Housing Affordability and Montana's Real Estate Markets

by Patrick M. Barkey and James T. Sylvester

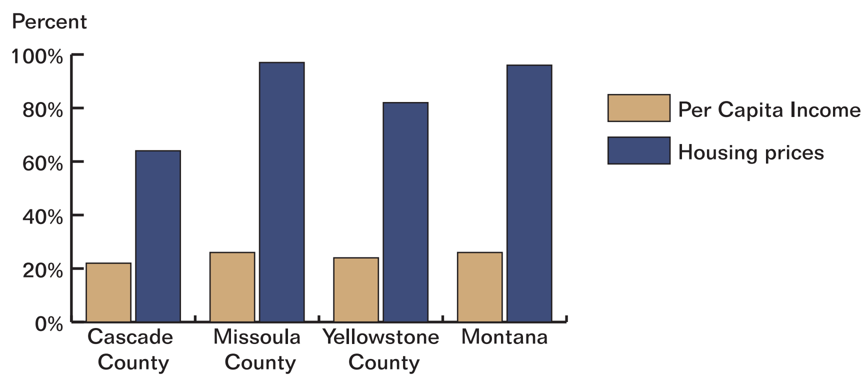
Introduction

Housing prices in the last 20 years have surged ahead much faster than the income used to pay them. Over the span of time that the median price for a Montana home grew by 96 percent, the per capita income of Montanans only rose by about a quarter as much, or 26 percent. Figure 1 shows the difference in housing prices and income levels in Montana's three Metropolitan Statistical Areas, Cascade, Missoula, and Yellowstone counties.

As public policy issues, housing and housing affordability have always figured prominently in the public debate. In the national economy, housing and housing-related expenditures (including utilities, furniture, supplies, and maintenance) accounted for 42.4 percent of consumers' budgets in 2007, dwarfing every other category of expenditure.

The recent slump in housing associated with the current recession certainly adds a new twist to this story. Housing price growth has slowed throughout Montana, and in some markets, prices have retreated significantly. But as Figure 1 suggests, affordability involves a comparison of costs to ability to pay, and the recent softness in housing prices has occurred at the same time as income growth has stalled. Also,

Figure 1
Growth in Home Prices vs. Income Since 1988



Sources: Bureau of Economic Analysis and Office of Federal Housing Enterprise Oversight.

it will take more than a few years of tepid price declines to significantly alter the effects of almost a decade of rapid price growth.

This article summarizes a recent BBER study on Montana's housing markets, which examined affordability and the factors driving housing price growth for the seven largest real estate markets in the state: Cascade, Flathead, Gallatin, Lewis & Clark, Missoula, Ravalli, and Yellowstone counties.

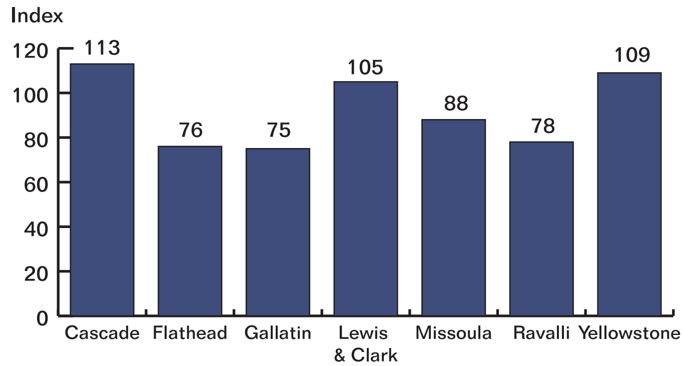
Housing Affordability in Major Montana Markets

Our basic finding is that there are a number of markets in Montana in which housing prices and rents are putting serious strains on consumers' budgets. By the standards and procedures set forth by the National Association of Realtors, four markets in Montana fail the housing affordability criterion: Kalispell, Bozeman, Missoula, and Hamilton. This means that the median-income household in each of these communities could not afford the payment on the median-priced home in 2007 without devoting a high proportion of their income to housing.

The Housing Affordability Index (HAI) measures whether a family earning the median income for an area qualifies for a typical loan on a median-priced home. An index value over 100 means the typical family qualifies for a loan on a typical home. Conversely, an index value under 100 indicates the typical family will not qualify for a loan. Values for the computation come from Multiple Listing Service, Federal Housing Finance Board, and the U.S. Census Bureau.

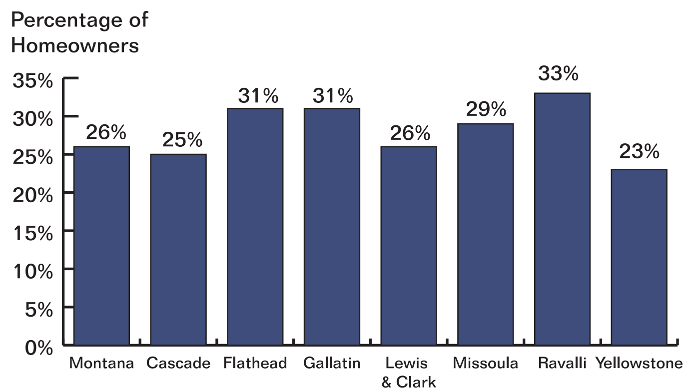
Further evidence of housing cost pushing the limits of Montanans' pocketbooks can be seen in the data from the U.S. Census Bureau's American Community Survey. Substantial numbers of Montana households pay more than 30 percent of their incomes toward housing. The problem is especially acute in Flathead, Gallatin, Missoula, and Ravalli counties.

Figure 2
Housing Affordability Index in Montana's Major Real Estate Markets, 2007



Source: Bureau of Business and Economic Research, The University of Montana.

Figure 3
Percentage of Homeowners Paying More Than 30 Percent of Income Toward Housing, 2007



Source: U.S. Census Bureau, American Community Survey, 2005-2007.

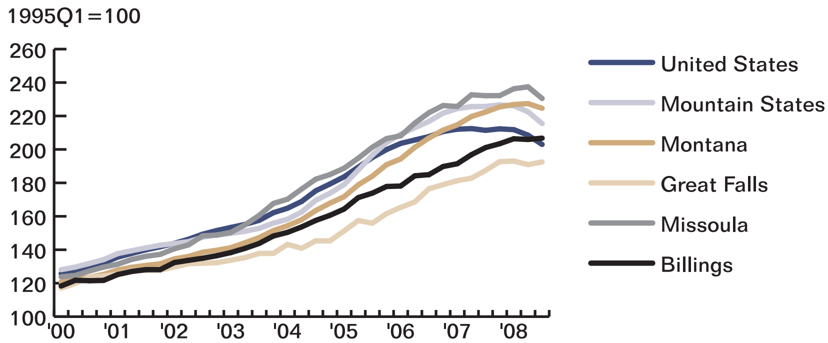
Factors Driving Demand for Housing in Montana

Growth in the number of households and growth in income are the primary drivers of the demand for housing. Year-to-year variations in population are most impacted by net migration of families and individuals into and out of the region. Although population growth moderated in 2007 in some of Montana's major markets, net migration remains reasonably strong, particularly in Montana's least affordable markets.

Over the course of this decade, very strong and growing net migration into Gallatin and Flathead counties has produced strong demand for housing. In 2006, net migration for Gallatin County was 3,000 people, almost twice as high as the second-fastest-growing county. Even though that growth tailed off to 2,100 people in 2007, the trend for migration in both Gallatin and Flathead counties remains upward, and pressure on housing prices from this source is expected to continue.

Cascade County is alone among the counties considered in this analysis in experiencing negative net migration for the last eight years. Among the seven markets we analyzed, Yellowstone County has the largest share of people moving in from other counties in Montana and the smallest share of migrants coming from other states.

Figure 4
Housing Price Index, 2000Q1-2008Q3



Source: Office of Federal Housing Enterprise Oversight.

Economic conditions can influence housing markets directly, in addition to affecting housing demand through population growth. Changes in nonfarm labor income indicate a growing or declining economy. Nonfarm labor income continues to grow in Montana's major real estate markets. The most recent data on income at the county level – currently through the year 2007 – do not register the dramatic economic declines found in other parts of the country. Early indications of a slowdown are starting to appear in selected industries, such as construction.

Supply of Housing

New construction affects the supply of housing. Construction statistics in Montana, like many other states, have several shortcomings. The traditional measure of construction activity for housing is residential building permits. These are incomplete, since a substantial amount of building in Montana occurs in areas that do not require permits. But data on permits remain the most valuable gauge of construction activity available.

A look at permits issued shows a substantial decline in residential construction activity across the state in 2008. This decline mirrors the national trend, although declines arrived in Montana later than in other areas of the country. Average value of construction also decreased, indicating a different mix of housing being built. The average home being built now is smaller and thus more affordable.

Current State of Montana's Housing Markets

The Office of Federal Housing Enterprise Oversight Housing Price Index measures the average price changes in repeat sales or refinancing of single family properties through Fannie Mae or Freddie Mac. These data are reported for states and Metropolitan Statistical Areas only. The data show a flattening of housing prices in Billings and in Great Falls in 2008. Housing prices for the Missoula market have actually declined, as measured by the OFHEO index. The index also indicates a slight decline in Montana housing prices overall, although less pronounced than either the U.S. or Western states' average.

The softness in markets is also reflected in the data derived from Realtor Multiple Listing Service records for Montana's major markets. All areas show a decline in the number of homes sold over the last year. In some markets the declines were substantial. Yellowstone and Cascade counties show a very slight increase in the median sales price, while Gallatin and Ravalli counties show declines. Prices have held steady for the other counties.

Construction and Regulatory Costs

As the economy grew through the early part of the decade, construction costs increased dramatically. These costs were influenced by many factors, including the lack of skilled construction labor in some fast-growing communities. The recent downturn in the economy may alleviate some of these problems.

Several Montana counties have implemented impact fees to address concerns over growing infrastructure needs. These impact fees increase the cost of a dwelling unit by up to $9,000. These fees have implications for providing affordable housing.

Foreclosures

Another indicator of the health of housing markets is the number of real estate loans in foreclosure. Not only are foreclosures an indicator of economic stress, but they also exert a direct impact on housing markets through their contribution to the supply of unsold homes.

Comprehensive data on foreclosures are very hard to find. Economists at the Federal Reserve Bank of Minneapolis even wrote a paper on this data shortcoming. Foreclosure.com, a real estate company specializing in foreclosed properties, tracks foreclosures on a daily basis. As of the middle of May 2009, 286 homes were in foreclosure in Montana (Table 1).

Summary

The status of Montana's real estate markets continues to change before our eyes. While the impact of the national housing downturn and the recession are beginning to be reflected in real estate activity and housing prices, the starting point for those changes is itself the product of an eight-year period of robust growth. As this report is written, there are four major markets within Montana that do not meet the HUD standard for affordable owner-occupied housing: Flathead, Missoula, Gallatin, and Ravalli counties. There is considerable evidence that renters are feeling budget pressure from rents as well.

Although declines have been significant across the state, real estate activity is much worse in Sun Belt states such as Florida and Arizona. Montana was late coming to the decline but should probably be ahead of the curve as national markets return. ❑

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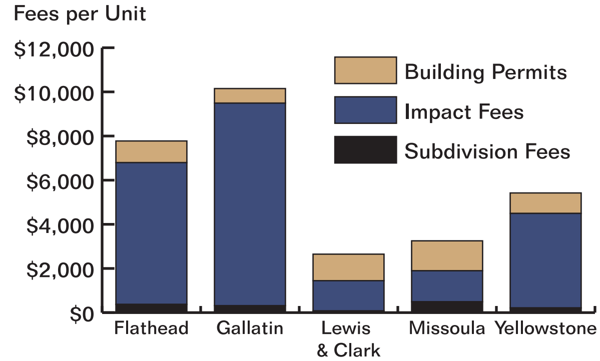
Figure 5
Regulatory Fees per Dwelling Unit, Selected Montana Cities



Source: Compilation from city/county building Web sites and Montana Building Industry Association.

Table 1
Foreclosures, Selected Montana Counties

	Pre-Foreclosure	Foreclosures
Montana	351	286
Cascade County	22	43
Flathead County	61	58
Gallatin County	66	34
Lewis & Clark County	13	2
Missoula County	41	35
Ravalli County	27	25
Yellowstone County	25	34

Source: Foreclosure.com, May 11, 2009.