

# 2009 MISSOULA HOUSING REPORT

Current Knowledge, Common Vision:  
Growing a Missoula to Treasure



*Gold Dust Apartments, Missoula MT*

Released March 5, 2009

A Community Service Provided by the Missoula Organization of REALTORS®

## Notes for Reading the Report

1. As in our past reports, we use data that are publicly available and statistically valid. Our interpretation of the data in some cases may lead to judgments that we believe are sound, but you may disagree with. If so, we invite your comments – that way we can continue to improve this yearly report.
2. Unless otherwise noted, data presented in the text and figures are for the Missoula Urban Area, which includes the City of Missoula and its neighborhoods and surrounding urbanized area, defined as: Downtown, Central Missoula, University, South Hills, Fairviews/Pattee Canyon, Rattlesnake, Bonner, East Missoula, Clinton, Turah, South Hills, Linda Vista, Miller Creek, Lolo, Target Range, Orchard Homes, Big Flat, Blue Mountain, Mullan Road, and Grant Creek. Some data represent only the city or all of Missoula County, and are noted as such.
3. “Median” is a term used often in this report and is an important term to understand. 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 the total of 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, that has half of the other homes that are less in price and half that 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.
4. Research for this report was conducted principally by the Missoula Organization of REALTORS® (MOR). Also contributing to the report were the University of Montana Bureau of Business and Economic Research and a consulting contributor to the *State of the Nation’s Housing*, a yearly release from the Joint Center for Housing Studies of Harvard University. All of these contributors also served as sources of this report’s data and information; other sources were the US Census Bureau, US Bureau of Economic Analysis (BEA), US Internal Revenue Service (IRS), US Department of Housing and Urban Development (HUD), US Office of Federal Housing Enterprise Oversight (OFHEO), Montana Department of Labor and Industry, Western Montana Chapter of the National Association of Residential Property Managers (NARPM), Missoula Housing Authority (MHA), and Missoula MLS® (see next note).
5. MLS refers to the Multiple Listing Service operated by the Missoula Organization of REALTORS®, through which participants share the listing information that is the basis for the accumulation of overall market data



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***WGM Group***

***homeWORD***

***National Association of Residential Property Managers***

***Missoula Organization of REALTORS®***

***First Security Bank***

# MESSAGE FROM COORDINATING COMMITTEE

**March 5, 2009**

This “2009 Missoula Housing Report” is the fourth such annual report to the community. As in the past, this year’s report benefits from improvements based on suggestions from interested readers like you.

This year we’ve again added new measures relevant to an accurate assessment of our housing market, for example more data on rented homes and apartments and on the absorption rate of homes and residential lots.

You should know that when we say “we,” the reference is to the Coordinating Committee for the Housing Report. Beginning with our 2007 report, that committee became dramatically more inclusive, reaching throughout the Missoula regional community for members who represent diverse industries, and points of view related to the local housing market.

Our overall purpose in devoting the many hours required to produce this report is ...

To provide a comprehensive, credible, and neutral picture of Missoula housing that can be used as a tool by community members and policy makers as they seek to serve Missoula’s needs.

“Neutral” indicates our intent to provide accurate and unbiased data related to housing. Neutrality is important, because issues of housing, land use, and growth may be unsurpassed in their ability to elicit argument and emotion. While we recognize that there is nothing wrong with argument and emotion, we strongly believe that they require a founding in fact and reason. That’s what this report attempts to provide.

With great respect for the land we all call home, and for the entire Missoula community that shares that land, we invite you to read this report and get involved in meeting the housing needs of our community. We hope that by providing this report, we will trigger discussions and actions that will further contribute to a shared community vision and leave a positive legacy for future generations of Missoulians.

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# EXECUTIVE SUMMARY

## The Home Ownership Market

The flat or negative trends in housing sales and price noted in last year's Housing Report accelerated in 2008, resulting in the most pronounced local downturn in this decade.

While 2008 sales decreases are significant, it's important to recognize two ameliorating factors:

1. Comparable data for the country as a whole is in almost all cases more dire than that for Montana in general and Missoula in particular.
2. Year-to-year data for 2008 is more strongly negative due to the historically high measures recorded for 2006 and, even more so, for 2007. If sales and price data for the years immediately preceding 2008 had not spiked upward so dramatically, numbers registered for 2008 would mostly indicate much milder declines.

Observers of the national scene have increasingly noted Montana's escape from the worst effects of the housing downturn. For example, a real estate forecasting service called Housing Predictor says, "They've dodged the bullet in the nation's housing depression in North Dakota and Montana."

As in much of the US, prevailing interest rates in the Missoula housing market were at their lowest levels in this decade at the end of 2008. However, added costs, such as assessing mortgage loan fees based on credit scores, loan to value, and cash-out refinances, help explain why low interest rates have not yet seemed to spur home buyers.

Foreclosures in the Missoula real estate market, which increased significantly in 2007, reached new highs in 2008. Nonetheless, the number of foreclosures in Missoula repre-



sent only a little more than one-half of 1% of our market's total owner-occupied stock.

## The Residential Rental Market

Even in today's depressed housing market, rental rates in Missoula are relatively strong and vacancies, with a few notable exceptions, are below 5%.

The Missoula Housing Authority (MHA) has 754 available Section 8 vouchers that subsidize rent to private landlords for eligible program participants. At the end of 2007, 1,079 families were on the waiting list for these vouchers, with an expected wait time of 2½ to 3 years for those at the bottom of the list.

The year-end 2008 waiting list for Public Housing provided by MHA numbered 1,410 families. At year-end 2008, 138 homeless individuals were listed on the single room occupancy wait list and 171 homeless families on the Joseph residence list. Both numbers represent significant increases over 2007.

## Lot Sales and New Construction

Sales of empty lots in 2008 were dramatically lower in number of sales but moderately higher in sale price, compared with prior year sales. The absorption rate for lots in Missoula at the beginning of 2009 is 53.4 months.

Building permits issued by the City of Missoula in 2008 registered a low for the decade for both single-family and duplex construction and for all types of construction. Missoula County building permits in 2008 were issued for a smaller number of housing units than in 2007.

The cost of construction permitted in 2008 declined in the city, but increased in the county, from 2007 levels.





The median income for Missoula County homeowners in 2007 was more than double the median for Missoula County renters

### Trends in Population, Income, and Poverty

Population in Missoula County continues to gain at about the rate of 500 to 1,000 each year. A significant change in migration occurred in 2007, when, for the first time in two decades, more people moved into Missoula County from Ravalli County than moved in the other direction.

The median income for Missoula County homeowners in 2007 was more than double the median for Missoula County renters. This relationship holds both nationwide and for all of Montana. Missoula County's per capita income has been increasing by about 2% per year in real (inflation-adjusted) terms. The increase from 2000 to 2007 measured 11.2%.

Missoula County unemployment increased last year for only the second time in the past 12 years to 4.1% . But both Missoula and the state continue to enjoy an unemployment rate significantly lower than that of the nation at 7.6% at the end of 2008.

About 18% of Missoula County households have incomes below the poverty threshold that corresponds to their household size and age. Missoula's high number of college students, who tend to earn little or no income, probably exaggerates our local poverty rate.

### Housing Affordability

In 2008, the income needed for a Housing Affordability Index (HAI) of 100 is \$\_\_\_\_\_ ; which means a family whose income is at that level could afford a median priced home. The

HAI shows that a one-person household in 2008 has approximately \_\_\_% of the amount of income needed to purchase a home priced at the 2008 median sale price.

While the HAI for recent years shows that increases in median home prices have significantly outstripped increases in median family incomes, except that with the reduced median price in 2008 affordability improved slightly.

In Missoula, more than 40% of homeowners in the 25 to 34 age group spend 30% or more of their gross incomes on housing, while some 35% of homeowners in the youngest age group exceed the 30% recommended maximum. For renters, an even greater percentage of those in each of the age groups exceeds the 30% recommended monthly maximum.

### Conclusion and Outlook

A few indicators have recently brightened the national housing picture. December's increased home sales nationally were likely aided by mortgage interest rates hovering around 5%, the lowest level in decades, and by an increased number of distressed sales. Caution among would-be Missoula homebuyers may be a natural reaction to nationwide indicators and fears.

Missoula's housing market, as well as its overall economy, enjoys a level of health and stability in early 2009 that would be envied by most of the country.

# HOME OWNERSHIP MARKET

## Sales of Homes in 2008

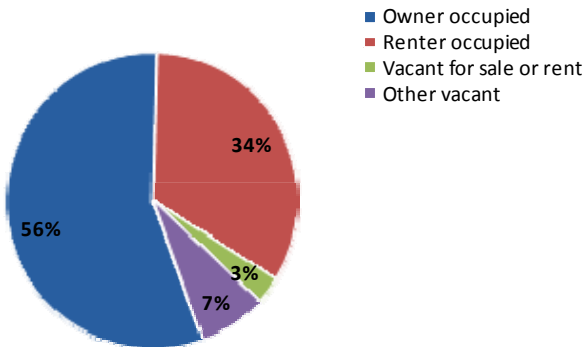
### Housing Occupancy

Missoula County's housing occupancy is made up of 56% owner occupied and 34% renter occupied, as shown in Figure 1. In the Missoula Urban Area, occupancy is split about 50/50 between owner and renter occupied. Past data indicates that this represents comparatively fewer owner occupied homes and more renter occupied homes than in the state of Montana as a whole or the entire US. The divergence of Missoula from state and national figures is not great, however, and may be explained mostly or entirely by Missoula's being the home of the University of Montana, as many students are renters and few are homeowners.

The vacancy level totaling about 10% is not entirely composed of units for rent, as total vacancies in our community include a significant number of residences that are used only seasonally or are temporarily vacant.

**Figure 1: Missoula County's housing occupancy reflects presence of students and vacation homeowners**

### Housing Unit Occupancy Missoula County 2007– 45,300 Units



Source: US Census Bureau, American Community Survey 2005-2007

### Median Volume and Price Trends

The flat or negative trends in housing sales noted in last year's Housing Report accelerated in 2008, resulting in the most pronounced local downturn in this decade. However, in major statistical measurements of the housing market, the 2008 figures for Missoula (and for other large Montana cities and the state as a whole) are not nearly as weak or as negative as at the national level.

For the second consecutive year, the number of homes sold in the Missoula Urban Area declined from the prior year, as shown in Table 1, with a steeper decline than in the year earlier. Also, for the first time in this decade, year-over-year median home prices registered a decline.

The number of homes sold in Missoula dropped by 28%, more than double last year's rate of decline, with 994 sales in 2008, down from

For the second consecutive year, the number of homes sold in the Missoula Urban Area declined from the prior year

1,385 in 2007 and from a record 1,586 in 2006. The median price of the homes sold in 2008 dropped by just over 2%, from just under \$220,000 in 2007 to \$215,000 last year. This is the first year-to-year decline in this decade, and a stark contrast to the healthy 6% to 9% increases registered in most previous years of the 2000s.

While 2008 decreases such as these, as well as others cited below, are significant, it's important to recognize two ameliorating factors:

1. Comparable data for the country as a whole is in almost all cases more dire than that for Montana in general and Missoula in particular.
2. Year-to-year data for 2008 is more strongly negative due to the historically high measures recorded for 2006 and, even more so, for 2007. If data for the years immediately preceding 2008 had not spiked upward so dramatically, numbers registered for 2008 would mostly indicate much milder declines.

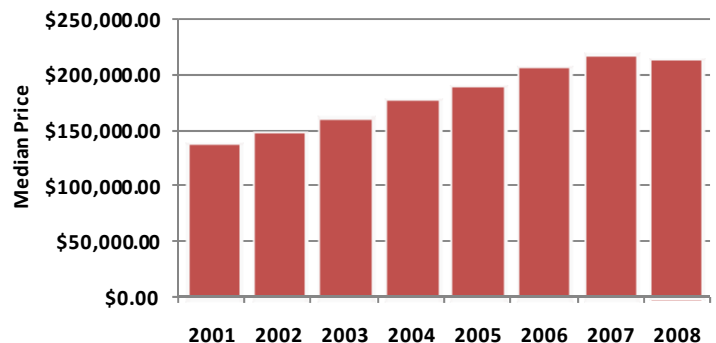
**Table 1: 2008 was a "down" year for Missoula homes ...**

	Missoula Annual Sales	Median Price	% Change
2001	1,211	\$138,000.00	n/a
2002	1,119	\$149,500.00	7.69%
2003	1,150	\$163,000.00	8.28%
2004	1,290	\$179,000.00	8.94%
2005	1,536	\$192,000.00	6.77%
2006	1,586	\$206,850.00	7.18%
2007	1,385	\$219,550.00	5.78%
2008	994	\$215,000.00	-2.12%

Source: MOR Multiple Listing Service

**Figure 2: ... as median price decreased for the 1<sup>st</sup> time in this decade...**

### Median Price of Homes Sold in Missoula Urban Area

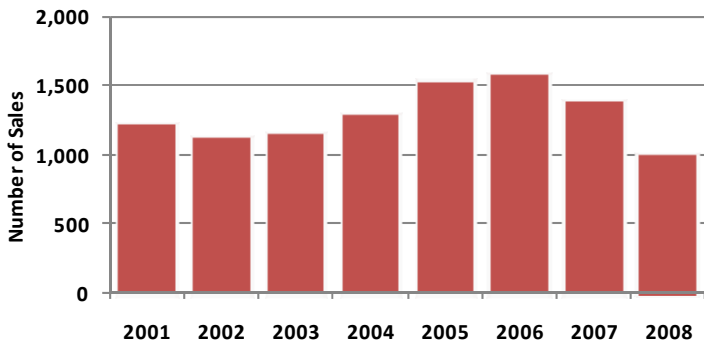


Source: MOR Multiple Listing Service



**Figure 3: ... and home sales declined for the 2<sup>nd</sup> consecutive year**

**Number of Homes Sold in the Missoula Urban Area**



Source: MOR Multiple Listing Service

The decline in sales also hit the condominium and townhouse market, as shown in Figure 4. A sales decline from 2007 to 2008 was registered in every price category except the highest; units priced at

\$250,000 or more. Also notable is the second consecutive year-on-year decline in the number of sales of condos and townhouses in the two lowest price categories; those sold for under \$125,000 or for \$125,000 to \$150,000.

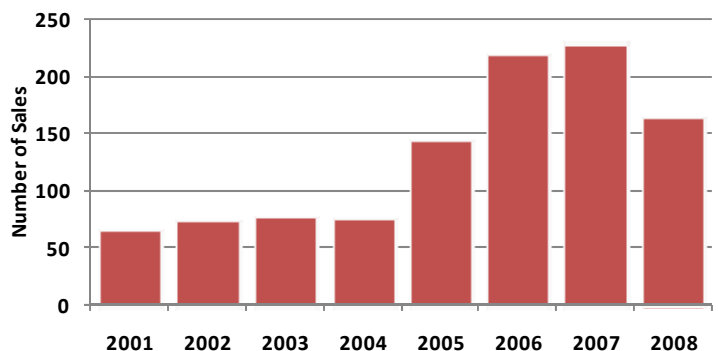
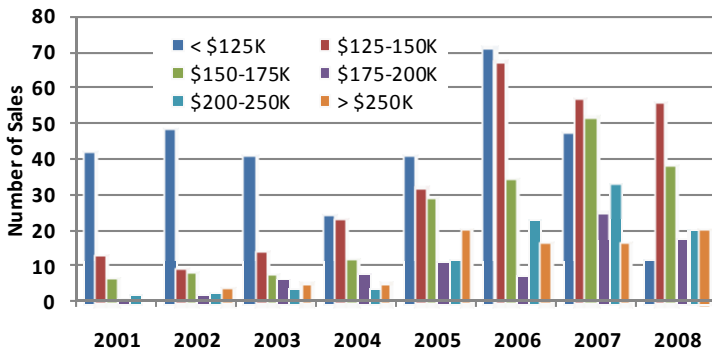
**Comparative Trends in Home Prices**

Figures 5 and 6 on the next page indicate the greater severity of the housing downturn in the US, both as a whole and regionally, than in our local market. The downturn also started sooner elsewhere in the US than in Missoula, with the number of homes sold dropping since 2005, a year earlier than in Missoula, and the median sales price declining since 2006, also a year earlier than in the local market.

At the national level, "Sales fell sharply for the second year in a row. Existing home sales fell 13 percent in 2007 to 4.9 million, while sales of new homes plummeted 26% to 776,000, the lowest level since 1996," according to the widely respected *State of the Nation's Housing* from the Joint Center for Housing Studies at Harvard Uni-

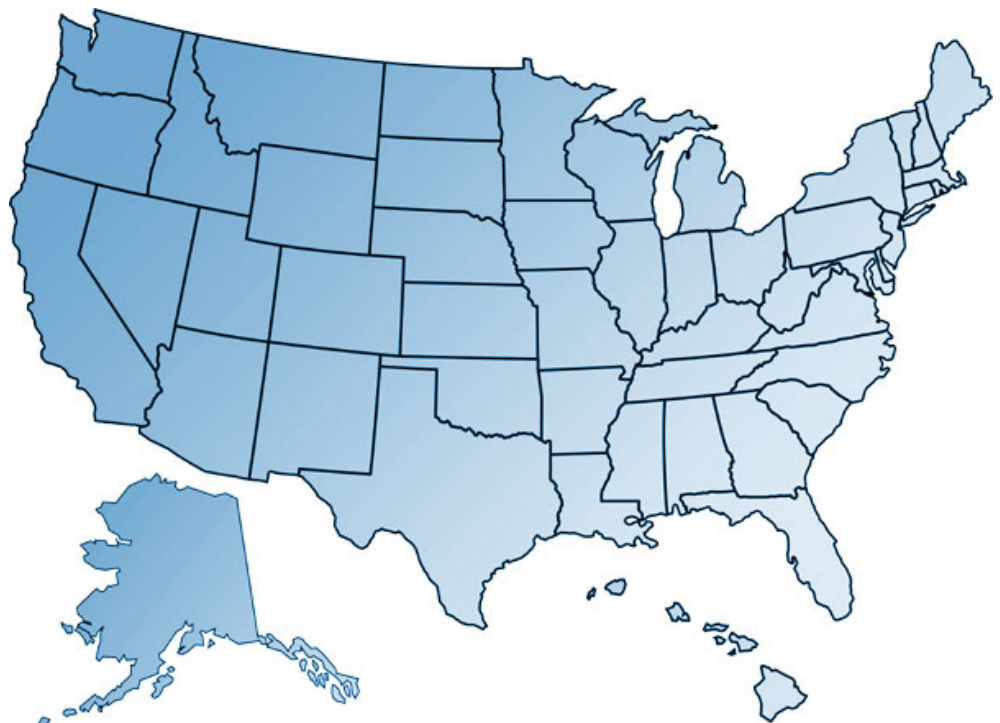
**Figure 4: Sales of less expensive condos and townhouses declined again in 2008**

**Condominium and Townhouse Sales in Missoula Urban Area**



Source: MOR Multiple Listing Service

Nationally, "For the first time since recordkeeping began in 1968, the national median single-family home price, as reported by the National Association of Realtors®, fell for the year in nominal terms, by 1.8% on an annual basis to \$217,900



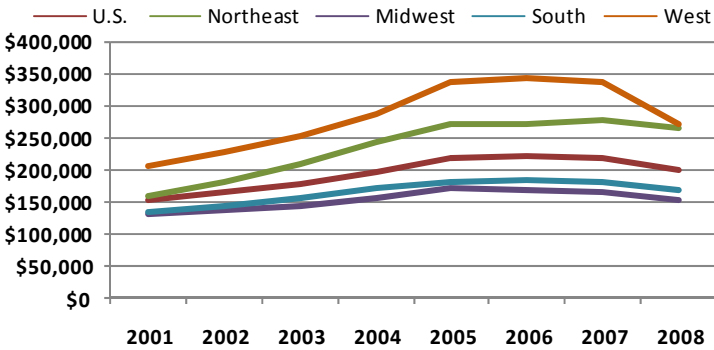




iversity, reporting in June 2008 on events of 2007. Regarding prices, the report notes, "For the first time since recordkeeping began in 1968, the national median single-family home price, as reported by the National Association of Realtors®, fell for the year in nominal terms, by 1.8% on an annual basis to \$217,900" (an amount very close to Missoula's 2007 median of \$219,550).

**Figure 5: Home sales nationally have declined more sharply and for more years than in Missoula ...**

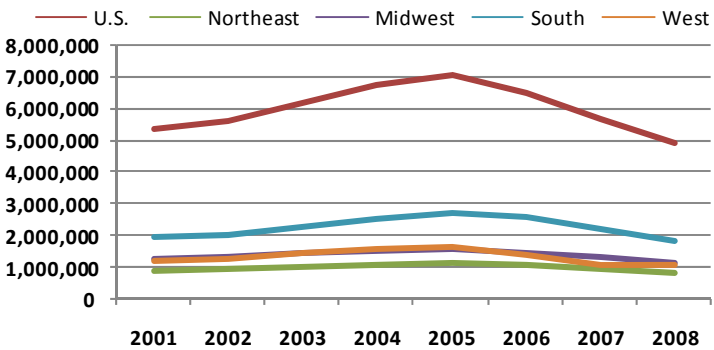
**National/Regional Median Sales Price of Existing Homes**



Source: National Association of REALTORS®

**Figure 6: ... as have declines in median home prices**

**National/Regional Number of Existing Home Sales Comparison**



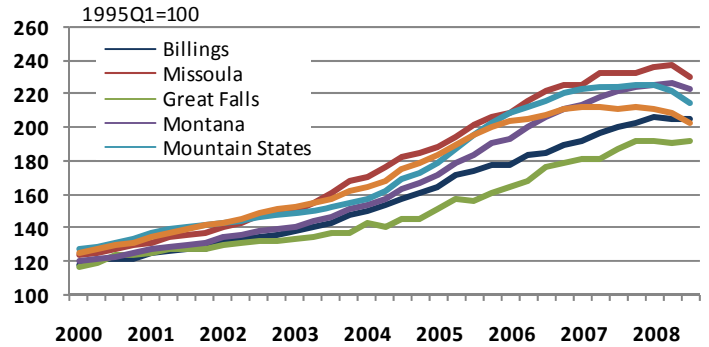
Source: National Association of REALTORS®

Figure 7, shows the markedly different paths that housing prices have taken in the past two to three years in distinguishing Missoula's course not only from the Mountain States region and the US as a whole, but also from Montana's largest cities.

The figure traces a measure called the Housing Price Index for the decade of the 2000s. Each line indicates the course of housing prices since the first quarter of 1995, when all price levels were set at 100. The index measures the average price changes in repeat sales or refinancing of single family properties through either of the government sponsored enterprises known as Fannie Mae or Freddie Mac.

**Figure 7: Housing prices have held up better in Missoula than in other locations**

**OFHEO Housing Price Index, 1st Qtr 2000-4th Qtr 2008**



Source: Office of Federal Housing Enterprise Oversight

For all of the locations in the figure, housing prices generally increased steadily from 2000. However the US registered a decline both earlier and steeper than the other locations, and the Mountain States followed suit, though a little later than the US and less severe.

Observers of the national scene have increasingly noted Montana's escape from the worst effects of the housing downturn. For example, in 2009 a real estate forecasting service called Housing Predictor says, "They've dodged the bullet in the nation's housing depression in North Dakota and Montana. During the boom ... mortgage companies didn't offer creative new loan programs in either state much, which has acted to protect their housing markets from major deflationary cycles experienced in the majority of the country."

The indexes for the cities of Billings and Great Falls didn't accelerate at rates that kept up with the other locations, but those cities' indexes also are thus far free of pronounced declines.



As for Missoula, housing price increases significantly outpaced those for Billings and Great Falls through most of the current decade, but the index for our market also shows the very recent decline that the other two Montana cities have thus far largely avoided.

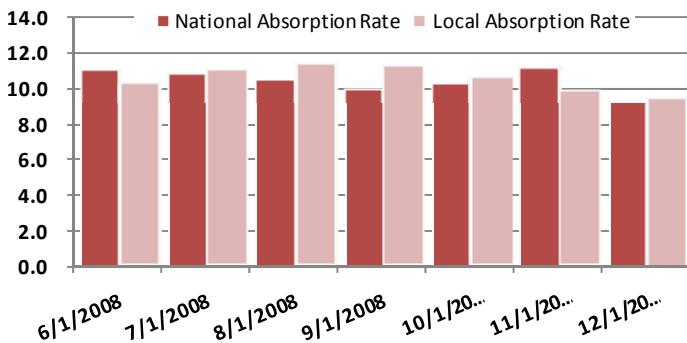
### Pace of Home Sales

Another two measures that can help indicate the health of a housing market are the absorption rate and days on market. Absorption rate is measured by dividing the total number of sales for the year by 12, then dividing that resulting number into the number of active listings, which yields the number of months that will likely be required to work through the listed inventory. A result greater than six (months) is generally defined as a buyer's market.

Figure 8 shows that the absorption rate for existing homes, both nationally and locally, has stood at more than six months throughout the last half of 2008. Nationally, the *State of the Nation's Housing* reports that, "the months' supply of unsold new single-family homes rose to more than 11 months in late 2007 and early 2008, a level previously not seen since the late 1970s, before dropping back slightly. The months' supply of existing single-family homes for sale rocketed to 10.7 months by April 2008."

**Figure 8: Absorption rates nationally and locally indicate a "buyer's market"**

#### National versus Local Comparison of Absorption Rates



Source: MOR Multiple Listing Service, National Association of REALTORS®

Note: Data for local market absorption has been collected only from the June 1, 2008, date depicted.

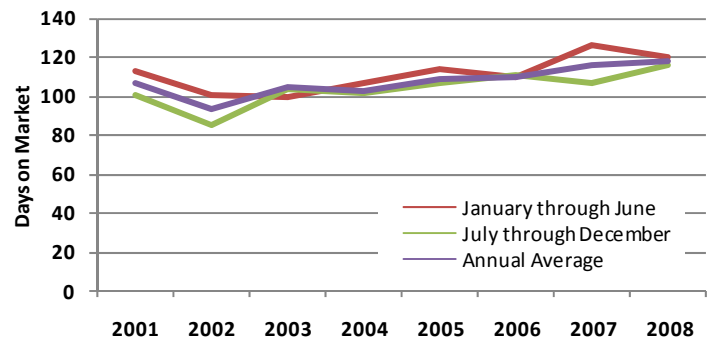
A second measure of housing market vitality is days on market. Figure 9 shows, as one might expect in our northerly climate, that days on market is generally greater in the first half of each year than in the second half. More importantly, the figure indicates that days



on market has generally trended upwards, since 2002, though not at a particularly steep rate.

**Figure 9: Local days on market measures have trended slowly upward**

#### Days on Market for Missoula Urban Area



Source: MOR Multiple Listing Service

### Real Estate Finance Activity

As in much of the US, prevailing interest rates in the Missoula housing market were at their lowest levels in this decade at the end of 2008, as shown in Tables 2 and 3 and in Figure 10. However, the year-end rates clearly did not prevail during much of the year; in fact, through all four quarters of 2008, conventional 30-year rates were essentially no different from levels in 2007.

#### Mortgage Loans

The past year was marked by pronounced changes in almost every aspect of mortgages:

- Many residential loan programs and products that brought new people into the housing market have been discontinued.
- Lenders are offering a far greater share of more traditional financing options and programs than in the immediate past years.
- Pricing and underwriting changes have been numerous and more restrictive, owing in part to continuing adverse performance of certain mortgages.

The principal driver of these and other changes is the federal takeover of Freddie Mac and Fannie Mae. Stringent new standards and requirements were introduced quickly following the government intervention, such as assessing mortgage loan fees based on credit scores, loan to values, and cash-out refinances. All additional fees and charges are passed along in one way or another to the consumer, which increases loan costs.

These added costs help explain why historically low interest rates have not yet seemed to spur home buyers. Also playing a part is the absence of mortgage liquidity, which is largely driven by tightening of loan standards. Under these tighter standards, lenders are setting high thresholds on down payment amounts, credit scores, and other measures – which further curb demand from home buyers and housing investors alike.

**Table 2: Although mortgage interest rates fluctuated through the year...**

2008 Mortgage Interest Rates					
Mortgage Types	Q1	Q2	Q3	Q4	Year End
30 Year Fixed	6.125%	6.000%	6.500%	6.000%	5.375%
15 Year Fixed	5.250%	5.500%	6.125%	5.750%	4.750%
FHA / VA	5.875%	5.875%	6.375%	6.000%	5.500%
5/1 ARM	5.000%	5.500%	6.250%	6.000%	5.375%
MBOH	6.000%	6.000%	6.250%	6.500%	6.000%

Source: First Security Bank

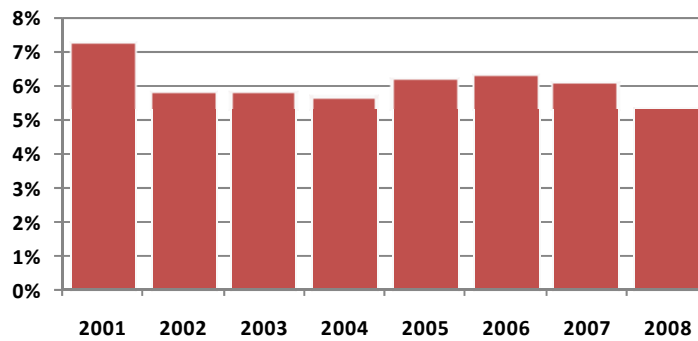
**Table 3: ...conventional rates stood at a decade low at year end 2008**

Conventional Mortgage Rates Year-End								
	2001	2002	2003	2004	2005	2006	2007	2008
Year-End	7.250%	5.750%	5.750%	5.625%	6.125%	6.250%	6.000%	5.375%

Source: First Security Bank

**Figure 10**

**Conventional Mortgage Rates Year End**



Source: First Security Bank

The federal government has responded to this “perfect storm” of factors dampening mortgage lending with increasingly prominent efforts. The Economic Stimulus Act of 2008, among other measures, increased loan limits through 2008 to help encourage home buyers. As part of the Housing and Economic Recovery Act of 2008, a first-time home buyer tax credit was enacted to attract new buyers.

The comprehensive government interventions permitted under the Housing Recovery Act were expected to provide much-needed assistance in stabilizing housing and financial markets. For example, the Act authorized a \$7,500 tax credit for qualified first-time homebuyers purchasing homes on or after April 9, 2008, and before July 1, 2009.

However, the credit has failed thus far to boost the housing market as expected, with experts attributing ineffectiveness to first-time homebuyers’ use of Board of Housing loans, which don’t qualify for the credit, and to the Act’s structuring of the credit not as a straightforward deduction from income tax, but instead as what amounts to a no-interest loan to be paid back to the government.



As high as the rate of increase in foreclosures has been, the number of foreclosures in Missoula represents only a little more than one-half of 1% of our market’s total owner-occupied stock

### Down Payments

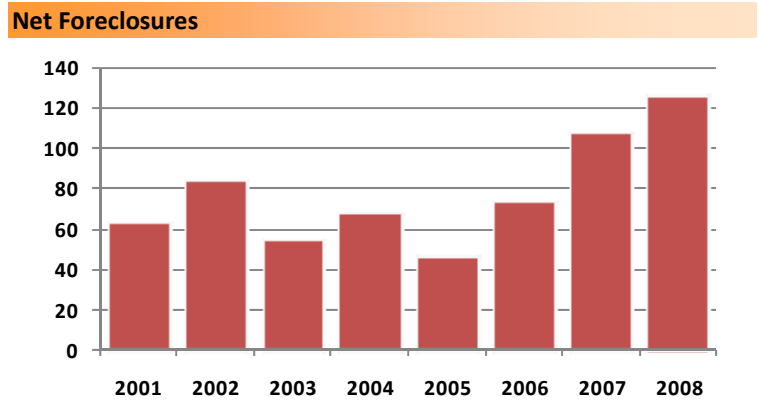
The average down payment, at 3% to 5%, remained generally unchanged through 2008.

### Foreclosures

Foreclosures in the Missoula real estate market, which increased significantly in 2007, reached new highs in 2008, as shown in Table 4 and Figure 11 below. Notices of foreclosure sale increased by 27% from 2007 to 2008 and are up by 46% over the past two years. The year 2008 was marked particularly by a dramatic spike in notices of foreclosure in the final quarter of the year, as depicted in Figure 12.

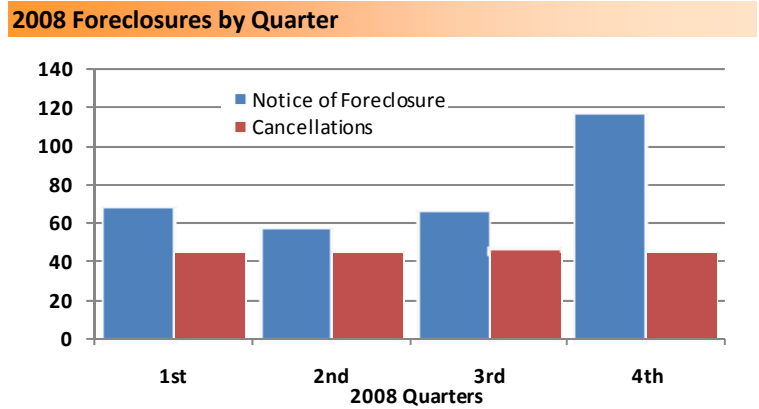
Cancellation of notices of sale also increased significantly. Nonetheless, net foreclosures rose in 2008 by 18% over 2007. As high as the rate of increase in foreclosures has been, the number of foreclosures in Missoula represents only a little more than one-half of 1% of our market's total owner-occupied stock.

Figure 11: ... resulting in a decade-high number of net foreclosures ...



Source: First Security Bank

Figure 12: ... with 4<sup>th</sup> quarter foreclosure notices particularly high



Source: First Security Bank

Table 4: Foreclosure notices and cancellations both increased significantly ...

Year	Notice of Sale	Cancellation of Notice of Sale	Net
2001	161	98	63
2002	206	122	84
2003	177	123	54
2004	174	106	68
2005	176	130	46
2006	215	142	73
2007	247	139	108
2008	313	186	127

Source: First Security Bank

## RESIDENTIAL RENTAL MARKET

The normal vacancy rate for a healthy rental market in the US is in the range of 4% to 6%

Surveys show that Missoula's rental market share is larger (vs. the owner-occupied housing market) than the rental market share in Montana or the US. Rental is an important segment of any housing market, but is especially vital in college towns such as Missoula, where a significant number of students creates greater demand for rental housing.

Approximately 50% of rental units in the Missoula market area are owner managed and thus no data is available. While comprehensive statistics on all rental units are not routinely gathered, the Western Montana Chapter of the National Association of Residential Property Managers (NARPM) gathers monthly information from its member property management firms regarding vacancy rate and rental rates for the units they manage.

### Market Rate Rental

A normal vacancy rate for a healthy rental market in the US is in the range of 4% to 6%. Missoula often has a lower rate, probably because our university population exerts continuing product demand, and also because Missoula seems to attract a significant share of young couples and singles at the outset of their working careers.

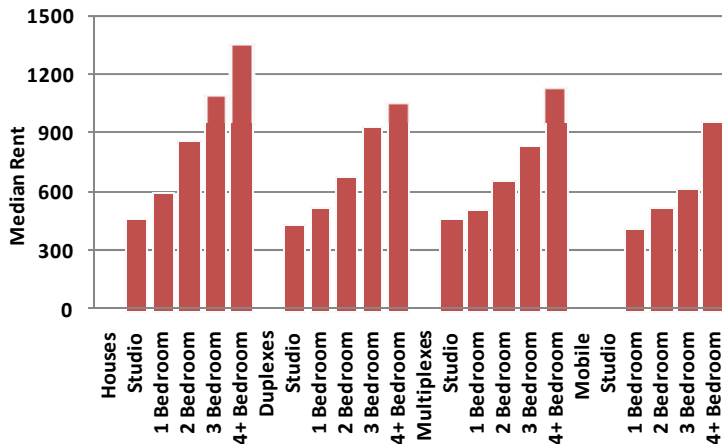
Figures 13 and 14 depict median monthly rents and vacancy rates for various types of rental property in the fourth quarter of 2008.



Even in today's depressed housing market, rental rates in Missoula are relatively strong and vacancies, with a few notable exceptions, are below 5%. Rental information was provided by NARPM, a group that includes some of the major property management groups. Approximately 8,000 units were surveyed to gather the data presented in these figures.

**Figure 13: Rental prices held up in a year of decreased home prices ...**

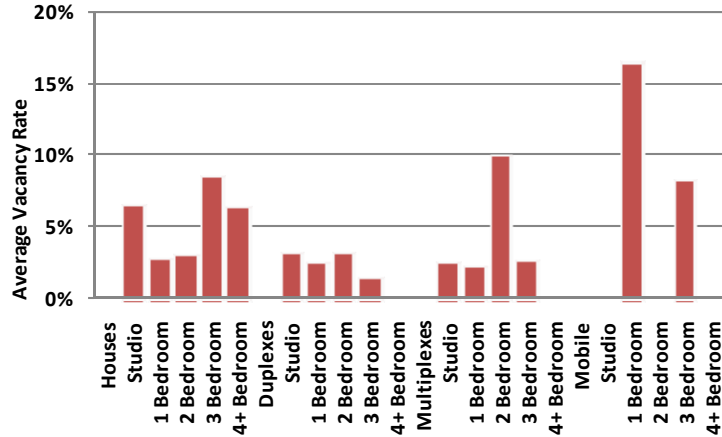
**2008 4th Quarter Median Rent**



Source: Western Montana Chapter of the National Association of Residential Property Managers

**Figure 14: ... as vacancy rates generally remained below 5%**

**2008 4th Quarter Vacancy Rates**



Source: Western Montana Chapter of the National Association of Residential Property Managers

**Status of Rental Assistance**

The Missoula Housing Authority (MHA) has 754 available Section 8 vouchers that subsidize rent to private landlords for eligible program participants. At the end of 2007, 1,079 families were on the waiting list for these vouchers, with an expected wait time of from 2½ to 3 years for those at the bottom of the list.

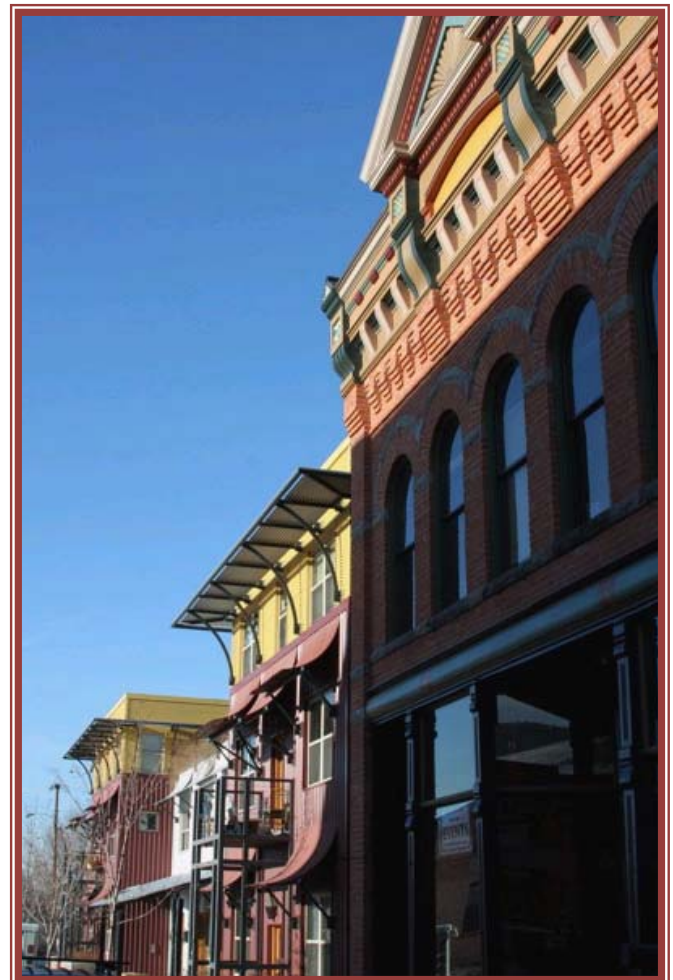
The year-end waiting list for 2008 Public Housing provided by MHA numbered 1,410 families. Many of these families are also on the voucher list – and perhaps on other lists for assistance as well. Public Housing applicants are listed separately by bedroom size, so wait times vary widely, from a few months to more than two years. The

longest wait is for one and two bedroom housing.

The typical families on the list to receive these vouchers live, work, and pay rent in our community as best they can with their relatively low incomes. Without vouchers some of these families are forced to leave Missoula, even though the labor they might otherwise provide is probably needed in our relatively low unemployment economy. Some with voucher assistance improve their situations enough that they become self-sufficient. As shown below in the Affordability section of this report, many experience extreme housing cost burden, meaning a large portion of their income goes to housing. This leaves less income for other essentials, such as food and health care, and further jeopardizes their already shaky family finances.

MHA has four waiting lists for homeless persons, each with different targeting requirements. For example, one of these is for single-room occupancy (SRO), with a waiting list of 59, which accommodates only individuals who are currently homeless. Other lists are limited to homeless families, homeless persons (singles and families) with disabilities, and homeless veterans. At year-end 2008, 138 homeless individuals were listed on the SRO wait list and 171 homeless families on the Joseph residence list. Both numbers represent significant increases over 2007. MHA staff attribute the increase in part to less turnover, and also, anecdotally, to increasing homelessness due to the economic downturn.

The lists of homeless applicants are broken into two categories with separate wait lists. They totaled more than 100 individuals and more than 100 families at the end of 2008. Evidence indicates that until they can be served, the homeless stay in cars, the Poverello



# LOT SALES & NEW CONSTRUCTION

Sales of empty lots in 2008, as shown in Table 5, were dramatically lower in number of sales but moderately higher in sale price, compared with prior year sales. The price of sales can be misleading, however, because lot sizes are not reported and there is thought to be an increasing number of sales of smaller lots.

Building permits issued by the city of Missoula in 2008 registered a low for the decade for all types of construction

**Table 5: Lot sales declined following a year of extraordinarily high sales**

Year	Lot Sales	Median Price
2001	28	\$43,450
2002	74	\$79,900
2003	58	\$75,900
2004	65	\$89,500
2005	95	\$82,200
2006	96	\$84,950
2007	188	\$68,000
2008	84	\$79,950

Source: MOR Multiple Listing Service

The absorption rate for lots in Missoula at the end of 2008 is 53.4 months (374 active listings, average of 7 sold per month).

## Pace of Development

Unsurprisingly, building permits issued by the City of Missoula in 2008 registered a low for the decade for both single-family, duplex construction and for all types of construction. Single-family permits

for 2008 declined by 37% from 2007, and declined in number for the third consecutive year, with a 59% drop since the record-high year of 2005. Multi-family permits, though down in number by 27% from 2007, did not register a decade low number. Missoula County building permits in 2008 were issued for a smaller number of housing units than in 2007.

The cost of construction permitted in 2008 declined in the city, but increased in the county, from 2007 levels. Cost of construction in the county reached a record high. In the city, cost of construction as permitted dropped in all categories with the exception of duplex housing, which showed gains in 2008.

Again, though local market figures indicate declines, the national situation is markedly more dire. Harvard's *State of the Nation's Housing* notes that, "Nationwide, the number of housing permits issued fell 35% from 2005 to 2007, including a 42% reduction in single-family permits."

## Costs of Development

Data for Table 7 was presented in last year's Housing Report, and is repeated here for those readers who may be new to this report. Collection of the data originated in a cooperative effort between the Missoula Building Industry Association (MBIA) and MOR. In

**Table 6: Fewer building permits were issued both in the city and county**

City of Missoula Building Permits								
	Number of Permits Issued				Cost of Construction			
	Single Family	Duplex	Multi-Family	Total	Single Family	Duplex	Multi-Family	Total
2001	280	20	220	520	\$93,542	\$60,250	\$43,647	\$71,152
2002	396	98	633	1127	\$98,942	\$44,809	\$40,351	\$61,326
2003	428	110	409	947	\$94,756	\$52,903	\$37,647	\$65,230
2004	396	30	158	584	\$80,221	\$58,549	\$41,809	\$68,715
2005	451	28	87	566	\$93,018	\$54,683	\$41,529	\$83,207
2006	310	38	75	423	\$103,414	\$68,801	\$42,550	\$89,513
2007	293	14	128	435	\$94,789	\$66,517	\$59,513	\$83,499
2008	186	10	94	290	\$89,901	\$70,638	\$48,500	\$78,253
Unincorporated Areas of Missoula County Building Permits								
	Number of Units				Cost of Construction per Unit			
	Single family	Duplex	Multi-family	Total	Single family	Duplex	Multi-family	Total
2007	220	0	12	232	197,550		103,353	192,678
2008 (Jan-Oct)	133	2	0	135	207,501	116,331		206,151

Source: US Census Bureau, Construction Statistics

**Table 7: Most components of housing costs have increased far in excess of overall inflation\***

Housing Cost and Percentage Increase Summary				
	1996	2006	Change	Percent Increase
Land Costs	\$8,500	\$11,156	\$2,656	31%
Infrastructure Costs	\$13,265	\$22,080	\$8,815	66%
Subdivision & Carrying Costs	\$5,000	\$7,000	\$2,000	40%
Impact Fees & City Permits	\$850	\$3,939	\$3,089	363%
Utilities	\$50	\$650	\$600	1200%
Architect	\$475	\$1,500	\$1,025	215.79%
Excavation, Concrete	\$9,316	\$15,935	\$6,619	71.05%
Framing, Roofing, Siding, Windows, Doors	\$19,001	\$33,635	\$14,634	77.02%
Heating, Plumbing, Electric	\$10,085	\$17,145	\$7,060	70%
Insulation, Drywall, Painting, Trim, Gutters	\$9,654	\$12,718	\$3,064	31.74%
Cabinets, Floor Covering, Fixtures	\$5,525	\$7,870	\$2,345	42.44%
Cleaning, Insurance, Miscellaneous	\$1,485	\$3,012	\$1,527	102.83%
Profit and Overhead	\$12,480	\$20,496	\$8,016	64.23%
Soft Costs	\$8,327	\$13,640	\$5,313	63.80%
<b>Subtotal</b>	<b>\$104,013</b>	<b>\$170,776</b>	<b>\$66,763</b>	<b>64.19%</b>
*Inflation as measured by the US Consumer Price Index over the same period amounted to 28.5%				
Source: MOR				

1996, 2001, and 2006, these organizations produced “A Walking Tour of the Costs Associated with Development in the Missoula Urban Area” – an analysis of the various costs incurred in building new homes. The Walking Tour gathered cost data for a 2-bedroom, 2-bath home on a crawl space, with a 2-car garage on a small lot in a new subdivision. (The entire presentation is available on MOR’s website, missoularealestate.com.)

Of the 14 components listed in Table 7, only four increased by less than double the overall inflation rate, and another four components increased at more than triple the rate of inflation. The overall increase of 64% in all 14 components is 125% greater than overall inflation. Adding only three of these cost elements for land, infrastructure, and subdivision & carrying; yields an increase in total lot costs from \$26,765 in 1996 to \$40,236 in 2006, a gain of \$13,470 or 50.3%.

## TRENDS IN POPULATION, INCOME, & POVERTY

Much of the information gathered in this section represents data from American Community Survey and US Census Bureau. Their data for 2008 utilizes statistics for 2007. The year from which the data was taken is included in each figure for reference.

### Population Dynamics

Of the various factors that influence demand for housing, population change often exerts the greatest impact. In that regard, it’s not difficult to understand why demand for housing and consequently the costs of housing have steadily increased in our market.

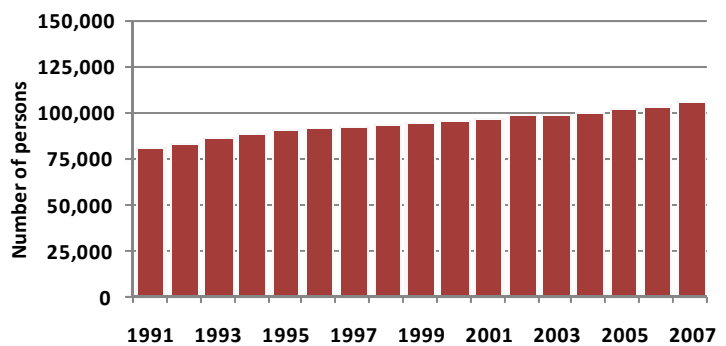
Population in Missoula County continues to grow, passing 100,000 persons in 2004 and gaining at about the rate of 500 to 1,000 each year (Figure 15). Population increases (or decreases) by two mechanisms: natural (the net of births and deaths) and migration (the net of people moving in and moving out).

A significant change in migration occurred in 2007, when, for the first time in two decades, more people moved into Missoula County from Ravalli County than moved in the other direction. This re-

versed migration is thought to be caused principally by an increase in Ravalli County home prices to a level that is approximately the same as Missoula County prices.

**Figure 15: County population has registered steady growth**

**Total Population in Missoula County, 1991-2007**



Source: US Census Bureau

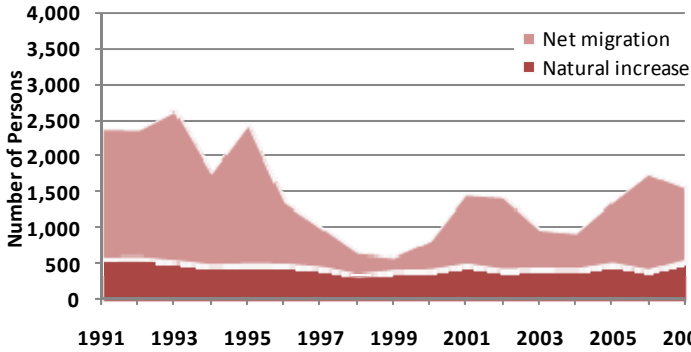
## Components of Population Change

For many years, as Figure 16 shows, Missoula County's annual natural increase in population has hovered at a consistent positive level of plus 500 to 600. Over the same years, however, net migration has swung widely, with net gains of as much as 2,000 in the early 1990s and as little as a few hundred in the late '90s.

Recent net migration increases have been substantial, though slipping in 2007 from the 2006 level and not at levels as high as those of the early 1990s.

**Figure 16: Additions to population have been steady for natural increase and widely variable for net migration**

### Components of Population Change in Missoula County, 1991-2007



Source: US Census Bureau

## Migration

Figure 17 presents migration data as reported by the Internal Revenue Service. These data do not capture all migrants, as they include only those filing tax returns (and their dependents) in Missoula County in at least one of two consecutive years. Nonetheless, they provide a reliable picture of the origins and destinations of migrants.



From these data, we can see that about 6,000 persons moved to Missoula County each year; approximately two-thirds are from another state and one-third from other Montana counties. About 5,500 people annually have moved out in recent years, with less than two-thirds relocating out of state and more than one-third settling in another Montana county.

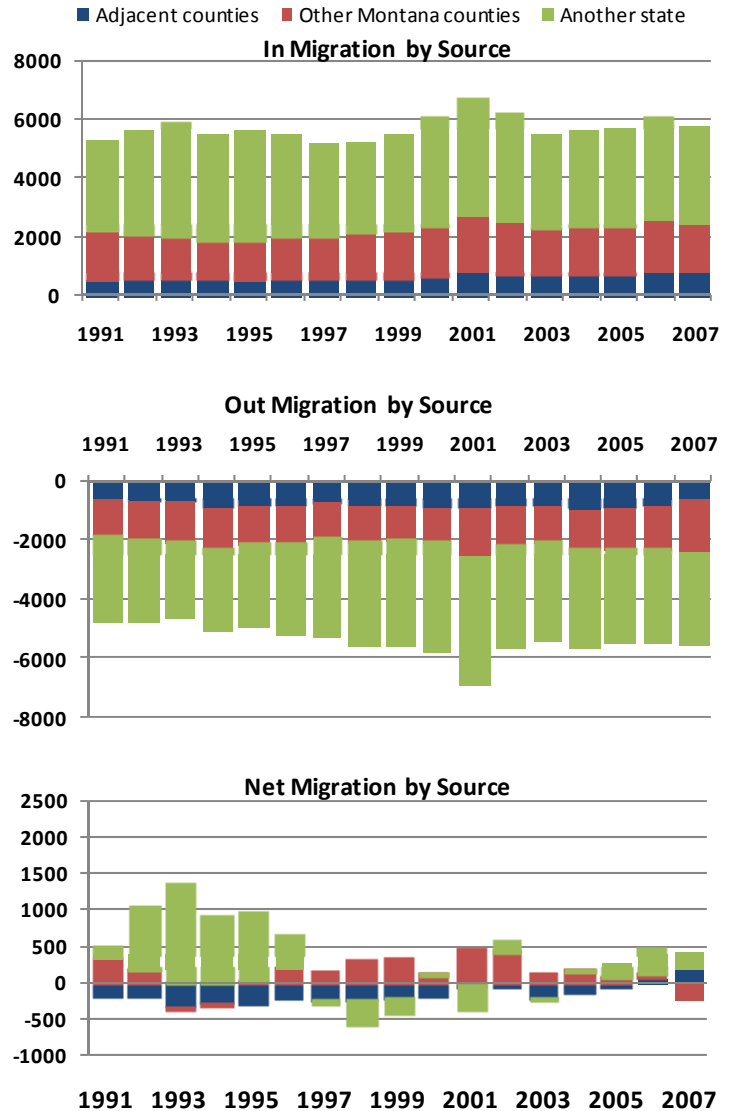
Subtracting out-migration from in-migration yields net migration, and the

conclusion is that for many years Missoula County has been gaining population annually through net migration. However those gains have fluctuated considerably.

The IRS data show, in Figure 17, that net migration of out-of-state migrants was strongly positive between 1992 and 1996. Since then, net migration has usually been less than 500, with a noticeable upturn in 2005 through 2007.

**Figure 17: Most of Missoula's migration is from and to another state**

### Number of Personal Exemptions in Missoula County, 1991-2007



Source: Internal Revenue Service

## Income and Employment

The types and prices of houses demanded by consumers are determined largely by whether would-be buyers are employed and, if they are, how much they earn in their jobs. Housing affordability for a population in any jurisdiction such as city, county, state, or country is principally a function of only three numbers: income, mortgage rates, and home prices. Average working families can only afford the monthly mortgage cost of homes if their incomes are sufficient.

### Income Measures

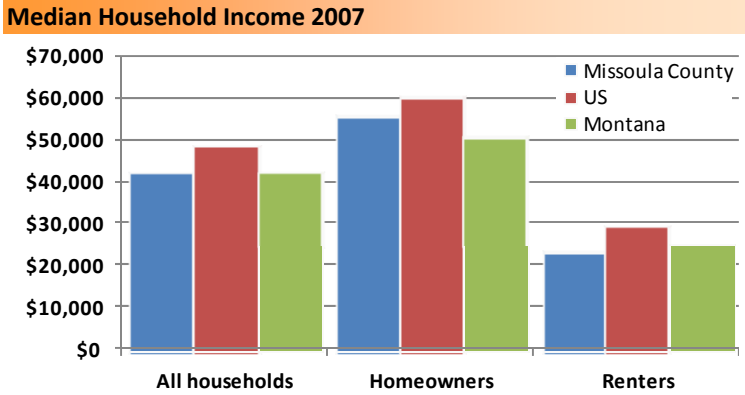
Figure 18 shows median income in 2007 for homeowners, renters, and overall. (Remember that median is the point at which exactly



half of all incomes are greater and the other half are less.)

The median income for Missoula County homeowners in 2007 was more than double the median for Missoula County renters. This relationship holds both nationwide and for all of Montana. As in previous measures, this gap may be explained by Missoula's large population of college students, who tend to rent rather than own and have little or no income.

**Figure 18: Missoula household income generally lags that of Montana and the US**



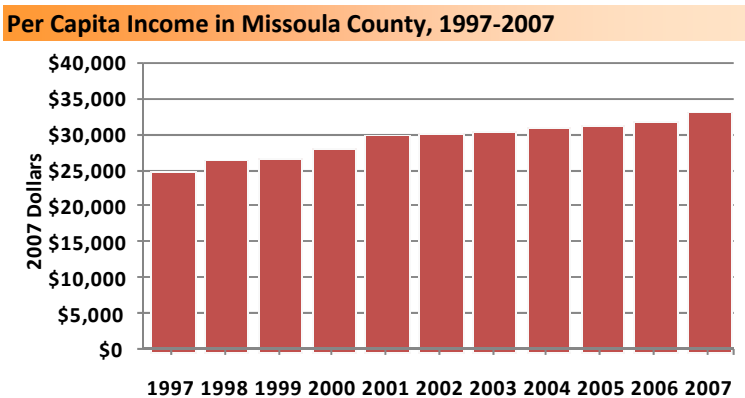
Source: US Census Bureau, American Community Survey, 2005-2007

Another way to measure income is per capita (per person). Per capita income is regarded as a generally reliable measure of overall economic well-being. It is the average income of all individuals living in an area, derived by adding the total income earned by everyone in a given area or jurisdiction and dividing by the total population (regardless of age or employment status).

Figure 19 shows that Missoula County's per capita income has been increasing by about 2% per year in real (inflation-adjusted) terms. The increase from 2000 to 2007 measured 11.2%.

Also evident in the figure is a period of stronger gains in the late 1990s through 2001, followed by weaker gains between 2002 and 2006, when income accelerated considerably. This has been attributed to satellite television provider Direct TV opening a Missoula call center that created several hundred new jobs.

**Figure 19: Per capita income has increased steadily and consistently**



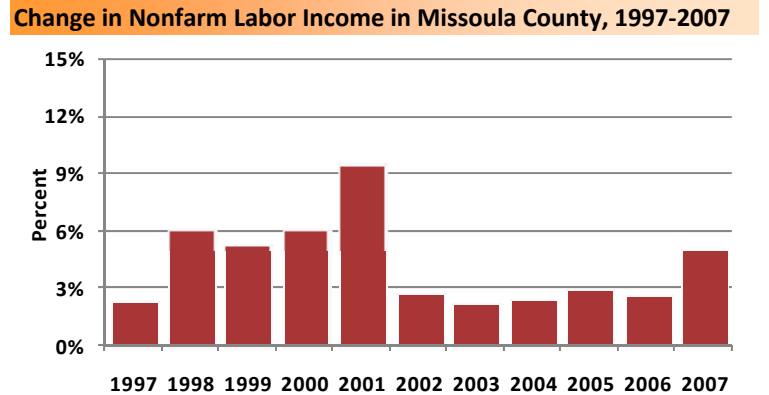
Source: US Bureau of Economic Analysis and Bureau of Business and Economic Research

### Income from Labor

Non-farm labor income is a proxy for economic activity at local levels, because it is highly correlated with gross domestic product (GDP -the sum of the value of all goods and services produced in a given area or jurisdiction).

As Figure 20 shows, Missoula County's inflation-adjusted, non-farm labor income increased rapidly from 1998 through 2001. It retreated somewhat though it stayed positive in the early 2000s, and in 2007 jumped significantly. 2007's large increase is likely to have been caused principally by the addition of new jobs with Direct TV.

**Figure 20: Non-farm labor income shows consistent healthy gains**



Source: US Bureau of Economic Analysis and Bureau of Business and Economic Research

### Income Distribution

The Census Bureau measures family and household income by the various income groupings shown for Missoula County in Figure 21.

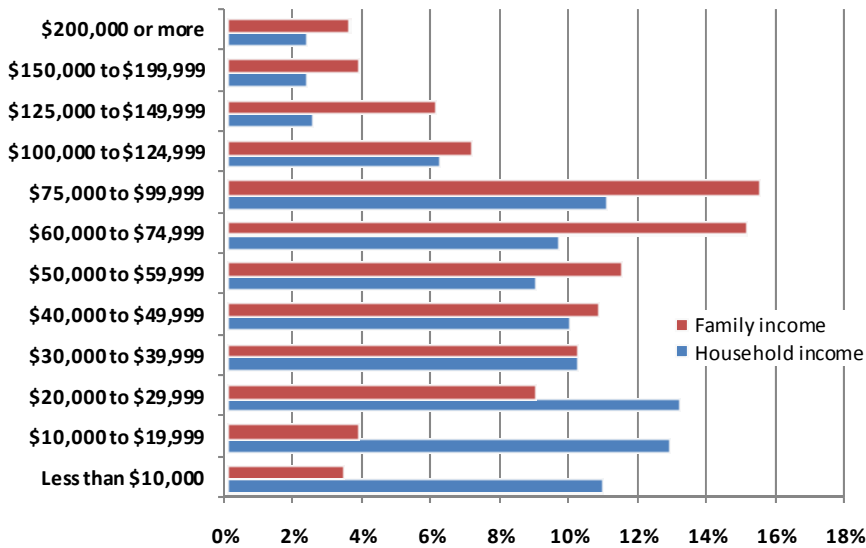
The figure clearly indicates that the county's incomes are "bimodal," that is, concentrated at two distinct levels: \$75,000 to \$99,999 and less than \$10,000. These concentrations appear to correspond to county employment patterns, with professional workers represented in the higher income category and retirees and students mostly composing the households with under \$10,000 incomes. (Note: The chart's individual income bands span a wider dollar range at higher incomes, so a casual glance at the chart would suggest more than the actual number of people that are at lower incomes.)

Missoula County's per capita income has been increasing by about 2% per year



Figure 21: Household income shows a distinct “bi-modal” pattern

Income Distribution in Missoula County 2007



Source: US Census Bureau, American Community Survey, 2005-2007

Note: Families are defined as two or more persons living together that are related by blood or marriage. Households include families as well as persons living alone and two or more unrelated individuals who share living quarters.



Missoula County unemployment increased last year for only the second time in the past 12 years, after trending downward for the previous seven years to only about 2.6% in 2007

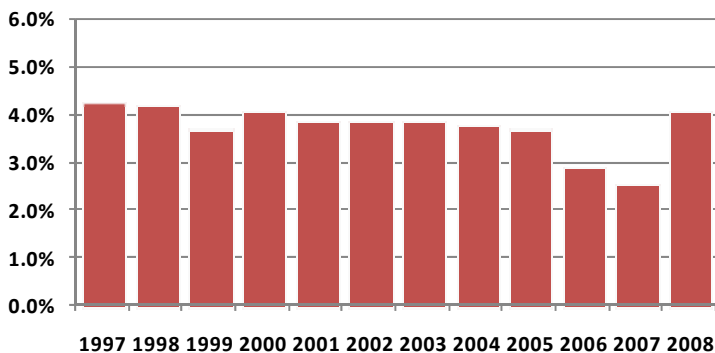
Unemployment

The unemployment rate measures the proportion of persons who are in the labor force (that is, seeking a job) but currently out of work.

Figure 22 shows that Missoula County unemployment increased last year for only the second time in the past 12 years, after trending downward for the previous seven years to only about 2.6% in 2007. The state of Montana similarly saw downward trending unemployment, with a jump in 2008. Despite the one-year increase, both Missoula and the state continue to enjoy an unemployment rate significantly lower than nationwide.

Figure 22: Unemployment in 2008 is up, but still below the US rate and about average for Montana

Annual Unemployment Rate, Missoula County, 1997-2007



Source: Montana Department of Labor and Industry

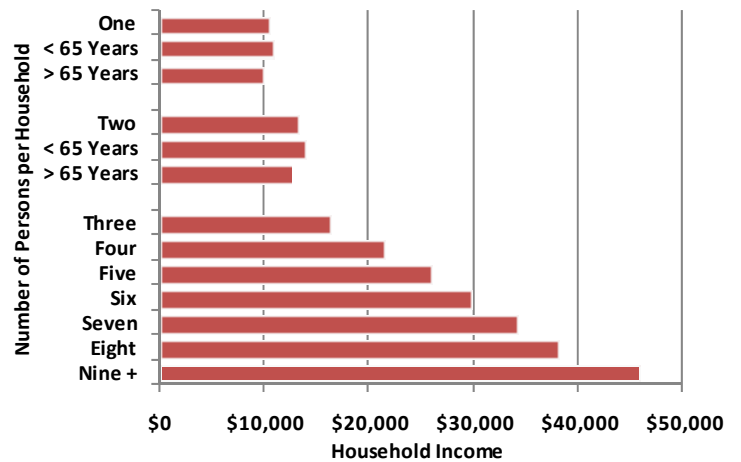
Poverty

The Census Bureau computes so-called “poverty thresholds” each year – thresholds commonly known as the Federal Poverty Level.

As Figure 23 shows, poverty thresholds vary by the number of persons in the household and (for one- and two-person households) by age.

Figure 23: The federal government sets poverty thresholds by household size and age

Poverty Thresholds, 2007

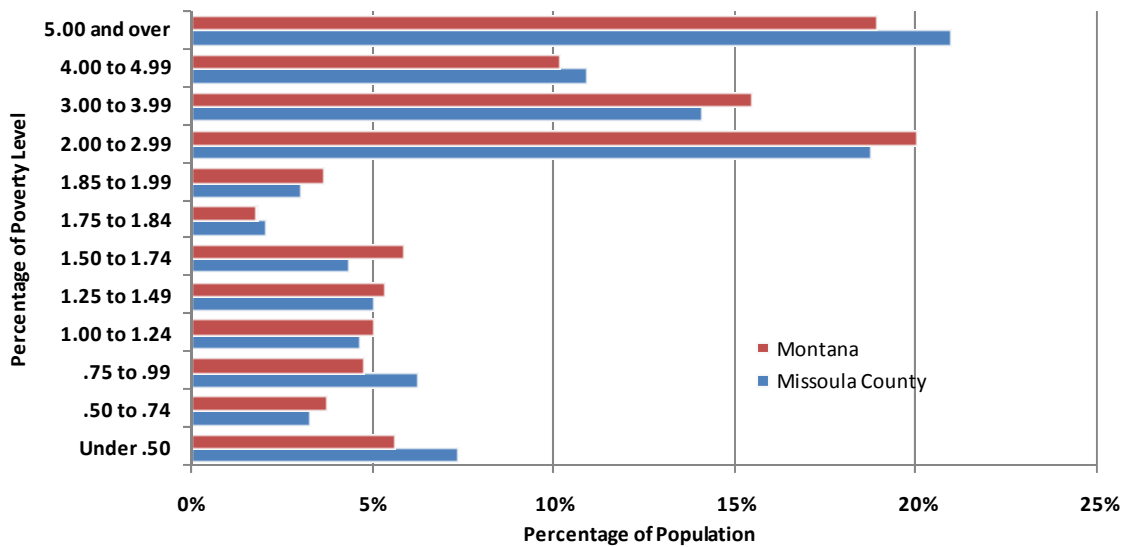


Source: Montana Department of Labor and Industry

Based on the established poverty thresholds shown in Figure 23 combined with the measurement of income for Missoula households, Figure 24 demonstrates where household income stands relative to the government-set poverty thresholds.

Figure 24: Missoula County's poverty levels are influenced by a large student population

Income as a Ratio of Poverty Level in Missoula County 2007



Source: US Census Bureau, American Community Survey, 2005-2007

The figure indicates that about 18% of Missoula County households have incomes below the poverty threshold that corresponds to their household size and age (as represented by the lowest three bars on the chart, where 1.0 is equal to the poverty threshold). The state of Montana as a whole has a smaller share of households in poverty. Again, however, Missoula's high number of college stu-

dents, who tend to earn little or no income, probably exaggerates our local poverty rate.

A slightly higher percentage of county households have incomes that range from the poverty threshold (1.0) to double the threshold (2.0). More than 60% of county households have incomes double the poverty threshold or higher.

# HOUSING AFFORDABILITY

## The Housing Affordability Index

The Housing Affordability Index (HAI) is a comparison of the median price of a home (as discussed in Section 2 of this report) and the median income of households in the community (as discussed in the previous section) and how these factors are affected by mortgage interest rates.

The HAI is a way to indicate what the housing numbers mean to consumers who want to purchase in the local market. It reflects the fact that housing prices, interest rates, terms of loans, and amounts of down payments all affect a homeowner's ability to purchase a home. The HAI also includes estimation of taxes and homeowners insurance.

An affordability index of 100 indicates that, given all the factors that affect ability to purchase, a family with a median income has the income necessary to purchase a median priced home.

The National Association of REALTORS® uses the HAI to quantify housing affordability. To figure the affordability of the payment, it's assumed that 25% of monthly income would go toward the mortgage payment.

Table 8 shows the HAI for Missoula from 2001 through 2007. HUD data for 2008 on median individual and family income will not be released until after the press conference for this report. The online version will be updated when that information is made available, so that individuals can pencil in the blank sections. In 2008, the income needed for a HAI of 100 is \$\_\_\_\_\_, which means a family whose income is at that level could afford a median priced home (or any home priced lower than the median). The HAI shows that a one-person household in 2008 has approximately \_\_\_% of the amount of income needed to purchase a home priced at the 2008 median sale price.

An affordability index of 100 indicates that, given all the factors that affect ability to purchase, a family with a median income has the income necessary to purchase a median priced home

In Missoula, more than 40% of homeowners in the 25 to 34 age group spend 30% or more of their gross incomes on housing



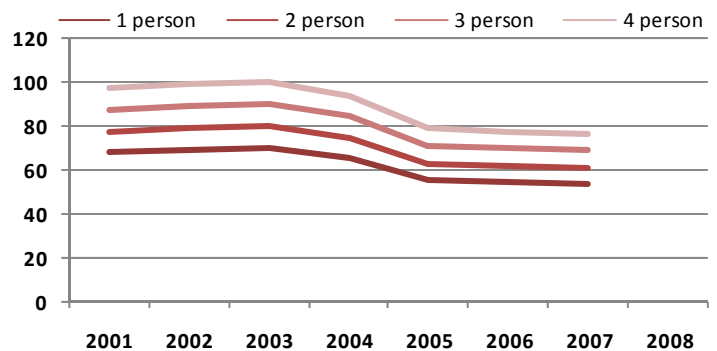
Table 8:

	2001	2002	2003	2004	2005	2006	2007	2008
<b>Median Home Price (MOR)</b>	\$138,000	\$149,500	\$163,000	\$179,000	\$192,000	\$206,850	\$219,550	\$215,000
<b>Down payment</b>	10.00%	10.00%	10.00%	4.00%	4.00%	4.00%	4.00%	4.00%
<b>Interest Rate</b>	6.25%	5.75%	5.50%	5.50%	6.75%	6.25%	6.00%	5.375%
<b>Loan Term</b>	30 years	30 years	30 years	30 years	30 years	30 years	30 years	30 years
<b>Median Family Income</b>								
<b>1 person</b>	\$30,000	\$31,600	\$34,200	\$37,000	\$37,400	\$37,800	\$38,800	
<b>2 person</b>	\$34,300	\$36,200	\$39,000	\$42,200	\$42,800	\$43,200	\$44,300	
<b>3 person</b>	\$38,600	\$40,700	\$43,900	\$47,500	\$48,100	\$48,600	\$49,900	
<b>4 person</b>	\$42,900	\$45,200	\$48,800	\$52,800	\$53,500	\$54,000	\$55,400	
<b>Housing Affordability Index</b>								
<b>1 person</b>	68	69	71	66	55	54	54	
<b>2 person</b>	78	80	80	75	64	62	61	
<b>3 person</b>	88	89	91	85	71	70	69	
<b>4 person</b>	98	99	101	94	79	78	77	
<b>Median Family Income Needed to Purchase Median Priced Home</b>								
<b>Income</b>	\$36,720	\$37,728	\$39,984	\$46,848	\$57,408	\$58,704	\$60,672	\$55,536
<b>KEY:</b> 100 - A median income family can marginally qualify for housing								
>100 - A median income family has xx% more income than minimum								
<100 - A median income family has xx% of the income required to qualify								
Source: Multiple Listing Service, HUD								

The HAI for recent years shows that increases in median home prices have significantly outstripped increases in median family incomes. Nonetheless, a significant share of families (of any size) is not able to afford the median priced Missoula home.

For example, a 4-person family at the median Missoula income (\$55,400) had 77% of the income required to qualify to purchase a median priced home (at \$215,000). Yet this family would fare better than families of one, two, or three persons; their median incomes provided even lower percentages of the incomes needed to qualify for purchase of a median priced home.

Figure 25: Missoula Housing Affordability

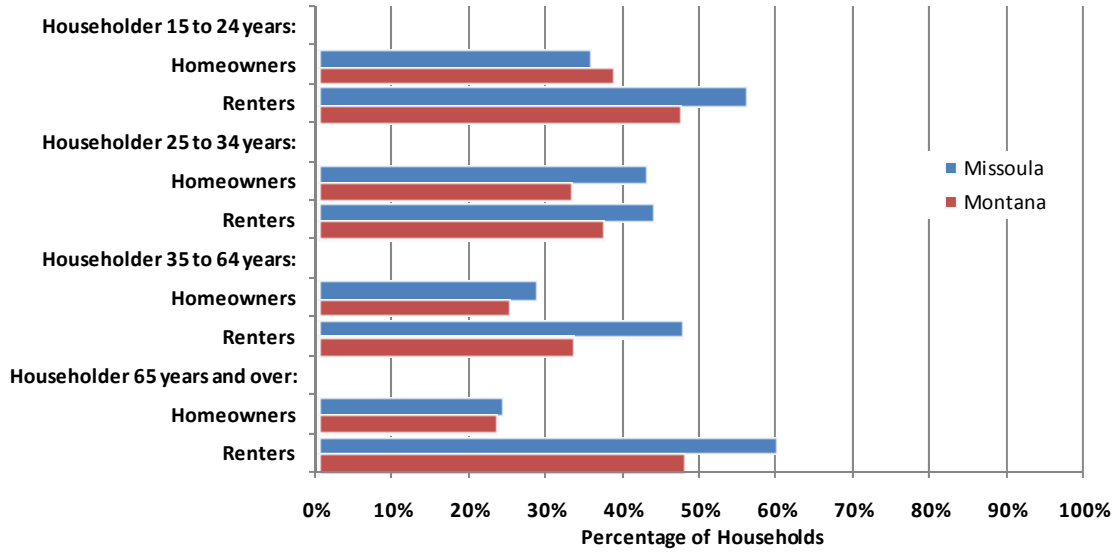


Source: Multiple Listing Service, HUD



**Figure 26: A significant share of homeowners and renters spends more than 30% of income on housing**

**Percentage of Households Spending more than 30% of Income on Housing, Missoula County 2007**



Source: US Census Bureau, American Community Survey

**Share of Income Spent on Housing**

Experts and professionals in real estate and financial planning generally agree that no more than 30% (and, more safely, 25%) of a family’s gross monthly income should be spent on housing. Figure 26 shows the percentage of households, divided into four age groups, that spend more than the recommended maximum 30% of income on housing.

In Missoula, more than 40% of homeowners in the 25 to 34 age group spend 30% or more of their gross incomes on housing, while some 35% of homeowners in the youngest age group exceed the 30% recommended maximum.

Fewer homeowners in the upper two age groups are burdened with excessive payments. This is attributable in part to members of the older generations having purchased their homes before prices began their relentless advance, with many of them having paid down most or all of their mortgages; those mortgages would mostly be far

lower in monthly payments than today’s typical mortgages.

For renters, divided into the same age groups, an even greater percentage of those in each of the age groups exceeds the 30% recommended monthly maximum.

Among renters, those in the older age groups do not show the same low level of incomes going to housing as among homeowners. In fact, the profile of those in the oldest age group reveals that the percentage of those exceeding the 30% level is even higher than for the youngest group.

If our local rental market were to follow national trends, the prospects for more affordable rental housing are not promising. Harvard’s *State of the Nation’s Housing* observes that, “losses of low-cost rental housing are alarmingly high. From 1995 to 2005, the supply of rentals affordable to households earning less than \$16,000 in constant 2005 dollars shrank by 17%.”

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# CONCLUSION AND OUTLOOK

In a culture where national news sources reign supreme and are often used to get the bigger picture of our economic state, any objective assessment of the year must go beyond a comparison with prior years and consider the year in relationship with our state, region, and country.

For the US, median home prices at the end of December 2008 were down by about 25% from their peak in mid-2006, and in 2008 fell by 7%, the largest one-year decline in the past 38 years. For Missoula, median home prices for 2008 were down 2% from their highest-ever level in 2007, representing the only year-to-year decline this decade.

Foreclosures nationally surged by 81% from 2007 to 2008. For Missoula, foreclosures in 2008 increased by 18% over 2007. In the US, building permits issued for new construction fell by 63% from 2005 to 2008. The equivalent decline for the city of Missoula was 49%.

Due to the relative strength of the Missoula housing market as compared to the national picture, housing affordability has not improved locally to the same extent it has improved in some regions in the US. For the US as a whole, the mortgage payment on a median priced US home had fallen to about 17% of average family income by year-end 2008, from more than 25% two years ago. Affordability arguably remains the greatest challenge in our local market.

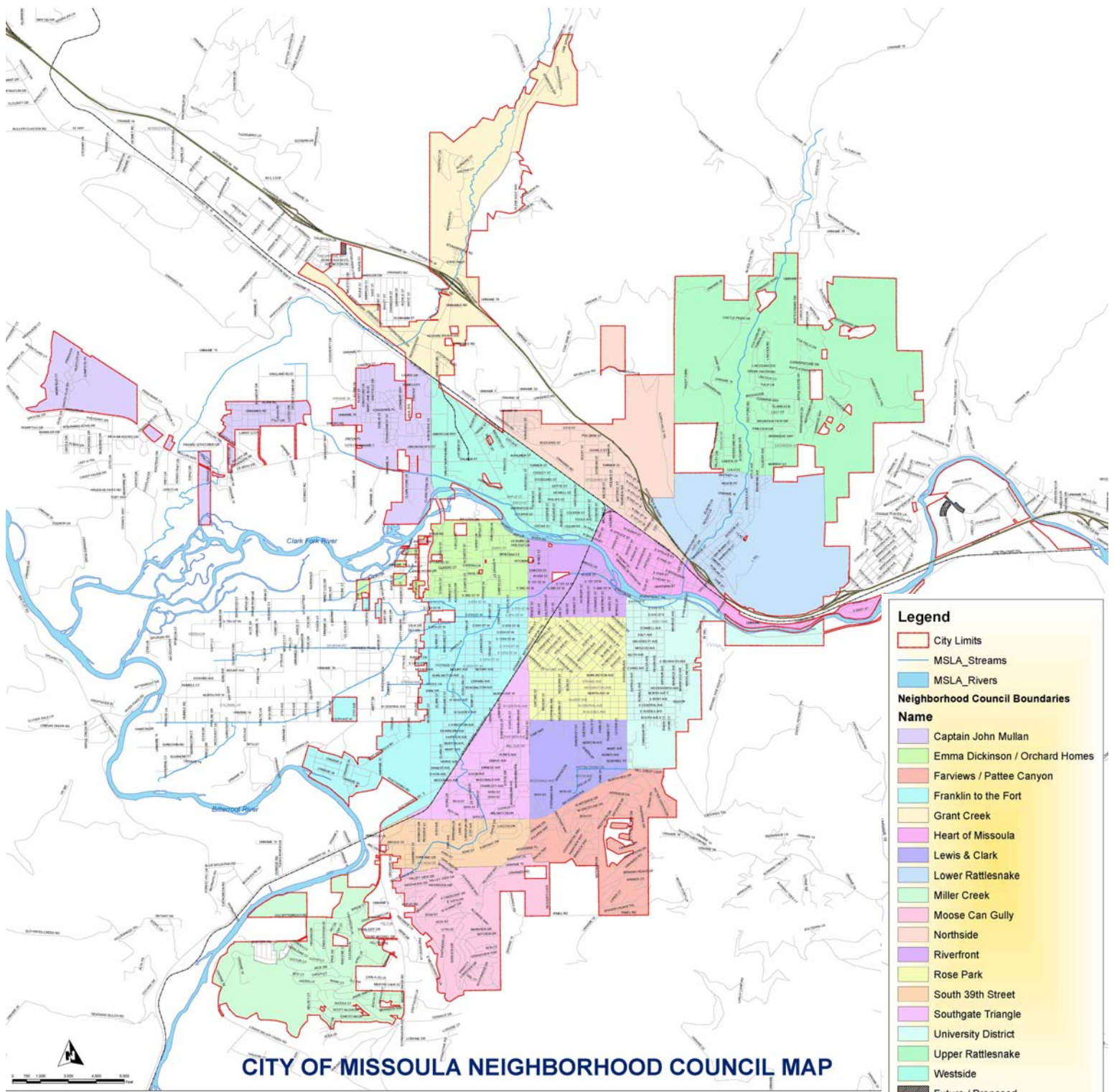
Regarding the future, expert consensus is that the recovery of the US economy in general and the housing industry in particular will be a slow. A few indicators have recently brightened the national housing picture, for example, with home sales nationally jumping by more than 6% in December 2008 from the previous month's sales – the largest one-month gain in nearly seven years.

December's increased home sales nationally were likely aided by mortgage interest rates hovering around 5%, the lowest level in decades, and an increased number of distressed sales. Historically low interest rates also prevailed at year-end 2008 in our local market, yet did not immediately spur home sales.

Caution among would-be Missoula homebuyers may be a natural reaction to nationwide indicators and fears – such as a pervasively gloomy near-term outlook for the US economy, consumer confidence that's at an all-time low, and the absence of mortgage liquidity, among other factors.

So Missoula's housing market, as well as its overall economy, enjoys a level of health and stability in early 2009 that would be envied by most of the country. This state of affairs, combined with favorable indicators such as mortgage interest rates, as well as the historical resilience of Missoulians, combine to provide realistic potential for a stronger local housing market when the economy begins to rebound.





Legend	
	City Limits
	MSLA_Streams
	MSLA_Rivers
Neighborhood Council Boundaries	
Name	
	Captain John Mullan
	Emma Dickinson / Orchard Homes
	Farviews / Pattee Canyon
	Franklin to the Fort
	Grant Creek
	Heart of Missoula
	Lewis & Clark
	Lower Rattlesnake
	Miller Creek
	Moose Can Gully
	Northside
	Riverfront
	Rose Park
	South 39th Street
	Southgate Triangle
	University District
	Upper Rattlesnake
	Westside
	Future / Proposed
	None





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