



# 2012 Missoula Housing Report

CURRENT KNOWLEDGE, COMMON WISDOM: GROWING A MISSOULA TO TREASURE

RELEASED APRIL 12, 2012

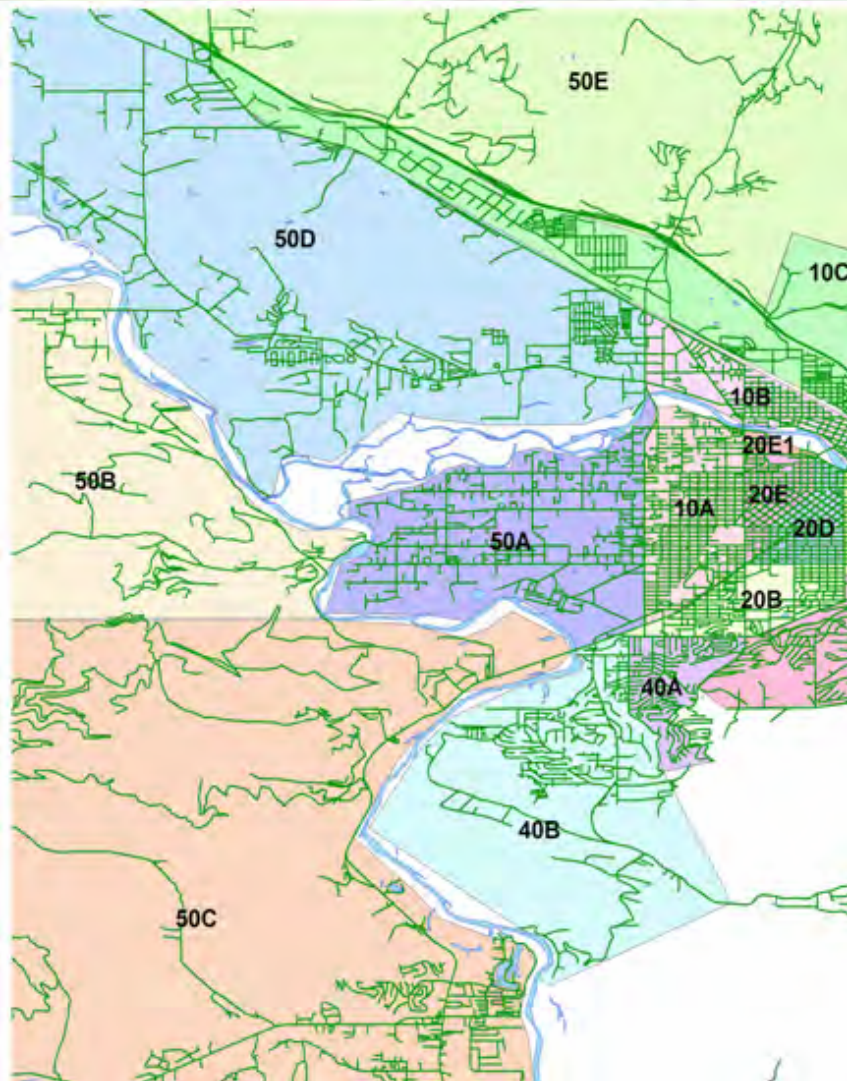
A COMMUNITY SERVICE PROVIDED BY THE MISSOULA ORGANIZATION OF REALTORS®



# 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: Rattlesnake, Downtown, University, Farviews, 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. Some data represent only the city or all of Missoula County, and are noted as such.
3. All data are the most recent available at the time we compiled the report. For calendar year data, that's 2011 in most cases, but 2010 or even 2009 when more recent figures aren't yet available.
4. "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.
5. 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. 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 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).
6. 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.

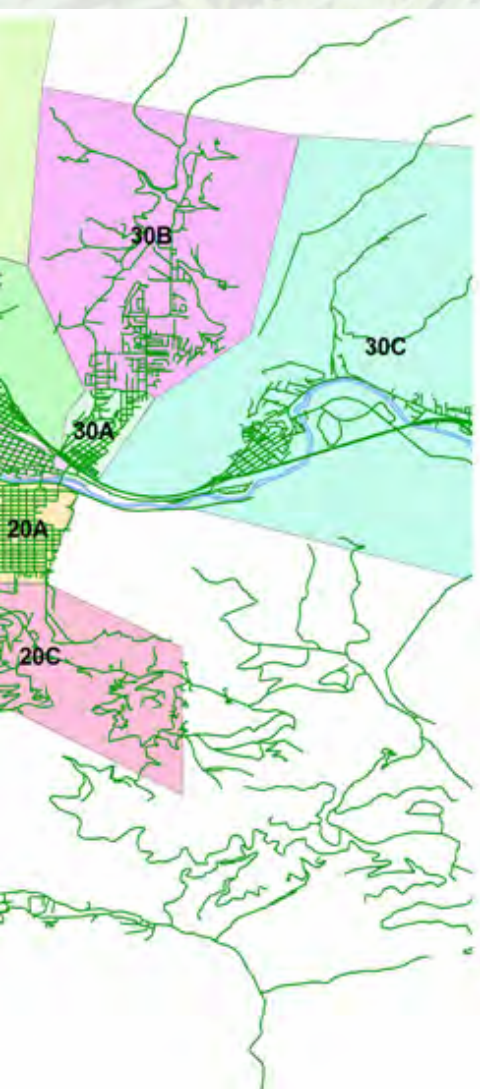






# Table of Contents

Notes for Reading the Report .....	ii
Message from the Coordinating Committee .....	4
Executive Summary .....	5
Housing Supply: Development and Occupancy .....	5
Housing Demand: Population and Income .....	5
Housing Sales and Prices .....	5
Housing Finance .....	6
Housing Affordability .....	7
Conclusion and Outlook .....	7
Housing Supply: Development & Occupancy .....	8
Lot Development .....	8
Pace of Development .....	9
Homeowner Occupancy .....	9
Rental Occupancy .....	10
Housing Demand: Population & Income .....	12
Population Dynamics .....	12
Age Distribution .....	13
Migration .....	14
Income Trends .....	15
Income Distribution .....	16
Housing Sales & Prices .....	18
Home Sales in 2011 .....	18
Condominiums and Townhouses .....	20
Comparative Trends in Home Prices .....	20
Ownership Trends in Neighborhoods .....	22
Pace of Home Sales .....	23
Rental Prices .....	24
Housing Finance .....	25
Mortgage Loans .....	25
Impacts of Mortgage Insurance .....	26
Down Payments .....	26
Foreclosures and Short Sales .....	26
Home Ownership Programs .....	28
The Housing Affordability Index .....	29
Housing Affordability .....	29
Share of Income Spent on Housing .....	30
Unemployment .....	31
Poverty .....	32
Rental Assistance Programs .....	33
Conclusion & Outlook .....	34



# Message from the Coordinating Committee



**April 12, 2012**

We are pleased to present our seventh annual report to the community on housing in the city and county of Missoula. The 2012 Missoula Housing Report like its predecessors, results from a collaborative effort.

At the center of this collaboration is the Coordinating Committee for the Housing Report. The committee is structured to be highly inclusive. Its membership is drawn from the broad Missoula regional community, with members who represent a wide spectrum of businesses, organizations, agencies, and individuals concerned with our local housing market.

Our collaboration extends further, as we proactively solicit comment on our report from readers like you. This helps us make each successive report more useful and informative, as we add new measures each year and refine or drop others, always with the objective of providing a frank and trustworthy report that meets our purpose, which 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.

In adhering to this purpose, the housing report serves our community because:

- It consolidates data that aren't readily available to everyone in a single publication,
- It provides a reliable gauge of the overall health of Missoula real estate,
- It keeps Missoulians up to date on real estate trends and helps everyone in real estate better serve clients and customers,
- It indicates real estate's impacts on our overall local economy, which aids decisions by public agencies and officials and by economic development groups.

While these and other contributions to the community are gratifying, we would like your help in making each year's housing report even better. So we invite you to read this report and let us know your thoughts on how we might improve it.

We also suggest you look into getting involved in meeting the housing needs of our community. Some of the public and private agencies engaged in local housing are mentioned in this report, others are listed on the website of the Missoula Organization of REALTORS® at [www.MissoulaRealEstate.com](http://www.MissoulaRealEstate.com). Find this and earlier versions under "Market Trends".

It takes concerned and caring citizens to make a community. We are blessed in Missoula to have what many people believe is an outsized share of such individuals. This housing report is a product of the efforts of many of these citizens, and we hope it will spur the concern and caring of many more.

## Special Thank You...

### Coordinating Committee:

Jim Sylvester  
Sheila Lund  
Jim McGrath  
Tom Chapman  
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Collin Bangs  
Brint Wahlberg  
Ruth Link & Amy Jo Fisher

### Contributing Resources:

Bureau of Business and Economic Research UM  
First Security Bank  
Missoula Housing Authority  
Western Montana Chapter of National Association  
of Residential Property Managers  
WGM Group  
Missoula Organization of REALTORS®



# Executive Summary

## Housing Supply: Development and Occupancy

Sales of empty lots in 2011 were higher in number of sales but down by 23% in median sale price, compared with prior year sales.

Building permits issued by the City of Missoula in 2011 increased by 65% over the 2010 number. This gain was entirely accounted for in multi-family construction, as single-family permits declined for the sixth consecutive year. Missoula County building permits in 2011 decreased sharply across all housing types.

Just over half of Missoula County households live in owner-occupied homes, while renters occupy about 37% of housing units. Past data indicate that Missoula County has a comparatively lower share of owner occupied homes and greater share of renter occupied homes than in the state as a whole or the entire U.S.

Missoula often has a lower rental vacancy rate than the U.S. rate, probably because our university population exerts continuing product demand. Recently, however, the national vacancy rate has dropped to 9% while Missoula's rate remained at 3%.

## Housing Demand: Population and Income

Population in Missoula County grew 14% between 2000 and 2010. It passed 100,000 persons in 2004. The age ranges most prominent in Missoula population are baby boomers (ages 46-64) and echo boomers (20-34).

For many years Missoula County gained population annually through net migration. But in recent years, corresponding to the national recession and its aftermath, net migration has slowed, with a noticeable upturn in the four years through 2009, but a substantial decline in 2010.

Median household income in Missoula County has slightly declined since 2007, a trend consistent with, but not as pronounced as, a national decline. In the U.S., real household incomes in the 2000's fell for all age groups under 55.

Missoula County incomes are "bi-modal," that is, concentrated at two distinct income levels: \$40,000 and under for households and \$30,000 to \$100,000 for families. These concentrations appear to correspond to county employment patterns, with professional workers in the higher income category and retirees and students with lower incomes.

## Housing Sales and Prices

Homes sold in Missoula decreased by 3% in 2011, with 877 sales in 2011, down from 903 in 2010. The median price of the homes sold in 2011 increased by 2%, reversing three consecutive years of decline, a period in which prices dropped by a cumulative 9%.

Quarterly sales of homes show same-quarter declines in the first two quarters of 2011 and increases in the final two quarters.

All but one of Missoula's neighborhoods failed to register an increase in median sale price for 2011 – the exception being Mullan Road/Expressway.

Sales in 2011 of condos and townhouses declined in all price ranges above \$100,000 but gained in the lowest range. The longer term trend of declining sales in condos and townhouses in all price ranges continued.

New home sales in the U.S. for 2011 numbered the fewest on records dating back to 1963. A pickup in sales at the end of 2011 prompted some expert forecasts that the housing market is starting to revive. Existing-home sales in 2011 numbered 4.26 million, a decline of 13% from 4.91 million existing homes sold in 2010. Median sales price of existing homes in 2011 was \$166,000, a decline of 3% from 2010's median of \$172,000.



Days on market in Missoula, after a decline from 2009 to 2010, increased in 2011 to about their level of 2009. The absorption rate for Missoula in 2011 shows a typical pattern for our market: lengthiest absorption in the year's early months, shortest in summer and early fall months, and lengthening again at year-end.

Missoula's median rents remained relatively stable in 2011 at levels that, for many families, consume a share of total income that leaves too little for other necessities, such as food, clothing, and health care.

## **Housing Finance**

Not since the early 1950's or before have mortgage rates been at the low levels of 2011. These rates continued to provide strong support for the housing market, while other forces prevented a housing recovery that one would expect with mortgage rates under 4%.

However, even with 2011's record-low mortgage rates, high levels of unemployment and weak income prospects are likely precluding many households from purchasing homes. Consumer confidence and lending conditions gradually began to improve in 2011, but not to levels that significantly boosted the housing market.

Many households have been unable to buy homes because mortgage credit conditions are tighter than they were before the recession. Borrowers who likely had access to mortgage credit a few years ago are now essentially excluded from the mortgage market.

Net foreclosures in 2011 reached their lowest level in three years. While foreclosures are still at levels that are high for the Missoula market, they have declined by 46% over the past two years – giving some evidence that the long awaited “clearing” of foreclosures may be underway. Montana has one of the lowest foreclosure and mortgage delinquency rates in the U.S.

In 2011, Missoula's short sales numbered 32, just one more short sale for the entire year than were recorded in only the last half of 2010.

Some government programs designed to help save homeowners from foreclosure were only moderately successful in 2011. New modification programs are being introduced in early 2012.

The newly created Consumer Finance Protection Bureau is intended to simplify forms that consumers review and sign in the home purchase process. In 2009 the Home Valuation Code of Conduct was put into place, barring loan originators from selecting appraisers.

The recently enacted Dodd-Frank Act implemented appraisal standards created to further address appraiser independence and prohibit lenders from directly or indirectly exerting influence over appraisals. Dodd-Frank also implements the Uniform Appraisal Dataset, designed to standardize terminology and improve appraisal quality.

Fannie Mae and Freddie Mac continue to be a key support for many homebuyers and homeowners. In a fragile market, making substantial changes could have unwelcomed challenges and consequences. The ultimate fates of Fannie Mae and Freddie Mac remain to be seen.

The Federal Housing Administration (FHA) increased the Annual Mortgage Insurance Premiums for all loans after April 18, 2011. The premium for 2011 Upfront Mortgage Insurance Premium (UFMIP) is 1.0% and 1.15% for Annual Insurance premium for mortgages that have a 95% or higher loan to value.

The Temporary Payroll Tax Cut Confirmation Act of 2011 was signed in December 2011. Among its provisions, this law directs the Federal Housing Finance Agency to increase guarantee fees charged by Fannie and Freddie by no less than 1% from the average guarantee fees charged by these companies in 2011 on single-family mortgage-backed securities.

USDA Rural Development announced in March 2011 that it was decreasing the up-front guarantee fee for purchase loans from 3.5% to 2% of the loan amount. Effective on or after October 1, 2011, RD also implemented a new 0.3% annual fee on all loans.

## Housing Affordability

The Housing Affordability Index (HAI) is used to quantify housing affordability. The HAI for Missoula shows that the 2011 increase in home prices was slightly more than offset by lower mortgage interest rates, thus making homes slightly more affordable than in 2010.

The only category that had sufficient income to afford a median priced home in Missoula was a 4 person household with income of \$59,100. While the other categories (1-3 person households) did experience increases in affordability, they were not sufficient to afford a median priced home.

A significant percentage of Missoula households, divided into four age groups, spend more than the recommended maximum 30% of income on housing. The problem is especially acute for homeowners age 14 to 24; more than 40% exceed the affordability threshold.

Renters in general pay an even greater share of their gross incomes on housing. Half of renters spend more the 30% of their income on housing. More than 70% of younger renters, many of whom are students, pay more than 30% of their income in rent.

Almost 20% of Missoula County households live under the Federal Poverty Level, compared with 15% of Montana households. About 16% of Missoula County households have incomes below the poverty threshold that corresponds to their household size and age.

Missoula has a more pronounced income disparity than the state of Montana as a whole; with a greater share of households under half the poverty threshold as well as a greater share in the top category of over five times the poverty threshold.

In November 2011, 35 new affordable units became available and were immediately leased. Funding was constrained and low turnover of vouchers in 2011, along with no new vouchers for the entire calendar year, lengthened waitlists and wait times. In December 2011, the unduplicated number of households on waitlists was 2030, up from 1944 the previous year, and 1079 in 2007. The number of households on the Section 8 waiting list was 1845, up from 1653 last year and 1063 in 2007.

## Conclusion and Outlook

Today, both a pessimist and an optimist could find persuasive indicators to satisfy their outlooks for the Missoula housing market.

The pessimist might cite data indicating a continuation of the downturn, such as the still-declining annual number of existing home sales, the now 6-year slide in the number of building permits issued by the City of Missoula, the persistently high county unemployment rate, and continuing declines in inflation-adjusted income.

The optimist might counter by pointing to data giving hints that a meaningful recovery in the local housing market and the overall economy may at last take hold, such as the year-long 2011 increase in median sale prices of existing homes, an all-time historic low in mortgage interest rates, signs of a clearing from the home sales market of foreclosures and short sales, and late-2011 plus early-2012 declines in unemployment at all levels – local, state, and national.

The most prominent of Missoula's housing concerns remains, arguably, affordability of decent housing. The local rental market is especially worrisome as prices; both in our region and nationally, have firmed considerably over the past year.

Concerning the U.S. economic recovery, one of the few certainties the data provide is that it is the weakest ever experienced – in no small measure owing to the absence of a pronounced turnaround in housing.

Nonetheless, our consensus opinion remains, as in the past, that the Missoula market has telling advantages that help us cope better in these difficult times. Missoulians are resilient and pragmatic people: When confronted with challenges such as those of recent years, we collectively roll up our sleeves and say, "Let's make things better."

In 2011, particularly its final months, and early 2012, we began to see signs of success in that effort. With your help, those signs will proliferate this year and beyond.

# Housing Supply: Development & Occupancy



## Lot Development

The complex dynamics of the housing market begin literally at ground level: with land.

Sales of empty lots in 2011, as shown in Table 1, were higher in number of sales but down by 23% in median sale price, compared with prior year sales. Price of sales can be misleading, however, because lot sizes are not reported. Average lot size is thought to be declining in recent years, owing to purchases of land for new subdivisions that offer smaller lots than those of 2006 and earlier.

Lot sales through the first years of the 2000s were limited by availability of too few lots to meet demand. Since 2007, lots have nearly always been readily available, but demand has plummeted.

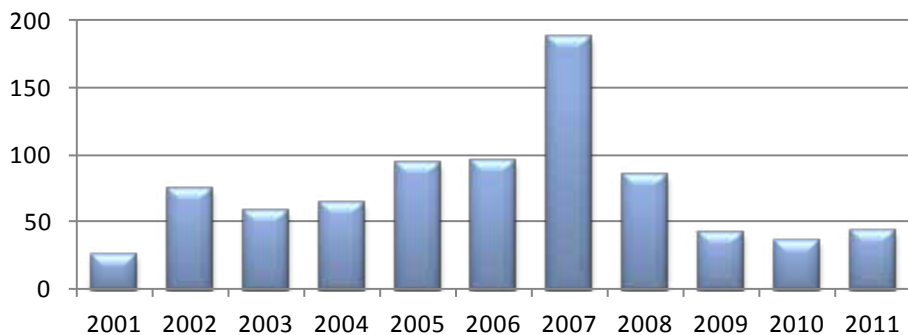
**Table 1: 2011 median price of lot sales went down but sold in half the time ...**

Year	Sales	Median Price	Days on Market
2001	26	\$55,000	114
2002	75	\$61,000	117
2003	59	\$66,750	297
2004	65	\$52,750	119
2005	95	\$70,000	116
2006	96	\$59,000	147
2007	188	\$59,000	213
2008	86	\$70,000	247
2009	43	\$72,000	325
2010	36	\$87,000	269
2011	44	\$67,400	130

Source: MOR Multiple Listing Service

**Figure 1: ... while the number sold increased slightly for the first time in four years ...**

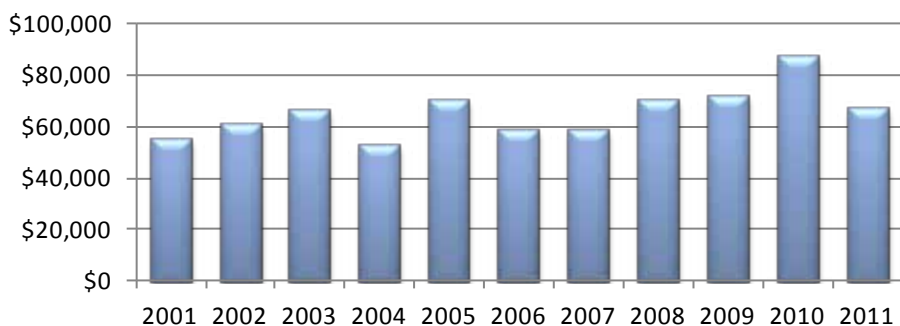
**Residential Land Sales, Number of Lots Sold, 2001 - 2011**



Source: MOR Multiple Listing Service

**Figure 2: ... and median price declined for the first time in five years.**

**Residential Land Sales, Median Price, 2001-2011**



Source: MOR Multiple Listing Service





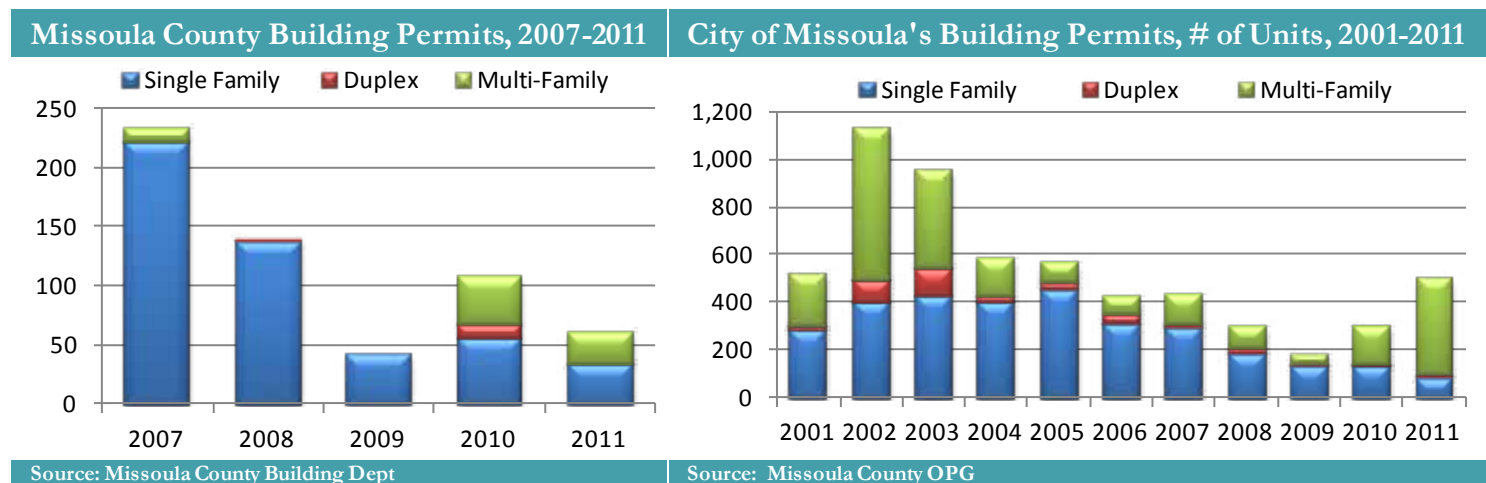
## Pace of Development

The number of units permitted by the City of Missoula in 2011 increased by 65% over the 2010 number. This gain was entirely accounted for in multi-family construction, as single-family permits declined for the sixth consecutive year. Single-family permits for 2011 stood 82% below their record-high year of 2005. In contrast, multi-family permits increased to their highest level in eight years; many of which were issued for low-income housing projects.

Missoula County building permits in 2011 decreased sharply across all housing types. Single-family housing permits have decreased every year since 2007, standing in 2011 at 85% below the 2007 level.

*The State of the Nation's Housing 2011*, a yearly release from the Joint Center for Housing Studies of Harvard University, reported a small increase in single-family permits from 2009 to 2010 (the most recent data available) “and substantially larger 10.9% gain in multifamily permits,” consistent with recent activity in the Missoula housing market. The national increase, however, was from a level of permit issuance from 2009 that was the lowest ever recorded.

**Figures 3 and 4: Building permits issued in 2011 decreased for all types of housing but one in both Missoula City and County – the dramatic exception being an increase of 149% in City multi-family housing permits.**



## Homeowner Occupancy

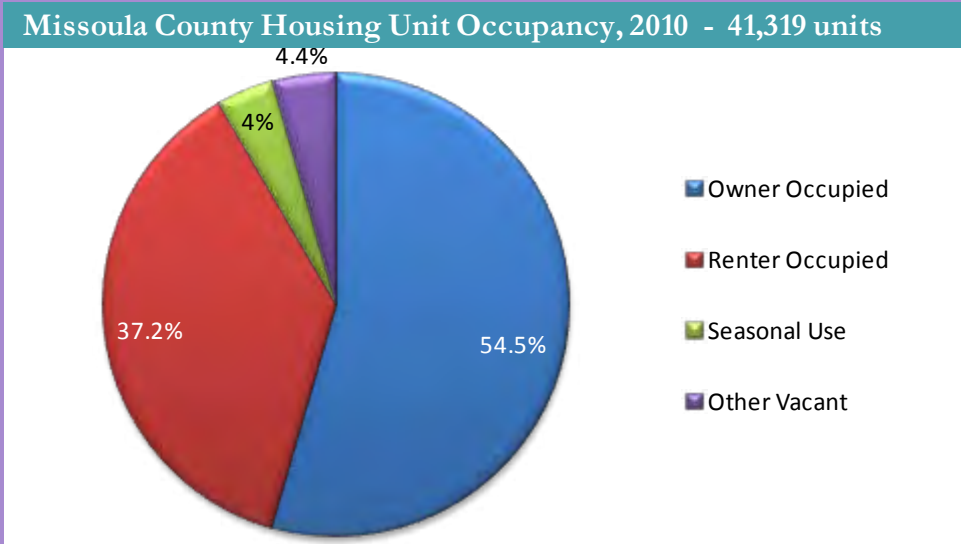
Just over half of Missoula County households live in owner-occupied homes, while renters occupy about 37% of housing units. The vacancy level totaling just under 10% is not entirely composed of units for rent, as total vacancies in our community include a significant number of residences that are used only seasonally or are temporarily vacant.

Many of the seasonal units are located in the Blackfoot River corridor and the Seeley-Swan area.

Past data indicate that Missoula County has a comparatively lower share of owner occupied homes and greater share of 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 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.

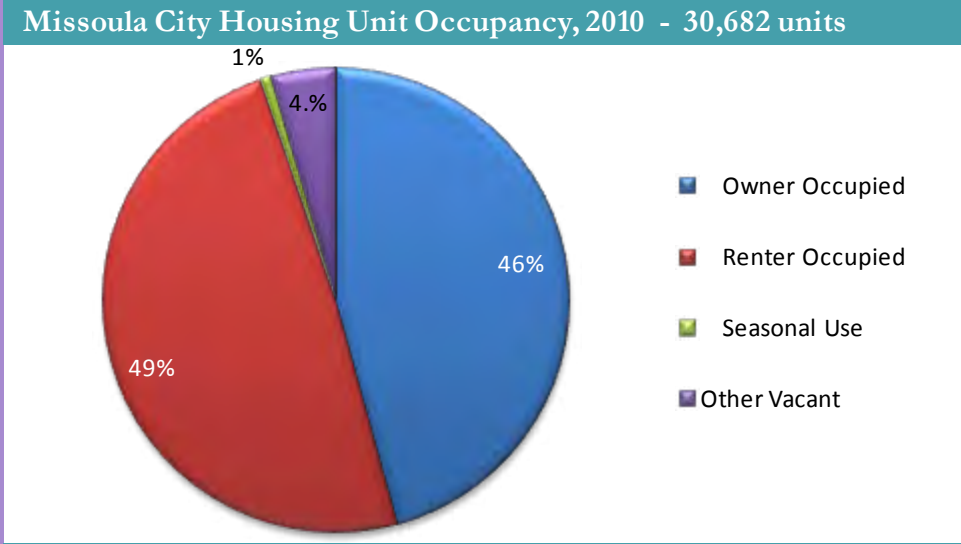


**Figure 5: Missoula County’s housing occupancy reflects presence of students and vacation homeowners.**



Source: US Census Bureau, American Community Survey 2010

**Figure 6: The share of Missoula City housing that is renter occupied is 12 percentage points higher than in the county as a whole, and seasonal-use housing is significantly lower.**



Source: US Census Bureau, American Community Survey 2010

**Rental Occupancy**

Rentals are an important segment of any housing market, but are especially vital in university towns such as Missoula, where a significant number of students create greater demand for rental housing. 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.

About half of rental units in the Missoula market area are owner managed. 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.

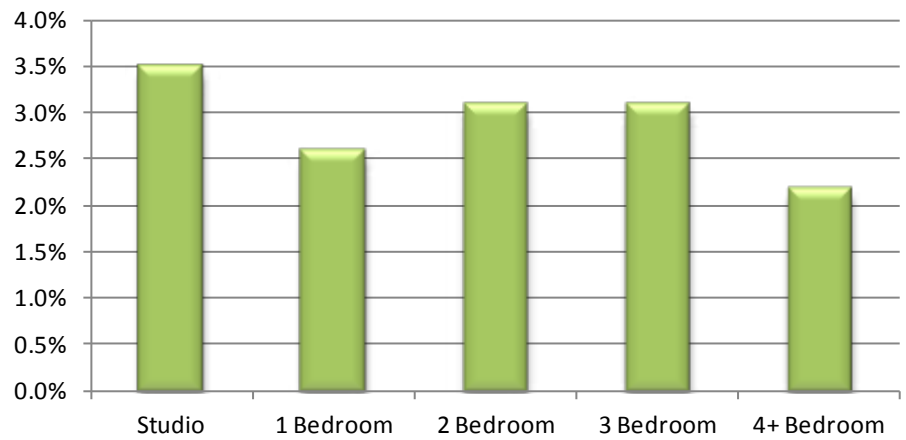
A normal vacancy rate for a healthy rental market in the US is in the range of 4% to 6%. (Vacant units are defined as currently unoccupied and ready to rent.) Missoula often has a lower rate, probably because our university population exerts continuing product demand. Recently, however, the national vacancy rate has dropped closer to Missoula’s rate, likely owing to households losing their owned homes or failing to meet toughened standards for mortgage loan qualification. Harvard’s *State of the Nation’s Housing 2011* noted that the national rental vacancy rate at year-end 2010 stood at 9.4% — “the lowest quarterly posting since early 2003.”





**Figure 7: Rental vacancy rates by size of home stayed below 4% in all size categories, averaging about 3% across all rental housing ...**

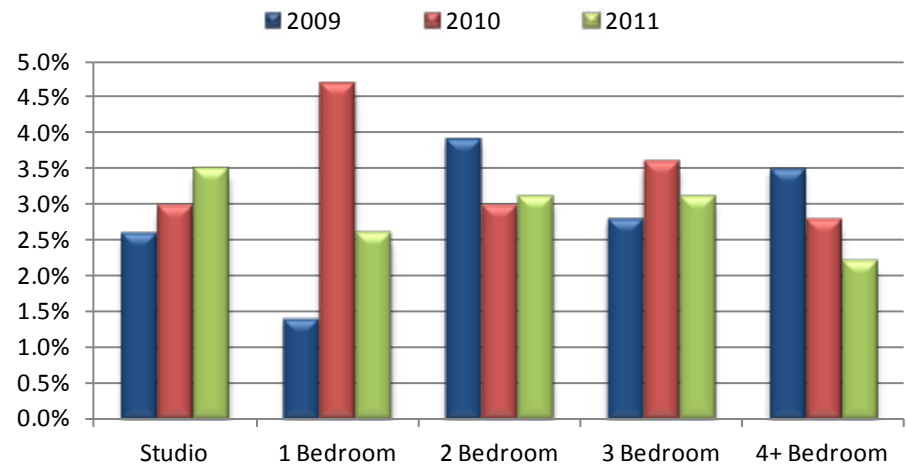
### Average Missoula Rental Vacancy Rate, 2011



Source: National Association of Residential Property Managers

**Figure 8: ... with studios the most readily available category and 4+ bedrooms the tightest.**

### Average Missoula Rental Vacancy Rate, 2009-2011



Source: National Association of Residential Property Managers

# Housing Demand: Population & Income

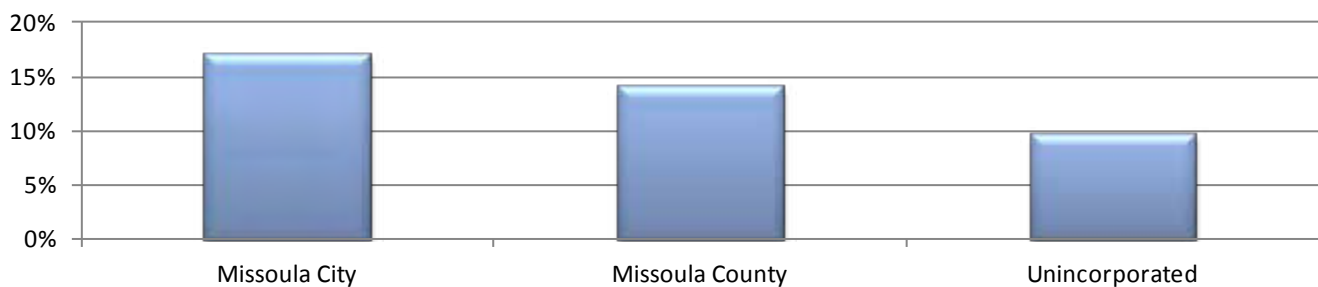


## Population Dynamics

Of the various factors that influence demand for housing, population change often exerts the greatest impact. Population in Missoula County grew 14% between 2000 and 2010. It passed 100,000 persons in 2004. Neighborhoods registering abnormally high growth are Frenchtown and Clinton, due to boundary changes as well as real growth.

**Figure 9: Missoula City and County registered healthy population growth as measured by the 2000 and 2010 US Census ...**

**Change in Population, Missoula County and Unincorporated Places, 2000 to 2010**



Source: US Census Bureau

**Figure 10 and Table 2: ... with towns and neighborhoods registering gains.**

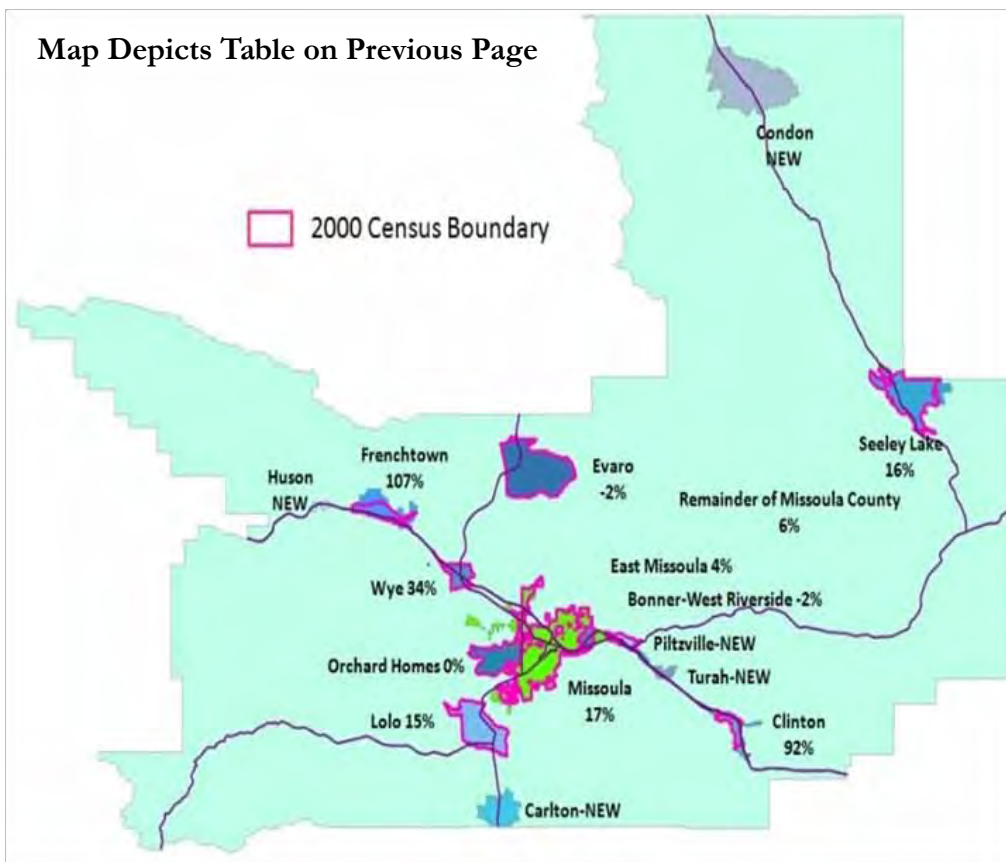
**Change in Population, Missoula County Places, 2000-2010**

	2010 Census	2000 Census	Numerical Change 2000-2010	Percent Change 2000-2010
<b>Missoula County</b>	109,299	95,802	13,497	14%
<b>Missoula City</b>	66,788	57,053	9,735	17%
<b>Bonner West Riverside</b>	1,663	1,693	-30	-2%
<b>Clinton</b>	1,052	549	503	92%
<b>East Missoula</b>	2,157	2,070	87	4%
<b>Evato</b>	322	329	-7	-2%
<b>Frenchtown</b>	1,825	883	942	107%
<b>Lolo</b>	3,892	3,288	504	15%
<b>Orchard Homes</b>	5,197	5,199	-2	0%
<b>Seeley Lake</b>	1,659	1,436	223	16%
<b>Wye</b>	511	381	130	34%
<b>Remainder of County</b>	24,233	22,821	1,412	6%
<b>New Census Designated Places</b>				
Carlton CDP	694			
Condon CDP	343			
Huson CDP	210			
Piltzville CDP	395			
Turah CDP	306			

Source: US Census Bureau



## Map Depicts Table on Previous Page

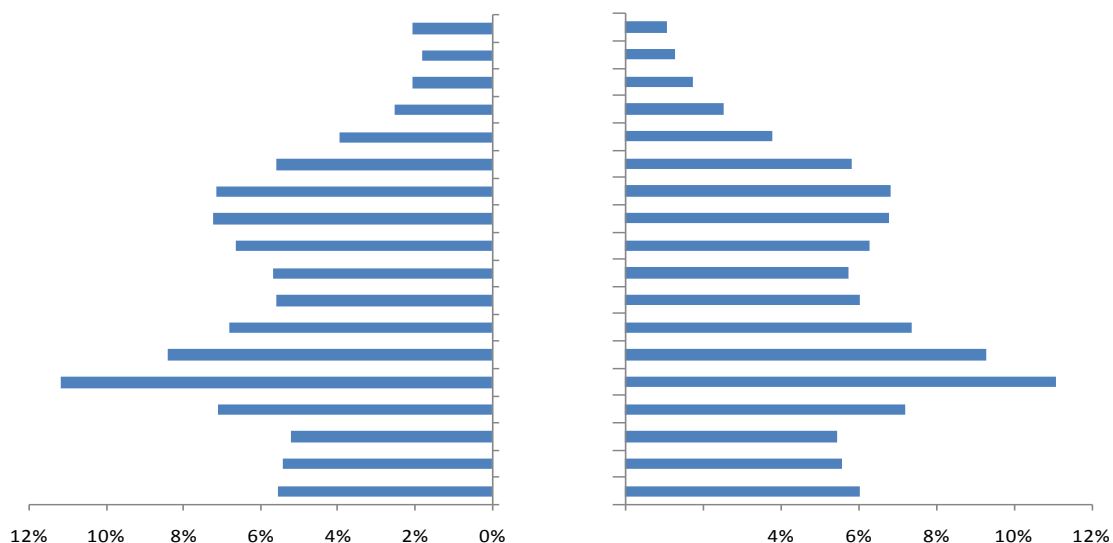


## Age Distribution

The University of Montana's student population affects the age distribution of the Missoula County population. About 11% of males and females are between the ages of 20 and 24. Another 8 to 9% are between 25 and 29. The baby boom bulge, in 2010 aged approximately 46 to 64 years, is also visible. The median age of Missoula population increased between 2000 and 2010 from 32 to 33 years for males and 34 to 35 years for females. Age distribution is important in a real estate market because it affects demand.

**Figure 11: Two bulges indicate the age ranges most prominent in Missoula population: baby boomers (ages 46-64) and echo boomers (20-34).**

### Age Distribution of Population, Missoula County, 2010



Source: U.S. Census Bureau

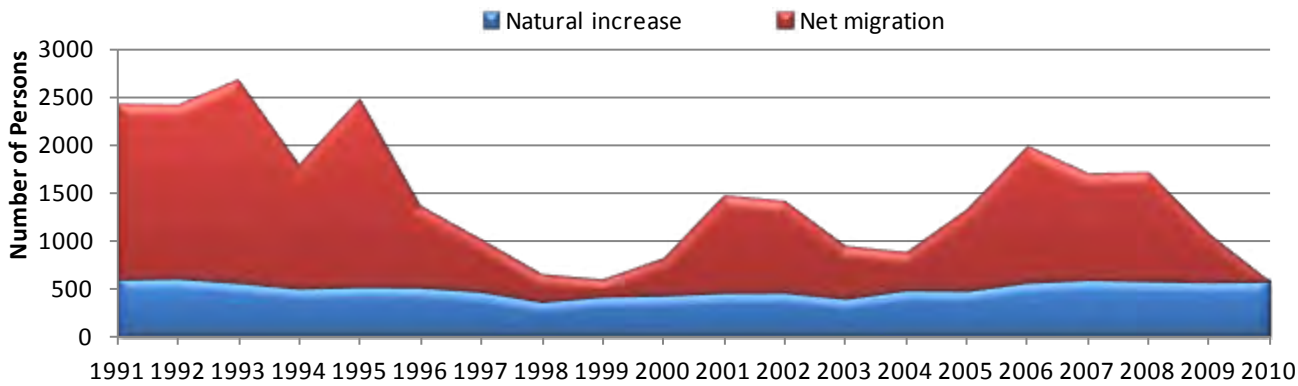


## Migration

Population can increase or decrease by two mechanisms: natural (the net of births and deaths) and migration (the net of people moving in and moving out).

**Figure 12: County population gains are generally steady in natural increase, but vary widely in net migration.**

### Components of Population Change Missoula County, 1991-2010



Source: US Census Bureau

Figures 13, 14, and 15 present migration data as reported by the Internal Revenue Service. These data do not capture all migrants, as they include only those filing tax returns in Missoula County in at least one of two consecutive years. Nonetheless, they provide a reliable picture of migrants' moves.

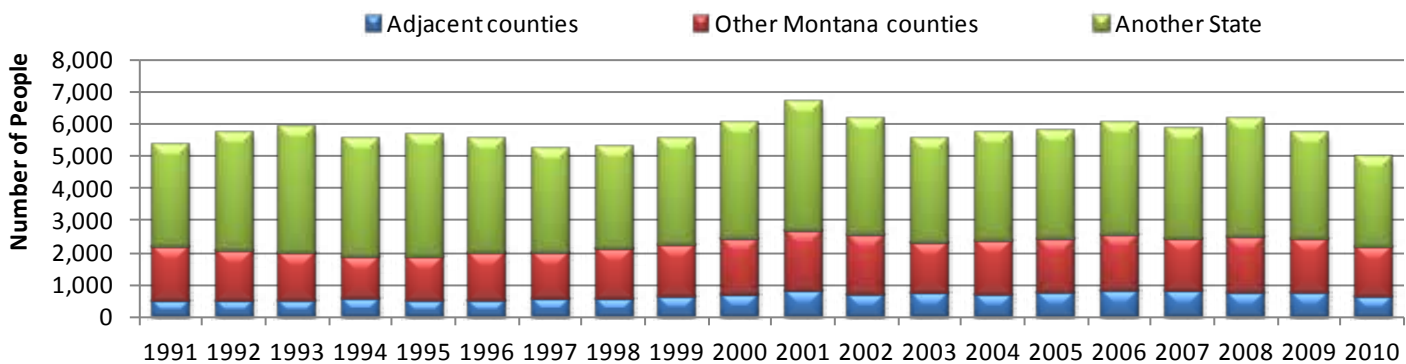
From these data, we can see that in most years, of the approximately 6,000 persons who moved to Missoula County each year, two-thirds move from another state and one-third from other Montana counties. About 5,500 people annually have moved out of the county in recent years, with just under two-thirds 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 that for many years Missoula County gained population annually through net migration. Net migration of out-of-state migrants was strongly positive between 1992 and 1996. A change in migration trends occurred in 2007, when more people moved to Missoula County from Ravalli County than the other direction for the first time in two decades.

In recent years, corresponding to the national recession and its aftermath, net migration has usually been less than 500, with a noticeable upturn in the four years through 2009, but a substantial decline in 2010.

**Figures 13, 14, and 15: County migration is mostly from and to other states.**

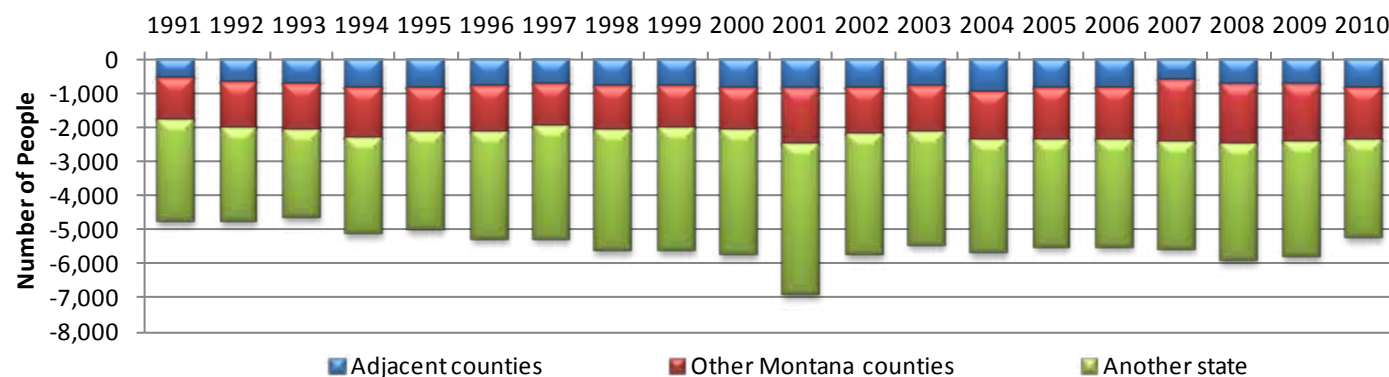
### Missoula County, In-Migration by Source, 1991-2010



Source: Internal Revenue Service

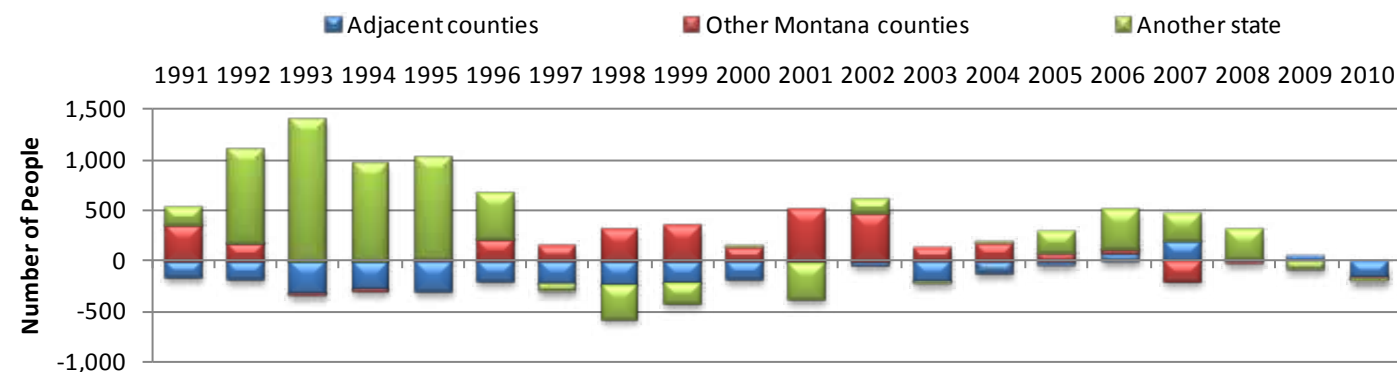


## Missoula County, Out-Migration by Source, 1991-2010



Source: Internal Revenue Service

## Missoula County, Net Migration by Source, 1991-2010



Source: Internal Revenue Service



## Income Trends

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 – city, county, state, or country – is principally a function of only four numbers: income, wealth, mortgage rates, and home prices. Harvard's *State of the Nation's Housing 2011* observes, "Income and wealth influence household formation decisions, the quality and size of homes demanded, and the share of income allocated to housing." Average working families can only afford the monthly

mortgage cost of homes if their incomes are sufficient.

Median household income in Missoula County is about the same level as the state number. Median income of Missoula County households that live in their own home is higher than Montana but renters' median income is lower, reflecting the substantial college student population in Missoula County.

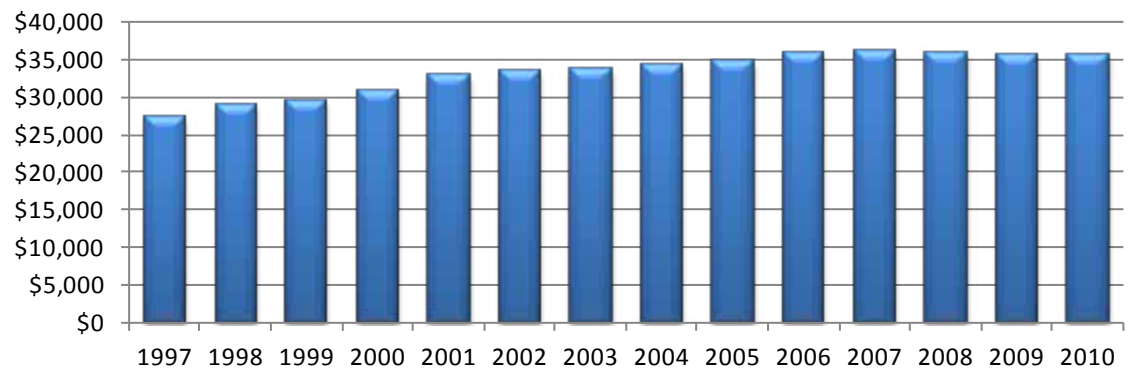
Figure 16 shows that Missoula income has slightly declined since 2007, a trend consistent with, but not as pronounced as a national decline. According to *State of the Nation's Housing 2011*, "real household incomes in the 2000s fell for all age groups under 55."





**Figure 16: Per capita income has declined slightly from its high in 2007.**

#### Per Capita Income, Missoula County, 1997 - 2010

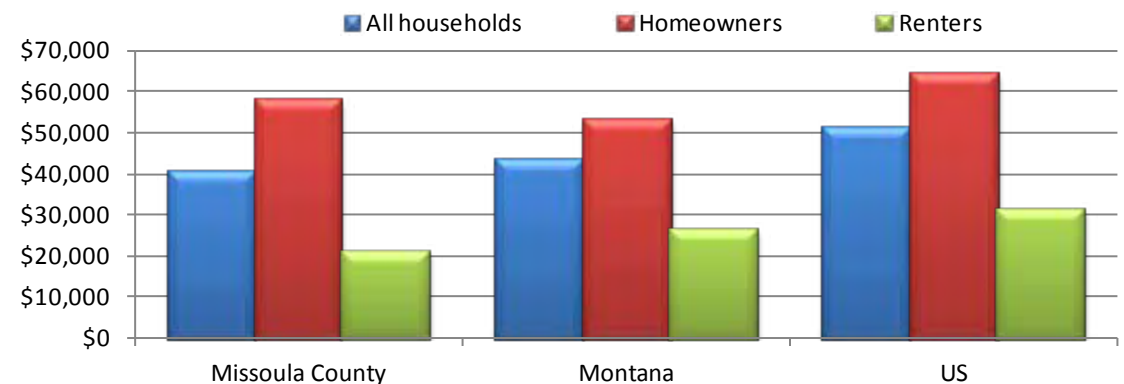


Source: Bureau of Economic Analysis



**Figure 17: Median income of homeowners in Missoula County exceeds that of the state, while Missoula County renters' median income lags statewide renters' income.**

#### Median Household Income, Missoula County, 2010

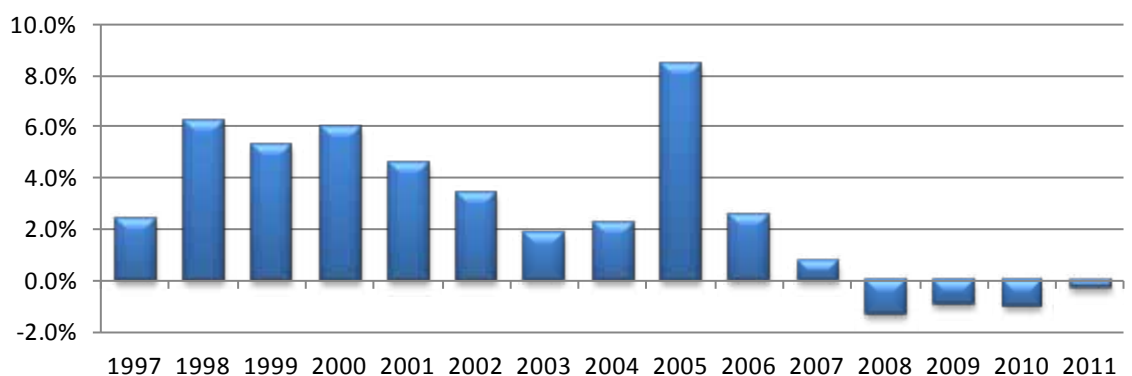


Source: US Census Bureau



**Figure 18: After gains for 12 years, non-farm labor income has decreased since 2008.**

#### Changes in Non-Farm Labor Income, Missoula County, 1997-2011



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

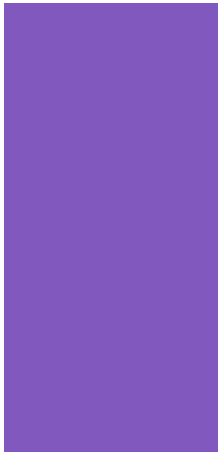
## Income Distribution

The Census Bureau measures family and household income by the various income groupings shown for Missoula County in Figure 19. The figure shows that the county's incomes are "bi-modal," that is, concentrated at two distinct levels: \$40,000 and under for households and \$30,000 to \$100,000 for families. 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.

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 lower 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 at lower incomes.)

**Figure 19: Family Income is concentrated at middle levels while household income is predominately at lower levels.**





# Housing Sales & Prices



## Home Sales in 2011

Sales of existing homes in the Missoula area in 2011 declined in number sold and increased in median sales price.

Homes sold in Missoula decreased by 3%, with 878 sales in 2011, down from 903 in 2010. The median price of the homes sold in 2011 increased by 2%. The median sales price gain reversed three consecutive years of decline, a period in which prices dropped by a cumulative 9%.

Quarterly sales of homes show same-quarter declines in the first two quarters of 2011 and increases in the final two quarters, perhaps indicating a strengthening of the local housing market. Importantly, however, median sales price in 2011's fourth quarter was significantly lower than 2010's fourth quarter, even while sales prices increased from quarter to quarter throughout 2011.

**Table 3: Missoula home sales declined in number but registered a small increase in median price ...**

Median Price of Sales in Missoula Urban Area, 2001-2011			
Year	Annual Sales	Median Price	% Change in Median Price
2001	1,211	\$138,000	n/a
2002	1,069	\$150,000	8.0%
2003	1,150	\$163,000	8.0%
2004	1,300	\$179,000	8.9%
2005	1,558	\$191,900	6.7%
2006	1,586	\$206,600	7.1%
2007	1,392	\$219,500	5.9%
2008	996	\$215,000	-2.1%
2009	1,033	\$208,775	-3.0%
2010	903	\$200,500	-4.1%
2011	878	\$205,000	2.2%
Source: MOR Multiple Listing Service			

**Figure 20: ... marking the first uptick in price since 2007 ...**

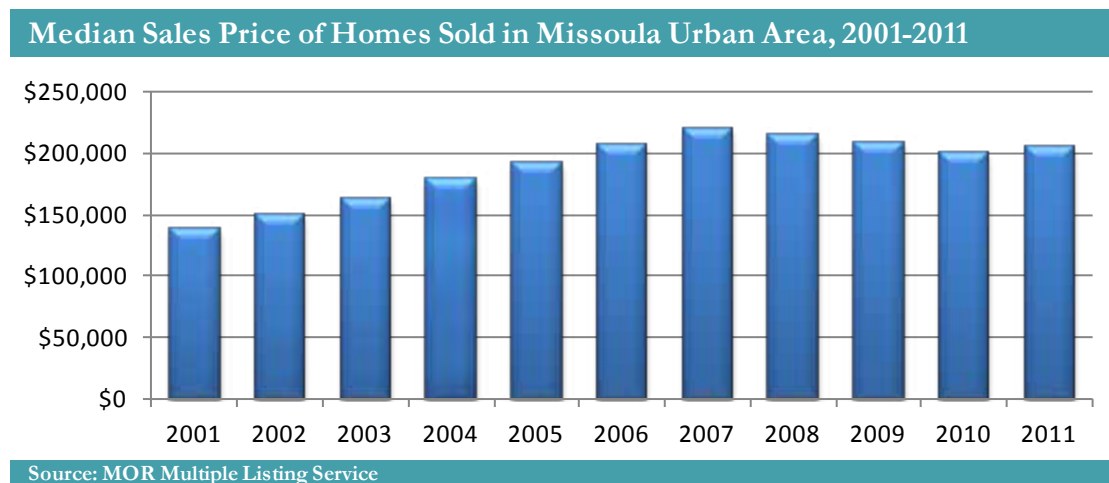


Figure 21: ... with steady price increases throughout 2011.

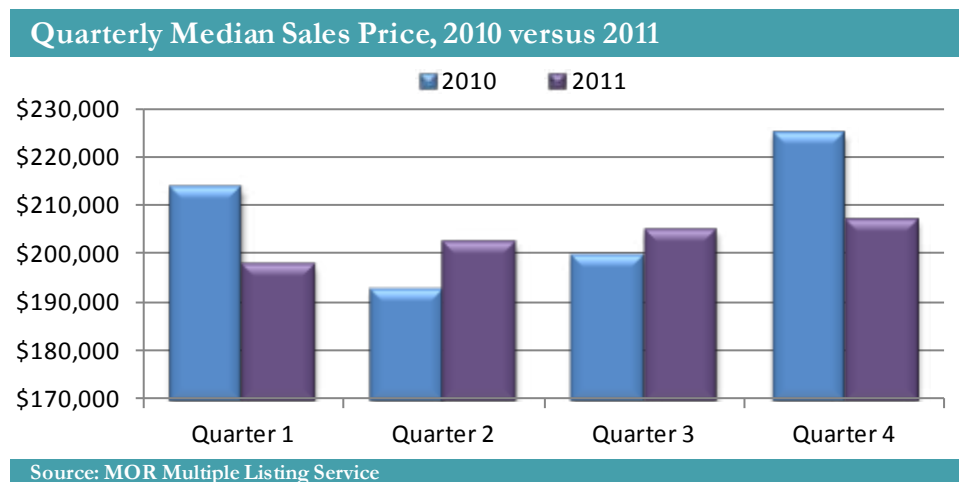


Figure 22: The number of homes sold in 2011 was down 45% from the decade-high year of 2006 ...

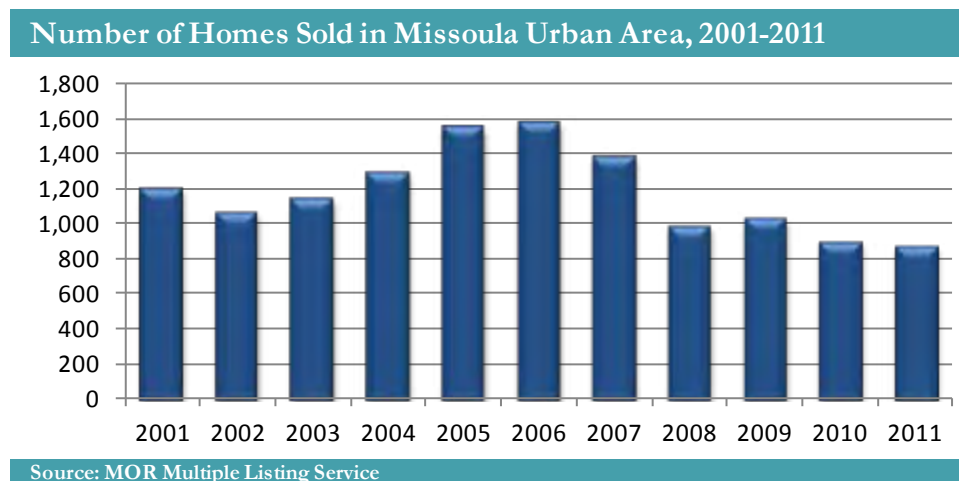
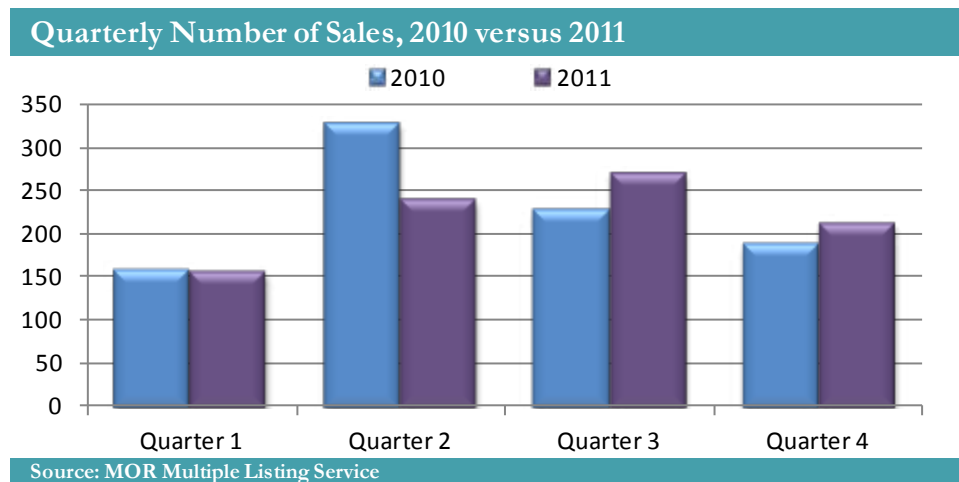
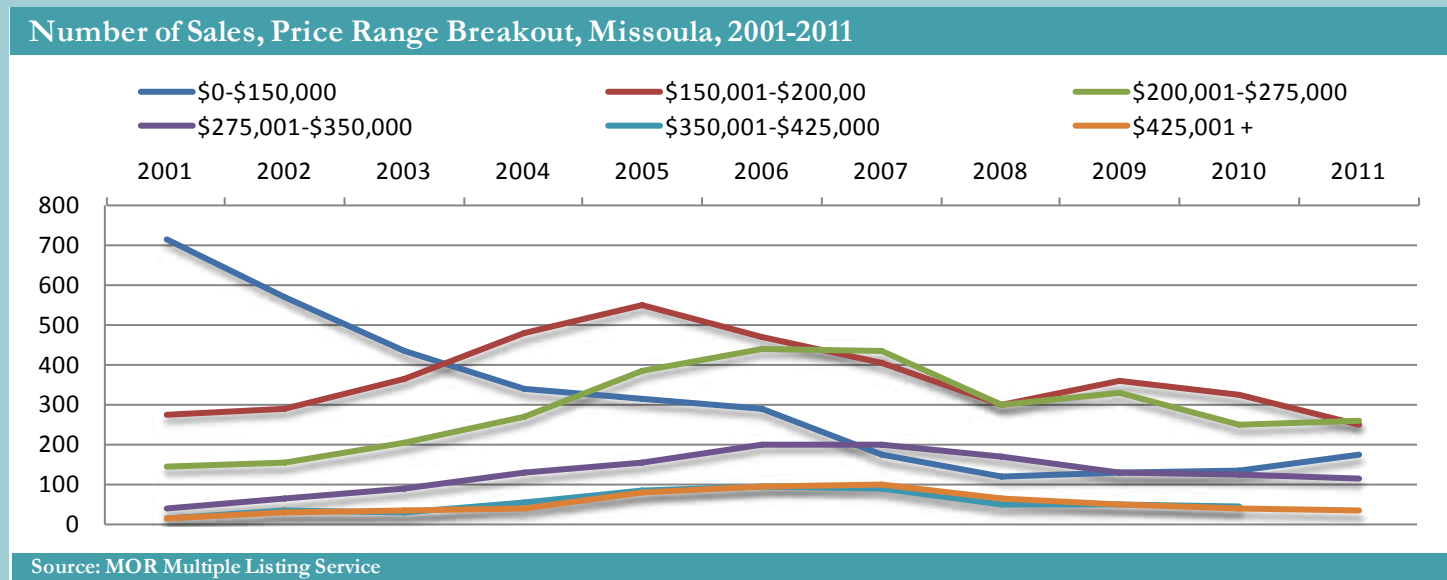


Figure 23: ... but exceeded 2010 sales in the last two quarters of the year.



**Figure 24: Numbers of homes sold in the various price ranges has demonstrated no discernible pattern over the past three years.**

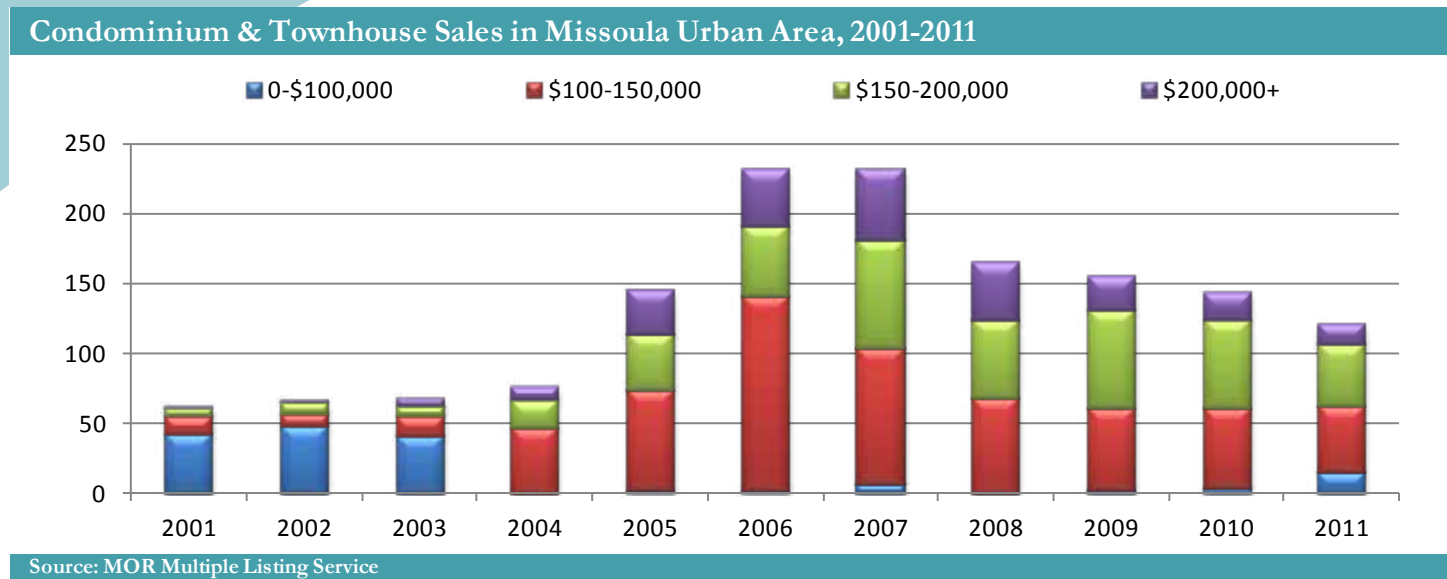


## Condominiums and Townhouses

Sales in 2011 of condos and townhouses declined in all price ranges above \$100,000 but gained in the lowest range.

The longer term trend of declining sales in condos and townhouses in all price ranges continued, with a 48% overall decline in sales since their recent high in both 2006 and 2007. This trend appears attributable at least in part to difficult financing for condominiums.

**Figure 25: Sales of condos and townhouses increased in the lowest price range, but declined in all ranges above \$100,000.**



## Comparative Trends in Home Prices

The U.S. Department of Commerce reported that only 304,000 new homes were sold in 2011, the fewest on records dating back to 1963 – and less than half the 700,000-per-year rate that economists equate with healthy markets. But a pickup in sales at the end of 2011 prompted some expert forecasts that the housing market is starting to revive.

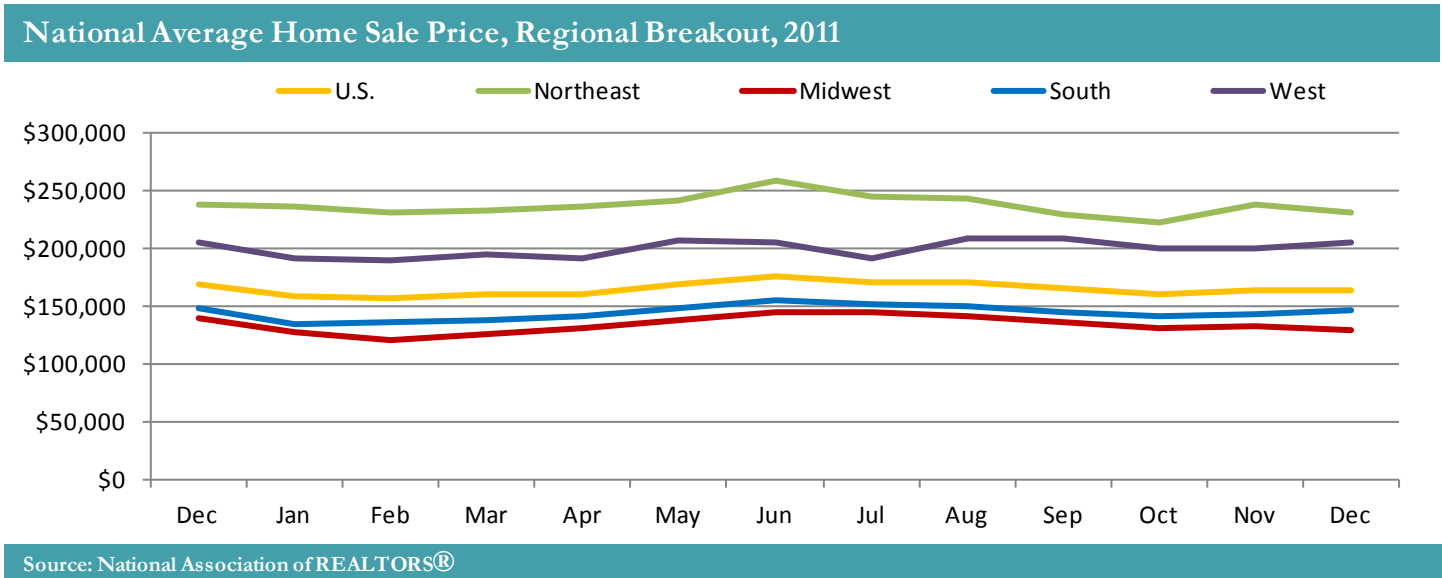
According to the National Association of REALTORS® (NAR), existing-home sales in 2011 numbered 4.26 million, a decline of 13% from 4.91 million existing homes sold in 2010. Median sales price of existing homes in 2011, NAR reported, was \$166,000, a decline of 3% from 2010's median of \$172,000.





The decline in home prices has been much steeper nationwide than in Missoula. While prices nationally have fallen by about 33% since their peak in 2006, Missoula median prices dropped by 7% from their peak in 2007 through 2011.

**Figure 26: Home sale prices strengthened nationwide in the first half of 2011, but those gains were held only in the West.**



**Figure 27: In 2011, no region of the US was able to break out of recent years' slumping home sales.**

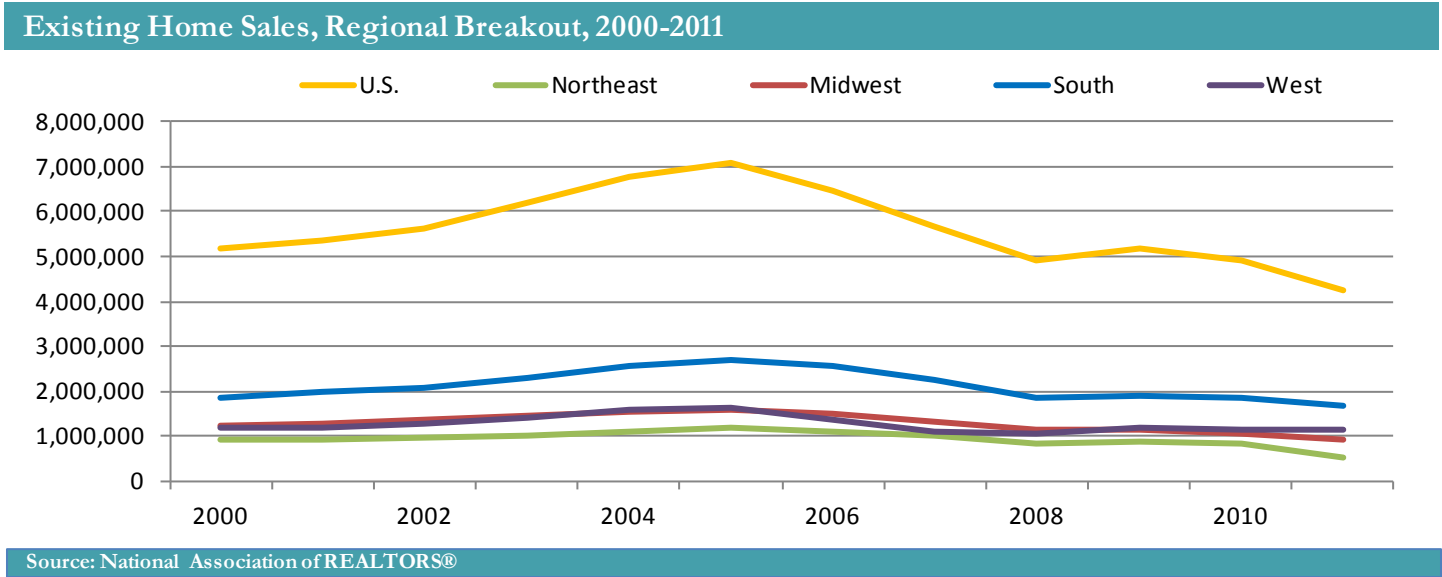
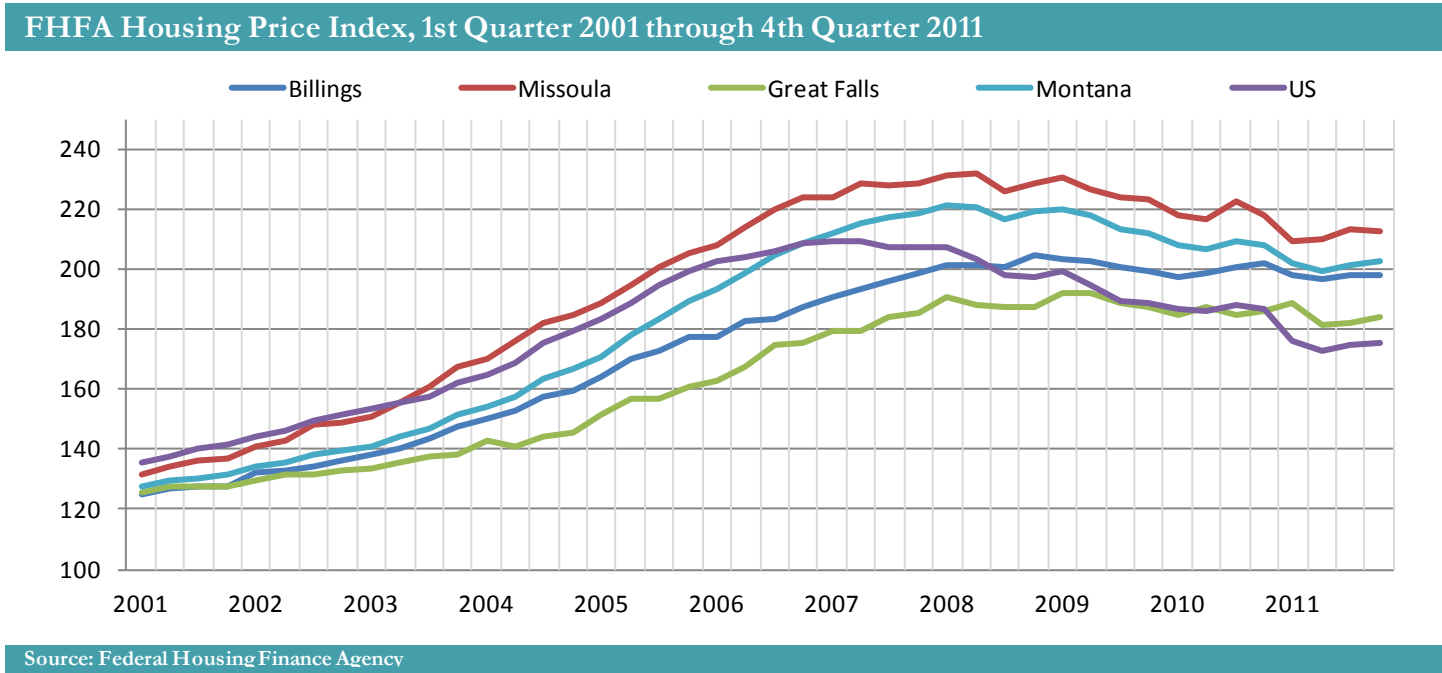


Figure 28 traces a measure called the Housing Price Index for the past decade. Each line indicates the course of housing prices since the first quarter of 1995, when all price levels were set at 100. The index measures the average price changes in repeat sales or refinancing of single family properties through either of the government sponsored enterprises known as Fannie Mae or Freddie Mac.

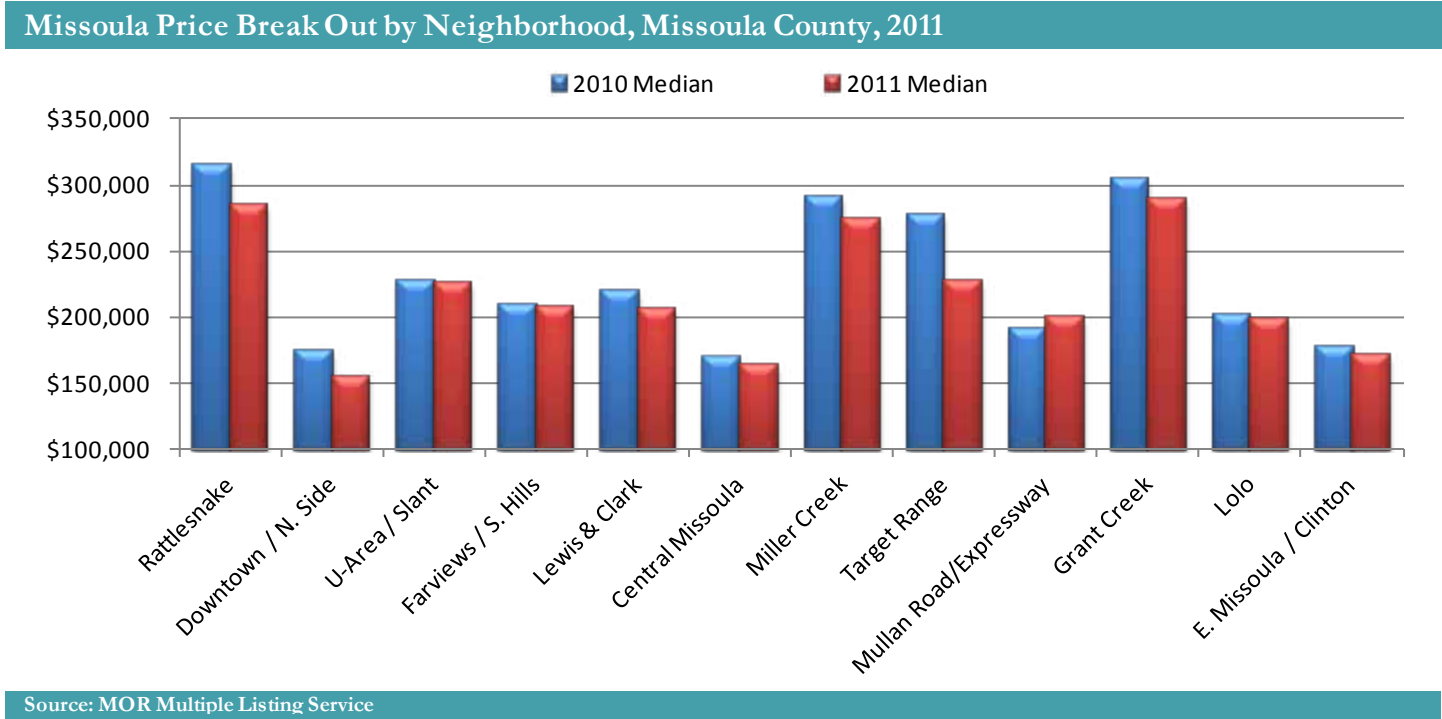
**Figure 28: The pre-recession increase in sales value of Missoula homes, which outpaced values in other major Montana cities and the state as a whole, has cushioned the local recessionary decline.**



### Ownership Trends in Neighborhoods

All but one of Missoula’s neighborhoods registered a decrease in median sale price for 2011 – the exception being Mullan Road/Expressway. It also had a significant portion of the overall numbewr of sales so affected the overall median price more dramatically. Sales have declined for six consecutive years in three neighborhoods: Central, Downtown/ North Side, and University area/Slant streets.

**Figure 29: Median sale prices in 2011 increased measurably in Mullan Road/Expressway.**



## Pace of Home Sales

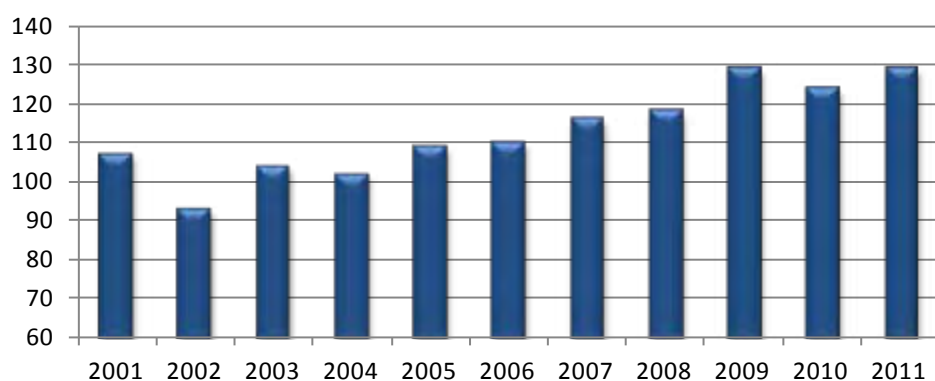
One of two common measures of housing market vitality is days on market (DOM). Figure 30 shows that, after a decline in DOM from 2009 to 2010, DOM in 2011 increased to about their level of 2009.

A second housing vitality indicator is the absorption rate. It 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 32 shows that the national absorption rate exceeded six months throughout 2011 and that the rate for Missoula, as in the past, consistently exceeds the national rate. The month-to-month absorption rate for Missoula in 2011 shows a typical pattern for our market: lengthiest absorption in the year's early months, shortest in summer and early fall months, and lengthening again at year-end.

**Figure 30: In 2011, local days on market increased to approximately their level of 2009.**

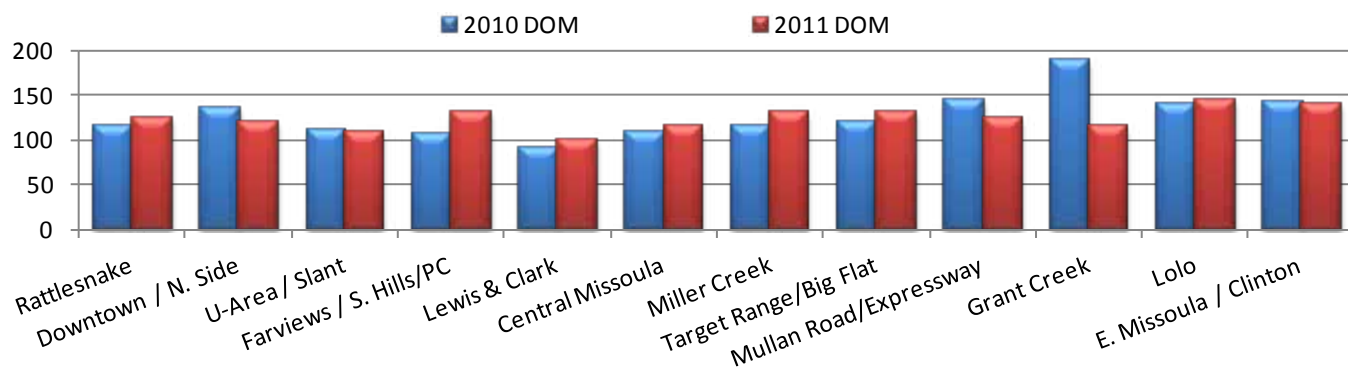
### Missoula Urban Area Average Days on Market, 2001-2011



Source: MOR Multiple Listing Service

**Figure 31: DOM in Missoula's neighborhoods showed about as many increases as decreases, with Grant Creek experiencing the greatest change.**

### Days on the Market Breakout by Neighborhood, Missoula County, 2010 vs 2011

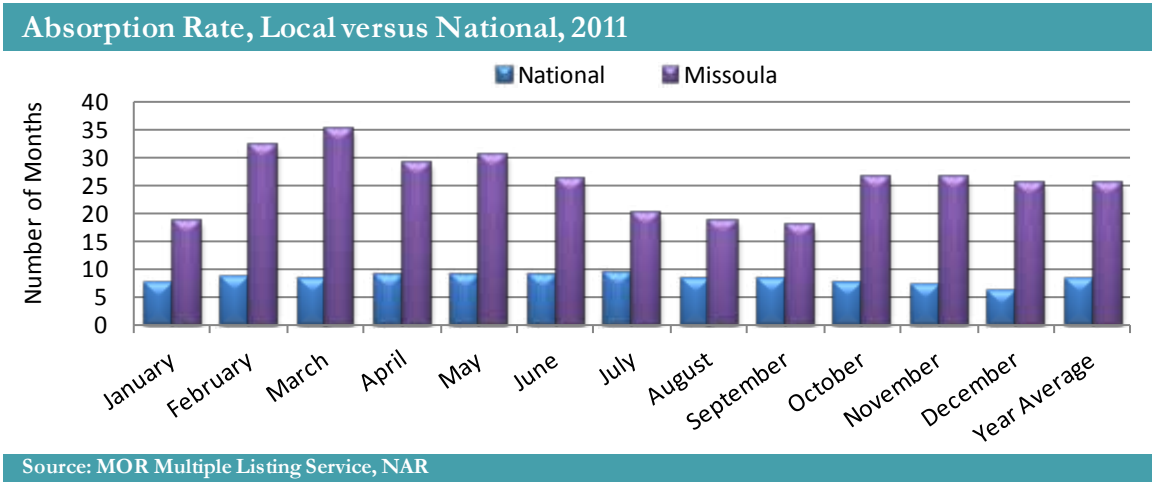


Source: MOR Multiple Listing Service





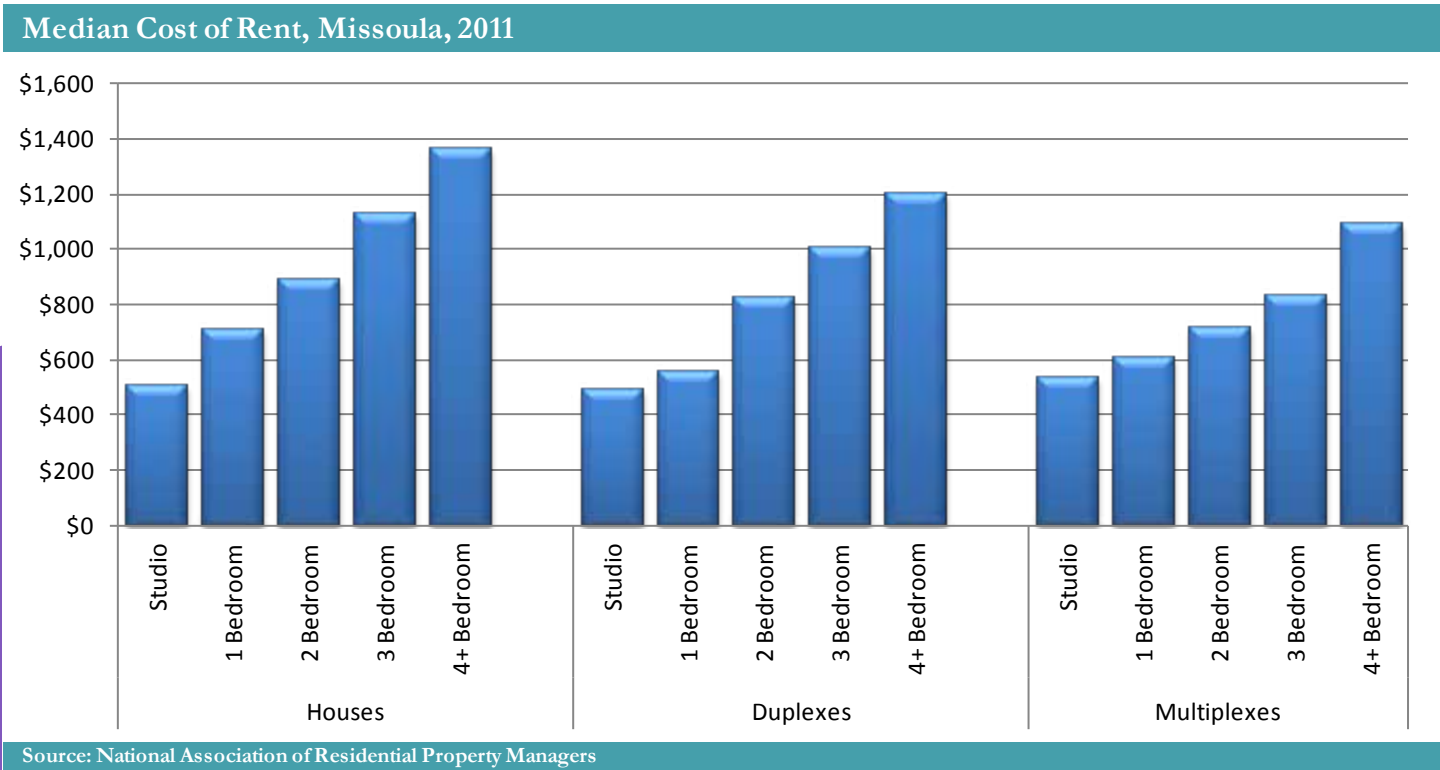
**Figure 32: Missoula’s absorption rate is historically much higher than the national rate. In 2011, Missoula showed a pronounced swelling of inventory in early months, with a marked decline throughout the summer and early fall.**



### Rental Prices

Figure 33 depicts median monthly rents for homes of various sizes in the fourth quarter of 2011. As the later section on Housing Affordability demonstrates, Missoula rents remain stable at levels that, for many families, consume a share of total income that leaves too little for other necessities, such as food, clothing, and health care. (Rental information was provided by NARPM, which includes some of the major property management groups. Approximately 8,000 units were surveyed to gather the data presented in these figures.)

**Figure 33: Median costs of rent in 2011.**





# Housing Finance

## Mortgage Loans

Looking back at the outlook for 2011 many factors that are important to the mortgage market come to mind.

Although mortgage rates have been at record lows, high levels of unemployment and weak income prospects are likely precluding many households from purchasing homes. Economic conditions have, and will continue to have, an impact on the housing market. Consumer confidence and lending conditions gradually began to improve in 2011, but not to levels that significantly boosted the housing market.

Many households have been unable to buy homes because mortgage credit conditions are tighter than they were before the recession. Some tightening was appropriate, but today's extraordinarily tight standards partly reflect new obstacles that inhibit lending even to creditworthy borrowers. The tightening in mortgage credit can be seen in the increase of credit scores associated with newly originated conventional and FHA mortgage originations, which suggest that borrowers who likely had access to mortgage credit a few years ago are now essentially excluded from the mortgage market.

Mortgage fraud continues to be at the top of list of concerns for all segments of the housing industry. Mortgage fraud dates back several years, but the current cycle actually began in the mid-1990's. Identity theft, appraisal fraud, income and employment misrepresentations, occupancy fraud, and flipping are among the most common.

**Table 4: Interest rates for all types of mortgages steadily declined throughout 2011 ...**

2011 Mortgage Interest Rates					
Mortgage Type	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Year End
30 Year Fixed	4.875%	4.50%	4.00%	3.875%	3.75%
15 Year Fixed	4.25%	3.75%	3.25%	3.25%	3.25%
FHA / VA	4.75%	4.25%	3.75%	3.75%	3.75%
5/1 ARM	3.50%	3.125%	3.00%	2.75%	2.625%
MBOH	4.75%	4.75%	4.00%	3.875%	3.875%
Source: First Security Bank, Missoula MT					
FHA: Federal Housing Administration					
VA: Veterans Affairs					
MBOH: Montana Board of Housing					
5/1 ARM: A form of an adjustable rate mortgage that has a fixed period for five years. Once the mortgage has matured for five years the rate adjusts annually until it reaches a pre-determined limit.					



**Table 5: ... such that conventional rates dropped for the fifth consecutive year ...**

30 Year Conventional Mortgage Rates, Year End											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Year End	7.25%	5.75%	5.75%	5.625%	6.125%	6.25%	6.00%	5.375%	5.50%	4.75%	3.75%
Source: First Security Bank, Missoula, MT											

**Figure 34: ... and ended 2011 at their lowest level of the past decade.**



Not since the early 1950s or before have mortgage rates been at the low levels of 2011. These rates continued to provide strong support for the housing market, while other forces prevented a housing recovery that one would expect with mortgage rates under 4%.

## Impacts of Mortgage Insurance

Mortgage insurance premiums, whether upfront, financed or paid monthly are required on all conventional loans when the 1<sup>st</sup> mortgage balance exceeds 80%. The premiums that are required are determined by the initial loan to value, borrower's credit scores and occupancy. If a borrower is required to pay PMI (Private Mortgage Insurance) it can affect the affordability of home ownership.

ity of home ownership.

FHA charges an upfront mortgage insurance premium, which is typically financed, and a monthly premium as well. RD charges an upfront guarantee fee and a monthly premium. Although VA does not charge a monthly premium they do charge a VA funding fee, which is typically financed like the FHA Upfront Premium and the RD Guarantee Fee.

## Down Payments

Down payments are similar with most loan program types, including FHA and conventional loan products, as they have been in the past. FHA remains at a minimum requirement of 3.50% down, while some conventional products are being offered with 3% down. But the typical down payment would be a minimum of 5% or more.

Some government programs designed to help save homeowners from foreclosure were only moderately successful. With the economy gaining strength, the number of new entrants into modifications of existing mortgages decreased. New modification programs are being introduced in early 2012.

The impact of the Consumer Finance Protection Bureau (CFPB), was an overhaul of mortgage products, processes, and disclosures. The CFPB's main purpose is to simplify forms that consumers review and sign in the home purchase process.

In 2009 the Home Valuation Code of Conduct was put into place, barring loan originators from selecting appraisers. Under Dodd-Frank, Act appraisal standards were created to further address appraiser independence and prohibit lenders from directly or indirectly exerting influence over appraisals.

Reverse mortgages that were introduced in the 1980s and 1990s to help seniors stay in their homes have been on a steady decline since September 2008 when the housing meltdown began. It is not likely that they will completely disappear, but in the past year several of the large mortgage lenders have discontinued offering reverse mortgages.

U.S. Dept. of Veterans Affairs (VA) Home Loans have been and will continue to become more popular as service men and women return from active duty. VA has similar credit score requirements that mirror other products, but also considers residual or disposable income of a potential borrower. It's popular because it's one program that still allows 100% financing. MBOH introduced a Montana veterans' home loan program with a below-market interest rate for a 30-year fixed-rate loan. Specific qualifications are required by the new program.

## Foreclosures and Short Sales

Net foreclosures in 2011 reached their lowest level in three years. While foreclosures are still at levels that are high for the Missoula market, they have declined by 46% over the past two years – giving some evidence that the long awaited "clearing" of foreclosures may be underway.

Historically, foreclosures have been relatively rare in the Missoula market, amounting to well below 0.5% of the total





owner occupied stock. In contrast, according to the NAR, more than one-third of all US existing home sales in 2009 — about 1.8 million units — were short sales or foreclosures.

Montana has one of the lowest foreclosure and mortgage delinquency rates in the U.S. Only Nebraska, Alaska, Wyoming, and the Dakotas reported rates as low or lower than Montana, with exact rankings depending on how foreclosure and delinquency are measured.

Nationally, according to online foreclosure marketer RealtyTrac, a total of 2.7 million foreclosure filings — default notices, scheduled auctions and bank repossessions — were reported on 1.9 million U.S. properties in 2011, a decrease of 34% from 2010. Total 2011 foreclosure filings represent about one in 69 U.S. properties — the lowest foreclosure rate since 2007. December 2011 foreclosure activity, according to RealtyTrac, stood at its lowest level in 49 months.

**Table 6: Notices of foreclosure and net foreclosures dropped significantly in 2011 ...**

Bank Foreclosures Notices, Missoula County, 2001- 2011			
Year	Notice of Sale	Cancellation 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
2008	313	186	127
2009	565	303	262
2010	719	486	233
2011	493	351	142
Source: First Security Bank, Missoula MT			

Short sales, in which the mortgage lender accepts proceeds from a sale for less than the total amount due on a home, are not a common device in our market. In 2011, Missoula's short sales numbered 32, just one more short sale for the entire year than were recorded in only the last half of 2010.

Foreclosures are controlled by the banks and they proceed much faster. The reason short sales stay on the market and sell for more than foreclosures is that short sales are still owned by the individual homeowner

who is negotiating with the lien holder to sell for less than is owed. This is an extremely cumbersome, difficult, and broken system, with the lien holder trying to maximize the sales price. In a foreclosure sale the lien holder owns the property and is more interested in a quick and easy sale than a maximum price and is not encumbered by the short sale system.

**Table 7: ... although the final quarter of 2011 saw a spike in notices and net foreclosures.**

Year	Quarter	Notice of Sale	Cancellation of Sale	Net Foreclosures
2008	Q1	69	46	23
	Q2	58	46	12
	Q3	67	48	19
	Q4	119	46	73
2009	Q1	147	70	77
	Q2	141	71	70
	Q3	127	83	44
	Q4	150	79	71
2010	Q1	164	113	51
	Q2	156	110	46
	Q3	247	153	94
	Q4	152	110	42
2011	Q1	124	126	-2
	Q2	119	82	37
	Q3	109	65	44
	Q4	141	78	63
Source: First Security Bank, Missoula MT				



**Table 8: Days on market and median sale price for short sales typically exceed those measures for bank-owned foreclosure, as most homeowners are generally more willing to wait for higher buyer offers.**

Short Sales & Bank Owned Foreclosures			
Year	Number Sold	Days on Market	Median Price
2010	Foreclosure/REO 74	75	\$181,250
	Short Sale 32 (Jun-Dec)	162	\$199,000
2011	Foreclosure/REO 109	77	\$160,000
	Short Sale 33	180	\$205,000
Source: First Security Bank, Missoula MT			

## Home Ownership Programs

Fannie Mae and Freddie Mac – the so-called Government-Sponsored Enterprises (GSEs)– were and continue to be on the top of the list. We have often asked: Where would the mortgage market be without them? They continue to be a key support for many homebuyers and homeowners. In a fragile market, making substantial changes could have unwelcomed challenges and consequences. The ultimate fates of Fannie Mae and Freddie Mac remain to be seen.

The Federal Housing Administration (FHA) increased the Annual Mortgage Insurance Premiums for all loans after April 18, 2011. The premium for 2011 Upfront Mortgage Insurance Premium (UFMIP) is 1.0% and 1.15% for Annual Insurance premium for mortgages that have a 95% or higher loan to value.

On December 23, 2011, President Obama signed into law the Temporary Payroll Tax Cut Confirmation Act of 2011. Among its provisions, this new law directs the Federal Housing Finance Agency (FHFA) to increase guarantee fees charged by Fannie and Freddie by no less than 1% from the average guarantee fees charged by these companies in 2011 on single-family mortgage-backed securities. Fannie and Freddie announced to their seller-servicers that, effective April 1, 2012, the guarantee fee on all single-family residential mortgages shall increase by 1%. This could have a negative effect on interest rates available for mortgage loans in the future.

USDA Rural Development (RD) loans have been popular in the past to promote home ownership outside the City of Missoula in the county and areas specifically targeted by RD. RD announced in March 2011 that it was decreasing the up-front guarantee fee for purchase loans from 3.5% to 2% of the loan amount. Effective on or after October 1, 2011, RD also implemented a new 0.3% annual fee on all loans.



In 2009 the Home Valuation Code of Conduct was put into place, barring loan originators from selecting appraisers. Under the Dodd-Frank Act, appraisal standards were created to further address appraiser independence and prohibit lenders from directly or indirectly exerting influence over appraisals. Dodd-Frank also implements the Uniform Appraisal Dataset (UAD), which is designed to standardize terminology and improve appraisal quality. The UAD results from collaboration Fannie and Freddie, at the direction of the FHFA, to standardize data reporting quality and improve the collection of electronic appraisal data. FHA, VA, and RD have adopted the UAD.



# Housing Affordability

## The Housing Affordability Index

The Housing Affordability Index (HAI) is a comparison of the median price of a home and the median income of households in the community (as discussed earlier in this report) and how these factors are affected by mortgage interest rates. The HAI also includes estimation of taxes and homeowners insurance.

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.

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 NAR 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 9 shows the HAI for Missoula from 2004 through 2011. In 2011, the income needed for a HAI of 100% is \$54,384 – 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 has approximately 76% of the amount of income needed to purchase a home priced at the 2011 median sale price.

The HAI shows that increases in median home prices significantly outstripped increases in median family incomes from 2002 through 2007. Then, consistent with bursting of the housing bubble, home prices lost value for three years. For home-buying households of less than four persons, the 2011 increase in home prices was slightly more than offset by lower mortgage interest rates, thus making homes slightly more affordable than in 2010.

But “more” affordable doesn't entail widespread affordability. Those families and individuals who were at the cusp of affordability two or more years ago may since have been able to buy at today's moderated prices. But for far more of those who wish to buy a first or move-up home, incomes remain below thresholds of affordability.

For example, a 4-person family at the median Missoula income (\$59,100) had 101% of the income required to qualify to purchase a median priced home (at \$205,000). But families of this size at the median income are the only ones for whom the purchase of a median priced home would be affordable in 2011. Families of one, two, or three persons with median incomes would still be unable, as in every year of the past decade, to qualify for purchase of a median priced home.

Nationally, according to *State of the Nation's Housing 2011*, homebuyer affordability improved markedly in 2010, “as the median home price fell to about 3.4 times the median household income, the lowest level since 1995.”

According to the National Association of Realtors affordability index, home price affordability was at an all-time high in the fourth quarter of 2010.



However, *State of the Nation's Housing 2011* cautions that improved affordability can be acted on “only for those households well-positioned enough to obtain mortgages. ... Recent buyers are thus limited to households with high enough wealth and income to qualify for loans or pay cash.”



Figure 35: In 2011, housing affordability improved for households of 1-, 2-, and 3-persons, but declined for 4+-person households.

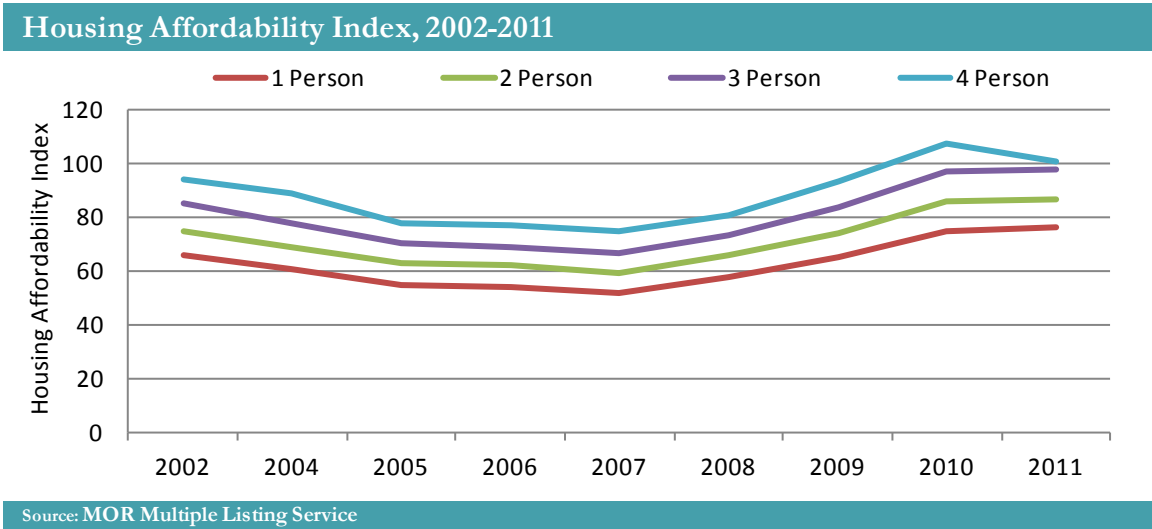


Table 9: In 2011, homes generally became more affordable for the fourth consecutive year.

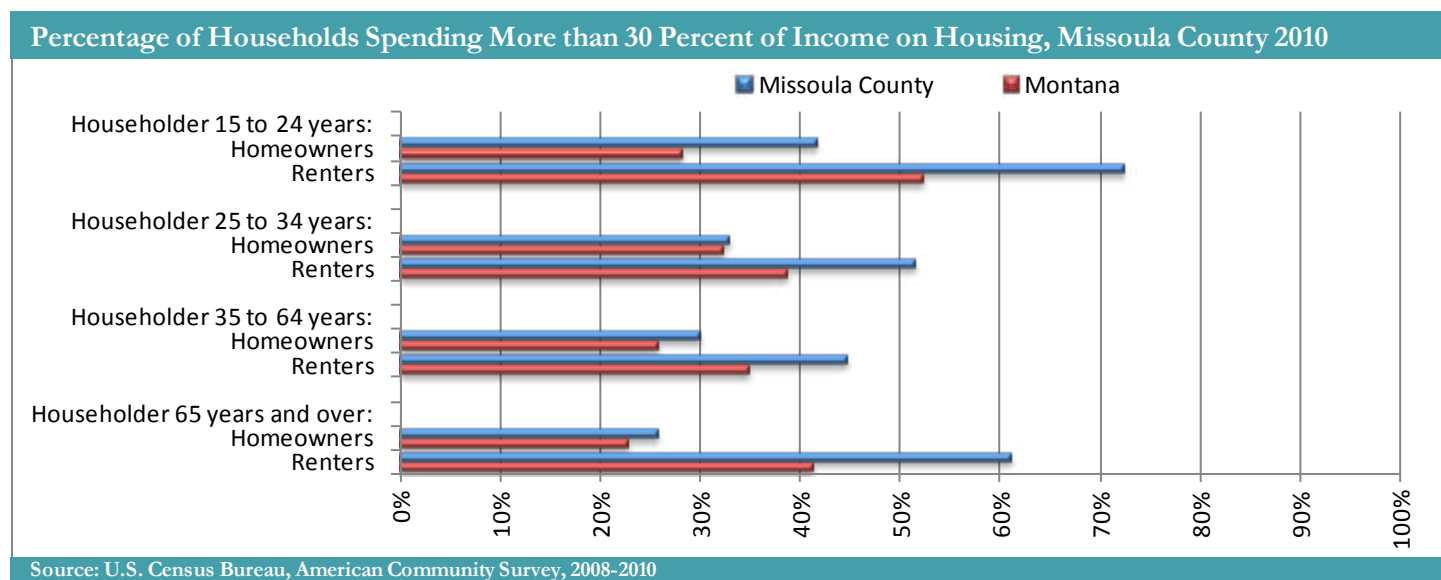
Missoula Housing Affordability Index, 2002-2011							
	2002	2003	2004	2005	2006	2007	2008
Median Home Price (MOR)	\$149,500	\$163,000	\$179,000	\$192,000	\$206,850	\$219,550	\$215,000
Downpayment	10.0%	10.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Interest Rate	5.75%	5.50%	5.50%	6.75%	6.25%	6.00%	5.375%
Median Family Income							
1 person	\$30,000	\$31,600	\$34,200	\$37,000	\$37,400	\$37,800	\$38,800
2 person	\$34,300	\$36,200	\$39,000	\$42,200	\$42,800	\$42,800	\$44,300
3 person	\$38,600	\$40,700	\$43,900	\$47,500	\$48,100	\$48,100	\$48,600
4 person	\$42,900	\$45,200	\$48,800	\$52,800	\$53,500	\$54,000	\$54,000
Housing Affordability Index							
1 person	66	65	61	55	54	52	58
2 person	75	75	69	63	62	59	66
3 person	85	84	78	70	69	67	73
4 person	94	93	89	78	77	75	81
Median Family Income Needed to Purchase Median Priced Home							
Income	\$45,502	\$48,460	\$56,156	\$67,392	\$69,460	\$72,089	\$66,716
Includes taxes and homeowners insurance on a 30 year fixed loan							
Due to frequent changes in regulation, calculations do not include Mortgage Insurance.							
Source: MOR Multiple Listing Service							

### 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 36 shows that a significant percentage of households, divided into four age groups, spends more than the recommended maximum 30% of income on housing.

About one in three homeowners in Missoula County pay more than 30% of their gross income for housing. The problem is especially acute for homeowners age 14 to 24; more than 40% exceed the affordability threshold.

**Figure 36: In all age categories but one, Missoula County homeowners and renters spend more than 30% of income on housing. Only homeowners age 65 and over spend less.**



	2009	2010	2011
	\$208,775	\$200,500	\$205,000
	4.0%	4.0%	4.0%
	5.25%	4.50%	3.75%
	\$41,600	\$43,000	\$41,400
	\$47,500	\$49,200	\$47,300
	\$53,500	\$55,300	\$53,200
	\$59,400	\$61,400	\$59,100
	2009	2010	2011
	65	75	76
	74	86	87
	84	97	98
	93	107	101
	\$63,992	\$57,226	\$54,384

Renters in general pay an even greater share of their gross incomes on housing. Half of renters spend more the 30% of their income on housing. More than 70% of younger renters, many of whom are students, pay more than 30% of their income in rent.

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 steep advance in the 1990s and 2000s, with many of them having paid down most or all of their mortgages.

Harvard’s *State of the Nation’s Housing 2011* notes that, “while lowest-income households are most likely to have severe housing cost burdens, the problem has moved up the income scale. Among households with real incomes under \$15,000, 66.4% were severely burdened in 2009—an increase of 4.8 percentage points from 2001. But shares among households with incomes in the \$15,000–30,000 range were also up 6.6 percentage points over the decade, to 27.7%. Households with incomes of \$30,000–45,000 saw a 4.2 percentage point increase, bringing the severely cost-burdened share to 11.5%.”

*State of the Nation’s Housing 2011* adds, “With their generally lower incomes, renters are more than twice as likely as owners to pay more than half their incomes for housing, but shares of both groups rose substantially between 2001 and 2009.”

## Unemployment

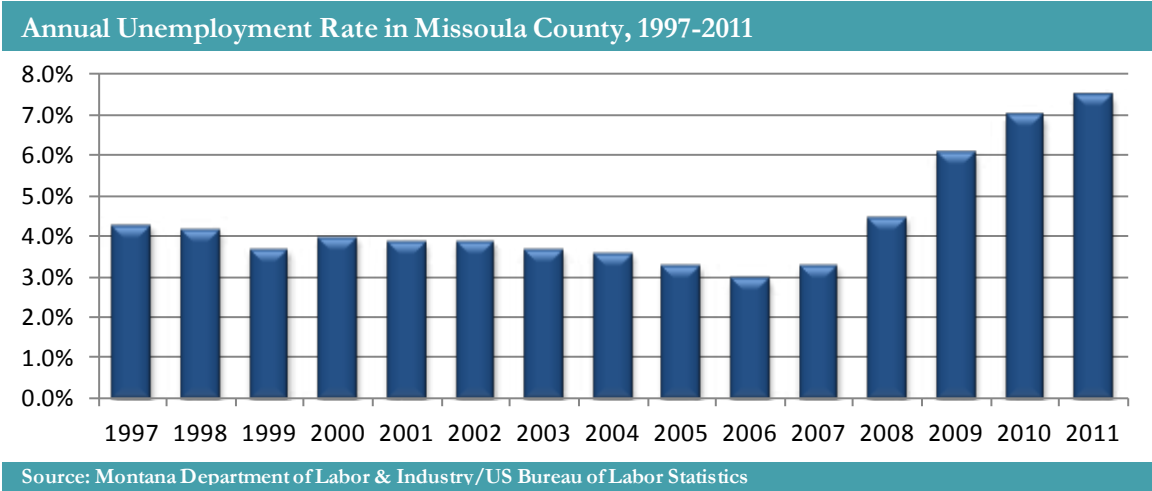
The unemployment rate measures the proportion of persons who are in the labor force (that is, seeking a job) but currently out of work. Figure 37 shows that Missoula County’s annual unemployment rate increased in 2011 for the fifth

consecutive year, after staying below 4% for nine consecutive years.

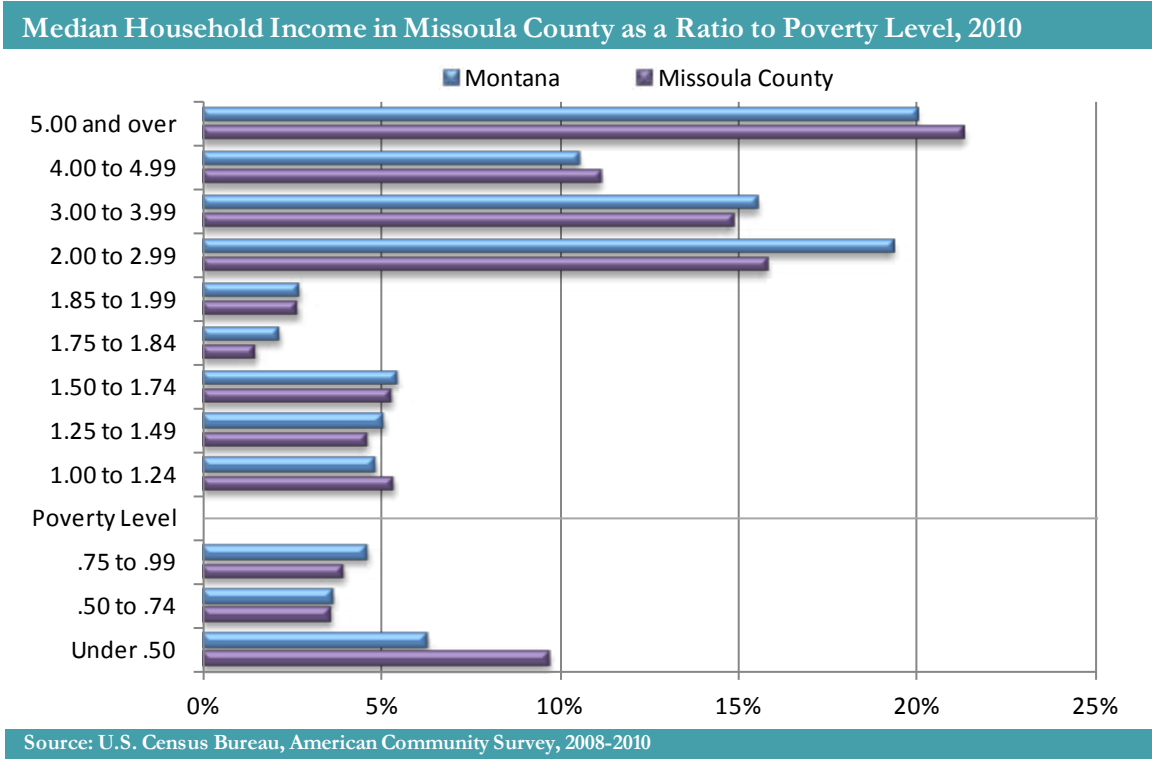
However, Missoula’s year-end unemployment (Dec. 31, 2011) stood at 7.2%, down from the year-earlier rate of 7.4%. The year-end rate, for the second year in a row, was higher for Missoula than the state’s 6.8% rate. Both the county and state year-end unemployment rates stood below the 8.5% national rate.

Missoula’s unemployment rate is also less than that of each of its seven bordering counties, where year-end unemployment rates ranged from 8.6% to 15.2%.

**Figure 37: Missoula’s annual unemployment rate for 2011 increased for the fifth consecutive year, but the 2011 year-end unemployment stood at 7.2% versus a year-end 2010 rate of 7.4%.**



**Figure 38: Missoula County has a larger percentage of its population than the state as a whole at the extreme levels of wealth and poverty.**



### Poverty

The Census Bureau computes so-called “poverty thresholds” each year – thresholds commonly known as the Federal Poverty Level. Poverty thresholds vary by the number of persons in the household and (for one and two-person households) by age.

Using the established poverty thresholds and measuring the income of Missoula households yields Figure 38, which shows where household income stands relative to the government-set poverty thresholds.

Almost 20% of Missoula County households live under the Federal Poverty Level, compared with 15% of Montana households.

The figure indicates that about 16% of Missoula County households have incomes below the poverty threshold that corresponds to their household size and age

(represented by the lowest three bars on the chart, where 1.0 is equal to the income level established as 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 students, who tend to earn little or no income, probably exaggerates our local poverty rate.

A slightly higher percentage of county households has incomes that range from the poverty threshold (1.0) to double the threshold (2.0). Nearly 65% of county households have incomes of double the poverty threshold or higher.

Missoula has a more pronounced income disparity than the state of Montana as a whole, with a greater share of households under half the poverty threshold (0.5) as well as a greater share in the top category of over five times the poverty threshold (5.0).



## Rental Assistance Programs

The Missoula Housing Authority (MHA) has 774 available Section 8 vouchers that subsidize rent to private landlords for eligible participants. Another 262 vouchers are provided in Missoula by the Montana Department of Commerce. Combined availability of these vouchers, which are inadequate to meet needs in a healthy economy, is further strained by the continued economic downturn, as tenant incomes are reduced and funding for vouchers have been reduced as well.

35 new affordable units became available in November 2011 and were immediately leased. In 2011, with funding constrained and low turnover of vouchers, MHA was not able to issue any new vouchers for the entire calendar year. As a result, waitlists and wait times continued to lengthen.

In December 2011, the unduplicated number of households on MHA waitlists was 2,030, up from 1,944 the previous year, and 1,079 in 2007. The number of households on the Section 8 waiting list was 1,845, up from 1,653 last year and 1,063 in 2007.



Funding for homeless programs has been steady, and the number of homeless individuals on two waitlists for homeless were 141, and 114, a slight improvement from last year's 155 and 114. MHA has applied for a modest increase in the number of vouchers it provides for homeless households in 2012.

The forecast for 2012 otherwise has few bright spots. Federal funding for housing programs has been drastically cut, which may mean reduced number of units supported and certainly will mean fewer new units provided. On the other hand, one new project, Silvertip, a private-public partnership between MHA and Rocky Mountain Development Group providing 115 units of low-to-moderate income housing—including 20 units of public housing—will go online this summer.

**Table 10: Average contract monthly rent for voucher holders increased significantly for all home sizes.**

Average Contract for Voucher Holders (Shows rent trend in units affordable to voucher holders-both market rate & subsidized)				
Year	Studio	1 Bedroom	2 Bedroom	3 Bedroom
2007	\$408	\$479	\$560	\$724
2008	\$432	\$504	\$581	\$754
2009	\$384	\$518	\$602	\$778
2010	\$400	\$528	\$609	\$783
2011	\$468	\$544	\$664	\$890
Source: Missoula Housing Authority				

**Table 11: Waiting lists for public housing lengthened in 2011.**

Waiting Lists	2007	2008	2009	2010	2011
MHA Unduplicated	1,079	1,410	1,829	1,944	2,030
MHA Sec 8 Voucher	1,063	1,315	1,669	1,653	1,845
MHA Homeless Project 1	112	103	136	155	141
MHA Homeless Project 2	59	159	118	114	114
Source: Missoula Housing Authority					

# Conclusion & Outlook



Today, both a pessimist and an optimist could find persuasive indicators to satisfy their outlooks for the Missoula housing market.

The pessimist might cite data indicating a continuation of the downturn, such as the still-declining annual number of existing home sales, the now 6-year slide in the number of single family building permits issued by the City of Missoula, the persistently high county unemployment rate, and continuing declines in inflation-adjusted income.

The optimist might counter by pointing to data giving hints that a meaningful recovery in the local housing market and the overall economy may at last take hold, such as the year-long 2011 increase in median sale prices of existing homes, an all-time historic low in mortgage interest rates, signs of a clearing from the home sales market of foreclosures and short sales, and late-2011 plus early-2012 declines in unemployment at all levels – local, state, and national.

Clearly, the data send mixed signals. But that, in itself, is a hopeful sign, as the past three of our annual reports to the community, for 2009 through 2011, contained very little data supporting an optimist's perspective on the near-term future. Today, for example, much more so than in recent years, we can have greater confidence that our housing market, as well as our overall economy, is likely to escape a ruinous “double-dip” downturn.

Which is not to say that we are free of grave concerns – perhaps most prominently, affordability of decent housing. While our local housing market, like the national market, has seen several years of increasing affordability, the impact of those gains in Missoula has been much weaker than in the U.S. as a whole.

In this regard, the local rental market is especially worrisome. Rental prices, both in our region and nationally, have firmed considerably over the past year. Though the increase is moderate, it exceeds the inflation rate, while income gains have lagged the inflation rate. And in this time of severely strained government budgets, prospects for increased assistance from public programs – locally, statewide, or nationally – are at best dim and at worst nil.

Harvard's *State of the Nation's Housing 2011* observes that “income gains have lagged housing costs for decades for an increasing share of renter households, and affordability pressures are making their way up the income scale. Rising demand is already pushing rents higher while stubbornly high unemployment is keeping the lid on wage increases. If these trends continue, affordability problems will worsen as the economy recovers.”

Concerning that economic recovery, one of the few certainties the data provide is that it is the weakest ever experienced – in no small measure owing to the absence of a pronounced turnaround in housing. For most Americans, the Great Recession's officially declared end-date of June 2009 and 34 months since of recovery seems ludicrous.

Experts at the national and local levels have been confounded by the feebleness of recovery. Billionaire investment guru Warren Buffett admitted in February 2012 that he was “dead wrong” in his 2011 forecast that the U.S. housing market would begin to recover by now. In the same month, Patrick M. Barkey, Director of the Bureau of Business and Economic Research (BBER) at the University of Montana, said that Montana's economic recovery “remains stuck at the starting gate” – citing data showing that the state's economy actually slowed down in 2011 after having grown in 2010 (*Big Sky Business Journal*, Feb. 21, 2012).

Nonetheless, our consensus opinion remains, as in the past, that the Missoula market has telling advantages that help us cope better in these difficult times. One of these is the lesser severity of decline locally versus nationally, in the overall economy generally and in the housing market specifically. Another advantage is that Missoulians are resilient and pragmatic people: When confronted with challenges such as those of recent years, we collectively roll up our sleeves and say, “Let's make things better.”

In 2011, particularly its final months, and early 2012, we began to see signs of success in that effort. With your help, those signs will proliferate this year and beyond.





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