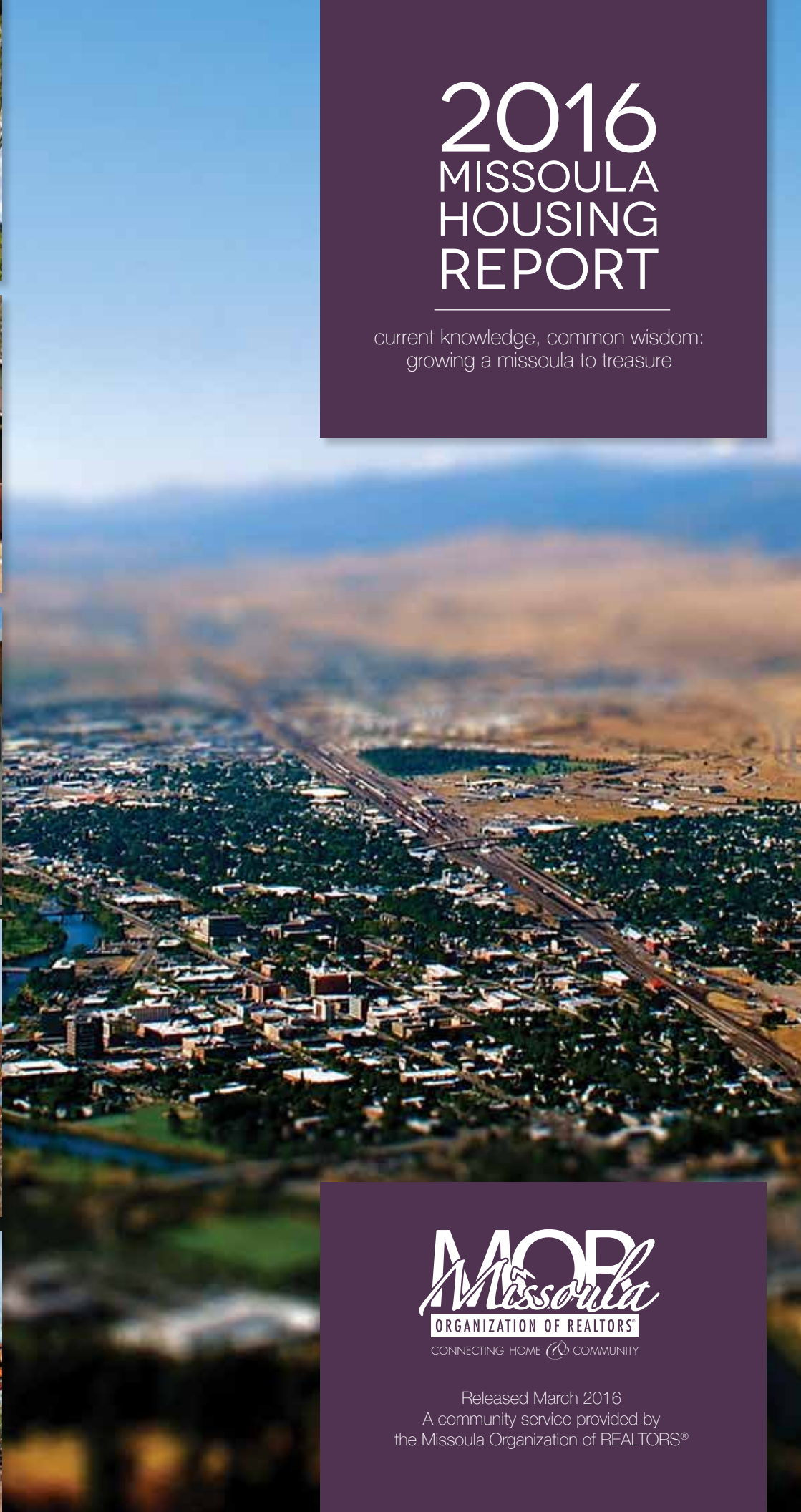




2016 MISSOULA HOUSING REPORT

current knowledge, common wisdom:
growing a missoula to treasure



MOP
Missoula
ORGANIZATION OF REALTORS®
CONNECTING HOME & COMMUNITY

Released March 2016
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NOTES FOR READING THE REPORT

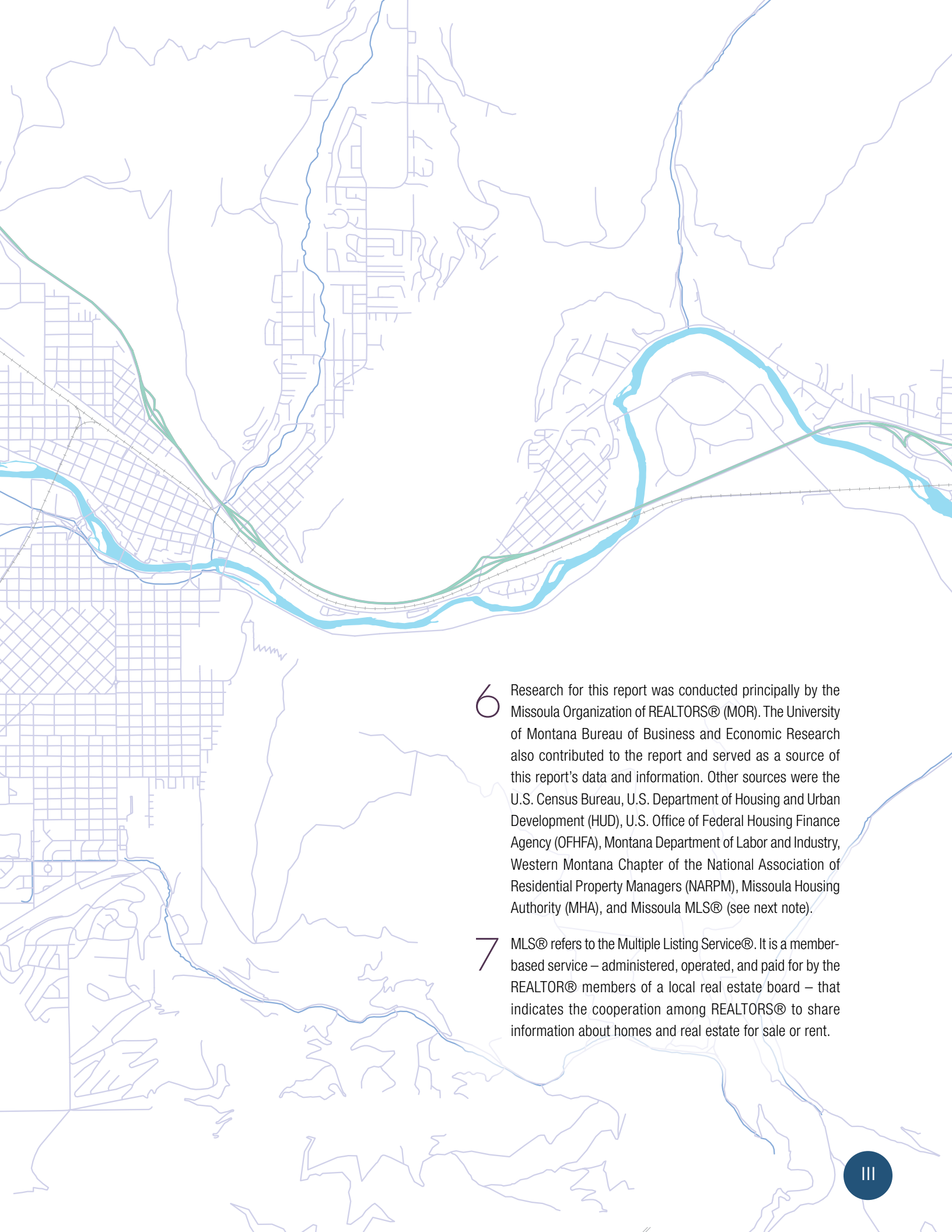
1 As in past reports, all data sources are publicly available and statistically valid. Our interpretation of the data may lead to judgments that we believe are sound but with which you may disagree. If so, we invite your comments (comments@missoularealestate.com) so that we can continue to improve this annual report.

2 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, Fairviews, 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.

3 All data is the most recent available at the time we compiled the report. For calendar-year data, that is 2015 in most cases, but 2014 or even 2013 when more recent figures are not yet available.

4 “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 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, 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.

5 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.



6 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), and Missoula MLS® (see next note).

7 MLS® refers to the Multiple Listing Service®. 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.

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MESSAGE FROM COORDINATING COMMITTEE

We are pleased to present the “2016 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, to the improvements over the years, as well as the issues that require our attention in the years to come.

This is the 11th 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

Kellie Battaglia	Homeword
Paul Burow	Professional Property Management
Colleen Cebula	First Interstate Bank
Vicki Corwin	Stewart Title
Ruth Hackney	Missoula Organization of REALTORS
Jim McGrath	Missoula Housing Authority
Michael Moore	United Way of Missoula
Andy Short	Territorial Landworks, Inc.
Brint Wahlberg	Windermere Real Estate

SPECIAL THANKS to First Interstate Bank for its support of the production of the 2016 Missoula Housing Report.



EXECUTIVE SUMMARY

Housing Supply: Development & Occupancy

As the supply of affordable real estate tightens, more buyers are opting to build. In 2015, residential lot sales increased by 32 percent and their median price rose by 7.6 percent to \$85,000.

The City of Missoula issued more single-family building permits in 2015 than the previous year, but the overall number of building permits issued by both the City of Missoula and the county dropped slightly. Multi-family units continue to make up the bulk of new development.

Subdivision development projects hit a near standstill in 2014, and 2015 proved even slower with only one project approved. However, many developers are now using an exemption to build townhouses classified as “units” rather than lots, thus affecting these numbers.

In Missoula County, owners occupy about 60 percent of the units while in the city of Missoula, renters make up a narrow majority – about 52 percent – of occupants.

Housing Demand: Population & Income

Missoula's population continues to increase by about one percent each year, as it has for the last 15 years. Missoula County's most recent population figure, from 2014, was 112,684.

The median household income in Missoula was \$47,029—nearly equal to that of Montana households but below the U.S. median income. Missoula renters face a more difficult situation, with a median household income of only \$27,606, below both the state and national medians.

The poverty level – or percentage of Missoulians living in federally defined poverty – dropped to 16 percent, from 18 percent the prior year.

Homelessness, while down slightly in 2015, remains a problem for about 500 Missoulians, and a central part of that condition is lack of affordable housing.



Rental Housing

Rental vacancy rates in Missoula remained well below the national average, although Missoula's rates did rise from 3.9 percent in 2014 to 4.1 percent in 2015.

The issue of rental affordability occurs repeatedly in this year's report. The average cost of rent increased in nearly every type of unit, and nearly half of all Missoula renters spent an inadvisable 30-plus percent of their income on housing costs in 2015.

The Missoula Housing Authority (MHA) is now successfully supporting all 774 of its Section 8 vouchers to subsidize rent, yet its waiting list for this assistance grew by 8 percent in 2015, with 1,725 households waiting for help.

In late 2015, Homeward began to develop a rental education and counseling program to help low-to-moderate income people access and maintain affordable rental housing.

Housing Sales & Prices

The real estate market in Missoula picked up in 2015, with increased sales activity and a median sales price that climbed to a record high for the Missoula area—\$238,700.

The largest number of sales occurred in the \$200,000 to \$275,000 price range, but demand for these more affordable homes outstrips the actual supply, and that has created a sellers' market for most price points under \$275,00. More expensive homes had a challenged market until the third and fourth quarter of 2015, when the absorption rate finally fell into a more normal range.

Meanwhile, single family homes in Missoula are steadily appreciating, with repeat home prices higher than other Montana markets and the national average.

Housing Finance

While many consumers anticipated a significant rise in interest rates in 2015 and thus felt the urgency to make a home purchase, mortgage rates actually remained affordable throughout the year. The year-end interest rate for a 30-year conventional loan was 4.19 percent.

Foreclosures in Missoula declined by 16 percent in 2015, marking the lowest level in 10 years. This kind of stability is due in part to more stringent lending guidelines and overall economic recovery. In addition, homeownership programs, such as Homeward's homebuyer education, financial education, and foreclosure counseling help homeowners succeed.

Housing Affordability

The Missoula Housing Affordability Index pointed to a decrease in the affordability of Missoula homes in 2015, as it measured the ability of a family earning a median income to purchase a median-priced home.

While it is generally accepted that no more than 30 percent of a household's gross monthly income should go toward housing costs, a worrisome proportion of Missoula residents do just that. Missoula renters are the worst off, with 54.3 percent putting more than a third of their income toward housing. However, that is close to the national average for renters. Only 27.2 percent of Missoula homeowners are in this position.



HOUSING SUPPLY: DEVELOPMENT & OCCUPANCY

Lot Development

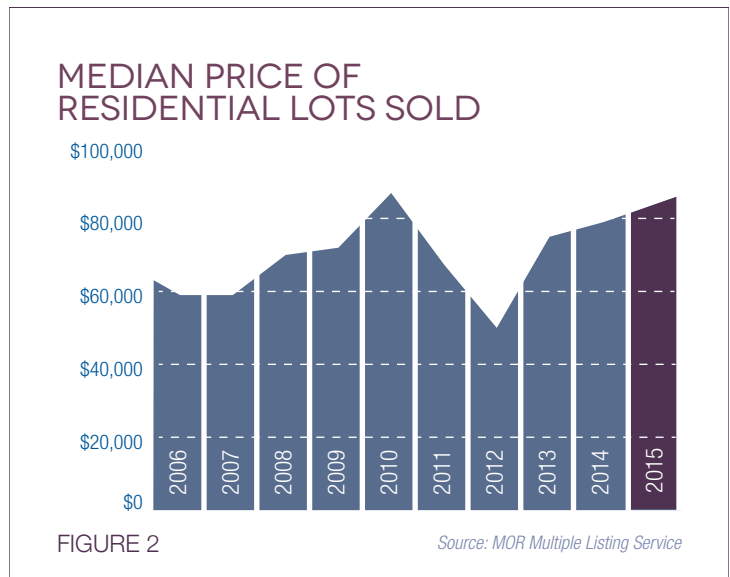
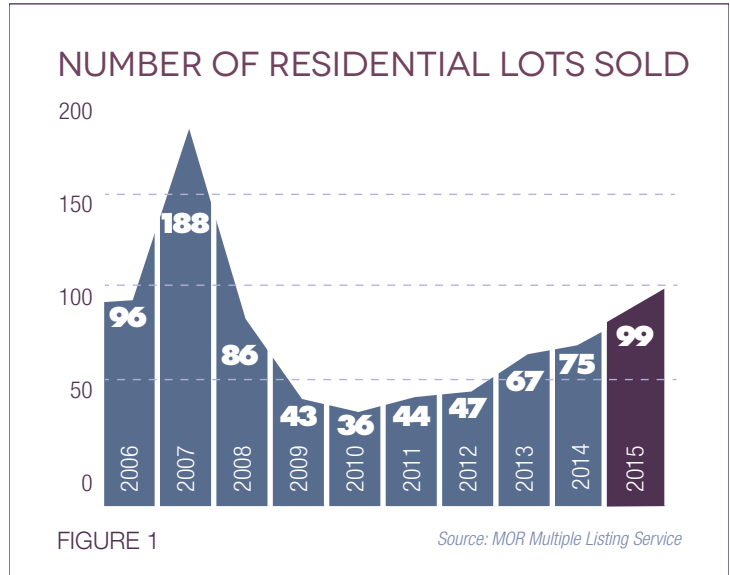
In 2015, the number of residential lots sold increased by 32 percent, with 99 lots being sold (FIGURE 1). The median price of a lot rose to \$85,000, up 7.6 percent (FIGURE 2).

As was the case last year, the supply of homes on the market is tight for many price points, with market absorption rates falling throughout 2014 and 2015. As a result, more buyers are opting to build.

FIGURE 1: The number of lots sold increased for the fifth year in a row.

FIGURE 2: The median price of a residential lot increased for the third year in a row.

TABLE 1: Since 2013, both residential lot sales and their median price have increased.



Year	Lot Sales	% Change	Median Price	% Change
2015	99	32	\$85,000	7.60%
2014	75	11.9%	\$79,000	5.3%
2013	67	42.6%	\$75,000	50.0%
2012	47	6.8%	\$50,000	-25.8%
2011	44	22.2%	\$67,400	-22.5%
2010	36	-16.3%	\$87,000	20.8%

TABLE 1 Source: MOR Multiple Listing Service

Pace of Development

This is the second year this report has tracked building permits and development projects to understand the pace of development in Missoula. The total number of building permits issued by the City of Missoula decreased 3.4 percent, from 490 permits in 2014 to 473 in 2015 (FIGURE 3). The total number of building permits issued by Missoula County decreased 22.8 percent, to 145 in 2015; however, that was following a 90 percent increase in 2014 (FIGURE 4).

For the last three years, multi-family building permits have made up the majority of new development in the City of Missoula. In 2015, 292 new multi-family units were permitted. In addition, county building permits for multi-family units increased from just one in 2014 to 45 in 2015.

Single-family building permits in the City of Missoula continued their steady increase from 2012, with 176 permits issued in 2015. The county's permits for single-family homes did decline by 49 percent in 2015, but that was after significant increase in 2014.

For the second year running, subdivision projects remained unpopular in both the county and city, with only one county subdivision being recorded.

However, it is important to note that Montana law allows the use of an exemption to classify townhomes as units, rather than lots, within incorporated cities and towns on zoned lands. This continued to be a popular process and has allowed city development on infill within the city. A total of 165 new units were approved through this process in 2015, a significant jump from 33 units in 2014. The popularity of this development tool may be due, in part, to developers, reviewers, and lending institutions being more familiar with the process.

FIGURE 3: The total number of building permits issued by the city decreased 3.4 percent in 2015.

FIGURE 4: The total number of building permits issued by Missoula County decreased 22.8 percent in 2015, but multi-family unit permits increased significantly.

TABLE 2: Only one subdivision was approved in Missoula in 2015.

CITY OF MISSOULA BUILDING PERMITS

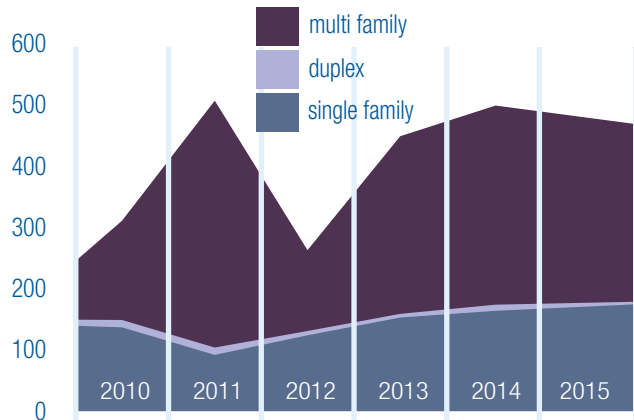


FIGURE 3

Source: City of Missoula Building Department

MISSOULA COUNTY BUILDING PERMITS

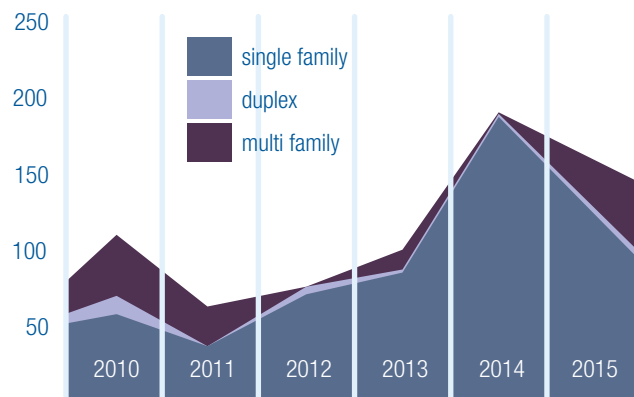


FIGURE 4

Source: Missoula County Building Department

DEVELOPMENT PROJECTS

	FY13	FY14	FY15
County Subdivisions	6	1	1
County Residential Lots Approved	95	3	1
City Subdivisions	2	0	0
City Residential Lots Approved	4	0	0
Total Residential Lots	99	3	1

TABLE 2

Source: Missoula County & City of Missoula

HOUSING SUPPLY: DEVELOPMENT & OCCUPANCY

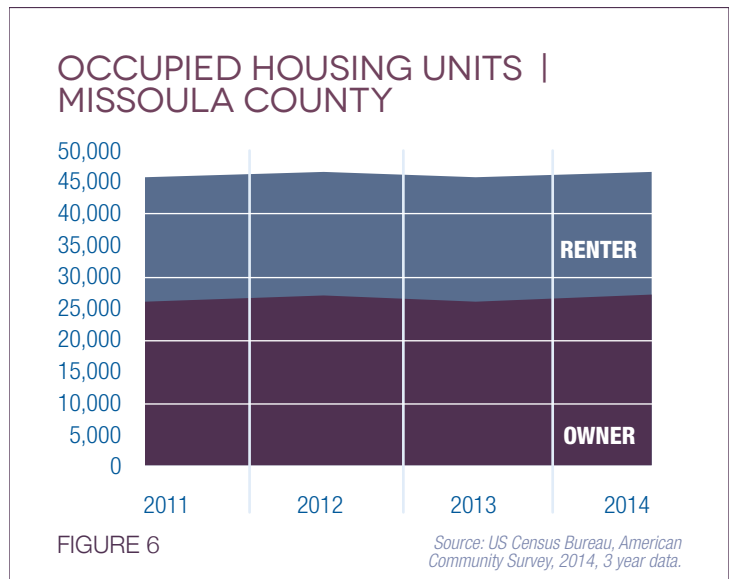
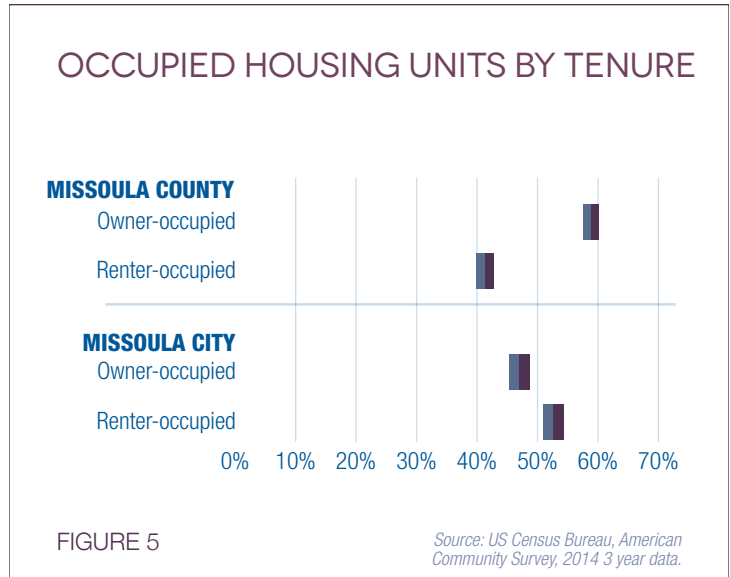
Homeowner & Renter Occupancy

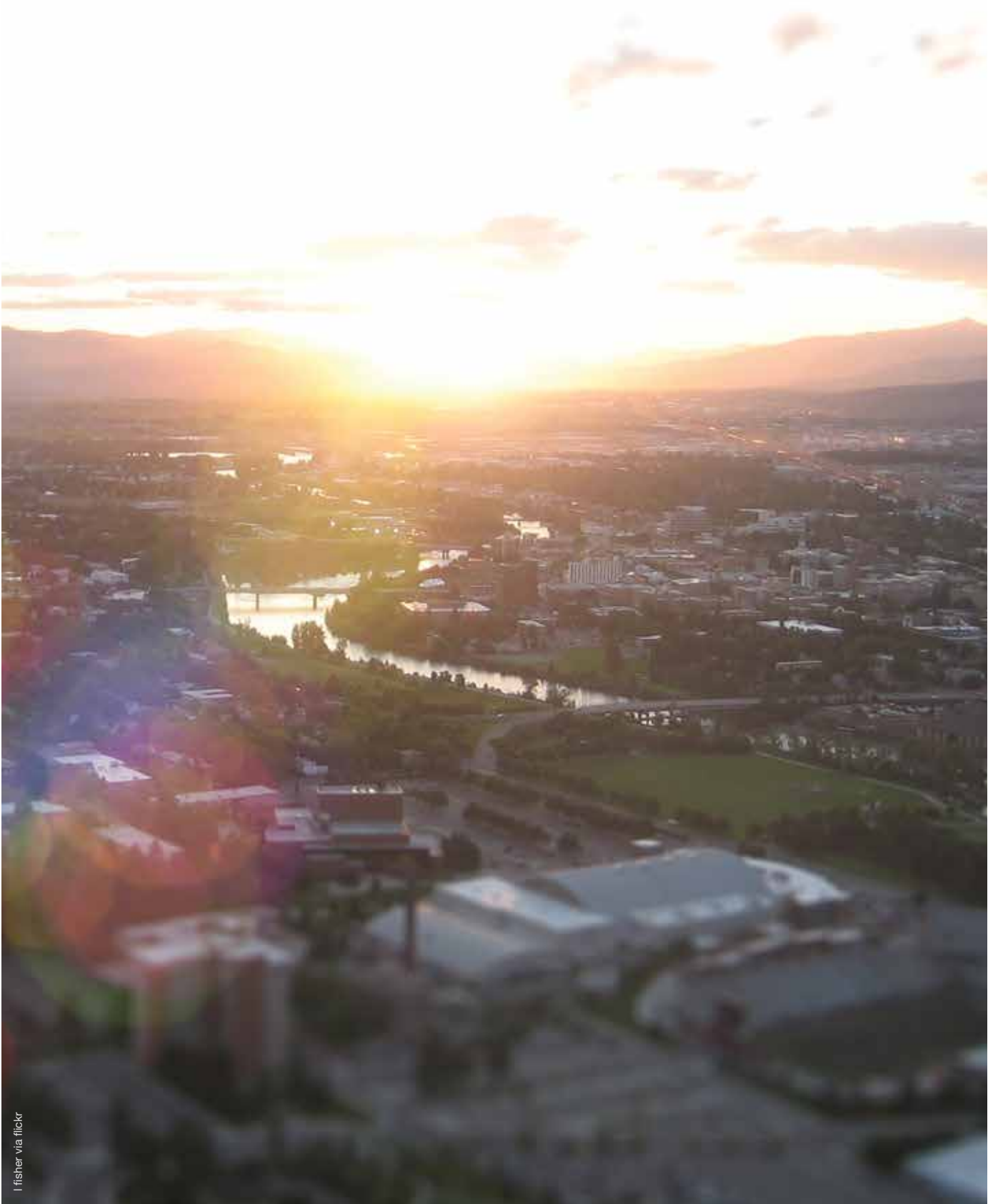
For occupied housing rates – looking at whether occupants own or rent their homes – the committee used 2014 data from the American Community Survey.

Not surprisingly for a university community, about 52 percent of housing units in the city are occupied by renters and about 48 percent by owners. In Missoula County, meantime, a majority – about 59 percent – of units are owner-occupied with nearly 41 percent occupied by renters.

FIGURE 5: Owners occupied about 59 percent of units in Missoula County, while the City of Missoula had a higher rate of renter-occupied homes, at 52 percent.

FIGURE 6: Numbers of occupied housing units – and the ratio of owners to renters – has remained stable in recent years.





l fisher via flickr

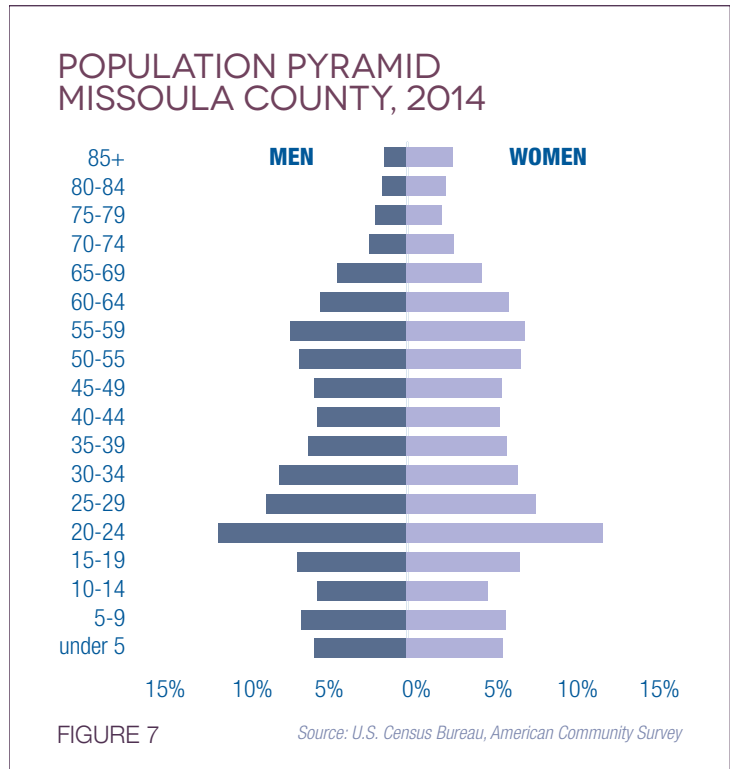
HOUSING DEMAND: POPULATION & INCOME

Age Distribution

As one would expect in a university town, residents ages 20 to 24 account for the largest age demographic in Missoula County (FIGURE 7), and they are followed by the next age bracket up, 25 to 29 years of age.

The age distribution remains relatively unchanged since the last survey data in 2012. In total, Millennials (approximately ages 19-34) make up about one-third of Missoula's population and they will, no doubt, impact the housing market in the next 15 years. Baby Boomers (ages 51-69) still comprise approximately 24 percent of the county's population. Meanwhile, Generation X (ages 35-50) holds a smaller portion of the pie, at about 17 percent.

FIGURE 7: Two dominant age ranges, 20-34 and 45-64, impact Missoula's population.

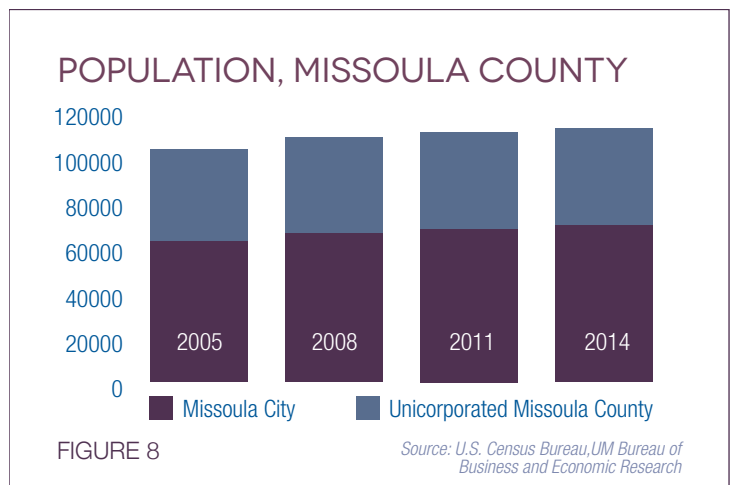


Population Dynamics

Missoula County's population continues its 15-year trend of constant growth (FIGURE 8). In 2014, the county population increased by 0.8 percent, to 112,684.

That incremental growth translated into a population increase of 10 percent from 2005 to 2015. Such growth influences housing demand. In turn, the number of available housing units governs the community's ability to accommodate growth.

FIGURE 8: Missoula County's population continues to increase by about 1% each year.

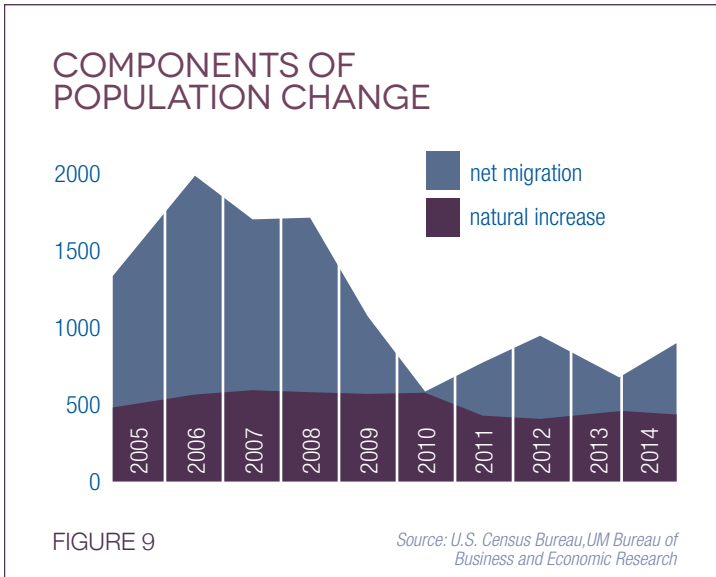


Migration

Three factors influence population growth: birth, death, and net migration. Birth and death are considered natural factors, while individuals moving to and from the area form the net migration.

From 2013 to 2014, the net migration in Missoula County increased while the natural causes of population change stayed relatively the same (FIGURE 9). However, the net in-migration levels are still considerably lower than they were prior to the recession.

FIGURE 9: Net migration (the number of people moving to/from Missoula) increased in 2014.

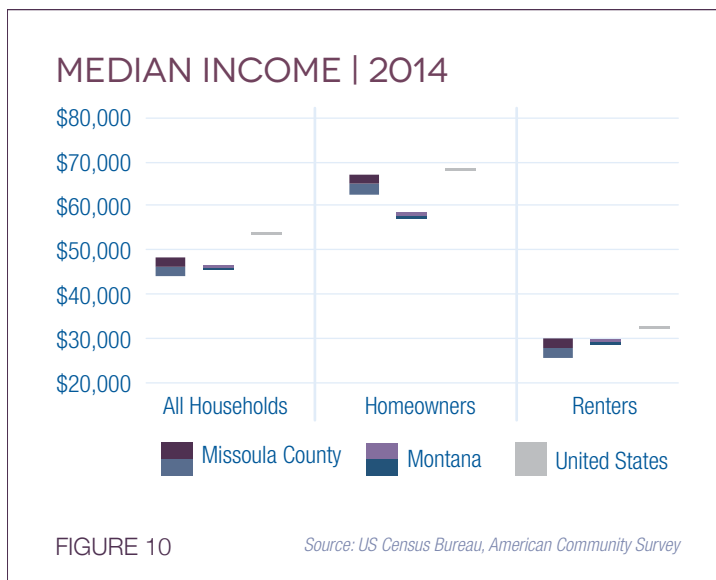


Income Trends

The median income for all households in Missoula County in 2014 was \$47,029, on par with the median household income in Montana (FIGURE 10). As has been the case for several years, this falls below the median for all U.S. households (\$53,482).

However, a more striking difference exists between homeowners and renters. Homeowners in Missoula County have a median household income of \$66,430, about \$6,000 above the median income for the state. Missoula renters, on the other hand, have a median income of \$27,606, which is below both the state and national median income, and it is a number that also did not notably increase from 2013 to 2014.

FIGURE 10: The median household income in Missoula varies greatly between homeowners and renters. (The blocks of color in the graph represent the range of the margin of error for the median income.)



RENTAL HOUSING

Rental Occupancy

Rental vacancy rates remain low in Missoula. The overall annual vacancy rate did increase slightly from 3.9 percent in 2014 to 4.1 percent in 2015 (FIGURE 12). However, the fourth quarter saw a significantly higher vacancy rate (5.6 percent) than in previous years.

In 2015, the rates did not follow the typical vacancy spike in the summer as people move, which is normally followed by lower rates as school starts and people settle in for the winter. Instead, the vacancy rate grew in each successive quarter of 2015, from 1.8 percent at the start the year to 5.6 percent at the end (FIGURE 11).

The slight increase in vacancy rates may be the result of a number of factors, including the decline in enrollment at the University of Montana or the addition of more units into the market. A 4.1 percent overall vacancy rate is still considered very low (the national average in 2015 was 7.1 percent and in Montana, it was 3.9 percent), and the slight increase in vacancy has had no effect on lowering the price of rent at this point. The vacancy rate would likely have to increase significantly to slow or reverse the rise in rental prices.

FIGURE 11: The vacancy rate grew in each successive quarter of 2015, from 1.8 percent at the start the year to 5.6 percent at the end.

FIGURE 12: Annual rental vacancy rates remain low in Missoula, increasing only slightly from 3.9 percent in 2014 to 4.1 percent in 2015.

FIGURE 13: Vacancy rates for 2015 in two-bedroom multiplexes did not follow the patterns of previous years, as vacancies declined toward the end of the year.

RENTAL VACANCY RATES QUARTERLY

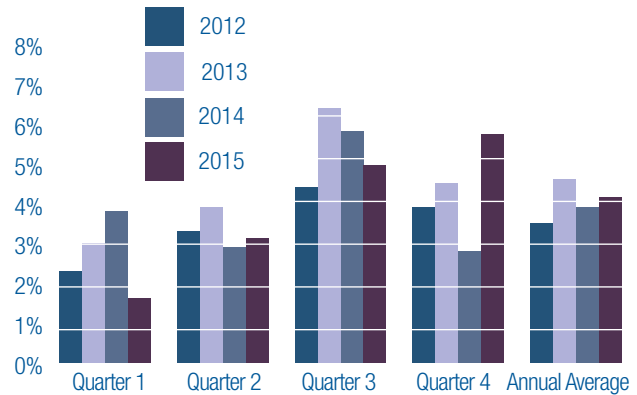


FIGURE 11

Source: Western Montana Chapter of NARPM

ANNUAL VACANCY RATES

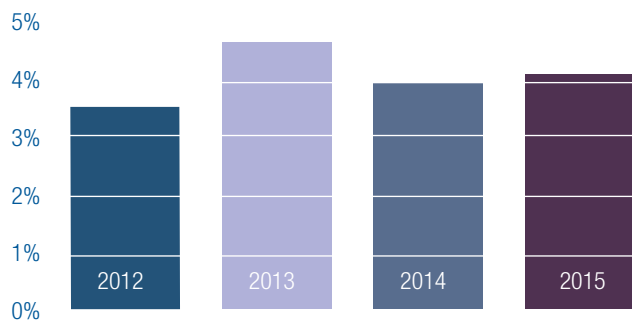


FIGURE 12

Source: Western Montana Chapter of NARPM

RENTAL VACANCY RATES BY MONTH—TWO-BEDROOM MULTIPLEXES

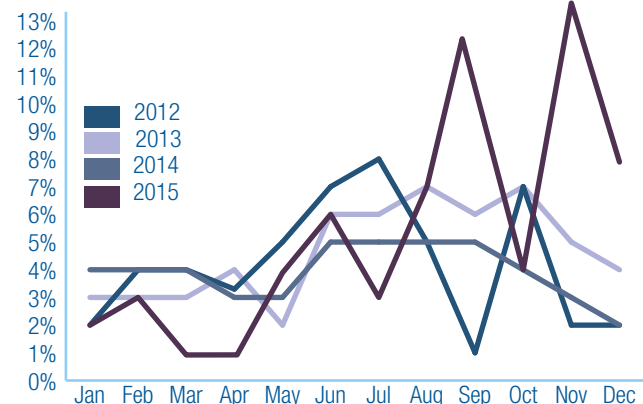


FIGURE 13

Source: Western Montana Chapter of NARPM

RENTAL VACANCY RATE BY TYPE

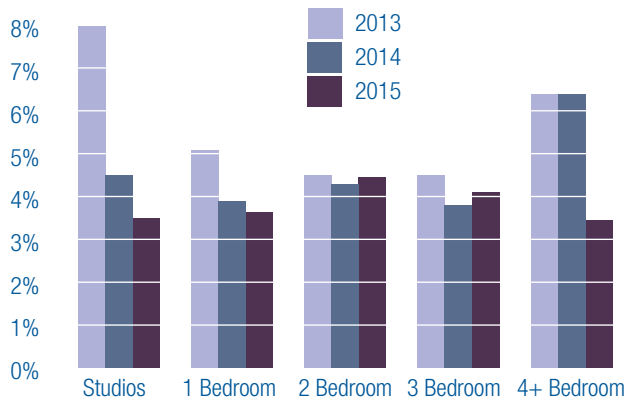


FIGURE 14

Source: Western Montana Chapter of NARPM

FIGURE 14: Two bedroom units saw an increase in vacancy rates in 2015.

AVERAGE COST OF RENT

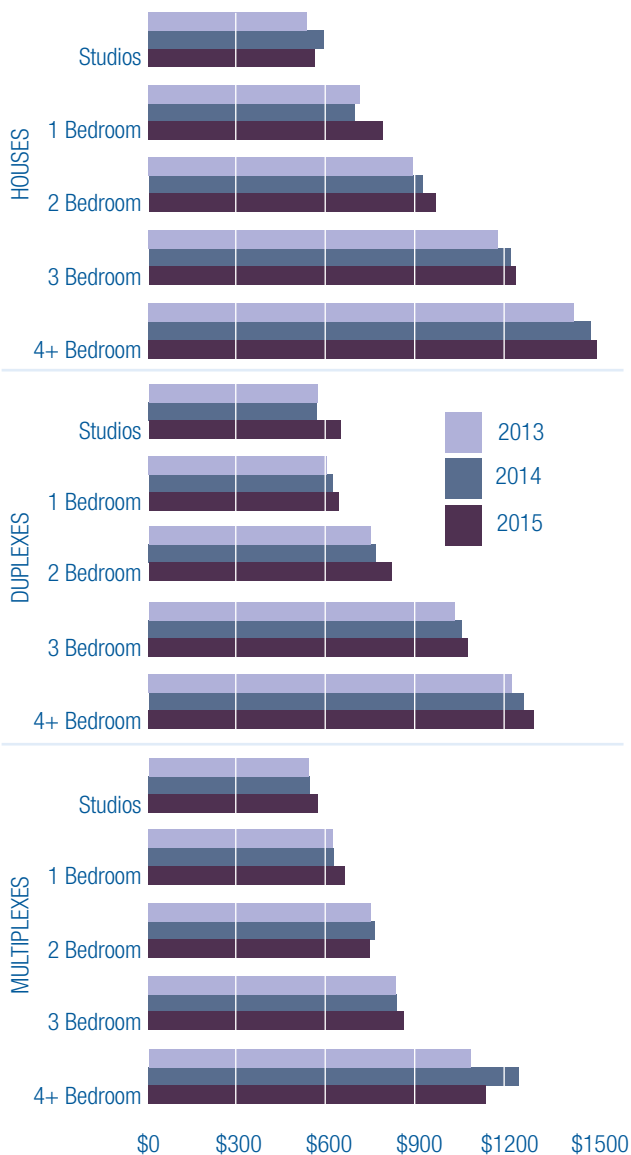


FIGURE 15

Source: Western Montana Chapter of NARPM

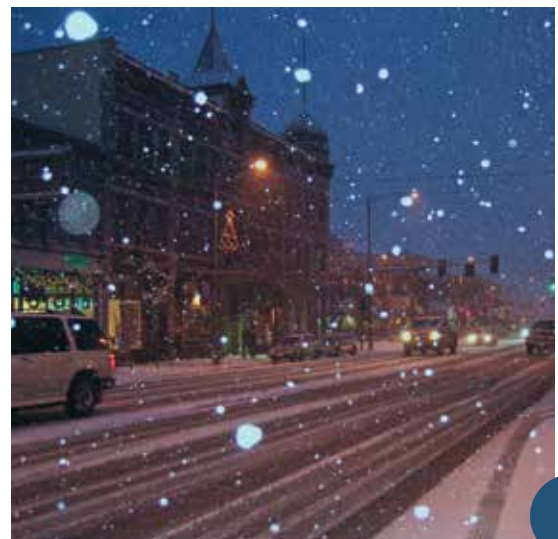
Rental Prices

As has been the trend for the last several years, the average rent increased in nearly every category in 2015 (FIGURE 15). With the exception of a few statistical outliers (rare single-family “studio” homes and four-bedroom apartments), rents increased across the board by an average of 2.7 percent.

The average rent for a one-bedroom apartment in a multiplex rose from \$615 to \$664, or about 8 percent. A two-bedroom in a larger complex increased from \$752 to \$767, or about 2 percent.

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

FIGURE 15: The average cost of rent increased in all but two categories in 2015, both of which are statistical outliers.



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. Federal funding remained sufficient in 2015 to support all available Section 8 vouchers. 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.

In the past, varying federal funding has meant that not all of those vouchers are always used. Severe budget cuts in 2013 meant that MHA could support only 733 vouchers, a loss of 40 families being served. MHA did not issue vouchers to new families for most of that year. More funding was available during 2014, but it took months to climb back up, from 727 MHA-leased units in January 2014 to finally reaching 771 of the 774 allowed by January 2015.

The 2015 funding sufficiently supports full leasing, and that should continue in 2016.

Despite all the vouchers being used, the demand for this type of rental assistance has gone up. In September 2015, 1,725 households were on the Section 8 waiting list, an increase of 8 percent from 2014 and 81 percent from 2007 (TABLE 3).

MHA also provides permanent supportive housing vouchers – between 125 and 135, depending on funding – for disabled homeless families. The waiting list for these increased from 37 in 2014 to 100 in 2015 despite full leasing. This waiting list had been declining since its peak in 2010 but is now on the rise.

Despite efforts to increase affordable housing development, it still lags behind the need demonstrated in the growing waitlists. MHA was fortunate to secure 59 new project-based Section 8 subsidies in four of their projects, 40 serving severely disabled and 19 open to low-income families in a mixed-use project jointly owned by Wishrock Group. MHA is hopeful the subsidies will go online in 2016.

One of MHA's public housing complexes that burned down in June 2013 has been rebuilt, fully leased, and appropriately renamed the Phoenix. The fire took 41 units offline, although MHA was able to relocate all of the tenants at the time. MHA also added four units on tiny parcels donated by the City of Missoula, and MHA expects to break ground on another six-unit affordable housing project on the remaining parcel in the spring of 2016. Homeward also anticipates completing a new 26-unit project in 2016.

Additionally, in late 2015, Homeward, an affordable housing developer and HUD-approved Housing Counseling Agency, began to develop a rental education and counseling program. A number of social service agencies, area businesses, and the community at large reported a significant need for services to help low-to-moderate income people access and maintain affordable rental housing. The rental education and counseling program will be launched in 2016 and will focus on removing barriers to accessing rental housing, understanding the rights (like fair housing) and responsibilities of being a good renter, and eviction prevention.

MHA WAITLISTS

Waiting Lists	2007	2008	2009	2010	2011	2012	2013	2014	2015
MHA Sec 8 Voucher	953	994	1395	1393	1666	1555	1751	1595	1725
MHA Homeless Project	67	102	134	151	123	42	82	37	100

TABLE 3

Source: Missoula Housing Authority

AVERAGE CONTRACT FOR VOUCHER HOLDERS

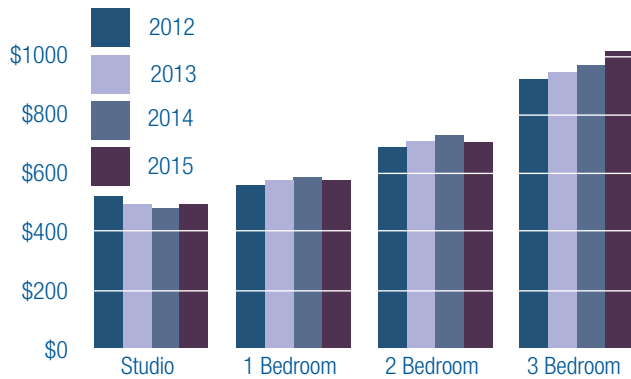


FIGURE 16

Source: Missoula Housing Authority

TABLE 3: The number of households on a waiting list for a Section 8 voucher increased in 2015.

FIGURE 16: The average rent for those receiving housing assistance declined slightly for one- and two-bedroom units.



HOUSING SALES & PRICES

Home Sales in 2015

Following a year of lower sales activity, home sales in Missoula increased from 1,265 in 2014 to 1,390 in 2015. At the same time, home prices went up and the supply proved tight, leaving potential buyers dealing with heavy competition in a sellers' market, especially at some of the lower price points.

The median sales price climbed to a record high for the Missoula area, rising from \$225,000 in 2014 to \$238,700 in 2015, an increase of 6.1 percent (TABLE 4). There are many probable factors for this, including supply issues. A tight supply in Missoula's most affordable market ranges has created a sellers' market. This may lead to multiple buyers competing for the same property and offers over asking price. In addition, continued low interest rates have kept borrowing power at an all-time high, which justifies higher borrowing and paying more for homes.

While this is advantageous to sellers, the rise in the median house price can force some buyers out of markets and certain price ranges. It may also lead to more buyer frustration, although the 2015 increase in sales volume suggests this has not greatly impacted sales so far.

Home sales were strongest in the 200,000 to \$275,000 price range, followed by homes in the \$150,000 to \$200,000 range, accounting for more than half of the total number of homes sold in the Missoula urban area (Table 5). However, there are more buyers looking for homes under \$275,000 than there are listings to fit their needs. As a result, sellers are finding it much easier to sell, even at a higher price.

Buyers looking in the higher price ranges have a greater opportunity, with more available listings and often better negotiating power on price and terms. On the other hand, some sellers may be challenged by the slower market conditions and fewer buyers, leading to longer selling times and lower initial offers on those more expensive homes. It is not, however, a bad market. Sales showed dramatic improvement in supply during 2015, which suggests the higher price points are making a strong rebound (see "Absorption Rates").

Sales volume has practically recovered to Missoula's prior peak year, before the real estate bubble (FIGURE 17). In addition to low interest rates, this increase is being helped by improving economic conditions and more "move-up" buyers. In 2009 and 2010, Missoula saw many buyers enter the market with first-time home buyer tax credit. Many of these buyers are now moving up as they've built equity in their home.

Year	Annual Number of Sales	Median Price	% Change in Median Price
2015	1390	\$238,700	6.1%
2014	1265	\$225,000	4.7%
2013	1322	\$215,000	2.5%
2012	1068	\$209,700	2.3%
2011	878	\$205,000	2.2%
2010	903	\$200,500	-4.0%
2009	1033	\$208,775	-2.9%
2008	996	\$215,000	-2.1%
2007	1392	\$219,500	6.2%
2006	1586	\$206,600	7.7%

TABLE 4 Source: MOR Multiple Listing Service

TABLE 4: Both annual sales and the median price of a home increased in 2015.

NUMBER OF HOMES SOLD IN THE MISSOULA URBAN AREA

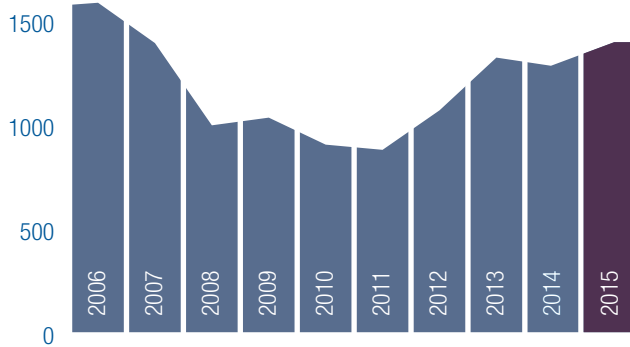


FIGURE 17

Source: MOR Multiple Listing Service

FIGURE 17: Sales activity of homes in Missoula reached an eight-year high in 2015.

MISSOULA NUMBER OF SALES BY QUARTER

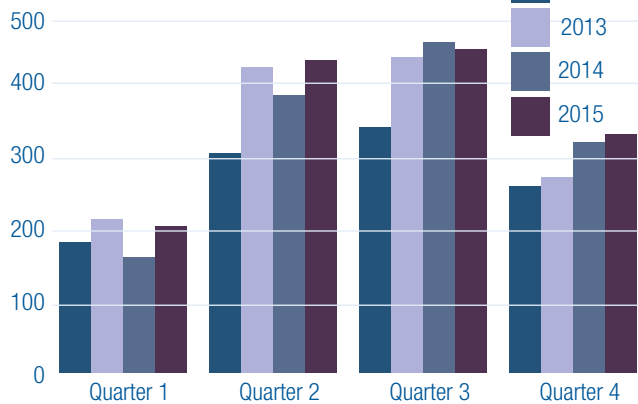


FIGURE 18

Source: MOR Multiple Listing Service

FIGURE 18: Home sales in 2015 outpaced the previous year in all but the third quarter.

MEDIAN PRICE OF HOUSES SOLD IN THE MISSOULA URBAN AREA

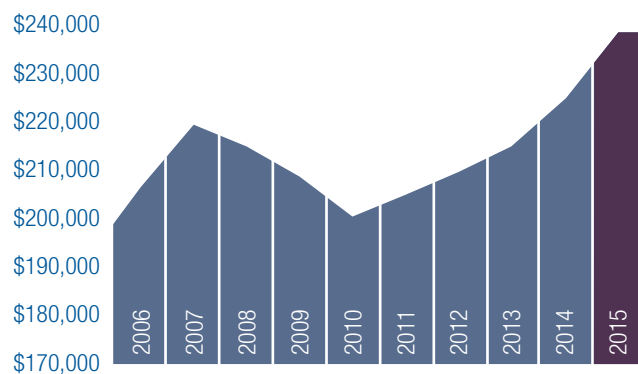


FIGURE 19

Source: MOR Multiple Listing Service

FIGURE 19: The median price of a Missoula home increased to \$238,700 in 2015.



b maestriini via flickr

HOUSING SALES & PRICES

NUMBER OF SALES ACCORDING TO PRICE POINT, 2006–2015

PRICE RANGE	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
\$0-\$150,000	289	170	121	126	131	174	188	196	156	145
\$150,001-\$200,000	472	405	301	358	323	251	295	387	317	276
\$200,001-\$275,000	439	429	297	327	247	258	304	406	414	513
\$275,001-\$350,000	197	199	166	125	120	112	160	186	196	244
\$350,001-\$425,000	96	87	47	48	42	49	57	79	89	104
\$425,001 +	93	102	64	49	40	33	64	68	93	108
TOTAL	1586	1392	996	1033	903	877	1068	1322	1265	1390

TABLE 5

Source: First Security Bank, Stewart Title

TABLE 5: Home sales were strongest in the \$200,000 to \$275,000 price range in 2015.

FIGURE 20: Home sales in the \$200,000 to \$275,000 category now solidly outnumber all other price ranges.

NUMBER OF SALES PRICE RANGE BREAKOUT MISSOULA

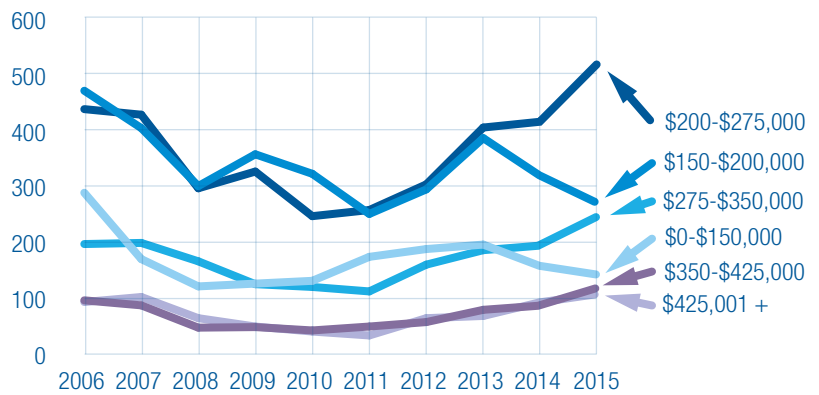


FIGURE 20

Source: MOR Multiple Listing Service

SALES PRICE DISTRIBUTION MISSOULA

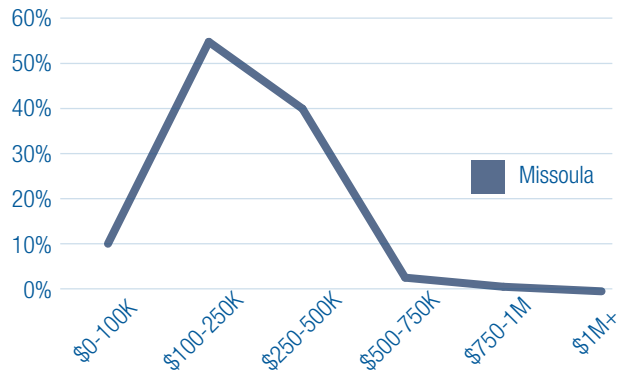


FIGURE 21

Source: MOR Multiple Listing Service, National Association of REALTORS

FIGURE 21: The bulk of Missoula homes sold in 2015 were priced from \$200,000 to \$275,000.

FIGURE 22: The percent change in the median sales price of home was nearly equal to the national average for the second year in a row.

PERCENT CHANGE IN MEDIAN SALES PRICE

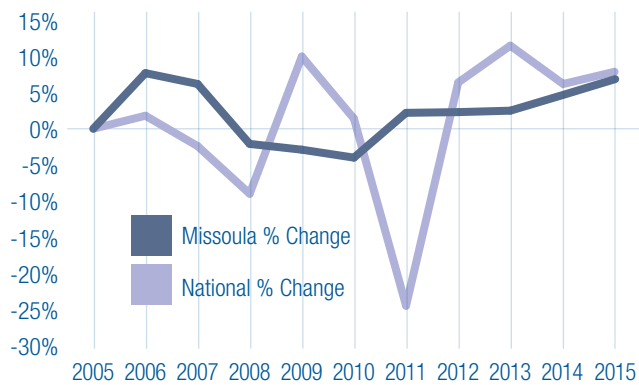


FIGURE 22

Source: MOR Multiple Listing Service, National Association of REALTORS



k ewing via flickr

HOUSING SALES & PRICES

Condominiums & Townhouses

Sales of condominiums and townhomes in 2015 were identical to those of the prior year, with 180 sold in the Missoula urban area (FIGURE 23). Likewise, price distribution was nearly identical to last year: Townhomes and condos priced from \$100,000 to \$200,000 accounted for nearly 68 percent of the total sales.

Condos and townhomes are becoming the new starter home. With lower median sales prices than a single-family house, both condos and townhomes offer more affordable paths to ownership.

FIGURE 23: For the third year in a row, condominium and townhouse sales remained strong.

CONDOMINIUM & TOWNHOUSE SALES IN MISSOULA URBAN AREA

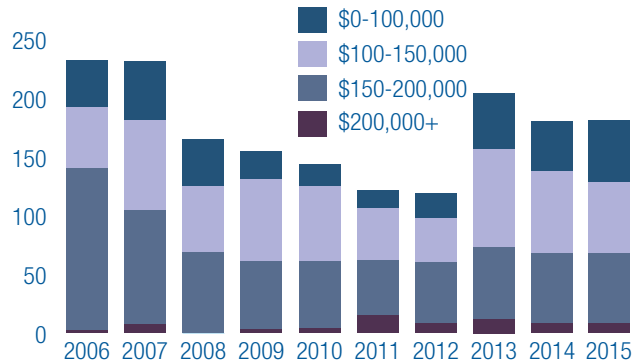


FIGURE 23

Source: MOR Multiple Listing Service

Sales Trends in Neighborhoods

Given the increase in total sales across Missoula in 2015, it follows that most neighborhoods also saw an increase in sales. The Fairviews/South Hills neighborhood registered the biggest jump, with 2015 sales increasing 20 percent, to 180 homes sold (FIGURE 24).

Grant Creek, Miller Creek, and the Rattlesnake continue to have the highest median prices.

Supply and demand greatly affect these neighborhoods, as well, with several having extremely tight supplies (see “Market Absorption Rates”).

FIGURE 24: All but three neighborhoods in Missoula had increased sales in 2015.

HOME SALES BY NEIGHBORHOOD

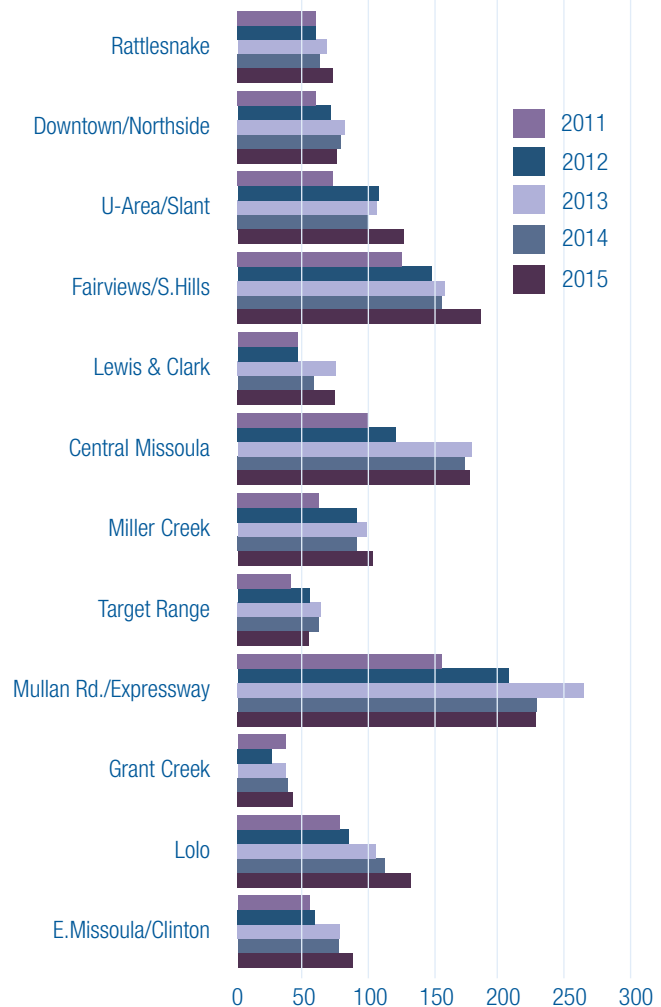


FIGURE 24

Source: MOR Multiple Listing Service

MEDIAN SALES PRICE BY NEIGHBORHOOD

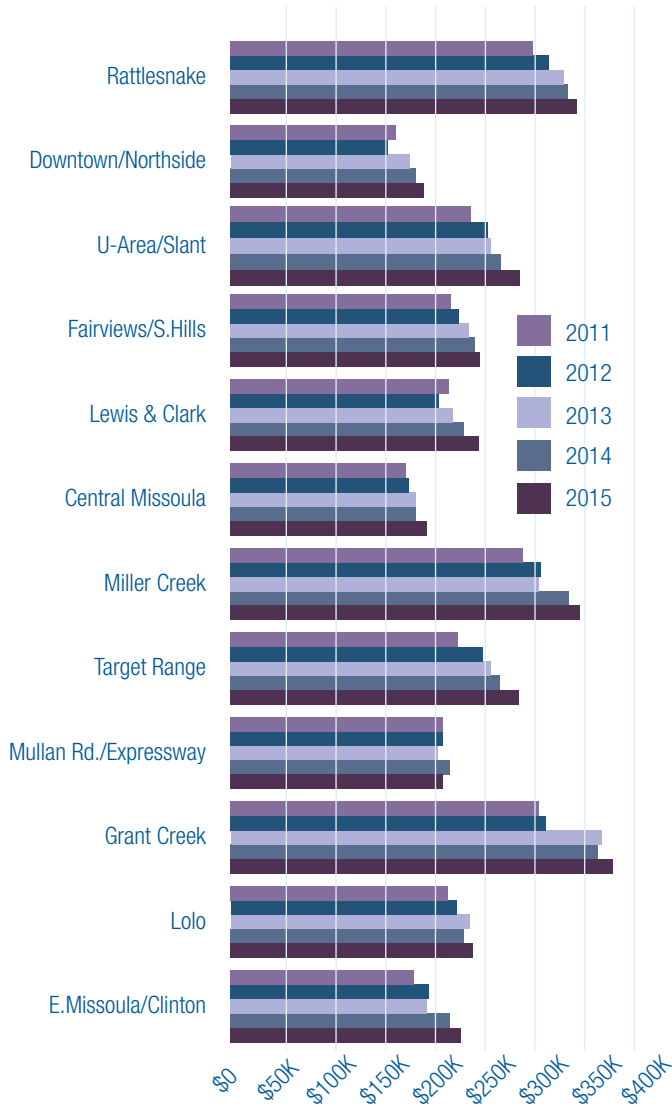


FIGURE 25

Source: MOR Multiple Listing Service

FIGURE 25: The median sales price increased in every neighborhood but one in 2015.



HOUSING SALES & PRICES

Comparative Trends in Home Prices

The Housing Price Index (HPI) helps us measure appreciation by looking at changes in single-family home prices. The Federal Housing Finance Agency 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 1991.

Missoula continued its steady trend of higher repeat home prices than other Montana markets and the U.S. national average. Since 2011, the values of those repeat transactions have steadily increased at approximately the same pace as the rest of the U.S (FIGURE 26).

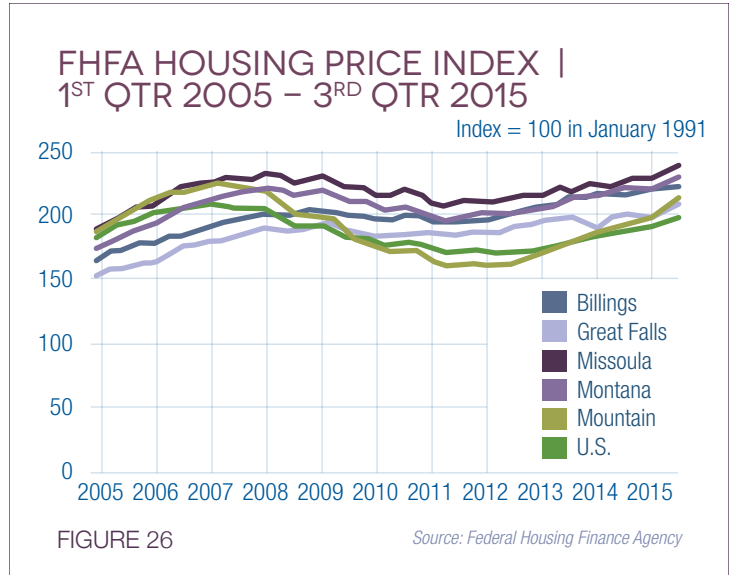


FIGURE 26: The Housing Price Index for Missoula homes increased in 2015, showing strong appreciation of single-family homes.



FIGURE 27: Total market absorption rates remained in the lower-range of normal throughout 2015.

FIGURE 28: Absorption rates for Missoula's higher-priced homes fell significantly towards the end of 2015.

FIGURE 29: The last six months of absorption rates for Missoula neighborhoods show half of the neighborhoods with absorption rates below normal, indicating a tight supply.

TOTAL MARKET ABSORPTION RATES

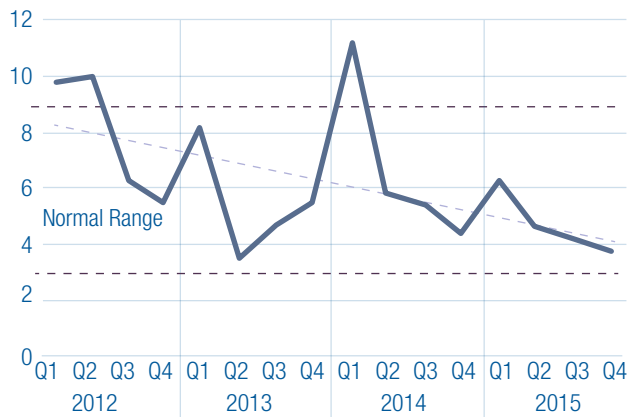


FIGURE 27

Source: MOR Multiple Listing Service

ABSORPTION RATES BY PRICE POINT

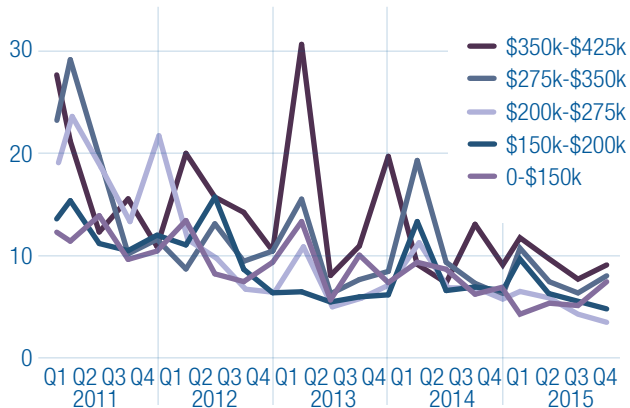


FIGURE 28

Source: MOR Multiple Listing Service

6 MONTH ABSORPTION RATES 8/10/15 TO 2/10/16

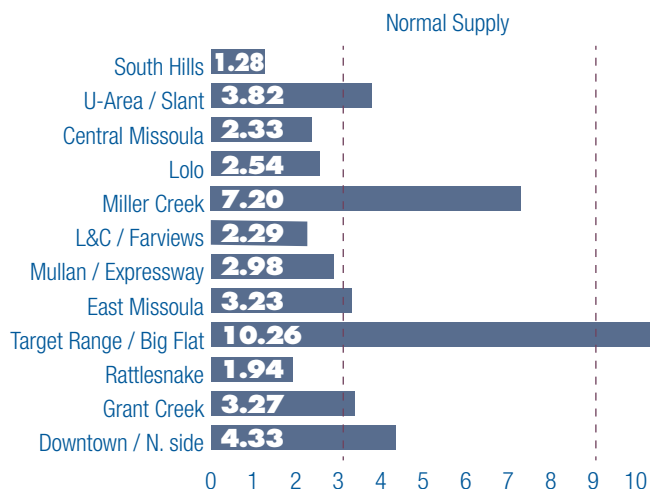


FIGURE 29

Source: MOR Multiple Listing Service

Pace of Home Sales

The absorption rate is one of the best ways to measure the pace of home sales, as it takes into account both the days a house is on the market and the number of available homes for sale. It is calculated by dividing the total number of available homes on the market by the number of homes sold in the prior month. The resulting absorption rate shows how many months' worth of inventory are listed for sale.

For example, if an area had 20 listings and five sales in the last 30 days, the absorption rate would be four, meaning that, based on the market's prior activity, it would take four months to exhaust the supply of current inventory.

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.
- ▷ Nine to 12 months is an over-supply.
- ▷ More than 12 months is an overloaded market.

Missoula once again remained in a "normal" range for the overall supply in 2015 (FIGURE 27), but when you break it down by price point or neighborhood, many of those categories dipped well into the under-supply category. All but two Missoula neighborhoods had an absorption rate below five when calculated for the six months ending in early February 2016 (FIGURE 29). As expected, throughout 2015, homes priced below \$275,000 were in high demand and short supply, and the absorption rates by price point bear that out (FIGURE 28).

Likewise, the neighborhoods with homes in that desirable under-\$275,000 showed an extremely tight supply—the South Hills, Mullan Road/Expressway, Lolo, and Central Missoula (FIGURE 29). It's worth noting that in 2014, the Lolo neighborhood had the highest absorption rates at 7.53; in 2015 it was 2.54.

Two other neighborhoods continue to have very low absorption rates. The Rattlesnake and Lewis and Clark neighborhoods both have broad appeal due to their location and have remained strong through most of the downturn and recovery.

At the other end of the price range, higher-priced homes were in over-supply most of 2015. Until recently, the supply of houses priced over \$425,000 was still more than double the normal level, but in the fourth quarter of 2015, the absorption rate dropped to a healthy, normal level.

Mortgage Loans

The first quarter of 2015 indicated that housing starts would be slow. Thirty-year conventional mortgage rates, however, remained at a very affordable level during the first three months of the year, hovering between 3.875 percent and 4.125 percent. Government loans ranged from 3.50 percent to 3.875 percent, and 15-year conventional financing dropped as low as 2.875 percent for a brief period.

Mortgage interest rates rose slightly in the second and third quarter of the year. Consumers continued to pre-qualify for home financing, feeling some urgency to make a purchase. The financial indicators pointed towards a rising “prime” lending rate each time the Federal Reserve Board met (though it did not happen until the end of the year).

Home buyers anticipating an increase in interest rates found the inventory of affordable housing under the \$200,000 range to be decreasing but still available. Prospective home buyers also found new construction did not offer quite as much living space square footage as existing housing.

Banks and home mortgage lenders began preparing for the next phases of the Dodd-Frank Act to take place in October, 2015. This final change administered by the Consumer Finance Protection Bureau (CFPB) would be the last phase of a four-year regulatory change process to help consumers understand the true cost of financing.

In the last quarter of 2015 the Fed did in fact raise the bank borrowing rate by 0.25 percent. This increase in what banks borrow from the Fed caused almost no change in the home mortgage interest rates.

Volatility in the stock market caused by weak foreign markets and a decrease in technology stocks actually reduced mortgage interest rates to as low as 3.75 percent for 30-year financing. The year-end interest rate for a 30-year conventional loan was 4.19 percent (FIGURE 30).

Ability to repay. In 2015, borrowers were faced with a new term, “Ability to Repay,” or ATR. With the Dodd-Frank Act came the responsibility of lenders to look at the past, present, and future of a prospective home buyer and loan applicant. Lenders can no longer assume the borrower will have increases in income or will fit into their payment with a new job that promises future or growing salary increases. Everything must be documented, verified, and as much as possible, guaranteed.

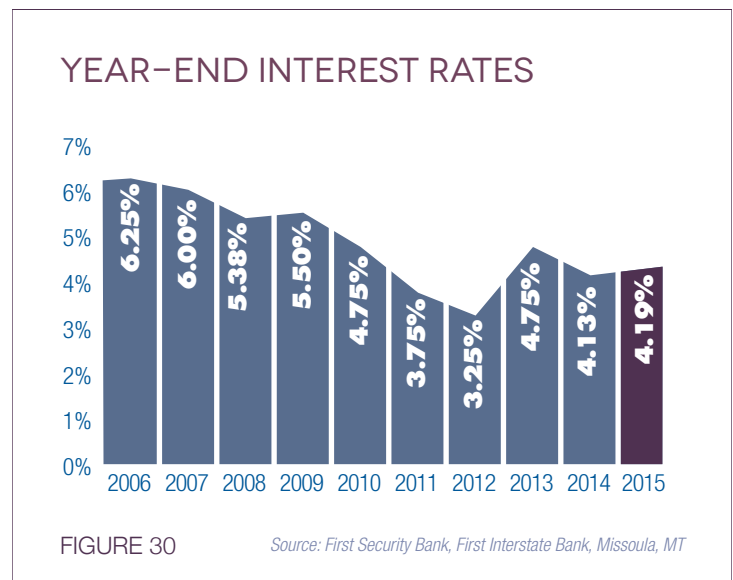


FIGURE 30: Interest rates remained low and relatively unchanged in 2015.

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. 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. However, mortgage insurance continued to tax deductible in 2015 as long as adjusted gross income was under \$100,000 (\$54,500 if married filing separately). At that threshold, the deduction begins to phase out.

Down Payments

Down payment requirements for most loan program types, including FHA and conventional loan products remain virtually the same. FHA continues to require a minimum of 3.5 percent down while some conventional products are being offered between 3 percent and 5 percent. A typical down payment on a conventional loan would be 5 percent or more. (See also: “The Housing Affordability Index.”)



Foreclosure

Foreclosures declined to pre-bubble activity in 2014, and dropped by another 16 percent in 2015. A total of 248 Notice of Trustees Sales were recorded in 2015, but only 52 went all the way through foreclosure (TABLE 6).

The sales of real-estate-owned (REO) foreclosures, which occur after a bank foreclosure is finalized, usually go for well below market value. In 2015, these distressed sales hit a five-year low, making up just 3.09 percent of the total home sales in Missoula (FIGURE 32).

The National Association of REALTORS' Chief Economist Lawrence Yun projected it would take until 2018 for the national foreclosure inventory to be mostly absorbed back into the market. For Missoula, it appears we are slightly ahead of that pace. This doesn't come as a surprise; even during the worst-hit years in Missoula, our foreclosure inventory never reached the high levels of most markets. (This is also a reason why Missoula never had as big of a drop in median price.) Missoula's limited number of distressed sales meant that market values were not as negatively impacted as other markets.

FORECLOSURES

Year	Notice of Sale	Cancellation of Sale	Net Foreclosures
2015	248	196	52
2014	206	144	62
2013	270	162	108
2012	431	280	151
2011	493	351	142
2010	719	486	233
2009	565	303	262
2008	313	186	127
2007	247	139	108
2006	215	142	73
2005	176	130	46

TABLE 6

Source: First Security Bank, Stewart Title

TABLE 6: Net foreclosures in 2015 dropped to the lowest level since 2005.



BANK FORECLOSURES MISSOULA COUNTY

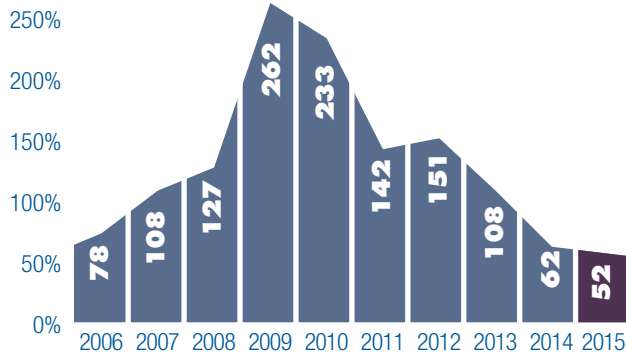


FIGURE 31

Source: First Security Bank, Stewart Title, Missoula, MT

SALES OF REO PROPERTY

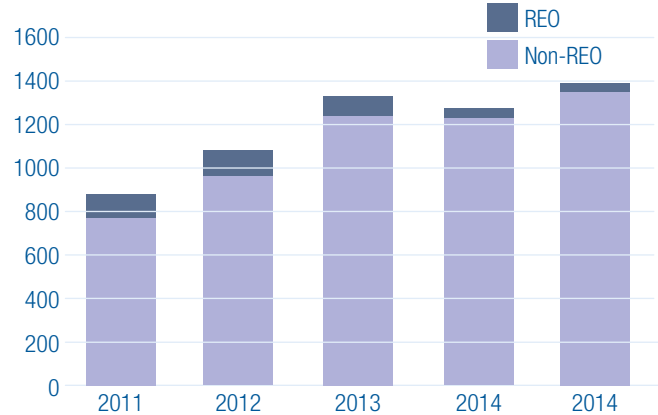
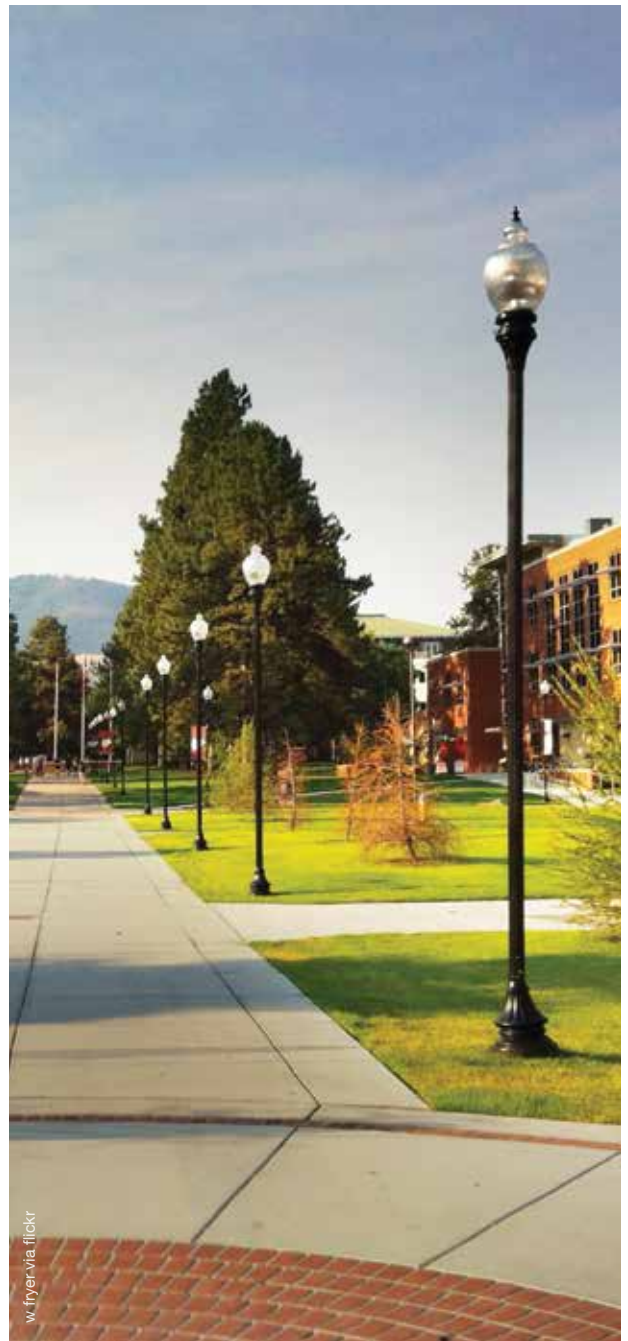


FIGURE 32

Source: Multiple Listing Service

FIGURE 31: Bank foreclosures dropped to a 10-year low in Missoula in 2015.

FIGURE 32: Real estate-owned sales dropped to just 3.09 percent of the total home sales in Missoula in 2015.



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Home Ownership Programs

Homeword is a statewide nonprofit affordable housing developer and HUD-approved Housing Counseling Agency. They are 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, homebuyer education and housing counseling, foreclosure intervention counseling, and post-purchase education and counseling. 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).

Homeword continued to see a high demand for homebuyer education and pre-purchase housing counseling throughout 2015 with classes at capacity and most having a waitlist. They also saw a demand for financial coaching and financial literacy workshops from local social service agencies. Since Homeword's HomeOwnership Center opened in 1997, more than 11,000 people have been served.

2015 HOMEWORD HOMEOWNERSHIP PROGRAM FACTS:

- ▷ 920 people accessed Homeword's HomeOwnership Programs in Missoula (up from 701 in 2014).
- ▷ 506 people accessed homebuyer education classes and workshops.
- ▷ 217 people accessed free pre-purchase housing counseling.
- ▷ 59% self reported they were ready to purchase.
- ▷ 41% self reported they were just interested in learning more about homeownership.
- ▷ 79% of Homeword clients earned below 80% of the Area Median Income (AMI).
- ▷ Of those receiving homebuyer education and/or housing counseling, 55% were women and 45% were men.
- ▷ The average AMI of those considering homeownership was 75%.

A 2013 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 compared to those who did not receive such services.

Generally speaking, pre-purchase housing counseling clients have credit scores in the mid-high 600s and 50 to 60 percent were seriously shopping for both a home and lender. Most housing counseling clients planned to do a conventional loan through Fannie Mae (having good credit and 5 percent down) or a federally insured loan (Rural Development, FHA or VA) with the Montana Board of Housing (MBOH) through an approved MBOH lender. Clients took advantage of the 80/20 loan mortgage product that NeighborWorks Montana offers, which serves up to 120 percent of the AMI. Additionally, qualified clients are using the Human Resource Council's down-payment assistance program for their gap financing.

FORECLOSURE COUNSELING. Homeword serves as a clearinghouse of information about foreclosure. Certified housing counselors are available by phone to answer questions the public may have about foreclosure.

In 2015, 44 people received phone foreclosure counseling, with the average phone call taking 30 minutes. Fifteen households received in-depth foreclosure counseling in Missoula in 2015 (down from 24 in 2014 and 45 in 2013).

HUD's *Housing Counseling Works – Sustainable Homeownership* reported that clients facing foreclosure were 2.83 times more likely to receive a mortgage loan modification, and 70 percent less likely to default on a modified mortgage loan, if they received counseling from an approved HUD Housing Counseling Agency, such as Homeword.

Of those households that were counseled by Homeword in 2015, five received a mortgage modification, two sold their property, one brought their mortgage current, two were referred to legal services, one mortgage was refinanced and the rest either withdrew from counseling or are still active cases. Only one household lost their home to foreclosure, and our counseling staff worked with that client's servicer to obtain cash for keys (\$5,000) in order to assist the homeowner with moving expenses.

FINANCIAL EDUCATION. There's a significant need for financial education and counseling in Montana and Missoula.

- ▷ 138 people accessed financial education and/or financial coaching.
- ▷ Of those receiving financial education/coaching, 75% were women; 25% were men.
- ▷ 64% earned less than \$22,000 annually (approximately 50% AMI).

HOUSING AFFORDABILITY

The Housing Affordability Index

The 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 above 100 indicates they have more than enough income to qualify for a mortgage on a median-priced home. The National HAI calculation assumes a 20 percent down payment, and it also assumes that no more than 25 percent of the household's monthly income goes toward the mortgage payment (principle and interest). For the purpose of this report, the numbers also show how a lower 4-percent down payment, plus the necessary mortgage insurance, affects the overall affordability (TABLE 7).

Across the board, HAI declined in Missoula in 2015 (FIGURE 33). The HAI in Missoula with 4 percent down and mortgage insurance decreased by two to three points for all households—with values identical to 2006. With these numbers of just 55 to 77, it is clear that a family with a median income would be unlikely to qualify for a mortgage for a median-priced home (\$238,700) with 4 percent down. However, that home does become more affordable if you are working with a 20 percent down payment, which shows a HAI between 76 and 107. Still, even those HAI values decreased by 5 to 9 points in 2015.

At the bottom of Table 7, you can see the effect a down payment has on affordability. If a family tried to purchase a median-priced home in Missoula in 2015 with a 4-percent down payment, they would have needed a median family income of \$80,965. However, if that same family had a larger 20-percent down payment (and thus no mortgage insurance and likely a lower interest rate), they only would need a median income of \$57,196. The reality is that few people have 20% down unless they are bringing proceeds from a previous real estate sale to the table.

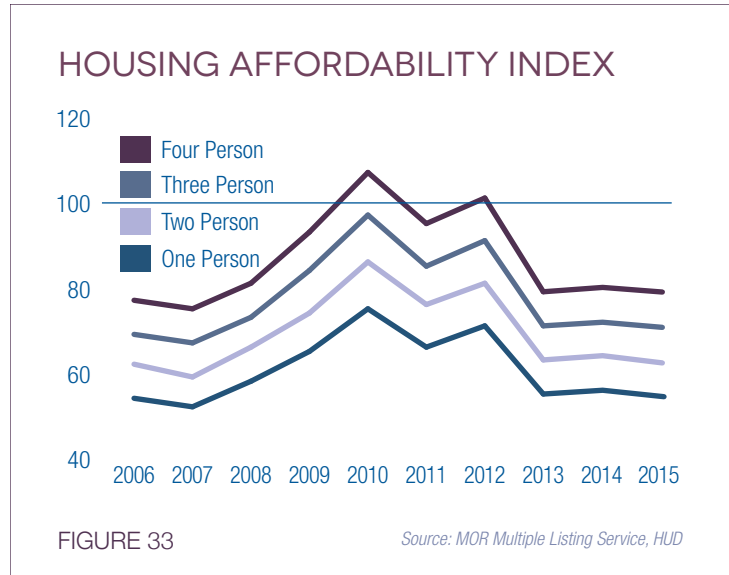


TABLE 7: A low down payment drastically decreases affordability. The median family income needed to purchase a median-priced home in 2015 with 4 percent down was \$80,965—well below the actual median income in Missoula.

FIGURE 33: All Housing Affordability Index (HAI) values declined slightly in 2015, dipping to 2006 levels.

MISSOULA HOUSING AFFORDABILITY INDEX | 2012–2015

2012	2013	2014	2015	YEAR	2012	2013	2014	2015
\$209,700	\$215,000	\$225,000	\$238,700	Median Home Price (MOR)	\$209,700	\$215,000	\$225,000	\$238,700
4%	4%	4%	4%	Downpayment	20%	20%	20%	20%
3.5%	4.75%	4.13%	4.19%	Interest Rate	3.5%	4.75%	4.13%	4.19%
\$168	\$301	\$315	\$334	Mortgage Insurance	0	0	0	0
MEDIAN FAMILY INCOME								
\$44,000	\$42,900	\$45,400	\$43,560	1 person	\$44,000	\$42,900	\$45,400	\$43,560
\$50,300	\$49,000	\$51,900	\$49,800	2 person	\$50,300	\$49,000	\$51,900	\$49,800
\$56,600	\$55,100	\$58,400	\$56,040	3 person	\$56,600	\$55,100	\$58,400	\$55,100
\$62,800	\$61,200	\$64,800	\$62,220	4 person	\$62,800	\$61,200	\$64,800	\$61,200
HOUSING AFFORDABILITY INDEX								
71	55	56	54	1 person	93	79	86	76
81	63	46	62	2 person	107	90	98	87
91	71	72	69	3 person	120	102	110	96
101	79	80	77	4 person	133	113	122	107
MEDIAN FAMILY INCOME NEEDED TO PURCHASE MEDIAN PRICED HOME								
\$62,349	\$77,309	\$76,319	\$80,965	Income	\$47,064	\$54,247	\$52,949	\$57,196

TABLE 7

KEY: *Includes taxes and homeowners insurance on a 30 year fixed loan
Source: MOR Multiple Listing Service, HUD

Share of Income Spent on Housing

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.

Historically, Missoula has had a worrisome proportion of residents spending 30 percent or more of their income on housing. In 2014 (the most recent data available), that proportion of the population spending 30-plus percent went down slightly (FIGURE 34).

Homeowners are doing better in this regard, with 27.2 percent of homeowners spending more than 30 percent of their income on housing. The percentage of renters in this undesirable "cost burdened" position dropped slightly as well, going from 56.8 percent in 2012 to 54.3 percent in 2014. However, this still leaves more than half of Missoula renters in a precarious financial position. This problem, though, is not isolated. Just over half of all renters in the U.S. spent 30 percent or more of their income on rent, according to the most recent 2014 American Community Survey.

PERCENT OF MISSOULA COUNTY HOUSEHOLDS THAT SPEND 30% OR MORE OF INCOME ON HOUSING COSTS

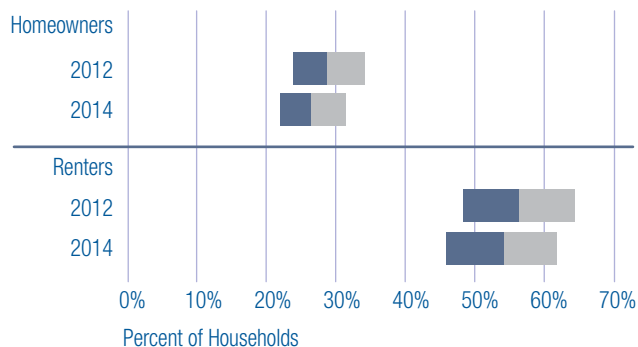


FIGURE 34

Source: U.S. Census Bureau, American Community Survey

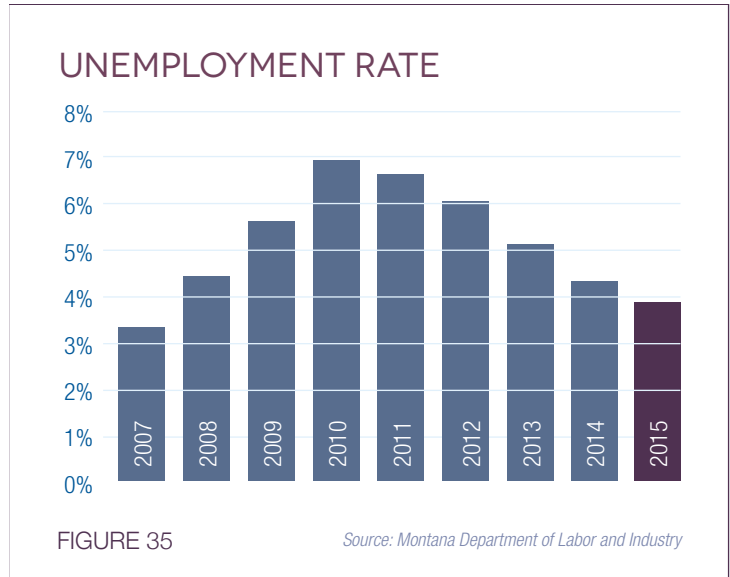
FIGURE 34: Approximately 54 percent of Missoula renters spend more than 30 percent of their income on housing costs. (The colored blocks represent the range in the margin for error.)

HOUSING AFFORDABILITY

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 fell for the fifth year in a row, reaching 3.8 percent, its lowest level since 2007 (FIGURE 35). According to the U.S. Department of Labor, the national unemployment rate was 5 percent in December 2015.

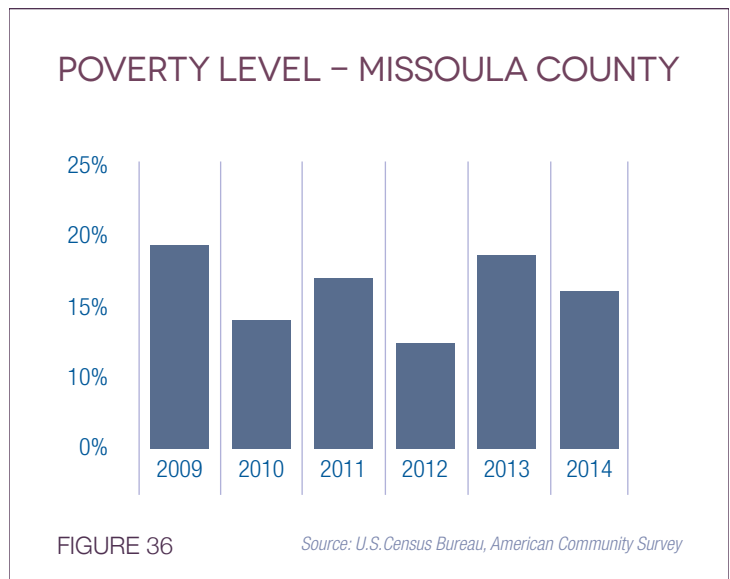
FIGURE 35: Unemployment in Missoula reached its lowest level since 2007.



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 2014, that number was 16 percent, down from 18 percent the year before.

FIGURE 36: Missoula's poverty level decreased in 2014.



Homelessness

Missoula experienced a slight decline in homelessness in the 2015 homeless count, and signs point to continued decline in 2016. Still, homelessness remains a problem for about 500 Missoulians, and a central part of that condition is lack of affordable housing.

Our community measures homelessness as part of the national point-in-time count, which takes place in late January. In 2014, Missoula counted 585 people who were unsheltered or staying in emergency shelters. In 2015, that number dropped to 538.

Of those 538, 213 were staying in emergency shelter, 105 were in a transitional housing program, and 220 were camping outside. The population staying outside is primarily male and single. About 73 percent of homeless families were housing in emergency shelter or transitional housing, while about 15 families were unsheltered at the time of the homeless count.

The number remains troubling, in part because about half the homeless population are people who have jobs and can afford to pay some level of rent. Unfortunately, many cannot pay Missoula rates. Fortunately, many people have been housed in the past year through rental assistance programs run by the YWCA, WORD and the Human Resource Council. Those programs have been very effective but still face an uphill battle as rent costs remain high.

Of the total count, about 15 percent are chronically homeless, while 66 percent have been homeless for less than a year. Missoula agencies and the city-county plan to address homelessness have seen considerable success, but Missoula still has trouble housing its most difficult population of homeless people, those who are chronically homeless, using drugs and alcohol and, in some cases, suffering from mental illness or disability.

Efforts to bring housing to that demographic are under way, but the solution is several years out at best.

In the meantime, Missoula recently ran its 10th annual Project Homeless Connect, a one-day service project that links homeless people and those at risk of homelessness to more than 75 services. More than 300 people were served, but the number was down from previous years. While it is hard to say precisely what those numbers mean, it's an encouraging sign to see it lower than previous years.



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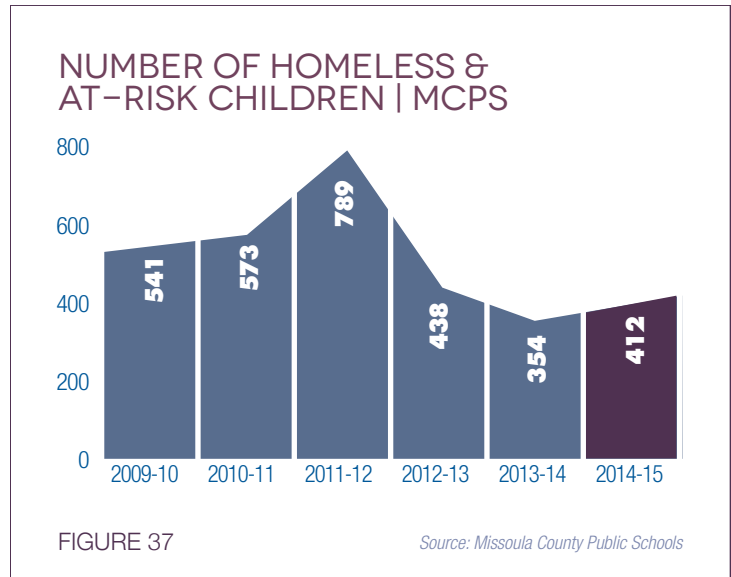
HOUSING AFFORDABILITY

Homeless Children

The number of homeless and at-risk children in the Missoula County Public Schools increased by 16.38 percent in the 2014-2015 school year but stayed well below the alarming 789 children identified in 2011-2012 (FIGURE 37). Yet, with 354 children homeless or at risk in 2014-2015, the problem remains significant.

These numbers represent unstably housed children identified throughout the school year. Unstable housing varies, from periods of brief, literal homelessness to a pattern of frequent moves and other situations. This is one of the better ways to identify the size of this at-risk group, as families with children in school and no permanent housing often do everything they can to avoid living on the street or in shelters.

FIGURE 37: The number of homeless and at-risk children increased by 16 percent in 2015.



e haas

CONCLUSION & OUTLOOK

Missoula's housing situation has improved greatly in many ways in the last few years, rebounding from the burst of the housing bubble. In 2015, sales were up, foreclosures were down, interest rates stayed low, and the market value of homes continued to increase. However, that strong real estate market, coupled with a growing population, also brings with it affordability and housing supply challenges.

Both the number of sales and the median price of a home increased in 2015, with the median price hitting an all-time high of \$238,700. Prospective homebuyers found a tight supply of affordable houses in Missoula, and many buyers opted to build instead, with lots sales and the median price of residential lots also increasing in 2015.

The Missoula housing market still faces a number of other challenges, mostly having to do with affordability and available supply. While several organizations are working hard to alleviate issues of affordability and homelessness, the demand for their services remains significant. The waitlist for Section 8 vouchers increased by 8 percent in 2015, and the homeless population was estimated to be around 500 people.

As the county's population increases by about 1 percent each year, housing demand also grows. Missoula's vacancy rate for rentals remains relatively low, and the cost of rent continues to increase. However, most of Missoula's building permits in 2015 went towards multi-family units, which may help address the growing population.

Meanwhile, the data show that 54.3 percent of renters and 27.2 percent of homeowners spend more than 30 percent of their income on housing costs. (Ideally, they should spend no more than 25% of their income on housing.) This shows that Missoula still has a significant population that struggles to find affordable housing.

Overall, 2015 statistics showed many positive trends for the Missoula housing market and the economy, but they also highlighted a number of challenges for buyers and renters. With strong programs working on affordability and homelessness issues, it is clear that Missoula is striving to create a vibrant community that we can all call home.



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