Is Rural America Facing a Home Price Bust?

Chad Wilkerson
Vice President, Economist, & Oklahoma City Branch Executive
Federal Reserve Bank of Kansas City
Motivating Questions for Research*

• Given the ongoing U.S. home price bust, what information is available about rural home prices?

• How have rural home prices fared relative to metro home prices across the country?

• Why might rural prices have exhibited different patterns than metro prices in recent years?

• What is the outlook for rural home prices?

* Research originally published in December 2008 edition of Kansas City Fed’s Main Street Economist publication
Recent Trends in Rural Home Prices

- To date—and throughout the country—home prices in non-metro areas have held up better.
- As such, foreclosures are generally lower in rural areas, although they are rising.
- Still, home prices in many rural regions greatly outpaced incomes earlier this decade.
Unlike U.S. metro home prices, U.S. rural home prices were down only slightly through mid-2009.

Home Price Growth
Q1 1996 – Q2 2009

Percent change from year ago

Source: FHFA
Since the national bust began, non-metro prices have held up better in all parts of the country.

Cumulative Home Price Change By Census Region
Q1 2007 to Q2 2009

Source: FHFA
The worst foreclosure rates in 2008 were generally near coastal cities.

Source: Realty Trac
Foreclosures are still rising, but they remain much lower in rural areas

Source: Realty Trac; author’s calculations
Before 2000, home prices and incomes grew at about the same rate throughout the country.
But in the first half of this decade, some clear bubbles emerged, especially in coastal cities.

Ratio of Home Price Growth to Per Capita Income Growth
2000-2005

Source: FHFA, Bureau of Economic Analysis
Why Did Rural Home Prices Boom Less?

- Could be due to several factors, including:
  - Less rural housing demand due to slower rural economic growth
  - Less rural housing demand due to tighter mortgage standards in rural areas
  - Greater ease of expanding rural housing supply, due to greater availability of land
But rural economic growth was only slightly lower than in cities, and was higher per capita.
Nationally, of course, subprime mortgage originations soared earlier this decade.

Subprime Share of U.S. Mortgage Originations
1999-2007

Source: Inside Mortgage Finance
But subprime mortgages appear to have been as prevalent in rural areas as in cities.

**Subprime Share of U.S. Mortgage Originations, 2004**

<table>
<thead>
<tr>
<th></th>
<th>Metro</th>
<th>Non-Metro</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent</td>
<td>15.5</td>
<td>17.4</td>
</tr>
</tbody>
</table>

Source: Housing Assistance Council
That leaves rural areas’ fewer constraints on housing supply as a likely contributor

• Theoretically at least, it is more difficult to quickly expand housing supply in cities than in rural areas, especially if the cities have topographical or building code constraints

• Housing permits did rise faster in rural areas than in cities in 2005, near the end of the housing boom, perhaps better allowing rural prices to stay in line with fundamentals

Source: U.S. Census Bureau
The Outlook for Rural Home Prices

• Overall, since rural home prices boomed less than metro prices, they should also have less of a bust

• However, subprime loans were prevalent in rural areas, and rural home prices did outpace incomes

• How much risk rural prices have depends in part on the future paths of the U.S. and rural economies
Going forward, both metro and rural home prices may need to ease in order to come into balance.

*Home price indexes are quarterly, seasonally adjusted. Per capita income indexes are annual, and actual through 2007. For 2008, overall regional per capita income growth is used for both metro and nonmetro areas.

Source: FHFA, BEA
This seems especially true in the Pacific region

Home Prices and Per Capita Income Levels*
Index: 1995=100

*Home price indexes are quarterly, seasonally adjusted. Per capita income indexes are annual, and actual through 2007. For 2008, overall regional per capita income growth is used for both metro and nonmetro areas.

Source: FHFA, BEA
Mountain region home prices also surged

Home Prices and Per Capita Income Levels*
Index: 1995=100

*Home price indexes are quarterly, seasonally adjusted. Per capita income indexes are annual, and actual through 2007. For 2008, overall regional per capita income growth is used for both metro and nonmetro areas.

Source: FHFA, BEA
Rural areas of the upper Plains appear balanced

Home Prices and Per Capita Income Levels*
Index: 1995=100

West North Central - Metro

West North Central - Non-Metro

*Home price indexes are quarterly, seasonally adjusted. Per capita income indexes are annual, and actual through 2007. For 2008, overall regional per capita income growth is used for both metro and nonmetro areas.

Source: FHFA, BEA
The same is nearly true for the southern Plains

Home Prices and Per Capita Income Levels*
Index: 1995=100

West South Central - Metro

West South Central - Non-Metro

*Home price indexes are quarterly, seasonally adjusted. Per capita income indexes are annual, and actual through 2007. For 2008, overall regional per capita income growth is used for both metro and nonmetro areas.

Source: FHFA, BEA
Rural Great Lakes areas may have a small gap

Home Prices and Per Capita Income Levels*
Index: 1995=100

*Home price indexes are quarterly, seasonally adjusted. Per capita income indexes are annual, and actual through 2007. For 2008, overall regional per capita income growth is used for both metro and nonmetro areas.

Source: FHFA, BEA
As may rural areas of the mid-South

Home Prices and Per Capita Income Levels*
Index: 1995=100

East South Central - Metro

East South Central - Non-Metro

*Home price indexes are quarterly, seasonally adjusted. Per capita income indexes are annual, and actual through 2007. For 2008, overall regional per capita income growth is used for both metro and nonmetro areas.

Source: FHFA, BEA
The Southeast appears due for more correction

**Home Prices and Per Capita Income Levels**

*Index: 1995=100*

**South Atlantic - Metro**

**South Atlantic - Non-Metro**

*Home price indexes are quarterly, seasonally adjusted. Per capita income indexes are annual, and actual through 2007. For 2008, overall regional per capita income growth is used for both metro and nonmetro areas.*

Source: FHFA, BEA
As does the mid-Atlantic region

Home Prices and Per Capita Income Levels*
Index: 1995=100

*Home price indexes are quarterly, seasonally adjusted. Per capita income indexes are annual, and actual through 2007. For 2008, overall regional per capita income growth is used for both metro and nonmetro areas.

Source: FHFA, BEA
New England home prices also appear too high

Home Prices and Per Capita Income Levels*
Index: 1995=100

*Home price indexes are quarterly, seasonally adjusted. Per capita income indexes are annual, and actual through 2007. For 2008, overall regional per capita income growth is used for both metro and nonmetro areas.

Source: FHFA, BEA
U.S. home prices and per capita income have tracked closely over time, but when was “normal”?

U.S. Home Prices and Per Capita Income
1975-2008

Index (1990=100)

Per Capita Income
Home Prices

Source: FHFA, U.S. Bureau of Economic Analysis
Since 1995 or 2002, coastal regions appear to still be overpriced, including in their rural areas.

Excess of Home Price Growth Over Per Capita Income Growth

As of Q2 2009*

Percent

Source: FHFA, Bureau of Economic Analysis

* Per capita income growth based on actual data through 2007; for 2008, overall regional growth is used as an estimate; for 2009, overall U.S. growth is used as an estimate
The timing of entry to this recession varied widely by region across the nation.

<table>
<thead>
<tr>
<th>Quarter of Entry to the Current Recession</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st District - Boston</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2nd District - New York</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3rd District - Philadelphia</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4th District - Cleveland</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5th District - Richmond</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6th District - Atlanta</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7th District - Chicago</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8th District - St. Louis</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9th District - Minneapolis</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10th District - Kansas City</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11th District - Dallas</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12th District - San Francisco</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: U.S. Bureau of Labor Statistics
Federal Reserve Districts and Office Locations
Historically, different parts of the country typically enter recessions at different times.
But exit from recessions—especially deep ones—has been more simultaneous across regions.

Historical Timing of Exit from Recessions by Fed District
For the eight U.S. recessions from 1957-2003

- Times late out
- Times early out

Source: Bureau of Labor Statistics
Rural areas held up longer in this recession, and appear to have bottomed with cities.
Heading forward, policy makers generally expect a gradual U.S. recovery.
But U.S. unemployment is expected to remain elevated for some time.
And the foreclosure pipeline is large

U.S. Foreclosure and Past Due Mortgage Rates

Source: Mortgage Bankers Association
Conclusions

• New data on non-metro home prices show that rural areas had a much smaller home price boom than cities, and have so far experienced much less of a bust

• But rural home prices in some regions greatly outpaced incomes earlier this decade, and so may have some risk of falling heading forward
Further Resources

- Federal Reserve Bank of Kansas City web site
  - www.kansascityfed.org

- Main Street Economist (rural-focused online publication)
  - www.kansascityfed.org/regionalaffairs/mainstreet/mainstmain.htm

- Economic Review (occasional in-depth rural articles)
  - www.kansascityfed.org/publicat/econrev/ermain.htm

- TEN magazine (occasional rural feature articles)
  - www.kansascityfed.org/publicat/ten/tenmain.htm