



CENTER FOR THE STUDY OF RURAL AMERICA  
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*Commentary on the rural economy*



## **The Outlook for Real Estate in Rural America**

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Rural America's real estate market has remained strong during the recession. While there is no comprehensive statistic to summarize the overall market for rural real estate, a variety of indicators indicate healthy demand. Farmland values rose throughout the year. Rural housing activity remained robust in the face of an economic downturn. Suburban growth and the increasing use of rural areas as retirement and recreation destinations have also boosted demand for rural real estate. Together, these forces point to continued strength in rural real estate markets in the future.

In addition to discussing rural real estate markets, this issue also marks a new addition to the *Main Street Economist* — the Summary of Economic Conditions. Selected data on rural nonfarm employment and construction activity will be published along with the information on the farm economy contained in the Survey of Agricultural Credit

Conditions. Each quarter, these economic indicators will supplement an article on a specific segment of the rural economy.

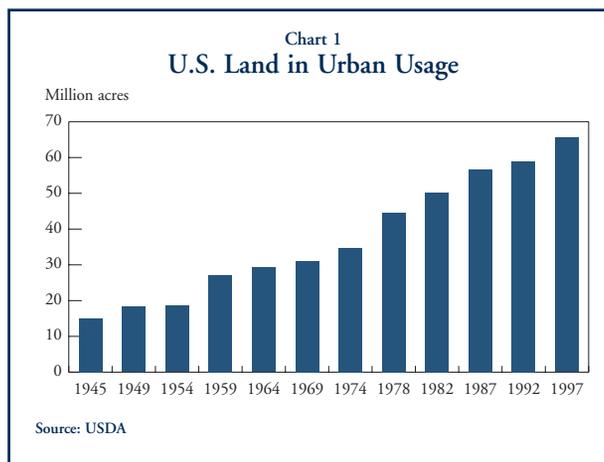
### Rising Real Estate Demand

The typical picture of rural real estate is the farm. While demand for farmland plays a leading role in rural real estate markets, other forces play a big role in shaping the market. Rural housing activity and expanding suburbs influence rural real estate markets. And, the importance of rural America as a favored retirement and recreation destination has grown significantly in the past decade. These forces have provided a significant boost to the rural real estate market.

Rising farm incomes in 2001 supported solid gains in farm real estate. Last year, U.S. farm income reached its highest level since 1996 as market receipts edged up and the government sent another round of emergency payments to farmers. Rising incomes lifted farmland values across the country. Tenth District bankers reported that farmland values rose from 3.5% for district cropland to 5.2% for district ranchland in the year ending December 2001. The growth was also evident in other Federal Reserve Districts. The Chicago District reported that land values rose 5% during 2001. The Minneapolis District reported cropland gains ranging between 4 and 10%, while the Dallas District reported much smaller gains.

Low interest rates and robust housing activity also supported rural real estate markets during 2001. Unlike most recessions, rural housing activity actually strengthened in 2001 as mortgage rates fell to historical lows. The total value of rural building permits was up 3.8% in 2001 after falling 9% in 2000. Growth was paced by increased activity in single-family housing construction. After a brief pause following September 11, the pace of activity in the fourth quarter of 2001 accelerated.

The desire for suburban lifestyles among the American population continues to transform rural real estate markets. Expanding suburbs have pulled a lot of



farmland out of agriculture. From 1992 to 1997, 10 million acres throughout the nation were converted to urban usage, putting upward pressure on land values (Chart 1). For example, in Indiana the value of farmland moving out of agriculture was \$6,627 per acre in June 2001, compared with a value of \$2,802 for top quality farmland that remained in agriculture.<sup>1</sup> In Minnesota, where county level data are available, average farmland values in counties next to metro areas rose 79% from 1993 to 2001, while farmland values in other counties rose 48%.

The young are not the only people looking to rural America as a place to live. Older Americans are moving to rural America to retire and return to their family roots. The Census Bureau estimates that one-quarter of a million people 50 years or older moved to a rural area from a metro area in the year ending March 2001. Rural places attract older Americans for many reasons besides retirement and family – cheaper housing, milder climate, and less crime. The increasing demand for rural real estate in retirement areas also played a role in land values. In Minnesota, for instance, farmland values rose 9.3% per year from 1993 to 2001 in rural retirement destination counties, compared with only 5.8% in other rural counties.

Finally, recreation represents a major use of rural lands, strengthening rural economies and the demand for rural real estate. Reflecting the strength of that demand, rural recreation areas enjoyed much stronger

job growth over the past decade, averaging annual job gains of 1.7% per year, compared with only 1.0% in other rural counties. The most successful of these recreational communities have been able to capitalize on local scenic and cultural amenities to draw people to rural America and boost their local economies. As a result, real estate markets have generally been strong

in recreation areas. For example, land values in rural recreation counties in Minnesota rose roughly 10% per year from 1993 to 2001, nearly twice as fast as in other parts of rural Minnesota.

### The Outlook for Rural Real Estate

The demand for rural real estate should remain strong in the near future. Government payments will undoubtedly continue to support farm incomes and buoy farm real estate. Rural housing activity continues to strengthen as the economy gains strength. After rebounding in the fourth quarter of 2001, single-unit permit growth continues to strengthen in the first months of 2002.

Over the long term, the demand for land in rural America should remain strong. Despite discussions of urban housing alternatives, the U.S. continues to evolve into a suburban society that often spreads into rural areas. Moreover, rural America has become an increasingly popular retirement destination for older Americans. As the largest generation of Americans, the baby boomers, begins to retire in a few years, their migration to rural areas could soar. And as more Main Street communities develop their scenic and cultural amenities to attract visitors, the value of rural America as a favored place to live and play should continue to rise.

<sup>1</sup> Dobbins, Craig and Kim Cook. "Indiana Farmland Values Continue to Increase" Purdue Agricultural Economics Report, Sept. 2001.

## Survey of Agricultural Credit Conditions

Federal Reserve Bank of Kansas City

December 31, 2001

Highlights from the fourth quarter survey.<sup>1</sup>

- Gains in district farmland values moderated in the fourth quarter of 2001. Nonirrigated and irrigated cropland values edged up 0.4 % and 0.6% respectively while district ranchland values rose 0.7%. Slower gains may be attributed to more modest nonfarm demand during the economic slowdown as well as slower sales to farmers. Compared to a year ago, district cropland and ranchland values are up 3.5 and 5%, respectively.
- The district farm commodity price index dropped in the fourth quarter to its lowest level in over two years. Livestock prices weakened significantly in the quarter while crop prices were mostly steady. Nevertheless, cash crop and livestock receipts are expected to rise in 2002.
- Farm credit conditions stood firm in the fourth quarter. Loan repayment rates remained healthy with bankers reporting a slight uptick in requests for loan renewals or extensions. Very few bankers reported a shortage of funds available for new farm loans. However, demand for new farm loans has fallen steadily over the last year suggesting farmers are taking a cautious approach to new farm debt.
- Farm interest rates continued to fall in the fourth quarter. At the end of the quarter, interest rates on new farm loans averaged 8.05% for operating loans, 7.84% for feeder cattle loans, 8.19% for intermediate-term loans, and 7.55% for real estate loans. Since December, interest rates in national money markets have remained steady.

Note: 254 bankers responded to the fourth quarter survey.

<sup>1</sup> Please refer questions to Kendall McDaniel, associate economist, at 816-881-2291 or [kendall.l.mcdaniel@kc.frb.org](mailto:kendall.l.mcdaniel@kc.frb.org).

### Farm Real Estate Values December 31, 2001 (Average value per acre by reporting banks)

	Nonirrigated	Irrigated	Ranchland
Kansas	\$657	\$1,115	\$398
Missouri	1,002	1,334	702
Nebraska	844	1,444	348
Oklahoma	541	768	385
Mountain states*	346	1,059	196
Tenth District	\$700	\$1,209	\$390
Percent change from:			
Last quarter+	0.36	0.59	0.74
Year ago+	3.46	3.52	5.24
Market high	-17.05	-16.01	-4.99
Market low	76.80	77.86	133.46

\* Colorado, New Mexico, and Wyoming combined.

+ Percentage changes are calculated using responses only from those banks reporting in both the past and the current quarter.

Source: Federal Reserve Bank of Kansas City

### Selected Measures of Credit Conditions at Tenth District Agricultural Banks

	Loan demand (index)+	Loan Fund availability (index)+	Loan repayment rates (index)+	Average renewals or extensions (index)+	Loan-to-deposit ratio* (percent)	District farm commodity price index (1980=100)
<b>1999</b>						
Jan.-Mar.	105	113	56	143	65.7	88.0
Apr.-June	107	107	71	127	66.5	89.9
July-Sept.	103	90	74	126	67.7	89.5
Oct.-Dec.	100	99	86	115	67.7	94.1
<b>2000</b>						
Jan.-Mar.	107	95	92	108	67.1	100.6
Apr.-June	112	78	86	108	70.4	99.5
July-Sept.	103	85	84	112	70.8	93.0
Oct.-Dec.	106	90	82	120	70.9	103.0
<b>2001</b>						
Jan.-Mar.	111	106	78	123	70.5	105.3
Apr.-June	111	100	76	120	70.4	102.7
July-Sept.	98	116	83	115	71.2	99.7
Oct.-Dec.	98	118	82	115	69.5	91.4

\* At end of period.

+ Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than, or the same as in the year-earlier period. The index numbers are computed by subtracting the percent of bankers that responded "lower" from the percent that responded "higher" and adding 100.

Source: Federal Reserve Bank of Kansas City

## Summary of Economic Conditions

Highlights from the fourth quarter\*

- The recession deepened in the rural nonfarm economy during the fourth quarter of 2001, with a few bright spots emerging. Annual employment growth fell to -0.7%. But, employment losses in remote rural counties were not as deep as their counterparts.
- The economic slowdown was spread across most industries. Manufacturing and transportation, communications, and public utilities industries experienced the sharpest drop, with jobs 7.9% and 5.0% below a year ago, respectively. Government and finance, insurance and real estate industries posted job gains over the year.
- Most rural counties experienced employment losses. Manufacturing dependent counties experienced the sharpest decline with growth 1.5% below a year ago. However, farm dependent counties were showing some resilience as employment held above year ago levels.
- Rural construction activity improved in the fourth quarter. The total value of construction permits rose to 3.8 percent above a year ago. Improvements were led by strength in single-unit construction.

\* Please refer questions to Nancy Novack, assistant economist, at 816-881-2423 or Jason Henderson, economist, at 816-881-2221.

### Household Employment Growth

	(1000s)	Annual percent change	
	Q4:2001	Q3:2001	Q4:2001
<b>Rural areas</b>	24,808.5	.2	-.7
Adjacent rural areas	13,858.6	.3	-.8
(Town population 20,000+)	4,769.6	.4	-1.0
(Town population 2,500–19,999)	7,884.6	.3	-.7
(Town population <2,500)	1,204.4	.7	-.2
Nonadjacent rural areas	10,949.9	.1	-.5
(Town population 20,000+)	3,313.6	.4	-.5
(Town population 2,500–19,999)	6,077.2	1.0	-.5
(Town population <2,500)	1,559.1	-.3	-.6
<b>Metro areas</b>	111,136.2	.8	-.6
Central city (Population > 1 mil)	63,793.4	.8	-.7
Fringe city (Population > 1 mil)	5,812.4	1.0	-.7
(Population 250,000–1 million)	30,858.5	.9	-.5
(Population < 250,000)	10,671.8	.7	-.6

Source: BLS, LAUS (Household) Survey and USDA Classifications

### Industry Jobs

	(1000s)	Annual percent change	
	Q4:2001	Q3:2001	Q4:2001
<b>Rural</b>			
Construction and mining	1,475.4	.0	-1.0
Manufacturing	4,329.7	-6.7	-7.9
Trade	6,066.6	-1.0	-.3
Trans, comm & public utilities	1,113.8	-2.4	-5.0
Finance, insurance & real estate	953.4	1.6	1.5
Services	6,330.1	.3	-.7
Government	5,404.7	1.8	1.9
<b>Metro</b>			
Construction and mining	5,666.0	1.3	.6
Manufacturing	12,945.1	-4.8	-5.9
Trade	24,807.8	-.3	-1.5
Trans, comm & public utilities	5,843.7	-.7	-3.4
Finance, insurance & real estate	6,787.5	1.7	.5
Services	34,288.8	.1	-.5
Government	16,355.1	1.9	2.0

Source: BLS, CES (Business) Survey

### Rural Employment by County Type

	(1000s)	Annual percent change	
	Q4:2001	Q3:2001	Q4:2001
<b>Typology codes</b>			
Farming	2,139.1	.7	.1
Mining	1,122.9	.2	-.1
Manufacturing	7,724.6	-.3	-1.5
Government	3,118.4	.5	-.3
Services	5,145.9	.7	-.2
Nonspecialized	5,557.5	.3	-.5
<b>Policy codes</b>			
Recreation	3,967.0	1.1	-.1
Retirement	2,796.1	.7	-.4
Persistent poverty	4,040.8	-.3	-1.0
Commuting	3,101.4	-.2	-.9

Source: BLS, LAUS (Household) Survey and USDA Classifications

### Construction Activity

	(1000s)	Annual percent change	
	Q4:2001	Q3:2001	Q4:2001
<b>Rural</b>			
Total permits	57.4	-13.4	-4.9
Single unit	48.7	-7.9	-2.3
Total value (\$)	7,783.5	2.7	3.8
Single unit	5,973.9	5.0	7.0
<b>Metro</b>			
Total permits	305.7	3.8	2.5
Single unit	218.7	4.6	2.0
Total value (\$)	36,861.7	8.1	5.3
Single unit	30,939.5	8.8	4.5

Source: Census Bureau

Note: Data for all tables are not seasonally adjusted.