

State of Missoula Housing Report

A service of the
Missoula Organization of REALTORS®



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Missoula Housing from 10,000 feet

The purpose of the State of Missoula Housing Report is to give a general overview of the housing in Missoula. The report will compare 2005 to previous years and give a broad picture from a variety of data sources. Specifically the report addresses: a) single family housing; b) land costs; c) investing in Missoula Real Estate; and d) where the community growth is coming from.

Missoula experienced a strong housing market between 2001 and 2004. 2005 proved to be another solid year for home sales. The demand for housing in Missoula is on the rise and appears not to be cooling anytime soon. Contrary to common perception, the demand is fueled not so much by people moving here from out of state, including those who had lived here before and are returning, but by the numbers of people who are growing up here and want to stay.

Many factors contribute to how strong or weak the housing market is every year i.e. supply and demand, interest rates, cost of building, land prices, and more. However, there are many misconceptions about what drives the cost of a home. A REALTOR® can do a market analysis for a home, but it is the market that determines the price that a seller is willing to accept and a buyer is willing to pay. To put Missoula growth in simple terms, it is a matter of supply versus demand and the market is setting the price of a home.

In order to gain a better understanding of the market in which its members live and work, the Missoula Organization of REALTORS® (MOR) has sponsored a series of public forums called Community Through Business (CTB). According to national guest speakers at CTB, Western Montana has the fastest growing counties in the state with Ravalli, Lake and Missoula ranking number 1, 5, and 8 respectively. Information from CTB speakers also showed the City of Missoula is the 59th fastest growing metropolitan city in the United States.

According to the 2005 University of Montana Bureau of Business and Economic Research report, Missoula home prices increased 9.6 percent last year. According to the National Association of REALTORS® (NAR), the number of existing home sales in Montana increased by 9.8 percent. The numbers support the fact that many people want to live here and that drives the size of our community. This trend will continue as long as the rivers flow, sun shines, and Missoulians continue to be, well...Missoulians.

Community Profile at a Glance

The community of Missoula prides itself on being a unique and individual culture. According to John Ansbach of RECON Intelligence Services, a national consulting firm that works with MOR, Missoula has been discovered, thanks to things such as technology and globalization brought about by the internet, media, and good old fashion international marketing exposure.

One way to gain an understanding of Missoula is by looking at the generational makeup of the people that live here and what each generation prefers. Understanding the differing world views of the four active generations can go a long way toward solving conflicts in civic life; and “That’s especially true in an age-diverse town like Missoula”, says Ansbach.

Every generation has its own preferences for communication, consumer goods, housing preferences, types of food and music, values, and more. The home and land preferences of each generation (for homeownership) are important to remember in this report. While these are generalities that will not fit every individual, the commonalities of the generations can provide one tool for analyzing community dynamics.

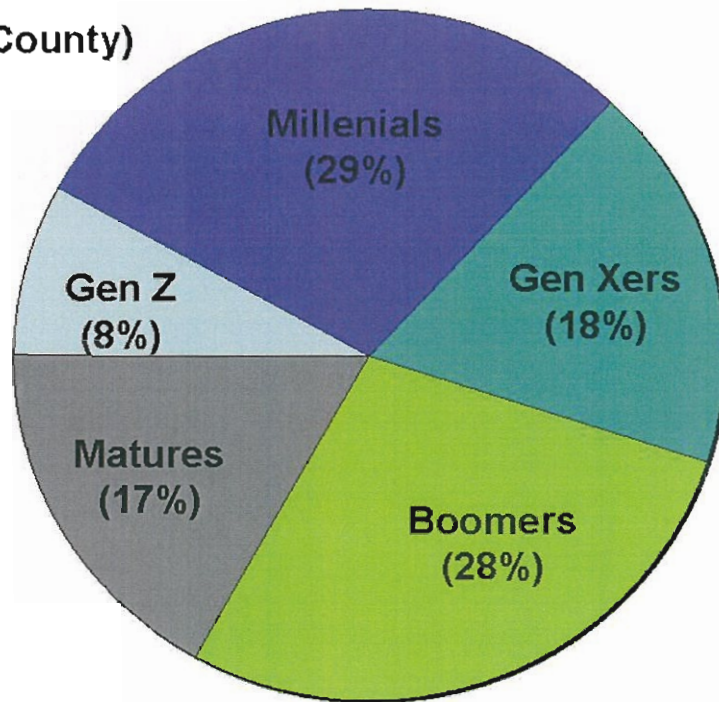
For example, Gen X and Millenials are fiercely independent and technologically empowered. For Baby Boomers, their work ethic is their worth ethic. The Matures appreciate the reward at the end of the journey and they have saved for that day, living through hard times such as the Great Depression. Although we have different generational preferences on many things, we all share the vision of living in a strong community regardless of the generation.

According to his national data, John Ansbach states the community of Missoula is relatively young compared to the rest of the nation and Montana. The average individual living here is 30.3 years old and 55% of the Missoula community is 40 or younger.

The following is a breakdown of the generations and Missoula community make up:

			<u>Date of Birth</u>
➤	Generation Z	-	1995 to Present
➤	Millenials	-	1977 to 1994
➤	Generation X	-	1965 to 1976
➤	Baby Boomers	-	1946 to 1964
➤	Matures/Civics	-	Before 1946

**Missoula Area
(City and County)**



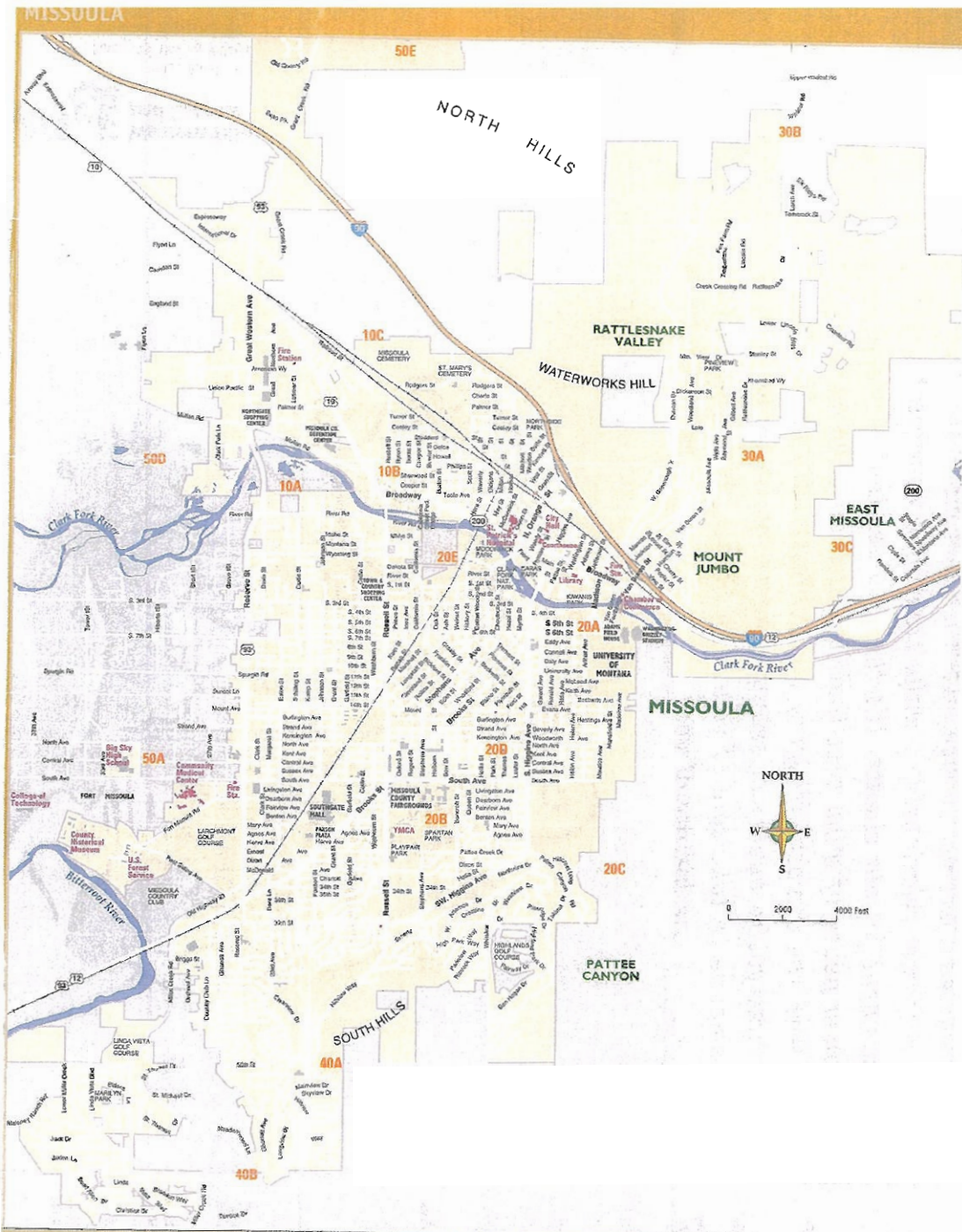
Source: RECON Intelligence Services

Description of Data in this Report

Market information in this report is taken from the database compiled and maintained in the MOR Regional Multiple Listing Service (MLS). The data collected and reported on is based upon the MLS information which is assessed by over 1,000 REALTORS® in Western Montana. The report is based on data collected from the MLS Areas 10, 20, 30A/B/C/D, 40, 44 and 50.

The following is a general map of the MLS Areas and they are generally defined as:

- Area 10 - Missoula City, Downtown, Central Missoula
- Area 20 - University, South Hills, Fairviews/Pattee Canyon
- Area 30 - Rattlesnake, Bonner, East Missoula, Clinton, Turah
- Area 40 - South Hills, Linda Vista, Miller Creek
- Area 44 - Lolo, South to the County Line
- Area 50 - Target Range, Orchard Homes, Big Flat, Blue Mountain, Mullan Road, Grant Creek



*Note: Map does not show MLS Area 44

A familiar point of reference can be defined by picturing oneself standing at the “M” on top of Mount Sentinel overlooking the valley. The area in view is the general focus of this report, with the exception of Clinton and Turah, which are also included. Where noted, Lolo is also included as part of the market area.

The report shows trends based on that information and does not state or imply that it represents all real estate activity in the Missoula housing market. This data also does not reflect the unrepresented seller, often referred to as the ‘For Sale By Owner’.

Housing Bubble? No, Think Balloon

What is the housing bubble and what happens if it ‘bursts’?

The *housing bubble* is often referred to when the valuation of real estate begins to rise rapidly. The *burst* occurs when the home prices and valuations exceed the sustainable levels of income and other economic factors, resulting in a rapid loss in equity. According to NAR, this has not happened in the United States since the Great Depression in the 1920’s, but the various American medias continue to hover over numbers, waiting to pounce on any indication of a down turn.

Think Balloons not Bubbles. According to the National Association of REALTORS® Chief Economist, David Lereah, Ph.D., the national housing market boom may experience a cool down in 2006; however, local markets will continue to remain healthy. Dr. Lereah says the signs to look for in a market that is tiring are: a) rising mortgage rates; b) rising inventory; c) stretching credit; d) dropping affordability; e) lengthening days on market; and f) more speculation.

On a national scope, Mr. Lereah assures us that there is no reason for panic, “The housing market may be slowing down, but it’s still strong and healthy.” Rather than housing bubbles, Lereah likens today’s housing markets to balloons. “You can put air in a balloon and it expands or you can take air out and it shrinks. Various metro markets got real hot over the last four years. Air went into those balloons and the prices went up. But now, air is coming out of the balloons. We’re hearing a hissing sound-not a pop...there’s a soft landing ahead.”

Many factors affect housing activity trends such as household income, finance costs, home prices, and supply and demand. Currently, mortgage rates are favorably low and the housing supply continues to swing upward in Missoula. Even though home prices have increased in recent years, historical data shows housing affordability remains achievable.

National housing market trends are usually not felt in Missoula until some time later. That is not to say that what happens on a national level never happens here and can be ignored. We can get a strong indication and make educated predictions by monitoring national, state and regional trends. For example, what happens to the Missoula market if

the national housing market continues its growth? If interest rates hit 8, 9 or 10%? If the Missoula employment and income levels support the cost of living? Each indicates whether the housing market is rising, cooling, or is steadily healthy.

A fundamental fact is that housing is always going to be a basic human need and as the population grows, so does the demand. It is safe to say the housing 'bubble' will not 'burst' in 2006, nor will value to homeowners. Sales may slow and soften perhaps because of higher interest rates, a changing job market, or increased supply; however, there is no reason for panic and falling victim to the media hype of a "*housing bubble going 'pop'!*"

Often, the going wage rates and housing affordability are discussed concurrently. Clearly, current average salaries can present challenges to homeownership in Missoula. This report makes no attempt to address income issues, but it does demonstrate the median income and median home prices in the Housing Affordability Index table.

Housing Affordability Index (HAI)

Missoula residents have experienced a salary increase each year since 2001, but the median home price has increased at a steeper percentage. According to the US Department of Labor, the 2005 average annual pay in Missoula is \$28,625, which is up from \$26,181 in 2001. According to homeWORD, the average median household income for two persons is up from \$34,300 in 2001 to \$42,800 in 2005. The median price for a home in Missoula has increased in 2001 from \$140,000 to \$185,000 in 2005.

According to lenders in the Missoula area, the traditional 20% down payment is becoming less and less common. One of the main reasons for smaller down payments is the competition in the mortgage market. The consumer has many more mortgage options to choose from such as interest only loans, 40-year fixed, negative amortization, first time home buyer programs, changes in Veteran Administration Programs, Adjustable Rate Mortgages (ARMS), and more. From 2001-2004, MOR used a down payment of 10% for the following HAI table. The mortgage market competition caused an even lower down payment (or no down payment) in 2005; the average down payment last year was between 3-5%. MOR used the average of 4% to calculate this table.

The Housing Affordability Index is calculated by using local interest rates, local median price, local median family income and loan terms. The formula used to calculate the HAI is attached to this report.

The following HAI table shows that median income family has enough to purchase a median priced home if the number calculated equals 100%. For example in 2005, the income needed for an HAI of 100% is \$55,484. The HAI shows that a one person household in 2005 has approximately 68% of the amount of income needed to purchase a median priced home of the same year. Since 2001, the median income and median home price have increased; however the median home price has risen faster (6.21%) than the 2 person household income has increased (4.94%) over the last five years.

This table illustrates the **Housing Affordability Index** for the Missoula urban area, not including Lolo since 2001:

	2001	2002	2003	2004	2005
Median Home Price (source: MOR)	\$140,000	\$143,730	\$165,000	\$183,350	\$185,000
Down payment	10%	10%	10%	10%	4%
Interest Rate (average)	6.25%	5.75%	5.5%	5.5%	6.75%
Loan Term	30 years	30 years	30 years	30 years	30 years
Median Family Income (source: homeWORD)					
1 person	\$30,000	\$31,600	\$34,200	\$37,000	\$37,400
2 person	\$34,300	\$36,200	\$39,000	\$42,200	\$42,800
3 person	\$38,600	\$40,700	\$43,900	\$47,500	\$48,100
4 person	\$42,900	\$45,200	\$48,800	\$52,800	\$53,500
Housing Affordability Index (HAI)					
1 person	*80%	*87%	*84%	*82%	*68%
2 person	*92%	*100%	*96%	*94%	*77%
3 person	*103%	*112%	*108%	*105%	*88%
4 person	*115%	*124%	*121%	*117%	*97%
Median Family Income needed to obtain an HAI of 100%	\$37,200	\$36,192	\$40,464	\$44,928	\$55,484

***KEY:**

100% - A median income family has enough to purchase a median priced home

>100% - A median income family has xx% more income than the minimum income required to purchase a median priced home

<100% - A median income family has xx% of the income required to purchase a median priced home

Note: The formula used to calculate the HAI is attached to this report

Income and Availability

Based on the numbers above obtained from homeWORD's data on the Median Family Income, the following tables show what someone could afford in the Missoula Urban area, not including Lolo, at the current income levels. The number of units available in these price ranges as of **February 16, 2006** is also shown.

2005 Median Family Income (source: homeWORD)	1 person	2 person	3 person	4 person
	\$37,400	\$42,800	\$48,100	\$53,500

		Price of affordable home based on 25% of median income	Price range searched in MLS	Total number of units available per price range
1 person income	-	*\$125,000	< \$125K	40 (24 condos & 3 manufactured)
2 person income	-	*\$143,203	\$125,001 - \$143,203	19 (4 condos & 1 manufactured)
3 person income	-	*\$160,936	\$143,204 - \$160,936	47 (7 condos & 3 manufactured)
4 person income	-	*\$179,004	\$160,937 - \$179,004	54 (19 condos & 1 manufactured)

*Note: Calculations do not include taxes or insurance

Sales Activities

I. Total Home Sales in Missoula Urban Area

Sales volume has increased steadily in five years. The following are total home sales for the entire year in the Missoula urban area (MLS Areas 10, 20, 30A-D, 40, and 50) and the greater Missoula urban area including Lolo (area 44).

<u>Year</u>	<u>Missoula Area # of Annual Sales</u>	<u>Median Price</u>	<u>% change</u>	<u>Missoula/Lolo Combined</u>	<u>Median Price Combined</u>	<u>% change</u>
2001.....	1,102.....	\$ 140,000.....		1,211.....	\$ 138,000.....	
2002.....	1,038.....	\$ 143,730.....	2.6 %.....	1,119.....	\$ 149,500.....	7.7 %
2003.....	1,070.....	\$ 165,000.....	12.9 %.....	1,150.....	\$ 163,000.....	8.3 %
2004.....	1,187.....	\$ 183,350.....	10.0 %.....	1,288.....	\$ 179,000.....	8.9 %
2005.....	1,427.....	\$ 185,000.....	0.09 %.....	1,537.....	\$ 192,000.....	6.7 %

II. Single Family Sales and New Construction

The total sales of new construction, condos, and manufactured homes show steady growth and initial indications suggest this may continue into 2006. This data includes Missoula urban area and Lolo.

<u>Year</u>	<u>New Construction</u>	<u>Condos</u>	<u>Manufactured Homes</u>	<u>Total</u>
2001.....	136.....	64.....	25.....	225
2002.....	170.....	74.....	42.....	286
2003.....	198.....	77.....	25.....	300
2004.....	249.....	75.....	35.....	359
2005.....	306.....	143.....	52.....	501

III. Number of Days on Market for Single Family Units

According to NAR Chief Economist David Lereah, one item to monitor that may indicate signs of a tiring market are lengthening of days on market or DOM. This data includes Missoula urban area and Lolo.

<u>Year</u>	<u>January - June</u>	<u>July - December</u>	<u>Annual Average DOM</u>
2001.....	113.....	100.....	107
2002.....	100.....	85.....	93
2003.....	99.....	104.....	104
2004.....	106.....	102.....	102
2005.....	114.....	107.....	109

IV. Land/Bare Residential Lots sales

One of the major factors in the cost of housing is the cost of land. Those addressing housing needs continue to search for ways to use the land in the most cost effective way.

<u>Year</u>	<u>Missoula # of Lots</u>	<u>Median Price</u>	<u>MSO/Lolo # Lots Combined</u>	<u>Combined Median Price</u>
2001.....	28.....	\$ 43,450.....	28.....	\$ 43,450
2002.....	74.....	\$ 79,900.....	75.....	\$ 79,900
2003.....	58.....	\$ 75,900.....	59.....	\$ 75,900
2004.....	64.....	\$ 89,250.....	64.....	\$ 89,250
2005.....	63.....	\$ 90,000.....	92.....	\$ 81,850

V. Building Permits in Missoula Urban Area for Fiscal Year 2005

The following are the building permits issued according to the Missoula Building Inspection Division for fiscal year 2006, which begins in July, 2005.

<u>New Construction</u>	<u># Permits Issued:</u>	<u>FY to date 2005</u>	<u>FY to date 2006</u>
Single Family.....	198.....	226	
Multi-Family.....	7 (33 units.).....	14 (107 units)	
Duplex.....	7.....	2	
Misc.(fence, garage, etc).....	83.....	108	
Total.....	295.....	353	

Missoula Real Estate as an Investment

Homeownership is a solid investment and a key driver in a strong economy. Not only does owning provide a shelter and give a strong sense of pride, but it provides steady returns largely unaffected by volatile movements in the stock market. The National Association of REALTORS® advocates “the traditional starting point for accumulating wealth for Americans is homeownership.” NAR further states, “The stock market has experienced wide swings in value over the past 20 years. During that time, overall home values have continued to rise steadily and contribute significantly to household wealth and spending patterns.” This statement rings true in Missoula as well.

As we continue to have a strong market, Missoula property owners have experienced a high comfort level with the solid investment and its return. Many individuals have made investment in either land and/or housing in Missoula for years and they are the direct beneficiary of the strong housing market. Investing in real estate in Missoula is proving to be a solid financial move, but also a long-term investment into community.

According to a 2005 NAR profile of homebuyers and sellers, the average time a home owner lives in their home before selling is six (6) years. After six years the study shows the sellers buy a new home within 15 miles of their old residence. MOR data shows that between 1999 and 2005, the average median price for a Missoula home has risen from \$127,500 to \$185,000. This indicates the investor in Missoula real estate owning their property for the average of six years experienced a substantial return on investment.

Looking at the comparison to the rest of the state, and according to Fannie Mae and Freddie Mac, the 2004 median price of a home in Montana was \$158,000 and in 2004 the median price in Missoula was \$183,350. In that same year, the median income for a family of two in Missoula was \$42,200. Based on the Housing Affordability Index for 2004, a household of two (2) falls just 6% short financially of the ability to afford a median priced home in Missoula. However, last year the HAI dropped to 77%, meaning that same 2 person household fell 23% short of the ability to afford a median priced home in 2005.

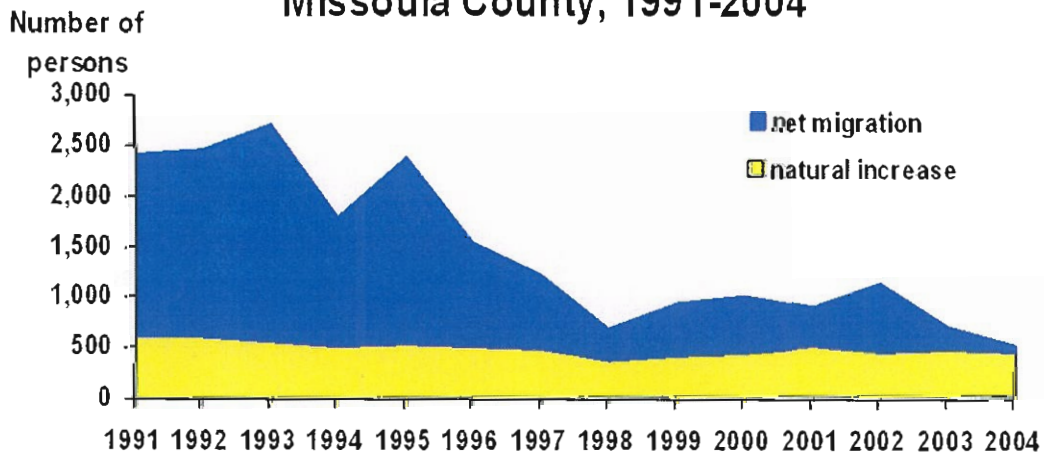
According to US Census Bureau 2000 study, the owner occupied rate for Missoula County is 61.9%, owner occupied rate for the city of Missoula is 50.1% and the rate for the state of Montana is 69.1%. The national homeownership rate is 66.2% according to the US Census Bureau statistics. Compared to national and state figures, renting in Missoula is relatively high at nearly 50% rent versus own. Any analysis of the Missoula rental rate must factor in the University of Montana student population and their preferences. Also, some citizens may choose to rent for a number of reasons, but as a community it is important to consider whether there are factors preventing potential homebuyers from doing so.

Migration in and out of Missoula

A 2005 study conducted by the UM Bureau of Business and Economic Research for the WGM Group, shows the net migration to Missoula peaked in the early 1990s but has since leveled off and is near zero. Contrary to popular belief, a steady rate of natural increase from a growing population accounts for nearly the same amount of as net-migration.

The migration into Missoula is about equally divided between those coming from somewhere in Montana and from out of state, according to the UM study. The graph indicates that birth and death rates are fairly consistent since 1991. The community challenge is to find ways to accommodate the population growing from within as much as is to accommodate Missoula newcomers and returnees.

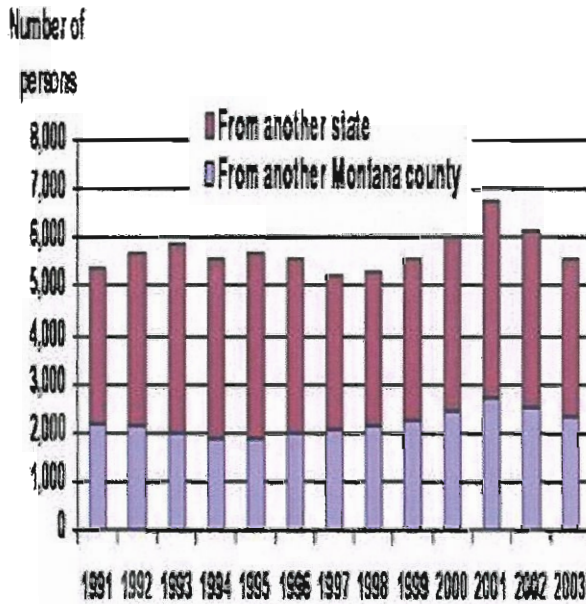
**Components of Population Growth
Missoula County, 1991-2004**



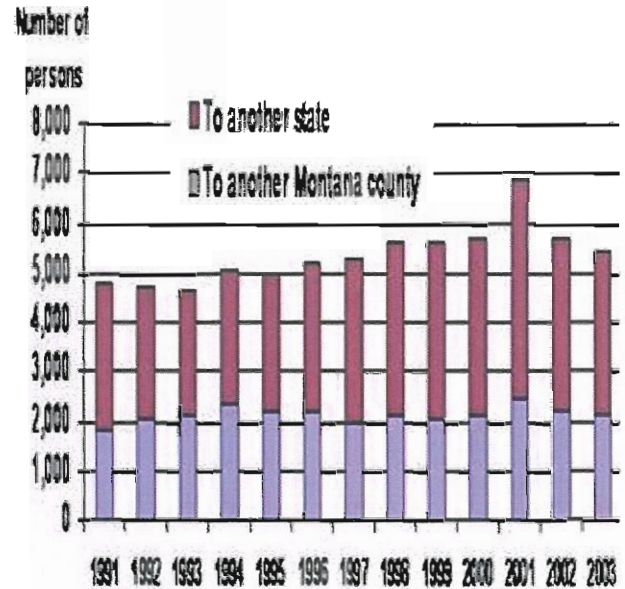
Source: US. Bureau of the Census

Missoula County Migration Over Time

Origin of Recent Migrants, Missoula County, 1991-2003



Destination of Recent Missoula County Residents



Source: US Internal Revenue Service

Other Issues Affecting Housing

Missoula is not immune from the activities and events in the global market and their effect on local housing. For example, as demand for steel, concrete, wood, and other building materials continues to grow in countries such as China, it affects the prices in Missoula, Montana, perhaps causing prices to triple in some cases according to presentation given by the Montana World Trade Center to MOR. In addition, America is recovering from hurricanes 'Katrina' and 'Rita'. The devastation by the tsunami in Asia is also a factor to consider. The cleanup and rebuilding will affect demand, supply, and cost of resources on a local level.

Another issue is environmental considerations. Missoulians pride themselves on the open space and readily accessible recreational activities. A survey conducted in August 2005 by the Missoula Office of Planning and Grants regarding growth showed local residents would like to keep open space and also maintain they would like to see more affordable housing without urban sprawl. The challenge is to preserve what makes this place unique, but also address affordable housing needs in a way that reflects these community values.

The Missoula Organization of REALTORS® and the Missoula Building Industry teamed up five years ago to evaluate two issues critical to making public policy decisions on housing. Any discussion of the housing needs to include updated information in answering these questions:

1. What percentage of the Missoula population is below the median income needed for median priced housing?; and
2. Given the amount of new construction in the last five years as well as changes in land use regulations, what is the current inventory of available building lots in the Missoula urban area?

Housing in 2006 and Beyond

Housing is and will continue to be both a basic human need as well as a tool for building and nurturing a sense of community. Based on resources available to MOR, it appears that current property owners will continue to benefit from their real estate investments in a market that will show sustainable appreciation. As organizations, governing and regulatory bodies, businesses, and citizens, the challenge is to maintain the treasures of the area while providing and adapting housing supply to the demand of the current market realities. Missoulians, by sharing our collective resources and expertise to participate in productive discussions about housing issues, will contribute to the very best of what it means to “*Live Missoula!*”





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Formulas used to calculate the Housing Affordability Index (HAI)

Median Price Existing Single-Family Home – Comes from the existing home sales monthly survey conducted by the National Association of Realtors®

Monthly Mortgage Rate – NAR uses the “effective mortgage rate” for preoccupied homes in the HAI calculations. The effective mortgage rate is reported by the Federal Housing Finance Board on a monthly basis. The effective mortgage rate reflects the amortization of initial fees and charges.

Principle & Interest Payment – Monthly Payment

$$\text{Formula: MEDPRICE} \cdot .8 \cdot (\text{IR}/12) \cdot ((1 + (\text{IR}/12))^{360} / (((1 + (\text{IR}/12))^{360}) - 1))$$

Median as % of Income = Necessary monthly income

$$\text{Formula: } ((\text{PMT} \cdot 12) / \text{MEDINC}) \cdot 100$$

Median Family Income – NAR uses Income data from the Census Bureau Decennial Survey. Census income data is not available for the upcoming year. Thus, NAR analysts project income levels for the upcoming year that are used in HAI calculations. Annual revisions are made to the HAI series when “actual” income data is released.

Qualifying Income – Income necessary to qualify for a loan for the median priced home

$$\text{Formula: } \text{PMT} \cdot 4 \cdot 12$$

Housing Affordability Index(Composite)- Measures the degree to which a typical family can afford the monthly mortgage payments on a typical home.

$$\text{Formula: } (\text{MEDINC} / \text{QINC}) \cdot 100$$

Key:

IR = Interest Rate

MEDPRICE = Median price of existing single-family home sale

PMT= Monthly payment

MEDINC = Median Family Income

MINC = Necessary Monthly Income

QINC = Qualifying Income