 77
  - 76
  - 75
  - 72
  - 69

Source: Federal Reserve Board, Survey of Consumer Finances
Affordability Supports High Homeownership Rates: Young Families

Homeownership Rates of Young Families (ages under 40)

Percent

Source: Federal Reserve Board, Survey of Consumer Finances
Two (Potentially) Great Things About Lower House Prices

- 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 of Median Total Liabilities to Median Family Income for Young Families (ages under 40)

Source: Federal Reserve Board, Survey of Consumer Finances
Middle-Aged Urban/Suburban Families Have Been Crushed by (Mortgage) Debt

Ratio of Median Total Liabilities to Median Family Income for Middle-Aged Families (ages 40-61)

- **MSA**
  - 1989: 0.44
  - 1992: 0.51
  - 1995: 0.66
  - 1998: 0.72
  - 2001: 0.69
  - 2004: 1.05
  - 2007: 1.15
  - 2010: 1.15
  - 2013: MSA

- **Rural**
  - 1989: 0.33
  - 1992: 0.33
  - 1995: 0.39
  - 1998: 0.43
  - 2001: 0.56
  - 2004: 0.58
  - 2010: 0.56
  - 2013: 0.49

Debt is more burdensome in MSA areas compared to rural areas.

Source: Federal Reserve Board, Survey of Consumer Finances
In Sum: Lower Prices and Less Risk Are the Silver Linings in Rural Housing

- 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

- Part 1: Race, Ethnicity and Wealth (Feb. 2015).
- Part 3: Age, Birth Year and Wealth (July 2015).