

The Outlook for Real Estate and Construction

Brandon Bridge
Economist and Director of Forecasting
Bureau of Business and Economic Research
University of Montana



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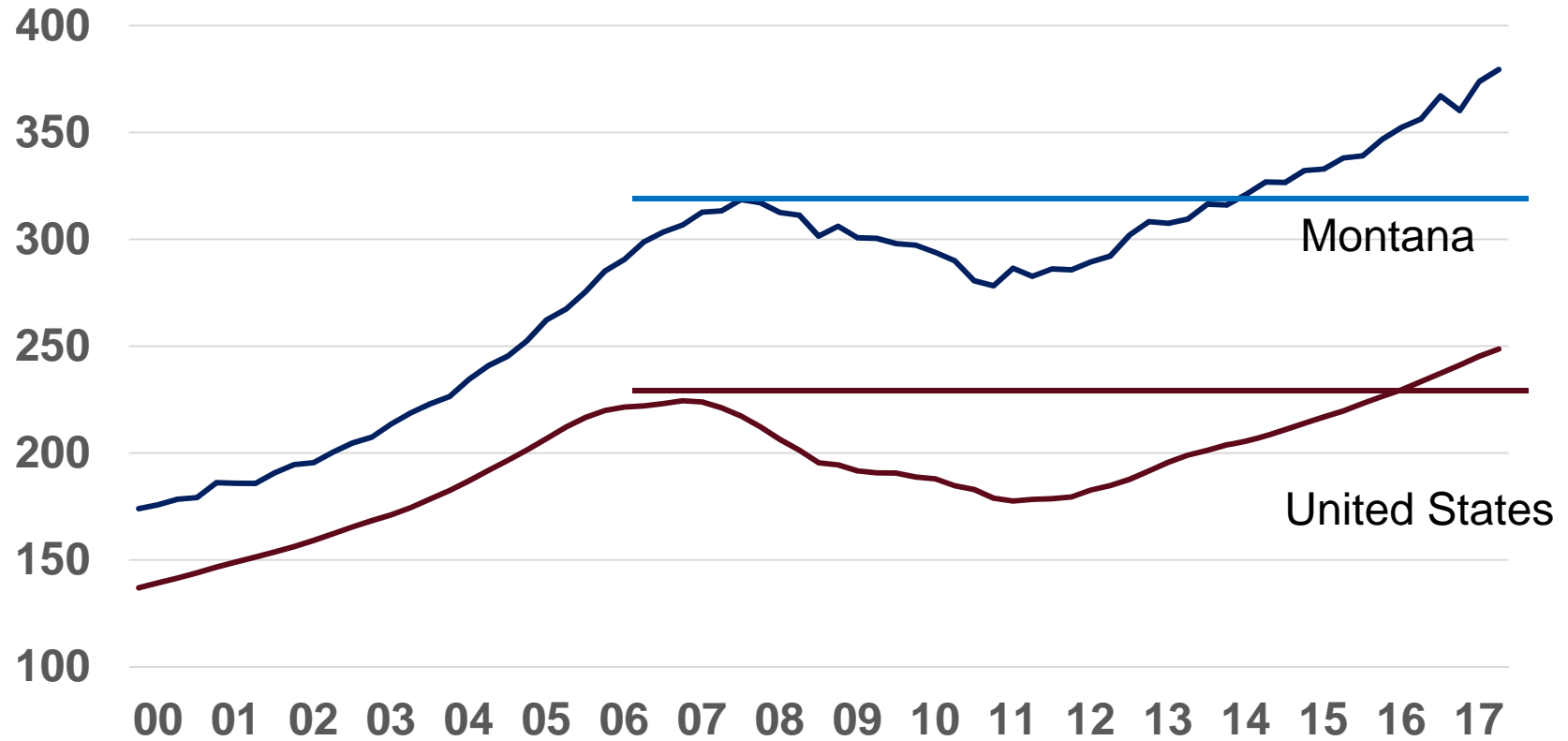
Are Real Estate Markets Finally Normal?

- Distress sales, foreclosures, & delinquencies are behind us
- Many Montana markets are booming
- Price appreciation, sales volumes roaring back
- Low inventories in high demand areas creating sellers market
- Single family home construction is restrained
- Underwater mortgages still exist



Strong Housing Price Growth Since 2011

FHFA Housing Price Index, U.S., 1991=100



Source: Federal Housing Finance Agency,

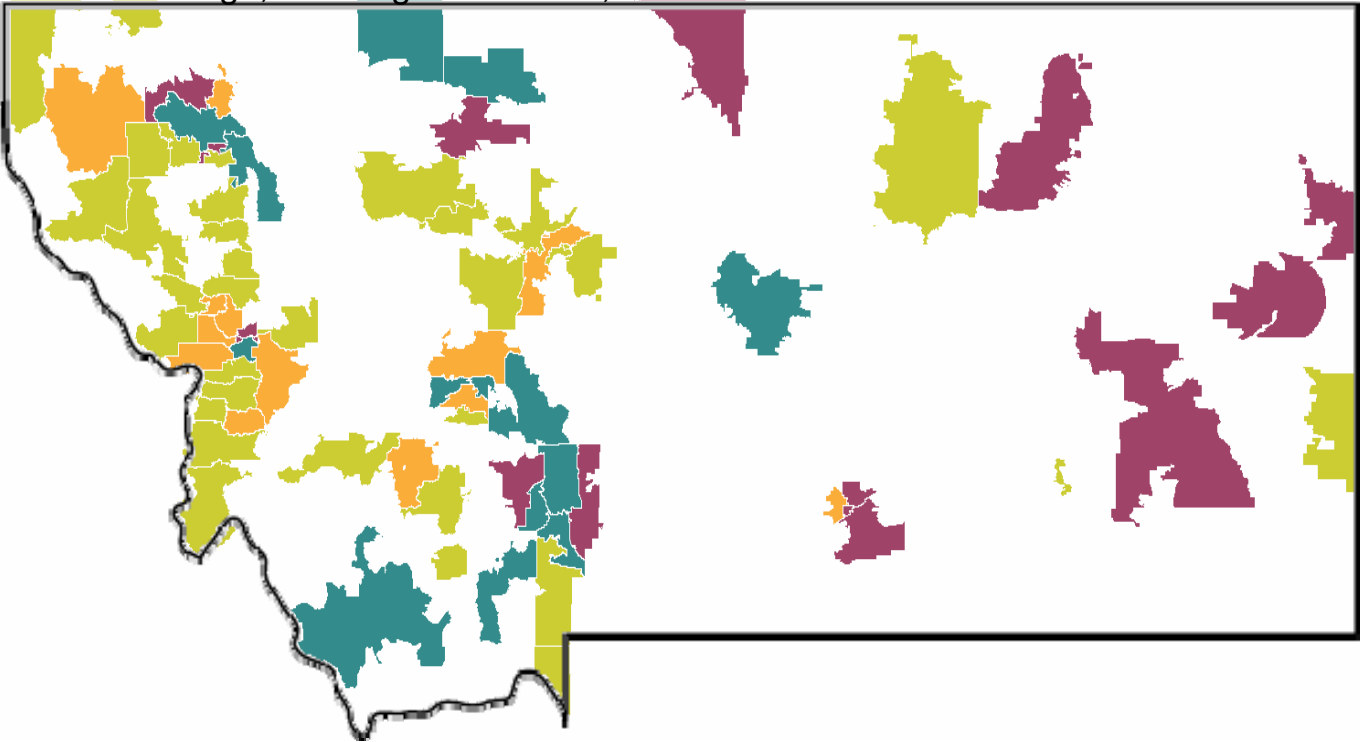


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Housing Price Increases Since 2000 Closely Track Economic Growth

Percent Change, Housing Price Index, 2016 vs. 2000



- Less than 152.4%
- 152.4% - 164.2%
- 164.2% - 176.7%
- Over 176.7%

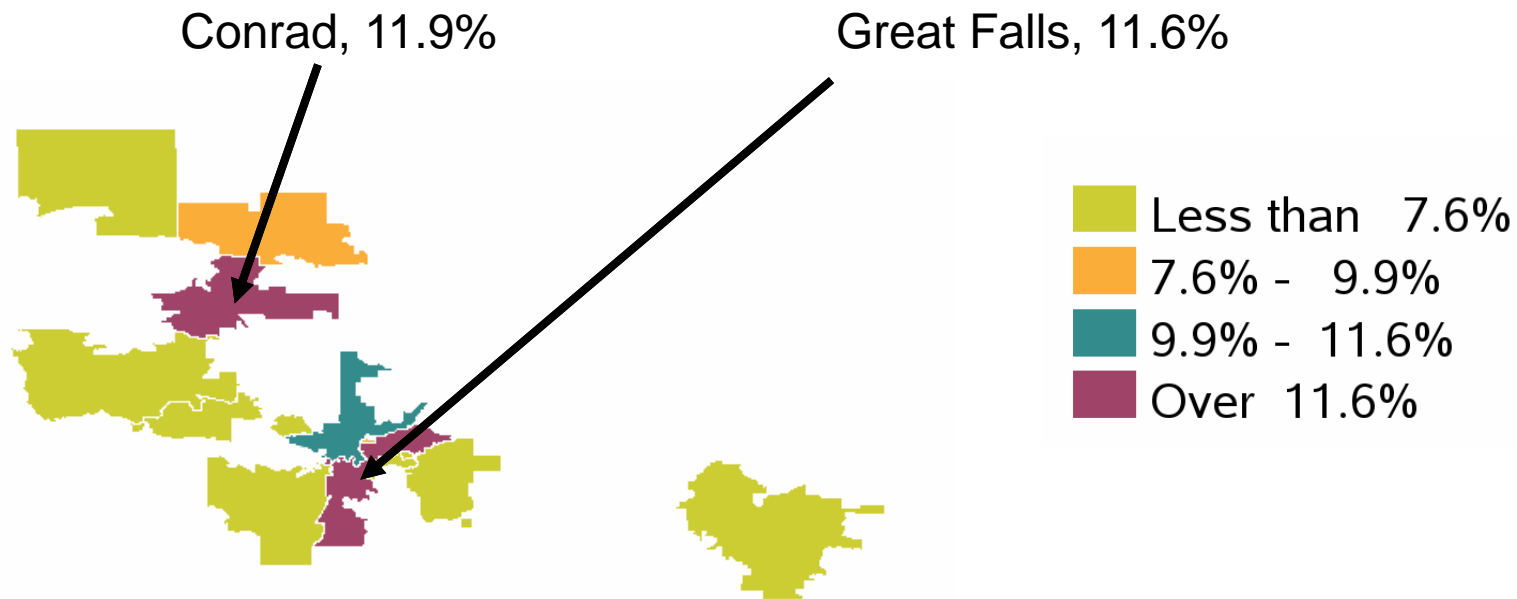
Housing Price Increases Since 2000 Closely Track Economic Growth

Percent Change, Housing Price Index, 2016 vs. 2000



Price Growth in Great Falls Region is More Restrained

Percent Growth in Housing Price Index by Zip Code Since 2012



Source: Federal Home Finance Agency

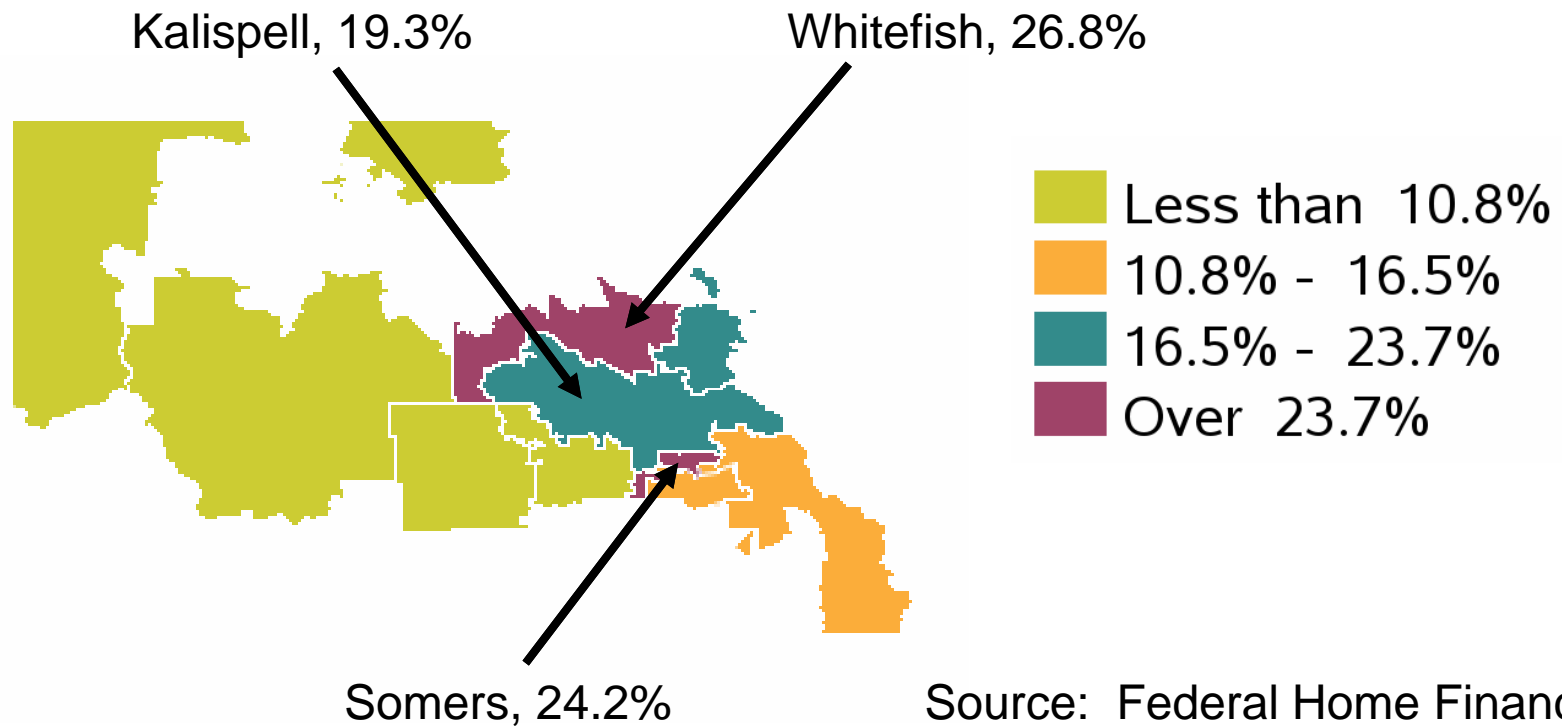


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Whitefish Pacing Price Growth in Northwest Montana

Percent Growth in Housing Price Index by Zip Code Since 2012



Source: Federal Home Finance Agency

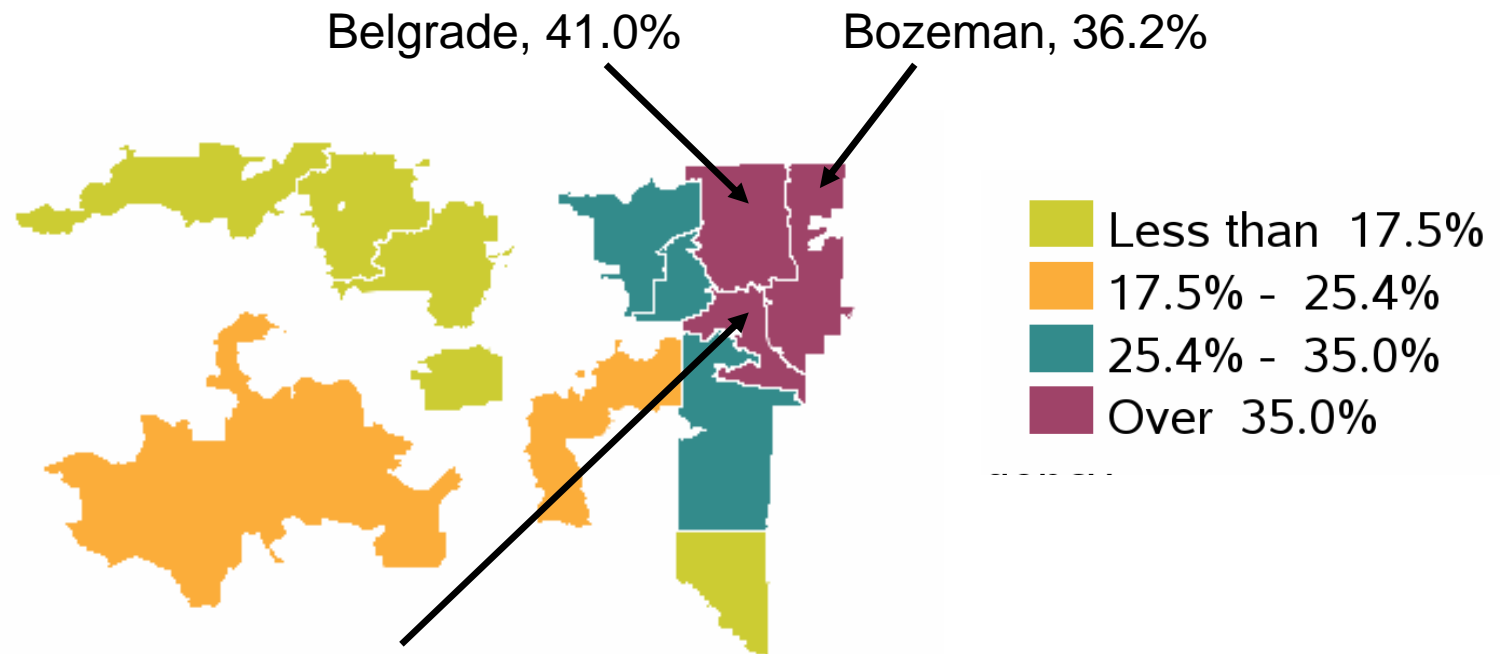


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Strong Price Acceleration in Bozeman

Percent Growth in Housing Price Index by Zip Code Since 2012

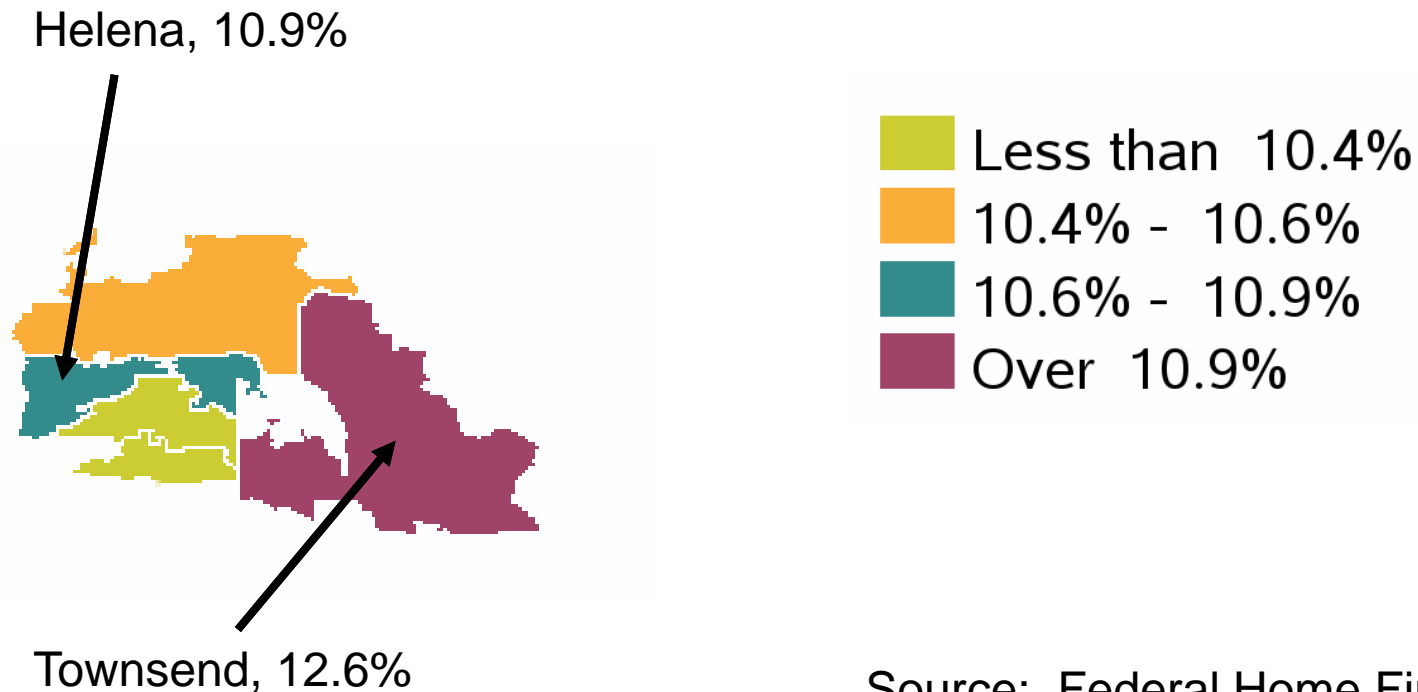


Source: Federal Home Finance Agency



Price Growth More Restrained in Helena

Percent Growth in Housing Price Index by Zip Code Since 2012

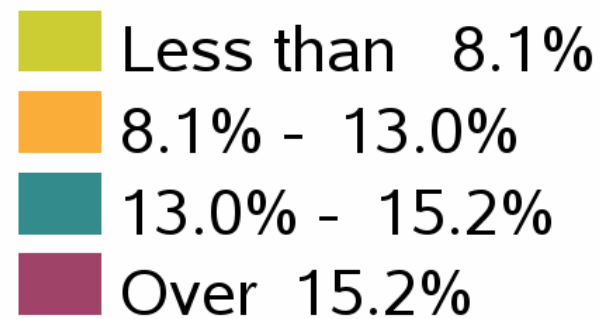
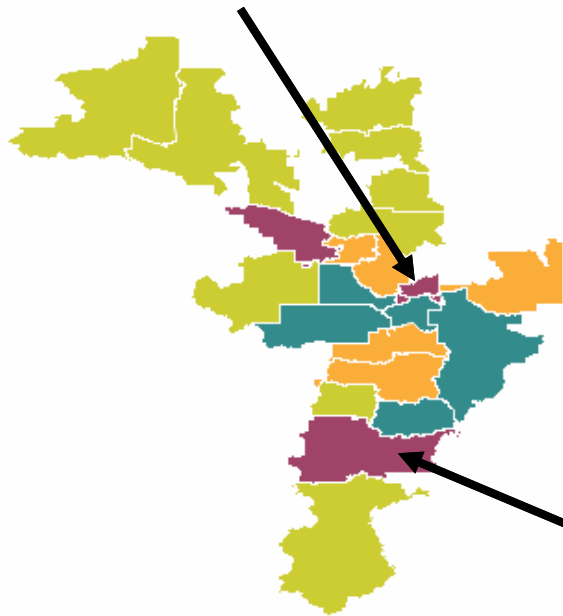


Source: Federal Home Finance Agency

Urban Areas Faring Well in Missoula Region

Percent Growth in Housing Price Index by Zip Code Since 2012

Missoula (Rattlesnake), 16.9%



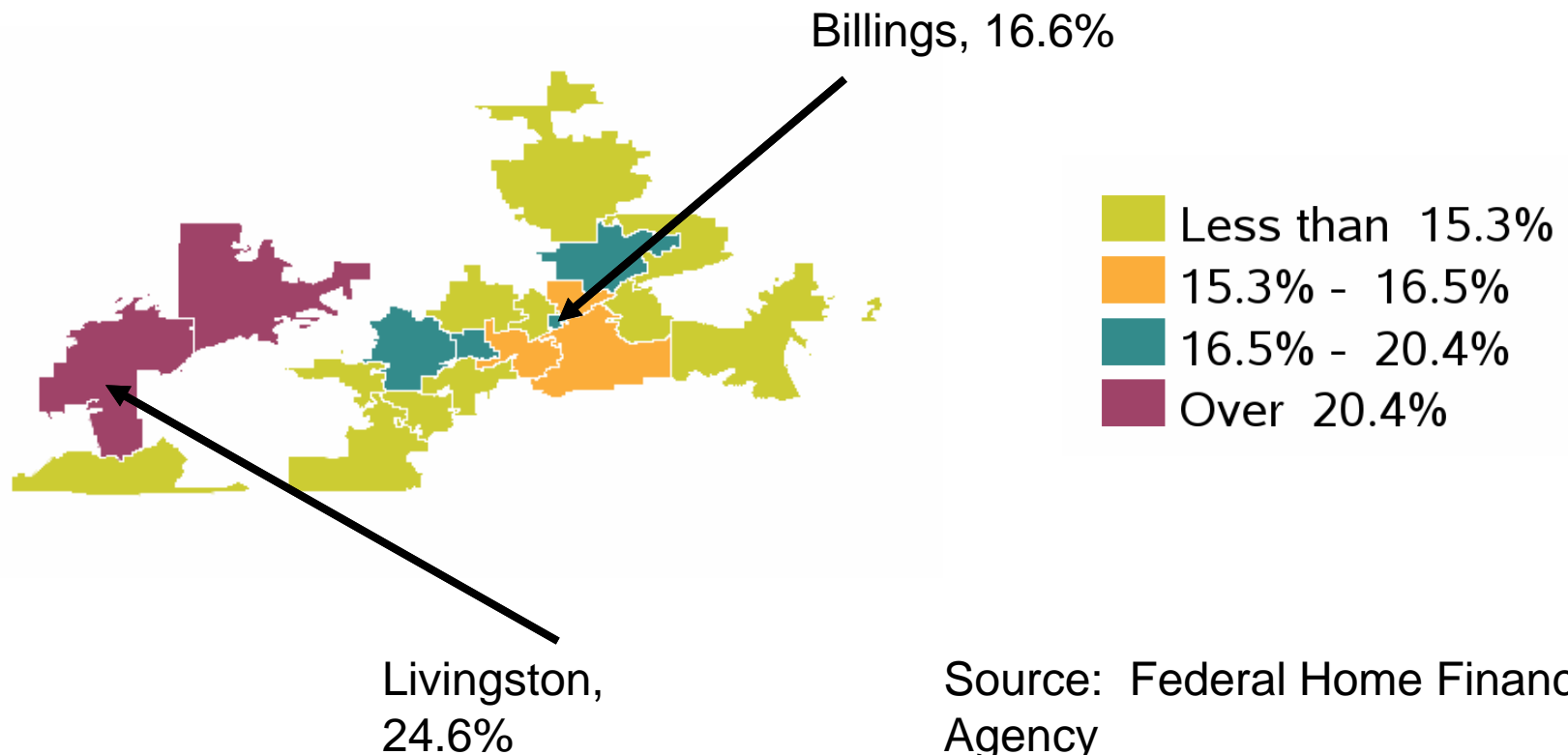
Hamilton, 17.3%

Source: Federal Home Finance Agency

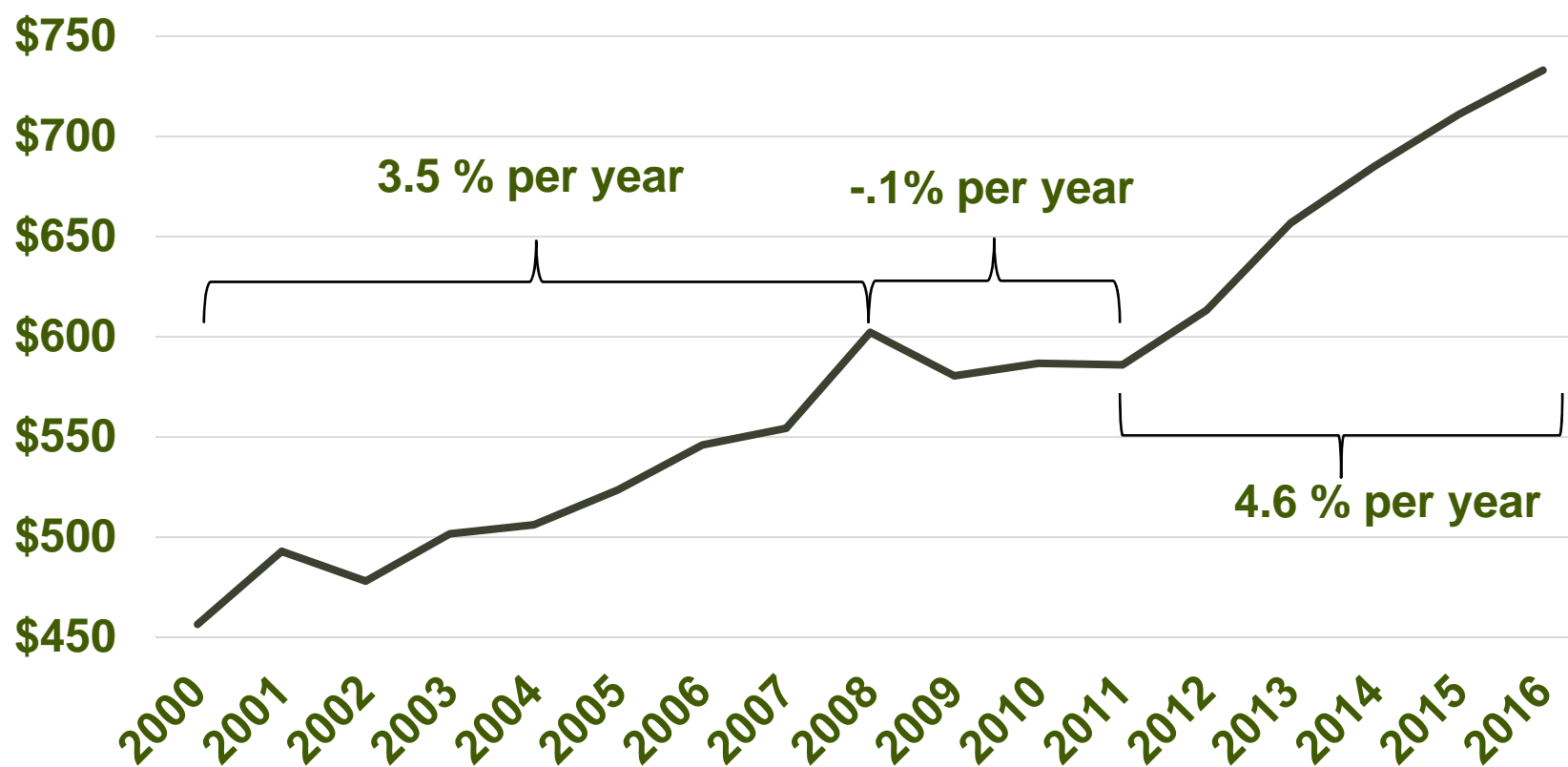


Billings Home Prices Holding Up

Percent Growth in Housing Price Index by Zip Code Since 2012



No Sign of Moderation in Rents



Montana Residential Rent, Inflation Adjusted (2014\$)

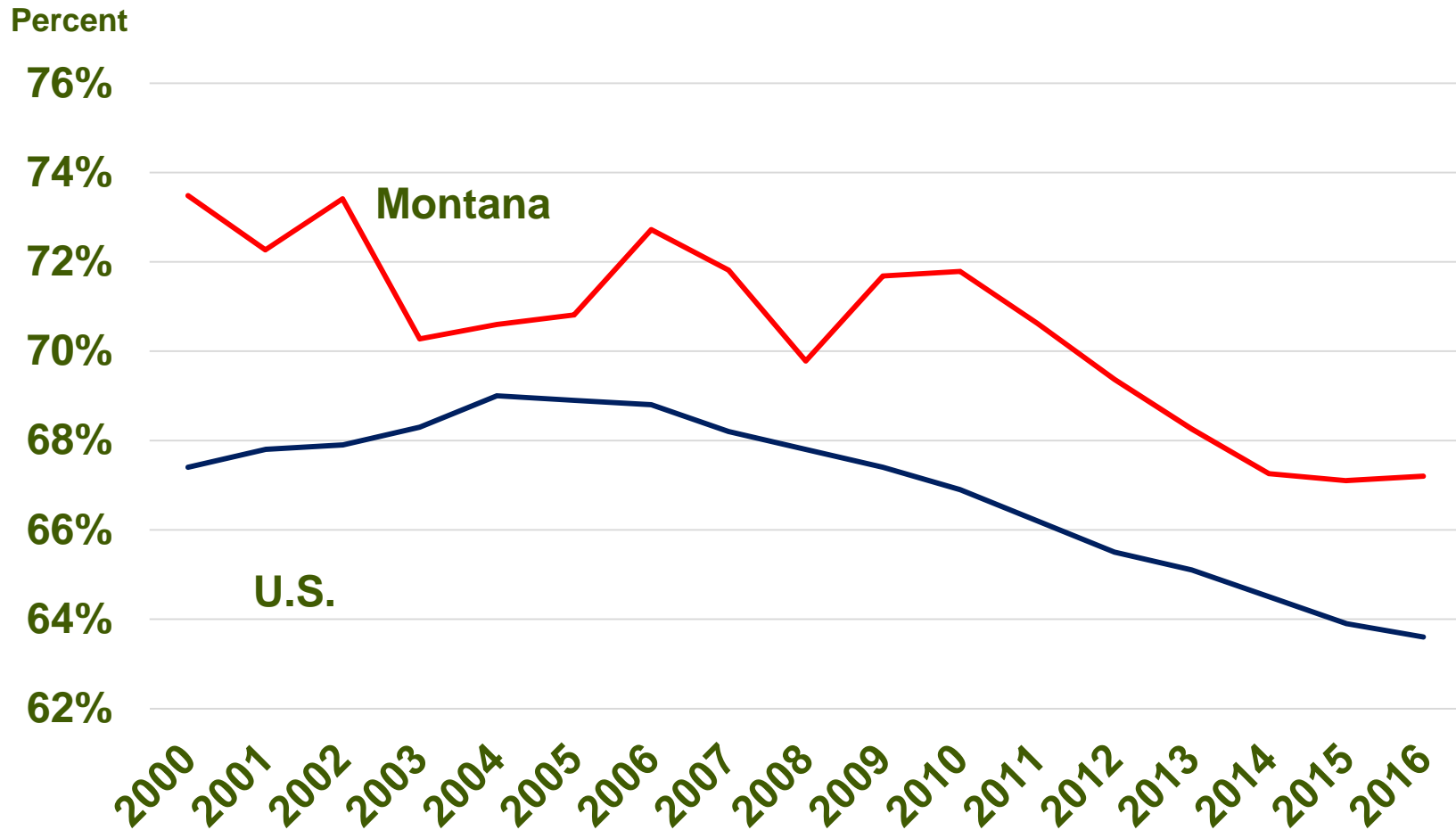
Source: U.S. Census Bureau.



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Will the Erosion of Homeownership Rates Continue?



Source: U.S. Census Bureau.

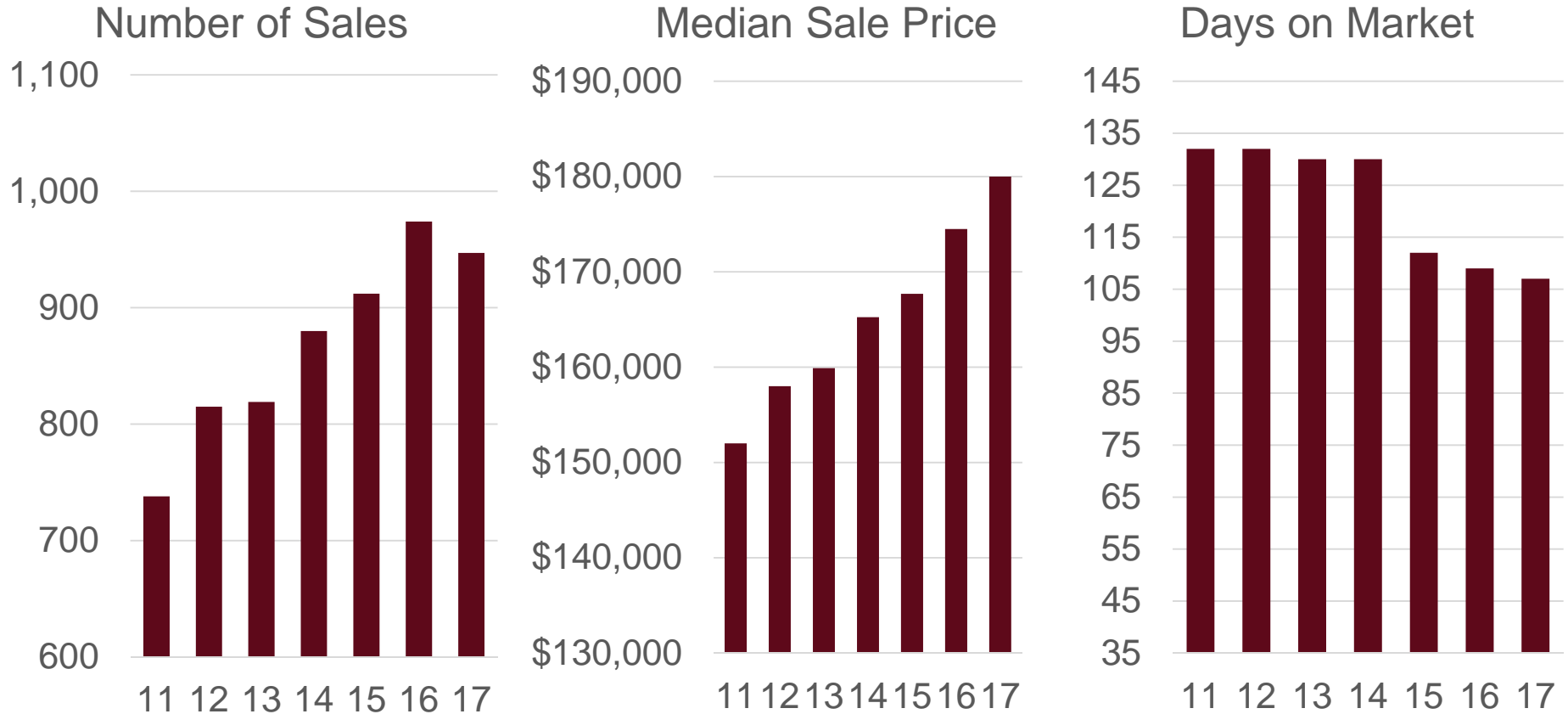


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Markets Looking Much Healthier

Cascade County Market Statistics



Source: Great Falls Association of Realtors.

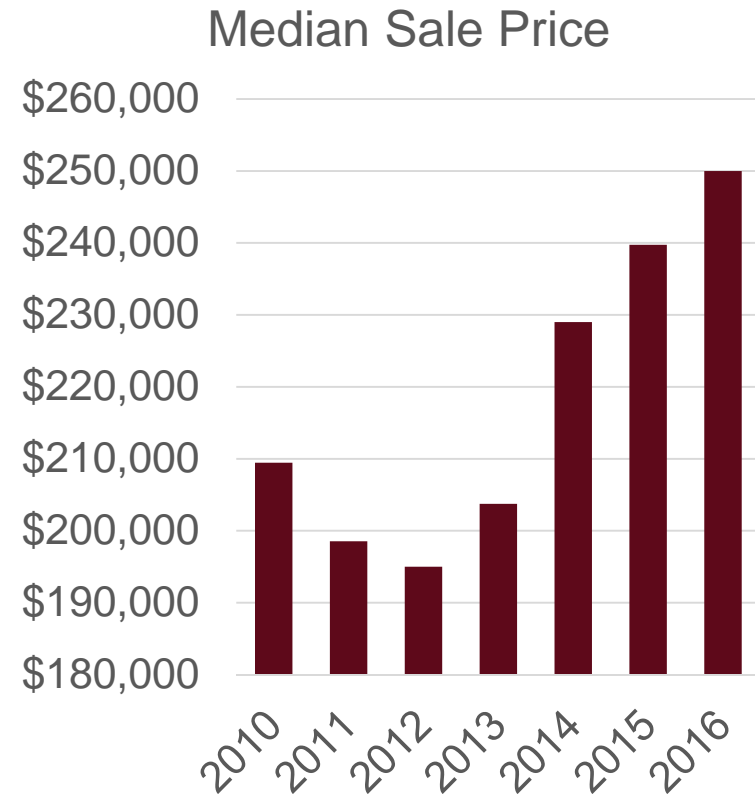
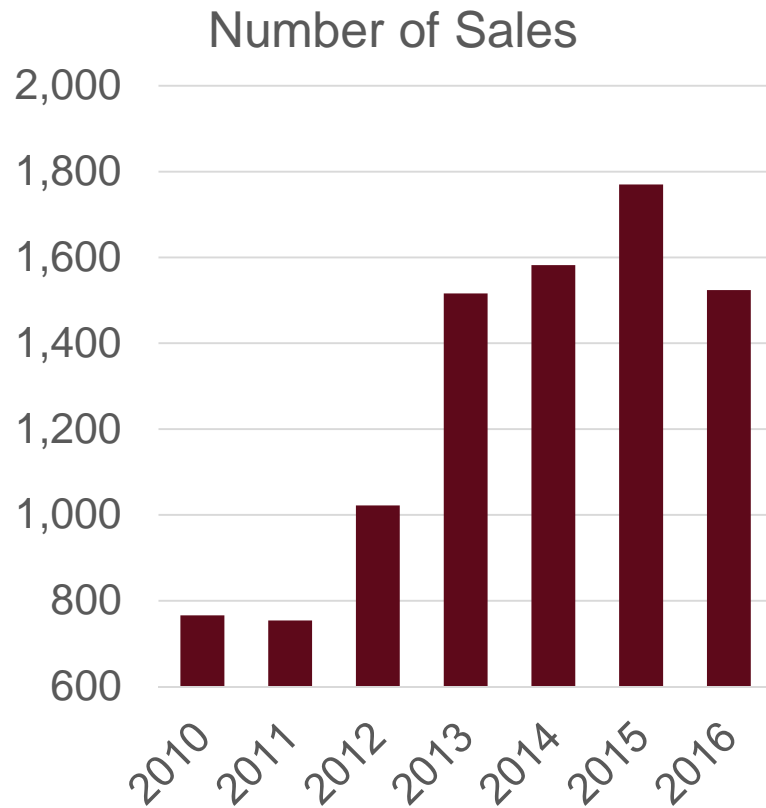


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Markets Looking Much Healthier

Flathead County Market Statistics



Source: Montana Department of Revenue.

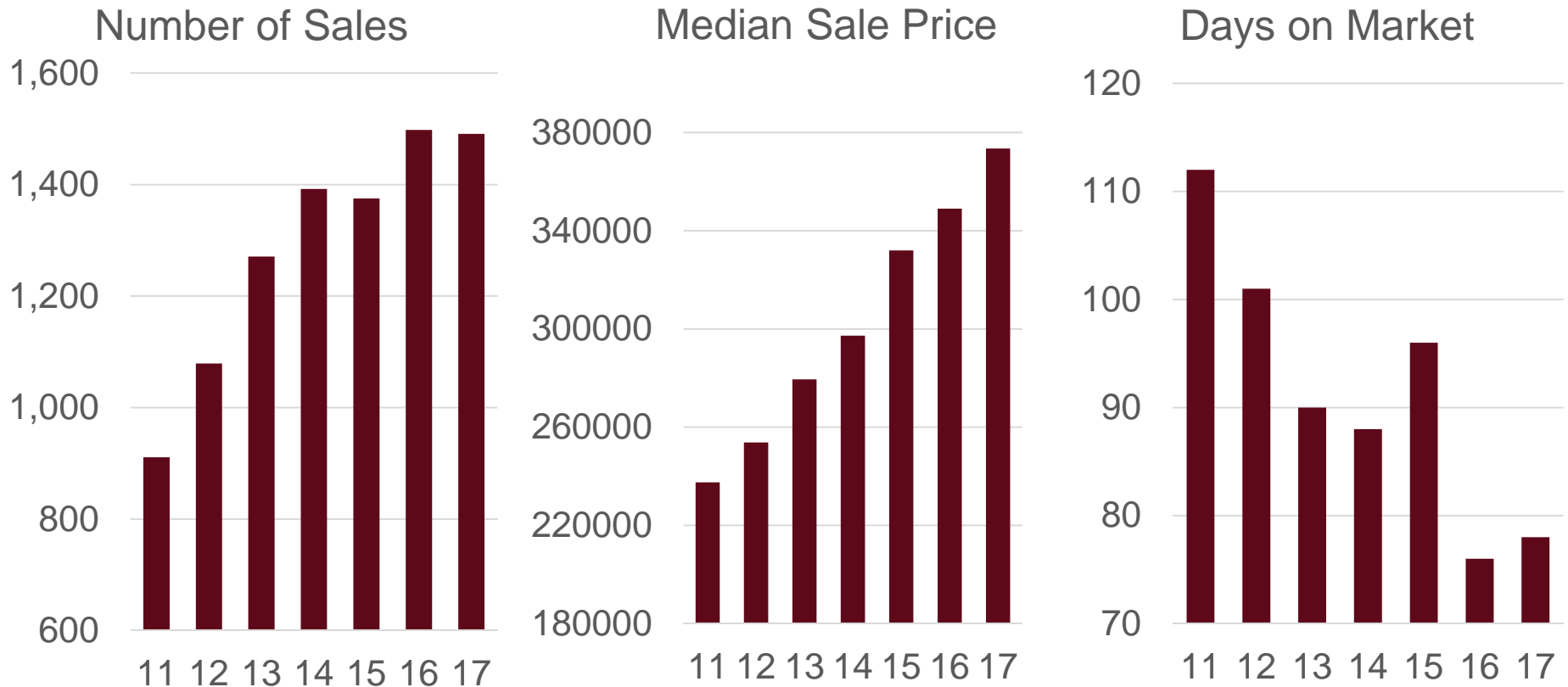


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Market Continues to Heat Up

Gallatin County Market Statistics for Single Family Homes



Source: Gallatin Association of Realtors.

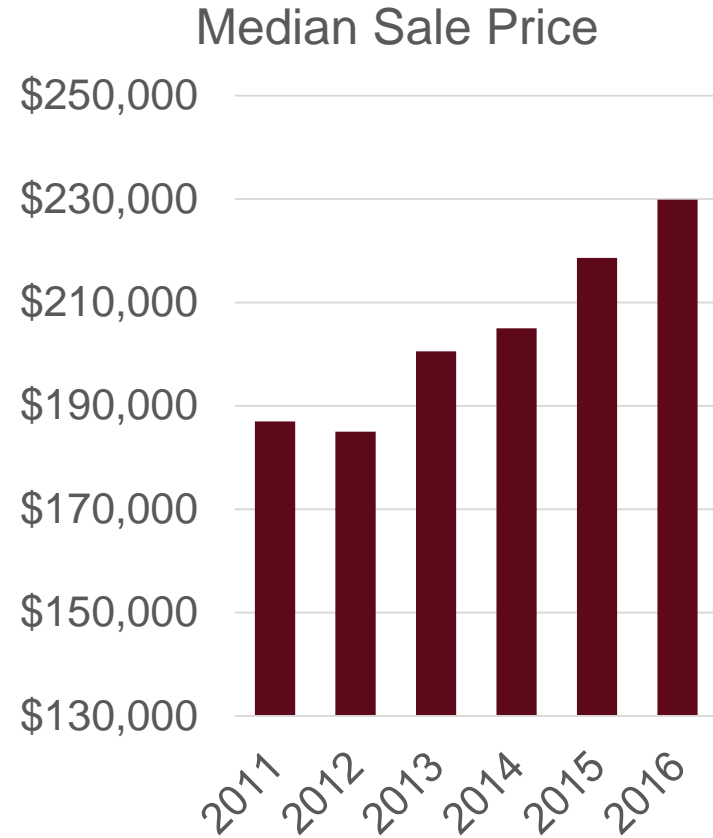
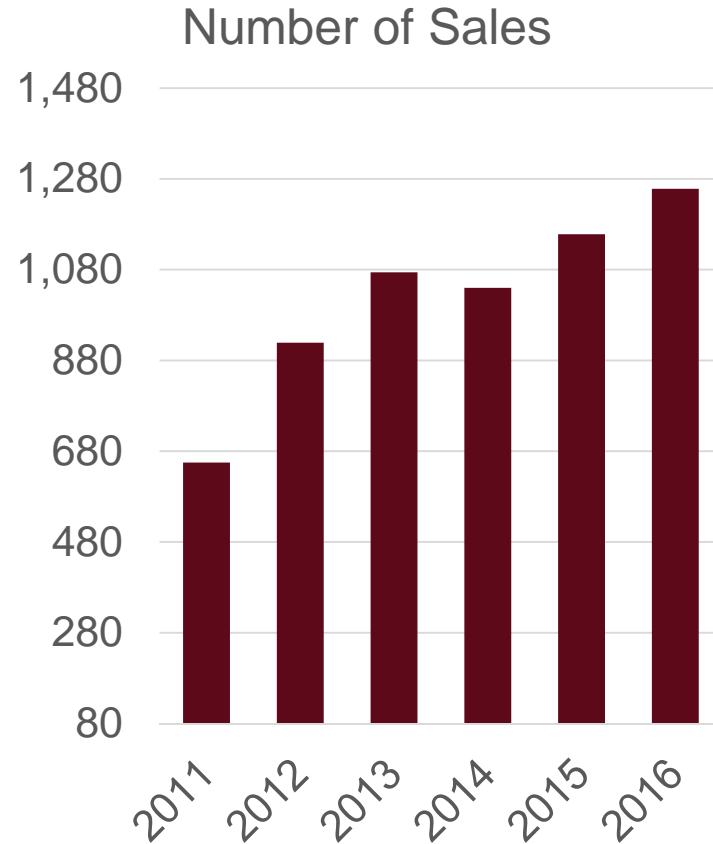


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Sale Price Growth

Lewis and Clark County Market Statistics



Source: Montana Department of Revenue.

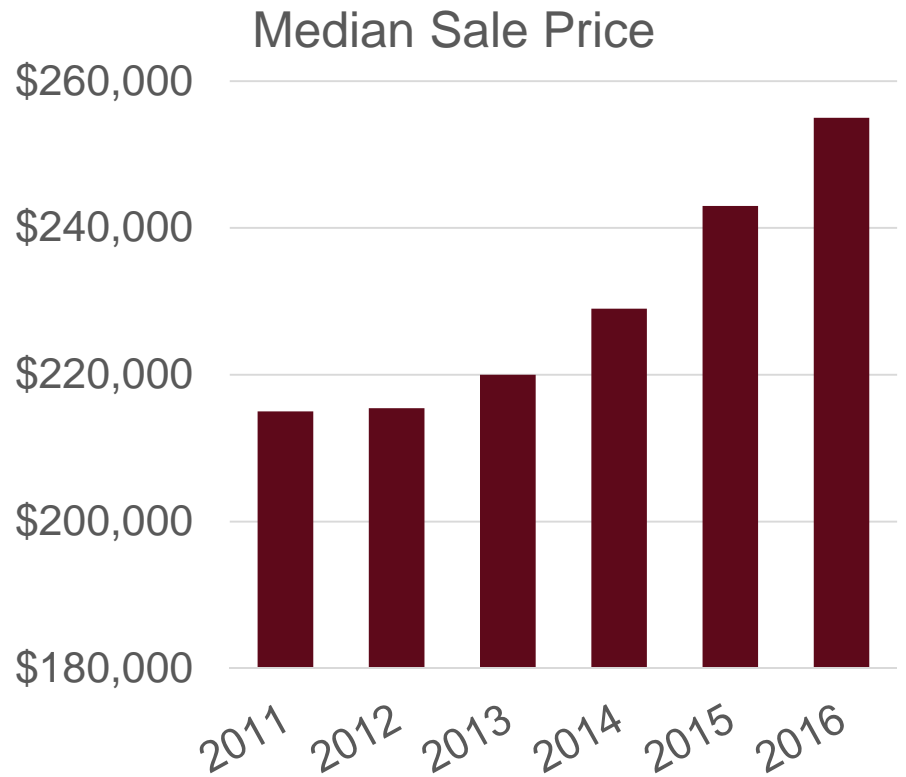
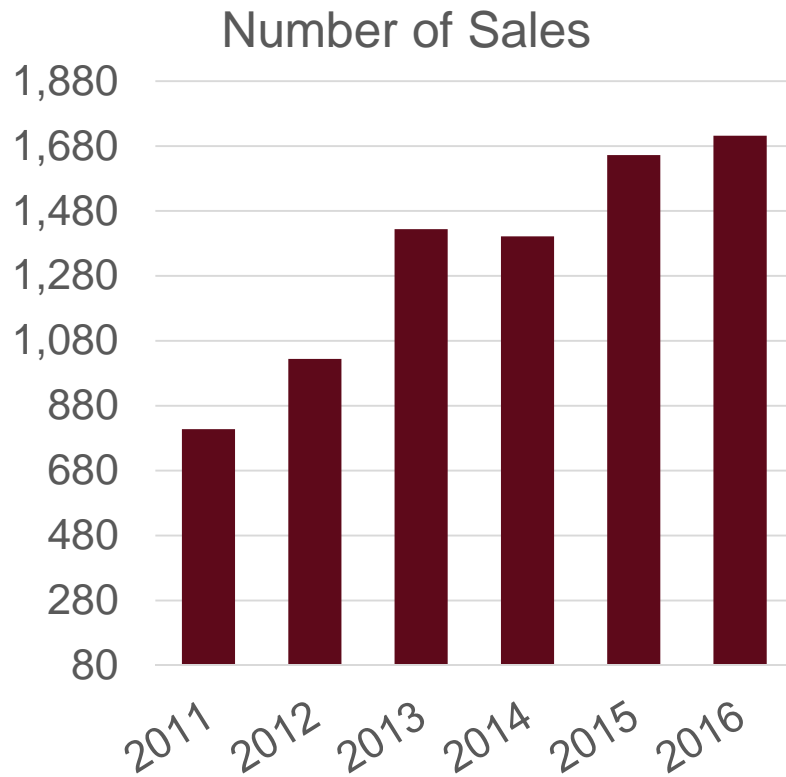


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Sale Price Growth

Missoula County Market Statistics



Source: Montana Department of Revenue.

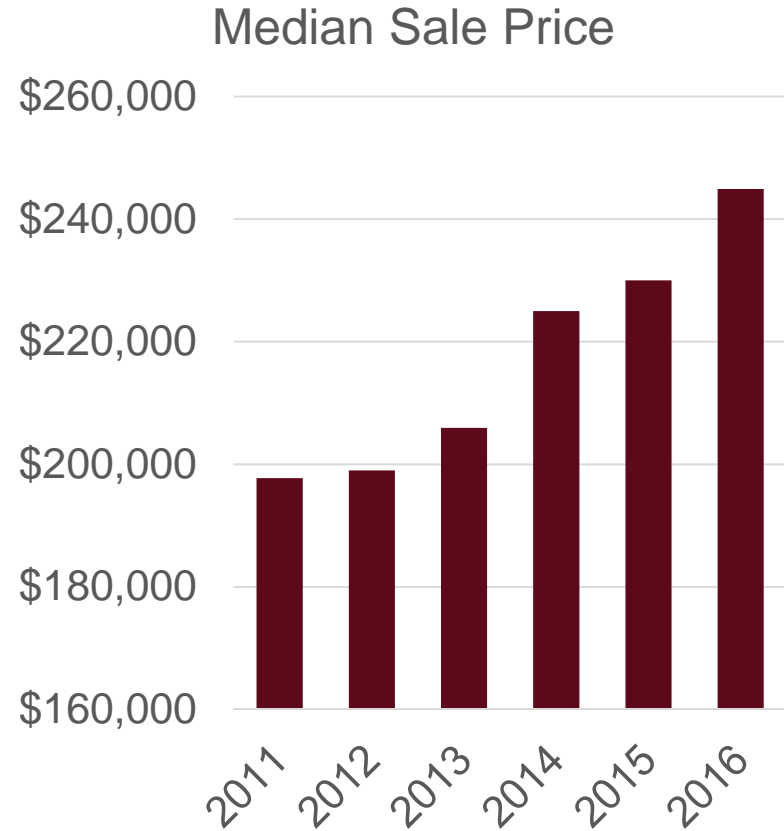
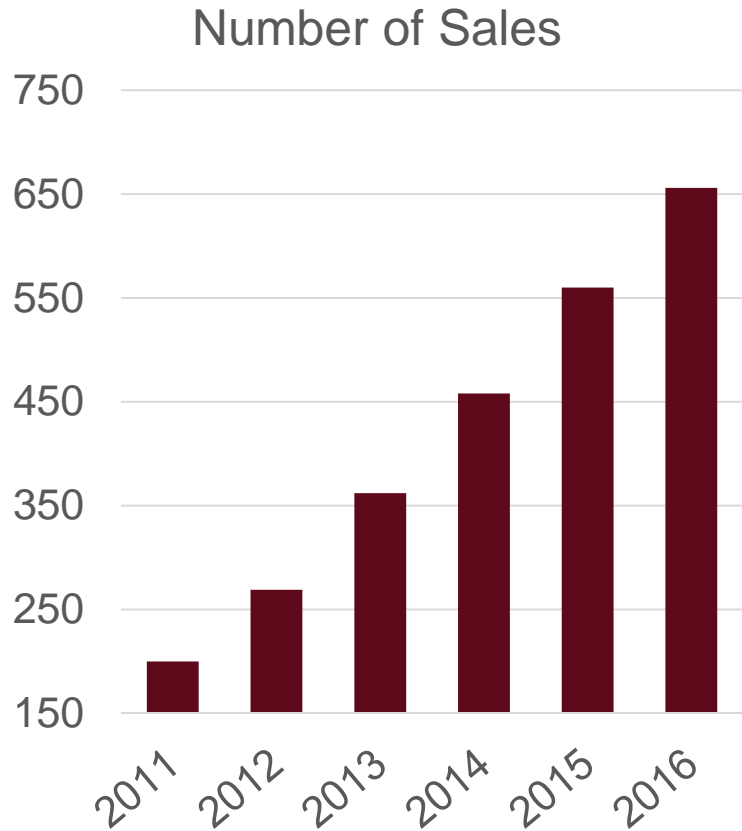


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Markets Looking Much Healthier

Ravalli County Market Statistics



Source: Montana Department of Revenue.

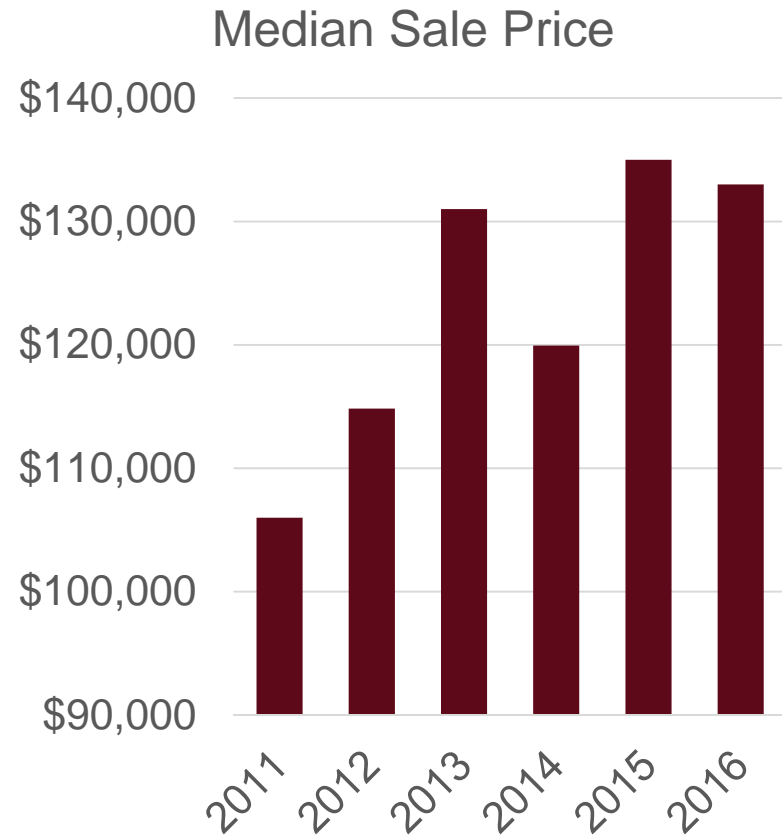
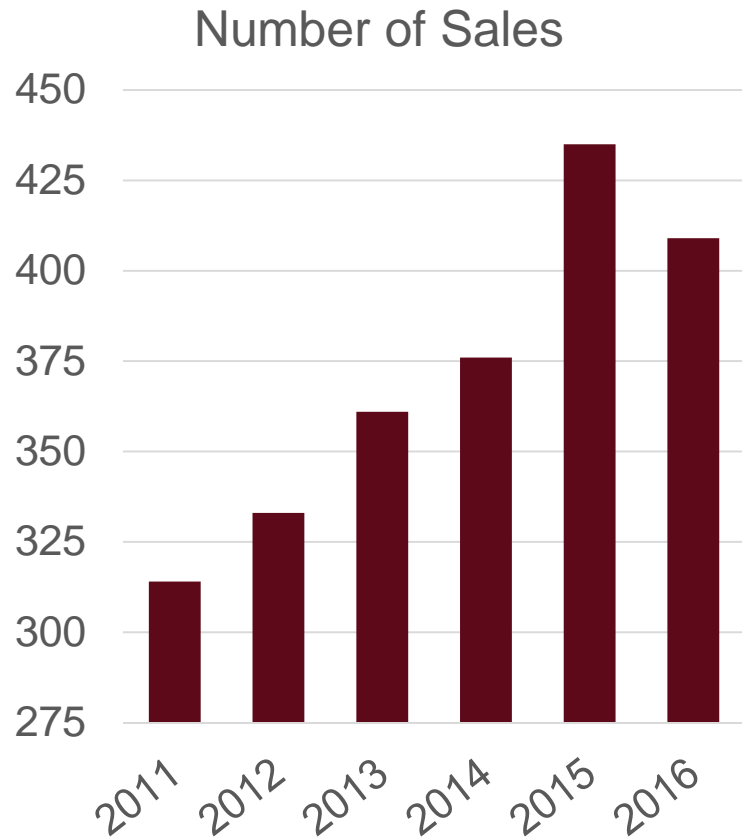


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Markets Looking Much Healthier

Silver Bow County Market Statistics



Source: Montana Department of Revenue.

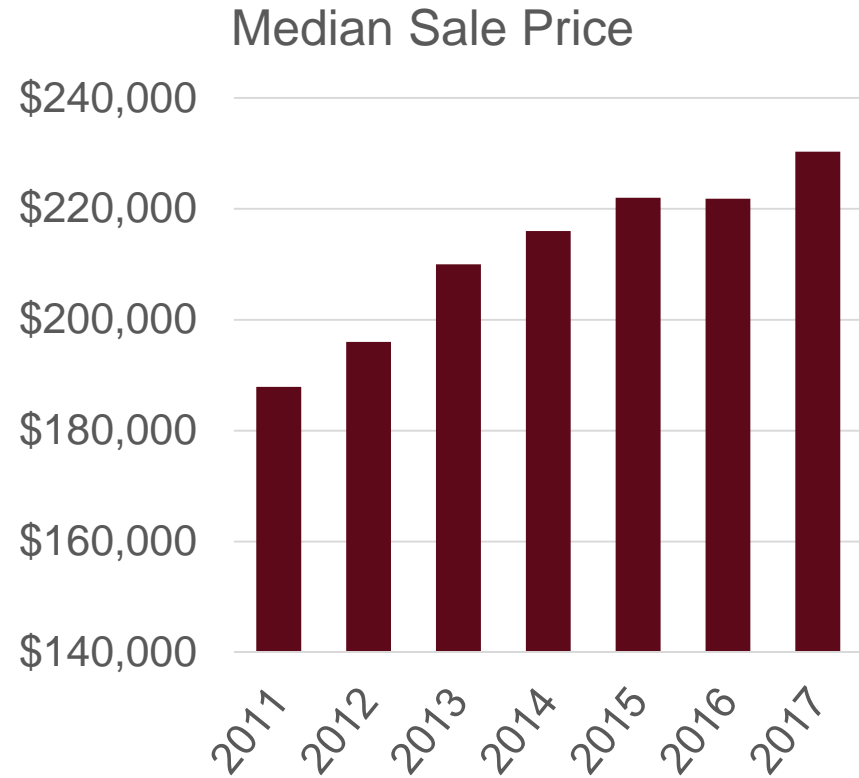
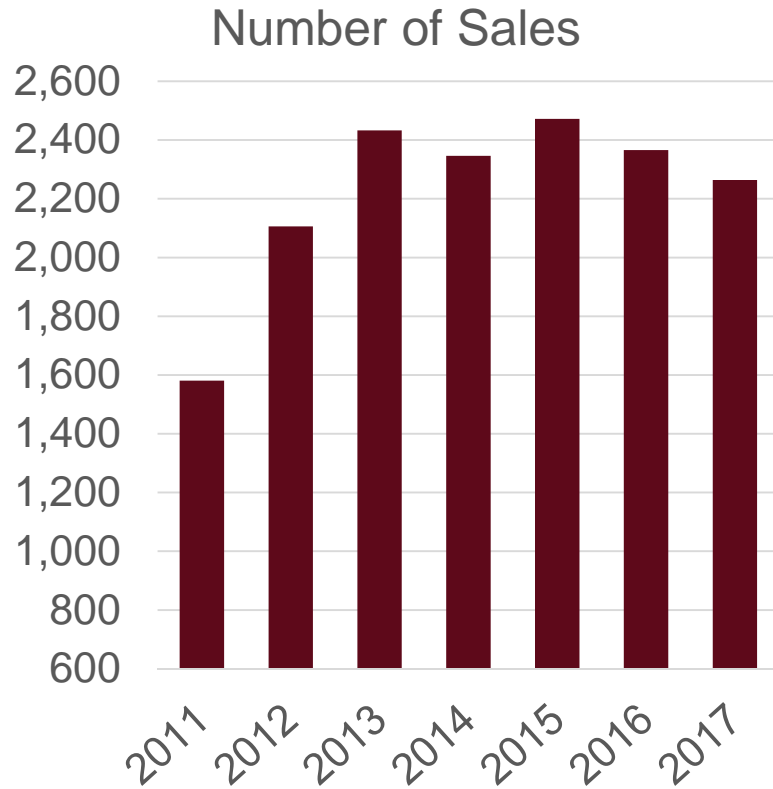


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Markets Looking Much Healthier

Yellowstone County Market Statistics



Source: Billings Association of Realtors

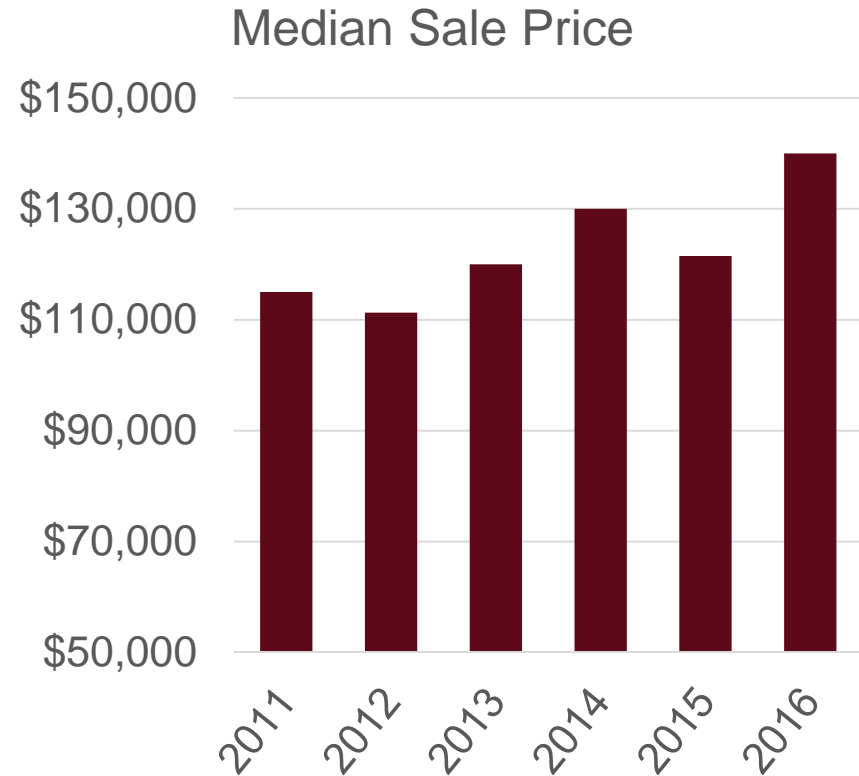
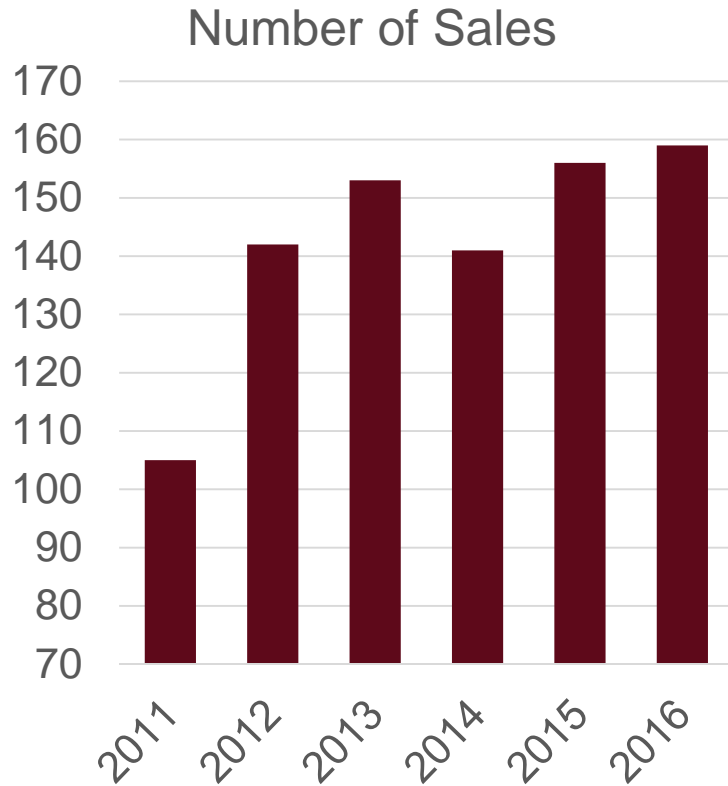


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Markets Looking Much Healthier

Fergus County Market Statistics



Source: Montana Department of Revenue.



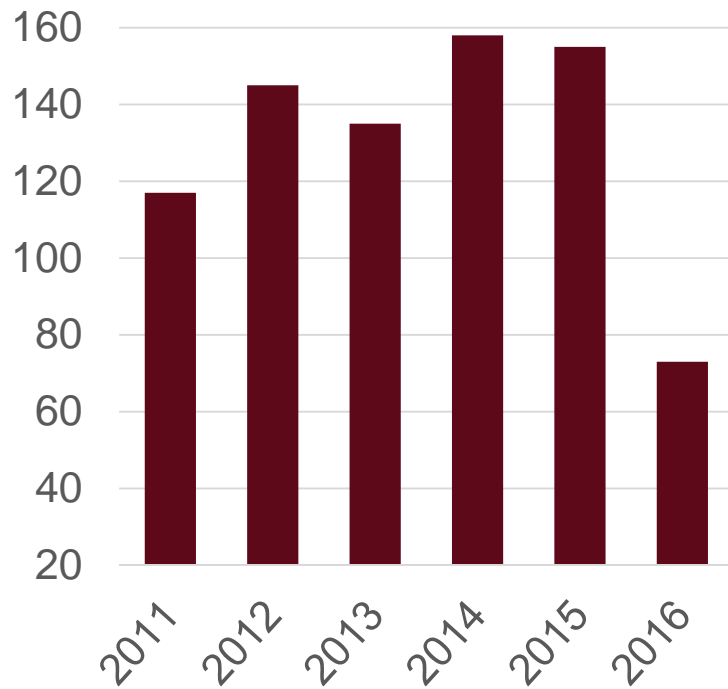
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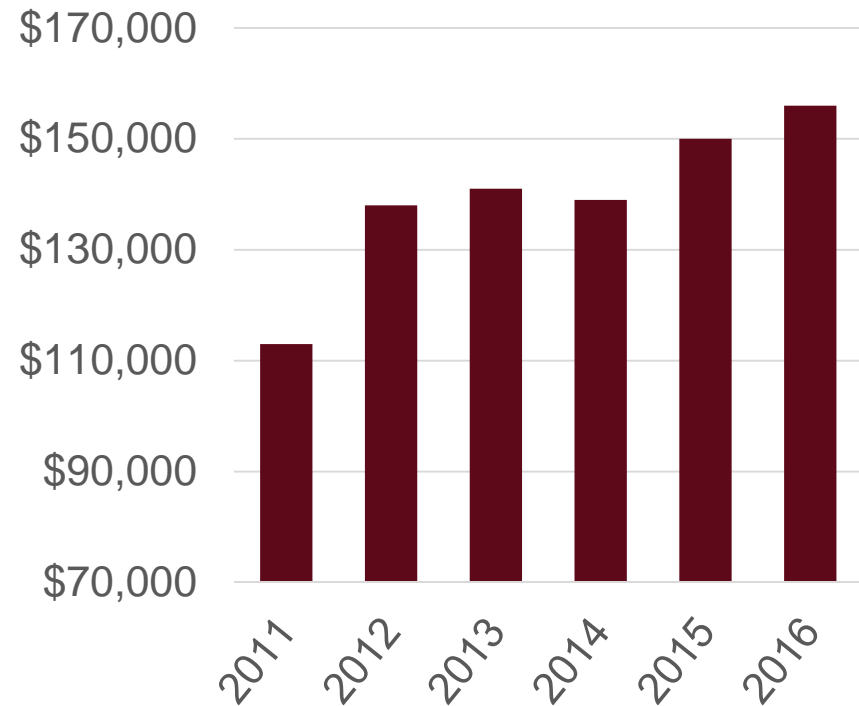
Markets Looking Much Healthier

Hill County Market Statistics

Number of Sales



Median Sale Price



Source: Montana Department of Revenue.

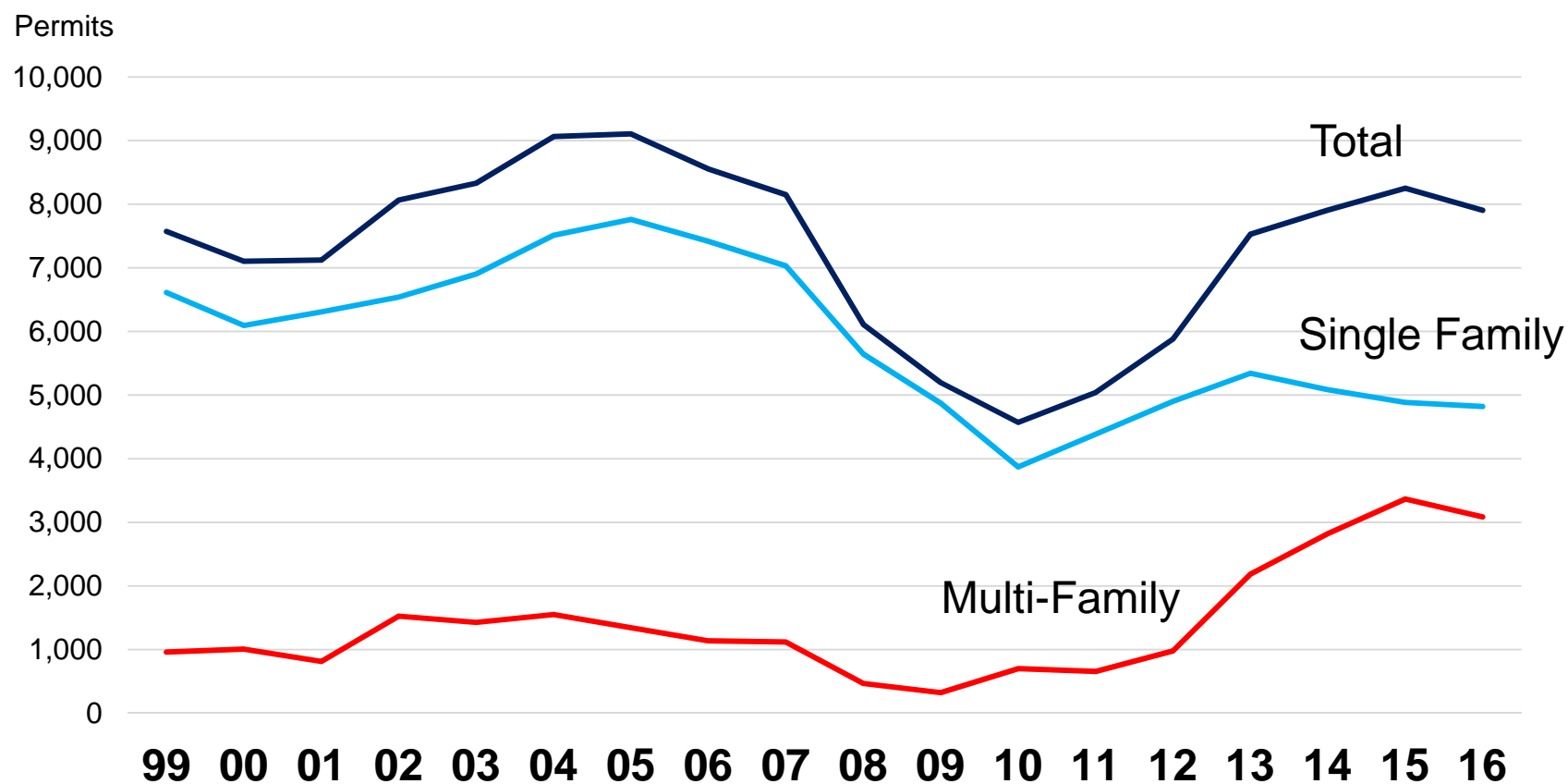


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New Home Construction is Restrained

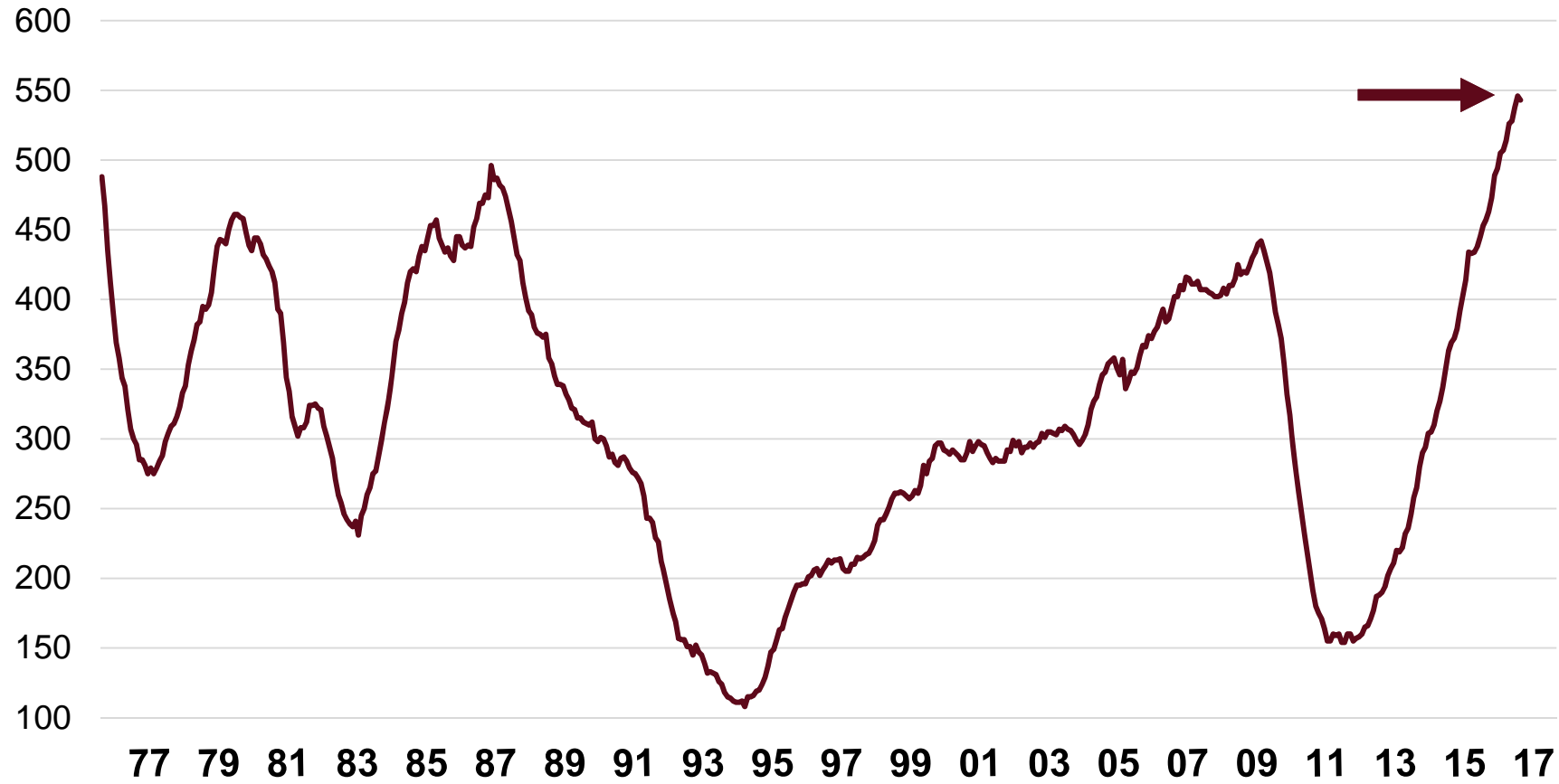
Housing Permits, Montana



Surge in Multi-Family Structures

New Privately Owned Housing Units Under Construction, 5-Units or More, U.S.

Thousands



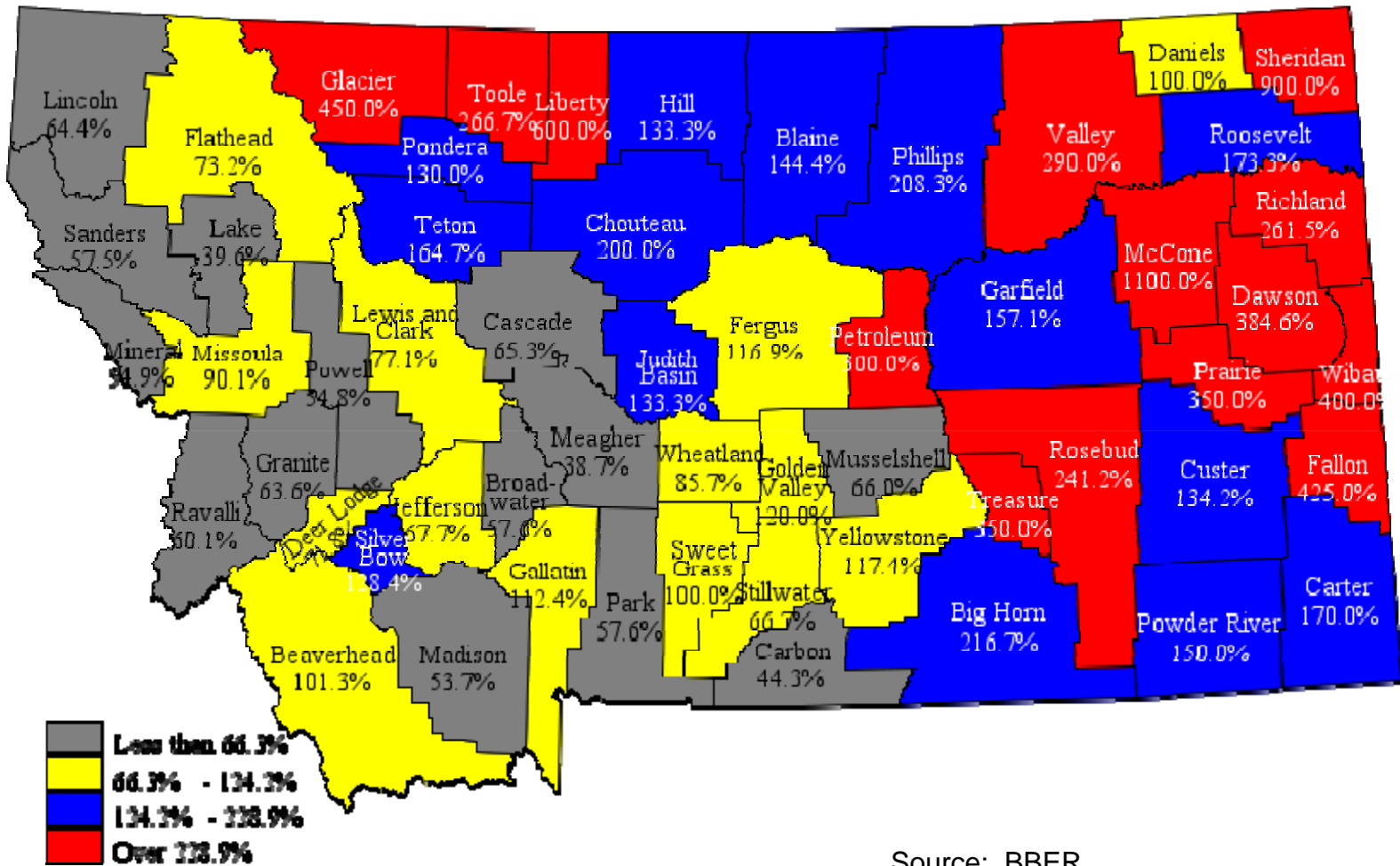
Source: U.S. Census Bureau



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Housing Starts, 2016 as Pct. Of Peak



Source: BBER

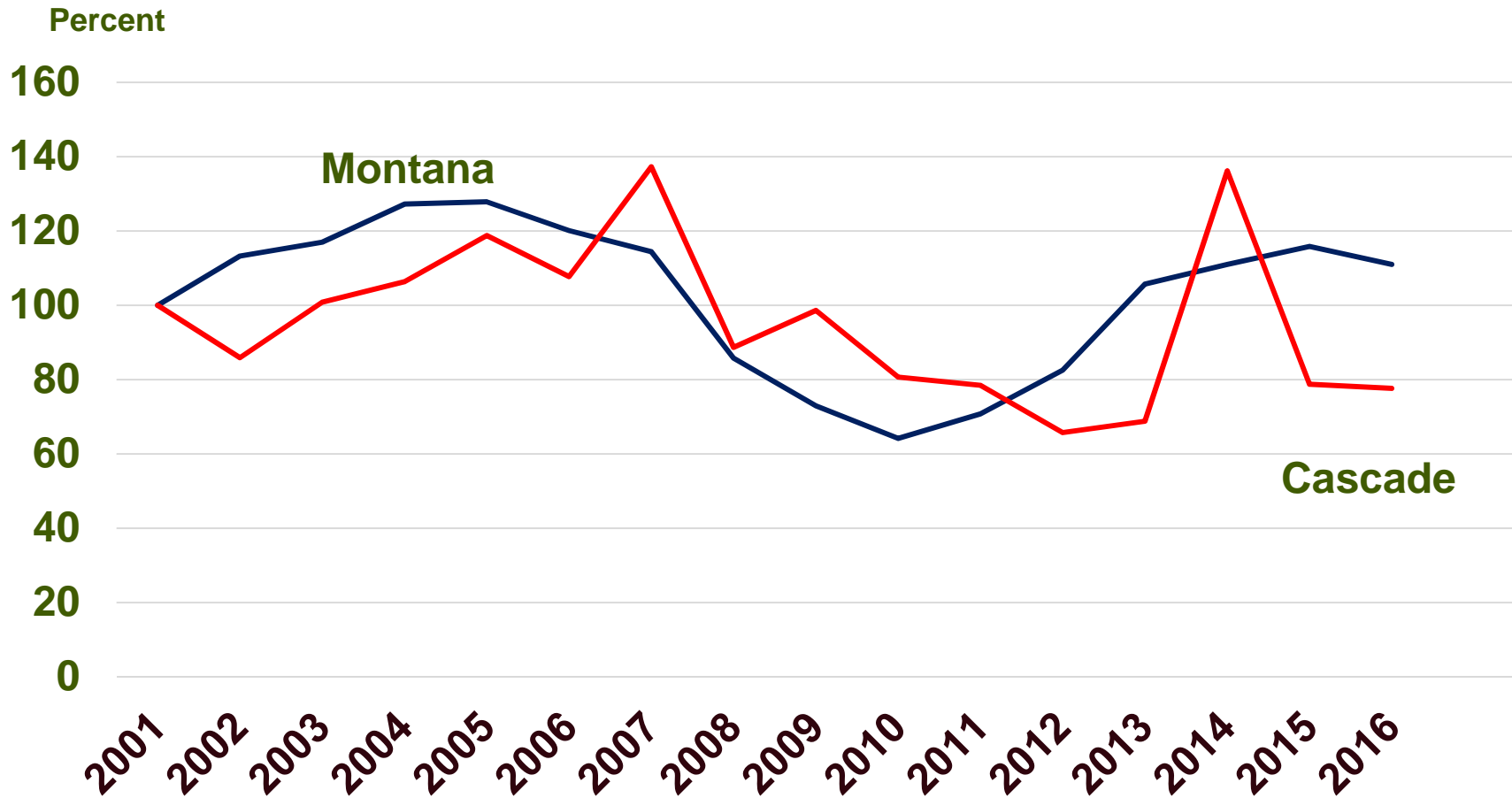


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Housing Starts, Cascade County vs. Montana

Index, 2001 = 100



Source: Bureau of Business and Economic Research and U.S. Census Bureau.

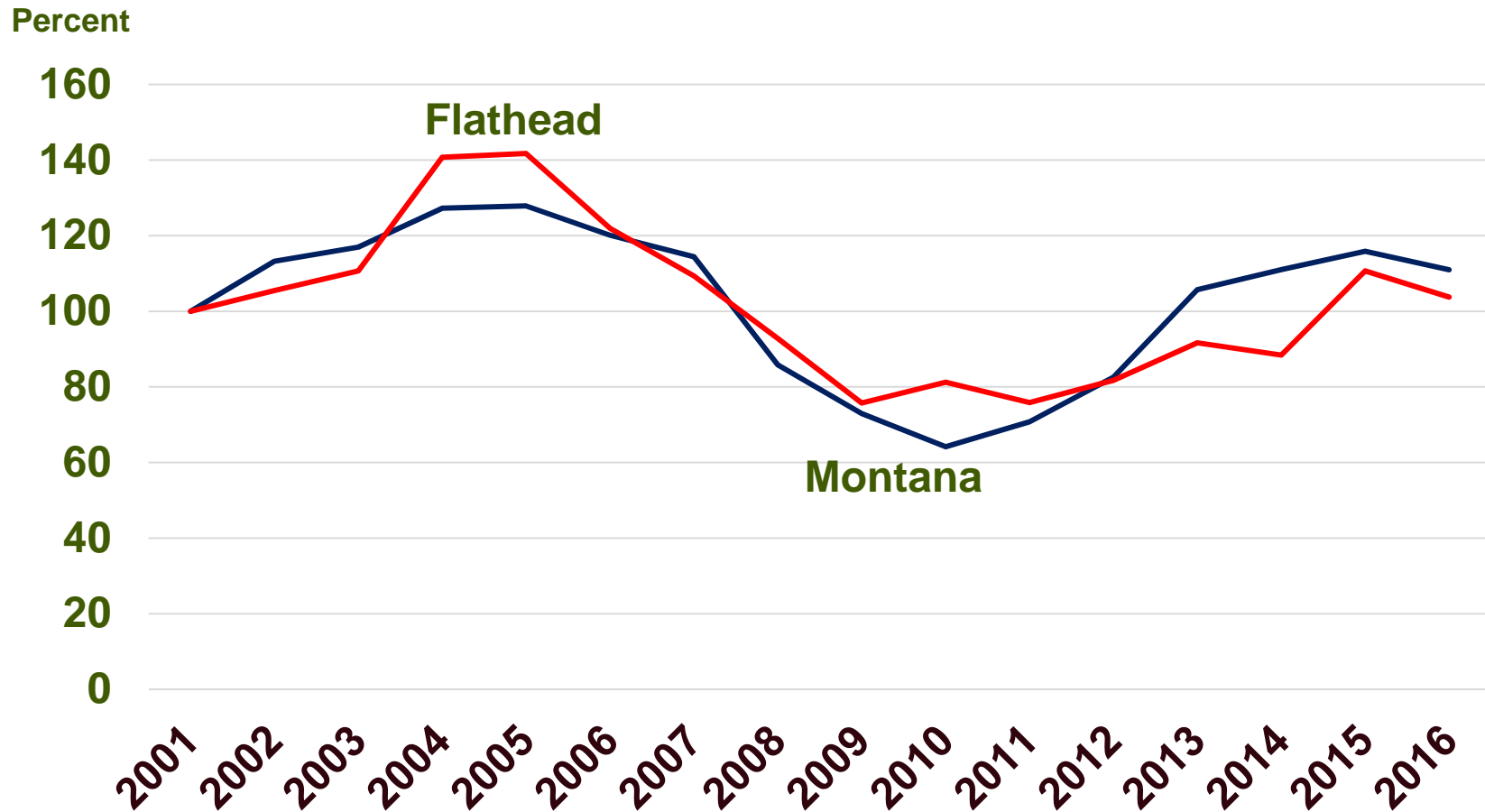


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Housing Starts, Flathead County vs. Montana

Index, 2001 = 100



Source: Bureau of Business and Economic Research and U.S. Census Bureau.

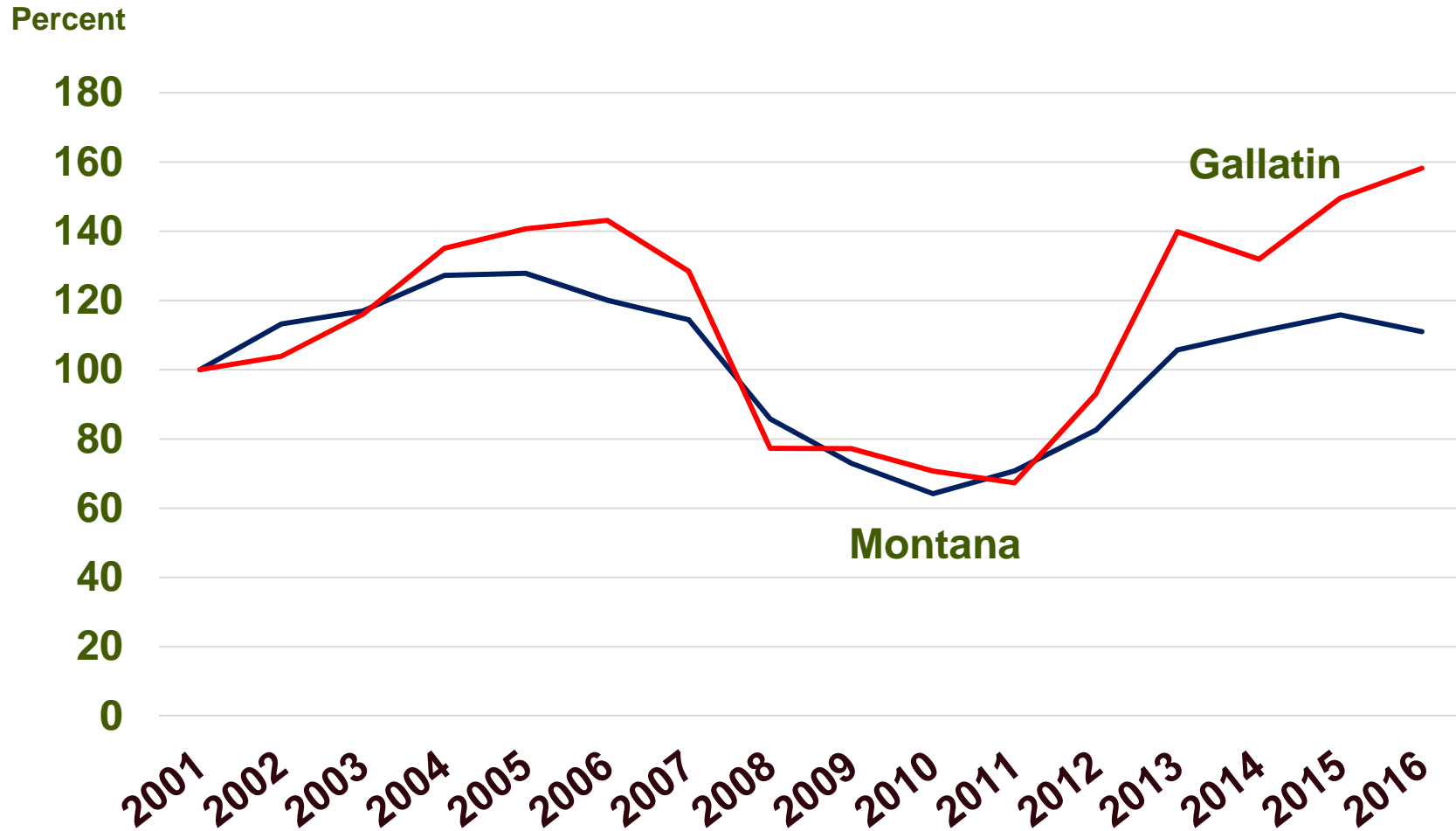


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Housing Starts, Gallatin County vs. Montana

Index, 2001 = 100



Source: Bureau of Business and Economic Research and U.S. Census Bureau.

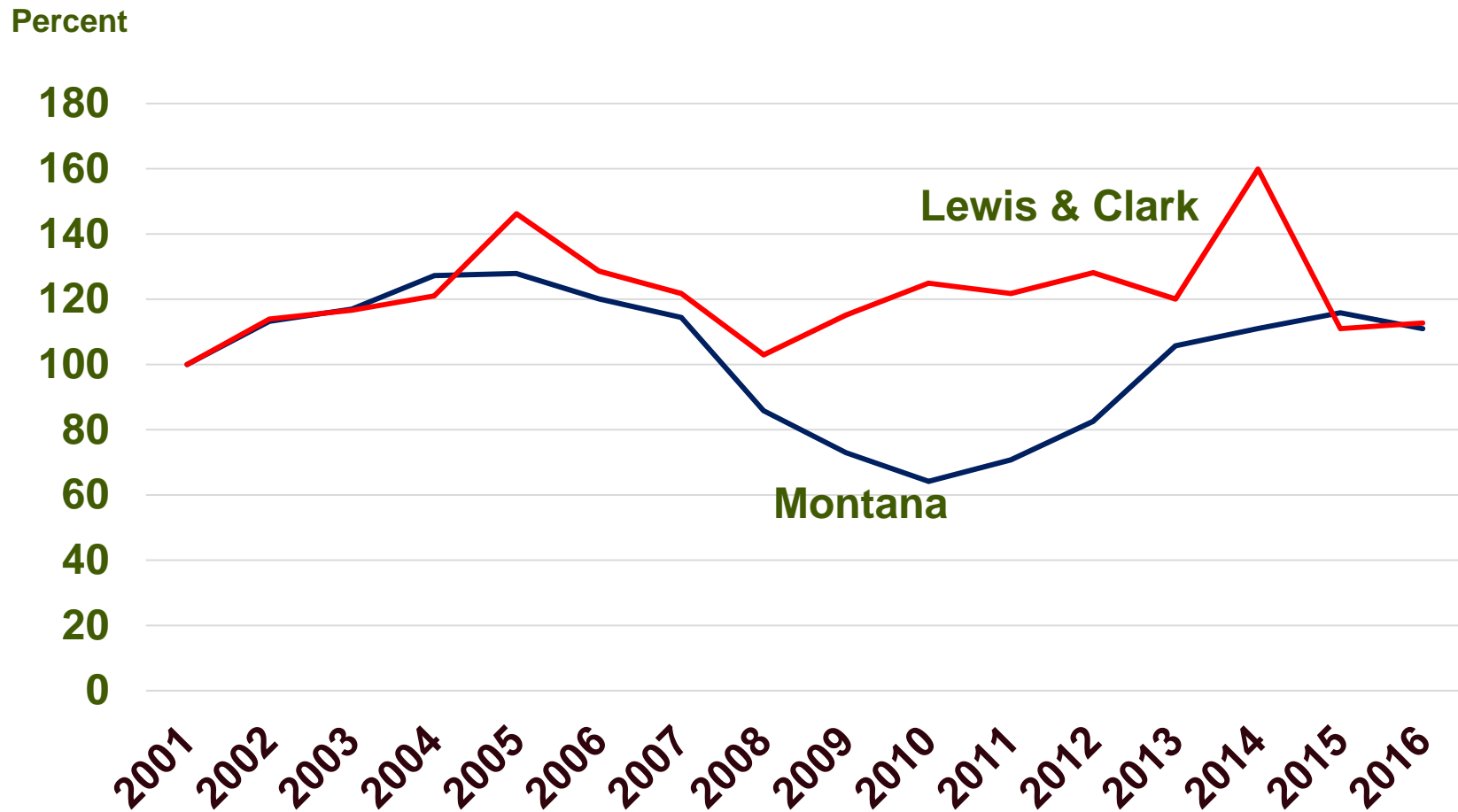


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Housing Starts, Lewis and Clark County vs. Montana

Index, 2001 = 100



Source: Bureau of Business and Economic Research and U.S. Census Bureau.

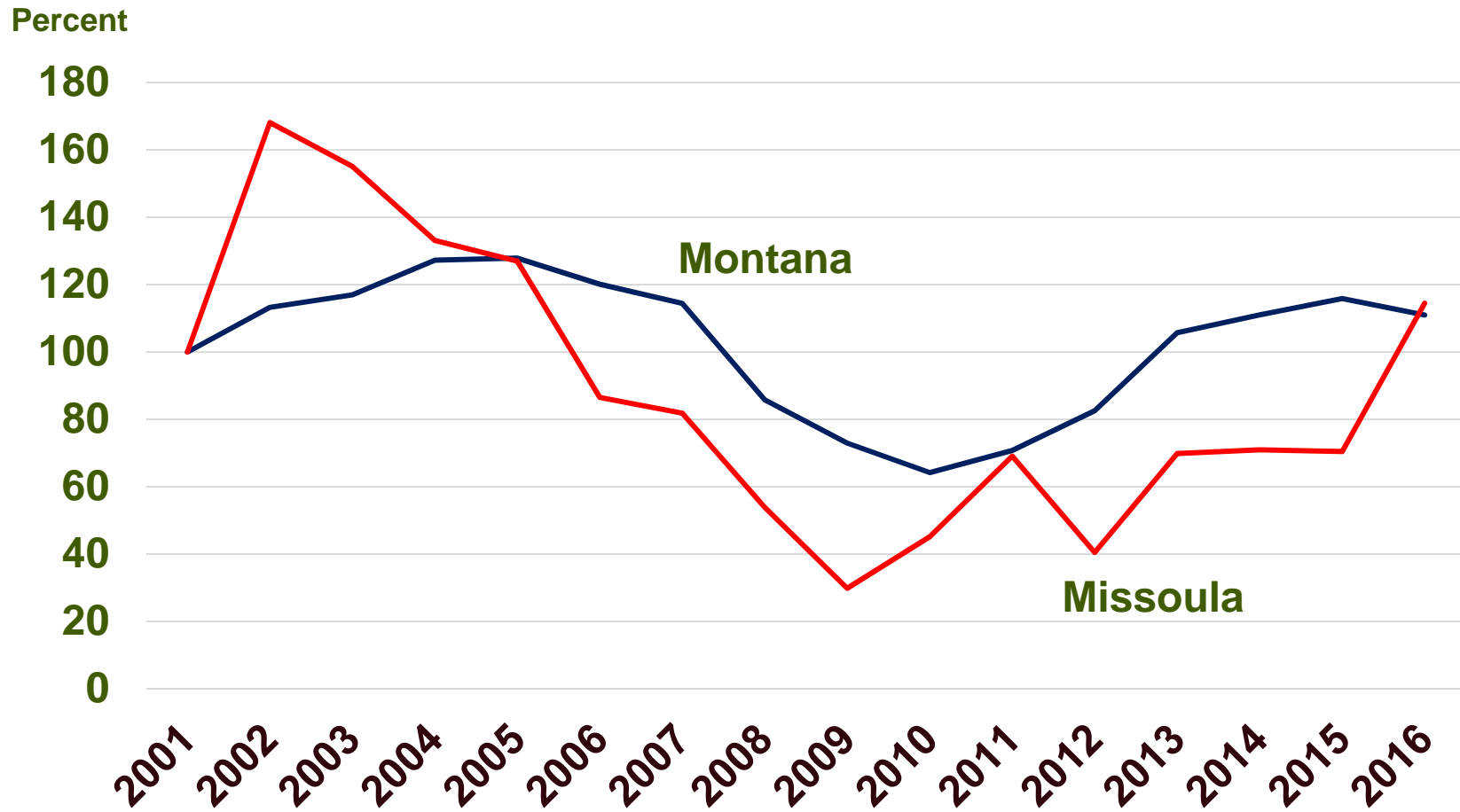


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Housing Starts, Missoula County vs. Montana

Index, 2001 = 100



Source: Bureau of Business and Economic Research and U.S. Census Bureau.

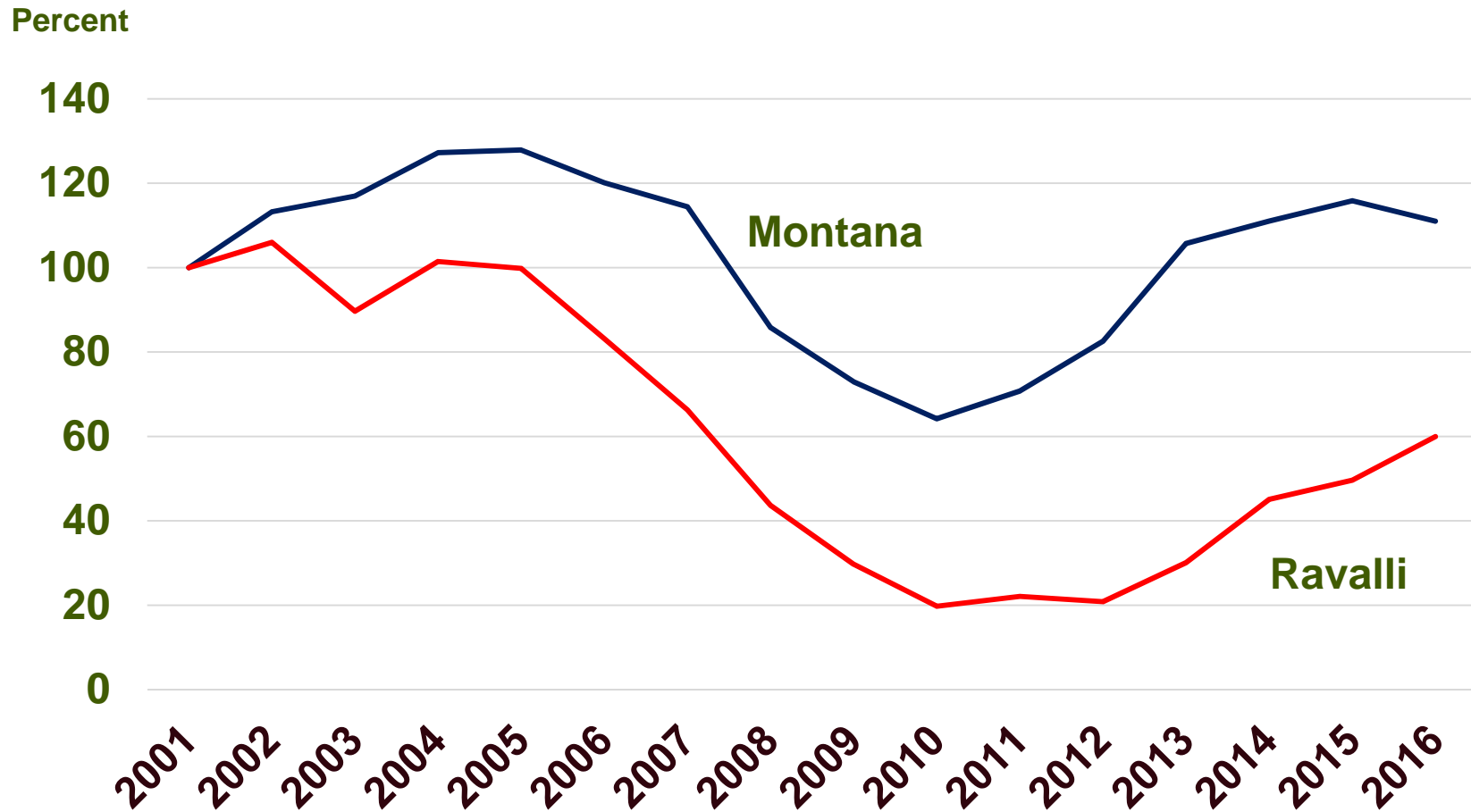


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Housing Starts, Ravalli County vs. Montana

Index, 2001 = 100



Source: Bureau of Business and Economic Research and U.S. Census Bureau.

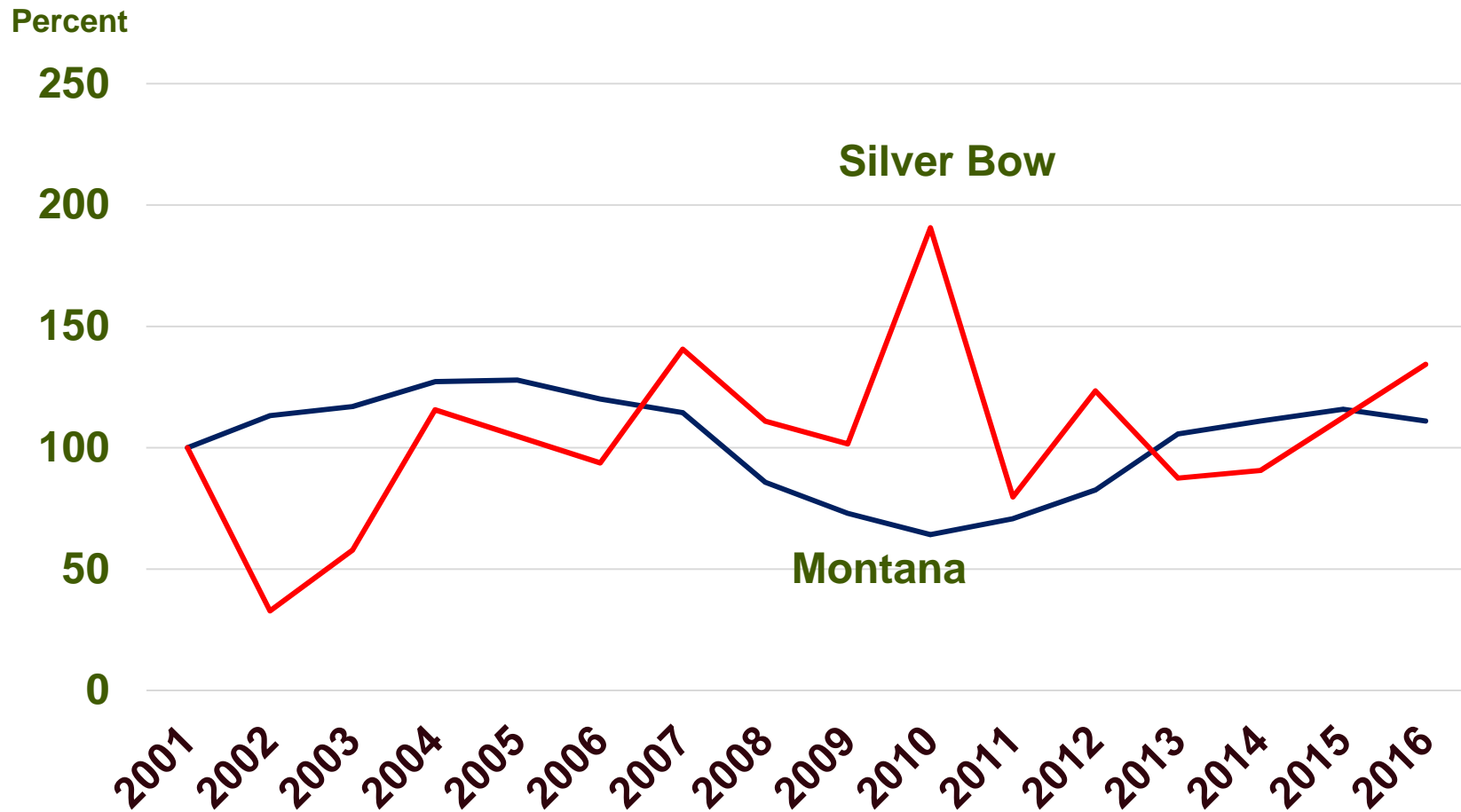


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Single Family Housing Starts, Silver Bow County vs. Montana

Index, 2001 = 100



Source: Bureau of Business and Economic Research and U.S. Census Bureau.

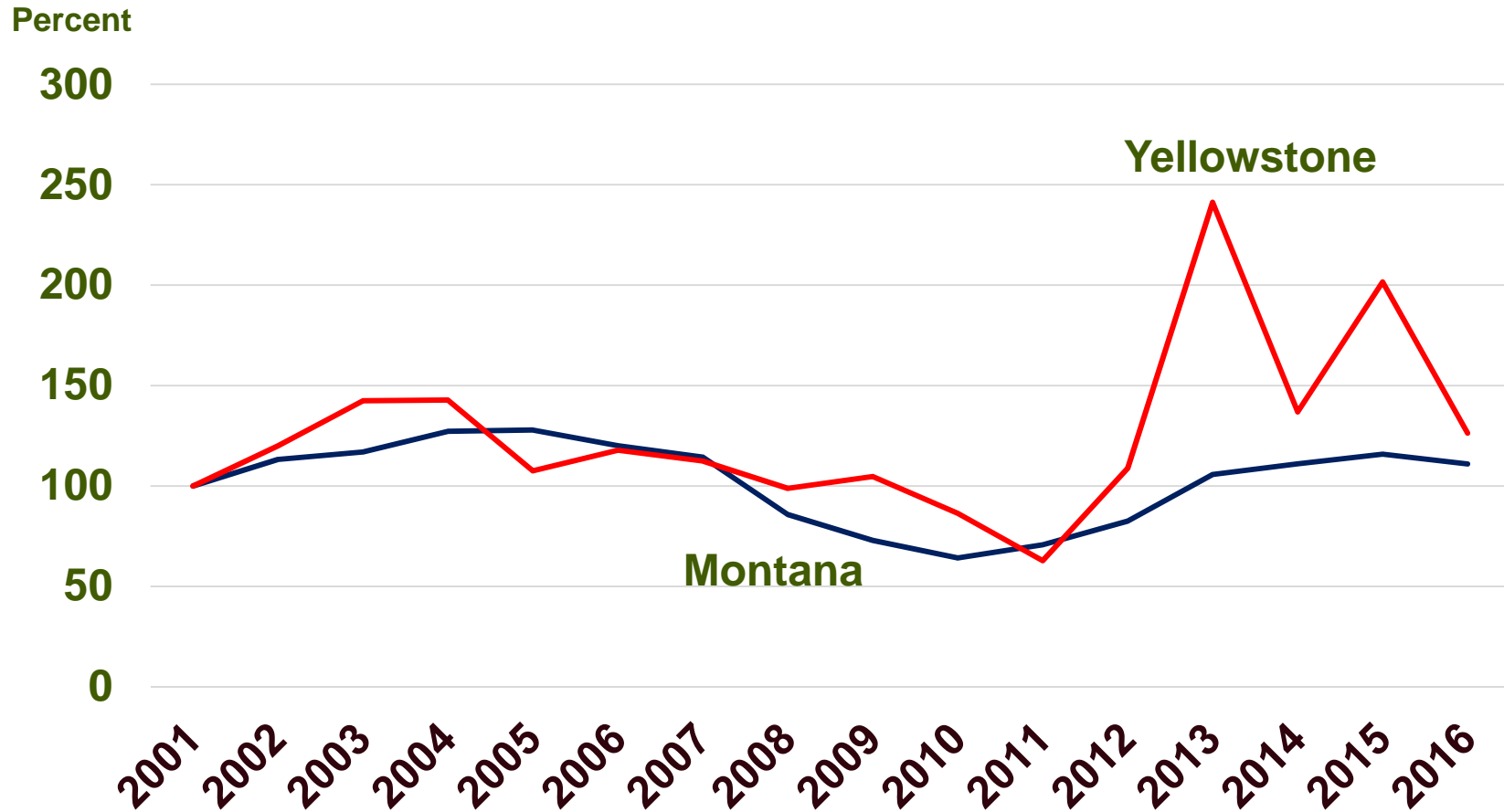


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Housing Starts, Yellowstone County vs. Montana

Index, 2001 = 100



Source: Bureau of Business and Economic Research and U.S. Census Bureau.

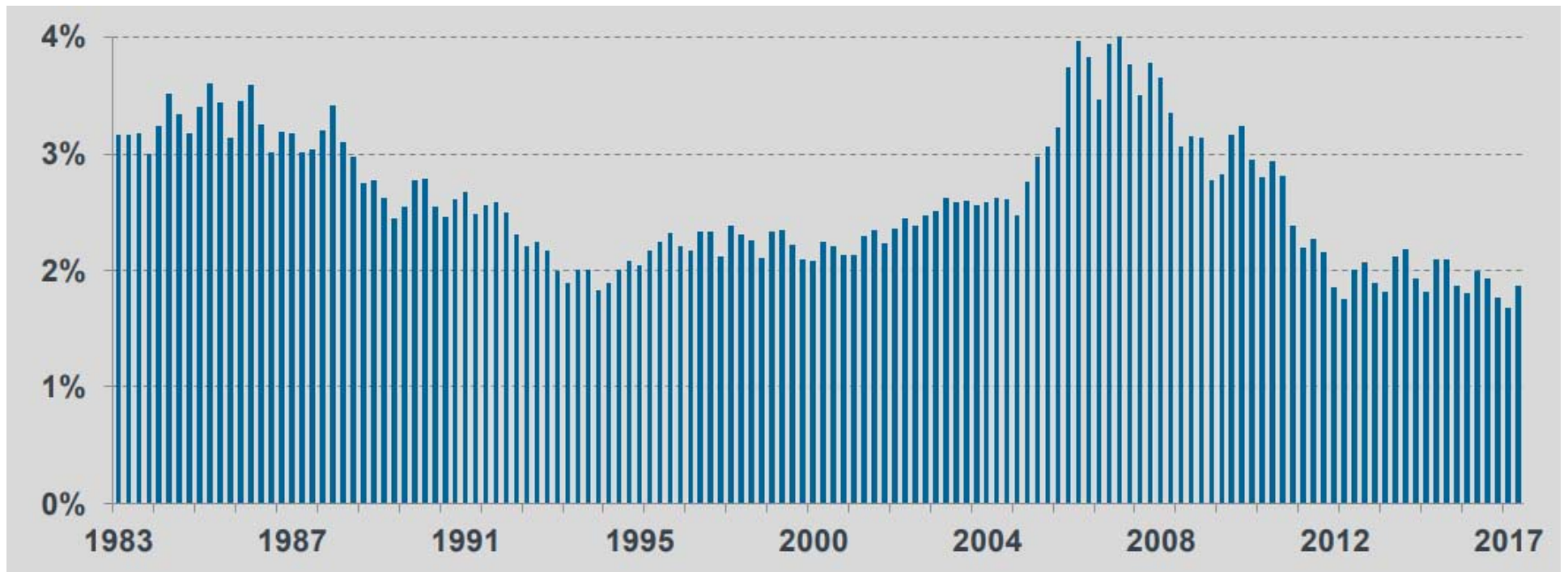


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Home Inventories Lowest in 25 Years

Homes for Sale as Percent of Households, U.S.



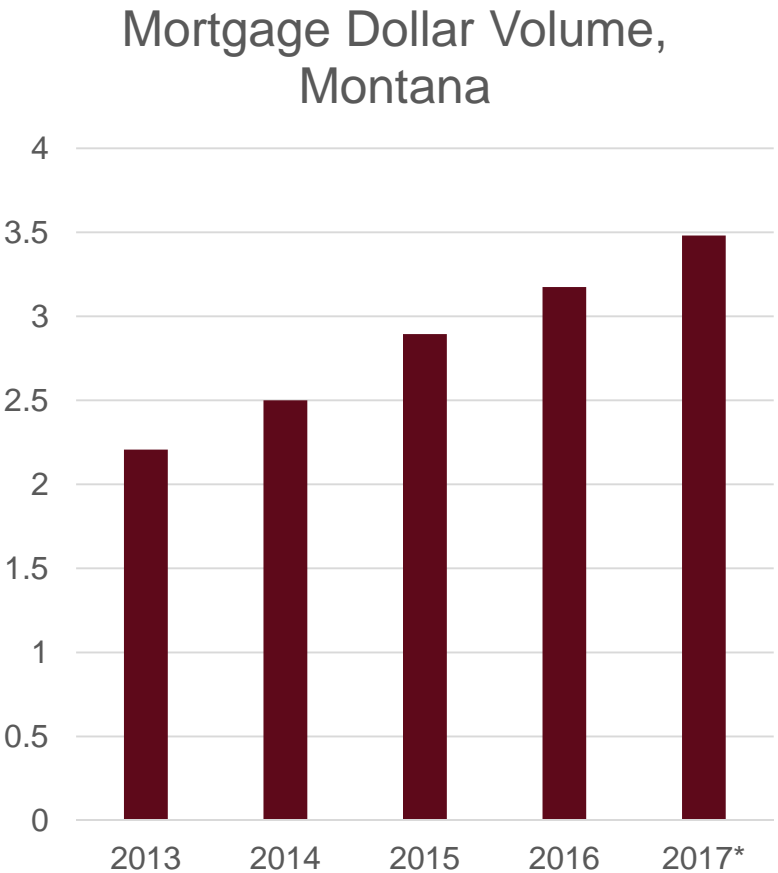
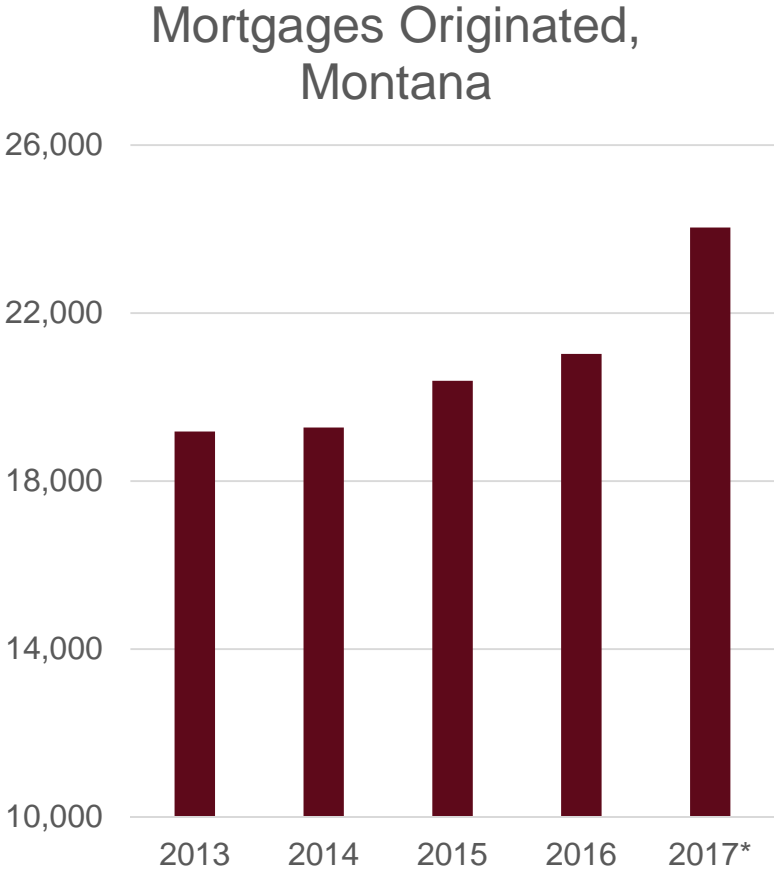
Source: NAR and U.S. Census Bureau



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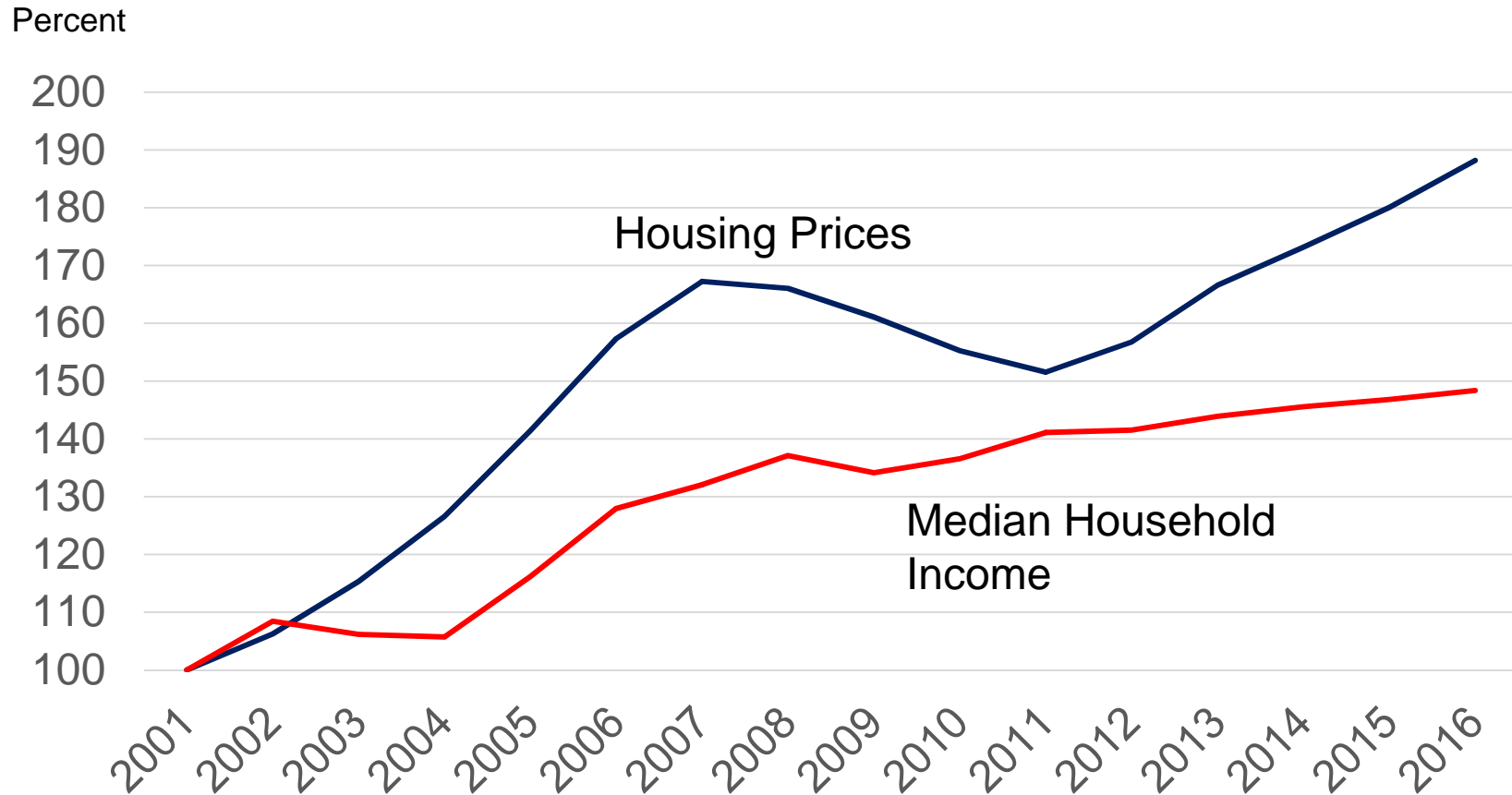
Steady Growth in Mortgage Originations



Source: AEI



Housing Affordability Not Easily Solved



Montana Housing Price Index and Montana Median Household Income Index, 2001 = 100

Source: U.S. Federal Housing Finance Agency and Census Bureau.



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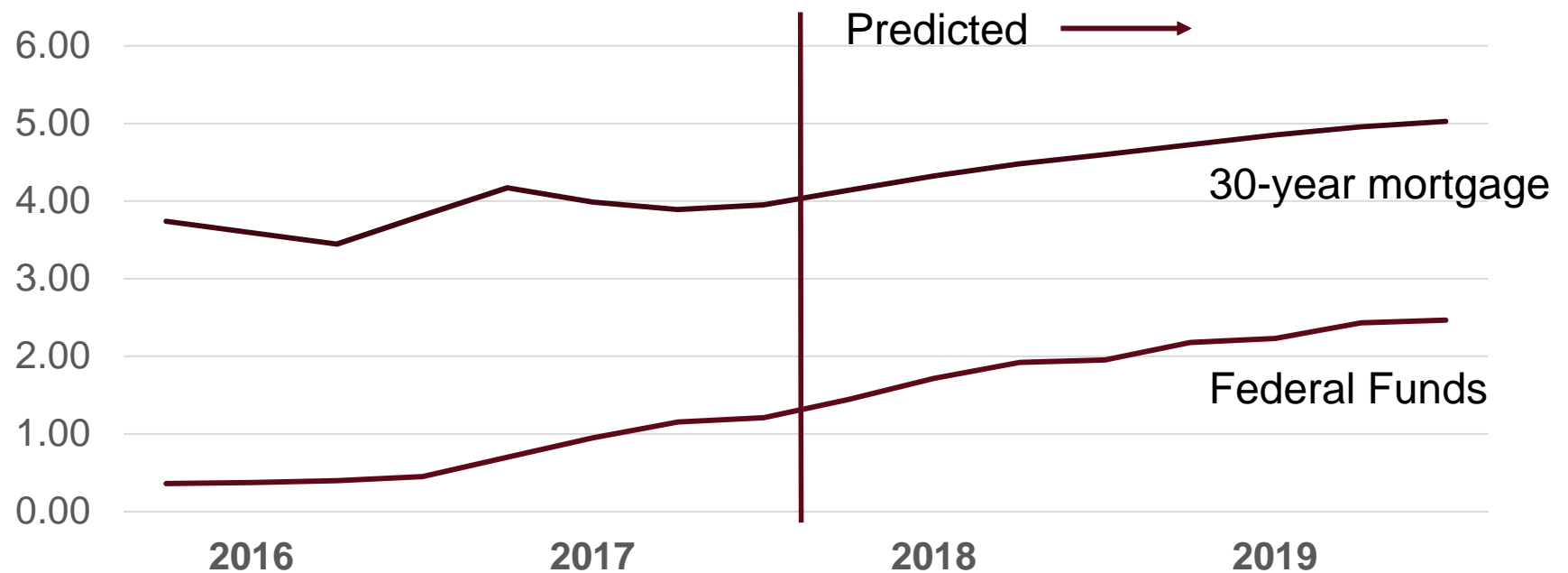
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Looking Ahead to 2018

- Interest Rates are Moving Up



Mortgage Rates Creeping Up to Historical Norms



Source: IHS Markit



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Looking Ahead to 2018

- Interest Rates are Moving Up
- Tax Reform Takes Hold



How Will Tax Reform Impact Real Estate?

- Law is friendly to commercial development
- Mortgage interest deduction caps (from \$1M to \$500K) will have limited impact on Montana
- Subsidized housing programs may be affected
- What will happen when budget deficits swell?



Looking Ahead to 2018

- Interest Rates are Moving Up
- Tax Reform Takes Hold
- Is Real Estate Risk Growing?



Assessing Housing Risk

- Price growth is challenging loan quality
- Median down payment of home buyer in 2017 was 10%
- 1.36 million mortgages underwater in 2017 is still twice the pre-crash level
- Other forms of debt (especially student debt) have risen significantly



Outlook for 2018

- Real estate markets in Montana will remain strong
- Affordability will get worse
- Residential construction will continue to underperform
- The boom in multifamily construction is over
- Risk is growing, but still not a concern



Questions?



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