Moving to the Country: Unpacking the Persistent Increase in Rural Housing Demand Since the Pandemic

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The confluence of increased demand for space, opportunities to work remotely, and historically low interest rates during the COVID-19 pandemic had a substantial effect on the geography of housing demand.

Previous Fannie Mae research found a rise in the share of homebuyers moving across metropolitan statistical areas (MSAs) from higher-density to lower-density neighborhoods. Although mortgage demand has since cooled due to higher interest rates, the rise in remote work has increased households' willingness to commute farther or even relocate to a different region. As a result, major metropolitan areas experienced a "donut effect" in which house values, rents, population, and business growth were inversely correlated with proximity to the central business district, population density, and the estimated share of residents who could work remotely.

However, non-metropolitan, rural areas have received less attention. Although only a small share of urban residents relocated to rural areas during the pandemic, their influx represented a disproportionate increase in demand for housing in those regions. In fact, application activity for housing in rural and non-metropolitan areas rose 80 percent since the start of the pandemic. Consequently, house price appreciation during the pandemic was greater in lower-density suburban counties, smaller metropolitan areas, and non-metropolitan areas than in more urban counties.

To better understand what's driving homebuying demand in rural communities, I explore where buyers are coming from and what types of communities are seeing influxes in residents.

Overall, I find the following key trends:

- **Mortgage applications in rural communities surged during the pandemic and remain above pre-pandemic averages**, despite the relatively high-interest-rate environment slowing demand in more urban areas.
- **Homebuyers from outside the region are driving the rise in rural housing demand** — with second-home and investment purchasers making up a large share early in the pandemic, followed by buyers planning to move in from outside the region.
- **Demand has increased across all types of rural communities**, with resort communities seeing early spikes that have since tapered, and institution-rich hubs seeing sustained demand.

For this analysis, I use proprietary data from Fannie Mae's Desktop Underwriter® (DU®) to measure changes in purchase mortgage applications and the types of homebuyers between 2016 and Q1 2024. DU captures a substantial share of the mortgage market beyond what Fannie Mae ultimately acquires. Unlike other mortgage databases, the DU applications data also provides applicants' current residence, allowing analysis of both where applicants intend to move *and* where applicants intend to move from.[1] I

[1] Applications are not necessarily mortgage originations, and mortgage activity is not equivalent to all migration (e.g., it does not capture cash purchases or renters). Nevertheless, purchase applications provide a timely indicator

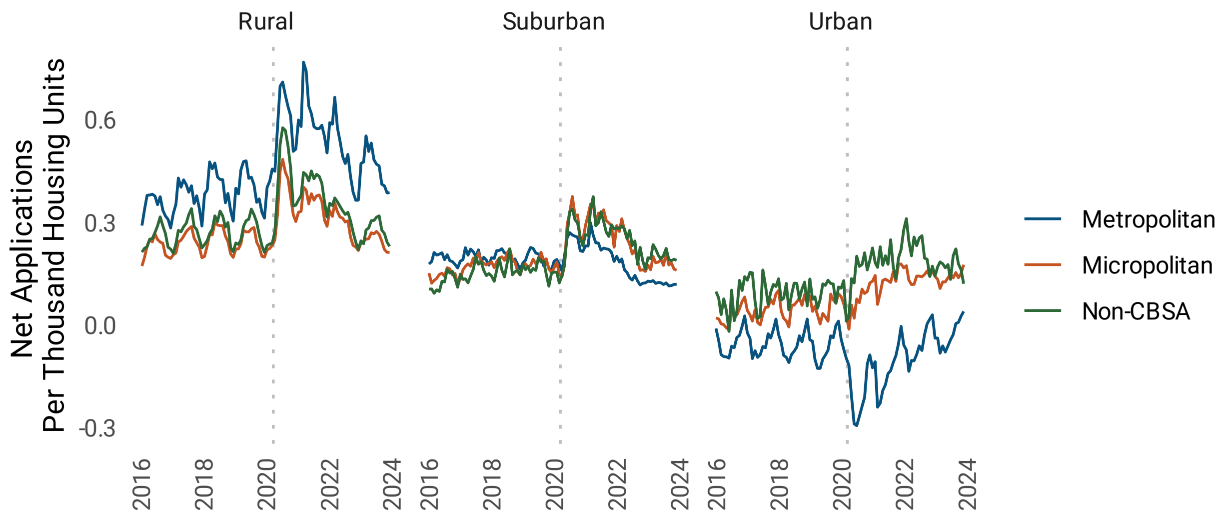
identify rural areas using the Office of Management and Budget's definition of Core Based Statistical Areas (CBSAs)[2] and the U.S. Department of Housing and Urban Development's (HUD) Urbanization Perceptions Small Area Index (UPSAI).[3]. Most communities outside of MSAs are rural; however, most rural communities are actually within MSAs.

Demand for rural housing has increased since the start of the pandemic

Figure 1 shows net purchase mortgage applications, defined as the sum of purchase mortgage applications (including second-home and investment purchases) for properties in a region minus the number of owner-occupant purchase applications coming from that region, per thousand total housing units.[4] The vertical dotted line indicates the COVID-19 emergency declaration on March 13, 2020.

Consistent with research from Freddie Mac, I find that net applications for homes in urban neighborhoods of metropolitan areas were already low going into the pandemic.[5] The pandemic is clearly associated with a further decline, as shown by the drop in the blue "Metropolitan" line under the "Urban" category. By contrast, net applications for homes in small towns in micropolitan and non-CBSA areas (i.e., the orange and green lines in the Urban category) rose.

Figure 1. Rural parts of MSAs have the strongest demand for mortgages
Net applications per thousand housing units by MSA status and neighborhood type



Source: *Author tabulations of Fannie Mae Desktop Underwriter® data.*

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of intentions to relocate, as well as a proxy for housing demand from investors and second-home buyers, which impact local home prices but are not captured by migration data. However, estimating the impact of the observed increased demand for rural housing on rural house prices is beyond the scope of this analysis.

[2] Based on March 2020 delineations. CBSAs group counties into MSAs and smaller micropolitan areas; however, roughly 1,300 rural counties do not fall into a CBSA

[3] HUD's UPSAI computes Census tract-level probabilities that a resident would identify the neighborhood as urban, suburban, or rural.

[4] An owner-occupied purchase application does not necessarily mean the household will sell their current dwelling but does indicate an intention to move.

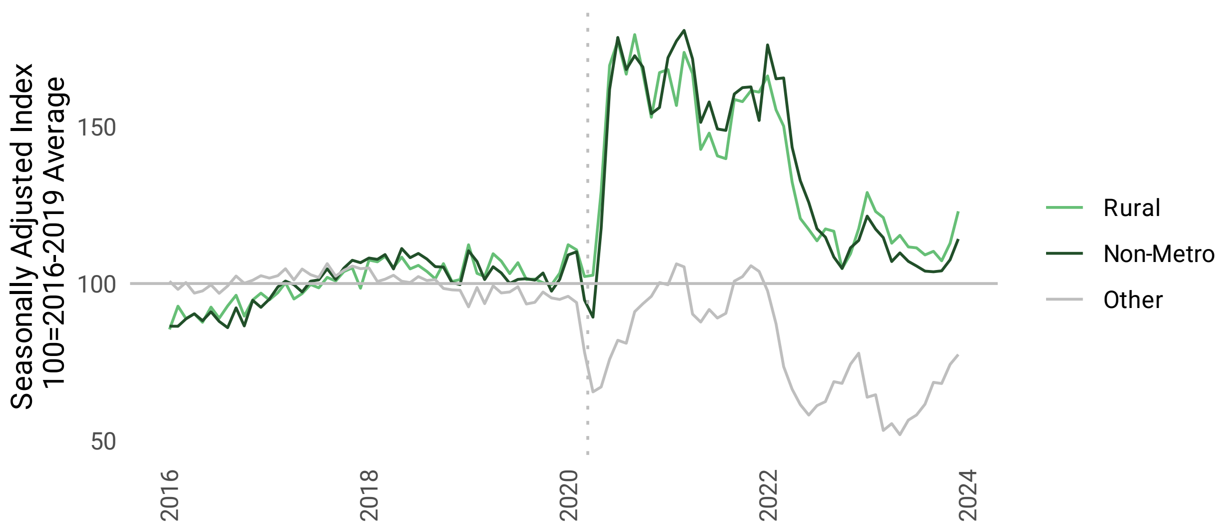
[5] In part, this lower level is because mortgage applications capture households leaving cities to buy a house in the suburbs but not households moving into cities to rent.

__Notes:__ Net applications defined as the sum of purchase mortgage applications processed in DU for properties in a census tract minus owner-occupied purchase mortgage applications from applicants living in that tract. Neighborhood type defined by the US Department of Housing and Urban Development's Urbanization Perceptions Small Area Index (UPSAI). Core Based Statistical Areas (CBSAs) defined by the Office of Management and Budget. Vertical dotted lines indicate COVID-19 emergency declaration.

Figure 2 shows net applications in rural neighborhoods (i.e., the left panel of Figure 1 regardless of CBSA status), as well as non-metropolitan counties (i.e., the orange and green lines in Figure 1 regardless of neighborhood type), indexed to the average of the same month in the four years prior to the pandemic. Net applications in these communities jumped nearly 80 percent above their pre-pandemic average in the summer of 2020 and remain above their pre-pandemic averages into 2024, despite the relatively higher interest rate environment slowing demand in MSAs and more urban areas.

Figure 2. Rural neighborhoods and non-metropolitan counties saw a spike in demand during the pandemic

Seasonally adjusted index of net mortgage applications



__Source:__ Author tabulations of Fannie Mae Desktop Underwriter® data.
__Notes:__ Net applications defined as the sum of purchase mortgage applications processed in DU for properties in a census tract minus owner-occupied purchase mortgage applications from applicants living in that tract. Seasonally adjusted by indexing to average in same month from 2016 to 2019. Rural neighborhoods defined by the US Department of Housing and Urban's Developments Urbanization Perceptions Small Area Index (UPSAI). Non-Metro counties include micropolitan statistical areas and counties outside of any Core Based Statistical Areas (CBSAs) defined by the Office of Management and Budget. Vertical dotted lines indicate COVID-19 emergency declaration.

Outside demand is driving rural mortgage applications

Figure 3 breaks applications into owner-applicants currently living in a ZIP Code with the same first three digits[6] as the property ("local buyers"), owner-applicants from farther away ("in-movers"), and second-

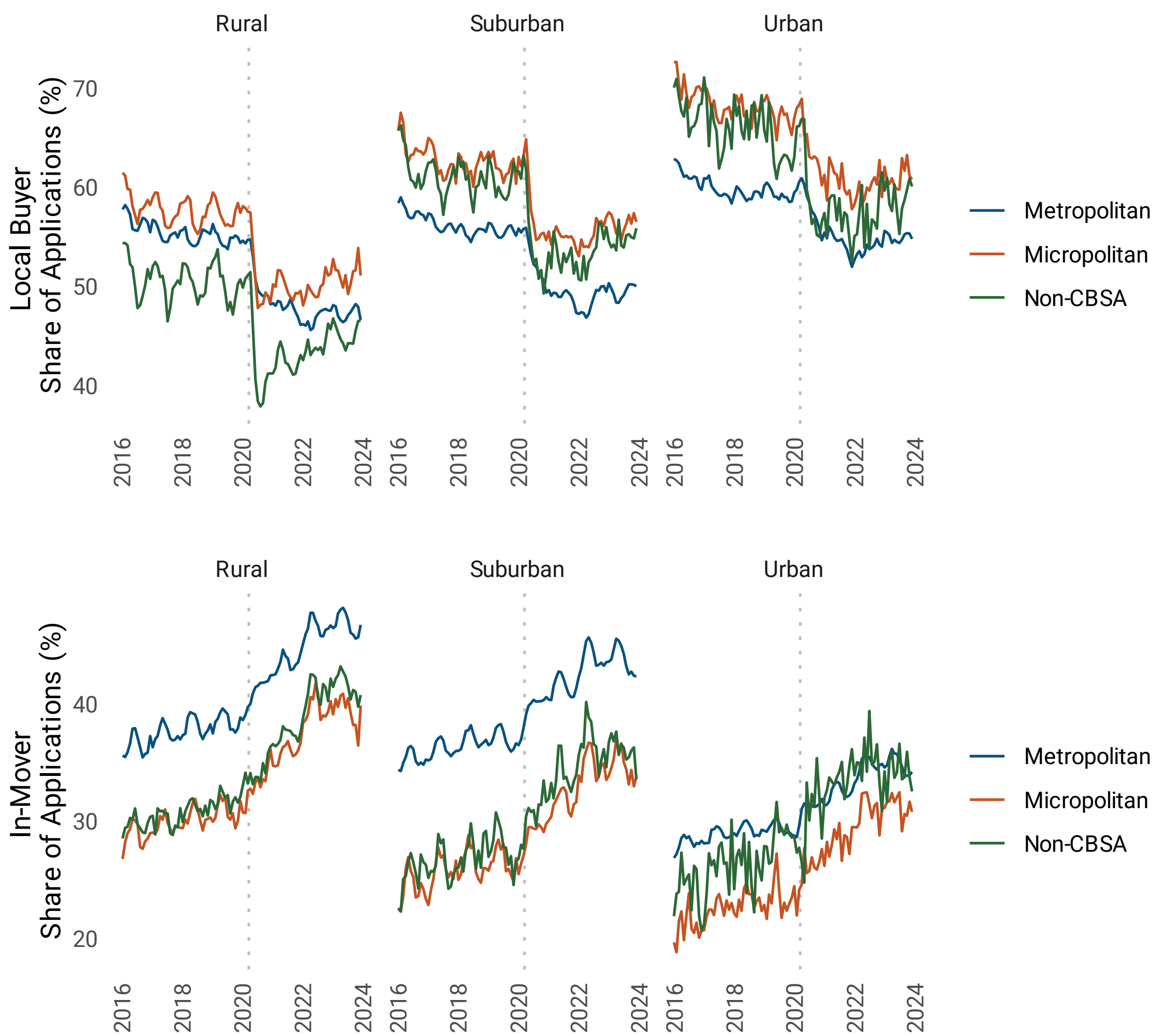
[6] Zoning Improvement Plan (ZIP) Codes were developed by the US Postal Service in 1963. The first three digits represent general geographic areas, with lower numbers in the east and higher numbers in the west. The last two digits represent specific post offices within those areas. ZIP Codes in rural areas are larger in area compared to urban ZIP Codes but are more consistent in population than counties and CBSAs.

home buyers and investors. Neighborhood and metropolitan area typologies continue to be based on the location of the property.

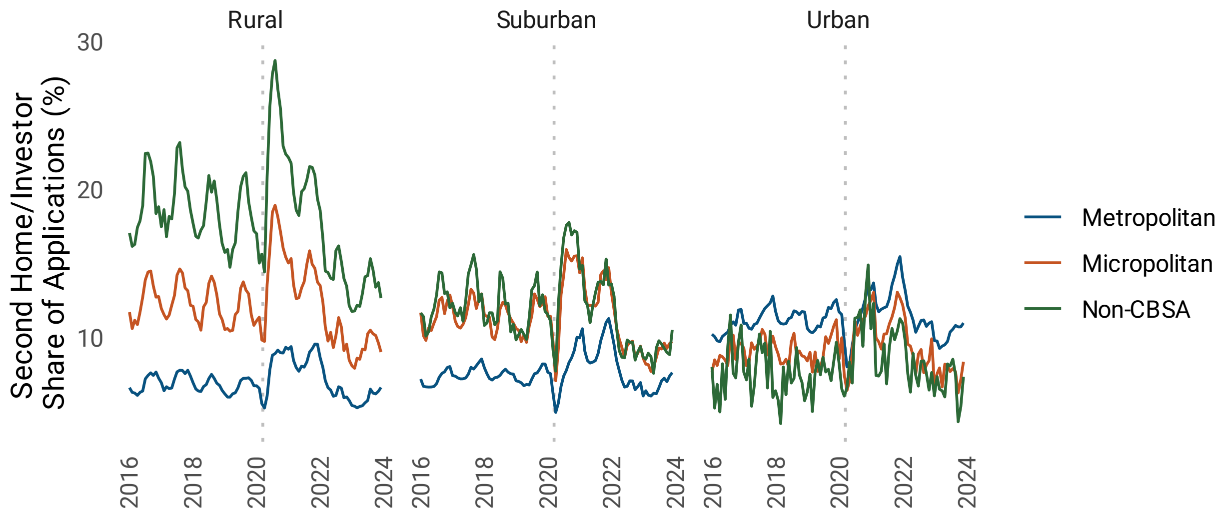
Applications for properties in urban neighborhoods, particularly towns outside of MSAs, are more likely coming from buyers already living in the same region. By contrast, applicants in rural areas, particularly in non-CBSA counties, are less likely to be local buyers. The top panel in Figure 3 also shows that local shares of applications fell during the pandemic and have not returned to their previous levels. Instead, the increase in applications in rural areas was driven first by a spike in applications from second-home and investment purchasers (bottom panel),[7] followed by a rising trend of owner-occupants intending to move in from outside the region (middle panel).

Figure 3. Homebuyers from outside the region are driving rural housing demand

Applicant type share of applications by metropolitan area status and neighborhood property type



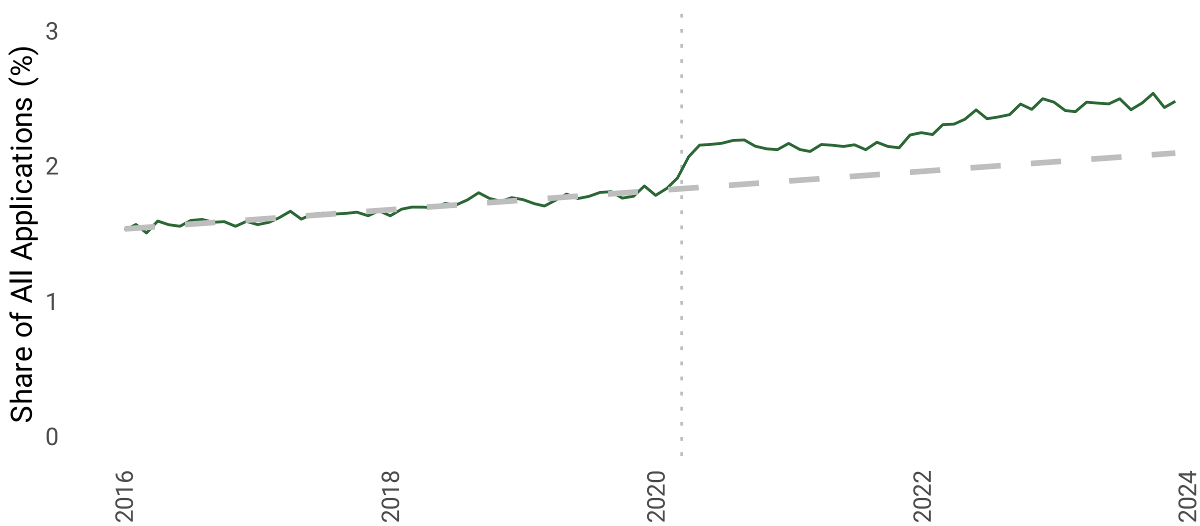
[7] Second-home and investment activity may have also been impacted by regulatory changes. See Fannie Mae Lender Letters LL-2021-08 and LL-2022-01.



Source: *Author tabulations of Fannie Mae Desktop Underwriter® data.*
Notes: *Local buyers defined as owner-occupied applicants from same first-three-digit ZIP Code as property. In-movers are all other owner-occupied applicants. Neighborhood type defined by the US Department of Housing and Urban's Developments Urbanization Perceptions Small Area Index (UPSAI). Core Based Statistical Areas (CBSAs) defined by the Office of Management and Budget. Vertical dotted lines indicate COVID-19 emergency declaration.*

Figure 4 shows that owner-occupant applications for people living in urban neighborhoods of metropolitan areas looking to buy in rural neighborhoods or outside of metropolitan areas account for a small share of applications nationwide — but have experienced a sustained increase of nearly 20 percent above their pre-pandemic trend, or roughly 22,000 additional purchase mortgage applications per year.

Figure 4. Demand for rural housing is rising among applicants coming from urban areas
Owner-occupant applications from urban neighborhoods of metropolitan areas for properties in rural or non-metropolitan areas as a share of total applications



Source: *Author tabulations of Fannie Mae Desktop Underwriter® data.*

__Notes:__ Neighborhood type (i.e., rural and urban) defined by the US Department of Housing and Urban's Developments Urbanization Perceptions Small Area Index (UPSAI). Metropolitan statistical areas defined by the Office of Management and Budget. Vertical dotted lines indicate COVID-19 emergency declaration. Dashed line indicates 2016 to 2019 linear trend.

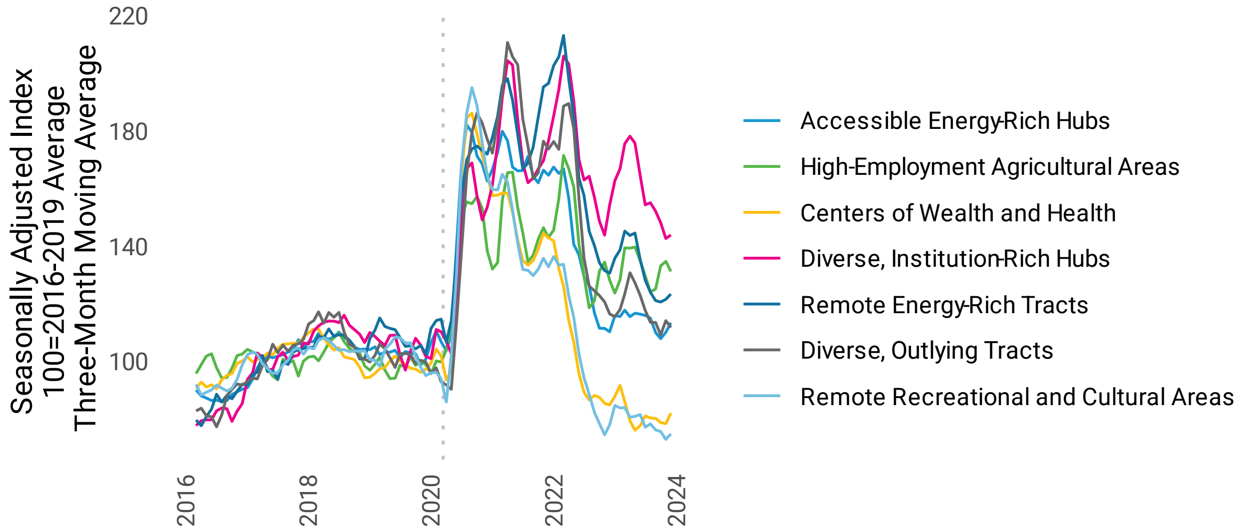
The spike in demand is common across different types of rural communities

Rural areas are often described by what they are not (e.g., not metropolitan areas), which masks substantial differences in physical, social, and economic characteristics. I further explore the diversity within rural areas using the Urban Institute's [Reenvisioning Rural America], which clusters Census tracts outside of MSAs into seven peer groups based on attributes like access to broadband internet, banks, places of worship, and natural resources.

Figure 5 shows the relative increase in rural mortgage applications was common across different types of rural areas, not just in resort communities. Centers of Wealth and Health and Remote Recreational and Cultural Areas had the highest pre-pandemic level of housing demand, driven by second-home and investment applications, and saw a spike at the start of the pandemic. However, applications in these communities faded faster than in other rural clusters and fell below their pre-pandemic averages as interest rates rose.

On the other hand, Diverse, Institution-Rich Hubs often found in the rural Southeast have maintained the greatest relative increase in net applications since the pandemic started, fueled by homebuyers interested in moving to the region.

Figure 5. All rural community clusters experienced spikes in demand relative to pre-pandemic averages
Seasonally adjusted index of net applications by rural cluster



***Source:** Author tabulations of Fannie Mae Desktop Underwriter® data.*
***Notes:** Net applications defined as the sum of purchase mortgage applications processed in DU for properties in a census tract minus owner-occupied purchase mortgage applications from applicants living in that tract. Seasonally adjusted by indexing to average in same month from 2016 to 2019. Rural clusters defined by the Urban Institute's "Reenvisioning Urban America." Vertical dotted lines indicate COVID-19 emergency declaration.*

What this means for rural communities

More than half (55 percent) of rural non-CBSA counties lost population in the decade prior to the pandemic, compared to only 24 percent of counties in metropolitan areas. Recent technology leaps and changes in workplace culture instigated by the COVID-19 pandemic may help attract residents and reverse this depopulation of rural areas.