

2017 MISSOULA HOUSING REPORT

current knowledge, common wisdom:
growing a missoula to treasure

MOP
Missoula
ORGANIZATION OF REALTORS®
CONNECTING HOME & COMMUNITY

Released March 2016
A community service provided by
the Missoula Organization of REALTORS®

NOTES FOR READING THE REPORT

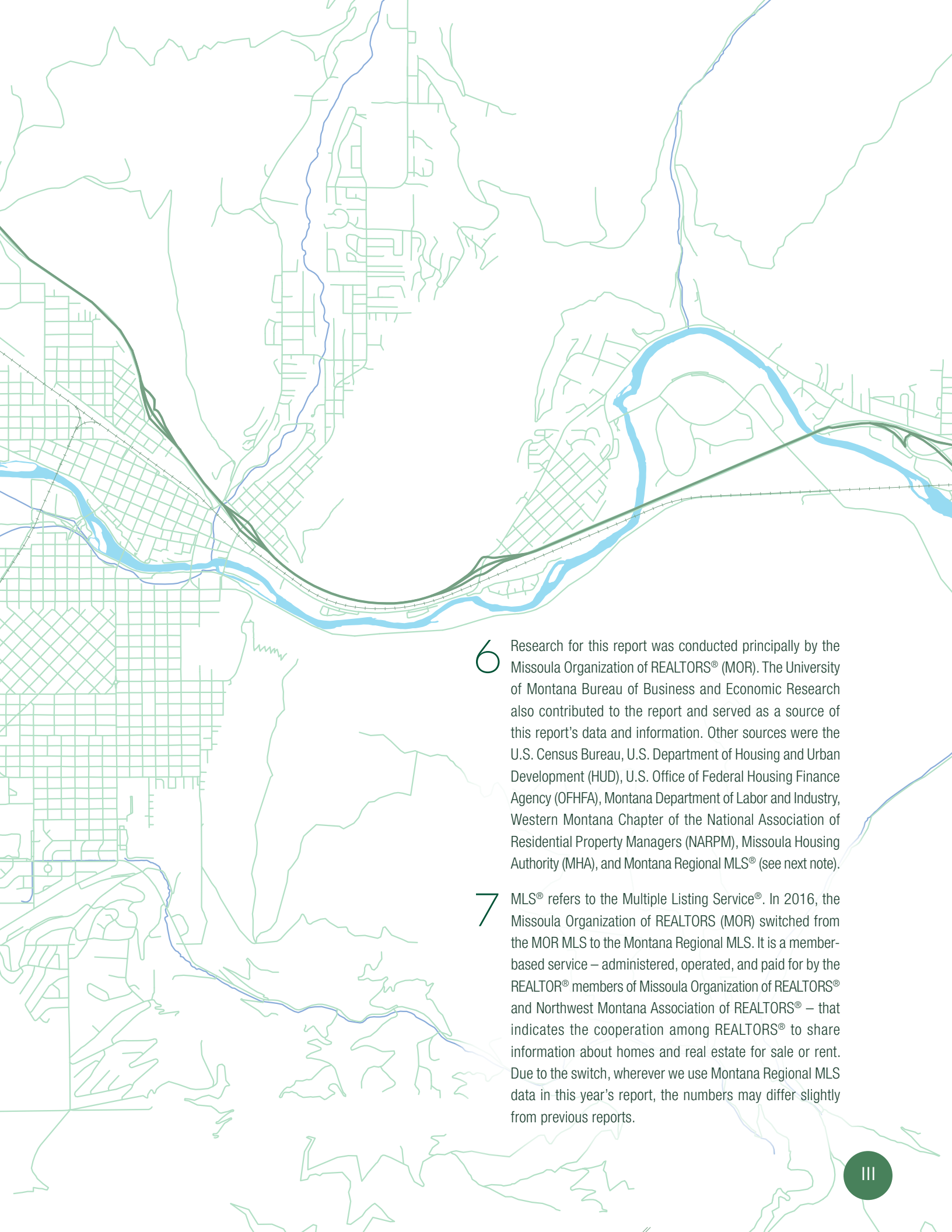
1 As in past reports, all data sources are publicly available and statistically valid. Our interpretation of the data may lead to judgments that we believe are sound but with which you may disagree. If so, we invite your comments (comments@missoularealestate.com) so that we can continue to improve this 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 2016 in most cases, but 2015 or even 2014 when more recent figures are not yet available.

4 “Median” is a term used often in this report. A median is the amount at which exactly half of the values or numbers being reported are lower and half are higher. A median can be more or less than an “average,” which is the amount derived by adding all values being reported and dividing by the number of individual values. So a median home price, for example, is the price of the one home, among all prices being considered, where half of the other homes are less in price and half are more in price. In many instances, including reports of home prices, a median can be a more accurate representation than an average because the sale prices of a very few extraordinarily expensive houses will significantly raise the average but have little effect on the median.

5 Data from the American Community Survey has a margin of error. This margin of error reflects uncertainty involved in the process of creating estimates from a representative sample of the population. In other words, although estimates from the survey data may appear different, the difference sometimes falls within the margin of error and therefore cannot be considered to be statistically significant. The charts with American Community Survey data portray the data in ranges with a lower and upper bound. The mean is the midpoint of the range. Statistical differences are visually apparent when the ranges do not overlap.



6 Research for this report was conducted principally by the Missoula Organization of REALTORS® (MOR). The University of Montana Bureau of Business and Economic Research also contributed to the report and served as a source of this report's data and information. Other sources were the U.S. Census Bureau, U.S. Department of Housing and Urban Development (HUD), U.S. Office of Federal Housing Finance Agency (OFHFA), Montana Department of Labor and Industry, Western Montana Chapter of the National Association of Residential Property Managers (NARPM), Missoula Housing Authority (MHA), and Montana Regional MLS® (see next note).

7 MLS® refers to the Multiple Listing Service®. In 2016, the Missoula Organization of REALTORS (MOR) switched from the MOR MLS to the Montana Regional MLS. It is a member-based service – administered, operated, and paid for by the REALTOR® members of Missoula Organization of REALTORS® and Northwest Montana Association of REALTORS® – that indicates the cooperation among REALTORS® to share information about homes and real estate for sale or rent. Due to the switch, wherever we use Montana Regional MLS data in this year's report, the numbers may differ slightly from previous reports.

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MESSAGE FROM COORDINATING COMMITTEE

We are pleased to present the “**2017 MISSOULA HOUSING REPORT**.” Our intention is to provide a comprehensive, credible, and neutral picture of Missoula housing that can be used as a tool by community members, businesses, nonprofits, and policy makers as they seek to serve Missoula’s needs.

We think these pages reveal a number of opportunities and challenges for our community. When read comprehensively, we hope the data come together to provide a more complete picture of our community, from affordability challenges to demographics, improvements over the years, and the issues that will require our attention in the years to come.

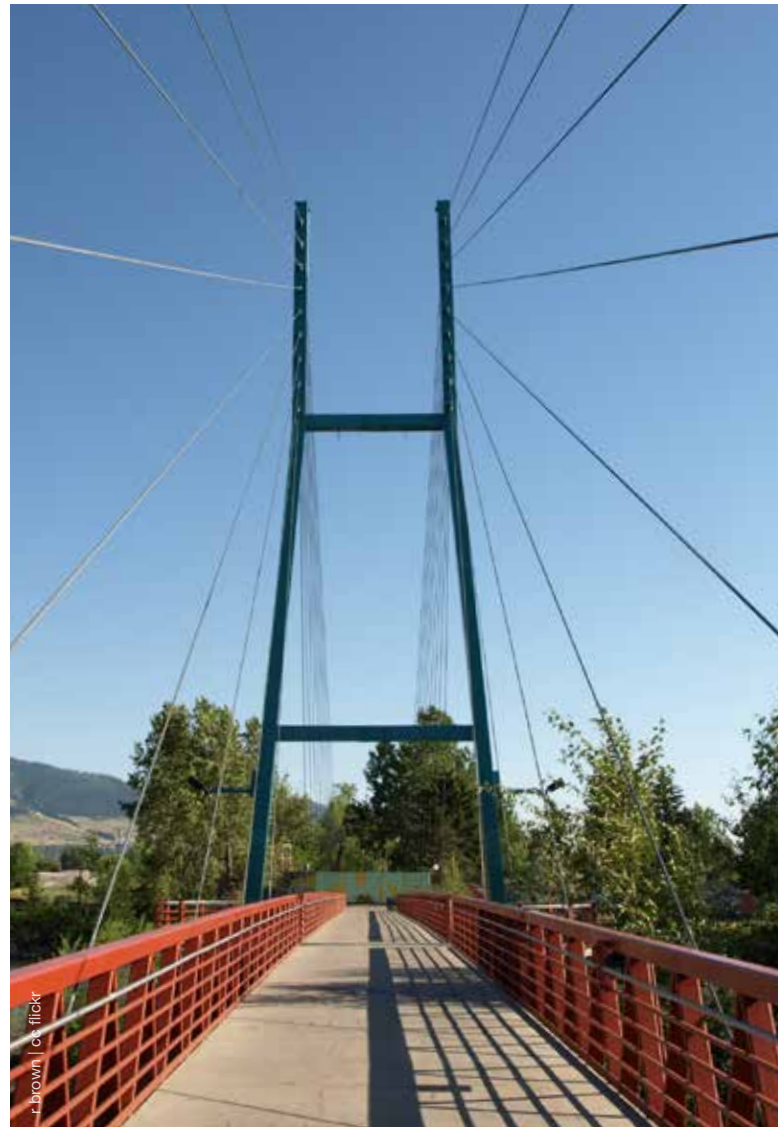
This is the twelfth annual report on housing in the city and county of Missoula, and the content has evolved based on trends, available information, and feedback from readers like you.

Please let us know your thoughts on this report and how we might improve it.

If, after reading this report, you are interested in getting involved in meeting the housing needs of our community, please contact any of the public or private agencies engaged in local housing mentioned in this report. Additional housing resources are listed on the Missoula Organization of REALTORS® website at www.MissoulaRealEstate.com.

Coordinating Committee

Brint Wahlberg	Windermere Real Estate
Jim McGrath	Missoula Housing Authority
Paul Burow	Professional Property Management
Karissa Drye	Homeward
Paul Forsting	Territorial Landworks, Inc.
Vicki Corwin	Stewart Title
Colleen Cebula	First Interstate Bank
Brandon Bridge	University of Montana Bureau of Business & Economic Research
Ruth Hackney	Missoula Organization of REALTORS®
Sam Sill	Missoula Organization of REALTORS®



EXECUTIVE SUMMARY

In 2016, the number of residential lots sold increased by 24 percent, reaching an all-time high, though their median price remained virtually the same, at \$85,000.

The pace of construction increased in 2016, with the City of Missoula issuing 68.3 percent more building permits than they did in 2015. Single-family building permits increased by 26.7 percent and multi-family permits, which include condominiums, increased by 82.8 percent. Development projects increased at both the city and county level in 2016.

In Missoula County, homeowners occupy about 57 percent of the units; in the city, owners occupy 47 percent of units.

Housing Demand: Population and Income

Missoula County's population continued to trend upwards, showing a 1.3 percent increase to 114,181 in 2015, placing increasing pressure on the housing supply.

The percentage of Missoulians living in poverty remains around 16 percent, but the number of homeless individuals, according to a single point-in-time survey, declined in 2016. However, the number of Missoula children identified as homeless or at-risk of becoming homeless increased by 45.9 percent during the 2015-2016 school year, an increase that may be partly explained by improved data collection in the schools but which is, nevertheless, a concern.

Overall, the estimated median household income for Missoula declined in 2016, to \$42,815. The greatest disparity, however, is between the median income of Missoula's homeowners (\$63,089) and renters (\$28,765).

Rental Housing

Missoula's already-low rental vacancy rates became more so in 2016, dropping to 2.9 percent. Yet, in spite of low vacancy, rental prices in Missoula held steady in 2016, following several years of growth. However, affordable rent still remains an issue.

The Missoula Housing Authority is able to support all 774 of its Section 8 vouchers that subsidize rent, but the demand for rental assistance remains high, with 1,654 households sitting on the waiting list for Section 8 vouchers in 2016. In 2016, Homeward started offering rental education and counseling programs to help low to- moderate income people access and maintain affordable housing. As well, the city opened the Office of Housing and Community Development to create and implement housing policy that will help Missoula meet its present and growing housing demand.

Housing Sales & Prices

Missoula ended 2016 with a seller's market for all but the most expensive homes. In 2016, the market officially entered an under-supply status, with a less-than-three-month supply for all price points under \$425,000.

The median price of a Missoula home went up 6.8 percent to a record-setting \$255,000 in 2016. While the overall number of homes sold remained virtually the same as the previous year, rising prices and a tighter supply of more affordable homes meant that the number of homes sold under \$275,000 declined by 13 percent. Homes over \$275,001 saw sales increase by 27.2 percent.

Condominium and townhouse sales increased by 33.9 percent in 2016, as buyers gravitated towards their lower costs as compared to single-family homes.

Housing Finance

Mortgage rates remained affordable throughout 2016, with a year-end interest rate of 4.5 percent. While low rates were attractive for borrowing, the market supply proved difficult for potential buyers. Missoula homebuyers have access to a number of down payment assistance programs, including a new program from the Montana & Idaho Community Development Corporation.

Thanks to both the economy and homebuyer education programs, Missoula's foreclosures continued to drop, with just 44 foreclosures in 2016.

Housing Affordability

Housing affordability continued to be an issue for renters as well as prospective homebuyers. The Missoula Housing Affordability Index illustrated a continued decline in the affordability of Missoula homes due to increasing home prices and declining median incomes. In 2016, one would have needed a family income of \$89,916 to purchase a median-priced home of \$255,000, assuming a 4-percent down payment. With a 20% down payment, one would have needed a family income of \$62,892 to purchase a median priced home.

In 2015, approximately 47 percent of Missoula renters spent more than 30 percent of their income on housing, which put them in the "cost burdened" category of being likely to have a hard time meeting other financial obligations. This was slightly lower than 2012's 52 percent. About 30 percent of Missoula homeowners spent more than 30 percent of their income on housing costs in 2015.

HOUSING SUPPLY: DEVELOPMENT & OCCUPANCY

Lot Development

With a tight supply of homes on the market, more buyers are opting to build. Once again, in 2016 the number of residential lots sold in the Missoula Urban area increased—this time by 24 percent (TABLE 1). However, the median price of those lots fell slightly, to the same as the 2014 median price (FIGURE 2). The median price of residential lots in Missoula has remained relatively stable in the last three years.

It should be noted that the data in this year’s report may differ slightly from previous reports now that we are using data from the Montana Regional MLS.

TABLE 1: The number of residential lots sales in the Missoula urban area increased by 24 percent in 2016.

FIGURE 1: Residential lot sales reached an all-time high in 2016.

FIGURE 2: The median price of a residential lot has remained relatively steady since 2014.

RESIDENTIAL LOT SALES MISSOULA URBAN AREA

Year	Lot Sales	% Change	Median Price	% Change
2010	33	-8.3%	\$86,000	21.0%
2011	33	0.0%	\$92,000	6.5%
2012	47	29.8%	\$55,000	-67.3%
2013	83	43.4%	\$75,000	26.7%
2014	89	6.7%	\$85,000	11.8%
2015	133	33.1%	\$85,500	0.6%
2016	175	24.0%	\$85,000	-0.6%

TABLE 1

Source: Montana Regional MLS

NUMBER OF RESIDENTIAL LOTS SOLD

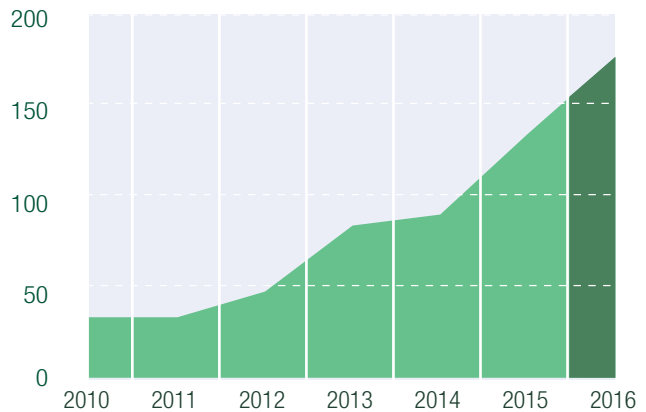


FIGURE 1

Source: Montana Regional MLS

MEDIAN PRICE OF RESIDENTIAL LOTS SOLD

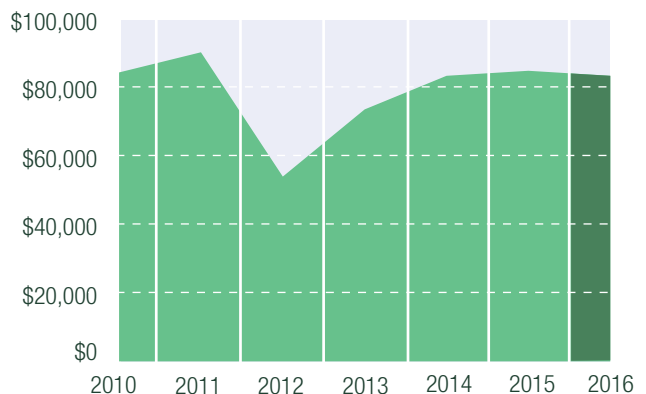


FIGURE 2

Source: Montana Regional MLS



Pace of Development

The City of Missoula experienced a large increase in building permits in 2016 (FIGURE 3). The number of single-family residential building permits increased by 26.7 percent to a total of 223, while multi-family permits increased by 82.8 percent. Those 534 multi-family permits included both apartments and condominiums. Building permits at the county level had an increase for single-family units but a decrease in multi-family units (FIGURE 4).

In the last few years, we've seen infill within the city shift away from developments and towards townhouses and multi-family units. A large number of townhouse exemption developments were permitted in 2015 (165), due in part to a Montana law that allows townhouses to be classified as units, rather than lots. But townhouse permits declined 63.6 percent in 2016. It's possible that the sharp increase in multi-family permits (including condominiums) accounted for some of that change, as recent federal rules have made financing condominiums easier.

After seeing very little movement in development projects for 2014 and 2015, a number of projects were reported in 2016, though numbers are still far below those of 2013 (TABLE 2).

CITY OF MISSOULA BUILDING PERMITS

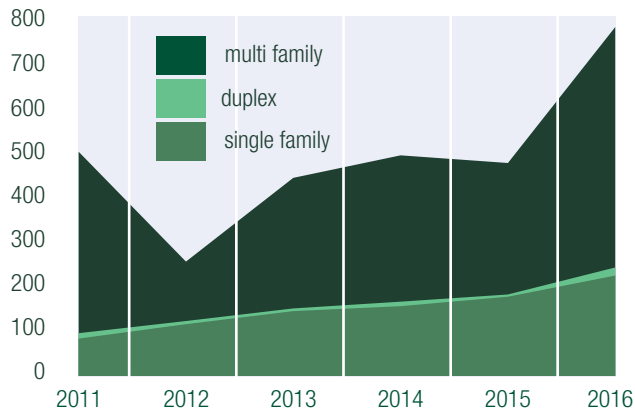


FIGURE 3

Source: City of Missoula Development Services

MISSOULA COUNTY BUILDING PERMITS

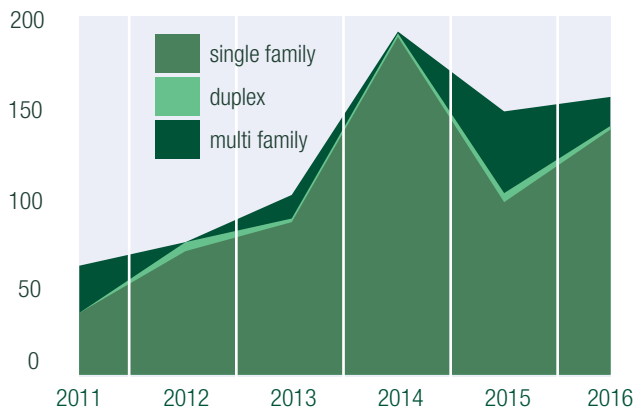


FIGURE 4

Source: Missoula County Community and Planning Services

DEVELOPMENTS

	2013	2014	2015	2016
County Subdivisions	6	1	1	1
County Residential Lots Approved	95	3	1	6
City Subdivisions	2	0	0	1
City Residential Lots Approved	4	0	0	2
Total Residential Lots	99	3	1	8

TABLE 2

Source: City of Missoula Development Services & Missoula County Community & Planning Services

Occupancy rates in Missoula

About 51 percent of housing units in the city are occupied by renters and about 47 percent by owners, which is similar to prior years and typical for a university community. County-wide though, around 57 percent of units are owner occupied while approximately 41 percent are renter occupied (FIGURE 5).

FIGURE 5: About 47 percent of housing units in the City of Missoula are owner occupied.

FIGURE 6: The number of owner-occupied housing units increased by 3.6 percent in 2015, while renter-occupied units increased by 2.3 percent.

OCCUPIED HOUSING UNITS BY TENURE

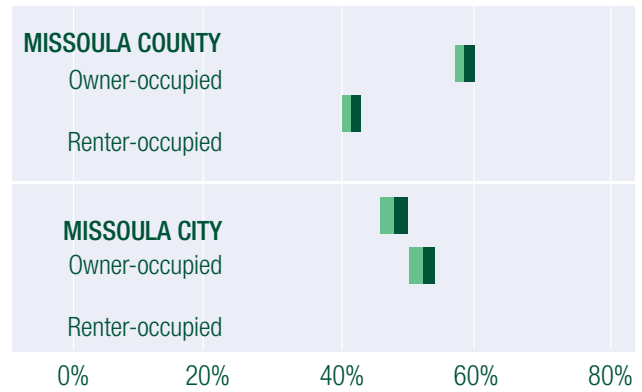


FIGURE 5

Source: U.S. Census Bureau, American Community Survey, 2015 5 year data.

OCCUPIED HOUSING UNITS | MISSOULA COUNTY

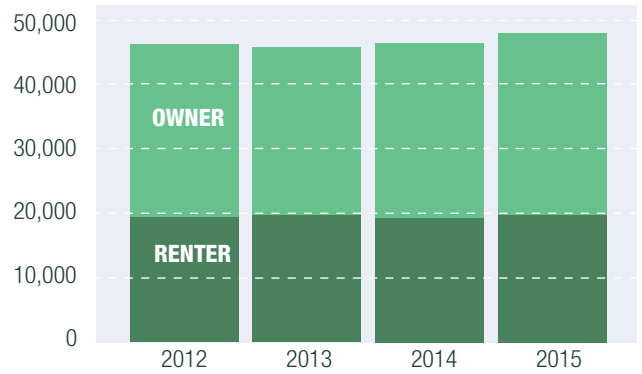


FIGURE 6

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



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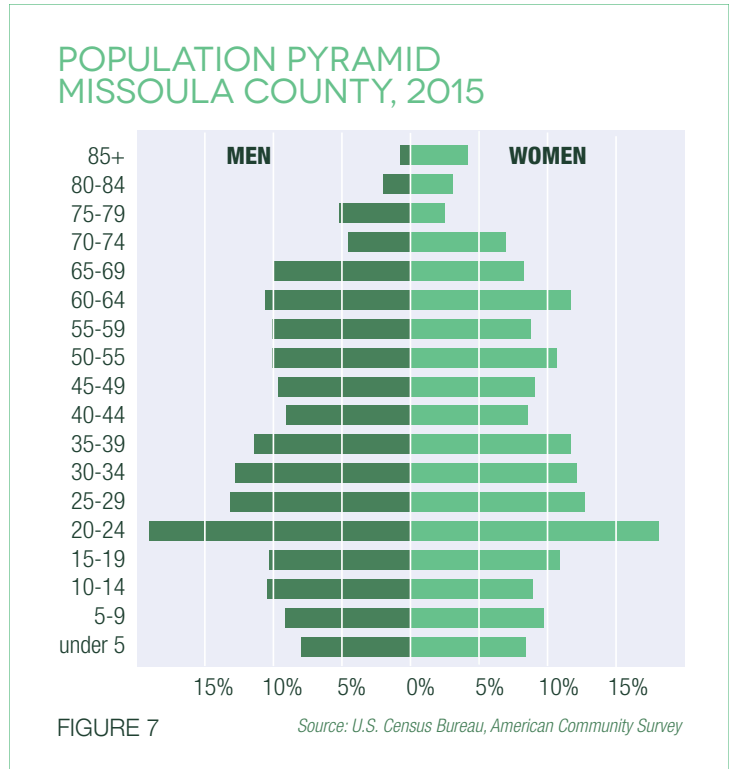
HOUSING DEMAND: POPULATION & INCOME

Age Distribution

Residents ages 20 to 24 were still the largest age demographic in Missoula County in 2015 (FIGURE 7), according to the most recent American Community Survey data, though that bracket did register a slight (less than 1 percent) drop compared to 2014, coinciding with a decline in enrollment at the University of Montana. Meanwhile, the 35 to 39 demographic saw a slight increase over prior years.

Keep in mind that data from the American Community Survey is from 2015 and is a year behind some of our other figures on home sales and rentals.

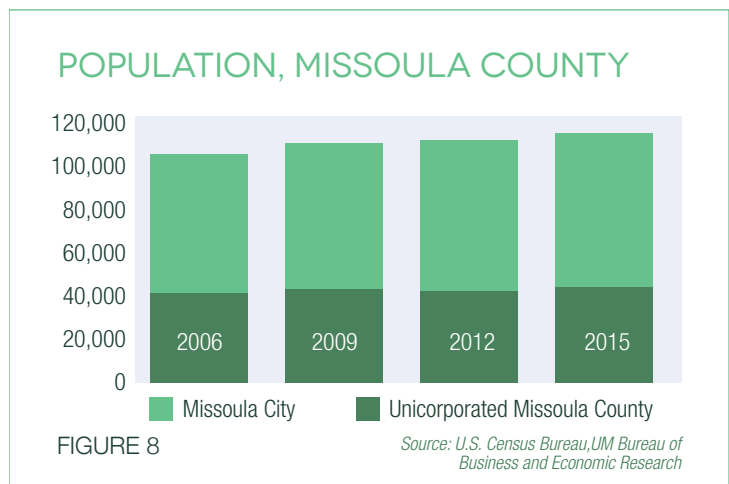
FIGURE 7: University-age students continue to dominate the population pyramid in Missoula County.



Population Dynamics

Missoula County registered a 1.3 percent increase in population from 2014 to 2015, reaching a total of 114,181 (FIGURE 8). In the decade from 2006 to 2015, the county's population increased 9.4 percent, creating growing pressure on housing availability. The majority of that population growth occurred in the City of Missoula, rather than unincorporated Missoula County.

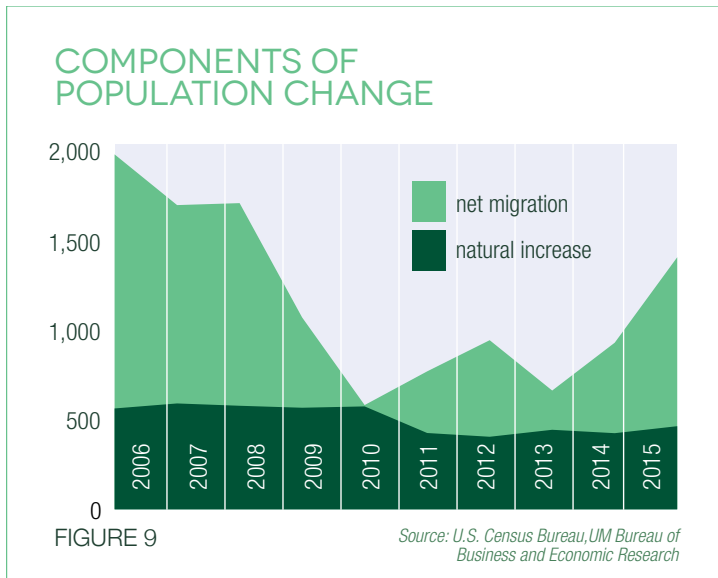
FIGURE 8: Missoula's population increased by 2.8 percent from 2012 to 2015.



Migration

Three factors influence population change: birth, death, and net migration. Net migration factors in the number of individuals moving to the area, as well as those leaving. Despite declining enrollment at the University of Montana, net migration in Missoula County increased for the second year in a row in 2015, though it was still at a lower level than its pre-recession peak in 2006 (FIGURE 9).

FIGURE 9: More people moved to Missoula than moved away in 2015, marking the second year of an increase in net migration.

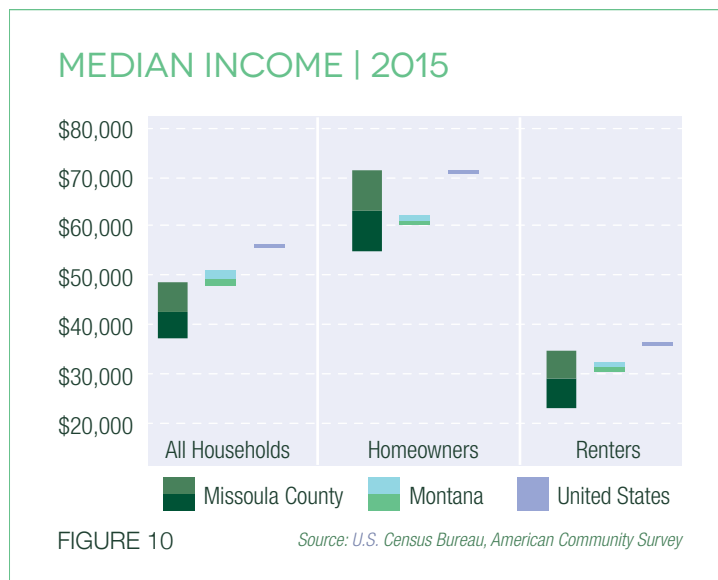


Income Trends

The estimated median income for all households in Missoula County in 2015 was \$42,815 (FIGURE 10), down from \$47,029 in 2014. It should be noted there is a large margin of error with this data, and it is also an aggregated figure. For a detailed picture of median income as related to household size, refer to the Housing Affordability Index (TABLE 8). While Missoula's median income was on par with household incomes in Montana in prior years, in 2015 it fell below Montana's estimated \$49,509. As has been the case for several years, Missoula's median income was also below that of U.S. households (\$55,775).

The greatest disparity, however, is between the median income of Missoula's homeowners (\$63,089) and renters (\$28,765).

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



RENTAL HOUSING

Rental Occupancy

Missoula's annual rental vacancy rates declined to 2.9 percent in 2016 (FIGURE 12). While a decline of 1.2 percent in the vacancy rate typically wouldn't be of concern, Missoula's already-low rates make a tight rental situation incredibly so. And this is despite additional units coming onto the market as well as the decline in enrollment at the university. However, it's interesting to note that the decline in the vacancy rate did not correlate with an increase in rental prices, as one might expect.

FIGURE 11: The vacancy rate declined in both the third and fourth quarters of 2016, ending the year at 2.1 percent.

FIGURE 12: Annual rental vacancy rates in Missoula fell to 2.9 percent in 2016.

FIGURE 13: Vacancy rates for two-bedroom multiplexes were extremely low in 2016, with a high of 4 percent in June and an all-time low of zero in December.

RENTAL VACANCY RATES QUARTERLY

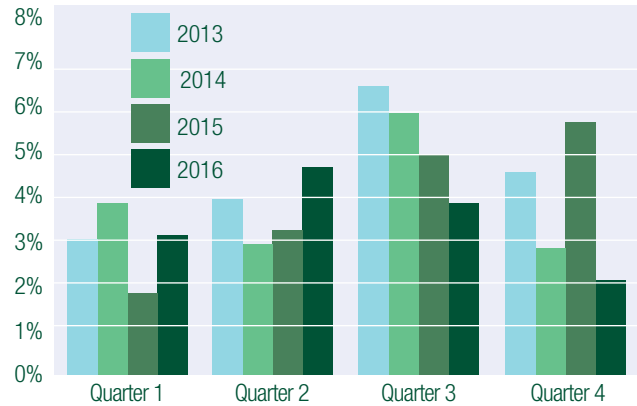


FIGURE 11

Source: Western Montana Chapter of NARPM

ANNUAL VACANCY RATES

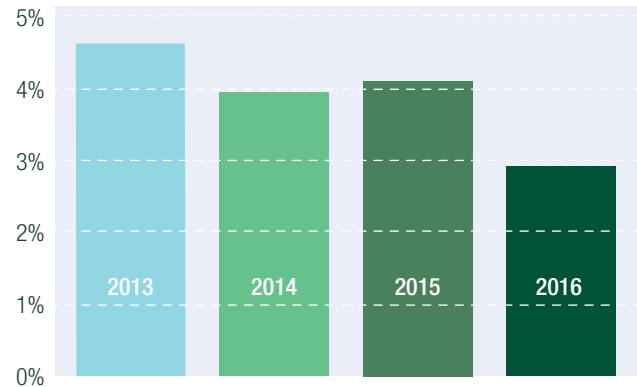


FIGURE 12

Source: Western Montana Chapter of NARPM

RENTAL VACANCY RATES BY MONTH—TWO-BEDROOM MULTIPLEXES

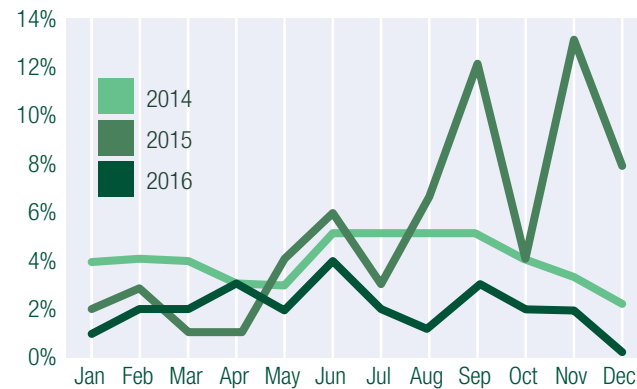


FIGURE 13

Source: Western Montana Chapter of NARPM



MULTIPLEX VACANCY RATE BY TYPE

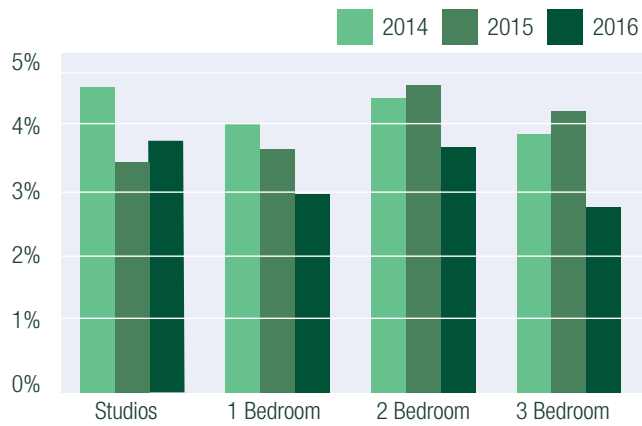


FIGURE 14

Source: Western Montana Chapter of NARPM

FIGURE 14: Studios were the only type of multiplex rental that saw an increase in vacancy rates in 2016.



RENTAL HOUSING

Rental Prices

Rental prices in Missoula leveled out in 2016 (FIGURE 15) in spite of lower-than-normal vacancy rates. The average rent for a one-bedroom apartment in a multiplex was \$625 while average rent for a 3-bedroom house was \$1,117.

Overall, Missoula County tends to have higher rents than the state average, but they both tend to follow the same trends. In 2015, the average rent in Missoula County was \$769, compared to the state average of \$711 (FIGURE 16).

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

FIGURE 15: The average cost of rent decreased slightly in all but two categories in 2016.

FIGURE 16: The average rent in Missoula County is consistently higher than statewide rent.

Rental Assistance Programs

Housing choice vouchers make private-market housing affordable for low-income families and individuals by paying a portion of the family's rent. Federal funding remained sufficient in 2016 to support all available Section 8 vouchers. The Missoula Housing Authority (MHA) has 774 available Section 8 vouchers that subsidize rent to private landlords for eligible participants, helping to make private-market housing affordable for low-income families and individuals. The Montana Department of Commerce provides another 262 vouchers.

AVERAGE COST OF RENT

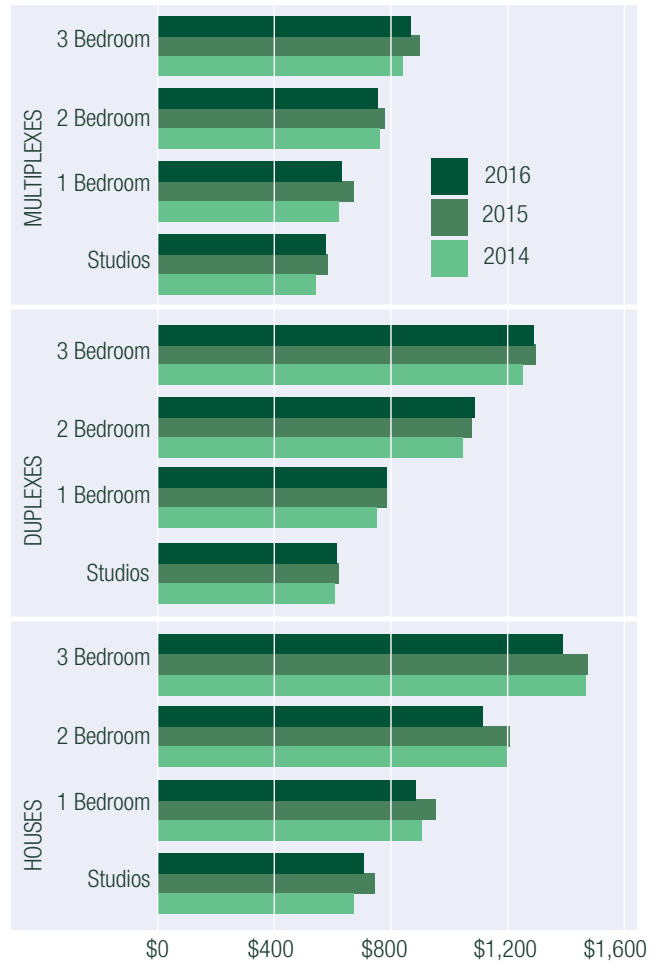


FIGURE 15

Source: Western Montana Chapter of NARPM

CHANGE IN RENT

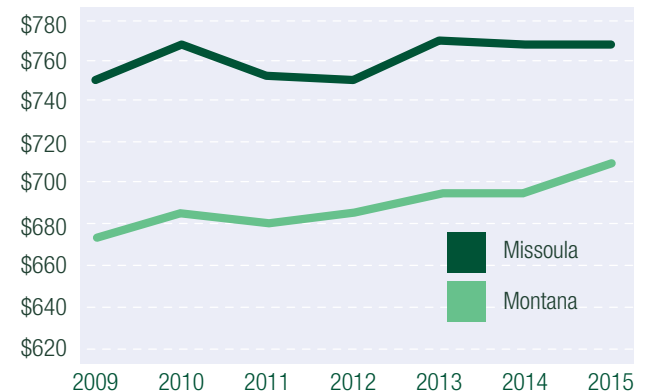


FIGURE 16

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

The demand for this type of rental assistance remains high. In September 2016, 1,654 households were on the Section 8 waiting list, a 4.6 percent decrease from 2015 (TABLE 3).

MHA also provides permanent supportive housing vouchers for disabled homeless families. While MHA had initially been able to stretch funding to serve as many as 135 households, that program received a substantial cut of more than 30 percent in May 2016. In December, part of the funding was restored, but that still leaves a 19 percent reduction in funding that will be ongoing.

Despite efforts to increase the development of affordable housing for federally subsidized and rent-controlled units, it still lags behind the need demonstrated by the waitlists. MHA was fortunate to secure 48 new project-based Section 8 subsidies in four of their projects, 40 serving severely disabled and the other 8 open to low-income families in a mixed-use project jointly owned by Wishrock Group. These add to MHA's 178 public housing units and the other 389 long-time Section 8 projects, such as Council Groves. New rental assistance of this sort is nearly unheard of nowadays.

In the last ten years, 331 units of new affordable housing have been constructed, along with preserving 178 existing units (TABLE 4). At an average of 33 units per year, these numbers seriously fall short of needed production.

No newly built units were added in 2016 but Homeward, a nonprofit that develops housing people can afford, built 27 units of affordable housing, which began leasing in early 2017. MHA is building one six-unit complex, as well, that will lease in the spring of 2017.

A number of social service agencies, area businesses, and the community at large reported a significant need for services to help low-to-moderate income people access and maintain affordable rental housing. Homeward implemented a rental education and counseling program in May of 2016 with curriculum that focuses on removing barriers to accessing rental housing, understanding rights (such as fair housing), the responsibilities of being a good renter, and eviction prevention. In 2016, they were able to offer three Rent Wise workshops. Participants had an average annual income of \$18,167 and an average age of 45.

MHA WAITLISTS

Waiting Lists	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
MHA Sec 8 Voucher	953	994	1,395	1,393	1,666	1,555	1,751	1,595	1,725	1,654

TABLE 3

Source: Missoula Housing Authority

TABLE 3: The waitlist in Missoula for Section 8 Vouchers fell 4.6 percent to 1,654 in 2016.

AFFORDABLE HOUSING UNITS BUILT IN MISSOULA COUNTY

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	TOTAL
63	35	37	5	34	115	0	36	6	0	331

TABLE 4

Source: Montana Department of Commerce

TABLE 4: In the last ten years, 331 affordable housing units have been built in Missoula County.

HOUSING SALES & PRICES

Home Sales in 2016

A tight supply on the Missoula real estate market helped to force the median price of a home up another 6.8 percent to a record-setting \$255,000 in 2016 (TABLE 5).

Overall, the number of Missoula home sales in 2016 remained nearly identical to that of 2015, but the breakdown by price point shows that the sales of more affordable homes are declining. In 2016, sales of homes under \$275,000 declined by 13 percent compared to the previous year while those \$275,001 and over increased by 27.2 percent (TABLE 6, FIGURE 21).

A tight supply in the most affordable market ranges often leads to buyers competing for the same property, further driving up sales prices. In 2016, homes sold at an average of 98.9 percent of their list price (FIGURE 18), the highest we've seen in the last ten years. Clearly, for the last three years, based on the original list to final sales price, Missoula has experienced a seller's market. The combination of rising prices and a shortage of homes at lower price points may have impacted (and frustrated) buyers, leading to a stall in overall sales. (See "Pace of Home Sales" for more on supply).

TABLE 5: The median sales price of a Missoula home in 2016 was \$255,000, up 6.8 percent from 2015.

FIGURE 17: A total of 1,392 homes were sold in 2016, nearly equal to 2015 numbers, as well as the peak in 2007.

MEDIAN PRICE OF SALES IN MISSOULA URBAN AREA

Year	Annual Number of Sales	Median Price	% Change in Median Price
2007	1,392	\$219,500	6.2%
2008	996	\$215,000	-2.1%
2009	1,033	\$208,775	-2.9%
2010	903	\$200,500	-4.0%
2011	878	\$205,000	2.2%
2012	1,068	\$209,700	2.3%
2013	1,322	\$215,000	2.5%
2014	1,265	\$225,000	4.7%
2015	1,390	\$238,700	6.1%
2016	1,392	\$255,000	6.8%

TABLE 5

Source: Montana Regional MLS

NUMBER OF HOMES SOLD IN THE MISSOULA URBAN AREA

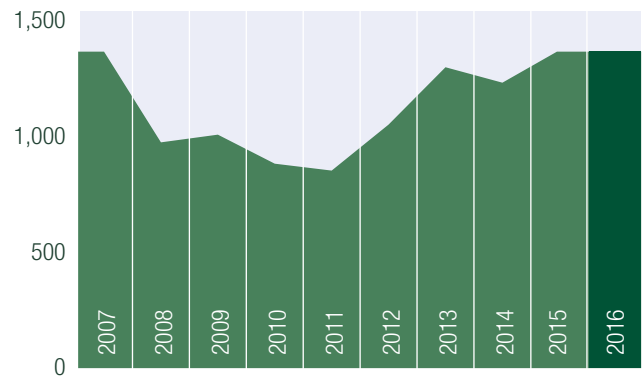


FIGURE 17

Source: Montana Regional MLS

ORIGINAL LIST TO FINAL SALES PRICE

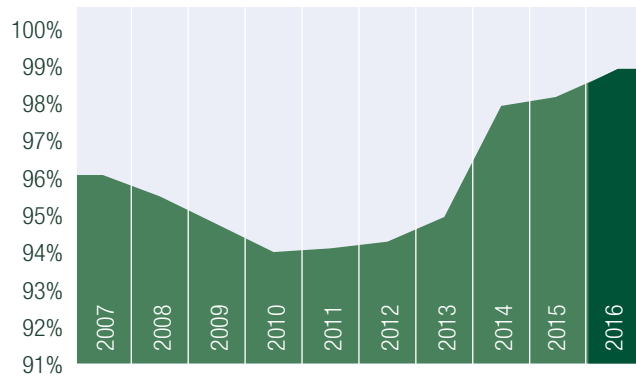


FIGURE 18

Source: Montana Regional MLS

MISSOULA NUMBER OF SALES BY QUARTER

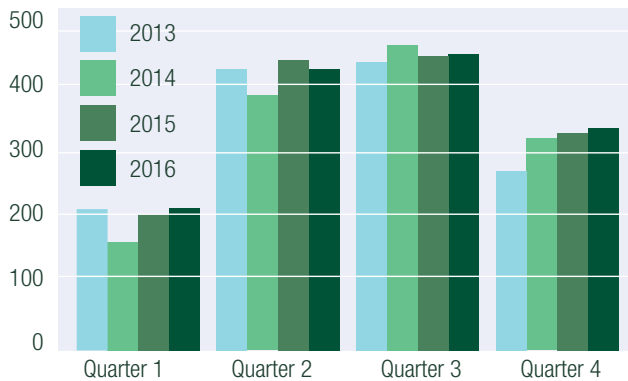


FIGURE 19

Source: Montana Regional MLS

MEDIAN SALES PRICE OF HOMES SOLD IN THE MISSOULA URBAN AREA

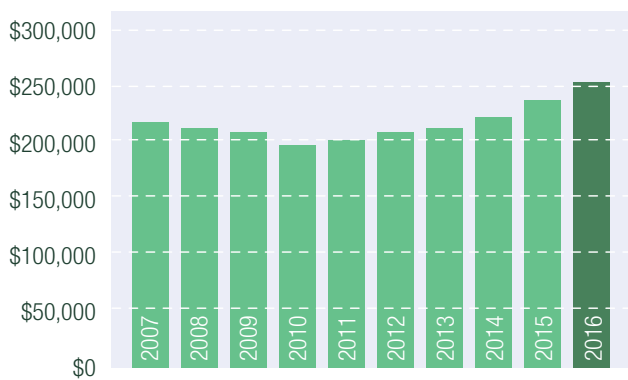


FIGURE 20

Source: Montana Regional MLS

FIGURE 18: In 2016, homes sold at an average of 98.9 percent of their list price.

FIGURE 19: Quarterly sales remained consistent throughout 2016.

FIGURE 20: Since 2011, the median sales price of Missoula homes has steadily increased.



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HOUSING SALES & PRICES

NUMBER OF SALES ACCORDING TO PRICE POINT

PRICE RANGE	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
\$0-\$150,000	170	121	126	131	174	188	196	156	145	110
\$150,001-\$200,000	405	301	358	323	251	295	387	317	276	232
\$200,001-\$275,000	429	297	327	247	258	304	406	414	513	470
\$275,001-\$350,000	199	166	125	120	112	160	186	196	244	300
\$350,001-\$425,000	87	47	48	42	49	57	79	89	104	148
\$425,001 +	102	64	49	40	33	64	68	93	108	132
TOTAL	1,392	996	1,033	903	877	1,068	1,322	1,265	1,390	1,392

TABLE 6

Source: Montana Regional MLS

TABLE 6: In 2016, sales in the \$200,001 to \$275,000 price point declined by 8.4 percent while those in the \$275,001 to \$350,000 range increased by 23 percent.

FIGURE 21: Sales in the lowest three price points all declined in 2016, while the number of sales above \$275,001 all increased.

NUMBER OF SALES PRICE RANGE BREAKOUT MISSOULA

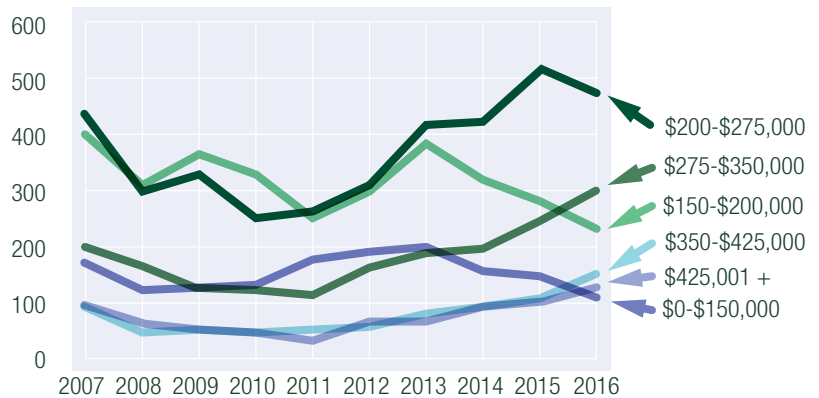


FIGURE 21

Source: Montana Regional MLS

SALES PRICE DISTRIBUTION OF HOMES SOLD IN MISSOULA URBAN AREA

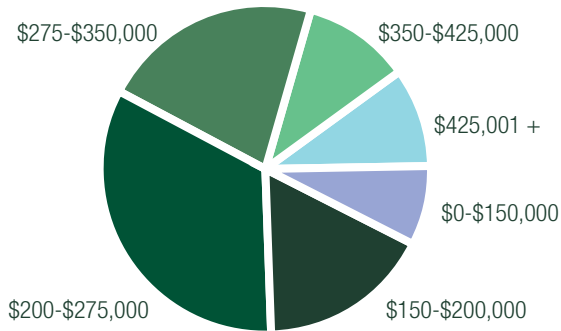


FIGURE 22

Source: Montana Regional MLS

FIGURE 22: The bulk of Missoula homes sold in 2016 were priced from \$200,000 to \$275,000.

FIGURE 23: In 2014 and 2015, the increase in median sales price in Missoula was nearly equal to the national average. However, in 2016, Missoula's increase outpaced that of the U.S. for the first time since the recession.

PERCENT CHANGE IN MEDIAN SALES PRICE

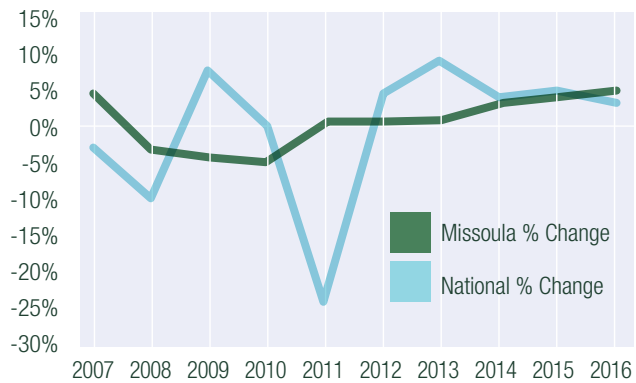
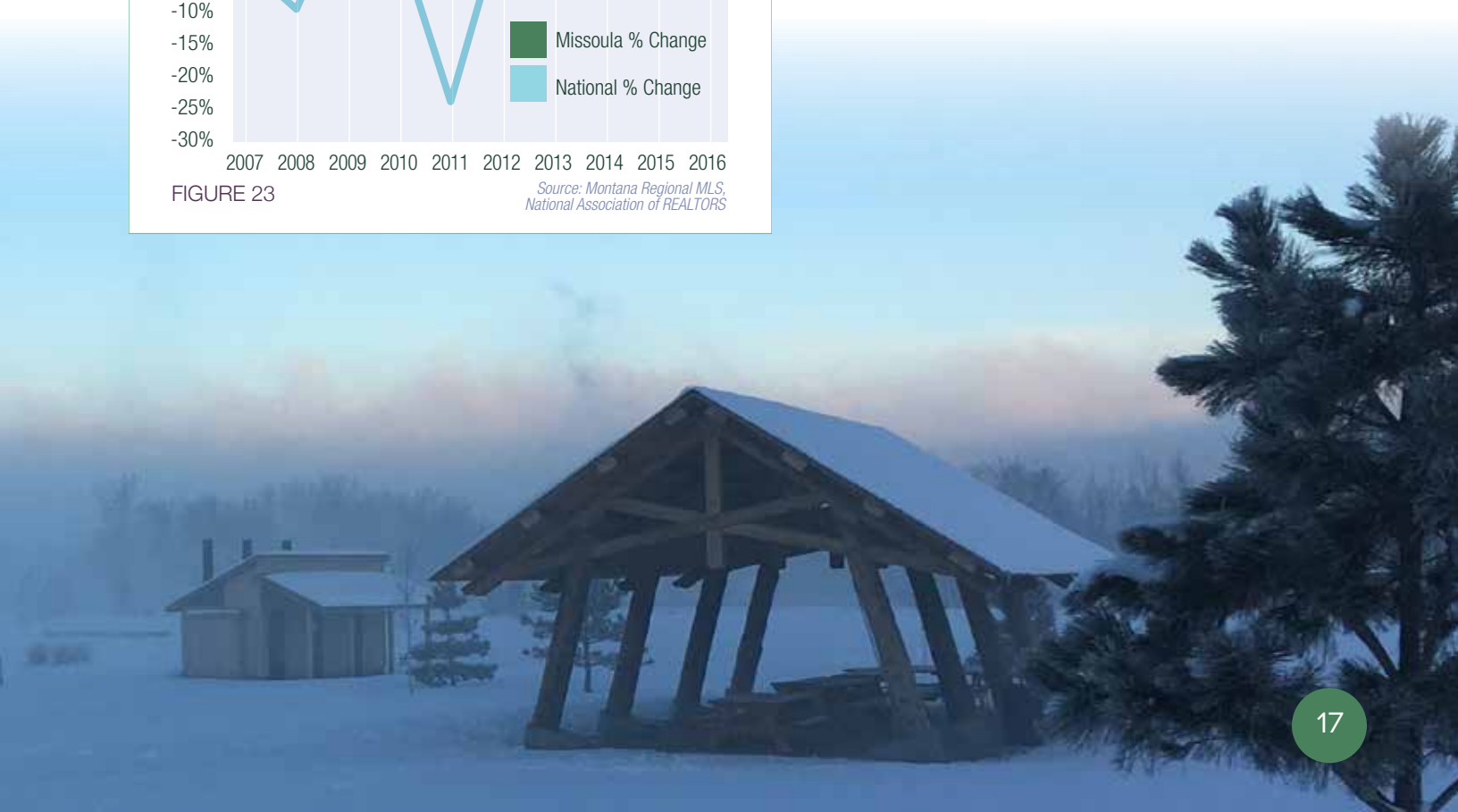


FIGURE 23

Source: Montana Regional MLS, National Association of REALTORS

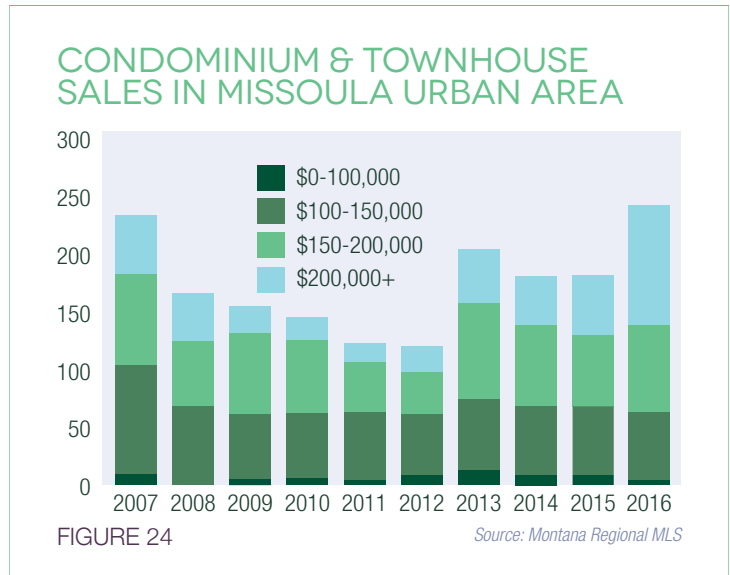


HOUSING SALES & PRICES

Condominiums & Townhouses

Sales of condominiums and townhouses increased by 33.9 percent in 2016 (FIGURE 24). Most of that surge came from units priced over \$200,000, which experienced a growth of 110 percent over the prior year. Condos and townhouses are increasing in popularity among buyers partly due to their costs often being lower than a starter house. As well, the market is providing a new supply of such units, with 40 newly constructed condos being sold in 2016, at the median price of \$207,900.

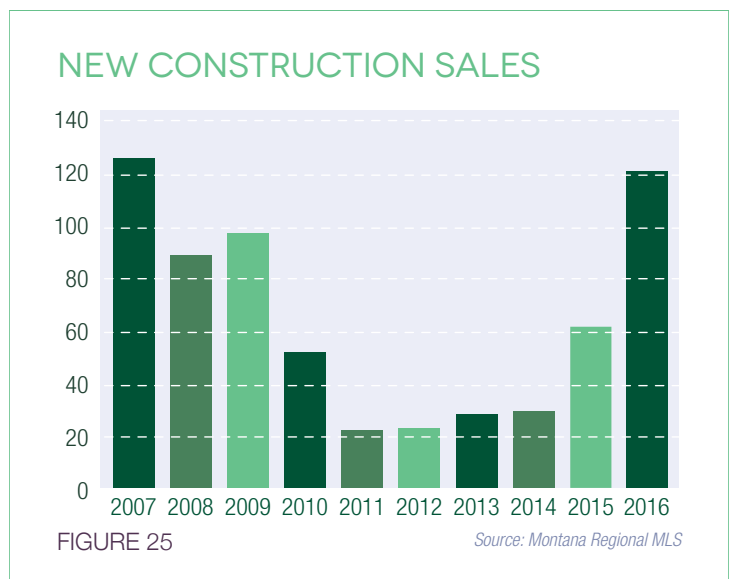
FIGURE 24: Missoula experienced a 33.9 percent increase in sales of condominiums and townhouses in 2016.



New Construction Sales

New construction sales came very close to 2007 housing boom levels in 2016, increasing by 96.7 percent for a total of 120 (FIGURE 25). The median price of a newly constructed single-family home was \$310,688. The median price of a newly constructed townhouse was \$235,000 while that of a newly constructed condominium was \$207,900. These numbers are based on MLS data and do not include unreported private builder sales.

FIGURE 25: Sales of new construction nearly doubled in size in 2016.



Sales Trends in Neighborhoods

While the number of homes sales throughout Missoula was flat in 2016, trends among neighborhoods varied widely.

East Missoula/Clinton, Lolo, Central Missoula, Miller Creek, Grant Creek, South Hills, and the University/Slant area all experienced marked declines in the number of sales. Meanwhile, increased sales occurred in the neighborhoods of Mullan Road/Expressway, Target Range, Lewis & Clark, Downtown/Northside, and the Rattlesnake (FIGURE 26).

Median prices increased in nearly every neighborhood, with the exception of East Missoula/Clinton and Grant Creek (FIGURE 27).

FIGURE 26: Five of Missoula's neighborhoods experienced an increase in home sales in 2016 while the other seven experienced a decline.

FIGURE 27: In 2015, the median sales price increased in all but one Missoula neighborhood; in 2016 it increased in all but two neighborhoods.

HOME SALES BY NEIGHBORHOOD

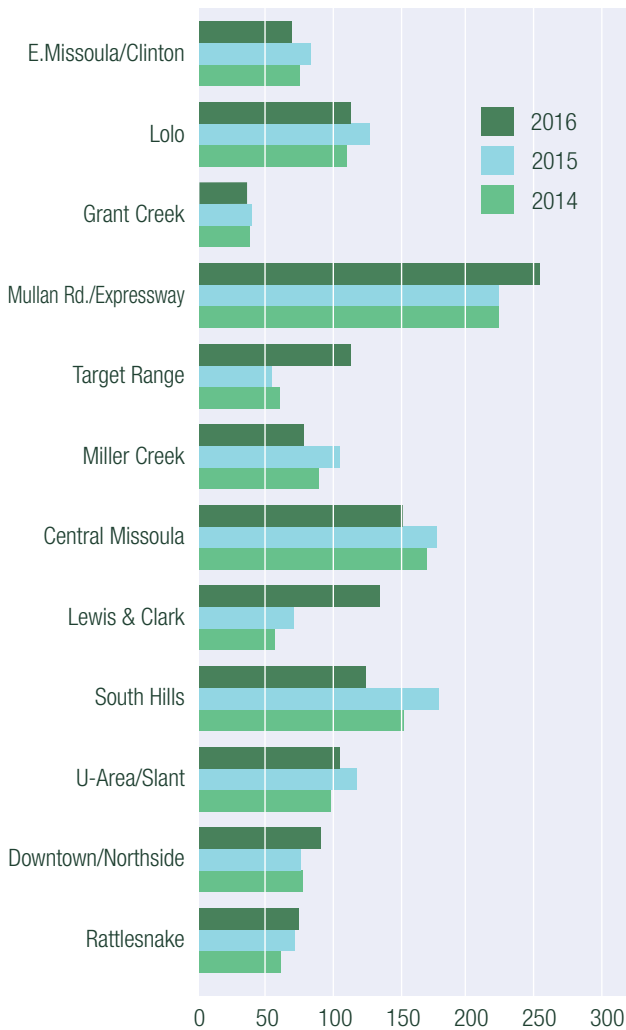


FIGURE 26

Source: Montana Regional MLS

MEDIAN SALES PRICE BY NEIGHBORHOOD

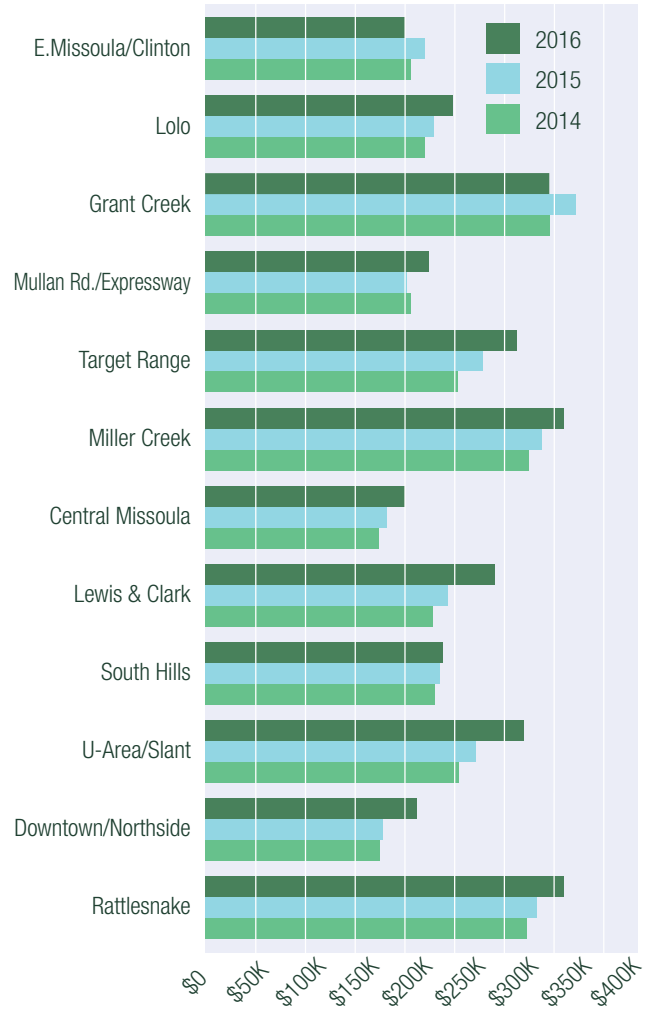


FIGURE 27

Source: Montana Regional MLS

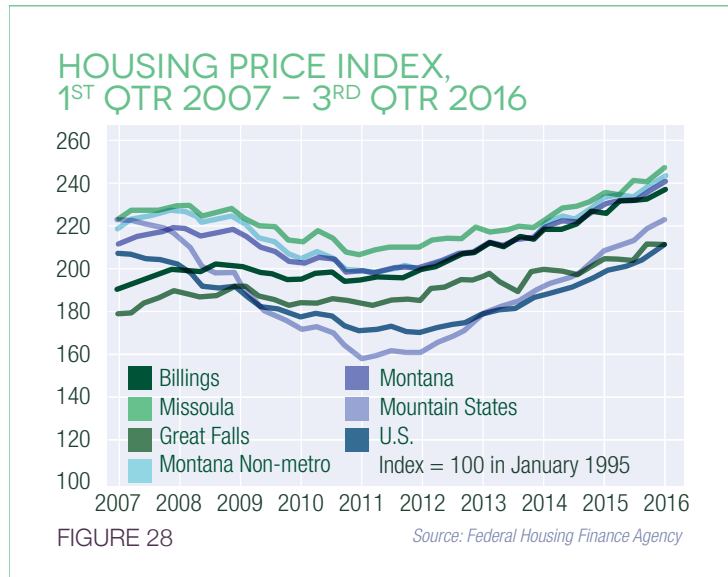
HOUSING SALES & PRICES

Comparative Trends in Home Prices

The Housing Price Index (HPI) helps us measure appreciation by looking at changes in single-family home prices. The Federal Housing Finance Agency obtains the data by reviewing repeat mortgage transactions on properties purchased or securitized by Fannie Mae and Freddie Mac. When a home is sold, the price is compared to previous sale prices for the same home; the same goes for refinancing. An index value of 100 equals the value in January 1995.

Repeat sale prices in Missoula in 2016 were higher than other state and national markets, as has been the trend for several years. For the third quarter of 2016, Missoula had an HPI of 246.4 (FIGURE 28).

FIGURE 28: The Housing Price Index for Missoula homes continued to increase throughout 2016, showing strong appreciation of single-family homes.



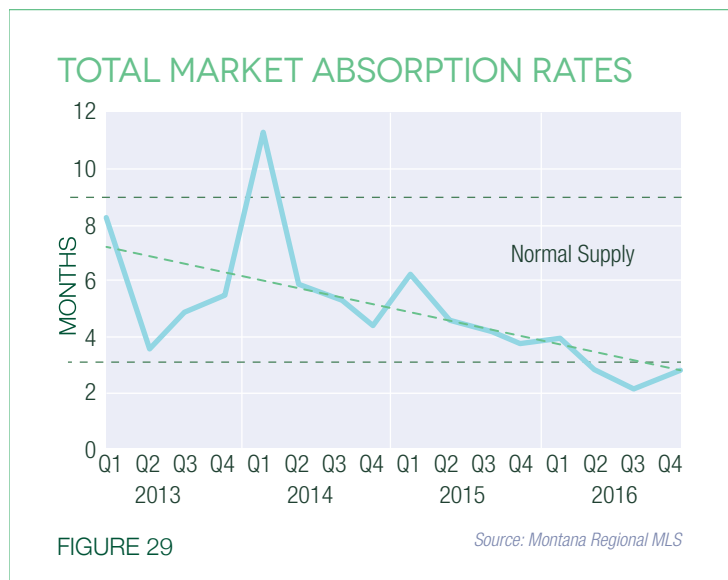
Pace of Home Sales

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

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

As a general rule, the absorption rate defines various market conditions:

- Under three months is an under-supply.
- Three to nine months is a normal market.
- Nine to 12 months is an over-supply.
- More than 12 months is an overloaded market.



2016 SUPPLY BY QUARTER, MISSOULA

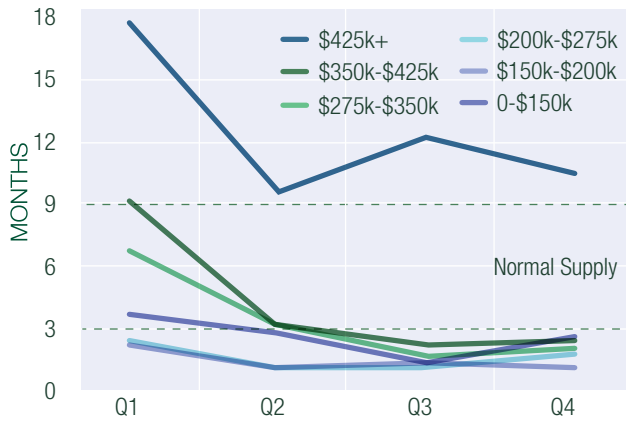


FIGURE 30 Source: Montana Regional MLS

Missoula’s overall market officially entered an under-supply in the second quarter of 2016 (FIGURE 29). However, several neighborhoods and price points have a longer recent history of being in under-supply, and 2016 saw those supplies continue to decline.

The absorption rates for homes between \$150,000 and \$275,000 have been under three since the second quarter of 2015 (FIGURE 31). Homes in the \$275,000 to \$425,000 ranges dipped below three for the first time in 2016. Those over \$425,000 were still at a slight over-supply in 2016 but their absorption rate has improved in recent years (FIGURE 31).

The higher-priced neighborhoods of Grant Creek, Miller Creek, Target Range/Big Flat, and the University/Slant area had a normal supply in 2016. Neighborhoods with much-desired lower median prices exhibited an under-supply. Meanwhile, the broad appeal of the Rattlesnake and Lewis & Clark neighborhoods continued to create a low-supply and higher median price (FIGURE 32).

ABSORPTION RATES BY PRICE POINT

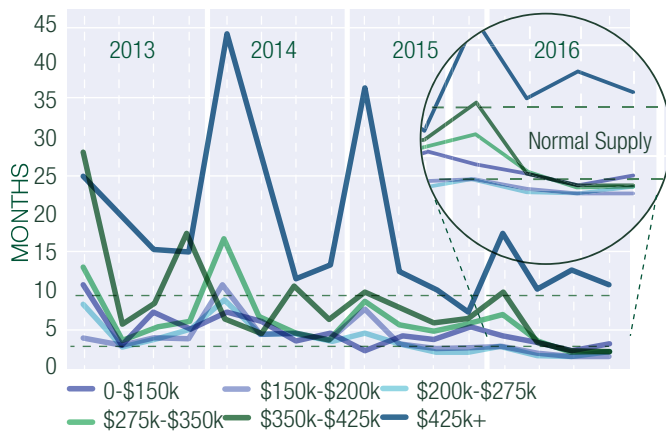


FIGURE 31 Source: Montana Regional MLS

FIGURE 29: Total market absorption rates remained in the lower-range of normal throughout 2016.

FIGURE 30: Absorption rates for all price points under \$425,000 in Missoula fell below normal towards the end of 2016, indicating an under-supply for all but the most expensive price point.

FIGURE 31: In 2016, the supplies of most price points continued to decline.

YEAR-END SUPPLY BY NEIGHBORHOOD

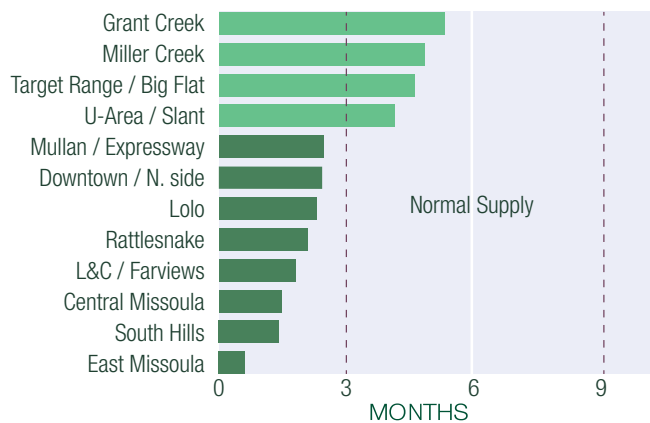


FIGURE 32 Source: Montana Regional MLS

FIGURE 32: Based on absorption rates, the higher-priced neighborhoods of Grant Creek, Miller Creek, Target Range/Big Flat, and the University/Slant area were the only neighborhoods to have a normal, healthy supply of homes at the end of 2016.

Mortgage Loans

Home mortgage interest rates remained very affordable throughout 2016. Interest rates initially dropped below 2015 levels and then began to climb upward by mid-November 2016, resulting in a year-end interest rate of 4.5 percent (FIGURE 33).

The low interest rate for 30-year conventional loans bottomed out at 3.5 percent, making borrowing even more affordable for prospective homebuyers. Mortgage rates were kept low by the Federal Reserve's hold on the prime lending rate, as well as long-term mortgage-backed securities, which are influenced by the stock market. By the second week of November 2016 mortgage rates began to rise.

Prospective homebuyers wanting to take advantage of low mortgage rates found a shortage of desirable and/or new housing. Most homebuyers were interested in long-term homes or investments, rather than a quick profit turnaround.

FIGURE 33: Mortgage interest rates began to rise at the end of 2016 and finished at 4.5 percent.

Impacts of Mortgage Insurance

Private mortgage insurance (PMI) is a policy, paid for by the homeowner, that protects the lender in the event that the homeowner defaults on payments. While not all loans require PMI, it is required on conventional loans when the first mortgage is greater than 80 percent of the property value. Federal Housing Administration (FHA) and Rural Development loans also require mortgage insurance.

Thus, low down payments generally translate to the additional cost of PMI for homeowners. However, mortgage insurance continued to be tax deductible in 2016 as long as household adjusted gross income was under \$100,000. At that threshold, the deduction begins to phase out. It's unclear if that deduction will be available in 2017.

YEAR-END INTEREST RATES



FIGURE 33

Source: First Interstate Bank

Down Payments

There continue to be down payment assistance programs for those who make 80% or less of the area median income and additional financing programs available through Neighbor Works of Great Falls and the Federal Home Loan Bank. These programs require that all applicants for down payment assistance programs complete a certified First-Time Homebuyer class and show that they have the ability to save some of their own down payment funds. Additionally, qualified applicants can use the Human Resource Council's down-payment assistance program for their gap financing.

In 2016, eligible Montana home buyers had a new program available to help with down payments. The Montana & Idaho Community Development Corporation's HomeNow Down Payment Gift Program, available through participating lenders, funds up to 100 percent of a borrower's cash requirements to close. The gift does not need to be repaid and can be used for down payment, closing costs and related mortgage loan expenses. However, buyers who use this program will also pay higher interest rates.

Foreclosure

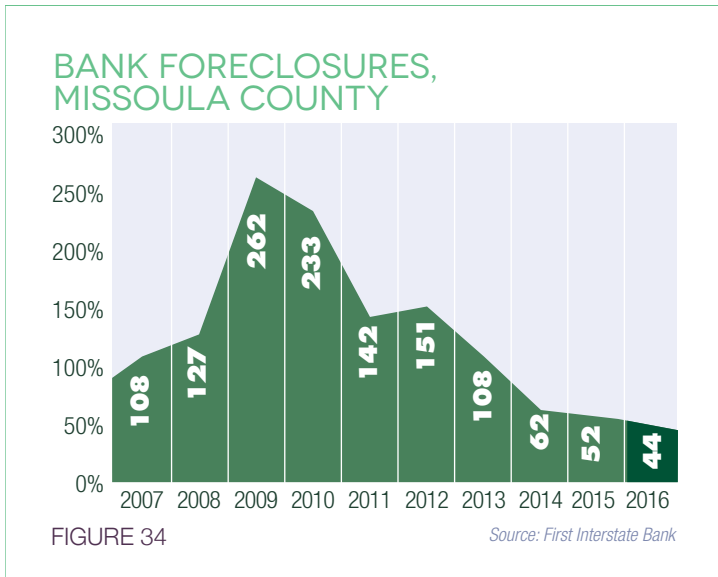
Home mortgage delinquencies and foreclosures dropped to a 10-year low, with just 44 properties reaching foreclosure (TABLE 7 & FIGURE 34). The low number of foreclosures may be due in part to homebuyer education programs, financial fitness classes, foreclosure prevention, and more conservative underwriting standards.

TABLE 7: Missoula registered the lowest number of net foreclosures in the last decade in 2016, with just 44.

FIGURE 34: Following the hard-hit years of the recession, foreclosures have steadily declined in Missoula.

FORECLOSURES			
Year	Notice of Sale	Cancellation of Sale	Net Foreclosures
2007	247	139	108
2008	313	186	127
2009	565	303	262
2010	719	486	233
2011	493	351	142
2012	431	280	151
2013	270	162	108
2014	206	144	62
2015	248	196	52
2016	137	93	44

TABLE 7 Source: Stewart Title, Missoula, MT



Home Ownership Programs

Homeword is a statewide nonprofit that develops housing people can afford, is a HUD-approved Housing Counseling Agency, and has one of only three Regional HomeOwnership Centers® in the state of Montana. Since Homeword's HomeOwnership Center opened in 1997, more than 12,000 people have been served. Homeword provides a full-continuum of services including financial literacy education and counseling, rental education and counseling, homebuyer education and housing counseling, foreclosure prevention counseling, and post-purchase education and counseling. Overall, Homeword predominantly serves people earning low-to-moderate incomes. As a nonprofit, all services are provided at no cost with the exception of the homebuyer education class, which is \$25 per person (or \$40 per household).

2016 HOMEWORD PROGRAM FACTS

- 943 people accessed Homeword's HomeOwnership Programs in Missoula.
- 495 people accessed homebuyer education classes and workshops.
- 222 people accessed free pre-purchase housing counseling.
- 71 percent of Homeword clients earned less than 80 percent of the area median income (AMI).
- \$40,000 was the mean income of program participants.
- Of those receiving homebuyer education and/or housing counseling, 65 percent were women and 35 percent were men.
- 71 percent of the work in the HomeOwnership Center was homebuyer education and counseling.
- 72 percent of Homebuyer Education class participants self-reported they were just interested in learning more about homeownership; 24 percent were currently shopping and 4 percent were in the process of closing on a house.



A 2016 study by NeighborWorks America found that approximately 67 percent of adults said they strongly or somewhat agreed “that the home buying process is complicated.” 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 don’t receive such services.

Most housing counseling clients plan to use a conventional loan through Fannie Mae (having good credit and 5 percent down) or a federally insured loan (Rural Development, FHA or VA) with Montana Board of Housing (MBOH) through an approved MBOH lender of their choice.

Foreclosure Counseling. Homeward serves as a clearinghouse of information about foreclosure. A Certified Housing Counselor is available by phone to answer questions the public may have about foreclosure. Thirty-two people received foreclosure counseling via phone in 2016. And 11 households received in-depth foreclosure counseling in Missoula in 2016 (down from 15 in 2015, 24 in 2014, and 45 households in 2013). Of those households, three received a mortgage modification, two sold their property and one brought their mortgage current in 2016.

A 2014 study of the National Foreclosure Mitigation Counseling (NFMC) program found that participants were nearly three times more likely than nonparticipants to get a loan modification. In addition, among borrowers who received a modification, NFMC participants were 70 percent less likely to redefault.

Financial Education & Counseling. Homeward also provides financial education and counseling in Montana. In 2016:

- **164 people accessed financial education and/or financial coaching.**
- **Of those receiving financial education/coaching, 78 percent were women; 22 percent were men.**
- **76 percent earned less than \$33,250 annually (80 percent AMI).**



HOUSING AFFORDABILITY

The Housing Affordability Index

The Housing Affordability Index (HAI) measures the ability of a family earning a median income to purchase a median-priced home. An index value of 100 means that a household with a median income has exactly enough income to spend 25 percent of their income on a mortgage for a median-priced home. A value higher than 100 indicates that family 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). For the purpose of this report, the numbers also show how a lower 4-percent down payment, plus the necessary mortgage insurance, affects the overall affordability (TABLE 8).

The HAI declined in Missoula again in 2016, reaching a ten-year low, due to a significant increase in median home price coupled with a slight decline in median family income (FIGURE 35).

When assuming a 4-percent down payment and mortgage insurance, the HAI ranged from 48 to 69 in 2016, indicating that a family with a median income would have a difficult, if not impossible, time qualifying for a mortgage on a median-priced home (TABLE 8). While a down payment of 20 percent significantly increases the HAI, 2016 was unique in that it was the first time all HAI levels fell below 100. Based on the HAI, homes in Missoula in 2016 were slightly less affordable than those during the housing boom in 2007.

The median incomes used to calculate the HAI are broken out by household size, which means they are different than the aggregated median income reported in Figure 10.

At the bottom of Table 8, you can see the effect a down payment has on affordability. If a family tried to purchase a median-priced home in Missoula in 2016 with a 4-percent

down payment, they would have needed a median family income of \$89,916. However, if that same family had a larger 20-percent down payment (and thus no mortgage insurance and likely a lower interest rate), they only would need a median income of \$62,892. The reality is that few people have 20% down unless they are bringing proceeds from a previous real estate sale to the table.

Note: In last year's report for the HAI, there was a discrepancy in how the monthly payment on loans was calculated for 2014 and 2015. Thus, housing was slightly less affordable in terms of the income needed to purchase a median priced home for 2014 and 2015 than was indicated in last year's report.

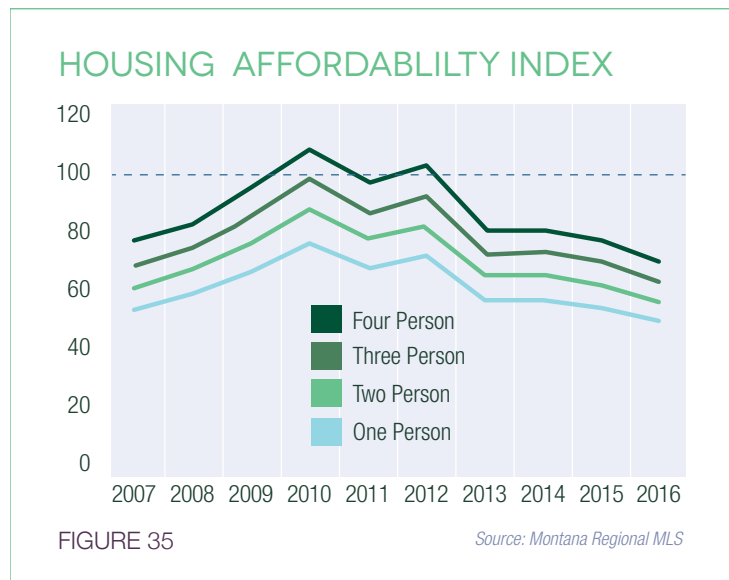


FIGURE 35: The Housing Affordability Index (HAI) reached a ten-year low in Missoula in 2016.

MISSOULA HOUSING AFFORDABILITY INDEX | 2014-2016

2014	2015	2016	YEAR	2014	2015	2016
\$225,000	\$238,700	\$255,000	Median Home Price (MOR)	\$225,000	\$238,700	\$255,000
4%	4%	4%	Downpayment	20%	20%	20%
4.13%	4.19%	4.5%	Interest Rate	4.13%	4.19%	4.5%
\$315	\$334	\$357	Mortgage Insurance	0	0	\$0
MEDIAN FAMILY INCOME						
\$45,400	\$43,560	\$43,200	1 person	\$45,400	\$43,560	\$43,200
\$51,900	\$49,800	\$49,300	2 person	\$51,900	\$49,800	\$49,300
\$58,400	\$56,040	\$55,500	3 person	\$58,400	\$56,040	\$55,500
\$64,800	\$62,220	\$61,600	4 person	\$64,800	\$61,200	\$61,600
HOUSING AFFORDABILITY INDEX*						
59	53	48	1 person	85	76	69
67	61	55	2 person	97	87	78
76	68	62	3 person	109	98	88
84	76	69	4 person	121	107	98
MEDIAN FAMILY INCOME NEEDED TO PURCHASE MEDIAN PRICED HOME						
\$77,076	\$82,165	\$89,916	Income	\$53,604	\$57,196	\$62,892

TABLE 8

Source: Montana Regional MLS, HUD

KEY: *Includes taxes and homeowners insurance on a 30 year fixed loan

TABLE 8: The median family income needed to purchase a median-priced home in 2016 with 4 percent down was \$89,916—well above the actual median income in Missoula.



HOUSING AFFORDABILITY

Share of Income Spent on Housing

It is generally accepted that no more than 30 percent (and, even safer, 25 percent) of a household's gross monthly income should be spent on housing. Households that must spend a large portion of income on housing have a difficult time meeting other obligations and are considered "cost burdened."

Historically, a worrisome proportion of Missoula residents spend 30 percent or more of their income on housing. In 2015, approximately 47 percent of Missoula renters spent more than 30 percent of their income on housing, which is lower than 2012's 52 percent, but there is also a large margin of error for this data. Comparatively, approximately 30 percent of Missoula homeowners spent more than 30 percent of their income on housing costs (FIGURE 36).

MISSOULA COUNTY HOUSEHOLDS THAT SPEND 30% OR MORE ON HOUSING

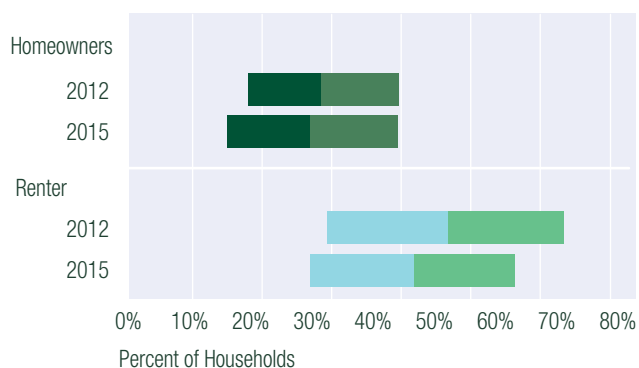


FIGURE 36

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

FIGURE 36: Approximately 47 percent of Missoula renters spent more than 30 percent of their income on housing in 2015. (The colored blocks represent the range in the margin for error).



Unemployment

The unemployment rate is the percentage of the total labor force that is unemployed but still able to work and actively seeking employment. Missoula's unemployment rate fell for the fifth year in a row in 2015, reaching 3.9 percent, its lowest level since 2007 (FIGURE 37). According to the U.S. Department of Labor, the national unemployment rate was 5 percent in December 2015.

FIGURE 37: Unemployment in Missoula reached 3.9 percent in 2015.

UNEMPLOYMENT RATE – MISSOULA COUNTY

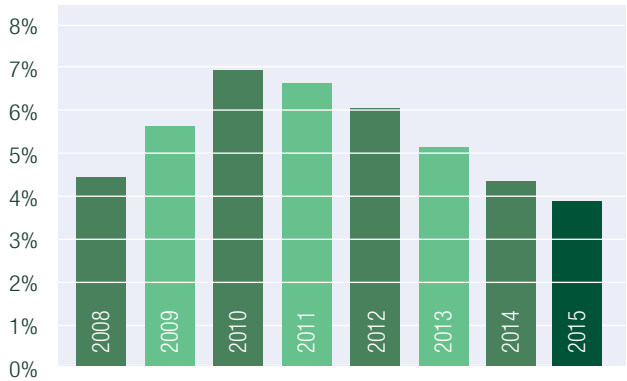


FIGURE 37

Source: Montana Department of Labor and Industry

Poverty

To determine who is in poverty, the U.S. Census Bureau sets an income threshold under which an individual or family is deemed to be living in poverty. This threshold varies based on family size, living situation, and age. In 2015, 16 percent of Missoula County was considered to be living in poverty (FIGURE 38).

FIGURE 38: About 16 percent of Missoula County was considered to be living in poverty in 2015.

POVERTY LEVEL – MISSOULA COUNTY

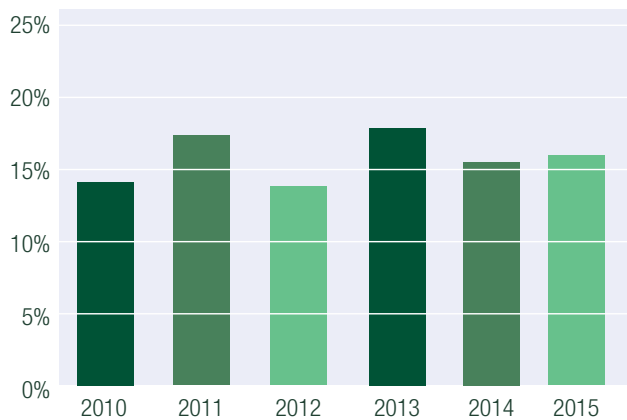


FIGURE 38

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

Homelessness

Each year, Missoula participates in the Montana Point-in-Time (PIT) Survey and the Housing Inventory Survey, a nationally coordinated and simultaneous effort to identify the number of persons experiencing homelessness and the number of beds that are dedicated to persons experiencing homelessness on a single night during the last week in January. We collect data on individuals and families living in emergency shelter situations, transitional housing, vehicles, tents, and other places not meant for human habitation.

Our 2016 Point-in-Time data found that 395 individuals and families were experiencing homelessness in Missoula:

- **38 percent were experiencing homelessness for the first time.**
- **67 percent were homeless for less than one year.**
- **32 percent were homeless families/ households, which included a total of 78 children, most under the age of 12.**
- **15 percent were considered “chronically” homeless, which is defined by HUD as someone who has experienced homelessness for a year or longer, or who has experienced at least four episodes of homelessness in the last three years (must be a cumulative of 12 months), and has a disability. A family with an adult member who meets this description would also be considered chronically homeless.**

Access to affordable, permanent, fair and equal housing opportunities continues to remain a chief concern for Missoulians experiencing homelessness and for those individuals and families at risk of homelessness (i.e. impending release from a state institution, eviction, living in a “doubled-up” situation). Reaching Home, Missoula’s 10-Year Plan to End Homelessness, is working with the Missoula’s new Office of Housing and Community Development and supporting their efforts for developing affordable housing. Of note, 10-year plans are considered

“living documents” and thus Reaching Home will be updated in the coming year in order to align with national efforts and best practices (i.e. the federal strategic plan to prevent and end homelessness, called Opening Doors).

The blueprint exists for ending veteran homelessness, as several communities in the U.S. have met the federal criteria of “functional zero,” which means the number of individuals experiencing homelessness is no greater than the average monthly housing placement rate. These communities have implemented a By-Name-List (BNL), a real-time, up-to-date list of people experiencing homelessness at any given time, not just one point in time. With the robust data points collected through the BNL, we can then identify the number of people entering our homeless system and permanent housing placement rates. Missoula is also in the process of re-designing our coordinated entry system, in which we will continue to increase our efforts of diverting and preventing families and individuals from entering the homeless system, prioritize housing resources for the most vulnerable families and individuals based on a common assessment tool, and streamline services and resources to avoid duplication and to increase cost-effective interventions.

Missoula continues to see a decrease in the number of people experiencing homelessness as evidenced by the annual PIT count (FIGURE 39). Our current housing and homeless service providers are meeting the demand to the best of their abilities; however, gaps in the continuum of care still exist. Community-wide efforts are in progress to address the complexity of homelessness and strive to “ensure that homelessness is prevented whenever possible and when it cannot be prevented, is rare, brief, and non-recurring” (Opening Doors).

TOTAL HOMELESS INDIVIDUALS ON A SINGLE NIGHT IN JANUARY

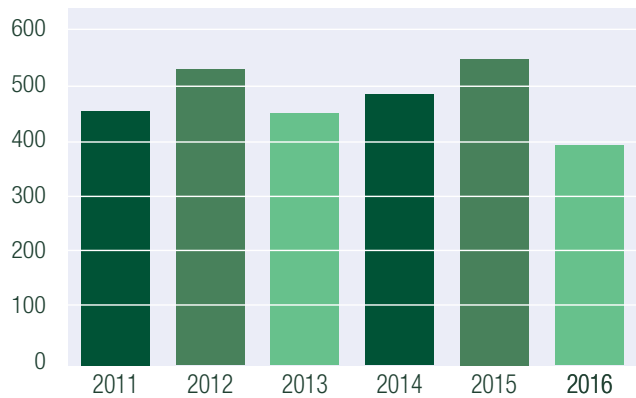


FIGURE 39

Source: Montana Continuum of Care

FIGURE 39: During a single point-in-time survey, 395 individuals and families were experiencing homelessness in Missoula in January 2016, which was lower than the five previous years.

NUMBER OF HOMELESS & AT RISK CHILDREN

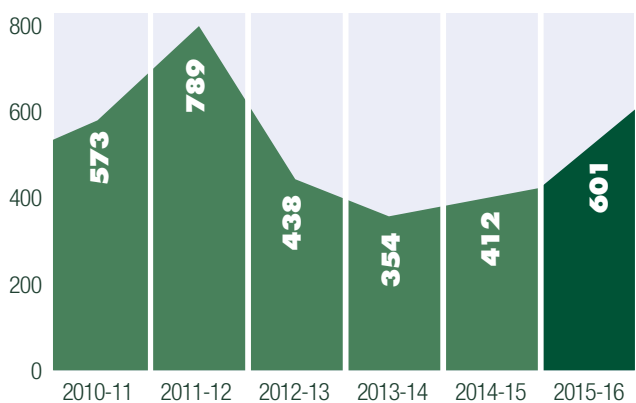


FIGURE 40

Source: Missoula County Public Schools

Homeless Children

The number of homeless and at-risk children in the Missoula County Public Schools (MCPS) increased by 45.9 percent, to 601, during the 2015-2016 school year (FIGURE 40). Part of that increase may be due to improved tracking methods by MCPS, but it could also represent a growing trend in unstable housing for many Missoula families due to low vacancy rates and Missoula's high demand for housing assistance. These numbers represent unstably housed children identified throughout the school year. Unstable housing varies, from periods of brief, literal homelessness to a pattern of frequent moves and other situations. This is one of the better ways to identify the size of this at-risk group, as families with children in school and no permanent housing often do everything they can to avoid living on the street or in shelters.

FIGURE 40: According to data collected by Missoula County Public Schools, 601 children were homeless or at risk of being homeless, during the 2015-16 school year.

HOUSING AFFORDABILITY

Housing Department

Local housing policy underwent a significant change in 2016 with the formation of the City Office of Housing and Community Development.

In order to create and implement effective housing policy and programs for our community, Mayor John Engen established the Office of Housing and Community Development in July 2016. The office is working to create and implement housing policy that will put Missoula on the right track to meet its present and growing housing demand for all income levels and specialized needs.

The Office of Housing and Community Development will focus on a collective-action approach, fostering public-private partnerships to meet our community's shared objectives.

To this end, the Office of Housing and Community Development will leverage federal funding from Department of Housing and Urban Development, including resources from the Community Development Block Grant and the HOME Investment Partnerships Program.

In addition to housing, the office will focus on redevelopment and economic development through the administration of the Environmental Protection Agency's Brownfields funds. Brownfields funds can be used to clean up and redevelop sites where hazardous contaminants

have been identified. The program aims to reduce blight, increase developable land, and protect human health.

While focusing on policy and strategic use of federal funds, the Office of Housing and Community Development also supports organizations and specific efforts that improve the health, well-being, and diversity of our community. These include providing oversight of Reaching Home: Missoula's 10-Year Plan to End Homelessness and the At-Risk Housing Coalition (ARHC) and directly facilitating the Annual Community Needs Assessment and an analysis of the impediments to fair housing.

The committee looks forward to seeing what this new city department will contribute to housing in the coming years.

CONCLUSION & OUTLOOK

The median sales price of a Missoula home reached a record high of \$255,000 in 2016. With low interest rates, a higher demand for housing, and low unemployment rates, the outlook for Missoula is strong in many respects. However, at the same time, for residents of Missoula, housing is becoming less affordable, the real estate market has an incredibly tight supply, and renters are also faced with a low vacancy rate and rents that are often not proportionate to their income.

The stresses on the Missoula housing situation include a growing population, which reached 114,181 this year, a 9.4 increase since 2006. In addition, incomes in Missoula have not increased at the same rate as rent or home prices, causing housing affordability to decline.

The central issue in this year's report reveals a tight supply of housing, both for sale and for rent, which has created challenges. In response to a tight supply of real estate and higher prices, 2016 saw significant increases in home buyers either opting to build (the median price of a lot did not increase) or purchase more affordable condominiums or townhomes (which had median prices of \$207,900 and \$235,000, respectively). In addition, despite the work of organizations that offer services for low income renters, the demand for their services still far outweighs the number of vouchers or affordable housing units they can provide.

With the addition of the new City Office of Housing and Community Development in 2016, we hope to see a positive impact on housing and many of the issues this report presents. In addition, the Missoula Organization of REALTORS® has partnered with the City of Missoula, Missoula County, Missoula Economic Partnership, Missoula Area Chamber of Commerce, Missoula Building Industry Association, and a number of private sector organizations on a study to identify barriers and solutions to developing greater amounts of attainably priced housing. We believe this study, which should be released in the summer of 2017, will help the community address the affordability of housing.

As Missoula grows and attempts to adapt to its growth, we face both opportunities and challenges. While affordability and supply emerged as key issues in this year's report, it is clear that this community is dedicated to finding solutions to address homelessness, affordability, and quality of life.



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Report Available Online:
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