



FEDERAL RESERVE BANK *of* KANSAS CITY

Rural Housing Conditions and Issues

Expanding Affordable Credit and Housing in Rural Communities

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DISCLAIMER

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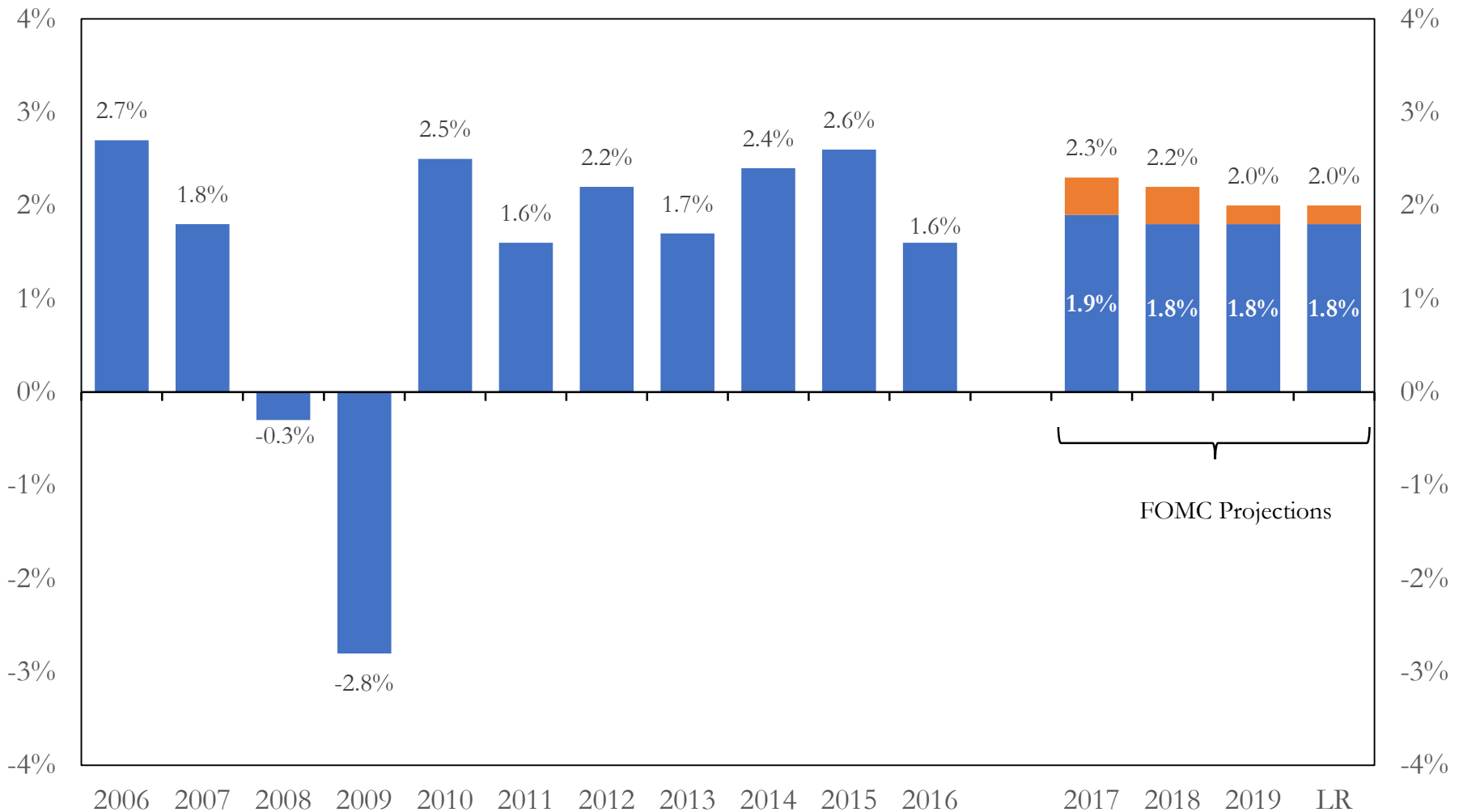
Outline

- LMI Economic Conditions
- Trends in Affordable Housing
- Cost
- Credit Conditions

Economic Conditions

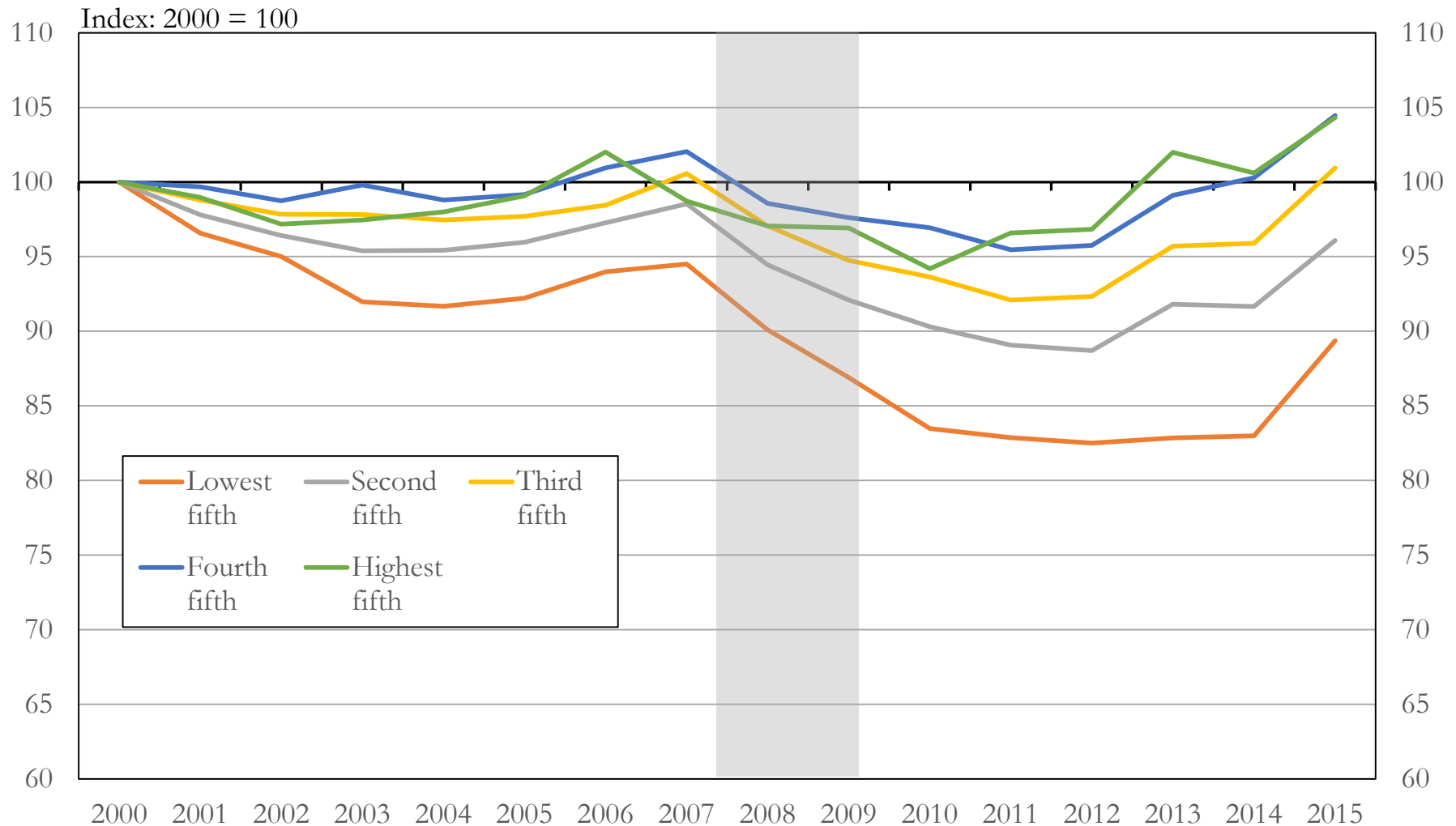
Rural Housing Conditions and Issues

The Federal Reserve projects that the economy is expected to continue its moderate expansion over the near term. Long-run economic growth will be slower than in previous decades.



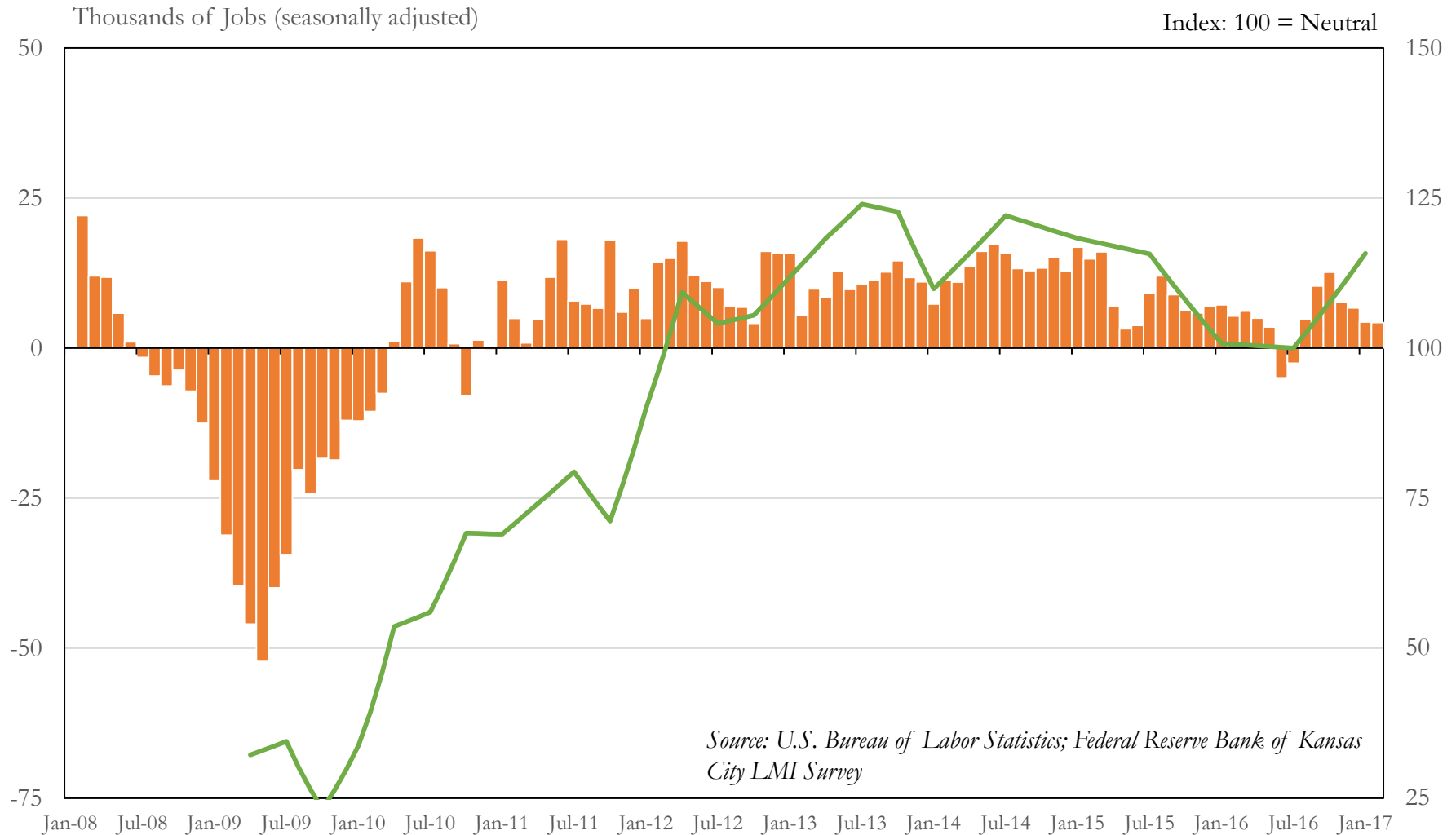
Sources: Bureau of Economic Analysis; Haver Analytics; FOMC, *Summary of Economic Projections* (March 15, 2017)

Inflation-adjusted family income fell for all quintiles over the course of the recession and early recovery, but especially for families with the lowest incomes. Incomes have not recovered for those with the lowest incomes.



Data Source: Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements.

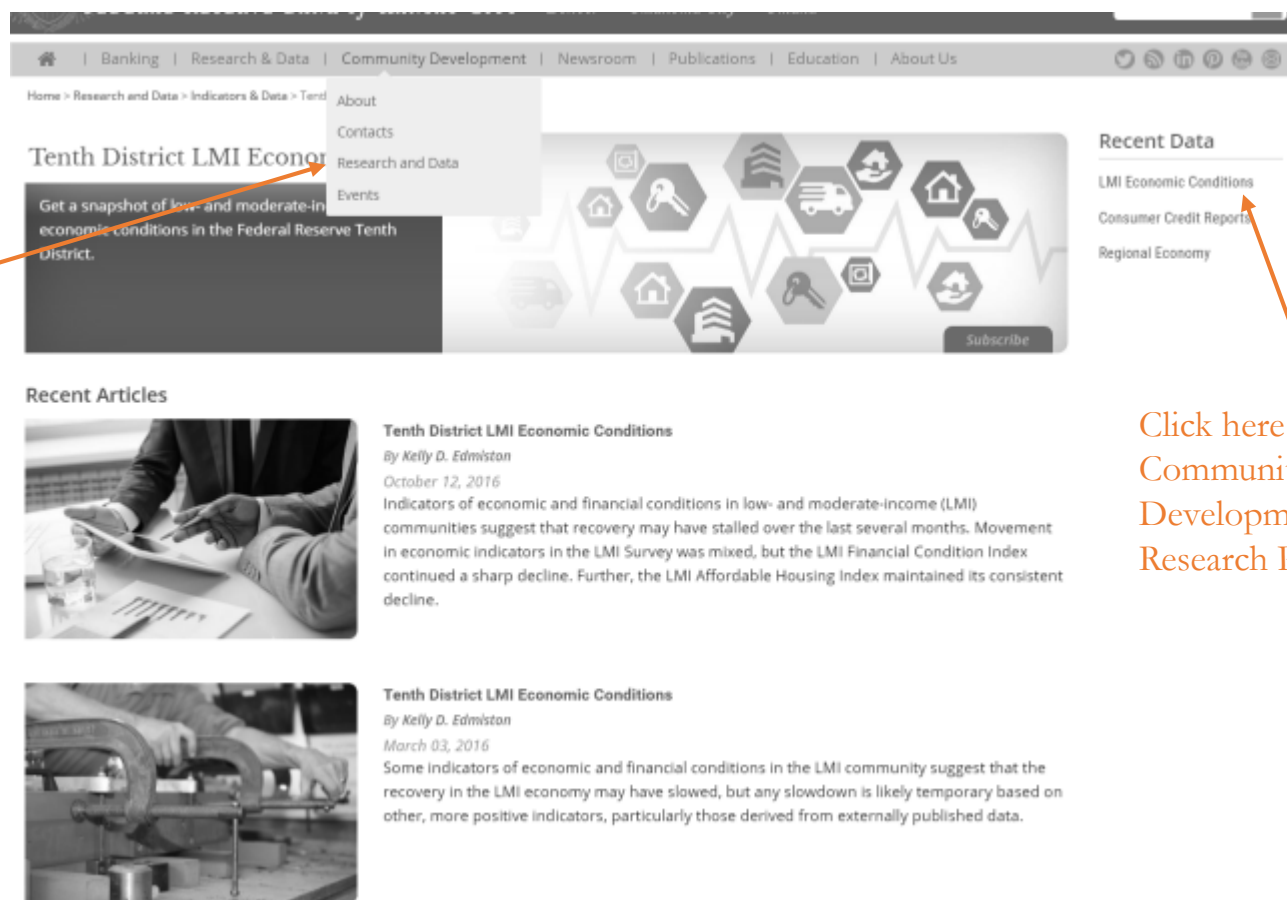
Job availability for LMI workers lagged overall employment growth but recently has followed a similar pattern.



Other labor market considerations (LMI)

- Jobs, but not necessarily “good jobs”
 - In most larger places in the District, jobs are available for LMI workers (especially retail) if they are willing to accept the conditions and wages offered and are not especially difficult to employ
 - But many of the job gains have been part-time jobs
 - Most survey contacts report that wages have been stagnant with job growth
- A number of labor market issues continue to challenge LMI workers
 - Education, training, and experience needed to advance
 - Childcare
 - Transportation
 - Frequent change in residency

Accessing the LMI Economic Conditions Report



Click here from KC Fed home page to get to Community Development Research Page

Click here from Community Development Research Page

Captured from <https://www.kansascityfed.org/research/indicatorsdata/lmieconomicconditio> with SnagIt 11

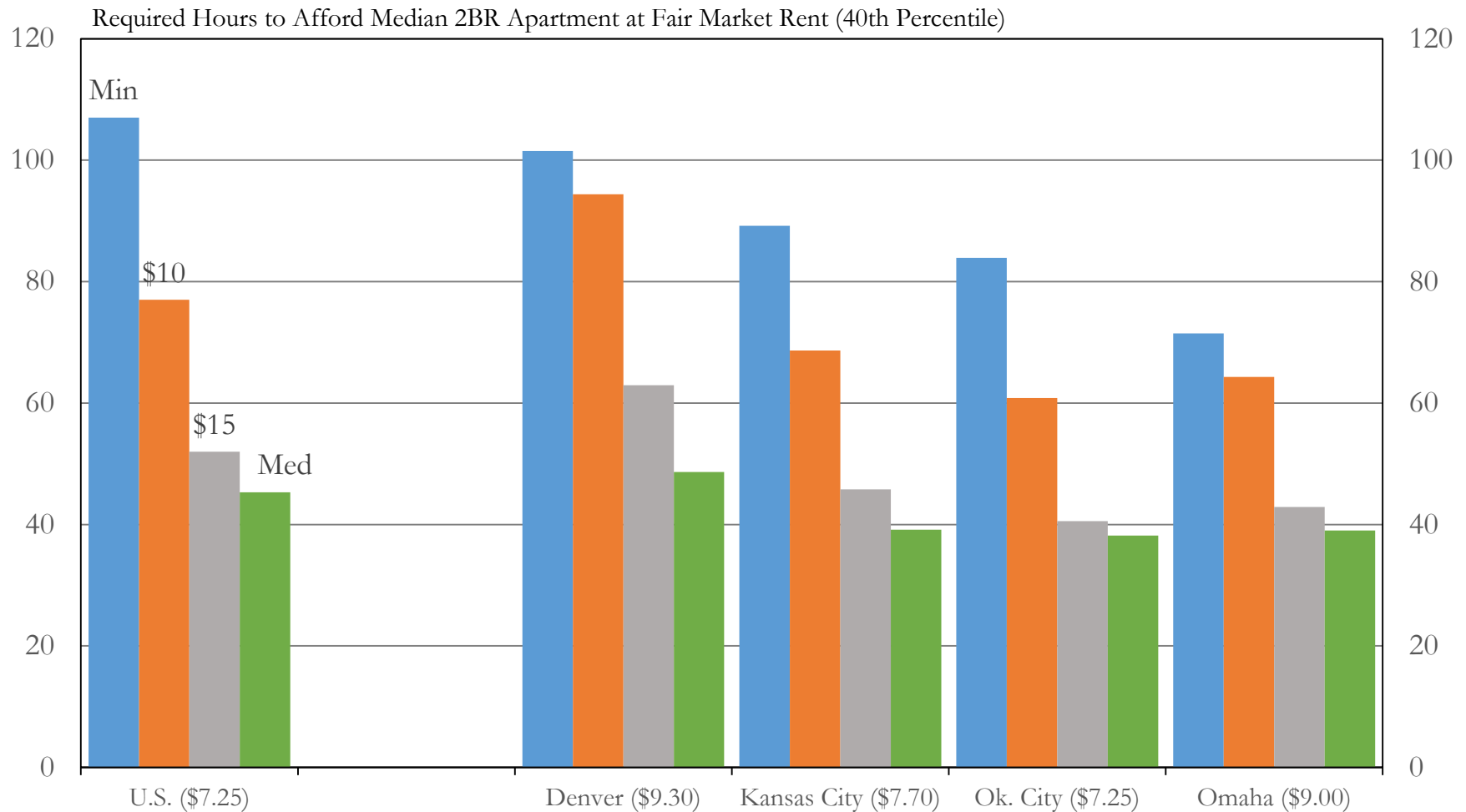
Trends in Housing Affordability

Rural Housing Conditions and Issues

How Can We Measure Rental Housing Affordability?

- Cost burden
 - Genesis of the approach / Brooke amendment
 - Housing wage
- Residual Income
- Affordability Index

Regardless of trends, “typical” rents are unaffordable for many lower-income individuals and families.



Note: Number of work hours required to afford (30% of income or less) a 2-bedroom apartment at Fair Market Rent (HUD)
Data Source: Low-Income Housing Coalition; U.S. Bureau of Labor Statistics, Occupational Wages; U.S. Department of Labor, Wage and Hour Division, “Minimum Wage Laws in the States - January 1, 2017.”

Rental Housing Affordability: What Can We Learn from Smaller MSAs?

Kelly D. Edmiston, 2016, “Residential Rent Affordability Across U.S. Metropolitan Areas,” Economic Review (Federal Reserve Bank of Kansas City), 101(4), pp. 5-27. Available at <http://www.kansascityfed.org>.

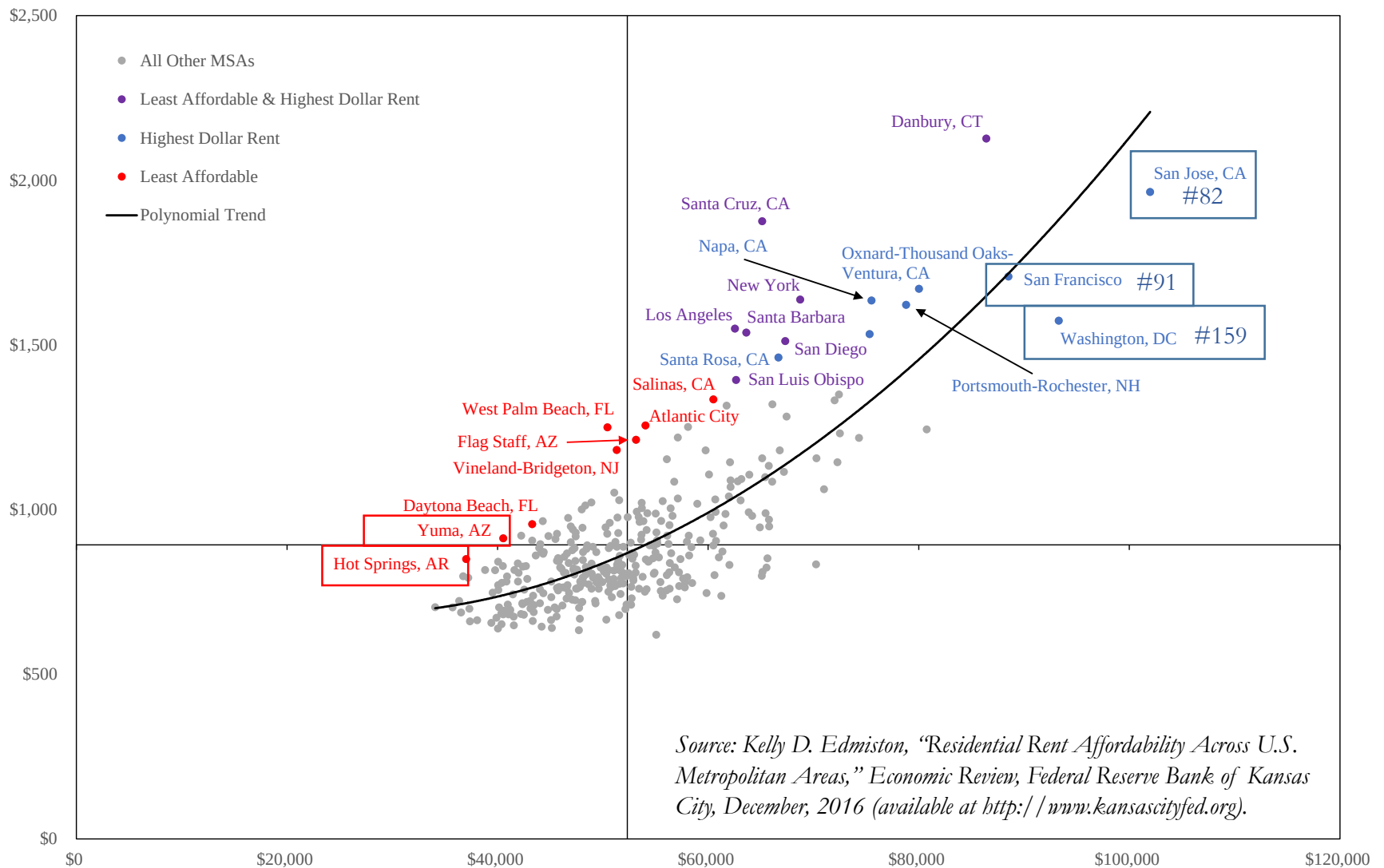
- Casper, WY: 81,624
- Great Falls, MT: 82,344
- Kokomo, IN: 82,982
- Pocatello, ID: 83,347
- Corvallis, OR: 86,316

What Can We Learn from Smaller MSAs?

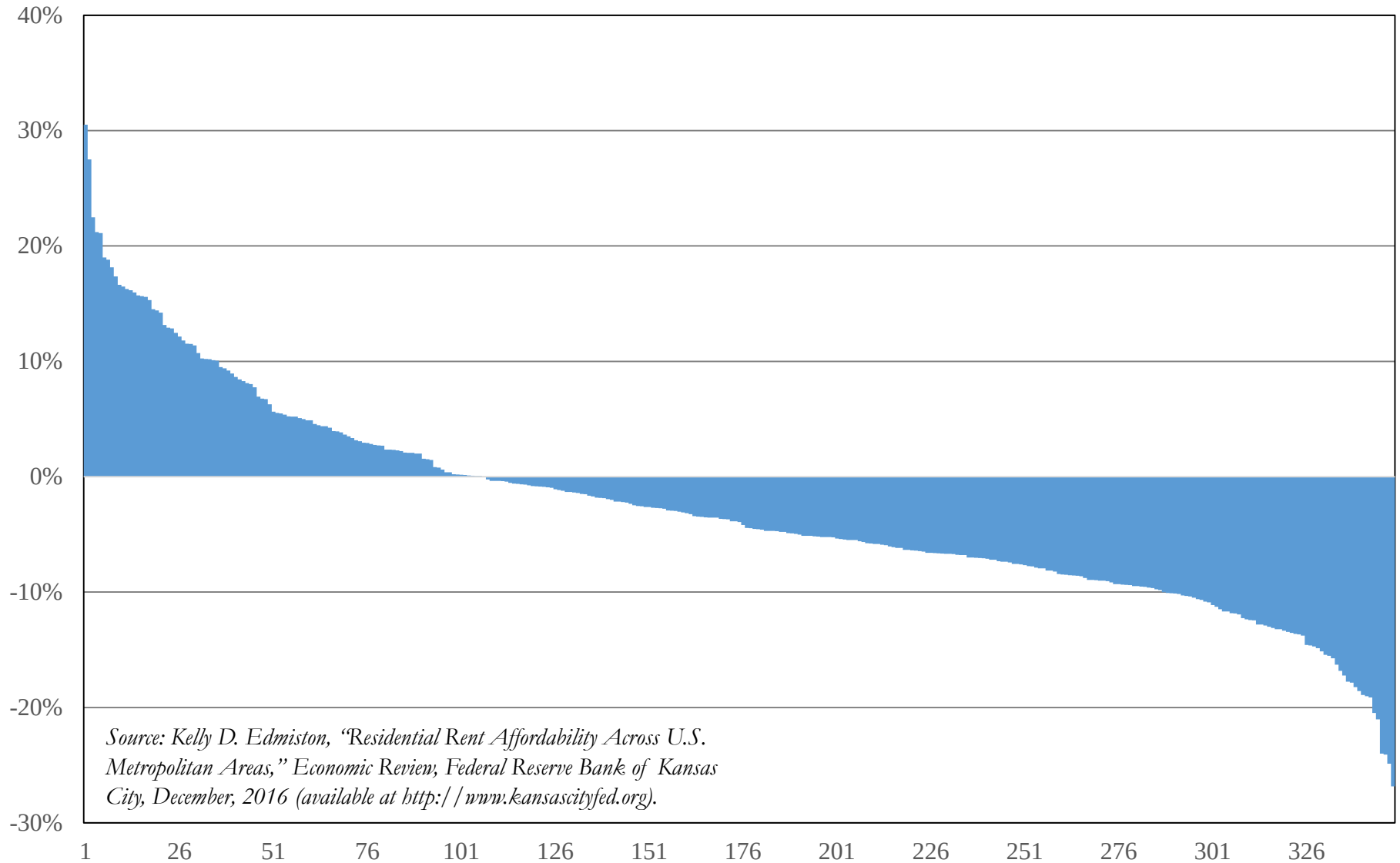
- The highest rent places are not necessarily “unaffordable,” nor are low-rent places necessarily “affordable.” Income matters too.
- National measures of rent mask significant variation across places (most MSAs have become more affordable)
- In smaller MSAs, dominant institutions play a substantial role in determining rental affordability

Source: Kelly D. Edmiston, “Residential Rent Affordability Across U.S. Metropolitan Areas,” Economic Review, Federal Reserve Bank of Kansas City, December, 2016 (available at <http://www.kansascityfed.org>).

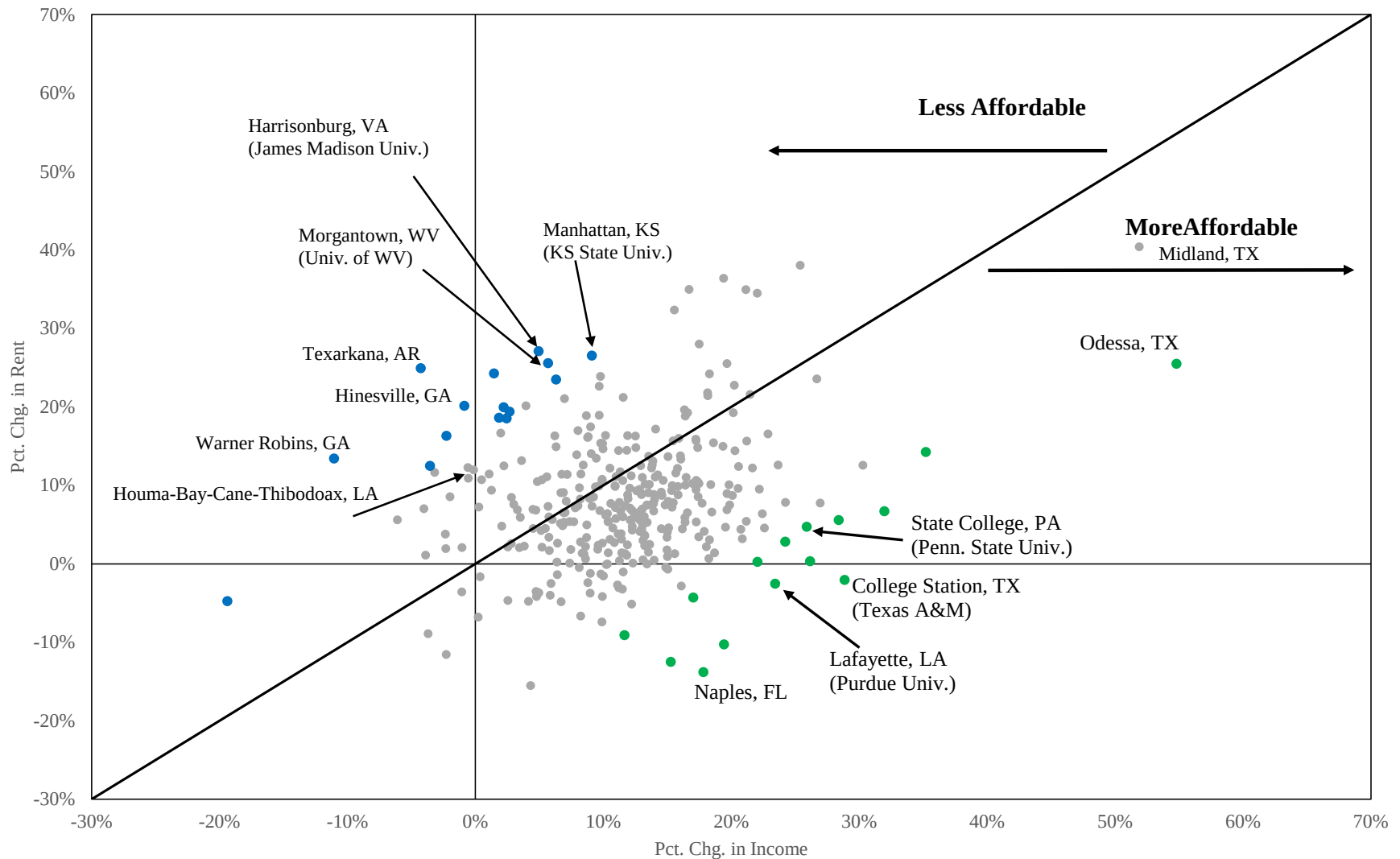
Rent, Income, and Affordability by MSA (2015) (355 MSAs)



Percent Change in Affordability Ratio, 2010-2015



Change in Housing Affordability Across MSAs, 2010-2015

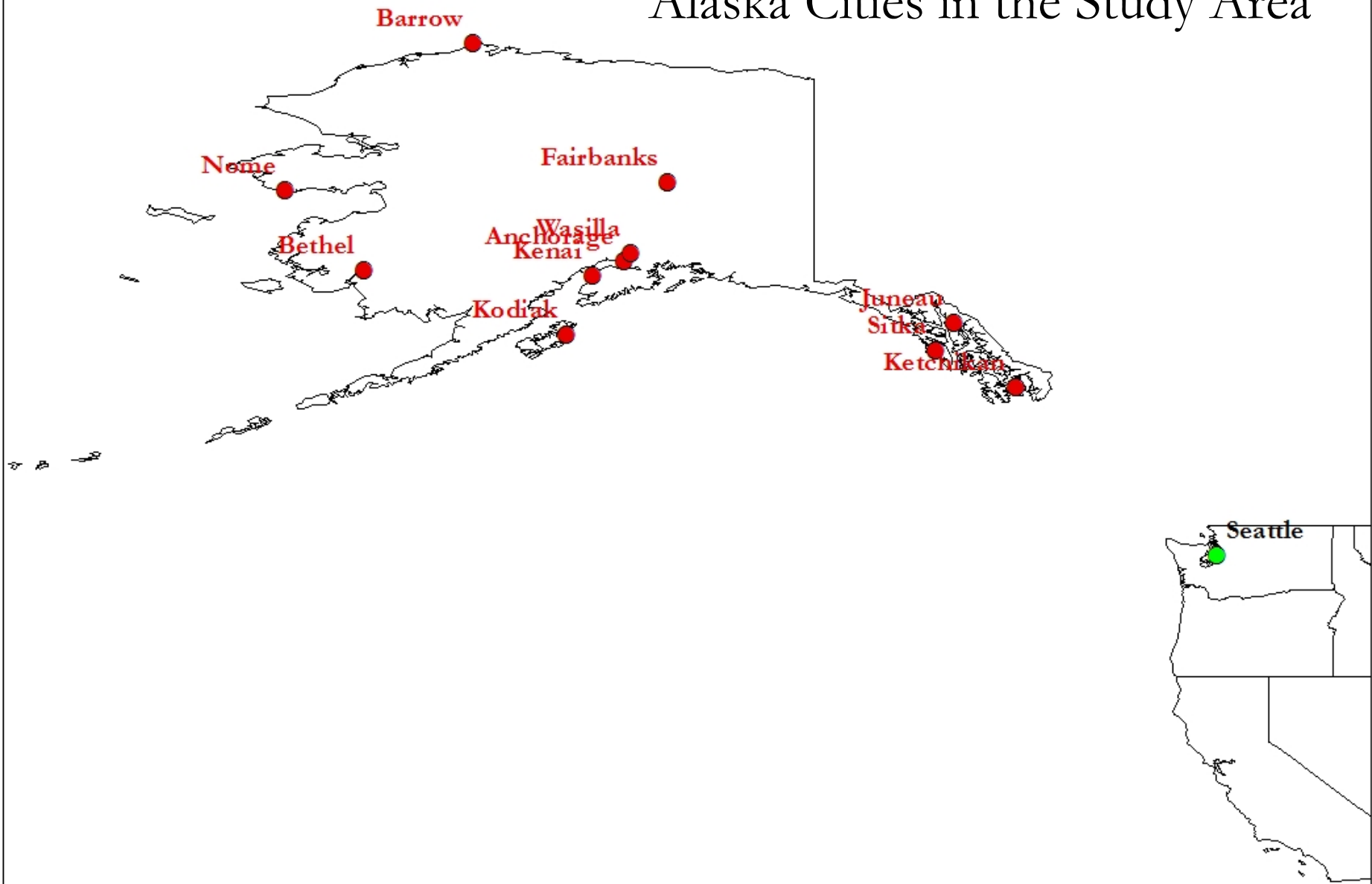


Source: Kelly D. Edmiston, "Residential Rent Affordability Across U.S. Metropolitan Areas," *Economic Review*, Federal Reserve Bank of Kansas City, December, 2016 (available at <http://www.kansascityfed.org>).

Rural Housing: Cost of Construction

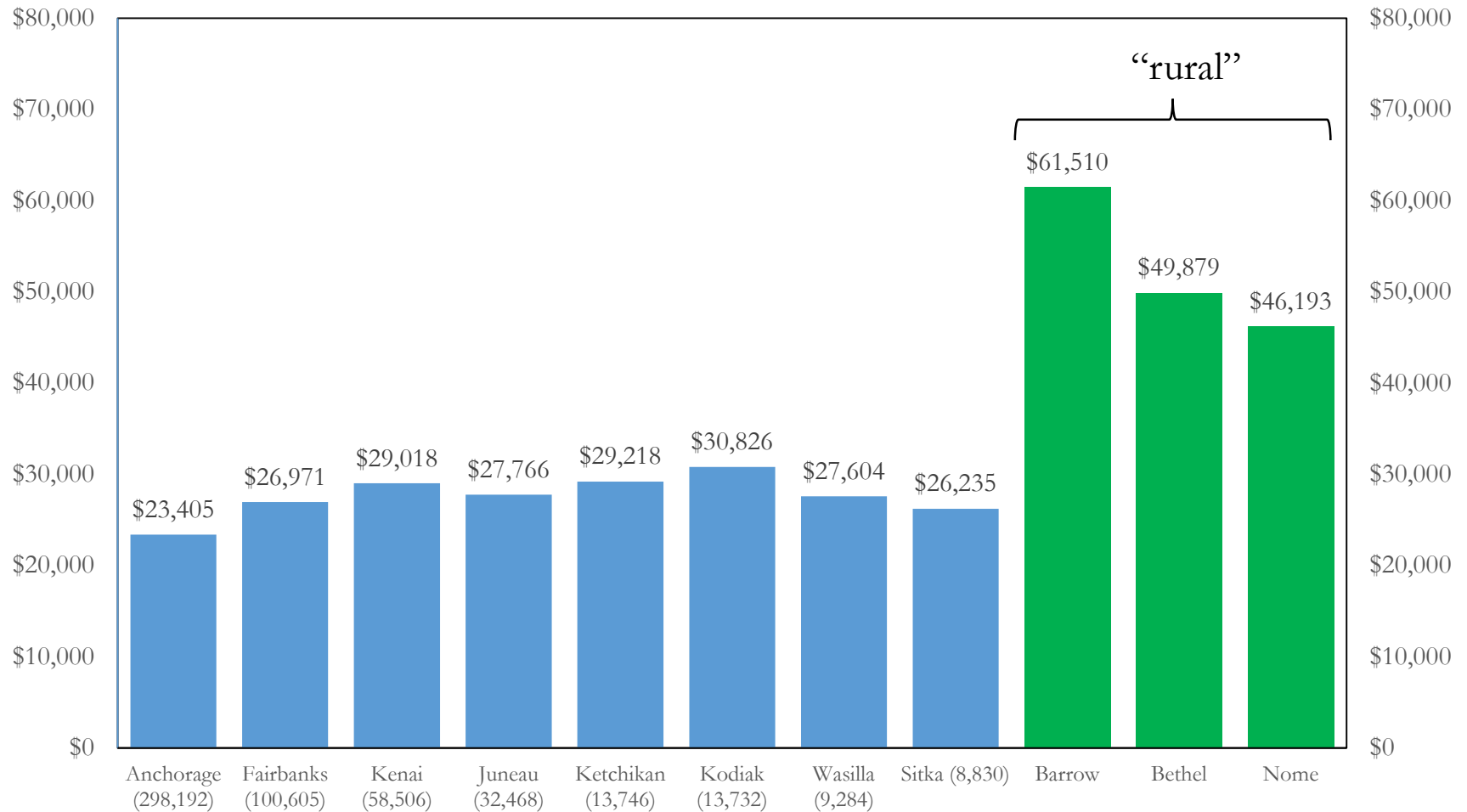
Rural Housing Conditions and Issues

Alaska Cities in the Study Area



Cost of Construction: The Case of Alaska

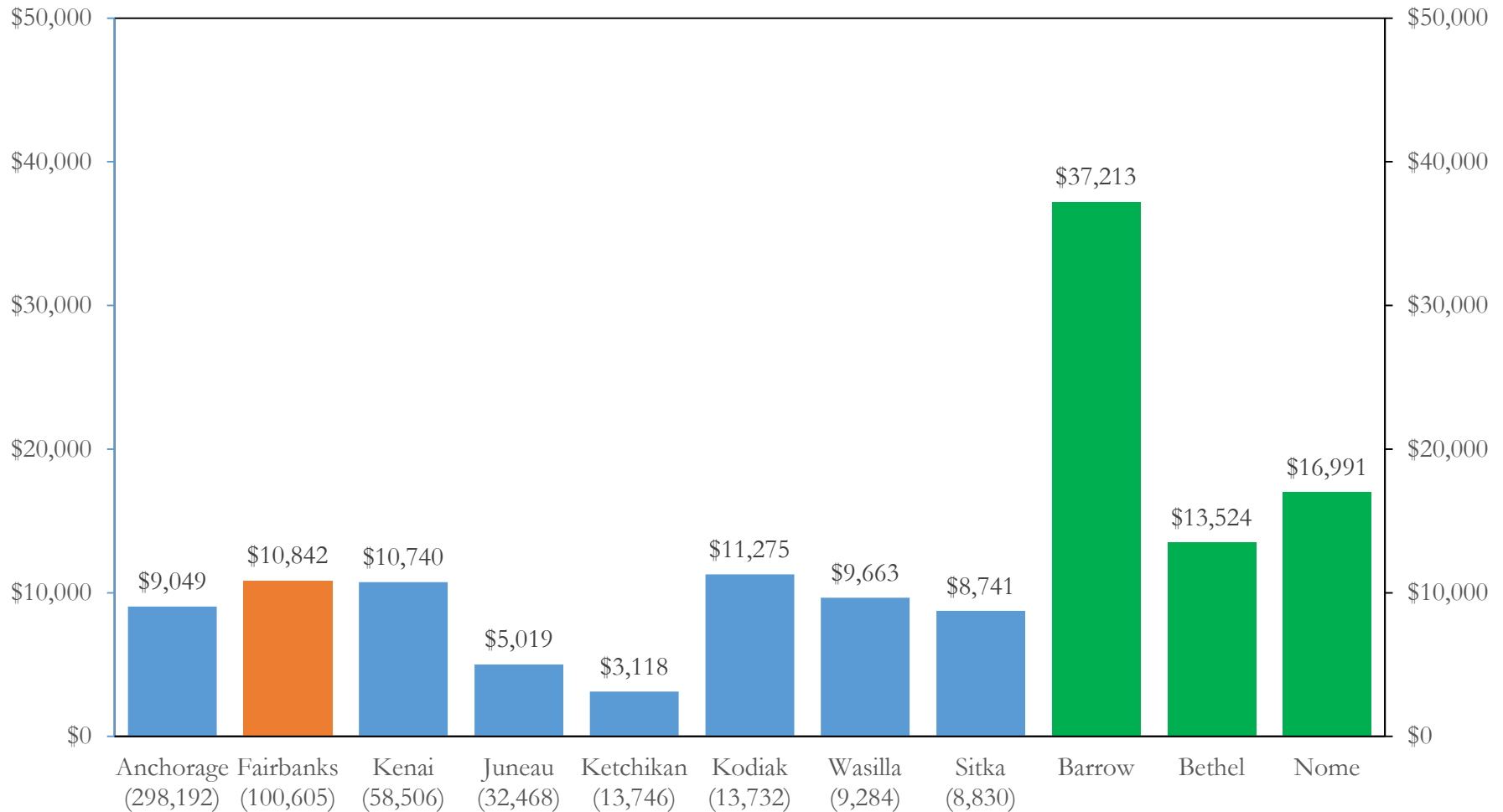
Market Basket of Building Materials for Model Home (30% of cost)



Source: Alaska Department of Labor and Workforce Development: Research and Analysis Section
Note: Excludes concrete and rebar

Cost of Construction: The Case of Alaska

Transportation Cost of Market Basket of Building Materials



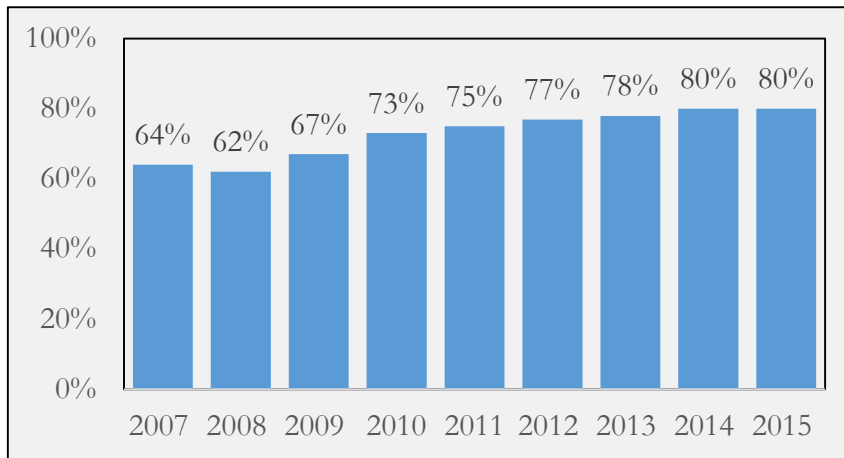
Source: Alaska Department of Labor and Workforce Development: Research and Analysis Section
Note: Excludes concrete, rebar, doors and windows

Greensburg, KS: “If we build it, will they come?”

- May 4 2007 EF-5 tornado destroyed 95 percent of existing buildings
- Rebuilding was thought to be a way to “recreate ourselves” (a sentiment expressed by many); but some believe “the whole thing was crazy expensive, and silly, some rich outsider’s utopian vision, nothing to do with a hard-working Kansas farm town”
- Greensburg was losing population before the tornado; about 1,400 residents before the storm, 700 remained in the aftermath; population is now around 800
- Now looking for economic activity to bring in people and jobs, much like other rural towns far away from a sizeable market, large workforce (Greensburg unemployment is negligible, although many people now work for less), and transportation.
- **Average Greensburg home before the tornado was \$46,500; cost for a new 1,300 sq. foot home (3BR, 2BA) is \$140,000**
- Survey of Greensburg residents shows that the gap between insurance policy limits and the aging housing stock and rebuilding costs have made housing affordability a critical issue in Greensburg’s recovery.

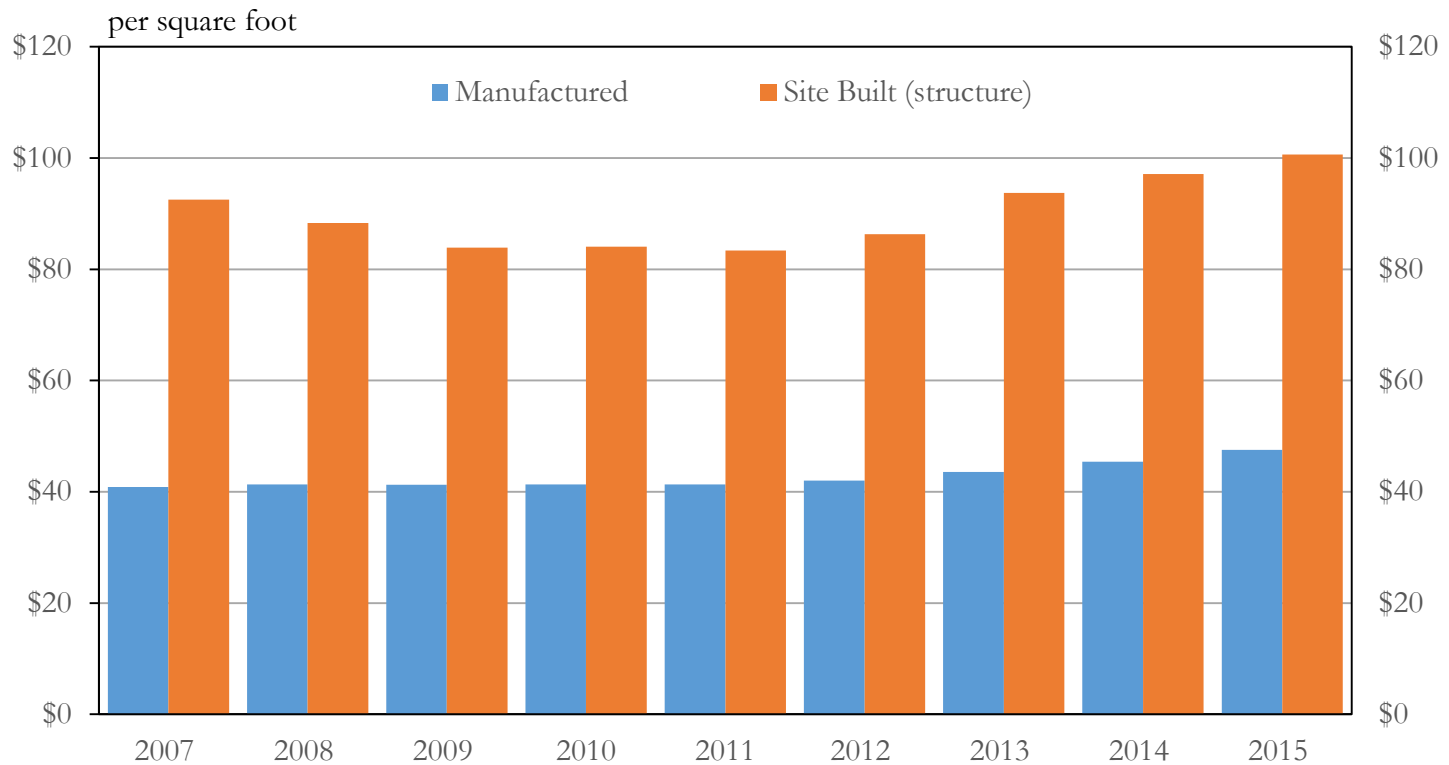
Sources: Paul, B.K. & Che, D. GeoJournal (2011) 76: 93. doi:10.1007/s10708-010-9404-4;
Frank Morris, “Greensburg, Kansas Recovers From Twister Only to Face an Economic EF5,” KCUR.org, April 30, 2014;

Share Titled as Personal Property



Manufactured Housing

Cost Relative to Site-Built Housing



Rural Housing: Credit

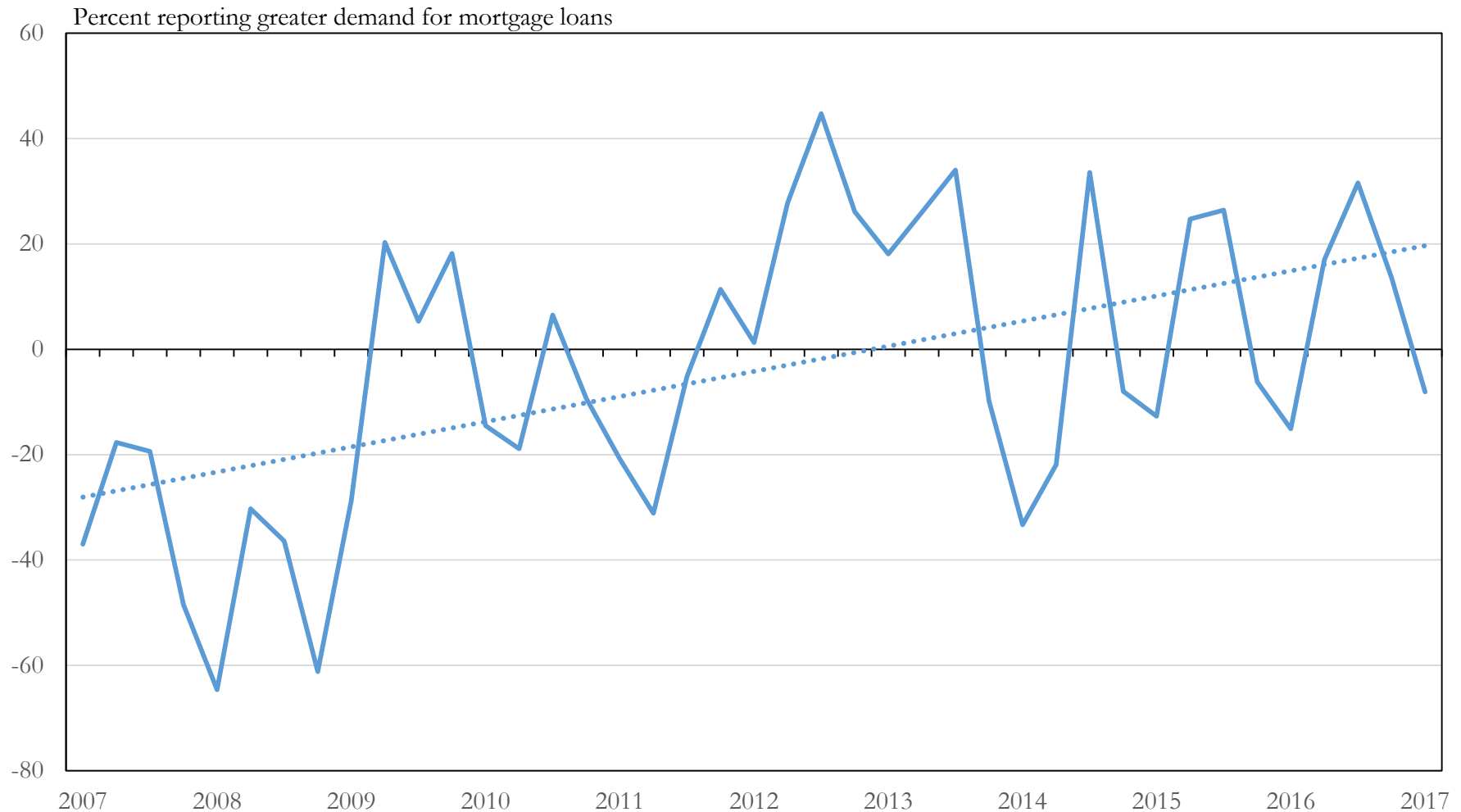
Rural Housing Conditions and Issues

Generally, credit standards applied to mortgages are loosening modestly.



Source: Federal Reserve: The January 2017 Senior Loan Officer Opinion Survey on Bank Lending Practices [Chart data]

Accounting for seasonality, the demand for mortgages appears to remain on an upward trend.



Source: Federal Reserve: The January 2017 Senior Loan Officer Opinion
Survey on Bank Lending Practices [Chart data]

But we have a small-dollar mortgage problem

- The cost of originating and servicing a mortgage loan is not proportional to loan size, but the earnings from the mortgage are.
- Lenders want/need to be compensated for this with higher interest rates or fees, raising the cost significantly (and prohibitively in many cases)
- In addition (sometimes)
 - Insufficient demand for mortgages for lenders to have a profitable presence
 - Lack of appraisers, comparables (and expensive if you can get one)
- May need to seek out unsecured loans, which, all else equal, will be more expensive than secured loans

Kansas City Fed Ag Credit Survey

- Farmland values and cash rents declined moderately in the fourth quarter of 2016.
- Although most farmland purchases in the quarter were financed with new debt, the portion of new loans with a cash down payment decreased.
- Bankers also reported lower farm income and weaker credit conditions.
- The persistent and widespread deterioration in farm income has occurred alongside increasing loan demand and lower repayment rates. These trends are expected to continue in the first quarter of 2017.
- To mitigate risk, Tenth District banks increased interest rates and collateral requirements.
- Looking to 2017, bankers indicated that a decline in cash rents may provide some relief, but they still expect farm income to remain subdued.

Source: Cortney Cowley and Matt Clark, “Slump in Farmland Values Continues,” February 9, 2017. Available at <http://www.kansascityfed.org>.



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