2014 Missoula Housing Report

CURRENT KNOWLEDGE, COMMON WISDOM: GROWING A MISSOULA TO TREASURE

RELEASED APRIL 17, 2014

A COMMUNITY SERVICE PROVIDED BY THE MISSOULA ORGANIZATION OF REALTORS®

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 2013 in most cases, but 2012 or even 2011 when more recent figures are not 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, 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 for the estimates 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 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), Harvard's The State of the Nation's Housing 2012, 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.

REALTOR®

NARPM®
National Association of Residential Property Managers

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Message from the Coordinating Committee

We are pleased to present the 2014 Missoula Housing Report, our ninth annual report on housing in the city and county of Missoula. This year's report, as with previous reports, represents the collaborative efforts of the Coordinating Committee for the Housing Report. Committee membership is drawn from the Missoula regional community, with members who represent a wide spectrum of businesses, organizations, agencies, and individuals concerned with our local housing market.

The content of each year's report evolves based on the following:

- Current trends
- Available information
- Feedback from readers like you

Our objective is always 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. Changes to this year's report include discussions of low income housing and homelessness in our community. We continue our discussion on distressed sales this year, which is proving to be a less significant issue than in years past.. In previous years, we added neighborhood information and more detail on what is happening in housing finance. 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

Collin Bangs, Prudential Missoula Real Estate
Brint Wahlberg, Windermere Real Estate
Jim McGrath, Missoula Housing Authority
Jim Sylvester, UM Bureau of Business & Economic Research
Michael Moore, United Way
Tom Chapman, Professional Property Management
Kellie Battaglia, Homeword
Vicki Corwin, Stewart Title
Colleen Cebula, First Interstate Bank
Ruth Link, Missoula Organization of REALTORS

Executive Summary

Housing Supply: Development and Occupancy

The number of building permits issued by Missoula County and the City of Missoula increased in 2013. Both single-family and multi-family permits increased while remained steady. In the City of Missoula, the number of multi-family permits increased from 132 to 290 in the past year. The number of single family permits also increased for the second year in a row from 115 to 144.

The number of residential lot sales increased to 67 from 36 just three years ago. In addition, the average lot price increased for the third year in a row as well, to $75,000.

In Missoula County, approximately 60 percent of residents live in homes they own, and about 40 percent are renters. The trend is much different in the City, with just 46 percent of residents living in homes they own.

Housing Demand: Population and Income

About 60 percent of Missoula County's population are between the ages of 20 and 59. The two largest age groups are baby boomers and echo boomers. The population is balanced and middle-aged, with neither a large number of children, nor many elderly people. There are slightly more females than males in most age groups.

Missoula County has grown 17 percent since 2000 and 0.9 percent in 2013. Missoula City has grown 19 percent since 2000. The pace of migration into Missoula County dipped several hundred residents in 2013, while still remaining positive.

Missoula County median household income is similar to the state median, but below the US median. Missoula homeowner median income is greater than the state average, while Missoula renter median income is lower than the state average.

Rental Housing

Rental vacancies in Missoula remain below the national average in all categories, owing in part to the student population. However there was a marked increase in vacancies across the board as new housing units continue to arrive on the market.

Rental prices increased in 2013. The average cost of rent increased, just slightly for all housing categories. A two bedroom multiplex's rent increased just $3, from $735 in 2012.

Funding cuts prevented some Missoula Housing Authority voucher holders from receiving assistance. MHA wait-lists approached 2,000 households by the end of 2013.

Housing Sales and Prices

The number of homes sold in Missoula increased in 2013, especially within the $150,001–$275,000 price range. The median home price in the Missoula Urban Area increased to $215,000 from $209,700. Sales of condominiums and townhouses were stronger in 2013, increasing in every price range.

Home prices in Missoula are slightly higher than the state average. They are significantly higher than in Great Falls and Billings and in the mountain states region. They have risen less rapidly, but also have not been as volatile as other mountain states over the past decade. Missoula's median price rose faster than those in the US.

The Mullan Road/Expressway and Central Missoula neighborhoods led the rest of the city in higher home sales. Only the University Area/Slant neighborhood posted lower home sales in 2013.

The Missoula Urban Area had a 23.8 percent increase in overall home sales from 2012 to 2013. This increase represents a 50.5 percent increase in the number of residential sales since Missoula's low in 2011, and is 264 sales short the highest number of units sold, in 2006.

Housing Finance

Mortgage interest rates increased to 4.75 percent during 2013. Numerous regulatory changes affected borrowers, but knowledgeable lenders can help explain them. One of those changes, mortgage insurance, is an extra cost associated with buying a home. It usually increases the amount buyers spent overall, but in some cases, it can be tax deductible.

The down payment for most conventional loans is usually 5 percent or more. Other loan programs allow buyers to pay a smaller down payment, but they may not be the right choice for everyone.

Missoula foreclosures are at their lowest rate since 2007, with more short sales but fewer distressed sales overall.

Many Missoula residents participated in homeownership programs like Homeword's homebuying counseling and financing counseling. This is encouraging because studies show that homeowners who seek this kind of counseling frequently enjoy better housing stability.

Housing Affordability

Missoula's Housing Affordability Index (HAI) decreased in 2013. The new data includes the cost of mortgage insurance in calculations. The number of homeowners and renters spending over 35 percent of their income on housing fell 9 percent since 2008.

In 2013, Missoula County's unemployment rate dropped to 5.1 percent. While Montana's unemployment rate is lower than the national average, it is still almost twice what it was before the economic crisis began. The percentage of Missoula residents living beneath the Federal Poverty Level decreased in 2012 to under 14 percent, the lowest rate in 8 years.

In 2013 an initiative called "Reaching Home: Missoula's 10-Year Plan to End Homelessness" began in earnest. It moves away from a shelter model to a "Housing First" model. Missoula nonprofits will dispense more than $200,000 in rental assistance this year.

Missoula is experiencing a troubling increase in the number of homeless and at-risk children. The number of children in such circumstances rose 30 percent in one academic year.

Conclusion and Outlook

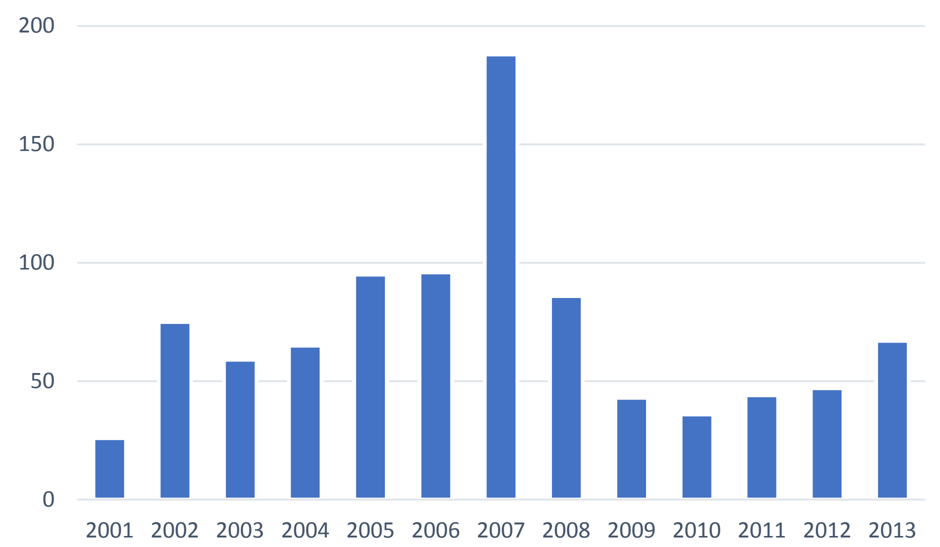
While a there are several areas of concern, the general outlook for Missoula's housing market is good. One of the biggest challenges we face as the market rebounds is the drastic decrease in affordability. Increasing interest rates and home prices coupled with decreased income could prove to be a challenge for future buyers.

The most encouraging data includes continued development, fewer distressed sales, low vacancy rates, greater interest in homeownership counseling, and more focus on fighting homelessness. The Missoula Organization of REALTORS® is excited to report that Missoula's housing market should continue to strengthen in 2014.

Housing Supply: Development and Occupancy

Figure 1: The number of lots sold increased for the third consecutive year.

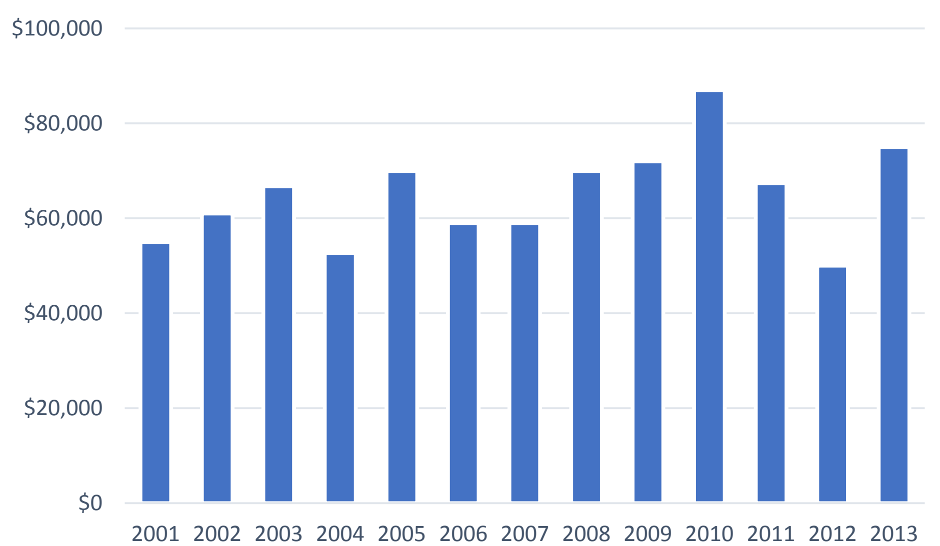
Number of Residential Lots Sold, 2001-2013



Source: MOR Multiple Listing Service

Figure 2: The median residential lot price rose to the highest level since 2010.

Median Price of Residential Lots Sold, 2001-2013



Source: MOR Multiple Listing Service

Lot Development

The number of lot sales (Figure 1) and the median lot price (Figure 2) both increased this year for two reasons:

First, over the past three years, distressed developments sold most of their inventory. The majority of foreclosed lots have been sold and remaining property is closer to the market rate.

Second, there is a decreased supply of existing housing. Fewer buyers found what they wanted, so many decided to build.

Pace of Development

The easiest way to measure the pace of development is by evaluating the number of building permits issued.

Overall, Missoula City issued significantly more building permits in 2013 than in 2012. Multi-family development bounced back in 2013 after a decrease in 2013 and represents a majority of new development. Single-family development also increased while duplex development dropped slightly (Figure 3).

The same trend occurred in Missoula County as well, although single-family represented the majority of development. This was the highest level since 2010, though remaining well below 2007 levels (Figure 4).

Table 1: There was a significant increase in 2013 home sales, and the median lot price increased 50 percent.

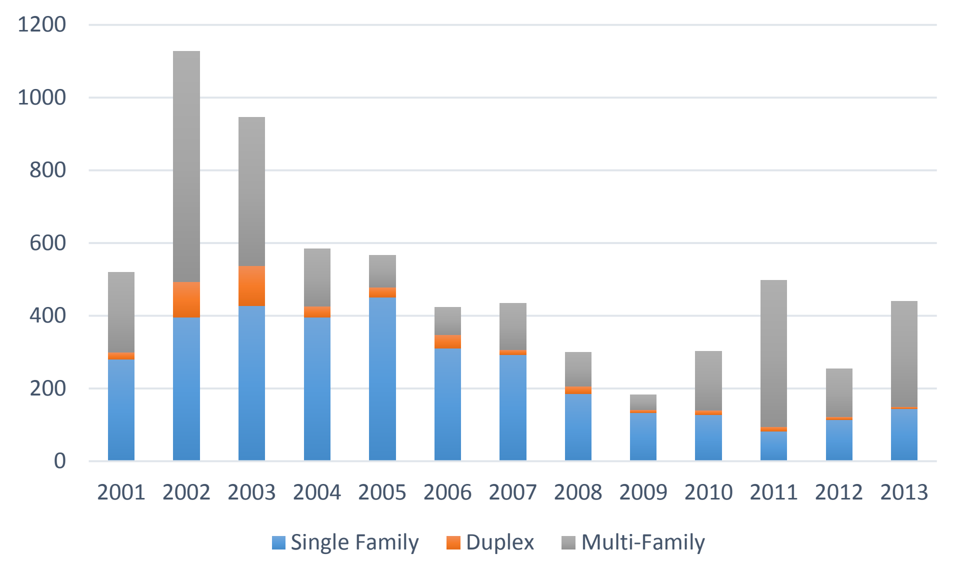
Residential Lot Sales, Missoula Urban Area

Year	Lot Sales	Percent Change	Median Price	Percent Change
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%
2009	43	-50.0%	$72,000	2.9%
2008	86	-54.3%	$70,000	18.6%
2007	188	95.8%	$59,000	0.0%
2006	96	1.1%	$59,000	-15.7%
2005	95	46.2%	$70,000	32.7%
2004	65	10.2%	$52,750	-21.0%
2003	59	-21.3%	$66,750	9.4%
2002	75	188.5%	$61,000	10.9%
2001	26	n/a	$55,000	n/a

Source: MOR Multiple Listing Service

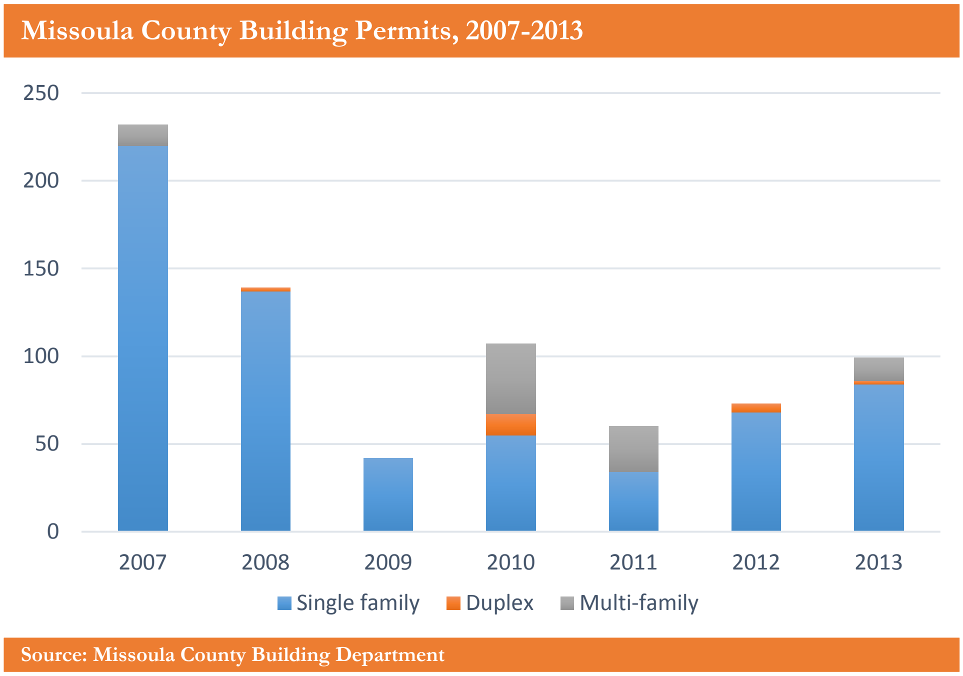
Figure 3: Both multi-family and single-family development increased in Missoula City in 2013.

City of Missoula Building Permits, 2001-2013



Source: City of Missoula Building Department

Figure 4: Missoula County single-family and multi-family development increased in 2013.

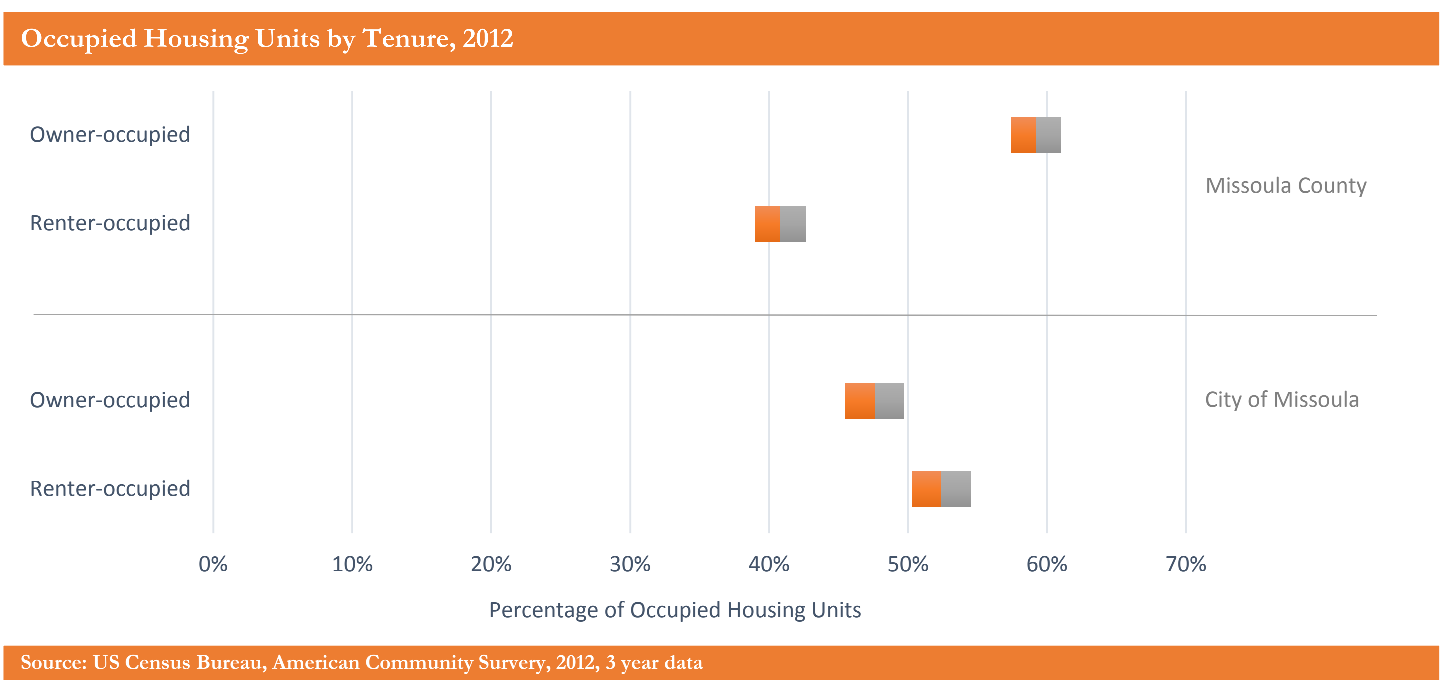


Homeowner and Renter Occupancy

Approximately 60 percent of Missoula County residents live in homes they own, as measured by the US Census Bureau American Community Survey 2012, with the other 40 percent renting (Figure 5). In Missoula City, the trend is reversed, with slightly more renters than owners. The most current data at the time of printing is from 2012. The percentage of renters did not change significantly from 2011, which represents a small plateau following several years of growth.

Nationally, 65 percent of Americans live in homes they own, with 35 percent renting. Missoula's higher renter population compared to the national average is partly due to the student population at the University of Montana.

Figure 5: Approximately 40 percent of Missoulians rented their homes in 2012, with little change since 2011.



Housing Demand: Population and Income

Age Distribution

The University of Montana continues to figure prominently in the age distribution of the Missoula County population. In 2012, approximately 12.5 percent of males and females were between the ages of 20 and 24. Another 8.7 percent, known as echo boomers, were between 25 and 29. This generation, which is even larger than its baby boomer parents, will play a significant role in the market over the next 15 years. Baby boomers, ages 46–64, make up approximately 25.9 percent of Missoula's population (Figure 6).

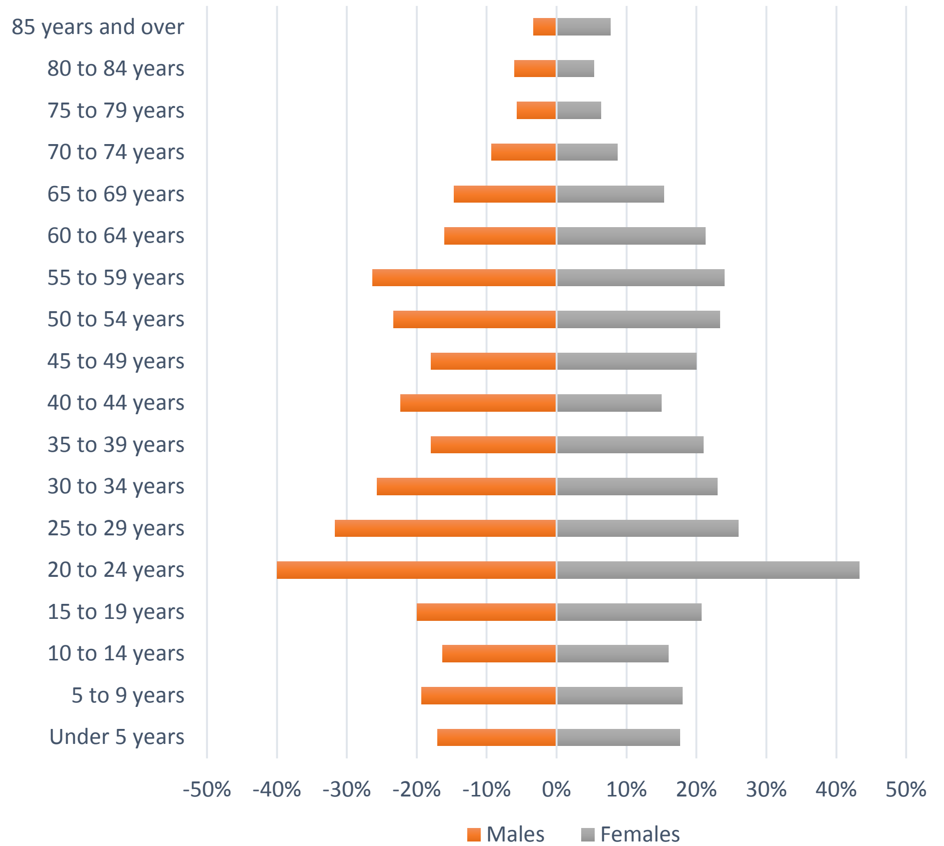
Population Dynamics

There is a relationship between population and housing demand. The size of a population demands a certain number of housing units, but the number of available housing units also determines a community's ability to accommodate growth.

The population in Missoula County grew 17 percent between 2000 and 2013. Missoula City grew 19 percent over the same period, which is slightly faster than the unincorporated areas of the county. County-wide growth in 2013 was approximately 0.9 percent over the previous year (Figure 7).

Figure 6: Two dominant age ranges, 20-34 and 45-64, make up a majority of Missoula's population.

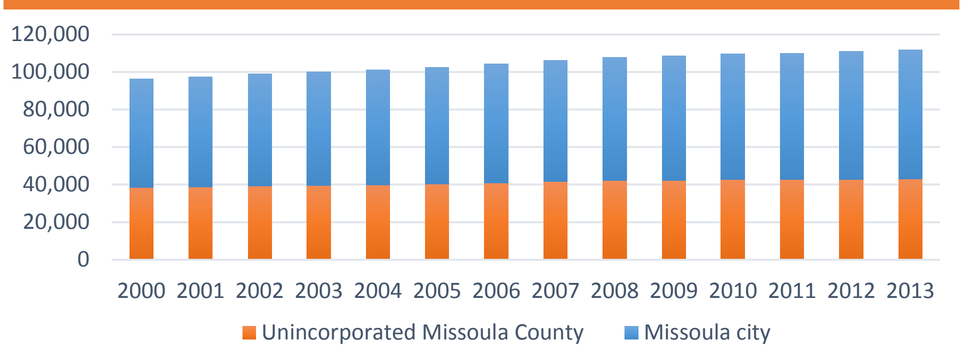
Population Pyramid, Missoula County, 2012



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

Figure 7: Missoula County's population continued to increase steadily.

Population, Missoula County, 2000-2013



Sources: US Census Bureau , UM Missoula-Bureau of Business and Economic Research

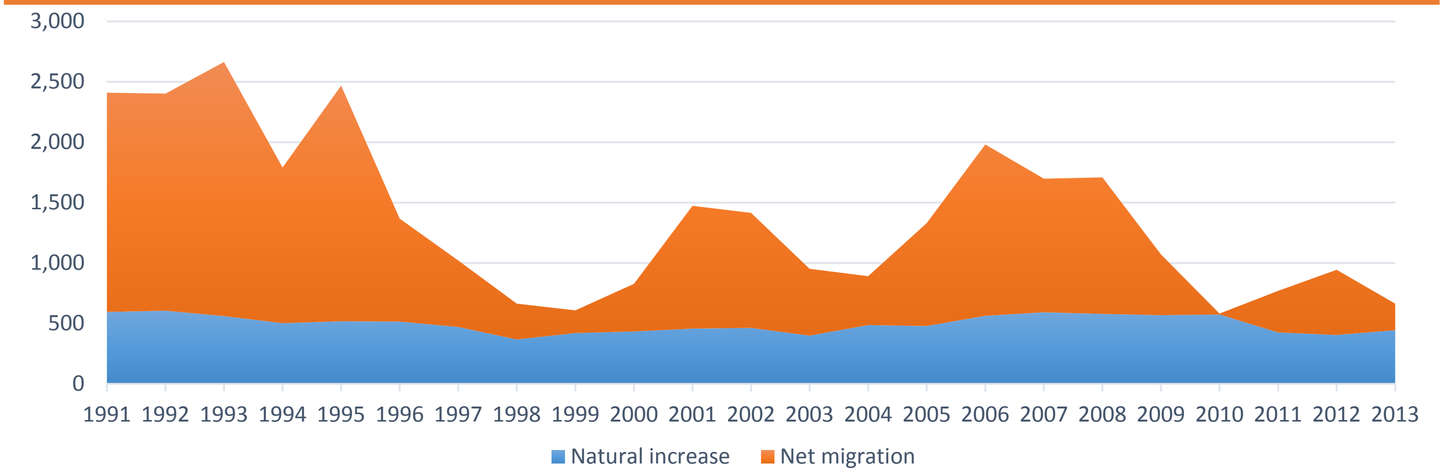
Migration

Three factors influence population growth: birth, death, and net migration. Birth and death are referred to as natural factors, while those moving to and from the area are referred to as net migration.

In Missoula County, natural factors have only slightly increased the population since 2012. Net migration, however, has dipped several hundred residents (Figure 8).

Figure 8: Net migration dropped in 2013.

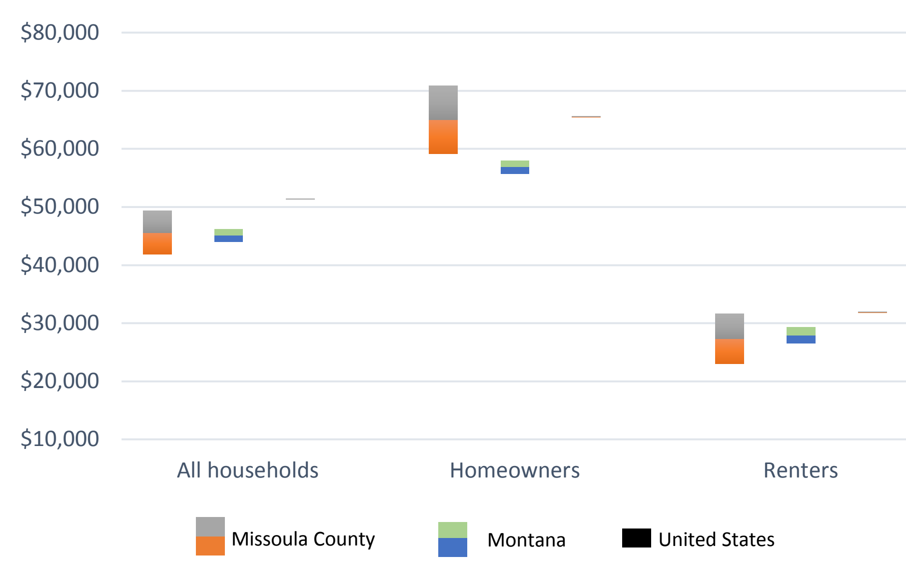
Components of Population Change, Missoula County, 1991-2013



Sources: US Census Bureau and University of Montana-Missoula, Bureau of Business and Economic Research

Figure 9: Missoula's overall median income is similar to the rest of Montana, though Missoula homeowners' median income is higher than the state average.

Median Income, 2012



Source: US Census Bureau, American Community Survey

Income Trends

In 2012, median household income in Missoula County was about the same as the state level, but significantly below the US median. Missoula County homeowners' median income was statistically similar to the national average, but was significantly higher than other Montana homeowners' median income.

Missoula renters' median income was about the same as Montana renters' median income and well below the US median income (Figure 9).

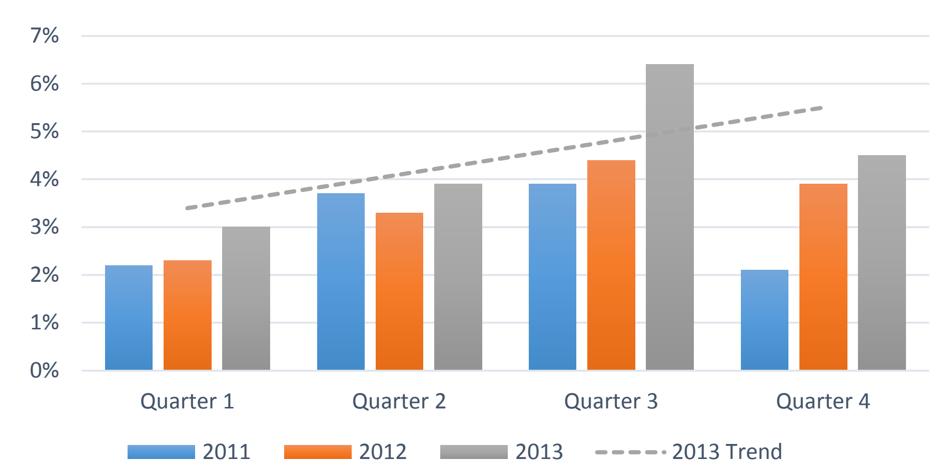
Rental Occupancy

As new units came into the marketplace in 2013, the rental market experienced an overall increase in vacancy rates. The annual vacancy rate grew to 4.6 percent from 3.5 percent in 2012 (Figure 11).

The vacancy rate increased in all 4 quarters and spiked in the 3rd quarter of 2013 to 6.4 percent, which is a difference of 2 percent from 2012. The trend line for 2013 indicates vacancy rates are once again rising (Figure 10). Given the number of new multiplex rental units that opened in 2012 and 2013 and the new units opening in 2014, vacancy rates will likely increase next year.

Figure 10: While rental vacancies generally decrease during the fourth quarter, the 2013 trend continued to increase overall.

Rental Vacancy Rates by Quarter, 2011-2013



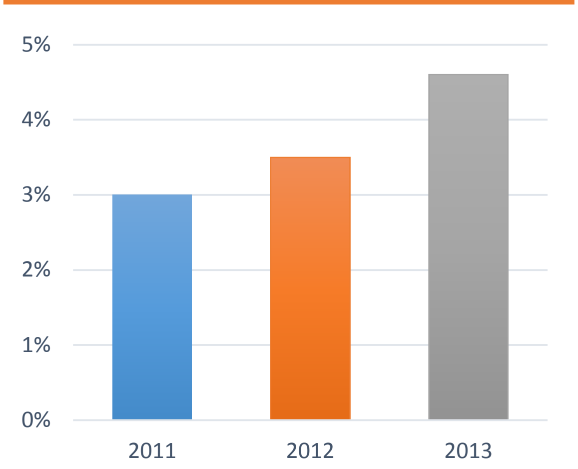
Source: Western Montana Chapter of NARPM

The majority of the building has been two bedroom multiplexes.

With the development of multi-family housing in the recent years, there has been interest in the overall vacancy rates and particularly in two-bedroom units. Vacancy rates for two-bedrooms are on the

Figure 11: With the multi-family development, we've seen a 1.6% increase in overall vacancy

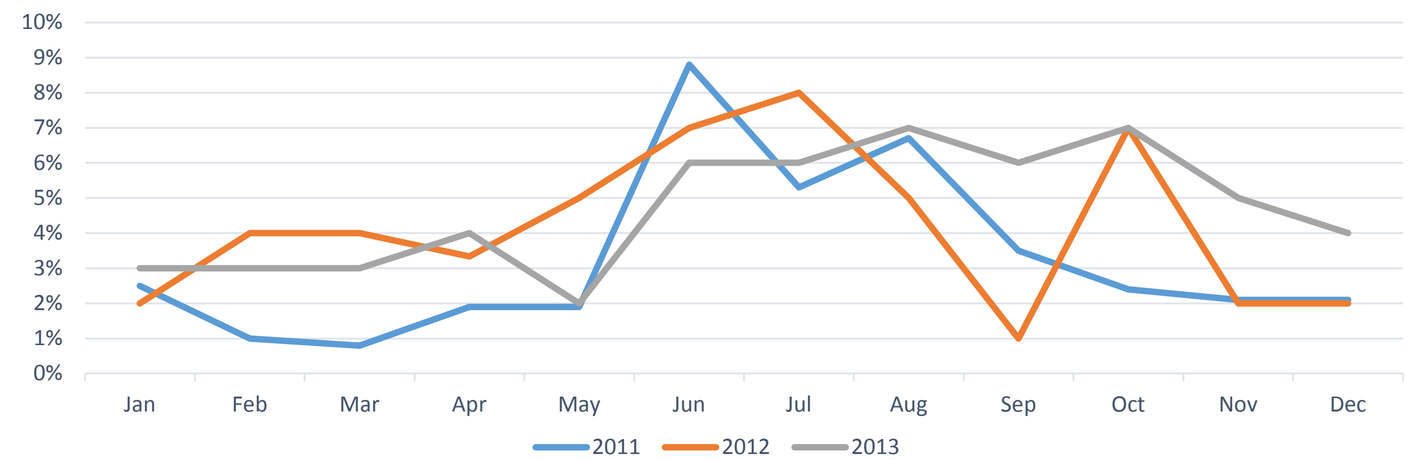
Annual Rental Vacancy Rates, 2011-2013



Source: Western Montana Chapter of NARPM

Figure 12: Two-bedroom units in multiplexes comprise most new development, causing higher vacancy rates.

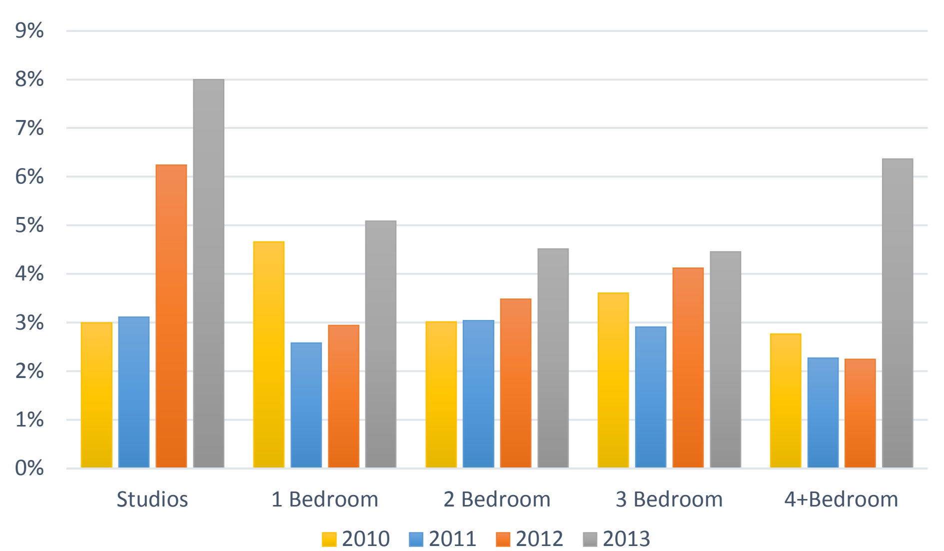
Rental Vacancy Rates by Quarter, 2011-2013



Source: Western Montana Chapter of NARPM

Figure 13: The 2013 rental vacancy rate increased for all unit types, with one bedroom vacancies almost doubling and 4+ bedroom vacancies tripling.

Rental Vacancy Rates by Type, 2010-2013



Source: Western Montana Chapter of NARPM

rise. In comparing December 2012 vacancy rate of 2 percent to December 2013 vacancy rate of 4 percent, we see that the vacancy rate has doubled in just one year.(Figure 12).

Rents in Missoula changed little and vary either up or down only a few dollars from previous years. Some factors, like marketing incentives, are not included in these figures.

Harvard's The State of the Nation's Housing 2013 reported the national rental vacancy rate dropped to 8.7 percent in 2012, compared to Missoula's average vacancy rate of 3.5 percent at the time. Although vacancy rates are still below the national average across all categories, some segments took a significant jump in 2012 with the continued development of multi-family units. The vacancy rate of studio units increased again in 2013 (Figure 13).

Low rental vacancy rates are common in college towns due to the pressure exerted by the student population. College towns such as Bozeman and Ft. Collins, CO also have vacancy rates well below the national average.

Rental Prices

Although there is an slight increase in most rental prices from 2012 to 2013(Figure 14), the reporting practices do not take into account incentives or tenant negotiation. Some owners are willing to negotiate move-in bonuses, a month's free rent, and other tactics in an effort to attract renters.

Rental Assistance Programs

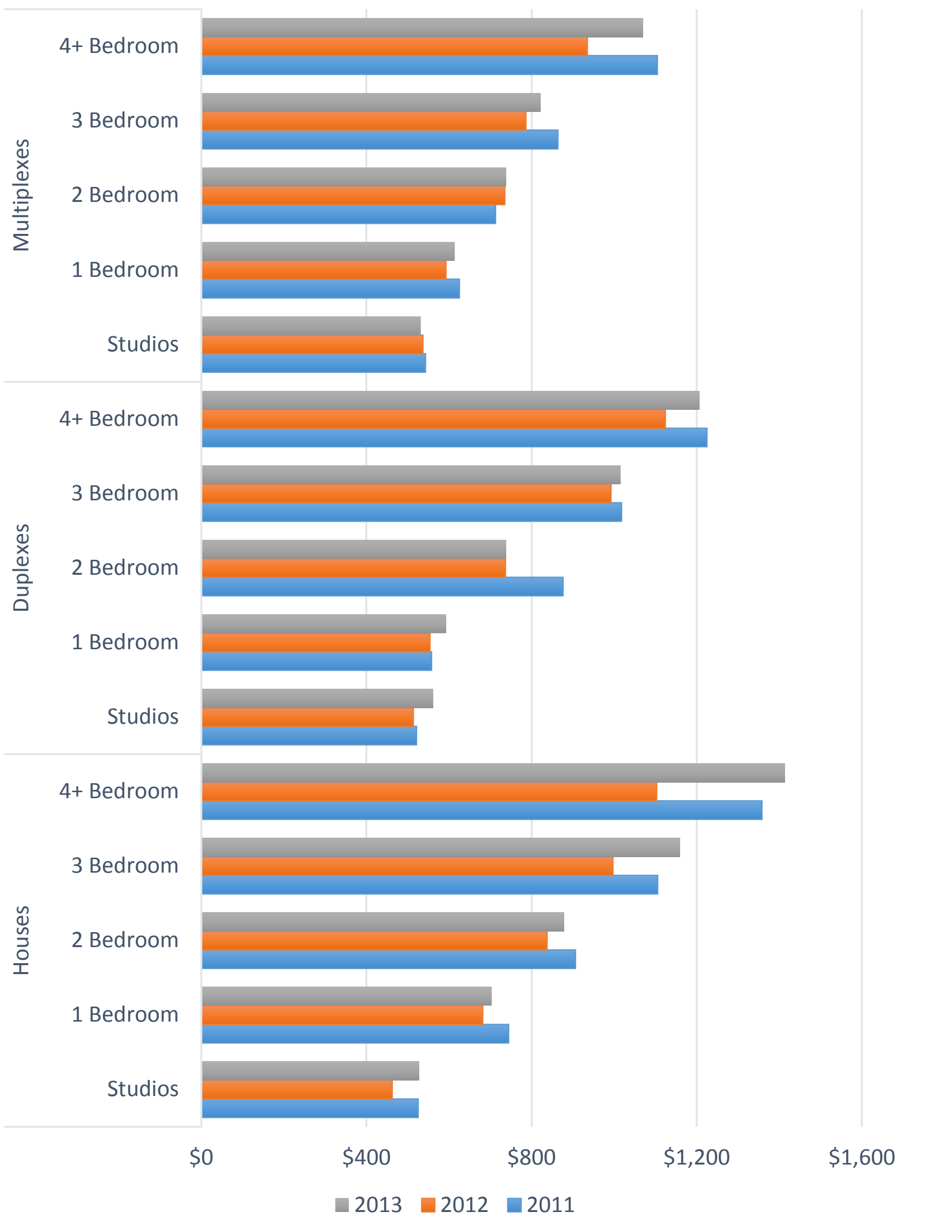
The Missoula Housing Authority (MHA) has 774 Section 8 Housing Choice Vouchers available that subsidize rent to private landlords for eligible participants. Another 262 vouchers are provided in Missoula by the Montana Department of Commerce.

However, funding cuts meant that not all of those vouchers could be deployed; for example, MHA could support only 733 vouchers—a loss of 40 families being served. In fact, MHA did not issue vouchers to new families for most of the year.

In December 2013, the unduplicated number of households on MHA wait-lists was 1,995, up from 1,920 in 2012. The number of households on the voucher waiting list also increased over the same period, rising to 1,879 from 1,756.

Figure 14: House rental cost increased in every category. Duplexes and multiplexes with 4+ bedrooms had higher rent increases than smaller units.

Average Cost of Rent, 2011-2013



Source: Western Montana Chapter of NARPM

MHA received a modest increase in the number of vouchers it provided for homeless households in 2012. The number of vouchers for homeless is up to 112, from 101 in 2010 and 96 in 2007. The number of homeless individuals on the wait-list for those vouchers was 83, down from last year's 111 (Table 2).

In June, one of MHA's public housing complexes burned down, taking 41 units offline. However, none of the tenants were displaced as MHA relocated them. Rebuilding is underway and will be completed in 2014.

Section 8 Housing Choice Vouchers make private-market housing affordable for low-income families and individuals by paying a portion of the rent in market rate properties. The average rent being charged for these families continues to climb except in studio apartments, which is a small portion of recipients (Table 3, Figure 15).

Table 2: The waiting lists for MHA Unduplicated and MHA Section 8 Vouchers have increased by 4 percent and 7 percent respectively. This year, two fewer families remain on the MHA Homeless Project 1 waiting list.

MHA Wait Lists							
Waiting Lists	2007	2008	2009	2010	2011	2012	2013
MHA Section 8 Voucher	1,063	1,315	1,669	1,653	1,845	1,756	1,879
MHA Homeless Project	112	103	136	156	141	85	83
Total Unduplicated	1,079	1,410	1,824	1,944	2,030	1,920	1,995

Source: Missoula Housing Authority

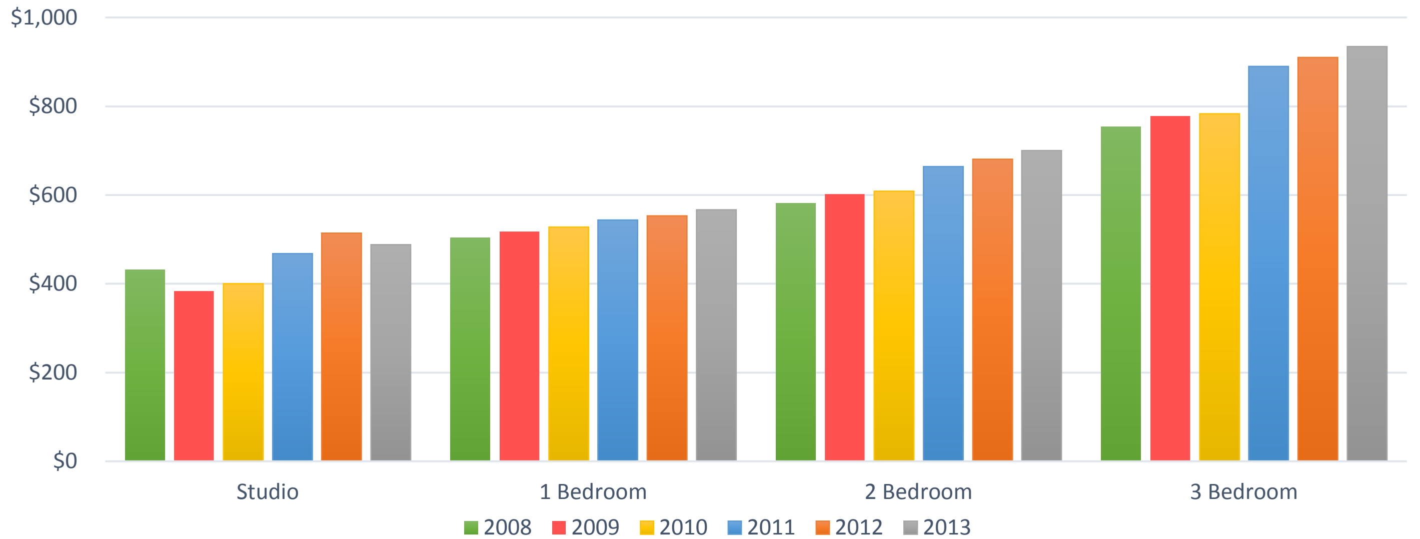
Table 3: While the contracted studio rent for voucher holders decreased, larger rental unit voucher holders spent more over last year.

Average Contract Rent for Voucher Holders				
Year	Studio	1 Bedroom	2 Bedrooms	3 Bedrooms
2013	$488	$567	$700	$935
2012	$514	$553	$681	$910
2011	$468	$544	$664	$890
2010	$400	$528	$609	$783
2009	$384	$518	$602	$778
2008	$432	$504	$581	$754

Source: Missoula Housing Authority

Figure 15: Most voucher holders have seen contract rent increase every year since 2008. The latest term increase was not significant, though studio renters saw prices drop back below $500 per month.

Average Contract Rent for Voucher Holders, 2008-2012



Source: **Missoula** Housing Authority

Housing Sales and Prices

Home Sales in 2013

The number of homes sold in Missoula increased by 23 percent in 2013. A total of 1,322 homes were sold, up from 1,068 in 2012 (Table 4 and Figure 16). The number of homes sold is just 264 short of its highest number in 2006. These trends are expressed quarterly in Figure 17. The median price of homes sold increased by 2.5 percent to $215,000 (Table 4 and Figure 18). The median price is just 2 percent less than its height in 2007. Since the lowest median price in 2010 of $200,500, the market has seen a steady increase, amounting to a total of 7 percent in three years.

Home sales were strongest in the $150,001–$275,000 price range. This makes sense given the median price of homes in Missoula. These homes also saw the highest sales increase over 2012 (Figure 19).

Table 4: Missoula home sales increased in number and in median price.

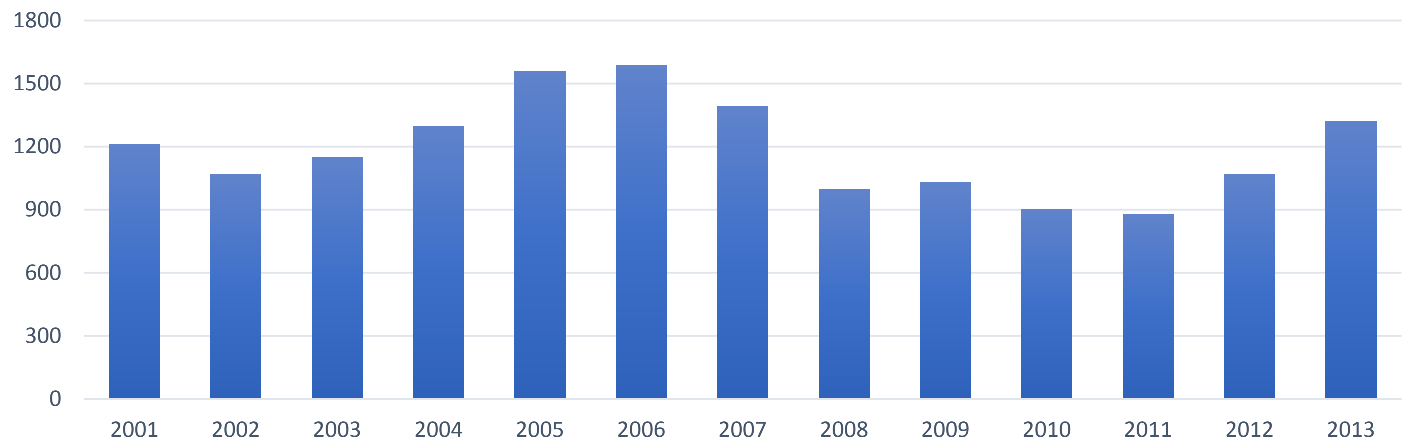
Sales Activity in Missoula Urban Area, 2001-2013

Year	Number of Sales	Median Prices	% Change
2013	1,322	$215,000	2.5%
2012	1,068	$209,700	2.3%
2011	878	$205,000	2.2%
2010	903	$200,500	-4.0%
2009	1,033	$208,775	-2.9%
2008	996	$215,000	-2.1%
2007	1,392	$219,500	6.2%
2006	1,586	$206,600	7.7%
2005	1,558	$191,900	7.2%
2004	1,300	$179,000	9.8%
2003	1,150	$163,000	8.7%
2002	1,069	$150,000	8.7%
2001	1,211	$138,000	n/a

Source: MOR Listing Service

Figure 16: The number of homes sold in the Missoula Urban Area increased for a second straight year, achieving the highest level since 2007.

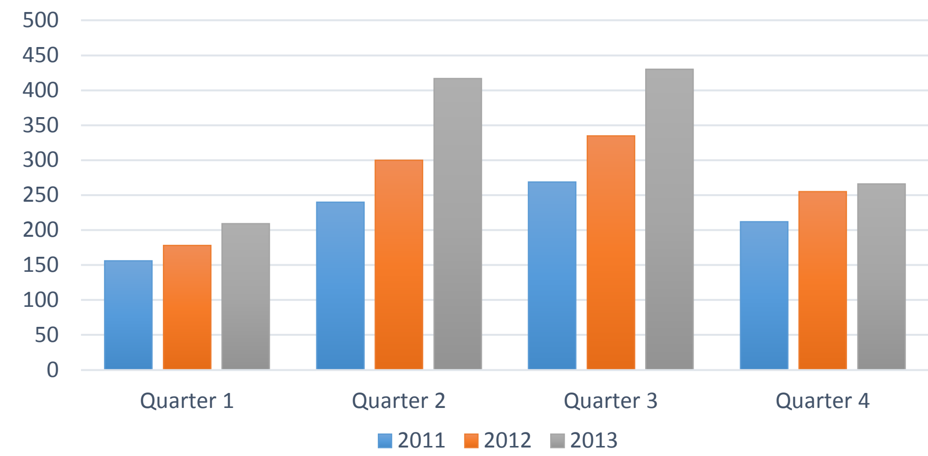
Number of Homes Sold in Missoula Urban Area, 2001-2013



Source: MOR Multiple Listing Service

Figure 17: For the last two years, the number of quarterly home sales has increased compared to the same quarters of each previous year.

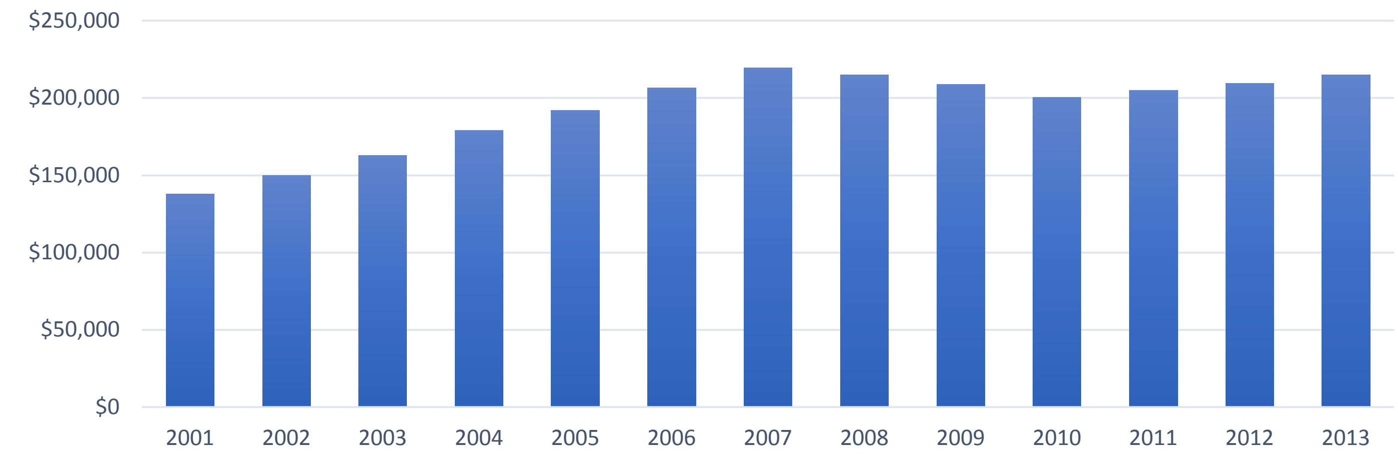
Missoula Number of Sales by Quarter, 2011-2013



Source: MOR Multiple Listing Service

Figure 18: The 2013 median sale price of homes sold in Missoula Urban Area increased to over $210,000.

Median Sales Price of Homes Sold in Missoula Urban Area, 2001-2013



Source: MOR Multiple Listing Service

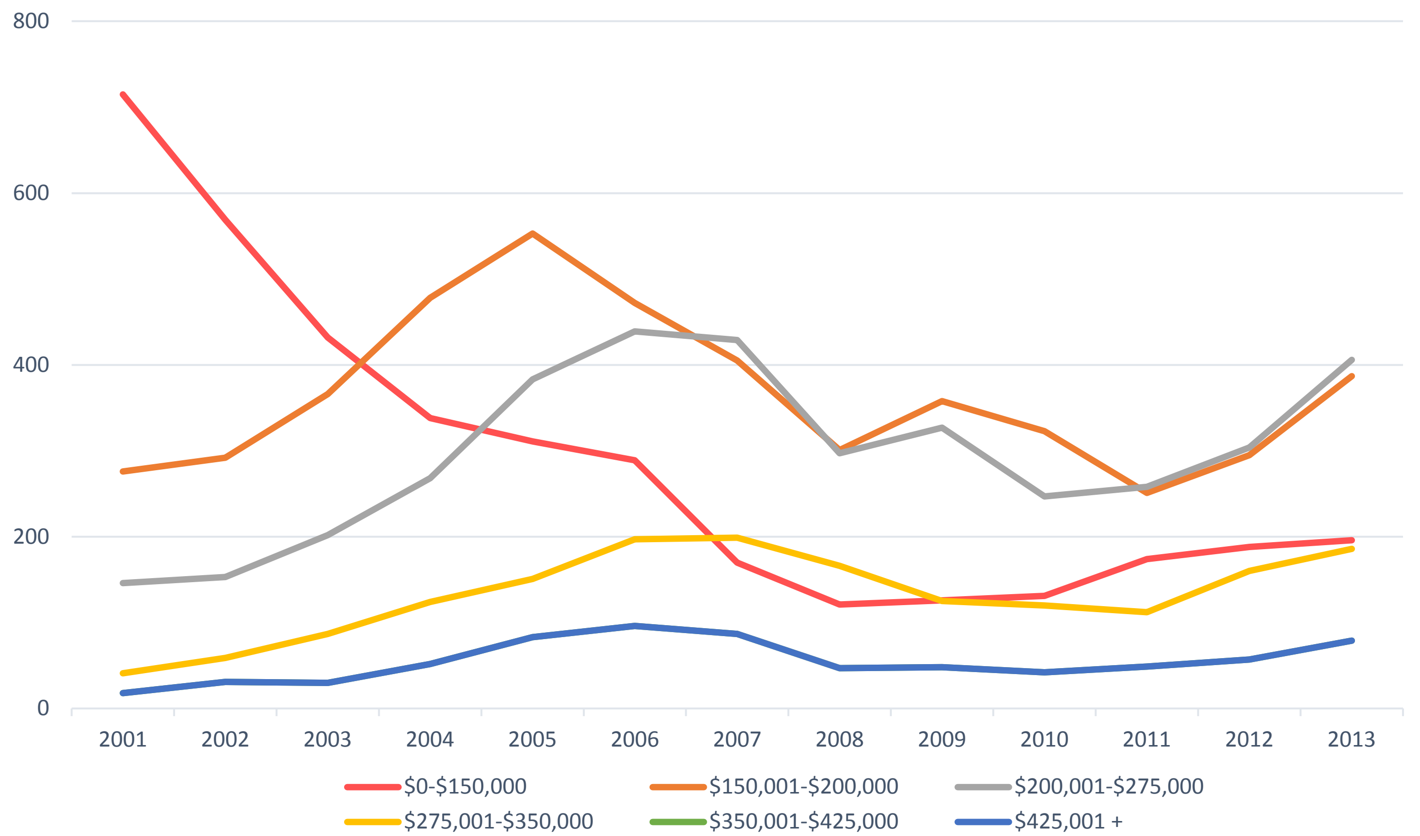
Both of these measures reflect national trends. The National Association of REALTORS® has reported that, nationally, the median home price rose to $197,100, up from $176,800 in 2012, and the number of sales of existing homes was 5,090,000, up from 4,660,000.

Almost two-thirds of Missoula home sales in 2013 were priced between $100,000 and $250,000, while the remaining one-third of homes sold between $250,000 and $500,000. The handful of high- and low-priced homes were not statistically significant (Table 5).

Change in Missoula's median home price remained less volatile than the national average. It was positive again, hovering around 2.5 percent for the third straight year (Figure 20).

Figure 19: Homes costing from $150,001-$275,000 continue to sell well.

Number of Sales, Price Range Breakout, Missoula, 2001-2013



Source: MOR Multiple Listing Service

Table 5: Two thirds of Missoula homes cost $100,000 to $250,000.

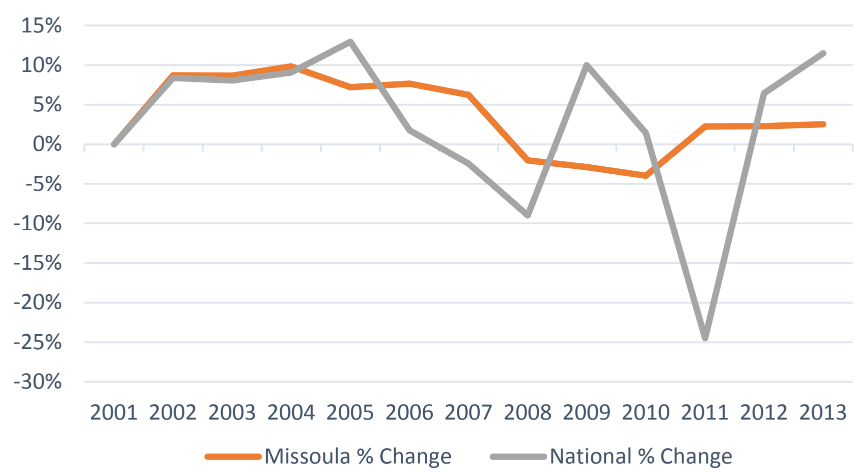
National & Local Sales Distribution

Home Value	US	Missoula
$0-$100K	18.6%	4%
$100K-$250K	43.7%	63%
$250K-$500K	26.6%	30%
$500K-$750K	6.8%	2%
$750K-$1M	2.1%	0%
$1M+	2.3%	0%

Source: MOR Multiple Listing Service, National Association of REALTORS

Figure 20: Missoula's median home price was steady compared to the national average.

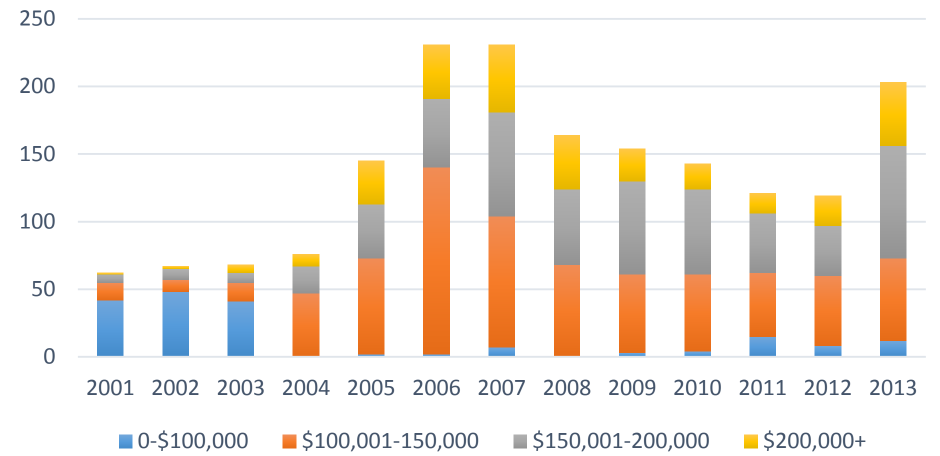
Percent Change in Median Sales Price, 2001-2013



Source: MOR Multiple Listing Service, National Association of REALTORS

Figure 21: Condominium and townhouse sales increased in 2013.

Condominium and Townhouse Sales in Missoula Urban Area, 2001-2013



Source: MOR Multiple Listing Service

Condominiums and Townhouses

Sales of condominiums and townhouses were much higher in 2013. The number of sales increased in every price range (Figure 21). The market's potential for growth remains optimistic in 2014. The continued easing of financing restrictions and scrutiny on condos should help this market grow.

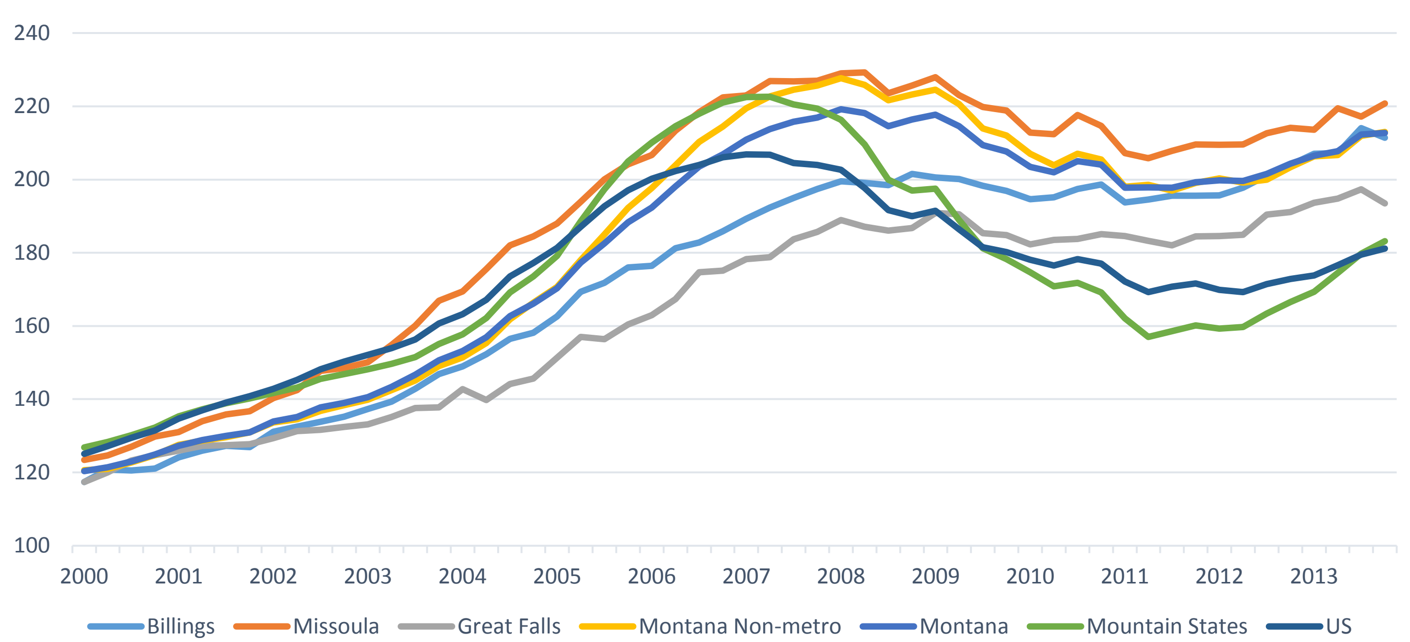
The perceived benefits of condos were a major factor in the home price increase. For housing under $200,000, some condos have a strong advantage over single family homes due to better finish grades and attractiveness as compared to a single family home in the same price point. Therefore, there were more homes purchased over $200,000, where the condos have fewer advantages.

Comparative Trends in Home Prices

The Housing Price Index (HPI) measures price change in single-family homes 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 data is compiled quarterly. Missoula continues to have higher repeat home prices than other Montana markets and the US national average (Figure 22). This indicates that Missoula single-family homes appreciate well, which is good news for homeowners and an attractive benefit for people thinking about moving to Missoula.

Figure 22: Housing prices, as measured by the Housing Price Index, show a continued an upward trend since bottoming out in the second quarter 2011.

FHFA Housing Price Index, 1st Qtr 2010 to 4th Qtr 2013



Source: Federal Housing Finance Agency

Sales Trends in Neighborhoods

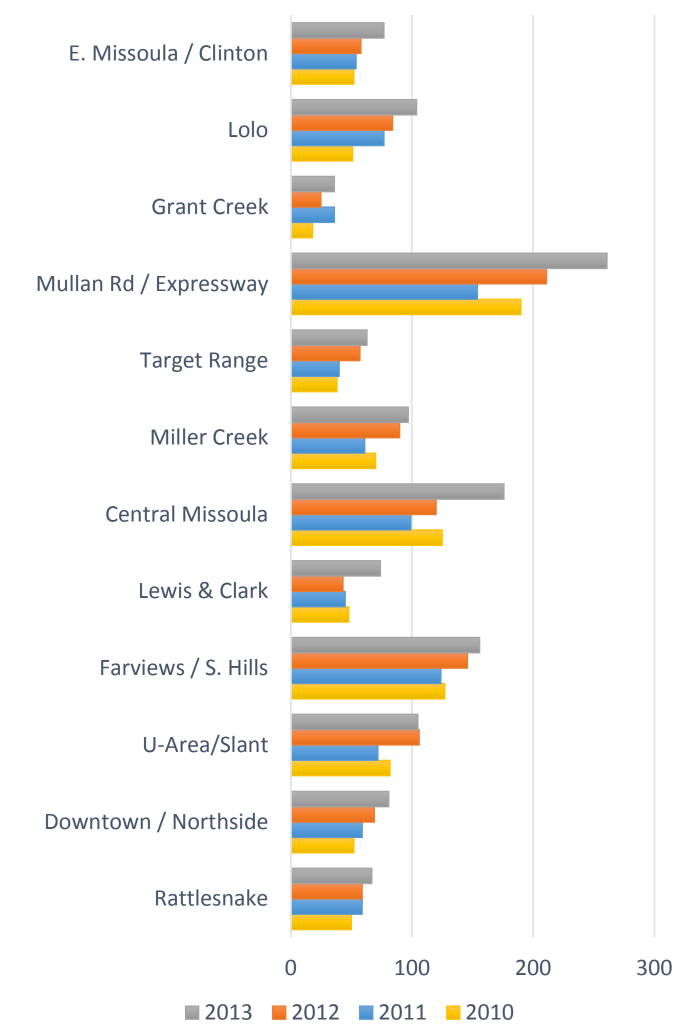
Every neighborhood experienced more home sales except University Area and Slant Streets, which decreased slightly. Mullan Road, Expressway, and Central Missoula saw the highest increases (Figure 23).

E. Missoula/Clinton, Mullan Road/Expressway, and Miller Creek each experienced a slight decrease in median sales price since 2012.

By far, the largest increase occurred in Grant Creek, rising from $300,000 to almost $350,000. However, Grant Creek offers the smallest sample in terms of number of homes sold, so greater variation is expected. East Missoula to Clinton, Mullan Road and Expressway, and Miller Creek each experienced a slight decrease in median sales price since 2012. All other neighborhoods saw median sales price gains (Figure 24).

Figure 23: Only the University Area/Slant Street neighborhood experienced lower homes sales in 2013 over 2012.

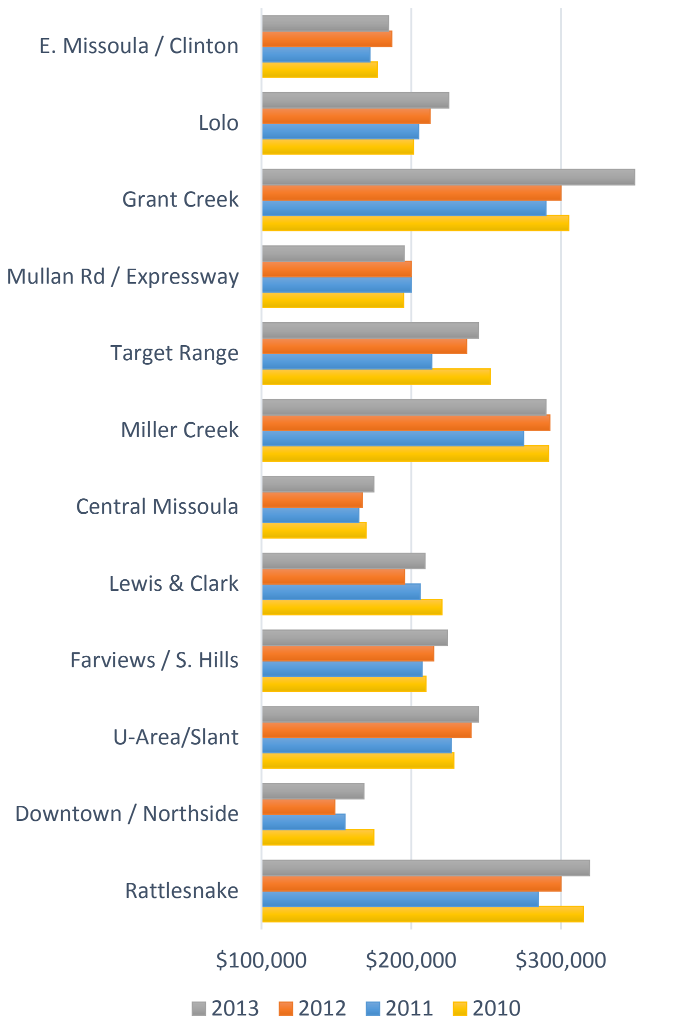
Home Sales by Neighborhood, 2010-2013



Source: MOR Multiple Listing Service

Figure 24: The median sales price increased in all but three neighborhoods.

Median Sales Price by Neighborhood, 2010-2013



Source: MOR Multiple Listing Service

Pace of Home Sales

One measure of a healthy real estate market is the absorption rate. The absorption rate represents the total housing supply of the market at a given time. Unlike the "days on market" measure, this rate takes active listing information into account as well.

In the past, any reported "days on market" numbers reflected the average time on market for only sold properties. The absorption rate includes the amount of sold inventory compared to the amount of active inventory at the time.

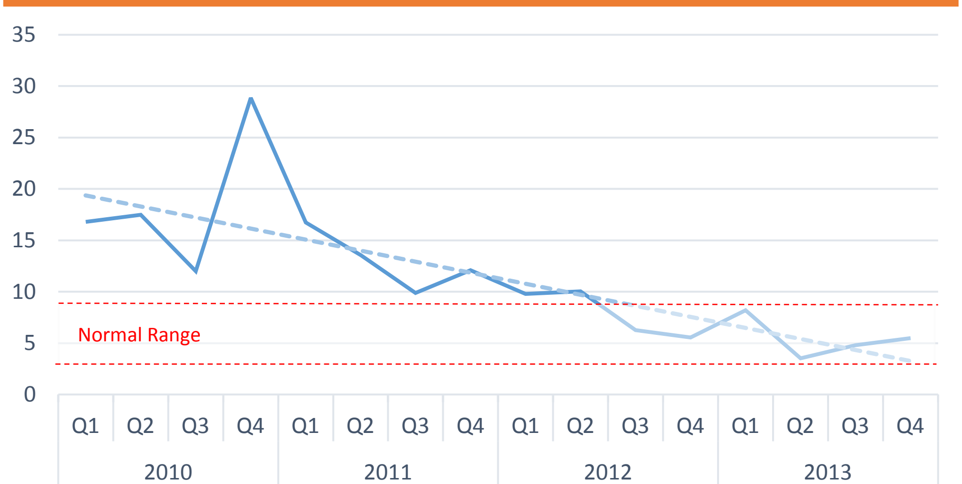
To calculate the absorption rate, the total number of active listings is divided by the number of sales over a one-month period. The resulting number represents how many months' worth of inventory is currently listed for sale. For example, if an area had 20 listings and five sales in the last 30 days, the absorption rate would be 4, which means that, based on the prior market's activity, there are four month's worth of inventory currently listed.

The absorption rate defines various markets according to the following general rule:

- Under three months is a seller's market.
- Three to nine months is a normal market.
- Nine to 12 months is an over-supply.
- Over 12 months is an over-loaded market and a buyer's market.

Figure 25: The Total Market Absorption Rate changed little by the end of 2013.

Total Market Absorption Rates, 2010-2013



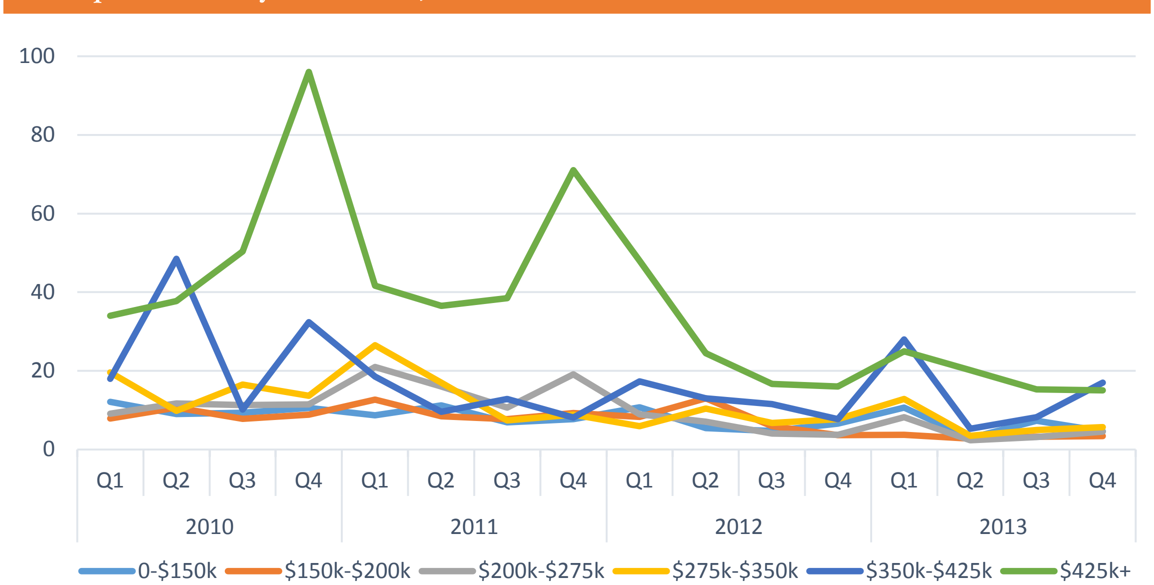
Source: MOR Mulitple Listing Service

The Missoula Organization of REALTORS® has tracked the absorption rate since 2008, switching to the current segmented format in mid-2009. Keeping segmented data at certain price points demonstrates which price ranges are showing better overall market health.

For the total market there was a spike in late 2010 which pushed Missoula's overall absorption rate to almost 30 months (Figure 25). This can be attributed to the end of the first-time home buyer and move-up buyer tax credit. The market lost buyers that either bought or decided against buying once the tax credit was up and had to adjust and recover to that. The market absorption rate has gradually been decreasing, suggesting a return closer to a desired equilibrium. Most housing in Missoula moved into a "normal" market in late 2012, and absorption rates continued to drop in 2013.

Figure 26: The Absorption Rate is highest for more expensive property.

Absorption Rates by Price Point, 2010-2013



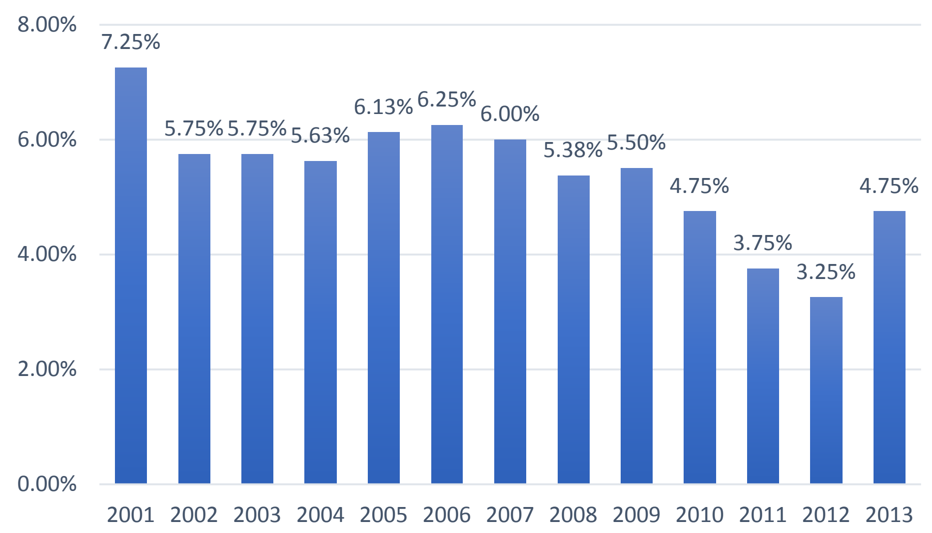
Source: MOR Mulitple Listing Service

In 2013, houses priced $350,000 and below have remained in a normal market. Houses above this price range have lower absorption rates than in 2012, but these remain in a buyer's market. (Figure 26). Additionally, homes in the $350,000 to $425,000 range have seen an absorption rate spike since the second quarter of 2013.

Mortgage Finance

Figure 27: Mortgage interest rates increased to the 2010 rate of 4.75 percent after falling for three consecutive years.

Year End Interest Rates, 2001-2013



Source: First Security Bank, First Interstate Bank, Missoula, MT

Mortgage Loans

In 2013, interest rates ranged between a low of 3.75 percent during the first quarter of 2013 and a high of 4.75 percent by the end of the third quarter through the first part of the fourth quarter. This marks the first annualized increase since 2009 (Figure 27). Currently, mortgage interest rates range from 4.250 percent to 4.50 percent. These figures reflect 30 year fixed rate loans.

One of many significant changes in 2013 and 2014 was the increase in the allowable low-middle credit score from 640 to 680 for any borrower wanting conventional loans but also needing private mortgage insurance. In addition, borrowers with credit scores lower than 680 were required to take first-time homebuyer classes even if they were not first-time home buyers. Borrowers with credit scores less than 640 found few options for financing other than FHA loans through the Montana Board of Housing. For credit-worthy buyers, FHA Loans have become a less desirable option because of increased standards and mortgage insurance costs.

In 2014, borrowers who show breaks in employment or who change jobs frequently must be able to show that they have gone from a worse situation to a better situation. Borrowers coming out of school and employed in their first full-time job must have completed any probationary period.

Another change is the drop in the total allowable debt ratio from 45 percent to 43 percent. This does not mean that borrowers with a debt ratio over 43 percent but less than 45 percent will not be able to purchase, but underwriters will look for strong compensating factors. Business debt paid by a self-employed borrower's business must be documented with a minimum of 12 months cancelled checks from the business and a letter from the borrower's accountant that the debt is paid by the business income and is shown on the business tax returns. New debts incurred by the borrower but paid by the business will be reported as the borrower's personal obligation.

One item, which is particularly relevant to Missoula, is how lenders are managing student loans. If your student loans are deferred, it doesn't mean that lenders won't consider them when you apply for an FHA mortgage. In addition, in order to receive an FHA loan, you can not be delinquent on any federal debts, like Stafford or Perkins loans. They'll require that you've been making on time payments for at least to years to qualify.

There are many changes to underwriting and qualification. Some have a greater impact than others. Underwriters are now required to document all sources of "cash to close." Borrowers must provide at least two months of bank statements showing that the funds for closing have been available in the account for the two-month period. Cash deposits greater than a borrower's pay must be documented.

Interest rates remain low and good lenders can help borrowers who may think they cannot qualify. There are a number of lending programs available to borrowers who have little money for a down payment. Knowledgeable lenders can walk prospective borrowers through the process. The Missoula Organization of REALTORS® encourages all prospective homebuyers to get pre-qualified with the lender of their choice and to keep that lender informed about any changes in personal or financial status as these could increase buying potential. Doing so can also save borrowers a lot of work and embarrassment should the borrower's situation change for the worse.

Impacts of Mortgage Insurance

Mortgage insurance is a policy that protects the lender in the event that the homeowner defaults on payments. Mortgage insurance premiums are paid by the homeowner. Mortgage insurance is not required on all loans, but is required on conventional loans when the first mortgage is greater than 80 percent of the property value. FHA and Rural Development (RD) loans also require mortgage insurance.

Mortgage insurance was tax deductible in 2012 and 2013 on a qualified personal residence. The deduction was phased out by 10 percent for each $1,000 by which the taxpayer's adjusted gross income exceeded $100,000. Thus, the deduction was unavailable for a taxpayer with an adjusted gross income in excess of $110,000.

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 3.50 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.

FHA financing is still an option with a minimum down payment of 3.50 percent. It may not be the first choice for borrowers who have a 5 percent down payment because of the significant increase in up-front and annual mortgage insurance premium, which began in April 2012.

Programs like Neighborworks Montana help provide services such as down payment, closing cost assistance, and matched savings accounts to help borrowers obtain the total financing needed to purchase a home. This is especially helpful for lower income buyers that could afford the house payment, but find it difficult saving the money necessary for a down payment.

U. S. Department of Veterans Affairs (VA) loans are still a viable option for borrowers who are eligible and continue to offer 100 percent financing in most cases.

USDA Rural Development loans continue to be a favorable choice for those borrowers who have little to no down payment and qualify under the income guidelines and other underwriting parameters. There are, however, restrictions on where the property can be located and if accessory structures exist.

Table 6: Net foreclosures decreased, dropping to the lowest level since 2007.

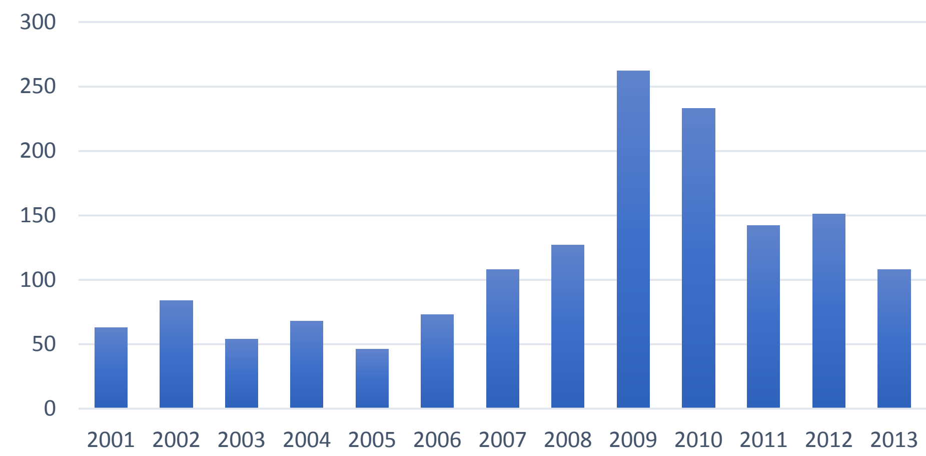
Bank Foreclosures, Missoula County, 2001-2013

Year	Notice of Sale	Cancellation of Sale	Net Foreclosures
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
2004	174	106	68
2003	177	123	54
2002	206	122	84
2001	161	98	63

Source: First Security Bank, Stewart Title

Figure 28: Bank foreclosures fell to 2007 levels.

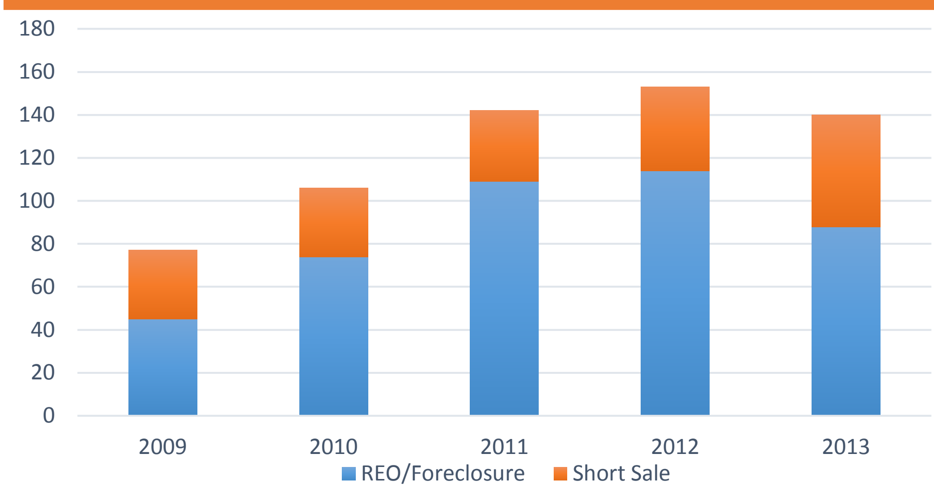
Bank Foreclosures, Missoula County, 2001-2013



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

Figure 29: The number of distressed sales decreased slightly in 2013.

Distressed Sale Makeup, 2009-2013



Source: MOR Mulitple Listing Service

Foreclosure Resales and Short Sales

Distressed sales include real estate owned (REO) foreclosures and short sales. Distressed property usually sells far below market value. A foreclosure resale occurs when a bank sells a property after a foreclosure has been finalized. A short sale is a process allowing homeowners to sell properties for less than the mortgage balance, with lender approval. This allows homeowners to pay lenders and avoid foreclosure, reducing additional costs for both creditors and borrowers.

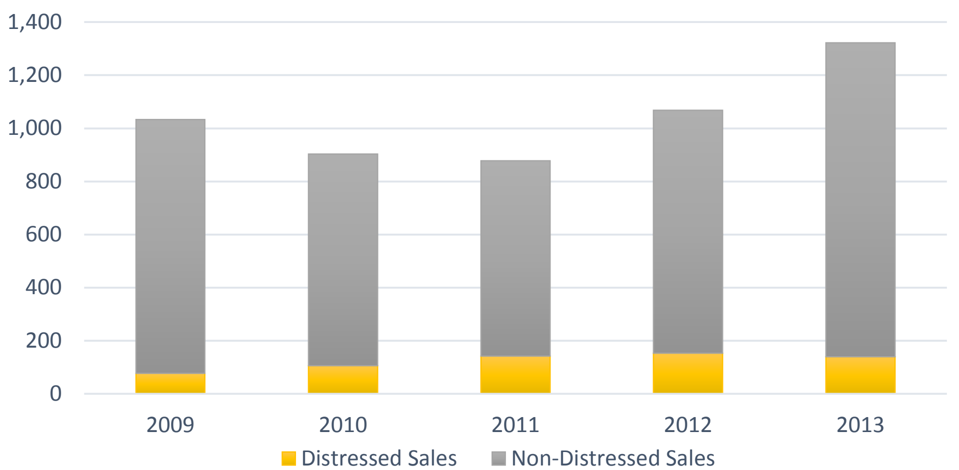
Short sales in Missoula stayed relatively level from 2009 to 2011, increased in 2012, and then increased again by 33 percent in 2013. The number of foreclosure re-sales has increased each year since 2009, until 2013, where it dropped from 114 to 88, a 22.8 percent decrease (Figure 28). Distressed sales, as a percentage of total sales, were down by approximately four percent (Figure 28).

In 2013, Missoula experienced the first decrease in distressed sales in five years. There were more short sales than in 2012, and fewer

foreclosures (Figure 28). While the actual number of distressed sales decreased only slightly, the total number of non-distressed sales experienced a significant increase, leading to a much lower percentage of distressed sales compared to total sales volume (Figure 29). The increase in non-distressed sales is an encouraging sign for Missoula. Even more encouraging, is that in 2013, the percentage of distressed sales has fallen much closer to where it was in 2009 (Figure 30).

Figure 30: The ratio of distressed sales compared with total market volume decreased significantly from 2012-2013.

Distressed Sales as Compared to Total Market Volume, 2009-2013



Source: MOR Mulitple Listing Service

Homeownership Programs

The Financial Industry National Regulatory Agency (FINRA) Foundation published a study ranking Montana residents lowest in the nation at financial capability. The study found that Montana residents are the most likely to live paycheck to paycheck. Montana finished last in the country in its savings rate and second-to-last in rainy-day funds.

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 as compared to those who did not receive such services.

HUD Secretary Shaun Donovan relates that, in general, distressed homeowners are nearly twice as likely to receive a modification to their mortgage if they are working with a certified foreclosure counselor. Borrowers in foreclosure are about 70 percent more likely to catch up on payments. Modified payments average about 25 percent less when working with a foreclosure counselor.

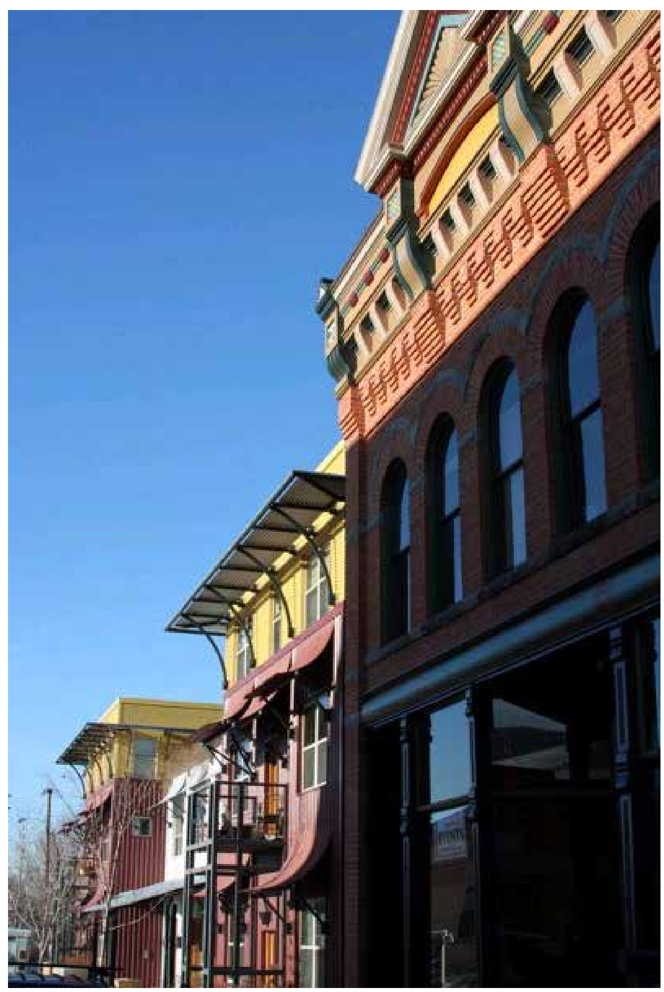
A 2013 study by HUD found that nearly 70 percent of homeowners who sought counseling prior to falling behind on their mortgage payments remained in their homes and in current status some 18 months later. In contrast, only 30 percent of homeowners counseled six months or more after falling behind on their mortgage reached the same level of housing stability during the same time frame. This study illustrates that the success rate of adverting foreclosure significantly increases if a distressed homeowner seeks foreclosure counseling services from a certified foreclosure counselor at the first sign of financial distress.

Homeword provides this sort of housing counseling and education to Missoula residents in need. The following is a list of 2013 statistics about people who accessed Homeword's homeownership counseling services:

- 800 people accessed Homeword's homeownership programs.
- 386 people accessed homebuyer education.
- 146 accessed free pre-purchase housing counseling in Missoula.
- 75 percent of Homeword clients earned below 80 percent of the Area Median Income (AMI).
- Of those receiving homebuyer education or housing counseling, 56 percent were women and 44 percent were men.
- Of those receiving financing education or financing counseling, 87 percent were women and 13 percent were men.

Most housing counseling clients planned to take out a conventional loan through Fannie Mae (requiring 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 of their choice. Some clients took advantage of the 80/20 loan product that NeighborWorks Montana offered in conjunction with a MBOH first mortgage, which serves up to 120 percent AMI. Some clients also used the Human Resource Council's down-payment assistance program for their gap financing.

In 2013, Homeword provided 45 Missoula households with in-depth foreclosure counseling. Of these, one household was foreclosed upon; 12 averted foreclosure by modification, sale, payment, etc.; 23 withdrew from counseling for various reasons; and nine await decisions from loan servicers. Homeword also provided foreclosure counseling over the phone to over 100 Missoulians. Homeword is a valuable stopgap in preventing foreclosures and helping residents keep their homes.



Housing Affordability

The Housing Affordability Index

The Housing Affordability Index (HAI) compares the median price of a home and the median income of households in a community. A value of 100 means that a household with a median income has exactly enough income to qualify for a mortgage on a median-priced home. For a value above 100, a household with a median income has 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).

In the 2012 report, The Missoula Organization of REALTORS® received feedback about the influence of mortgage insurance on housing affordability. Before this, mortgage insurance was not included in HAI calculations. Now, it is. In 2013, the overall HAI decreased. (Table 8).

Mortgage insurance is protection for the lender (not the borrower) in the event of default. The mortgage insurance company will reimburse the lender for all or part of losses they may have if the home is foreclosed on and must be sold by the lender.

If a buyer's down payment is less than 20 percent, or if a buyer is refinancing more than 80 percent of the home's value, most lenders will require that the buyer purchase mortgage insurance. Although mortgage insurance is primarily for the benefit of the lender, it does allow homebuyers to purchase a home with a low down payment. The borrower pays the mortgage insurance premium on behalf of the lender. This report assumes an average cost of 1 percent of the principle on the loan.

Figure 31: In 2013, housing affordability decreased for all household categories.

Housing Affordability Index, 2002-2012

Source: MOR Multiple Listing Service

Table 7 shows the affordability for housing where owners were able to put 20 percent down and therefore have no mortgage insurance payments. Mortgage insurance has had an impact on affordability, but that increased significantly after the changes FHA made in 2013. Assuming four percent down, the resulting HAI is on average 29 points lower than a down payment of 20 percent where no mortgage insurance was required. However, for first time buyers especially, having the full 20 percent in cash is difficult, and at 4 percent down, not one of the median households are able to afford a median priced home. However, three and four-person households are able to afford a median priced home at 20 percent down.

Table 7: Mortgage insurance is now included in HAI calculations to demonstrate the effect that mortgage insurance has on housing affordability.

Missoula Housing Affordability Index						
					20% Down, No PMI	
	2002	2011	2012	2013	2012	2013
Median Home Price	$149,500	$205,000	$209,700	$215,000	$209,700	$215,000
Down-payment	10%	4%	4%	4%	20%	20%
Interest Rate	5.75%	3.75%	3.50%	4.75	3.50%	4.75%
Mortgage Insurance		$164	$168	$301	$0	$0
Median Family Income						
1 person	$30,000	$41,400	$44,000	$42,900	$44,000	$42,900
2 person	$34,300	$47,300	$50,300	$49,000	$50,300	$49,000
3 person	$38,600	$53,200	$56,600	$55,100	$56,600	$55,100
4 person	$42,900	$59,100	$62,800	$61,200	$62,800	$61,200
Housing Affordability Index						
1 person	66	66	71	55	93	79
2 person	75	76	81	63	107	90
3 person	85	85	91	71	120	102
4 person	94	95	101	79	133	113
Median Family Income Needed to Purchase Median Priced Home						
Income	$45,502	$62,260	$62,349	$77,309	$47,064	$54,247

KEY: *Includes taxes and homeowners insurance on a 30 year fixed loan
20% down on a median priced home in 2013 is $43,000. This must be paid at closing in order to avoid the mortgage insurance (PMI).

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 pay a large portion of income on housing have a difficult time meeting other obligations. Harvard's The State of the Nation's Housing 2013 states that, "Compared with low-income households living in homes they can afford, those with severe cost burdens spend two-thirds as much on food, half as much on clothes, and half as much on pensions and retirement."

Missoula has, in the past, had a problem with housing expenses as a percentage of monthly income. Missoula used to be Montana's least affordable major market for renters.

However, the situation is improving. The percentage of homeowners and renters spending at least 35 percent of their income on housing has dropped since 2008. The number of people spending that much each fell 9 percent (Figure 32). Still, 40 percent of renters spend over 35 percent (Figure 33).

Figure 32: The percentage of residents spending 35 percent or more of their income on housing has dropped significantly from 2008 levels.

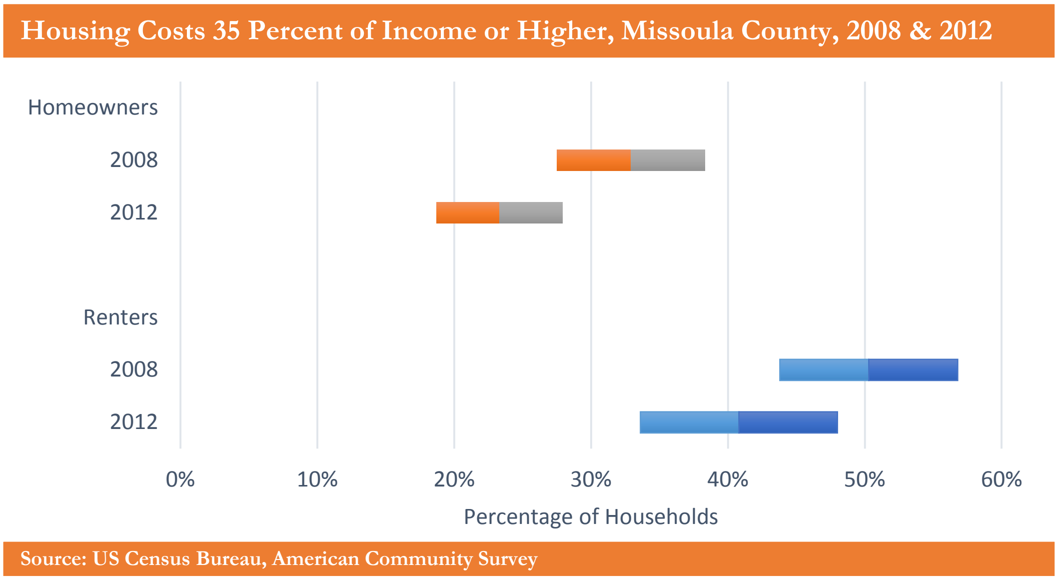
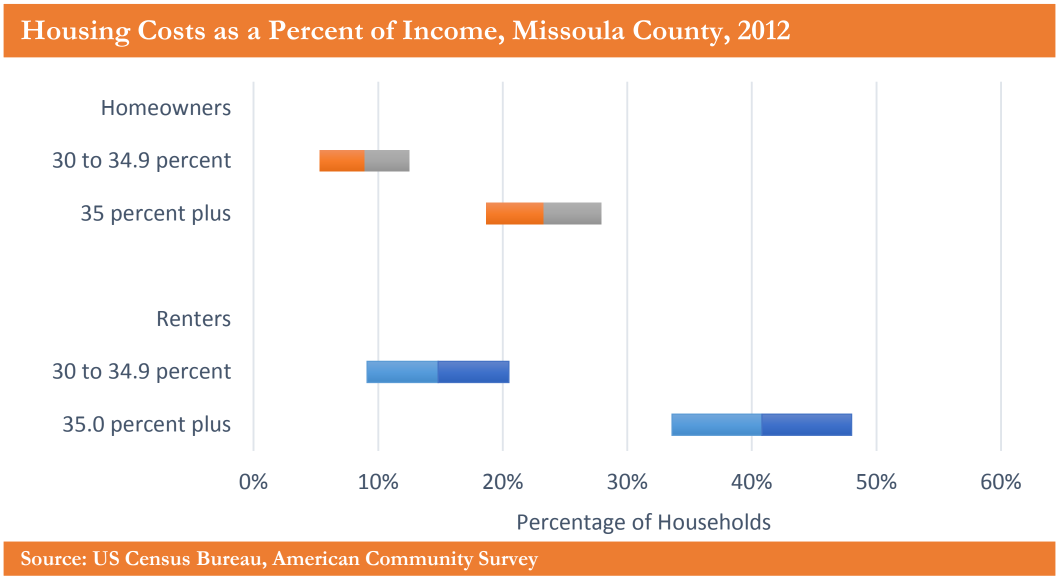


Figure 33: About 40% of Missoula renters spend over 35 percent on housing.

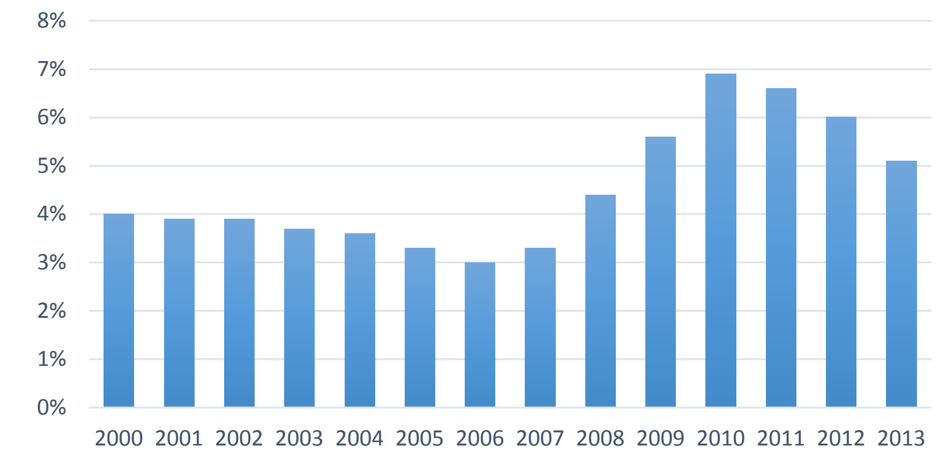


Unemployment

The unemployment rate is the percentage of the total labor force that is unemployed but able to work and is actively seeking employment. Missoula County's unemployment rate declined to 6 percent in 2012 from its peak in 2010 of nearly 7 percent (Figure 34). The national unemployment rate in December of 2012 was just shy of 8 percent. While Montana had less unemployment than the national average during the economic downturn, the rate is still has nearly double what it was before the crisis.

Figure 34: Missoula's unemployment rate dropped in 2012 for the second year in a row, following a four-year increase.

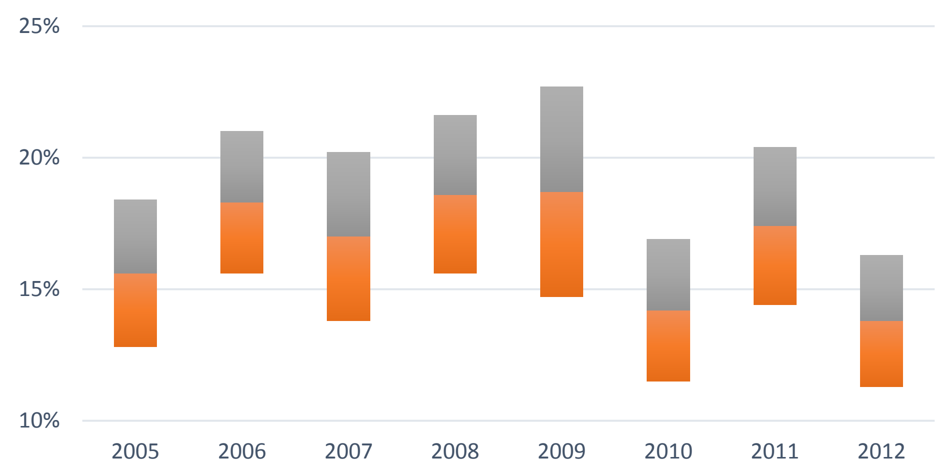
Unemployment Rate, Missoula County, 2000-2013



Source: Montana Department of Labor and Industry

Figure 35: Missoula's poverty rate dropped to 14 percent and appears to be trending down.

Poverty Level, Missoula County, 2005-2012



Source: US Census Bureau, American Community Survey

Poverty

The percentage of Missoula County residents living below the Federal Poverty Level decreased in 2012 to about 14 percent. The poverty rate appears to be trending down (Figure 35).

While this is an encouraging sign, more should be done to address those with the most need, particularly homeless children.

Homelessness

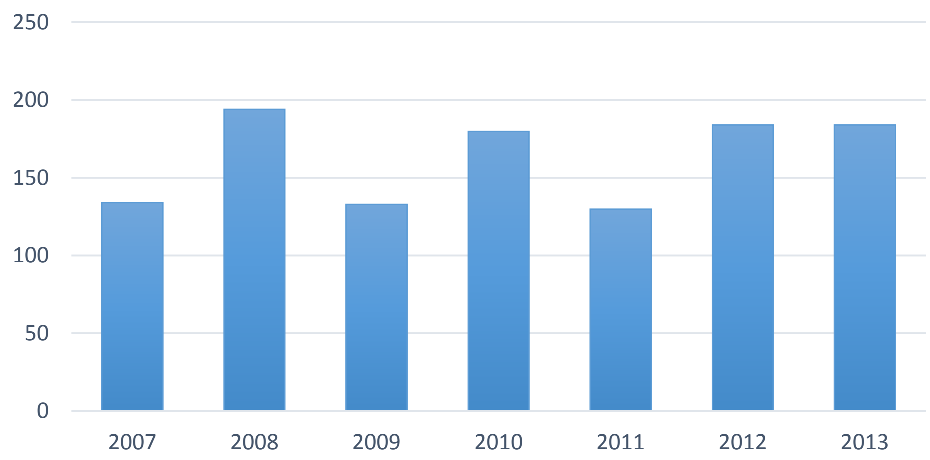
"Reaching Home: Missoula's 10-Year Plan to End Homelessness" moved from a work in progress to a real, measurable initiative in 2013. The plan, researched and drafted by a working group established by Mayor John Engen and County Commissioner Jean Curtiss, was approved unanimously by the City Council and County Commissioners in April 2013. By September, Reaching Home had hired United Way's Michael Moore, one of the plan's principal authors, as coordinator. That is when work really began.

The plan is part of a nationwide push to address homelessness, in part by moving away from the shelter model of care to a model known as Housing First. The premise holds that quickly moving people into housing – and providing them necessary services – is a safer and more effective long-term solution than shelters and other transitional housing.

Missoula is off to a rousing start. The concerted effort will allow three Missoula non profits to dispense more than $200,000

Figure 36: The number of individuals who are actually homeless remained constant from 2012 to 2013.

Literally Homeless Individuals, 2007-2013



Source: **Missoula** Housing Authority

in rental assistance over the next year. That money will be used to pay the first and last month's rent for some, along with security deposits and temporary rent subsidies. Reaching Home has also helped foster discussion of the city's downtown homeless problem. It has also been part of an effort to develop a software system that makes it easier for homeless people to interact with service providers. It also helps providers gather important information about the effectiveness of their services.

Homeless Children

By far, the most troubling trend in Missoula housing is the exploding increase in homeless and at-risk children.

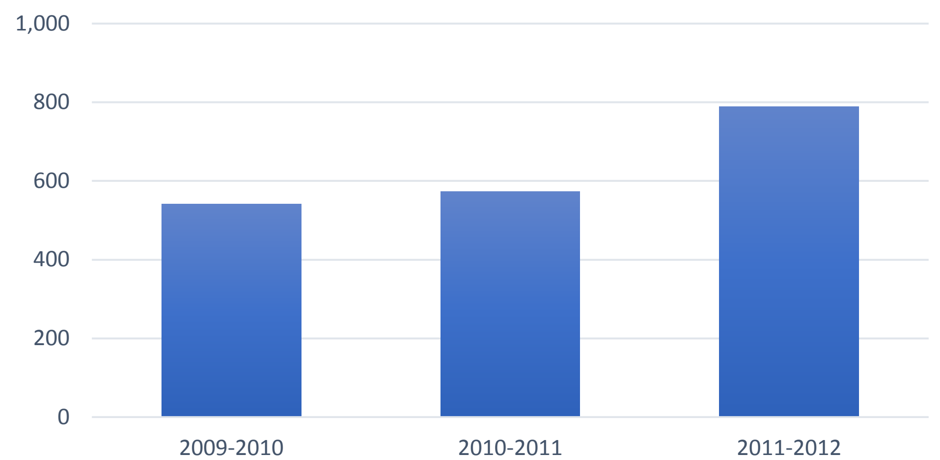
The number of homeless and at-risk children remained steady at around 560 kids during the 2009-2010 and 2010-2011 academic years. However, that figure spiked over 30 percent to almost 800 children during 2011-2012 (Figure 37).

This figure is a cumulative number of unstably housed children identified throughout the school year. The unstable housing varies from brief periods of literal homelessness to a pattern of frequently moving and other situations. According to the National Coalition for the Homeless, families with children is one of the fastest growing segments of the homeless population

The entire Missoula organization of REALTORS® calls on both the public and private sectors to cooperate better in order to protect Missoula's most precious assets.

Figure 37: The number of homeless and at-risk children in Missoula increased significantly during 2011-2012.

Number of Homeless and At-Risk Children, MCPC, 2009-2012



Source: WORD

Conclusion and Outlook

Missoula's housing market is expanding with most of the measures continuing to follow national trends. Current homeowners are in a positive position. Those looking to buy are facing more competition in the most affordable price ranges. Based on the data included in this report, we are gaining confidence in the Missoula housing market, but some challenges will need to be overcome.

Lot sales have seen an increase which can possibly be related to reduced inventory for buyers. An increased demand for housing has left buyers with fewer options, so many aspiring homeowners are deciding to build instead. Fewer building permits were issued in the city overall in 2013, but since multi-family development is growing, the available housing stock should keep pace with Missoula's positive population growth.

The increase in development also bodes well for economic recovery. During the recession, jobs in construction and related industries took the hardest hit. With an increase in development, we can expect an increase in jobs and an improvement in the overall economy.

Home sales and sales of condominiums and townhouses are up in almost every neighborhood. Multi-family development continues to expand while rental vacancies remain below the national average.

There is less distressed property on the market now, meaning fewer deals than in years past for homebuyers. However, it also means that sellers will face less downward pressure on prices. The increase in competition in the affordable price ranges also is a positive indicator for a seller. For buyers, mortgage interest rates have increased to 4.75 percent, and overall affordability is decreasing. The median home price has increased to $215,000.

A growing number of people are seeking financial housing assistance from the Missoula Housing Authority (MHA), while funding cuts have prevented forty families from receiving the rental assistance promised to them by their vouchers. The number of households on the waiting list for rental assistance has neared 2,000 households.

Most discouragingly, the number of homeless and at-risk children has increased over 30 percent in the last couple of years. Homelessness is not improving.

Many of Missoula's most vulnerable residents can be encouraged by some of the economic figures. For instance, last year saw a decrease in unemployment and in the percentage of people living below the Federal Poverty Level. Also, "Reaching Home: Missoula's 10-Year Plan to End Homelessness" began in earnest.

Missoula's housing market is posting positive statistics overall, with growth in some areas and setbacks in a few others. While the market as a whole shows numerous positive indicators, there are still issues facing buyers and sellers alike. At the end of the day, it is Missoula's community that keeps us all home.

MOR Missoula ORGANIZATION OF REALTORS®

Report Available Online:
www.MissoulaRealEstate.com,
Under "Market Trends"

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