2018 MISSOULA HOUSING REPORT

current knowledge, common wisdom: growing a missoula to treasure

Released March 2018
A community service provided by the Missoula Organization of REALTORS®
As in past reports, all data sources are publicly available and statistically valid. Our interpretation of the data may lead to judgments that we believe are sound but with which you may disagree. If so, we invite your comments (comments@missoularealestate.com) so that we can continue to improve this annual report.

Unless otherwise noted, data presented in the text and figures are for the Missoula Urban Area, which includes the City of Missoula, its neighborhoods, and its surrounding urbanized area, defined as: Rattlesnake, Downtown, University, Fairview, South Hills, Pattee Canyon, Lewis and Clark, Miller Creek, Blue Mountain, Big Flat, Orchard Homes, Mullan Road, Grant Creek, Lolo, Bonner, East Missoula, and Clinton. Data representing all of Missoula County or only the city are noted as such.

All data is the most recent available at the time we compiled the report. For calendar-year data, that is 2017 in most cases, but 2016 or even 2015 when more recent figures are not yet available.

“Median” is a term used often in this report. A median is the amount at which exactly half of the values or numbers being reported are lower and half are higher. A median can be more or less than an “average,” which is the amount derived by adding all values being reported and dividing by the number of individual values: So a median home price, for example, is the price of the one home, among all prices being considered, where half of the other homes are less in price and half are more in price. In many instances, including reports of home prices, a median can be a more accurate representation than an average because the sale prices of a very few extraordinarily expensive houses will significantly raise the average but have little effect on the median.

Data from the American Community Survey has a margin of error. This margin of error reflects uncertainty involved in the process of creating estimates from a representative sample of the population. In other words, although estimates from the survey data may appear different, the difference sometimes falls within the margin of error and therefore cannot be considered to be statistically significant. The charts with American Community Survey data portray the data in ranges with a lower and upper bound. The mean is the midpoint of the range. Statistical differences are visually apparent when the ranges do not overlap.

Research for this report was conducted principally by the Missoula Organization of REALTORS® (MOR). The University of Montana Bureau of Business and Economic Research also contributed to the report and served as a source of this report’s data and information. Other sources were the U.S. Census Bureau, U.S. Department of Housing and Urban Development (HUD), U.S. Office of Federal Housing Finance Agency (OFHFA), Montana Department of Labor and Industry, Western Montana Chapter of the National Association of Residential Property Managers (NARPM), Missoula Housing Authority (MHA), Homeword, and Montana Regional MLS® (see next note).

MLS® refers to the Multiple Listing Service®. In 2016, the Missoula Organization of REALTORS® (MOR) switched from the MOR MLS to the Montana Regional MLS. It is a member-based service – administered, operated, and paid for by the REALTOR® members of a local real estate board – that indicates the cooperation among REALTORS® to share information about homes and real estate for sale or rent. Due to the switch, wherever we use Montana Regional MLS data in this year’s report, the numbers may differ slightly from reports from 2016 and earlier.
We are pleased to present the *2018 MISSOULA HOUSING REPORT.* Our intention is to provide a comprehensive, credible, and neutral picture of Missoula housing that can be used as a tool by community members, businesses, nonprofits, and policy makers as they seek to serve Missoula’s needs.

We think these pages reveal a number of opportunities and challenges for our community. When read comprehensively, we hope the data come together to provide a more complete picture of our community, from affordability challenges to demographics, improvements over the years, and the issues that will require our attention in the years to come.

This is the thirteenth annual report on housing in the city and county of Missoula, and the content has evolved based on trends, available information, and feedback from readers like you.

Please let us know your thoughts on this report and how we might improve it.

If, after reading this report, you are interested in getting involved in meeting the housing needs of our community, please contact any of the public or private agencies engaged in local housing mentioned in this report. Additional housing resources are listed on the Missoula Organization of REALTORS® website at www.MissoulaRealEstate.com.

Coordinating Committee

Britt Wahlberg  Windermere Real Estate  
Jim McGrath  Missoula Housing Authority  
Paul Burow  Professional Property Management  
Karissa Drye  Homeword  
Paul Forsting  Territorial Landworks, Inc.  
Vicki Corwin  Stewart Title  
Lynn Stenerson  Stockman Bank  
Brandon Bridge  University of Montana Bureau of Business & Economic Research  
Ruth Hackney  Missoula Organization of REALTORS®  
Sam Sill  Missoula Organization of REALTORS®

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EXECUTIVE SUMMARY

Housing Development & Occupancy
Missoula’s growing population, along with a tight rental market and tight real estate supply, spurred an increase in construction in 2017. Residential lot sales rang in with 169 lots being sold in 2017, marking the third year in a row of high lot sales. The median price of those lots increased 8.1 percent in 2017, to $92,500.

Building permits within the City of Missoula remained high for the second year in a row, with a total of 758 units permitted. At the county level, single-family building permits increased by 25 percent in 2017 and multi-family units increased by 162 percent over the previous year. However, according to US Census Bureau estimates, county-wide growth in the housing stock lagged slightly behind growth in the number of households between 2010 and 2016.

The number of Townhome Exemption Development units permitted also increased in the city. In addition, after three years of relative inactivity, Missoula saw a substantial increase in the number of preliminary plat approvals for subdivisions.

In the City of Missoula, about 46 percent of housing units are occupied by their owners; in Missoula County, owners occupy about 57 percent of the units.

Population and Income
Missoula County reached a population of 116,130 in 2016, a 1.7 percent increase from the previous year. Net migration has driven this recent growth, increasing 6.6 percent from 2015 to 2016, indicating that a much higher proportion of people are moving to Missoula than are moving away. This has placed increasing pressure on the housing supply.

While Missoula boasts a relatively low unemployment rate, the median income in Missoula County in 2016 was $46,550, which is below the Montana and U.S. median income. However, Missoula homeowners had a median income of $64,612 while Missoula renters came in at less than half of that, with a median income of $31,146. Such numbers highlight the difficulty that many residents have in affording both rental and real estate prices.

The percentage of Missoulians living in poverty continues to hover around 16 percent. The number of homeless individuals identified by a single point-in-time survey in January 2017 was 344, which was down slightly from 2016; however, the Missoula County Public Schools estimate that 438 children were homeless or in unstable housing during the 2016-2017 school year.

Rental Housing
Missoula continued to encounter low vacancy rates for rentals in 2017, with an average vacancy rate of just 3.0 percent. Certain types of rentals experienced rent increases of up to 9 and 6 percent for three- and four-bedroom units, while other rents increased by less than 2 percent.

The Missoula Housing Authority was able to support all 774 of its Section 8 vouchers, which subsidize rent, but the demand for this rental assistance greatly exceeds the supply. They still had 1,637 households on a waitlist for Section 8 vouchers in 2017.

Housing Sales & Prices
In 2017 Missoula experienced its most active year of home sales on record, with 1,543 homes sold. Of those, 39 percent were priced between $200,000 and $275,000—a price range that was considered in under supply according to the market absorption rates.

With a tight supply and competition among buyers, the median price of a home in Missoula increased 9.2 percent to $268,300 in 2017. Sales of homes under $200,000 declined by 26 percent, indicating a shrinking availability of more affordable homes. Meanwhile, sales of condominiums and townhouses, which often provide a more affordable option for buyers, increased by 29 percent in 2017.

New construction sales also hit a high in 2017, with 191 units sold, a 59 percent increase from 2017.

Housing Affordability
Housing affordability remains an issue for both renters and prospective homebuyers. The Missoula Housing Affordability Index increased slightly in 2017, after several years of decline. But it still remains that a household would need a median income of $64,038 to afford a median-priced home with a 5 percent down payment in 2017. With a 20 percent down payment, one would need a household income of $65,949.

In both 2015 and 2016 (which have the most recent available data), approximately 47 percent of Missoula renters spent more than 30 percent of their income on housing, which put them in the “cost burdened” category of being likely to have a hard time meeting other financial obligations. Comparatively, Missoula homeowners appear to be less cost burdened, with 25 percent of homeowners spending more than 30 percent of their income on housing costs in 2016.

Housing Finance
Mortgage rates remained affordable in 2017, with a year-end interest rate of 4.0 percent. However, student loan debt has been a hurdle for many borrowers. While conventional loan programs have changed the way they calculate this debt, the FHA and USDA Rural Development loans have not. Approximately 69 percent of 2017 buyers used a conventional loan. When it comes to down payments, Missoula homebuyers have access to a number of down payment assistance programs, as well as homebuyer and financial education.

The good news is that home mortgage foreclosures dropped to a 10-year low, with just 24 properties reaching foreclosure in 2017.
Lot Development

The trend of more buyers opting to buy newly built homes continues. Missoula area lot sales decreased a mere 3.6 percent in 2017 and still significantly outpaced those of 2010 through 2014 (TABLE 1, FIGURE 1). After three exceptionally stable years, the median price of those lots rose 8.1 percent, to $92,500, a historical high (FIGURE 2).

TABLE 1: Six fewer residential lots were sold in 2017 than the previous year, but the median price of those lots rose 8.1 percent.

FIGURE 1: Residential lot sales remained high in 2017.

FIGURE 2: The median price of a residential lot in Missoula increased to $92,500 in 2017.

Pace of Development

Both Missoula County and the City of Missoula experienced increased numbers of building permits. The city issued building permits for 238 single-family units in 2017, along with building permits for 505 multi-family units, which includes both apartments and condominiums (FIGURE 3). Building permits at the county level increased 25 percent for single-family units and 162 percent for multi-family units (FIGURE 4).

In the last several years, we have seen infill within the city shift away from subdivision development and towards multi-family units and townhome exemption development. Multi-family permits still remained high, and the number of townhome exemption development units permitted increased in 2017 by 65 percent (TABLE 2).

FIGURE 3: Total building permits in 2017 in the City of Missoula remained close to 2016’s record levels.

FIGURE 4: Missoula County experienced a sharp increase in all building permit categories in 2017.

TABLE 2: The number of housing units developed under the townhome exemption increased 65 percent in 2017.
Simultaneously, subdivisions took an upward swing, from just eight residential lots preliminarily approved in 2016 to 95 in 2017 (TABLE 3). Preliminary plat approval is the first step in creating new lots through the subdivision process, and numbers for this stage had been stalled since 2014. Once a subdivision achieves final plat approval, the lots may be utilized for new homes. The numbers of final plat approvals have seen less fluctuation in the last few years, and 2017 remained similar to the previous year (TABLE 4).

Due to increasing housing costs, low rental vacancy rates, and low inventories of for-sale housing, a question often asked is how growth in the housing supply compared to growth in the number of households in recent years. American Community Survey data from the US Census Bureau estimates that between 2010 and 2016, the number of households county-wide increased by 2,944 – an increase of roughly 1,851 households in the City of Missoula and 1,093 in the county outside city limits. During the same period, the number of housing units county-wide increased by an estimated 2,532 units – an increase of 1,647 housing units in the city and 885 in the county outside city limits.

A comparison of past and recent building permitting data indicates that more units of housing are being permitted in recent years compared to past years. During the real estate “boom” years of 2005-2007, more new single-family units and fewer new multi-family units were permitted than between 2015-2017. On average, fewer new single-family housing units and more new multi-family units were permitted per year of the current decade than the past decade (TABLES 5 AND 6).

As residential construction increases in Missoula, it’s worth taking into account the age of Missoula’s homes. Roughly half of Missoula County’s housing stock was built prior to 1980 (FIGURE 5).

TABLE 6: On average, fewer single-family units were permitted per year of the current decade than the previous decade. FIGURE 5: Roughly half of structures in Missoula County were built in 1979 or earlier.

During the real estate “boom” years of 2005-2007, more new single-family units and fewer new multi-family units were permitted than between 2015-2017. On average, fewer new single-family housing units and more new multi-family units were permitted per year of the current decade than the past decade (TABLES 5 AND 6).

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TABLE 6: On average, fewer single-family units were permitted per year of the current decade than the previous decade. FIGURE 5: Roughly half of structures in Missoula County were built in 1979 or earlier.
Migration

Three factors influence population change: birth, death, and net migration. Net migration factors in the number of individuals moving to the area, as well as those leaving. Typically, more people move to Missoula than move away, giving it a positive net migration. Net migration in Missoula County increased for the third year in a row in 2016, and more notably, the net number of people migrating in Missoula County grew significantly (FIGURE 9). In 2015, the net migration was 943 people; and that increased by 86 percent, to 1,758, in 2016. The natural increase (of births versus deaths) added 378 individuals in 2016.

Where do people migrating into Missoula come from? The best data available comes from an analysis of tax returns. While tax returns are not a perfect surrogate for number of households or persons, they nevertheless shed light on the relative proportions of where people come from when they move to Missoula County. These data indicate that in 2016, the majority of people moving into Missoula County came from outside of Montana while 41 percent came from within Montana (FIGURE 10). More migrants to Missoula County from out of state came from the western U.S. than from all other regions combined (FIGURE 11).

Missoula County is a regional economic hub and employment center. According to the most recent US Census data available, in 2015 there were 58,440 workers in Missoula County. Of these workers, 15,034, or nearly 26%, were living outside of Missoula County. Empirical data as to why more than one-fourth of the workforce chooses to reside in a different county is unavailable.

Population Dynamics

The total population of Missoula County increased 1.7 percent from 2015 to 2016 and reached a total population of 116,130 (FIGURE 8). Taking a longer look, from 2007 to 2016, the total population increased by 10,020 people, or 9.4 percent, a number that makes a significant impact on the Missoula housing situation. The majority of that growth has occurred within the City of Missoula, which added 7,776 people during that period. Unincorporated Missoula County increased by 2,244 people (or 5.4 percent) in the last decade.

Age Distribution

Residents ages 20 to 24 remain the largest age demographic in Missoula County (FIGURE 7), according to the most recent American Community Survey data. With few statistically significant changes from the previous year, the age distribution remains similar to 2015.

Keep in mind that data from the American Community Survey is from 2016 and is a year behind some of our other figures on home sales and rentals.

FIGURE 7: University-age students dominate the population pyramid in Missoula County.

FIGURE 8: Missoula County’s population continues to increase by less than 2 percent each year. In 2016, the population grew by 1,949.

FIGURE 9: The net migration in Missoula County increased by 86 percent from 2015 to 2016.

FIGURE 10: The majority of people moving to Missoula County came from out of state.

FIGURE 11: More migrants to Missoula County from out of state came from the western U.S. than from all other regions combined.
Income Trends

The estimated median income for all households in Missoula County in 2016 was $46,550 (FIGURE 12). As has been the case for several years, Missoula’s median income falls below that of U.S. households ($57,617). Missoula’s median income sat slightly below that of all Montana households, which was $50,027 in 2016.

However, when looking at the housing market, assessing median income of homeowners versus renters gives us more useful information. While Missoula homeowners had a median income of $64,612 in 2016, Missoula renters came in at less than half of that, with a median income of $31,146.

Note that there can be a large margin of error in this aggregated data, represented by the blocks of color in FIGURE 12. For a detailed picture of how median income is related to household size and housing affordability, see the Housing Affordability Index (FIGURE 38).

FIGURE 12: The median income of Missoula County homeowners is more than double that of Missoula County renters.
Missoula has encountered several years of low vacancy rates, and 2017 was no exception, with the annual vacancy rate at 3.0 percent (FIGURE 14). As is typical in a university town, vacancy rates fluctuate by season, going from a low of 1.2 percent in the first quarter of 2017 to a high of 4.8 percent in the third quarter, when summer turnover often occurs (FIGURE 13).

FIGURE 13: Rental vacancy rates in Missoula were at their highest during the third quarter of 2017.

FIGURE 14: The overall annual rental vacancy rate was 3.0 percent for 2017.
RENTAL HOUSING

Rental Prices

After 2016’s very slight decrease in rental prices (despite a tight rental supply), rental prices in Missoula increased in 2017 in nearly every category (FIGURE 17). However, less than half of those categories had average rents that exceeded their 2015 level. Three- and four-bedroom units saw the largest increases, of 5 to 6 percent, while one- and two-bedroom units increased by less than 2 percent.

The average rent for a one-bedroom apartment in a multiplex in 2017 was $632 while the average rent for a 3-bedroom house was $1,130.

The most recent data available for comparing the average Missoula rent to the average Montana rent comes from 2016. In recent years, the difference between the two has lessened. In 2016, Missoula’s average rent of $778 was $46 more than the Montana average of $732 (FIGURE 18).

It should be noted that reporting practices do not account for incentives, such as move-in bonuses or other marketing methods that may be used to attract renters.

FIGURE 17: The average cost of rent in Missoula increased in nearly every category in 2017, but in many cases it did not exceed 2015 levels.

FIGURE 18: In the last three years of available data, the average Montana rent has increased at a higher rate than Missoula rents.

Rental Assistance Programs

Housing choice vouchers make private-market housing affordable for low-income families and individuals by paying a portion of the family’s rent. The Missoula Housing Authority (MHA) has 774 available Section 8 vouchers that subsidize rent to private landlords for eligible participants, helping to make private-market housing affordable for low-income families and individuals. The Montana Department of Commerce provides another 262 vouchers. Federal funding remained sufficient in 2017 to support all available Section 8 vouchers. However, 2018 may be different; the budget is not finalized but as is currently proposed, it is too low to support all the vouchers.

Nevertheless, the demand for this type of rental assistance remains high. In September 2017, 1,637 households were on the Section 8 waiting list, nearly the same as 2016 (TABLE 7).

MHA also provides permanent supportive housing vouchers for disabled homeless families. While the program was initially able to serve as many as 135 households, a series of funding issues in 2016 left the program with an ongoing 19-percent reduction in funding. MHA is actively involved in the new community effort, called the Missoula Coordinated Entry System, to address the hardest-to-serve homeless (see “Homelessness”). This made slow progress in 2017 but should ultimately make Missoula’s limited resources more effective.

In 2017, Homeward built 27 new units of affordable housing, and MHA added an additional 6 units. In total, in the last ten years, 301 units of new affordable housing have been built in Missoula County (TABLE 8). At an average of roughly 30 units per year, it seriously falls short of needed production.

The big news in 2017 was the preservation of 257 units of affordable housing through Homeward’s purchase of Creekside Apartments and MHA’s purchase of Wildflower Apartments. Both projects otherwise would have likely been purchased by private market owners who would have raised the rents to market levels. The loss of that many units of below-market, rent-restricted housing stock would have effectively erased nearly a decade of development efforts in a single year. Instead the apartments will continue to be kept affordable under this local, non-profit ownership.

Looking forward, efforts to add affordable housing may be hampered by the recent tax bill, which significantly weakened the low-income housing tax credit. This credit has been the main tool for creating federal subsidies for building and rehabilitating affordable housing. The value of those credits has fallen because of a lower corporate tax rate.

TABLE 7: The waitlist in Missoula for Section 8 vouchers, which subsidize rent, continued to remain high in 2017, with 1,637 families waiting for assistance.

TABLE 8: In the last ten years, 301 affordable housing units have been built in Missoula County.

### TABLE 7

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>MHA Sec 8 Voucher</td>
<td>994</td>
<td>1,385</td>
<td>1,393</td>
<td>1,666</td>
<td>1,555</td>
<td>1,751</td>
<td>1,595</td>
<td>1,654</td>
<td>1,637</td>
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</tr>
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</table>

Source: Missoula Housing Authority.

### TABLE 8

<table>
<thead>
<tr>
<th>Affordable Housing Units Built in Missoula County</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017 TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Missoula County</td>
<td>35</td>
<td>37</td>
<td>5</td>
<td>34</td>
<td>115</td>
<td>0</td>
<td>36</td>
<td>6</td>
<td>0</td>
<td>33</td>
</tr>
<tr>
<td>Montana</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>301</td>
</tr>
</tbody>
</table>

Source: Montana Board of Housing.
Home Sales in 2017

The Missoula real estate market experienced another year of increased activity in 2017, where rising prices and home sales were juxtaposed with a dwindling supply at more affordable price points.

The median price of a home increased 5.2 percent to $268,250 in 2017 (TABLE 9 and FIGURE 20). In the last ten years, the median price of a home has increased by 24.7 percent. However, it’s worth noting that since 2014, the annual increase has closely mirrored the national average (FIGURE 19).

Home sales in 2017 were higher than any other year on record, with a total of 1,543 homes sold (FIGURE 21). Sales for each quarter were also up over the previous year, with the highest activity in the third quarter despite the extremely smoky fire season (FIGURE 22).

TABLE 9: The median sales price of a Missoula home in 2017 was $268,250.

FIGURE 19: The percent increase in the median sales price of a home in Missoula was nearly equal to that national average in 2017.

<table>
<thead>
<tr>
<th>Year</th>
<th>Annual Number of Sales</th>
<th>Median Price</th>
<th>% Change in Median Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>996</td>
<td>$215,000</td>
<td>-2.1%</td>
</tr>
<tr>
<td>2009</td>
<td>1,033</td>
<td>$208,775</td>
<td>-2.9%</td>
</tr>
<tr>
<td>2010</td>
<td>903</td>
<td>$200,500</td>
<td>-4.0%</td>
</tr>
<tr>
<td>2011</td>
<td>878</td>
<td>$205,000</td>
<td>2.2%</td>
</tr>
<tr>
<td>2012</td>
<td>1,068</td>
<td>$209,700</td>
<td>2.3%</td>
</tr>
<tr>
<td>2013</td>
<td>1,322</td>
<td>$215,000</td>
<td>2.5%</td>
</tr>
<tr>
<td>2014</td>
<td>1,265</td>
<td>$225,000</td>
<td>4.7%</td>
</tr>
<tr>
<td>2015</td>
<td>1,390</td>
<td>$238,700</td>
<td>6.1%</td>
</tr>
<tr>
<td>2016</td>
<td>1,392</td>
<td>$255,000</td>
<td>6.8%</td>
</tr>
<tr>
<td>2017</td>
<td>1,543</td>
<td>$268,250</td>
<td>5.2%</td>
</tr>
</tbody>
</table>

TABLE 9

Source: Montana Regional MLS

FIGURE 20: Since 2011, the median sales price of Missoula homes has steadily increased.

FIGURE 21: Home sales in 2017 outpaced all other years, with 1,543 homes being sold.

FIGURE 22: Sales increased in every quarter of 2017.
A tight supply in the Missoula area, especially among the more affordable price points, means that buyers often compete for the same property and sales prices tend to be very close to the original listing price. In 2017, homes sold at an average of 98.7 percent of their sales price (FIGURE 23). Buyers paying cash have a competitive advantage over buyers using other methods of purchase, particularly Federal Housing Administration (FHA), Veterans’ Affairs (VA), and Rural Development (RD) loans, as these loans typically take longer to process. In 2017, 1,057 home sales involved conventional loans, while 260 (or 17 percent) were cash (FIGURE 26).

We also reviewed seller concessions for this year’s report. These occur when a seller credits the buyer a certain amount of money off the sale price, usually closing costs. Of the 1,543 homes sold in 2017, 613 reported seller concessions with a median value of $3,000.

While the supply of more affordable homes is dwindling, more expensive price points are on the rise. Sales of homes under $200,000 declined by 26 percent from 2016 to 2017. Meanwhile, homes sales increased at every price point above $200,000 (FIGURE 24 and TABLE 10). Thirty-nine percent of all home sales in 2017 were between $200,000 and $275,000 (FIGURE 25). Home sales over $500,000, while still a relatively small share of the Missoula market, increased by 62 percent.

In 2017, 613 home sales involved seller concessions, with a median value of $3,000.

While the supply of more affordable homes is dwindling, more expensive price points are on the rise. Sales of homes under $200,000 declined by 26 percent from 2016 to 2017. Meanwhile, homes sales increased at every price point above $200,000 (FIGURE 24 and TABLE 10). Thirty-nine percent of all home sales in 2017 were between $200,000 and $275,000 (FIGURE 25). Home sales over $500,000, while still a relatively small share of the Missoula market, increased by 62 percent.

In 2017, most buyers bought their homes through conventional mortgages, while 17 percent had the advantage of buying with cash.
Condominiums & Townhouses

Sales of condominiums and townhouses increased by 29 percent in 2017 (FIGURE 27). Most of that surge came from units priced above $200,000. In the last two years, condos and townhouses have increased in popularity among buyers partly due to their costs often being lower than a starter house. Also, the market is providing a new supply of such units, with 50 newly constructed condos and 54 new townhomes being sold in 2017. The median price of a new condominium in 2017 was actually lower than it was in 2016 (TABLE 11). However, units priced below $100,000 have completely disappeared from the market.

FIGURE 27: Sales of condominiums and townhouses increased by 29 percent in 2017.

New Construction Sales

New construction sales hit a historic high of 191 units sold in 2017, a 59 percent increase from 2016 (FIGURE 28). This exceeds the 2006 level of 157 units, during the housing boom. The median price of a newly constructed single-family home was $305,140 in 2017, down slightly from the previous year (TABLE 11). It should be noted that this minor decrease in sales price may be attributable to statistical variance and is not due to decreasing building costs, which have increased rapidly in recent years.

TABLE 11: New construction sales were up considerably in 2017, but the median prices of these units remained relatively unchanged.

FIGURE 28: Sales of new construction units increased to 191 sold in 2017.

Sales Trends in Neighborhoods

In the 2017, the Missoula neighborhoods with lower median sales prices (FIGURE 30) experienced the highest number of sales (FIGURE 29). The areas of Mullan Road/Expressway, Central Missoula, Lewis and Clark, and Downtown/Northside were the top-selling areas.

The largest jump in sales activity in 2017 occurred in the Downtown/Northside area, where sales increased by 45 percent. This neighborhood had a median sales price of $206,000, which was the lowest of all neighborhoods and was the only median price to decline by 1.9 percent in 2017.

Grant Creek, Miller Creek, and the Rattlesnake neighborhoods had the highest median prices.

FIGURE 29: Eight of Missoula’s neighborhoods saw increased home sales in 2017 while four had declining numbers.

FIGURE 30: In 2017, the median price increased in all but one neighborhood, Downtown/Northside Missoula.
The Housing Price Index (HPI) helps us measure appreciation by looking at changes in single-family home prices. The Federal Housing Finance Agency (FHFA) obtains the data by reviewing repeat mortgage transactions on properties purchased or securitized by Fannie Mae and Freddie Mac. When a home is sold, the price is compared to previous sale prices for the same home; the same goes for refinancing. An index value of 100 equals the value in January 1995.

Repeat sales in Missoula in 2017 continued to be higher than other state and national markets, as has been the trend for several years. For the third quarter of 2017, Missoula had an HPI of 263.89, which was 7 percent higher than the third quarter of 2016 (FIGURE 31). More expensive price points typically have higher absorption rates. In 2017, as more homes sold above $425,000, that price point saw some of its lowest absorption rates, with the supply staying in the four- to six-month range for the first three quarters.

Missoula’s overall market officially entered an under-supply in the second quarter of 2016, briefly emerged into a “normal market” rate in the first quarter of 2017, and then spent the rest of 2017 with an absorption rate below three (FIGURE 32).

As a general rule, the absorption rate defines various market conditions:
- Under three months is an under-supply
- Three to nine months is a normal market.
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However, when you look at the absorption rate by price point, several price ranges have a longer history of being in under-supply, and 2017 saw those supplies continuing to decline (FIGURE 33). The absorption rates for homes between $200,000 and $275,000 have been under three since the second quarter of 2015 (FIGURE 34). More expensive price points typically have higher absorption rates. In 2017, as more homes sold above $425,000, that price point saw some of its lowest absorption rates, with the supply staying in the four- to six-month range for the first three quarters.

The higher-priced neighborhoods of Grant Creek, Miller Creek, the Rattlesnake and the University/Slant area had a three-plus month supply at the end of 2017 (FIGURE 35). Nearly all other neighborhoods, many of them with lower median prices, exhibited an under-supply.

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While 2017 ended with mortgage interest rates at 4 percent for a 30-year fixed rate (FIGURE 36), the story of interest rates remained complex and varied throughout the year.

Mortgage rates and the interest rates set by the Federal Reserve System (often referred to as the Fed) are not directly tied to each other. Mortgage rates can move every single day (sometimes several times in a day) while the Fed Funds Rate (the only rate the Fed sets) is typically only adjusted at Fed meetings eight times a year. Mortgages and other parts of the interest rate world are constantly adjusting to economic and monetary realities while waiting for the Fed to officially anchor the shortest end of the rate spectrum. Mortgage rates will also move in anticipation of a certain Fed outcome. But as the 2017 rates illustrated, the Fed raising their rates can sometimes lower the mortgage rates.

At the end of 2016, interest rates had begun to climb, only to decline in early 2017. But by mid March, in anticipation of the Fed’s announcement of another interest rate hike, the mortgage interest rates reached their highest percentage in nearly three years at 4.375 percent. Financial markets figured the Fed would ramp up the rate hike outlook aggressively based on comments made in late February.

But the Fed’s median outlook didn’t change at all for 2017 and 2018. They even went a step further and had begun to account for a faster pace of future rate hikes. Mortgage rates improved after the Fed rate hike announcement.

While the Fed did indeed hike the short-term rate three times in 2017, the hikes were widely expected and had already been accounted for in longer-term bond markets (like those that dictate mortgage rates).

By summer of 2017, mortgage interest rates were back down to the 4-percent range, and they hit the lowest levels of the year in early September at 3.75 percent. These lower rates were initially motivated by headlines of North Korea launching a missile that flew over Japan, which is the type of news that tends to cause stocks and rates to fall.

In addition, 2018 started with the Conventional Loan Limit being increased to $453,100, which is the largest increase in the loan limit since 2006. Borrowers faced both new opportunities and challenges. In mid-2017 Fannie Mae expanded the number of borrowers that could get approval with a debt-to-income ratio of 45 to 50 percent of their gross monthly income. This expanded approval is for borrowers that are considered a good credit risk. (The standard debt-to-income ratio is generally 43 to 45 percent of gross monthly income.)

Impacts of Mortgage Insurance

Private mortgage insurance (PMI) is a policy, paid for by the homeowner, that protects the lender in the event that the homeowner defaults on payments. While not all loans require PMI, it is required on conventional loans when the first mortgage is greater than 80 percent of the property value/purchase price. Federal Housing Administration (FHA) and Rural Development loans also require mortgage insurance.

Thus, low down payments generally translate to the additional cost of PMI for homeowners. For 2017 taxes, you can still deduct the PMI if your income is under $100,000 and it adjusts for incomes between $100,000 and $110,000.
Down Payments

For those borrowers who make 80 percent or less of the area median income, there are down payment assistance program options. These additional assistance programs are available through NeighborWorks Montana and the Federal Home Loan Bank/HomeStart Grant. Additionally, qualified applicants can use the Human Resource Council’s down-payment assistance program for their gap financing.

Down payment programs are also available for those who make up to 115 percent of the area median income, with the Montana Board of Housing and NeighborWorks Montana both offering second mortgage options.

All of the above programs require that applicants for down payment assistance programs complete a certified first-time homebuyer class and show that they have the ability to save some of their own down payment funds.

Foreclosures

Home mortgage delinquencies and foreclosures dropped to a 10-year low, with only 102 properties being given a notice of sale and just 24 reaching foreclosure in 2017 (TABLE 12 and FIGURE 37). In addition to a strong economy, those numbers may be due to homebuyer education programs, financial fitness classes, foreclosure prevention, and more conservative underwriting standards.

TABLE 12: Fewer properties are experiencing home mortgage delinquencies (notices of sale) and foreclosures in Missoula.

FIGURE 37: Foreclosures on homes in Missoula dropped to just 24 in 2017.

<table>
<thead>
<tr>
<th>Year</th>
<th>Notice of Sale</th>
<th>Cancellation of Sale</th>
<th>Net Foreclosures</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>313</td>
<td>186</td>
<td>127</td>
</tr>
<tr>
<td>2009</td>
<td>565</td>
<td>303</td>
<td>262</td>
</tr>
<tr>
<td>2010</td>
<td>719</td>
<td>486</td>
<td>233</td>
</tr>
<tr>
<td>2011</td>
<td>493</td>
<td>351</td>
<td>142</td>
</tr>
<tr>
<td>2012</td>
<td>431</td>
<td>280</td>
<td>151</td>
</tr>
<tr>
<td>2013</td>
<td>270</td>
<td>162</td>
<td>108</td>
</tr>
<tr>
<td>2014</td>
<td>206</td>
<td>144</td>
<td>62</td>
</tr>
<tr>
<td>2015</td>
<td>248</td>
<td>196</td>
<td>52</td>
</tr>
<tr>
<td>2016</td>
<td>137</td>
<td>93</td>
<td>44</td>
</tr>
<tr>
<td>2017</td>
<td>102</td>
<td>78</td>
<td>24</td>
</tr>
</tbody>
</table>

Source: Stewart Title

Home Ownership Programs

Homeword is a statewide nonprofit that develops homes that Montanans can afford and is a HUD-approved Housing Counseling Agency. They have one of only three Regional HomeOwnership Centers® in the state of Montana. Homeword provides a full continuum of services including financial literacy education and counseling, renter education and counseling, homebuyer education and housing counseling, and foreclosure prevention counseling.

Homeword predominantly serves people earning low-to-moderate incomes. As a nonprofit, all services are provided at no cost with the exception of the homebuyer education class, which is $25 per person (or $40 per household). 

In 2013, a study by NeighborWorks America found that homebuyer education and pre-purchase housing counseling are key to successful homeownership. In fact, homeowners who receive pre-purchase housing counseling and education are about one-third less likely to become seriously delinquent on their mortgage payments within the first two years of owning their home as compared to those who don’t receive such services.

Most of Homeword’s housing counseling clients plan to use a conventional loan through Fannie Mae (having good credit and 5 percent down) or a federally insured loan (Rural Development, FHA or VA) with Montana Board of Housing (MBOH) through an approved MBOH lender of their choice.

A 2017 report by the Housing Finance Policy Center reported that over 50 percent of renters stated that down payments were a barrier to owning a home, which highlights the need for financial education to prepare for homeownership. At Homeword, this trend was apparent as an increasing numbers of clients participated in financial education and coaching options. In 2016, 164 people accessed financial education and/or financial coaching; in 2017 that grew 114 percent to 351 people. Of those 2017 participants, 84 percent were women and 45 percent were living on 50 percent or less of the area median income ($21,407).

A Certified Housing Counselor is available by phone to answer questions the public may have about foreclosure.

TABLE 13: A growing number of people are accessing Homeword’s financial counseling and financial workshops.

<table>
<thead>
<tr>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Served by Homeownership Center</td>
<td>939</td>
<td>930</td>
</tr>
<tr>
<td>Attended homebuyer ed &amp; pre-purchase counseling</td>
<td>627</td>
<td>660</td>
</tr>
<tr>
<td>Accessed financial ed classes &amp; workshops</td>
<td>97</td>
<td>123</td>
</tr>
<tr>
<td>Accessed financial counseling</td>
<td>26</td>
<td>28</td>
</tr>
</tbody>
</table>

Source: Homeword
HOUSING AFFORDABILITY

The Housing Affordability Index

T
he Housing Affordability Index (HAI) measures the ability of a family earning a median income to purchase a median-priced home. An index value of 100 means that a household with a median income has exactly enough income to spend 25 percent of their income on a mortgage for a median-priced home. A value higher than 100 indicates that family has more than enough income to qualify for a mortgage on a median-priced home. Conversely if the HAI is below 100 (as it is in Missoula), it indicates that a median-priced home would not be as affordable for that household.

While the HAI Index for Missoula registered well below 100 when assuming a 5-percent down payment, it did not decline in 2017 (FIGURE 38). Under that down payment, the HAI ranged from 55 to 78 in 2017, depending on family size. That indicates that a family with a median income would have a difficult, if not impossible, time qualifying for a mortgage on a median-priced home.

In determining this year’s HAI, we show data for two different scenarios: one assuming a 5-percent down payment, which is reflected in FIGURE 37, and one assuming a 20-percent down payment, which is how the national HAI is calculated. Comparing the two shows how a lower 5-percent down payment, plus the necessary mortgage insurance, significantly lowers the overall affordability (TABLE 14).

The HAI model in this year’s report was reconfigured to more accurately reflect current market conditions. In the past, we used a 4-percent down payment; this year, we changed it to a more common 5-percent down payment. We also decreased mortgage insurance payment amounts; we found that previous year’s calculations were higher than actuals. We increased the property tax payment for 2017 to reflect higher property tax rates.

The 20-percent down payment does not include mortgage insurance, but amounts to $53,650 for a median-priced home. Both scenarios figure in property taxes and homeowner’s insurance. Mortgage insurance rates assume a 700 credit score.

At the bottom of TABLE 14, you can see the effect a down payment has on affordability. If a family tried to purchase a median-priced home that cost $268,250 in Missoula in 2017 with a 5-percent down payment, they would have needed a median family income of $84,038. However, if that same family had a larger 20-percent down payment, they only would need a median income of $65,949. The reality, however, is that few people have 20 percent down unless they are bringing proceeds from a previous real estate sale to the table.

FIGURE 38: The Housing Affordability Index (HAI) leveled out in 2017 but still indicated that a median-income household would have a difficult time affording a median-priced home.

TABLE 14: A household would need a median income of $84,038 to afford a median-priced home with a 5-percent down payment in 2017. However, they would only need a median income of $65,949 to purchase that same home with a 20-percent down payment.
It is generally accepted that no more than 30 percent (and, more safely, 25 percent) of a household’s gross monthly income should be spent on housing. Households that must spend a large portion of income on housing have a difficult time meeting other obligations and are considered “cost burdened.”

Historically, a worrisome proportion of Missoula residents spend 30 percent or more of their income on housing. In both 2015 and 2016, approximately 47 percent of Missoula renters spent more than 30 percent of their income on housing. Comparatively, approximately 25 percent of Missoula homeowners spent more than 30 percent of their income on housing costs in 2016 (FIGURE 39).

FIGURE 39: In both 2015 and 2016, approximately 47 percent of Missoula renters spent more than 30 percent of their income on housing. (The colored blocks represent the range in the margin for error with this data.)

Unemployment

The unemployment rate is the percentage of the total labor force that is unemployed but still able to work and actively seeking employment. Missoula’s unemployment rate remained relatively low at 4.2 percent in 2016, the most recent year of data available (FIGURE 40). According to the U.S. Department of Labor, the national unemployment rate was 4.7 percent in December 2016.

FIGURE 40: Missoula County had an unemployment rate of 4.2 percent in 2016.

Poverty

To determine who is in poverty, the U.S. Census Bureau sets an income threshold under which an individual or family is deemed to be living in poverty. This threshold varies based on family size, living situation, and age. In 2016, approximately 16 percent of Missoula County was considered to be living in poverty (FIGURE 41).

FIGURE 41: The number of Missoula residents living in poverty has remained around 16 percent for the last several years. (The bars of color represent the margin of error for this data.)
Homelessness

In June 2017, members of the Missoula At-Risk Housing Coalition implemented new strategies in the Coordinated Entry System in alignment with Missoula’s 10-Year Plan to End Homelessness, the U.S. Interagency Council on Homelessness, and the U.S. Department of Housing and Urban Development. Coordinated Entry Systems (CES), in general, reduce the burden on people experiencing homelessness by providing clear access points and a coordinated effort to provide assistance. Missoula’s CES creates a standardized process for coordinating assessments and referrals for homeless housing assistance.

This newly designed system is being implemented in several phases (as well as statewide). It aims to prevent and divert households from entering the homeless system, streamline and reduce duplication of homeless housing and service provider efforts, and provide system-level data that assists with strategic planning and decision-making. The end result is an intentional process of targeting and prioritizing limited housing resources for people who are experiencing homelessness and are identified as being the most vulnerable. This not only saves lives but it saves our community money as well.

Missoula’s CES re-design will take some time to fully implement and demonstrate positive outcomes for people experiencing homelessness in our community, but it is on track thanks to the motivation and commitment of the At-Risk Housing Coalition as well as key community and statewide stakeholders.

Missoula’s current homeless data is trending down. According to our 2017 point-in-time data, there were 344 homeless individuals in January 2017, a 12.9 percent decrease from the 395 in January 2016 (FIGURE 42). The point-in-time survey is a nationally coordinated and simultaneous effort to identify the number of persons experiencing homelessness on a single night during the last week in January. This number is only a snapshot in time, but it’s the best estimate we have until our CES builds a foundation and the Montana Continuum of Care provides the software and technology to record, store, and track characteristics and service needs of people experiencing homelessness.

Missoula’s total homeless population comprises 22.56 percent of the statewide homeless population, second to Billings (28.2 percent). Montana saw an overall 2.89 percent increase in homelessness between 2016 and 2017, which is slightly higher than the national findings presented in the 2017 Annual Homeless Assessment Report to Congress. The report also concluded that Montana is one of five states to have the highest rates of unsheltered people in families with children (the other four are North Dakota, Oregon, Wyoming and Florida).

Missoula and other communities in Montana are working harder and smarter to rapidly respond to people experiencing homelessness who have significant housing barriers and service needs. We are dedicated to reaching functional zero for all populations, including families with children. (Functional zero means the number of individuals experiencing homelessness is no greater than the average monthly housing placement rate.)
In 2017, Missoula saw increasing housing demand from a growing population, a short supply of homes for sale and rentals, and a steep increase in home sales prices. Consequently, housing affordability remains a challenge.

Rental housing recorded a vacancy rate of just 3 percent, and the real estate market had a tight supply, on average, throughout most of 2017.

With a growing population straining the housing supply, construction is on the rise. Missoula was host to an increase in lot sales and building permits in 2017, as well as renewed activity in preliminary plat approvals for subdivisions. This may provide some relief as the Missoula population continues to add residents each year. In 2016, the population increased 1.7 percent, to 116,130. However, according to US Census Bureau estimates, county-wide growth in the housing stock lagged slightly behind growth in the number of households between 2010 and 2016.

With a decidedly sellers’ market, residential real estate sales were the highest on record. The median sales price of a Missoula home also reached a new high, of $268,250. But homes at more affordable price points were starting to disappear from the market, and there was less than a three-month supply of homes under $275,000 in 2017. Many buyers turned to townhomes and condominiums to find more affordable options.

The median income of Missoula residents increased to $46,550 in 2016, although this still remains below the median incomes for Montana and the U.S. The income increase has not matched increases in home prices, but 2017 did mark a year in which the Housing Affordability Index did not decline in Missoula, in part thanks to the median income.

Renters in Missoula, however, have a much lower median income of $31,146, and the impact this has had on affordability played out in several data points this year. Approximately 47 percent of Missoula renters spend more than 30 percent of their income on housing costs—a percentage that makes it difficult to meet other financial obligations. This trend is further illustrated in the demand for Section 8 housing vouchers; some 1,637 households remain on a waitlist for just 774 vouchers. Homeword and the Missoula Housing Authority were able to add 33 new affordable units in 2017, as well as preserve 257 units that were at risk of being sold, but the demand for these units exceeds actual production.

In addition, Missoula—and Montana in general—faces challenges with the number of homeless individuals. A point-in-time survey identified 344 homeless individuals on a single night in 2017, while the Missoula County Public Schools estimated that 438 children were unstably housed throughout the 2016-2017 school year. With a newly designed Coordinated Entry System to help provide better assistance to the homeless and those at risk of being homeless, Missoula is hopeful that in years to come this population will decrease.

In January of 2018, the Missoula Organization of REALTORS® and partners including the City of Missoula, Missoula County, and a number of other organizations released Making Missoula Home: A Path to Affordable Housing. This study provides strategies for local governments, the private sector, and nonprofits to improve housing affordability through regulatory reform, incentives for developing housing in affordable price ranges, capacity building, and advocacy. MOR will continue to work with our partners and utilize Making Missoula Home’s findings to address housing affordability.

As we watch Missoula grow and attempt to adapt to its growth, both the challenges and opportunities are numerous. A lack of affordability and a tight supply of housing continue to constrain the housing market, but at the same time, the area is experiencing growth and an improved economy. Most importantly, as a community, Missoula remains devoted to addressing issues of affordability, homelessness, and quality of life so that this remains a viable home for all.
Report Available Online:
www.MissoulaRealEstate.com
Under “Market Trends”

724 Burlington Ave
Missoula, MT 59801
P: 406-728-0560
Comments@MissoulaRealEstate.com