



CENTER FOR THE STUDY OF RURAL AMERICA
Federal Reserve Bank of Kansas City

September 2005

The Main Street *Economist*

Commentary on the rural economy



Regional Asset Indicators: The Wealth of Regions

Sarah A. Low
Research Associate
Center for the Study of Rural America



Household financial well-being is critical to a region's overall economic health. Most analysts look to the annual flow of income as the most appropriate measure of economic well-being, but income is only the tip of the iceberg. Lying beneath the surface is wealth, a much bigger and generally more stable—yet hidden—financial asset. Despite being closely related to a region's long-run economic health, this important resource base for growth and stability is often overlooked.

Measuring wealth is difficult, though, which is why income is often the preferred measure. One obvious component of household wealth is bank deposits, the subject of last April's *Main Street Economist*. Three other components are residential real estate, agricultural real estate, and financial and rental real estate investments.¹

According to measures of these other wealth components, some rural regions are remarkably rich. Ironically, concentrations of wealth are often located in struggling regions—this points to a significant opportunity to tap these resources to fuel new business activity.

Why wealth matters

Wealth is a critical regional asset indicator for two reasons. First, it represents the pool of savings and other funds available to capitalize new and existing businesses. New businesses increase economic activity—especially those associated with innovation and high-value entrepreneurship.² Wealth also contributes to higher banking deposit depth, a key resource for high-value entrepreneurs.³ While economists believe there is a positive connection between wealth and regional growth, in most cases we know neither how much wealth a region has—nor how effectively wealth is being utilized.

Second, wealth creates stability in consumer demand. While household income fluctuates from year to year, wealth is more stable, creating more confident and forward-looking consumers. Regional households are often the primary market for goods and services for local business. Households with more wealth may desire high-quality or niche-market goods, boosting demand for unique goods and services. Local entrepreneurs can meet this demand.

Long-term economic growth depends on a stable foundation of regional financial resources. Thus, it is important when assessing the asset base of a region to understand the wealth of a region—especially the store of wealth that remains untapped or underutilized.

Household wealth can be a critical asset for communities—but only if it leads to increased business activity and economic growth. Having the ability to measure wealth will allow regions to take stock of their assets and determine how best to utilize this hidden asset in economic growth strategies.

Components of wealth

Defining and measuring wealth is complex because information on many of its components is confidential. Ideally, determining the level of regional wealth would include measuring bank deposits, real estate equity, business equity, retirement accounts, investment portfolios, and other valuable personal effects. Factors such as human capital and infrastructure also contribute to regional wealth, and these factors will be discussed in detail in forthcoming articles in this series. This article focuses on three components of regional wealth—residential real estate, agricultural real estate, and financial investments. These assets represent 76 percent of a typical household's wealth holdings (Figure 1). In addition, data for the assets are publicly available at the county level.

Residential real estate is the biggest store of wealth for most households. Home values tend to grow steadily over the long run and are a stable source of wealth for regions (notwithstanding current concerns about localized housing price bubbles). Home equity can also smooth demand for

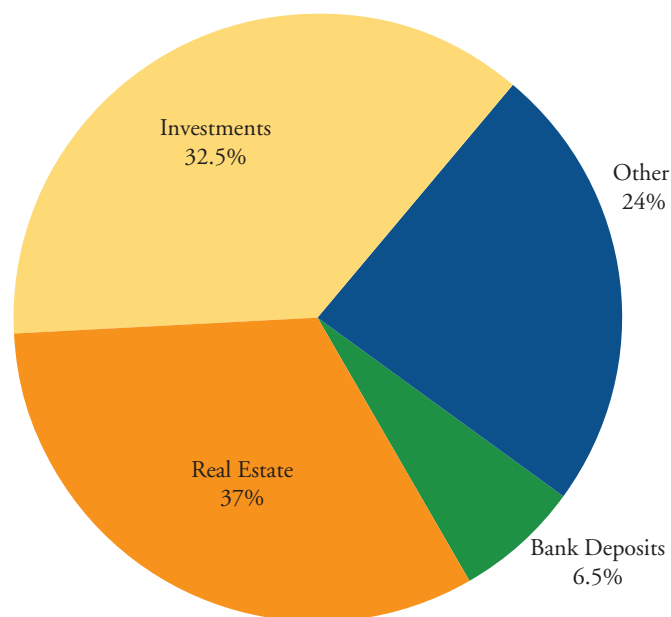
goods and services during times of household financial hardship. Homeowners have recently recognized the potential of this wealth resource, tapping the equity in their home in record numbers to maintain or increase spending. Because home ownership rates across regions are comparable, median home value is used to reflect regional differences in real estate wealth.

Agricultural real estate is the biggest store of wealth for many farm and rural households, often representing 80 percent of farm assets.⁴ This asset is often underutilized from a regional economic point of view. Regions active in high-value agricultural production have the most valuable farmland—and many land-owning farmers live poor but die rich, leaving valuable land to heirs.

Agricultural land can generate steady and predictable income flows for the owner in the form of rents and commodity payments. Agricultural real estate values have been relatively stable or rising for the past 20 years, suggesting a solid form of regional wealth, especially for rural America.

Figure 1

Share of U.S. Household Assets



Source: Survey of Consumer Finance, 2001

Financial investments in the stock market and rental real estate reflect additional wealth that could be invested in the local economy. The value of investments such as savings, stocks or rental property is unavailable for counties, especially when investments are made outside the region. But the income flows derived from these investments are available. This income stream is likely to accurately reflect a region's stock of investment assets. Investment income fluctuates, of course, but these monies generally represent additional flows of income for households, as well as ownership of valuable marketable assets.

In sum, measures of median home value, average agricultural land value, and investment income give a strong idea of the stock of household wealth in regions. Additionally, all three measures are positively correlated with economic growth—suggesting the importance of having and utilizing regional wealth.⁵

The landscape of regional wealth

The average median household value for all U.S. counties is \$81,300. In metropolitan counties, or counties with at least one city of 50,000 or more residents, the median home value is \$104,000. In micropolitan counties, or counties with at least one city of 10,000 to 50,000 residents, the median value is \$76,800. In town counties, or counties with no towns of more than 10,000 residents, the median value is lowest—at just \$64,000.

Median home value is highest in urban regions, coastal regions, and throughout the Rocky Mountains (Figure 2). Scenic amenities, job density, and infrastructure advantages are high in these areas. In contrast, home values are lower in rural areas, where the cost of living is often lower and where major economic hubs are distant. While the median home value in much of rural America is low, some of this wealth has been tapped recently through mortgage refinancing, as in much of the nation.

Average agricultural land value is a

large source of wealth in rural regions. However, its value is greatest in metro areas. Per acre, average agricultural land value is \$1,078 in metro counties, where agricultural land is most likely to face commercial and development pressure. The average agricultural land value is \$880 per acre in micropolitan counties and just \$660 in town counties.

Agricultural land values are highest in the upper Midwest Corn Belt, Florida, Texas, California, and the Appalachians (Figure 3). These geographical patterns

may be due to the type of agricultural production. For example, high-value citrus crops are grown in Florida, and grain and livestock are produced in the Corn Belt. These operations produce higher returns per acre than cattle feeding in the West. This intensity is reflected in the differences in agricultural land values across regions.

Interestingly, some regions, such as Iowa, have suffered waves of out-migration and slow economic growth—yet have lots of wealth stored in agricultural real estate. The ongoing economic struggles in such

Figure 2

Median Home Value

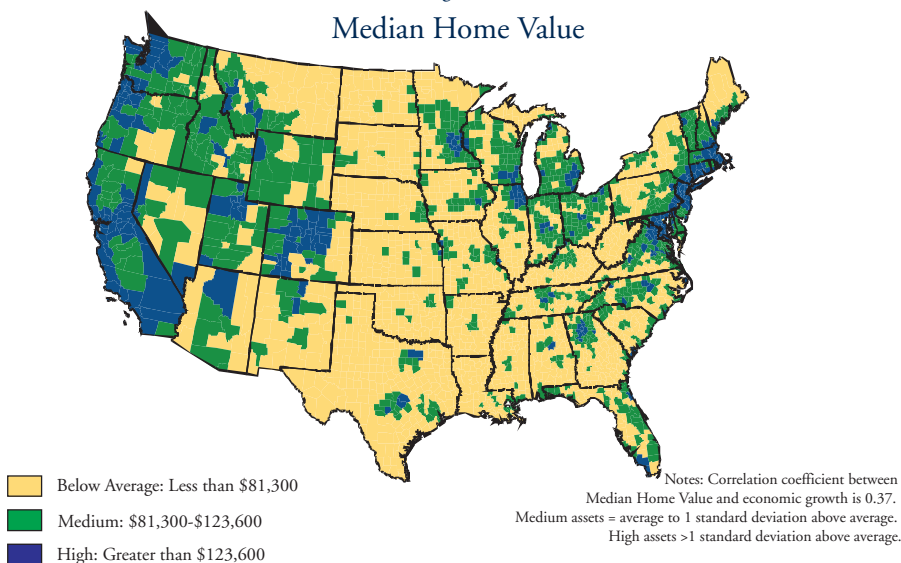
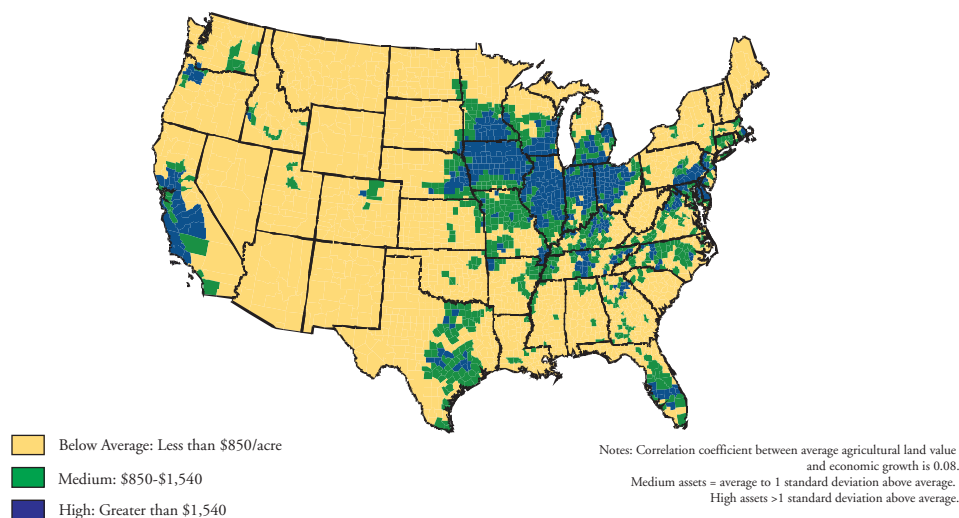


Figure 3

Average Ag Land Value



communities suggest that they may not be fully tapping this valuable household financial asset. Indeed, the window of opportunity to capture this asset in many rural regions may be closing as outmigration persists and as an aging generation of farmers prepares to share their wealth with their children.

Investment income, from both financial and rental real estate investments, is relatively high throughout rural America. Investment income has a positive relationship with measures of entrepreneurship, banking deposit depth, and employee skill surplus—other regional asset indicators in this series—suggesting synergies between these assets.⁶ Per capita investment income was similar across various county sizes. In metro and town counties it was \$4.30, while in micropolitan counties it was \$4.10. The geographical spread of this asset shows that it is less regular than median home value and average agricultural land value (Figure 4).

It is important to stress that a region may not enjoy strong economic growth simply because of its wealth. One example is the upper Great Plains, which has the highest local concentration of investment income. This situation again suggests that

many rural areas may not be aware of their hidden financial wealth—or, if they are, they are not capitalizing on it.

Taking advantage of household wealth

Wealth is a significant financial resource for many rural regions. Yet many rural communities are losing wealth to outside regions, often due to farmland investment or transfer of wealth to heirs living elsewhere. Venture capital funds and community reinvestment programs are helpful in attracting and retaining wealth to a region.

Some regional leaders and nonprofit organizations see the need to retain and attract regional wealth. The Community Development Venture Capital Alliance is a nonprofit organization that seeks to keep wealth in local communities by creating community-based venture capital funds. These funds are designed to create jobs, entrepreneurs, and wealth. To help build locally based equity funds in distressed communities, the CDVCA builds community development institutions that also offer investors an acceptable return on their investment.

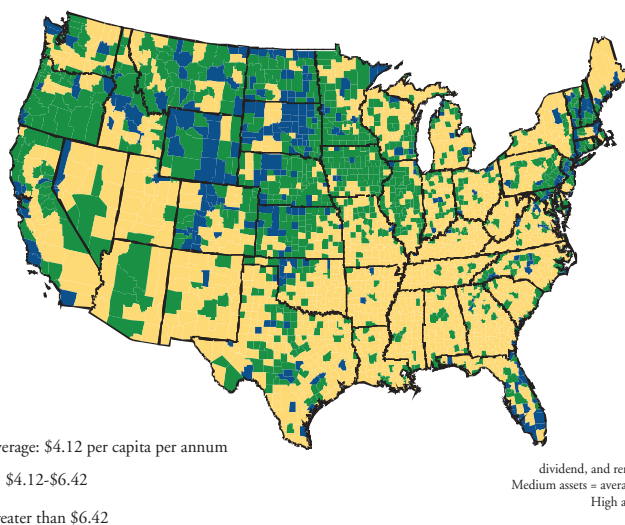
The Appalachian Regional Commission is another institution that has

recognized the need for financial capital to spur regional entrepreneurship and economic growth. The ARC has developed 12 new venture capital funds, which are capitalized at a combined \$160 million. A portion of these funds comes from investors within the Appalachian region.

As the holders of wealth age, assets such as home value, land value, and investment income tend to follow retirees where they go, or they are transferred to heirs who no longer live in the community. The Nebraska Community Foundation helps communities reinvest wealth in Nebraska by mobilizing charitable giving. The foundation offers financial management and strategic development services to communities throughout Nebraska.

Residential real estate, agricultural real estate, and investments are important forms of regional wealth and contribute to economic growth by capitalizing businesses and creating stability in consumer demand. Household wealth is relatively high in many rural regions, but it appears this wealth is not being utilized. To prosper in today's new economy, many communities must make better use of their available wealth—before their window of opportunity closes.

Figure 4
Interest, Dividend, and Rental Income



¹ This article is part of the Center for the Study of Rural America's series on regional asset indicators, which presents new metrics for gauging a region's potential assets.

² See the *Main Street Economist*, September 2004, "Regional Asset Indicators: Entrepreneurship Breadth and Depth."

³ See the *Main Street Economist*, April, 2005, "Regional Asset Indicators: Bank Deposit Depth and Evolution."

⁴ People rather than corporations own the majority of farmland. Corporations own less than 5% of U.S. farmland (USDA, 1993) and approximately 7% of Iowa farmland (Iowa State University Extension, 2002). Further, family corporations are included in this corporate-owned portion of these figures.

⁵ The correlations between economic growth and measures of wealth are positive, however, this does not imply a causal relationship.

⁶ Correlation between investment income and regional asset indicators—entrepreneurship breadth (0.13), depth (.23), banking deposit depth (0.38), employee skill surplus (0.54).

Edited by Bob Reagan