



Rural Housing in the Fifth District

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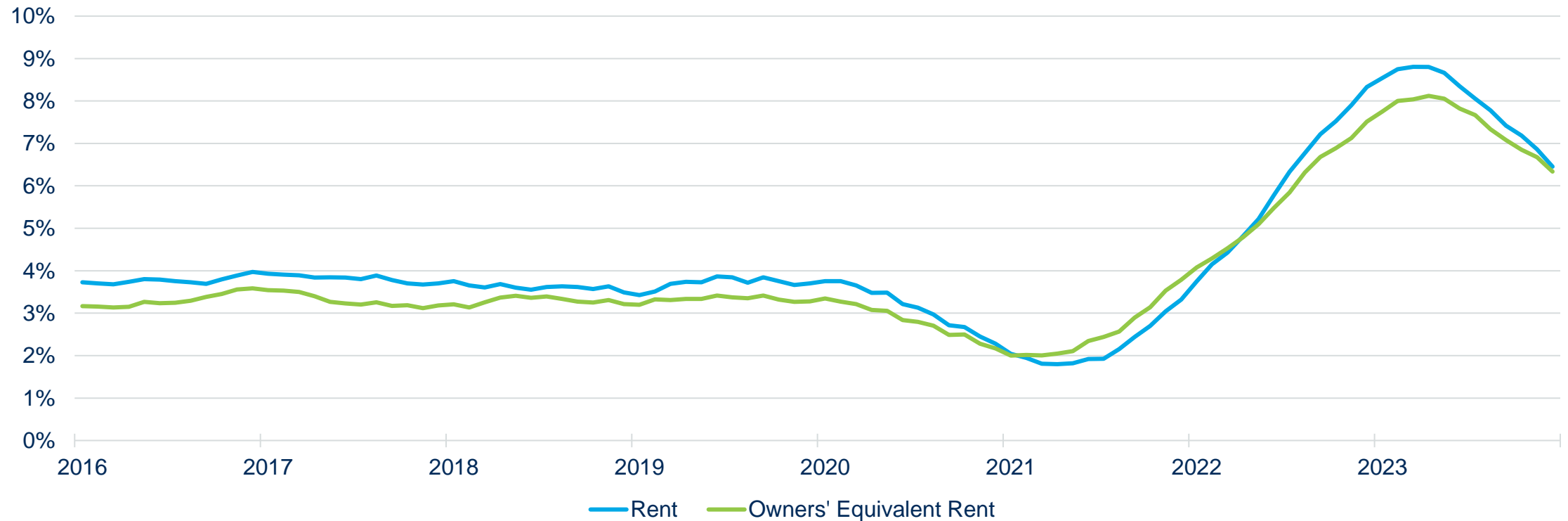
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What?

Rural housing and homebuilding challenges in the Fifth District

Nationally, the cost of housing rose rapidly in 2022 and early 2023

Year-Over-Year Change in Consumer Price Index for Rent and Owners' Equivalent Rent



Sources: U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers (CPI-U): Rent of Primary Residences in U.S. City Average and CPI-U: Owners' Equivalent of Rent of Residences in U.S. City Average and author's calculations

Mortgage costs tend to be higher for rural households

- Rural mortgage applications are denied at a higher rate ^(1, 2)
- Rural borrowers paid higher interest rates than urban borrowers ⁽³⁾
- Higher instance of upward appraisals ⁽¹⁾

Sources: (1) CFPB 2022; (2) Torres 2021; (3) Critchfield et al. 2018

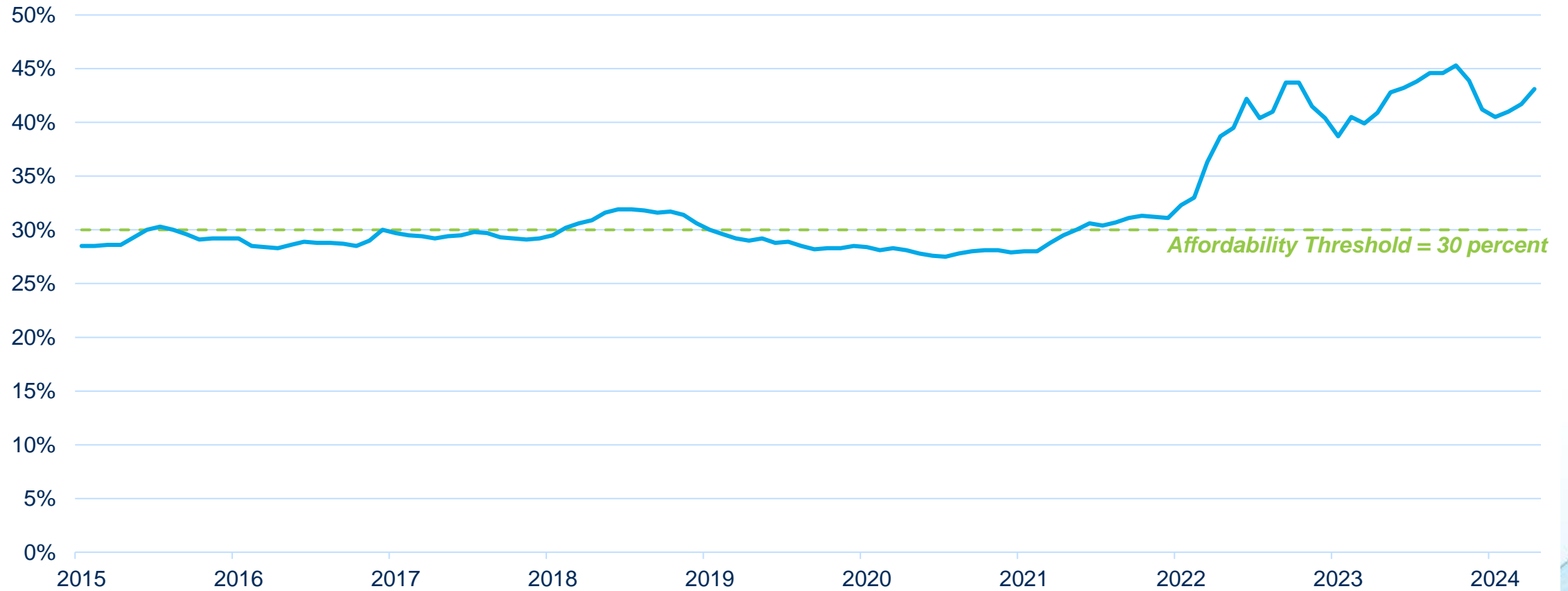


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As a result, homeownership is less affordable than before

Share of Median Income Needed to Own the Median Priced Home (U.S.)



Source: Federal Reserve Bank of Atlanta, Home Ownership Affordability Monitor

Key challenges to rural homebuilding

- Lack of enough scale to attract developers
 - And developers that do enter rural markets often focus on more expensive (higher-margin) housing
- Limited flat land (and/or land that lacks infrastructure)
- Desire to maintain small town feel
 - Creates challenges to building consensus for new home construction
- Second home buyers as competitors
 - Particularly challenging in destination locations – increases demand for higher-end homes
- Absentee landowners
 - Creates a hurdle for small towns to remove/redevelop abandoned properties



So What?
What are key considerations
around rural housing access
and affordability?

Key considerations

- Rising home prices and interest rates both contribute to declining homeownership affordability
- Renting is often a more affordable option
 - But renters are more likely to be cost burdened because they tend to be lower income than homeowners in rural Fifth District communities
- The decline in homebuilding contributed to the current housing shortage
 - Rural communities with higher permitting rates saw greater housing supply growth
- Growth in residential construction input prices further contributed to the growth in prices in recent years
 - Reducing soft costs & land costs are the most actionable ways to reduce development costs
- Income, labor availability, housing market, and banking conditions in rural communities present challenges to developers beyond those found in suburban or urban markets



Now What?

Identifying rural housing solutions from the Fifth District

Strategies to Deal with the Housing Shortage

1) Coordination & Intentional Approach

- An intentional approach to housing –part of broader economic development strategy

2) Attracting developers

- Provide financial incentives
- Improve regulatory environment

3) Making Land More Available – supply is key to reducing prices

- Revisiting zoning laws
- Investing in buildable homesites – including infrastructure (water/sewer/roads)
- Leveraging Unused Land or Structures
- Repurposing old & dilapidated structures—land banks

4) Tackling Construction Costs

- Manufactured housing



Coordinated & Intentional Approach to Housing

Problem:

- The lack of coordination, focus & agreement to address housing shortage

Strategies:

- View housing as part of a broader economic development strategy
- Bring together a broad set of community stakeholders
- Get buy-in from local groups

Examples:

- I-68 Regional Alliance (MD-WV-PA)
- New River Valley Authority (VA)
- Cecil County (MD)



Coordinated & Intentional Approach to Housing

Example: I-68 Regional Alliance

- The five counties of the I-68 Regional Alliance—including parts of Pennsylvania, Maryland, and West Virginia—knew that the quality of their housing was having an ever-expanding influence on their ability to attract and retain skilled workers
- Eager for direction on how to develop a stronger supply of market-rate housing, they hired a consulting firm (czb) in early 2022 to study their market and provide strategic guidance
- The study proposed the creation of a Housing Coalition as a first step to build broad support for their work

A framework for local implementation

The political landscape of a region that encompasses five counties in three states requires that the regional toolkit be adapted for local use by local stakeholders.

This study proposes the creation of ad hoc Housing Coalitions as the first step in this adaptive process. To succeed, these coalitions must have strong conveners and reflect the unique combination of stakeholders that exist in each corner of the region. And they must be clear-eyed about the need to commit local resources to activate any of the recommended tools.



Source: I-69 Regional Alliance, *Housing Study: A Strategy for Action on Market-Rate Housing*, prepared by czbLLC, April 2022

Coordinated & Intentional Approach to Housing

Example: Cecil County 2010 Comprehensive Growth Plan

Cecil County's 2010 Comprehensive Plan set the stage for broad support by defining growth areas while preserving rural areas

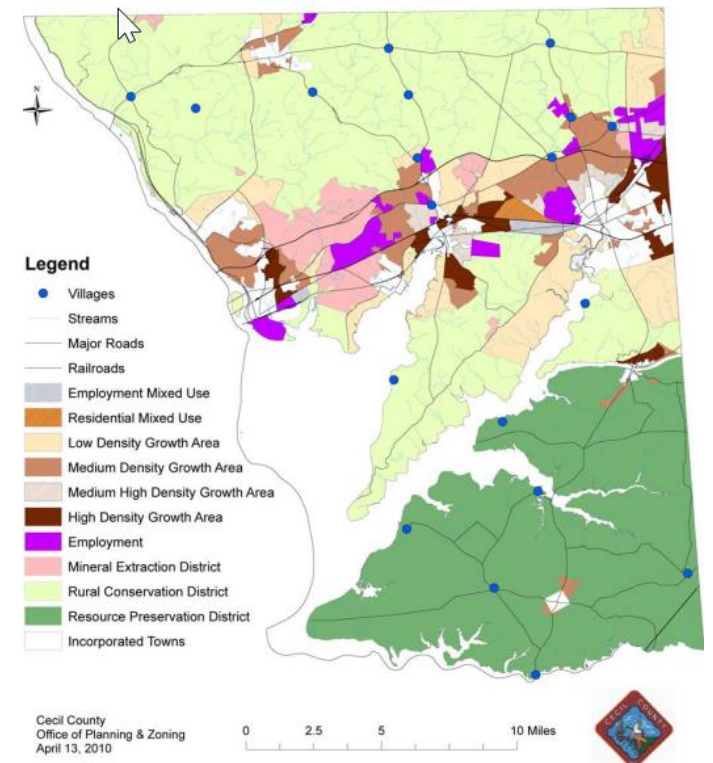
Plan acknowledged:

- Moderately-priced housing is needed
- Fragmented infrastructure service had slowed the pace of development

Goals & Objectives:

- Incentivize development within Growth Areas & discourage development outside
- Encourage maximum growth & high-density development in the Growth Corridor
- Provide land in appropriate locations for growth and expansion of economic development opportunities
- Encourage the conservation of agricultural and forested lands
- Maintain the rural character of the County

CECIL COUNTY LAND USE MAP
2010 COMPREHENSIVE PLAN



Source: Cecil County 2010 Comprehensive Plan, April 2010

Attracting Developers:

Problem:

- The lack of developers is an obstacle in many rural communities

Strategies:

- **Offer financial incentives – offset construction costs or increase returns via tax policy**
- **Build support for new construction among local & state officials**
- **Improve the regulatory environment**
 - **Create a reliable regulatory environment**
 - **Provide adequate staffing & responsiveness**
 - **Establish quick & reliable permitting process to shorten timelines & reduce cost**



Attracting Developers: Financial Incentives

Example: Wise County VA Residential Rehab & Replacement Property Tax Abatement Program

Overview

- Partial tax abatement program for residential real estate (excl. MF)
- Tax incentive to induce rehab & replacement of residential properties

Eligible structures:

- Home must be at least 25 years old with a maximum assessed value of \$300k
- Any renovation/replacement must increase the base value of the structure value by a minimum of 50%
- Replacement residential structures of any size are considered (additions to existing structure are not)

Benefit:

- Added value will not be included in assessment for 5 years

Source: <https://www.wisecounty.org/CivicAlerts.aspx?AID=76>

Attracting Developers: Improve the Regulatory Environment

- Regulatory costs have increased – adding to final home price
- According to the National Association of Homebuilders (NAHB), in 2021, on average, regulations imposed by government at all levels accounted for \$93,870 of the final price of a new single-family home built for sale
 - \$41,330 is due to a higher price for the finished lot, attributable to regulations imposed during the lot's development
 - \$52,540 is the result of regulatory costs imposed on the builder during construction, after the builder purchases the finished lot
- Timelines from start to completion have grown as well

Source: National Association of Home Builders

Making Land More Available

Problem:

- There is a shortage of buildable land (greenspace or greenspace with infrastructure)
- Infrastructure (water/sewer/roads) is a financial obstacle for many rural communities
- Existing vacant and/or dilapidated structures are an obstacle to redeveloping rural communities

Strategies:

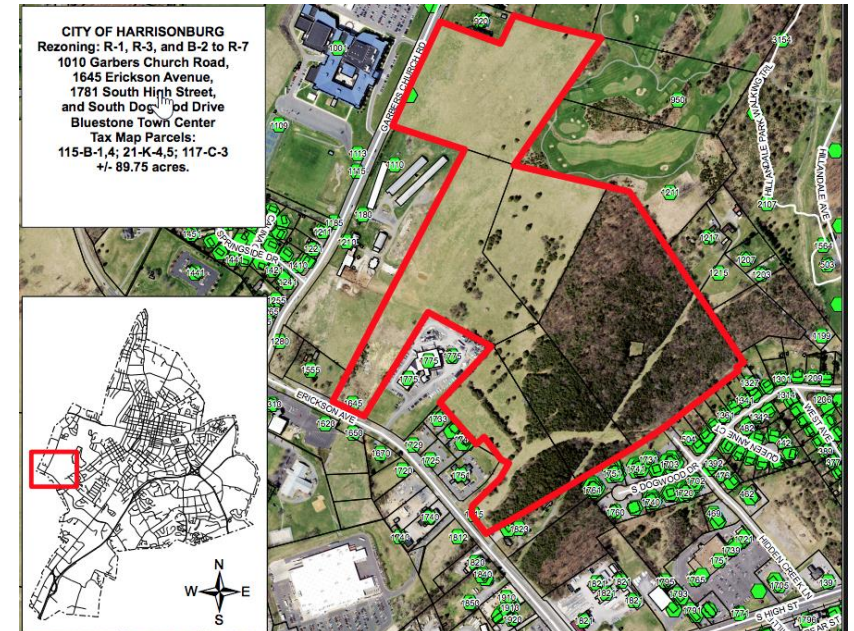
- Revisiting zoning laws
- Investing in buildable homesites – including infrastructure
- Leveraging unused land or structures
- Repurposing old & dilapidated structures—including the use of land banks



Making Land More Available – Rezoning

Example: Bluestone Town Center - 90 acres in Harrisonburg VA

- Rezoned from SF, Multiple Dwelling Residential General Business District to Medium Density Mixed Residential Planned Community
- Developer worked with the local housing authority to gain support of city council for rezoning
- Rezoning will allow for a town center development with a mix of affordable for-sale & for-rent housing--SF, Townhomes, MF, Senior
- Homeownership will be targeted toward first time homebuyers with incomes between \$60,000 and \$100,000. Rental will serve families with \$40-60K income



Source: <https://bluestonetowncenter.com/>

Making Land More Available – Repurposing Old & Dilapidated structures

Land banks provide a key role in turning properties from unproductive to productive use.

Establishing a process for repurposing old & dilapidated structures:

- Establish database of abandoned & dilapidated properties
- Determine ownership – work with owners to improve structures or establish willingness to transfer asset
- Establish enforcement codes & procedures to allow for change ownership through tax sale process
- Establish land bank to acquire properties—financing land bank a key issue
- Establish process for land bank to return properties to productive use



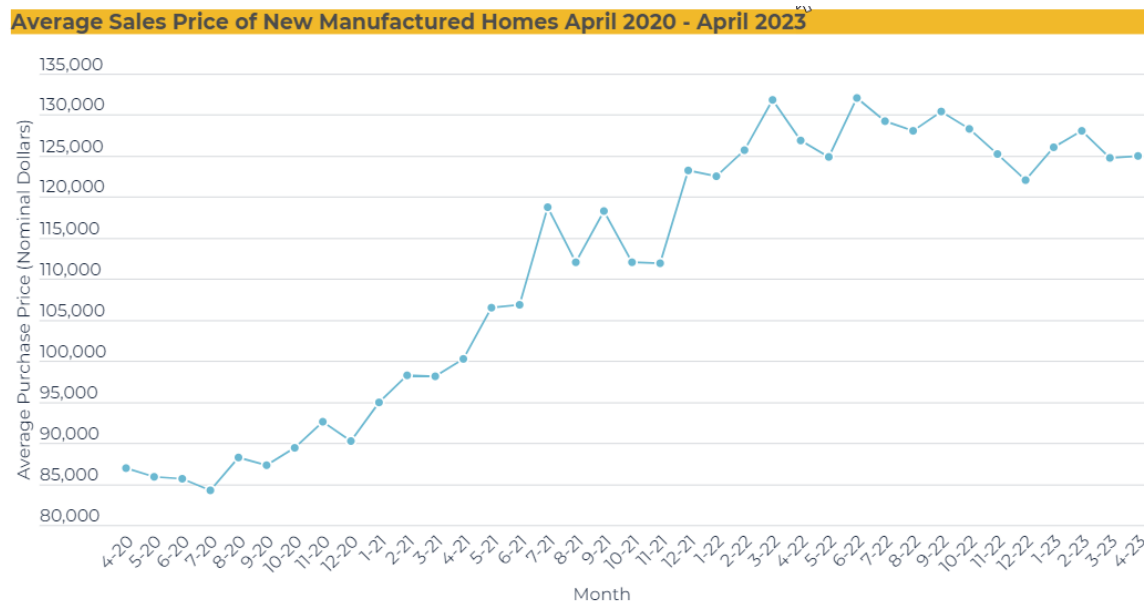
Tackling Material Costs

Problem:

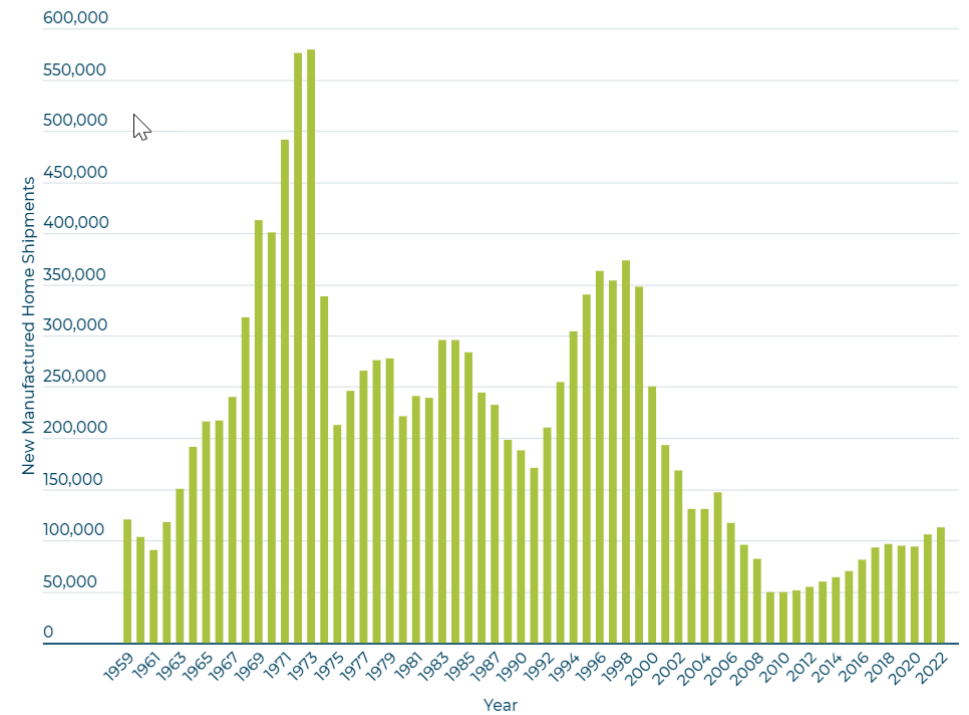
- Construction costs rose sharply in 2020 and remain elevated

Strategies:

- Smaller homes – more starter homes or ADUs
- Manufactured housing



Manufactured Home Shipments, 1959 - 2022



Source: HAC Tabulations of the U.S. Census Bureau's Manufactured Home Survey

Sources: Housing Assistance Coalition
<https://takingstockrural.org/taking-stock/rural-housing/>

Tackling Material Costs – Manufactured Housing

Example: Kilpatrick Woods – Hagerstown, MD

- Single-family division of high-quality, energy-efficient, manufactured homes to fulfill the demand for workforce housing
- The Kilpatrick Woods community, at the heart of Hagerstown, MD, is the largest of its kind — 241 single-family homes with high-finishes, front porches, and two-, three- or four-bedrooms, priced below comparable, site-built homes
- Targeted for first-time homebuyers and working families, these homes, priced in the mid-\$200Ks to mid-\$300Ks, include lifestyle amenities, such as clubhouse, nature trails, and playgrounds.
- Not-for-profit, Next Step, is partnering on this project
 - They are working with developers across country to produce manufactured housing
 - They have a 2026 goal of opening in 20 new markets through zoning changes



Source: <https://www.equityplusllc.com/portfolio-item/kilpatrick-woods/>
<https://nextstepus.org>

Questions?

Thank you!

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