

# The Outlook for Real Estate and Construction

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# National Housing Market Headlines

- “Why the Housing Market Is Slumping Despite a Booming Economy” (New York Times, 11.15.18)
- “U.S. home builder sentiment posts biggest drop in 4-1/2 years” (Reuters, 11.19.18)
- “Housing Market is Faltering and Strong Economy Offers No Cure” (Wall Street Journal, 10.19.18)
- “The U.S. Housing Boom Is Coming to an End, Starting in Dallas” (Wall Street Journal, 11.26.18)



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# National Housing Market Data

- Sales and mortgage transactions have remained at a high level
- Home price appreciation continuing to outpace inflation.
- Housing market remains robust
- Recovery entering 7<sup>th</sup> year



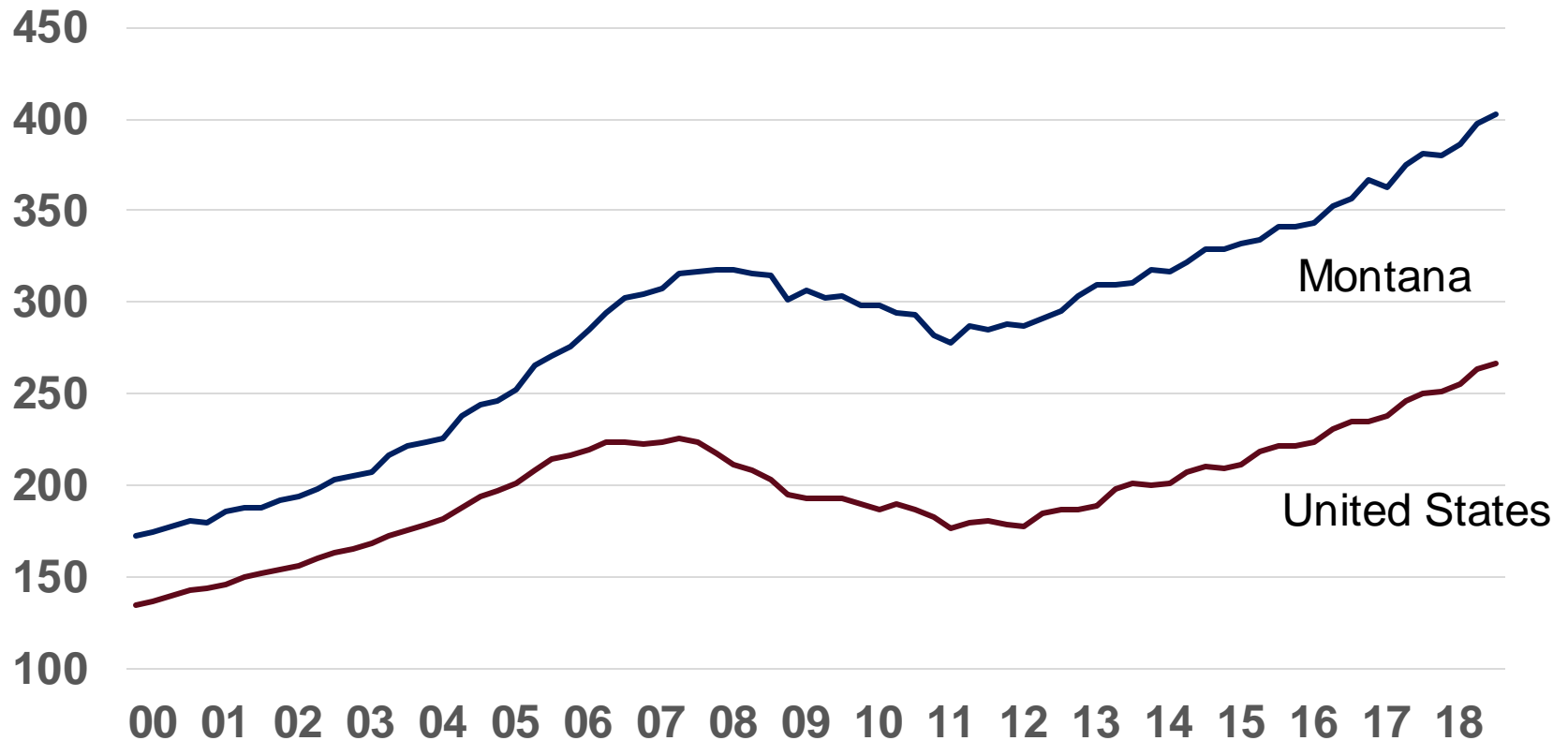
# Will the continued growth last?

- Strong volumes
- Steady price increases
- Uptick in construction
- Volumes tapering off
- National economic slowdown?
- Real estate risk growing



# Strong Housing Price Growth Since 2011

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



Source: Federal Housing Finance Agency,

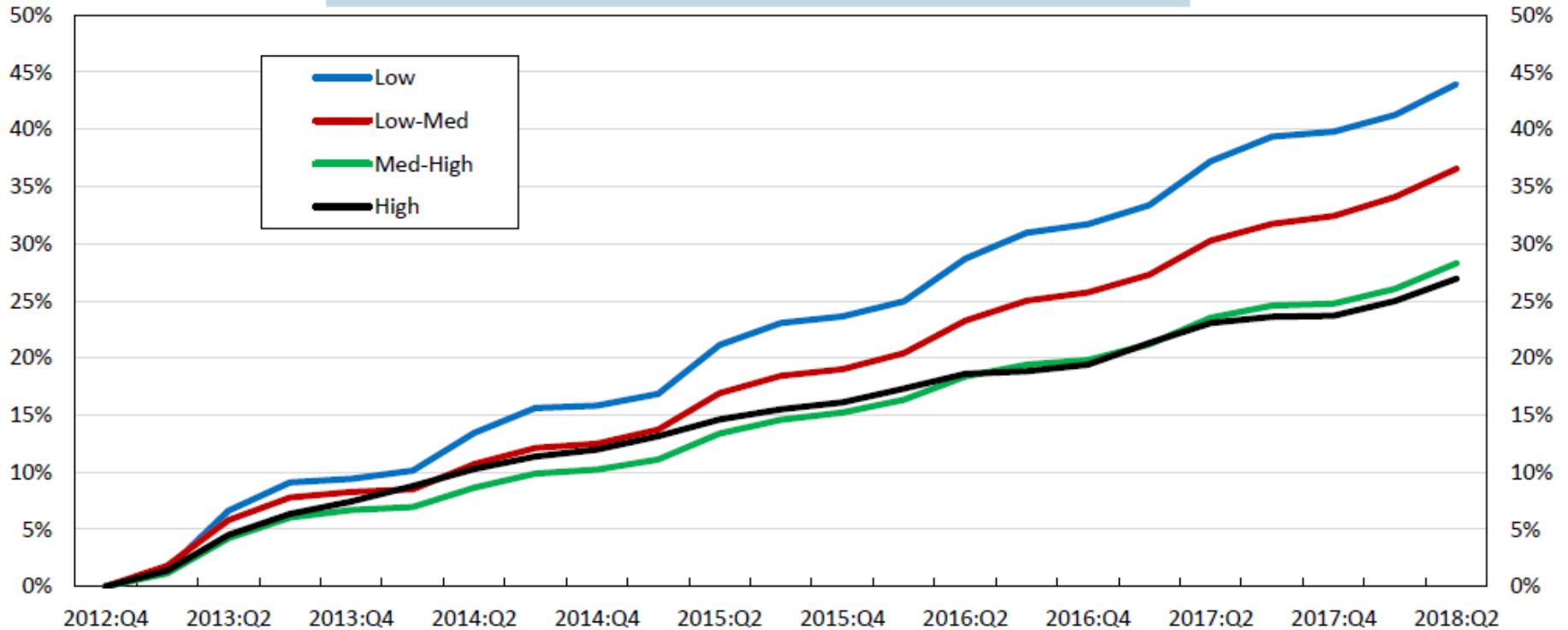


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# National Price Growth Not Evenly Distributed Across Price Tiers

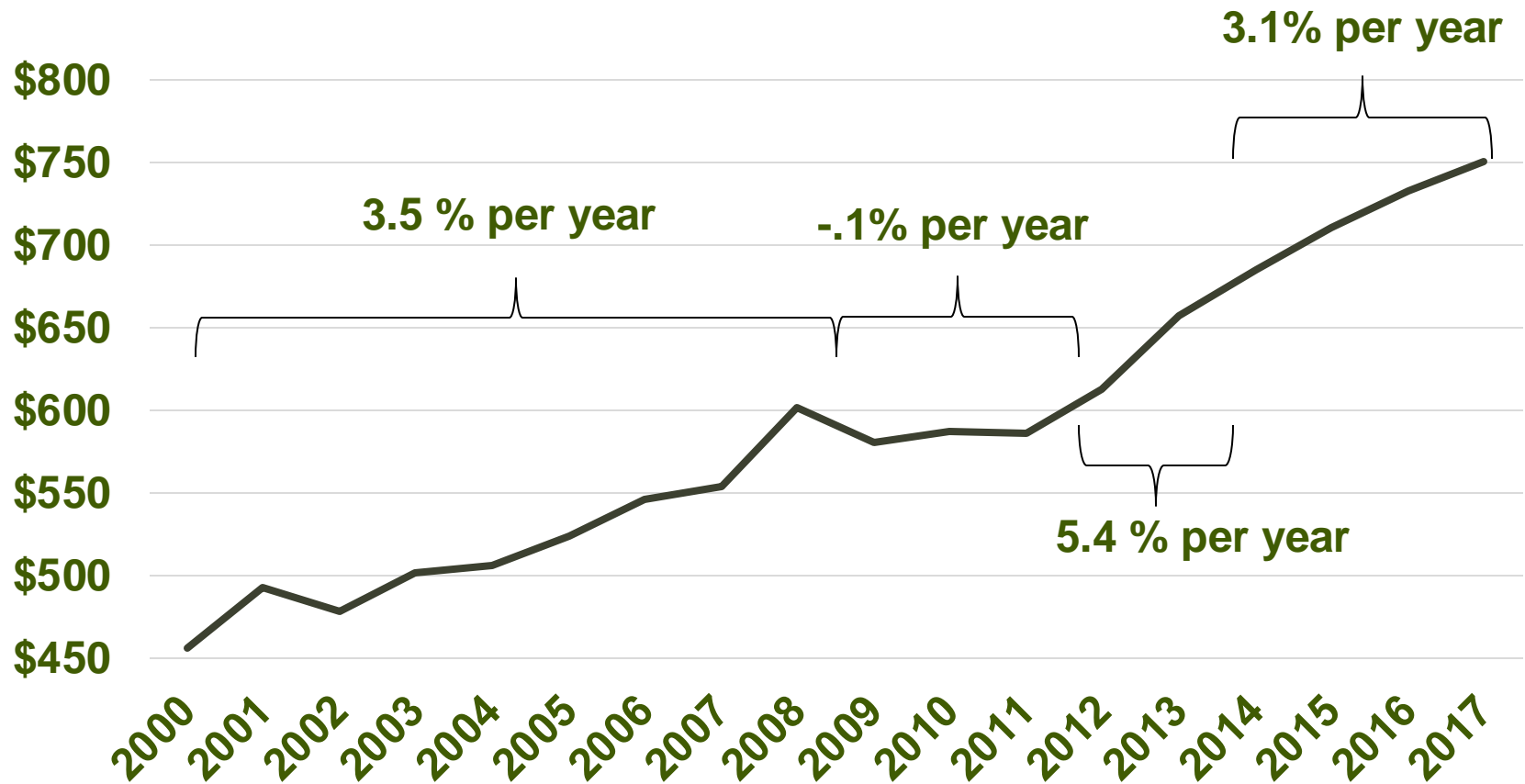
Cumulative Constant-Quality HPI, by Price Tier (2012:Q4 = 0%)



Source: AEI Center on Housing Markets and Finance, 73 largest CBSA's



# Slight Moderation in Rents



Montana Residential Rent, Inflation Adjusted (2014\$)

Source: U.S. Census Bureau.

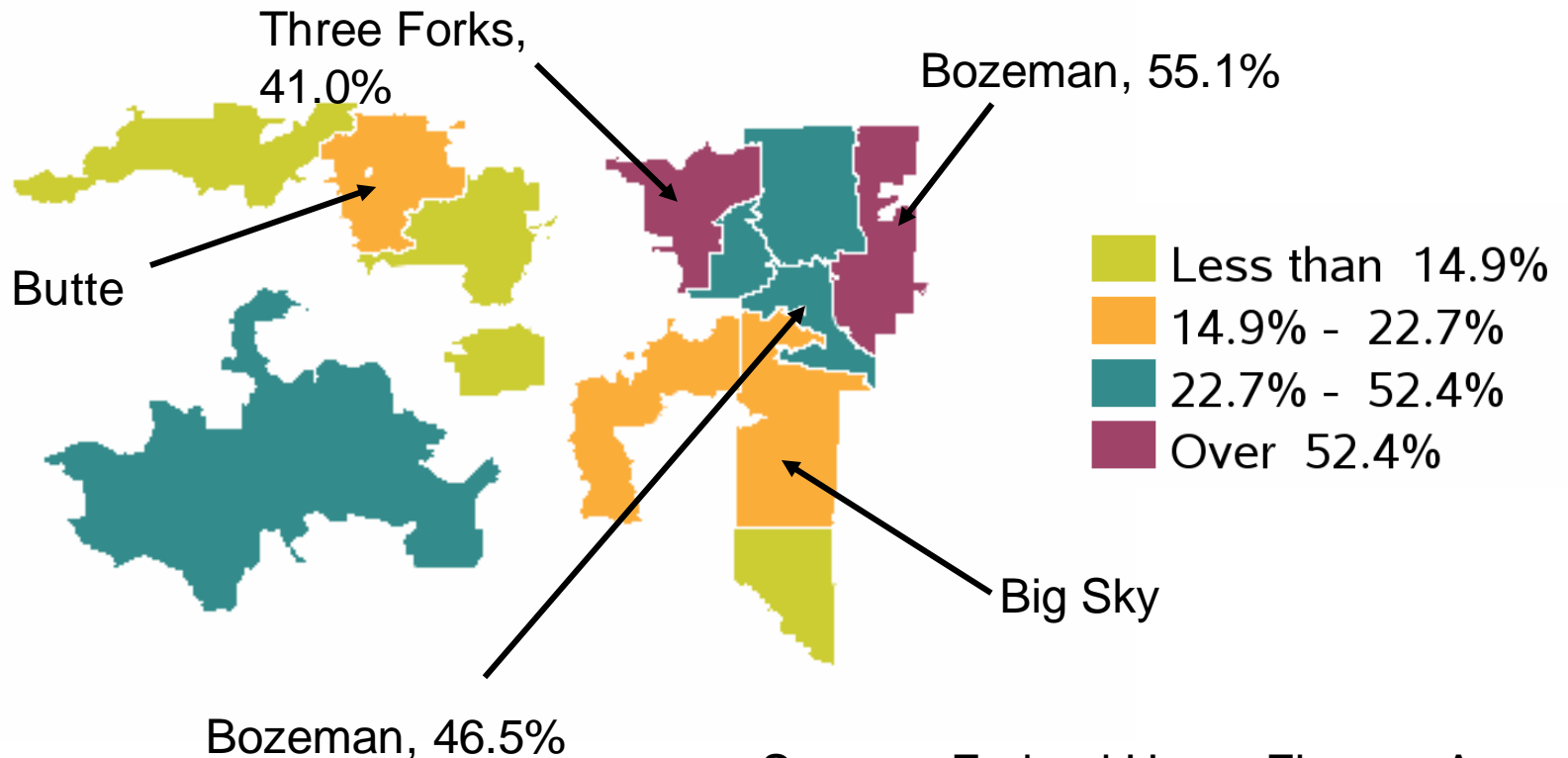


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# Bozeman Leading the State in Price Appreciation

Percent Growth in Housing Price Index by Zip Code Since 2012



Source: Federal Home Finance Agency

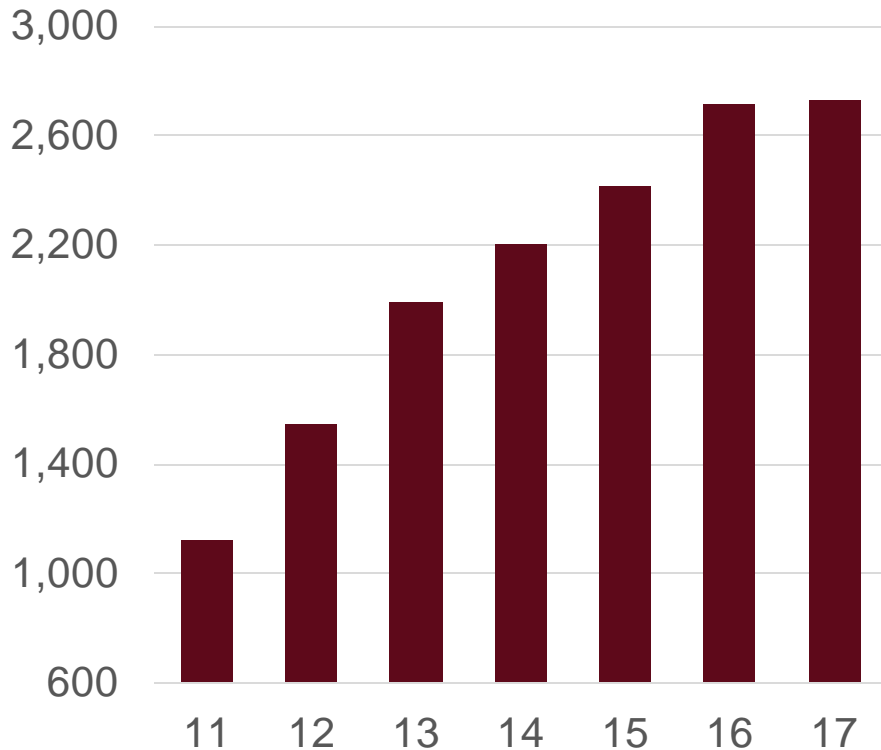




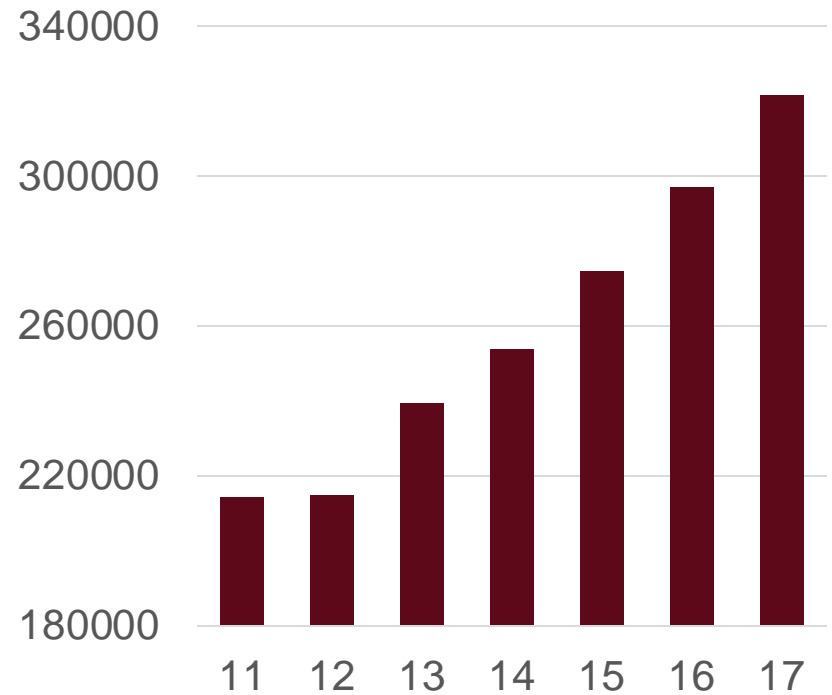
# Volumes Taper Slightly in Gallatin County

Gallatin County Market Statistics for Single Family Homes

Number of Sales



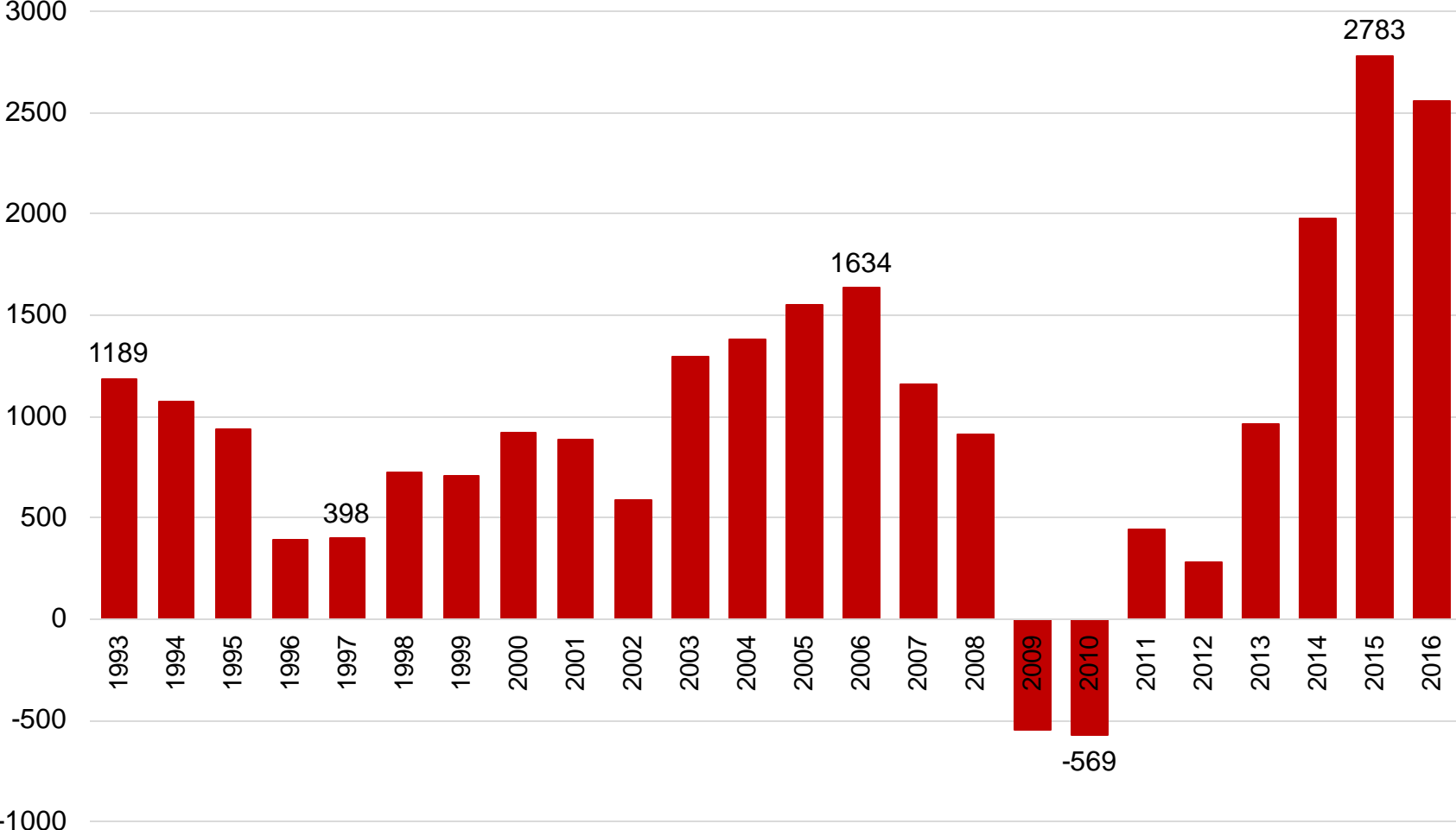
Median Sale Price



Source: Montana Department of Revenue.

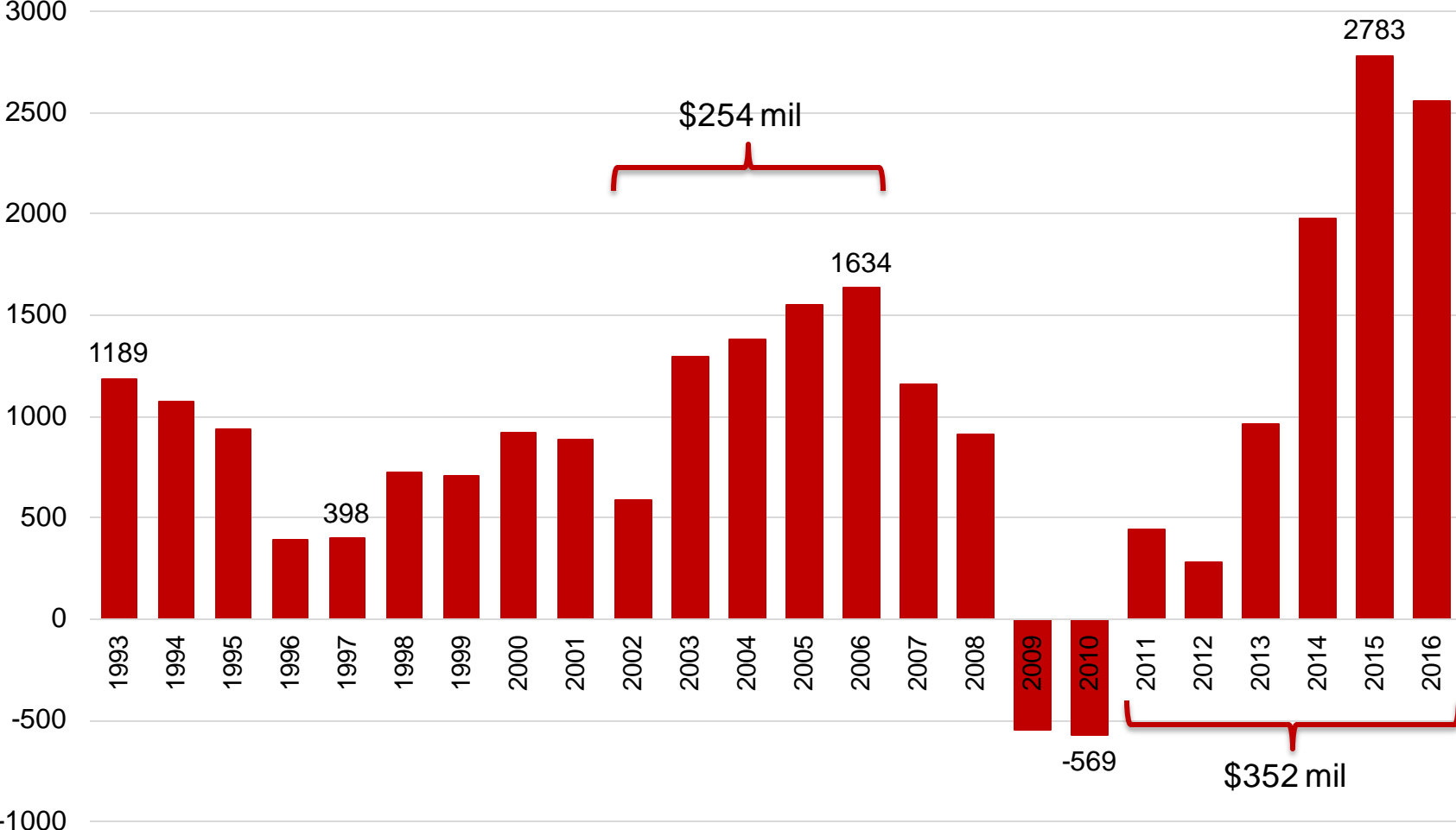


# Gallatin County Net Migration



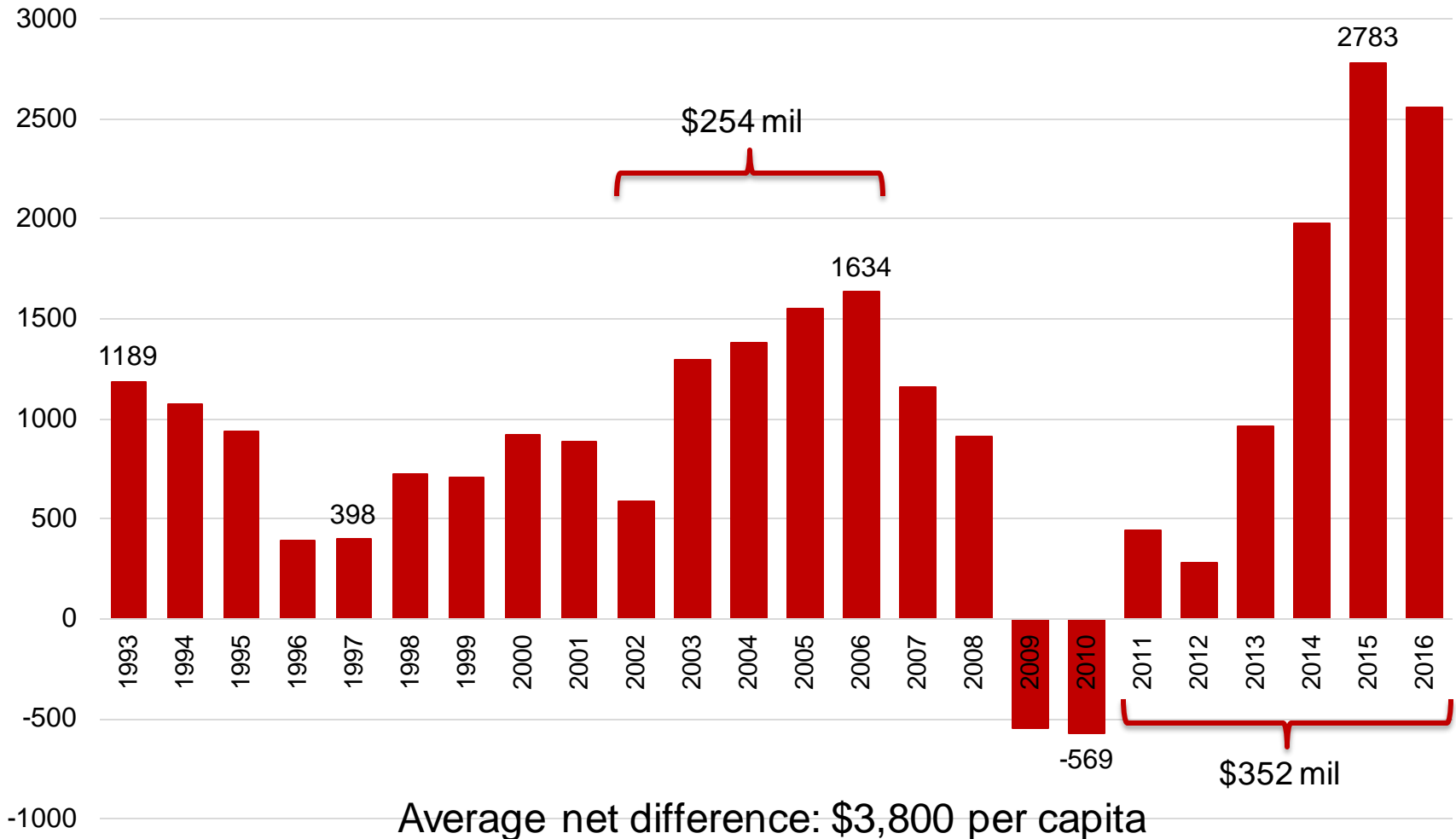
Source: Internal Revenue Service

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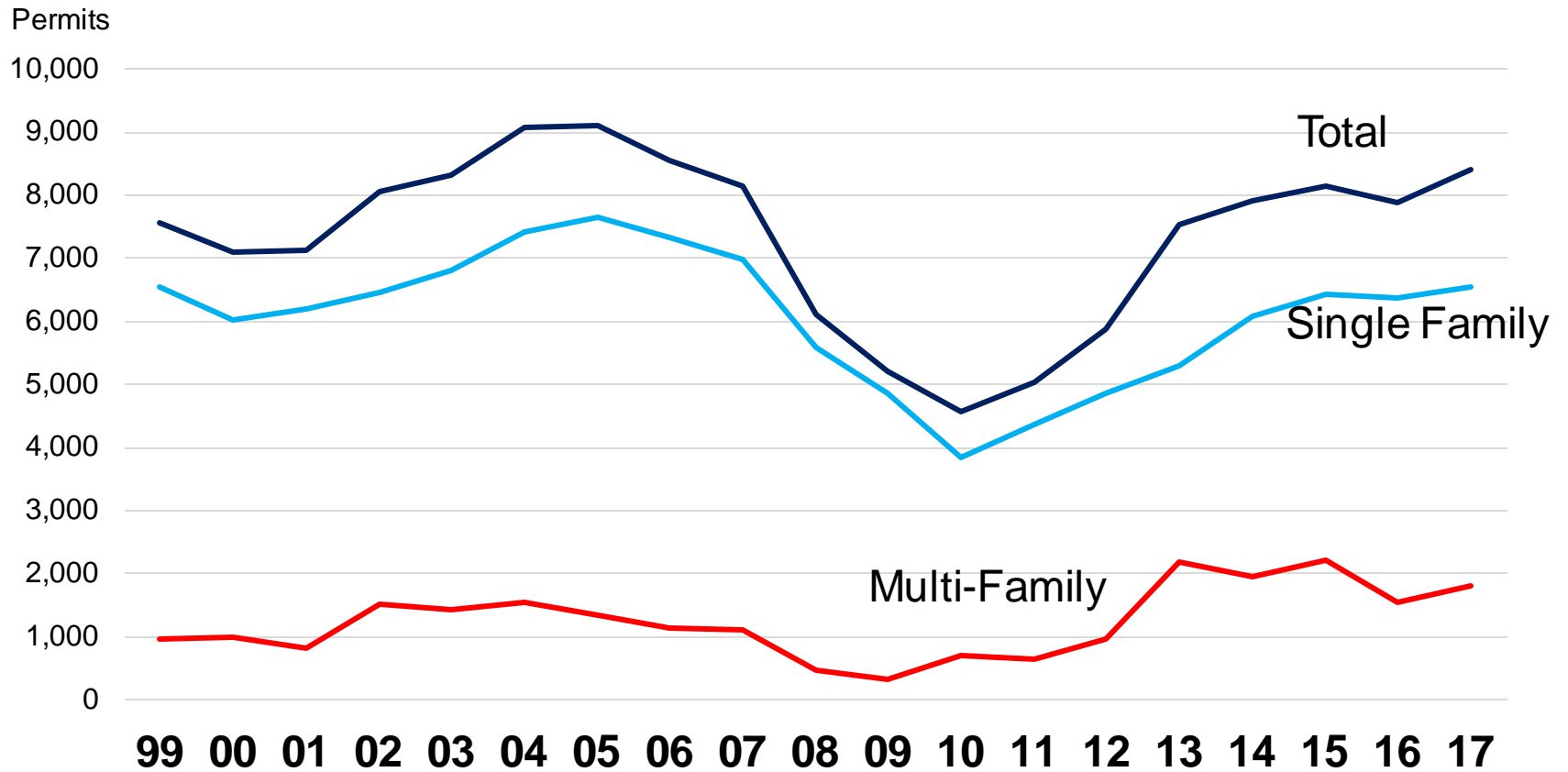


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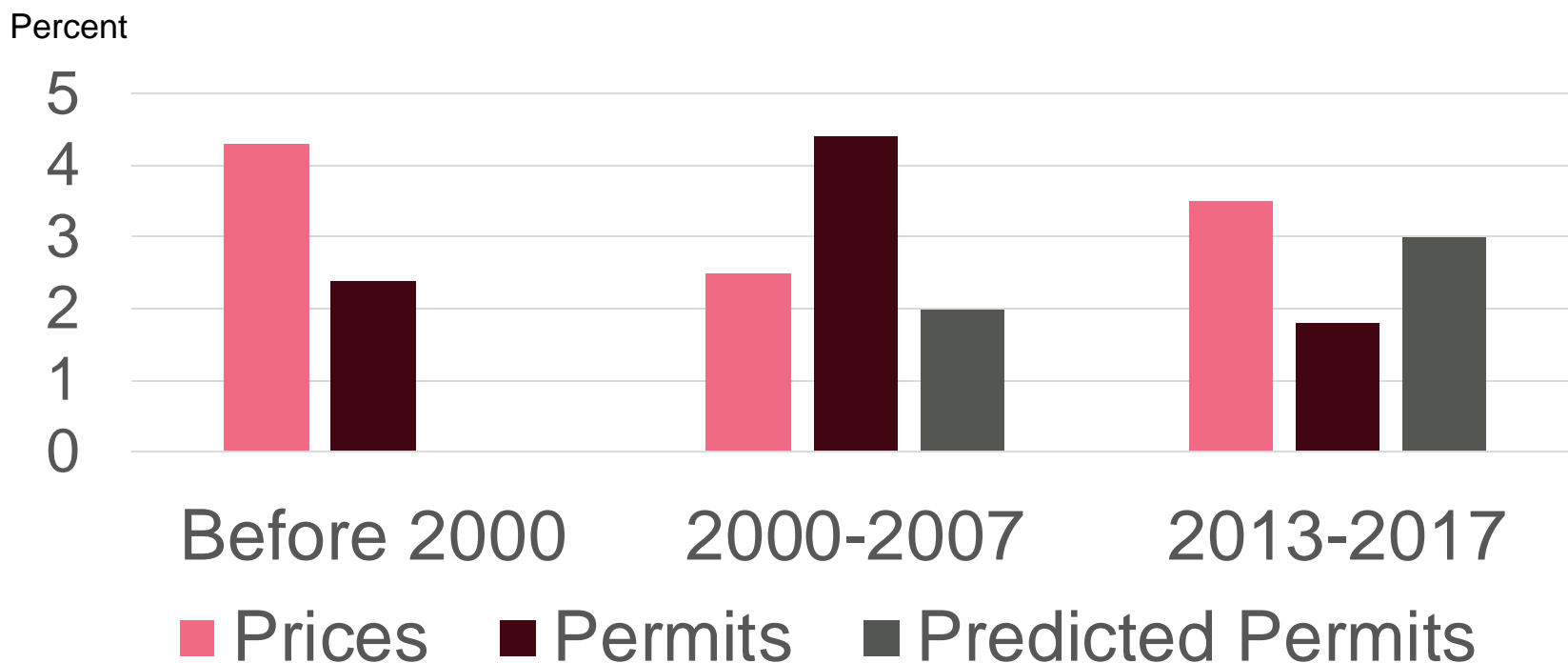
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# New Home Construction is Increasing

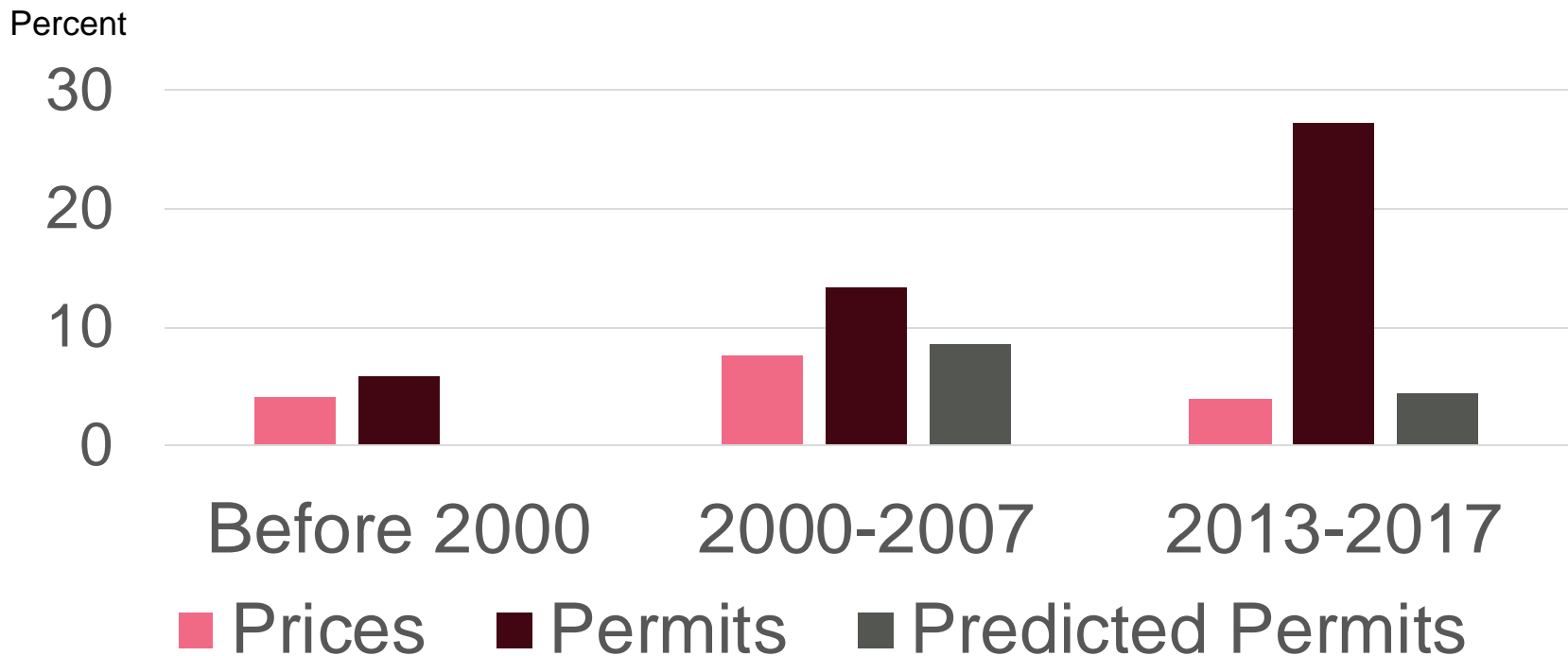
## Housing Permits, Montana



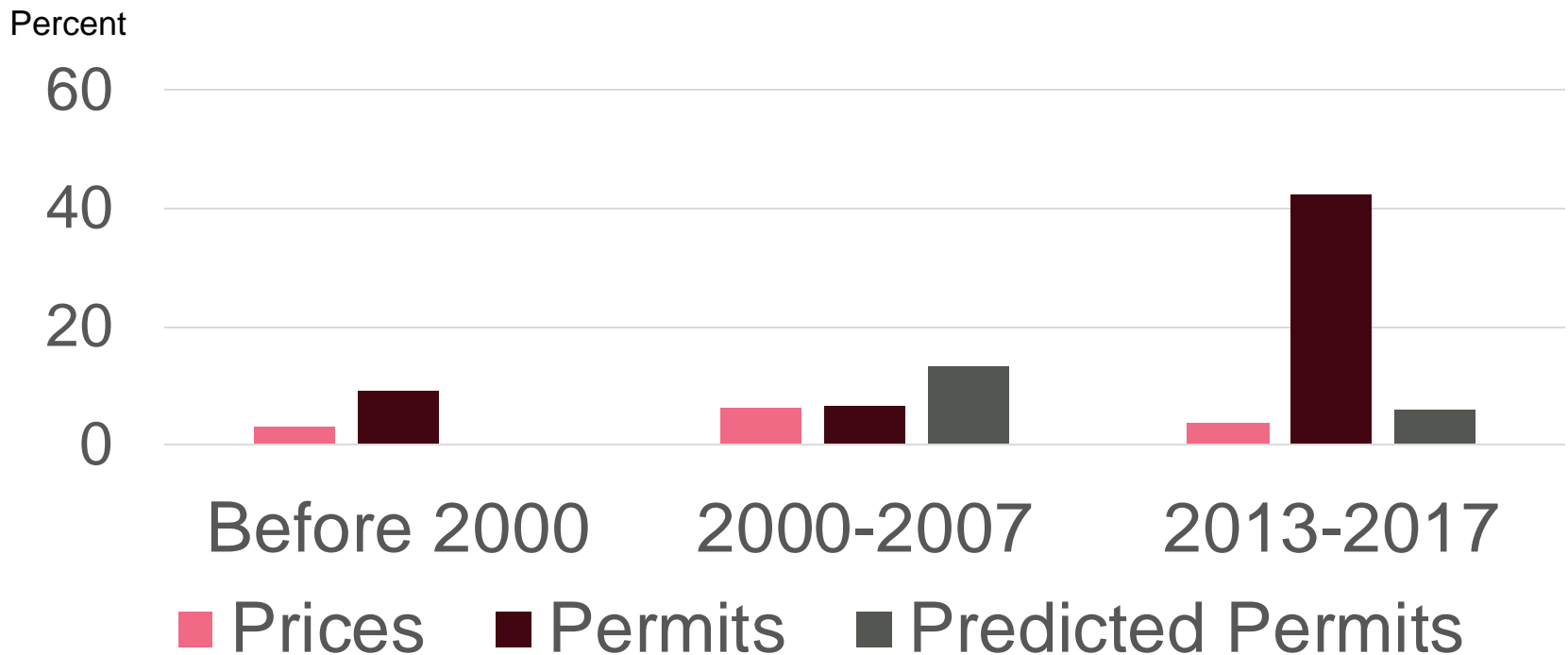
# Housing Prices and Residential Building Permits Lewis and Clark County, Average Annual Percent Growth



# Housing Prices and Residential Building Permits Missoula County, Average Annual Percent Growth

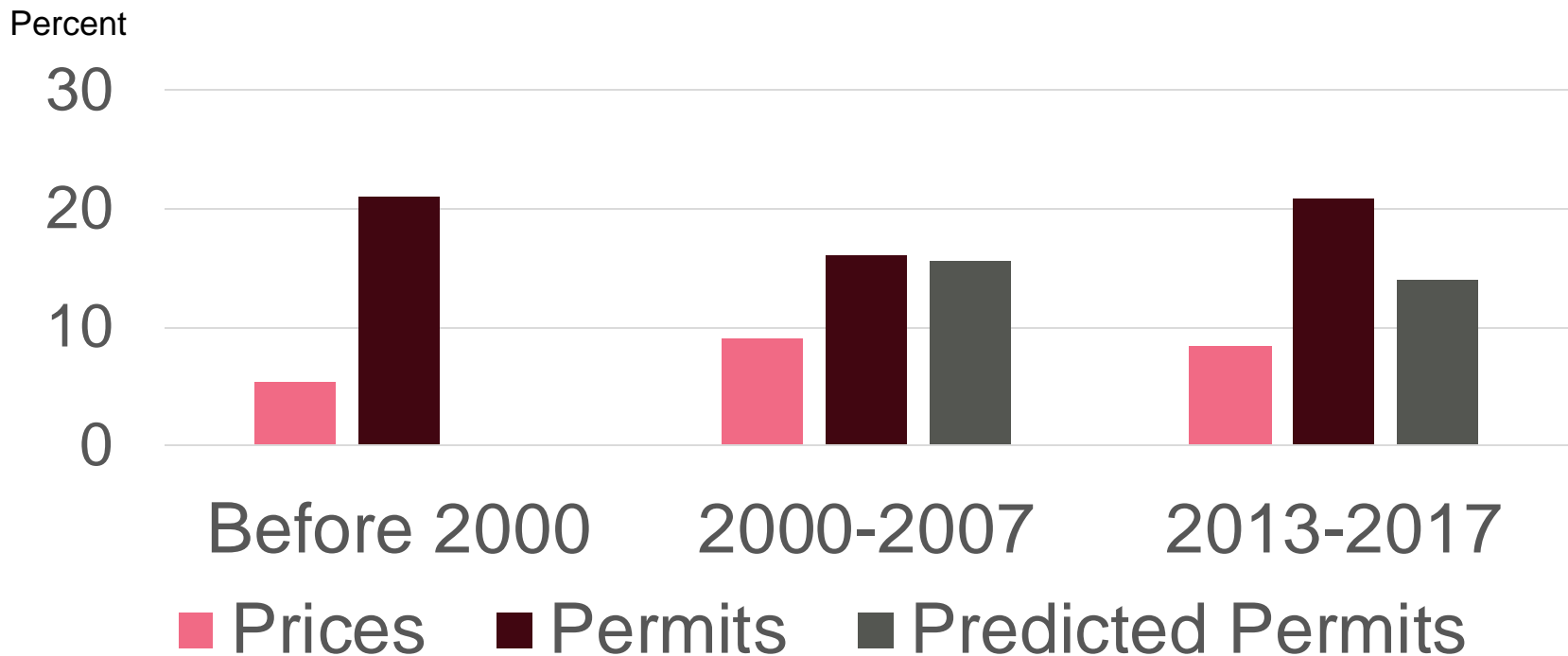


# Housing Prices and Residential Building Permits Yellowstone County, Average Annual Percent Growth





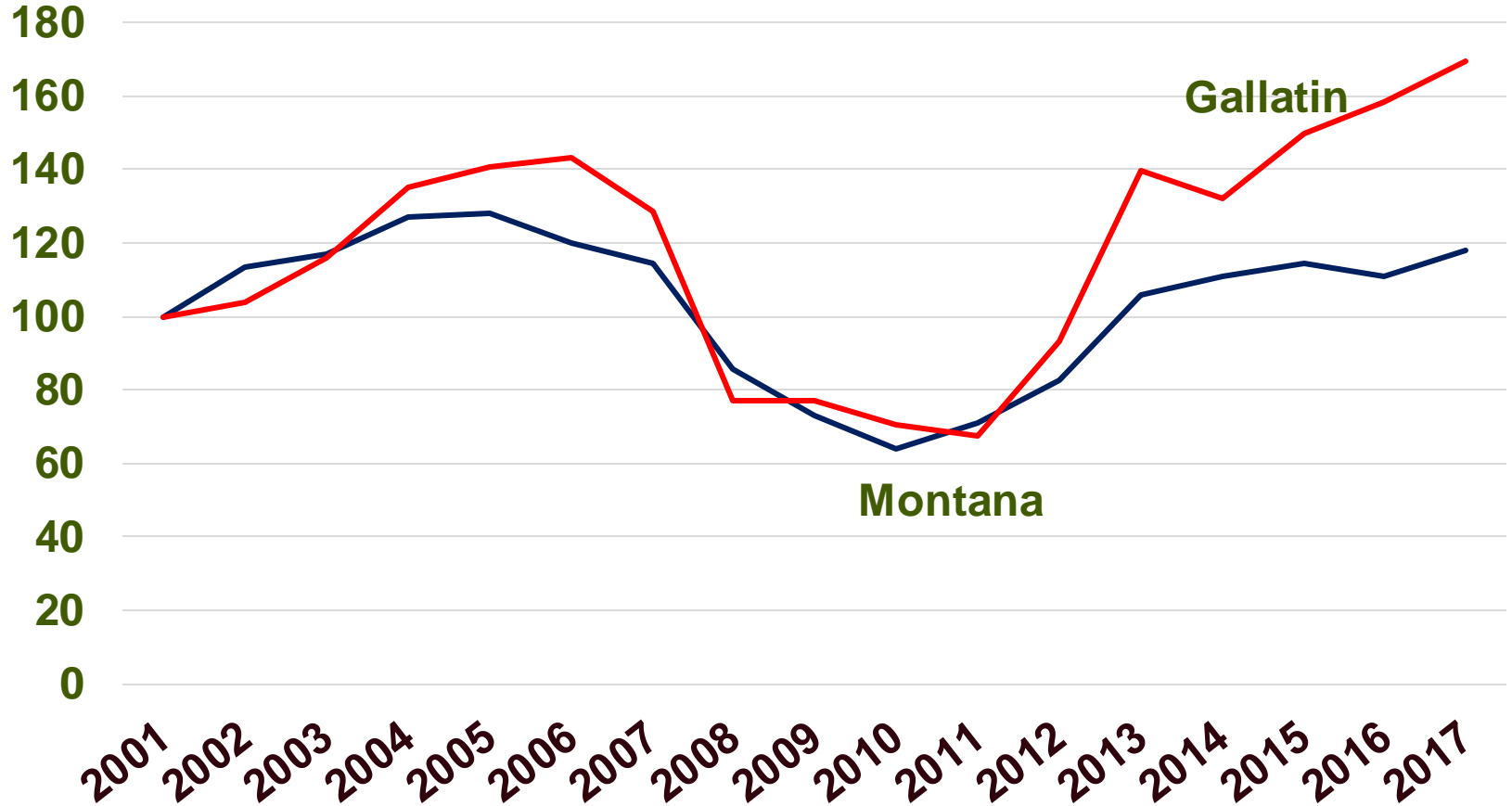
# Housing Prices and Residential Building Permits Gallatin County, Average Annual Percent Growth



# Housing Starts, Gallatin County vs. Montana

Index, 2001 = 100

Percent



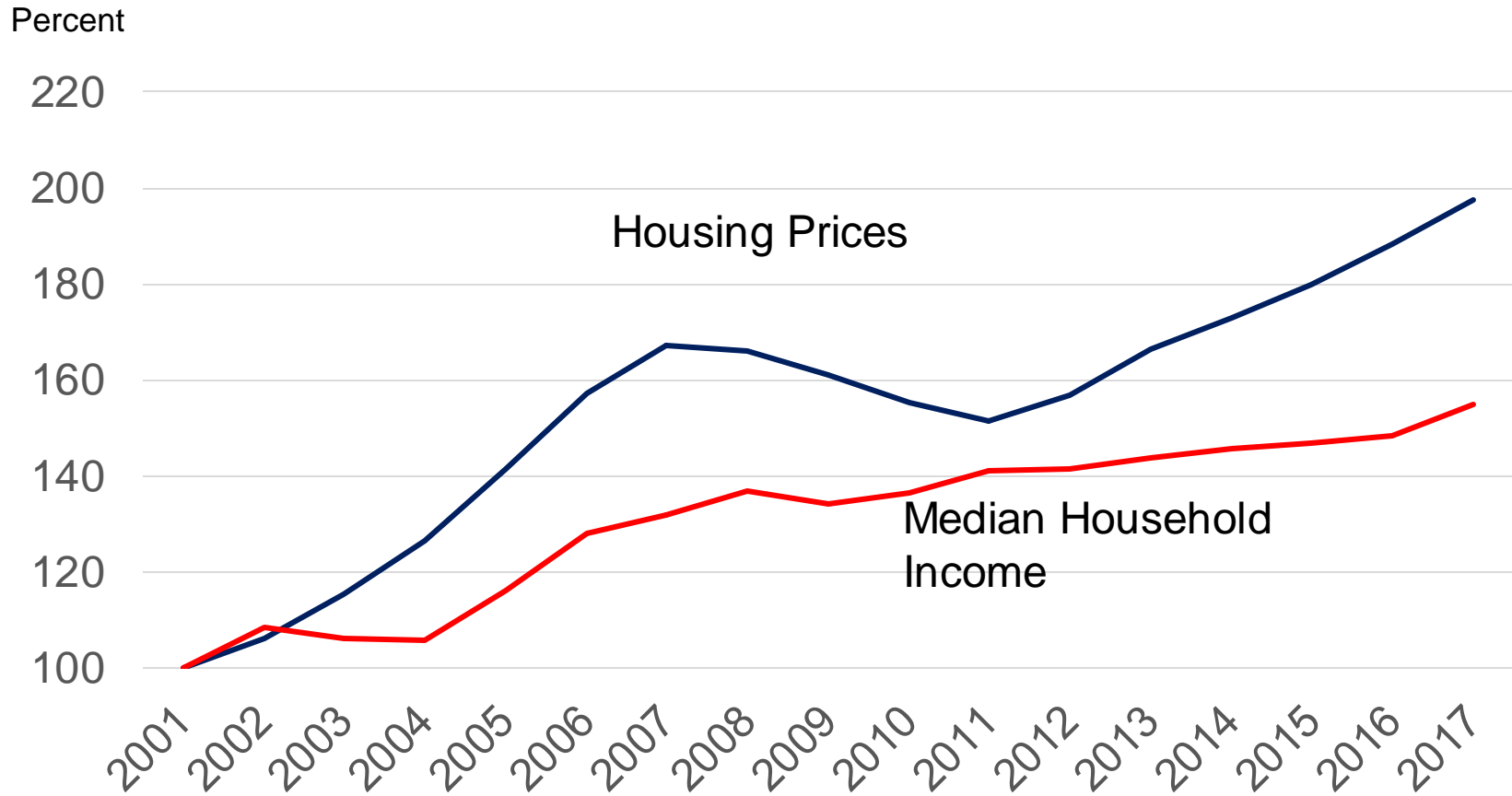
Source: Bureau of Business and Economic Research and U.S. Census Bureau.



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# Housing Affordability Remains an Issue



Montana Housing Price Index and Montana Median Household Income Index, 2001 = 100  
Source: U.S. Federal Housing Finance Agency and Census Bureau.

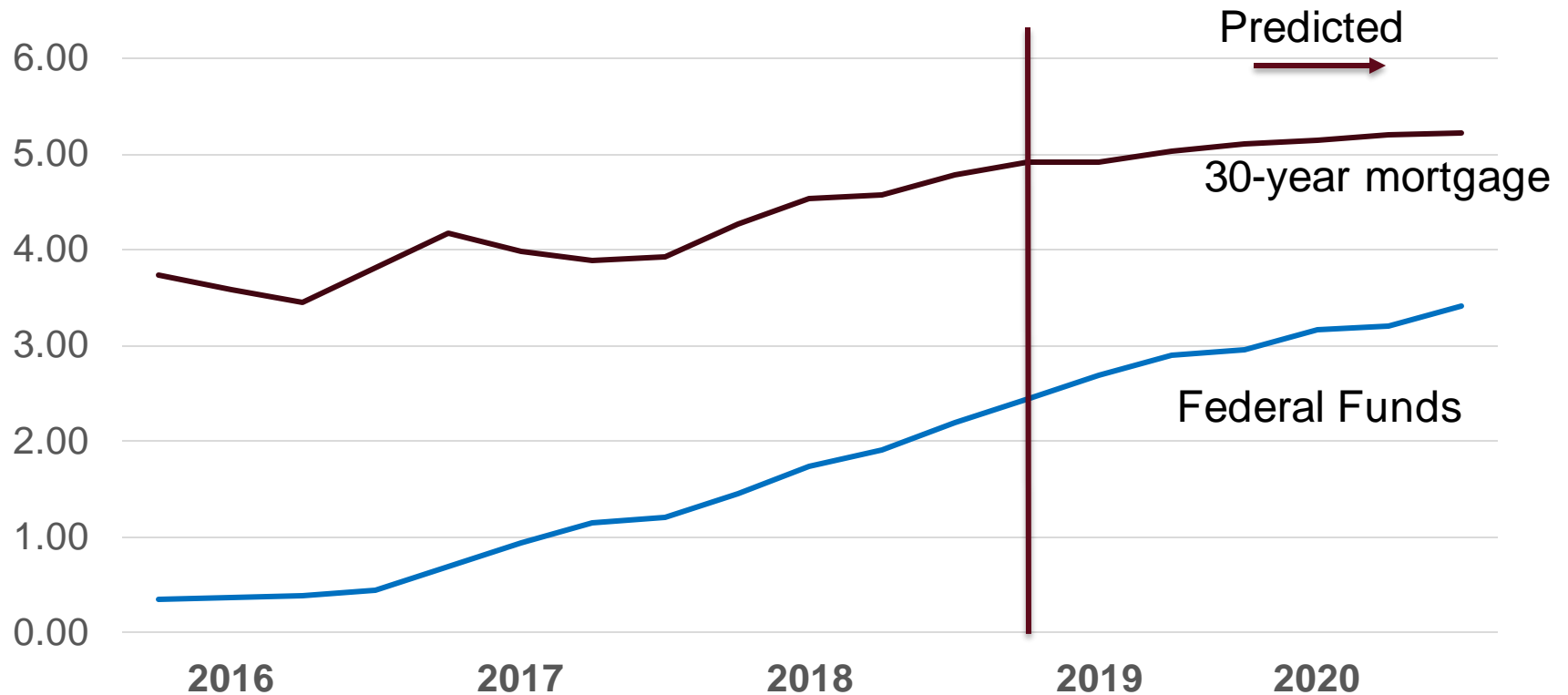


# Looking Ahead to 2019

- Interest Rates Have Been Moving Up



# Mortgage Rates Creeping Up to Historical Norms



Source: IHS Markit



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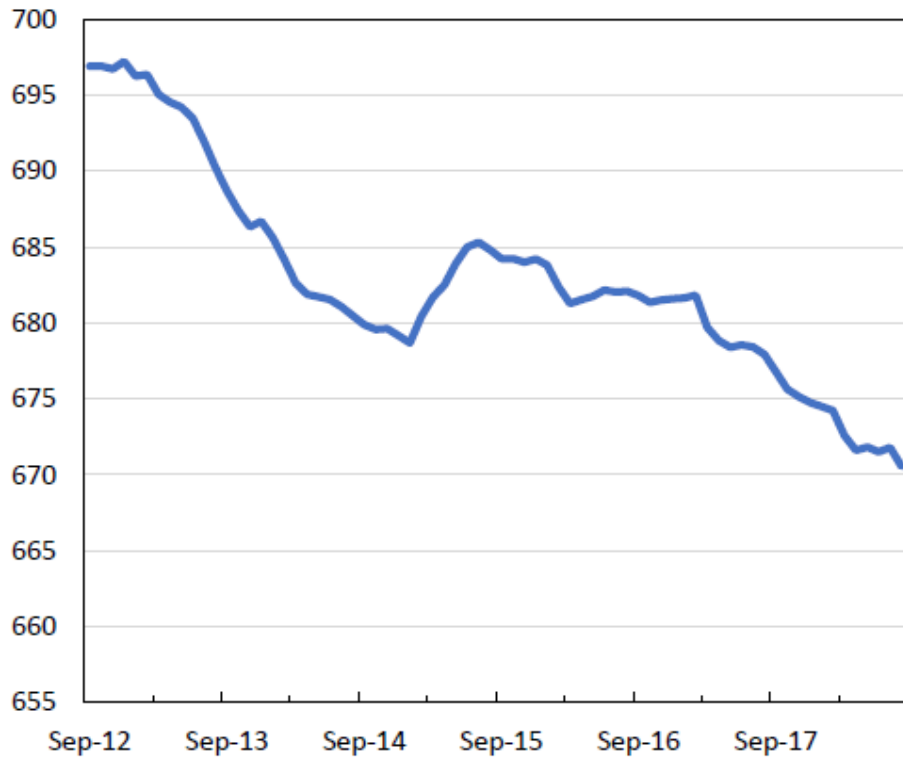
# Looking Ahead to 2019

- Interest Rates Have Been Moving Up
- Real estate risk is growing

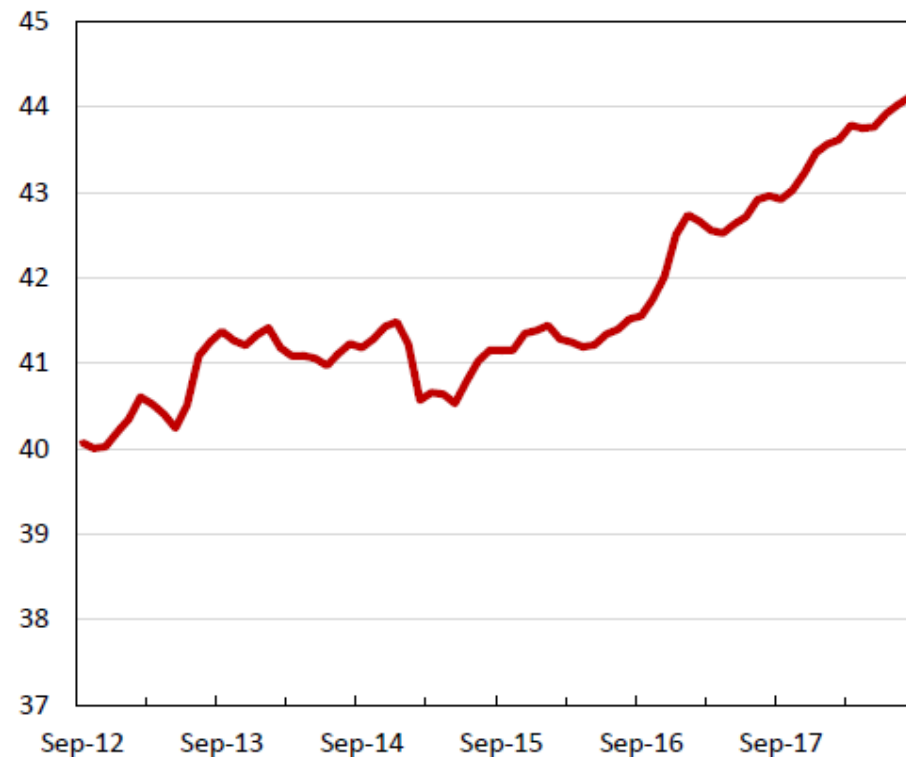


# Average Credit Score and DTI: FHA Purchase Loans

Average Credit Score



Average DTI



Source: AEI Center on Housing Markets and Finance



# First Time Buyer Risk Growing

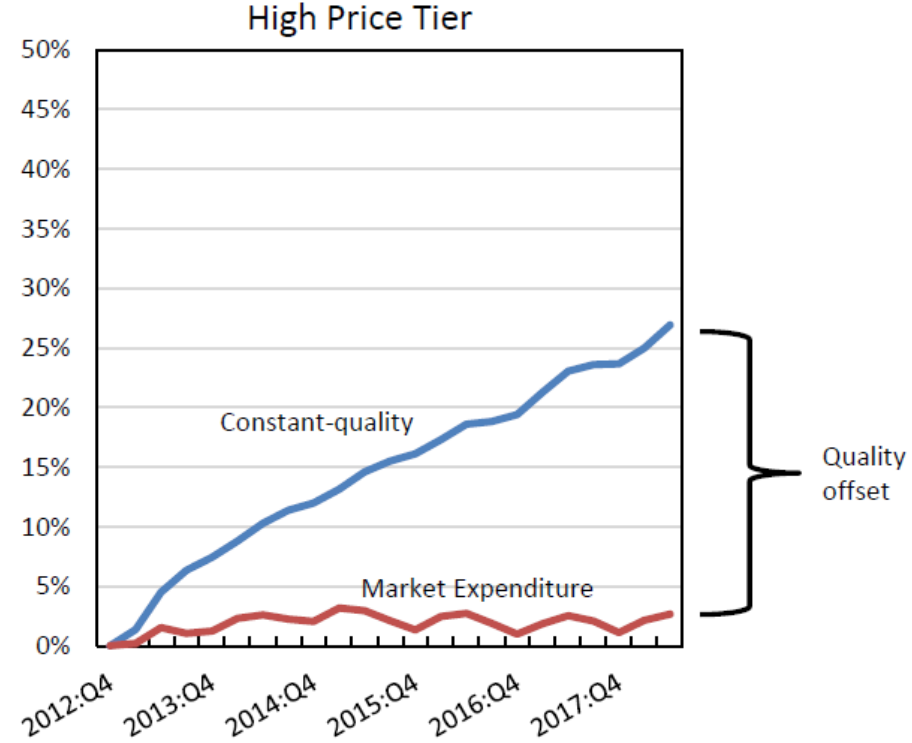
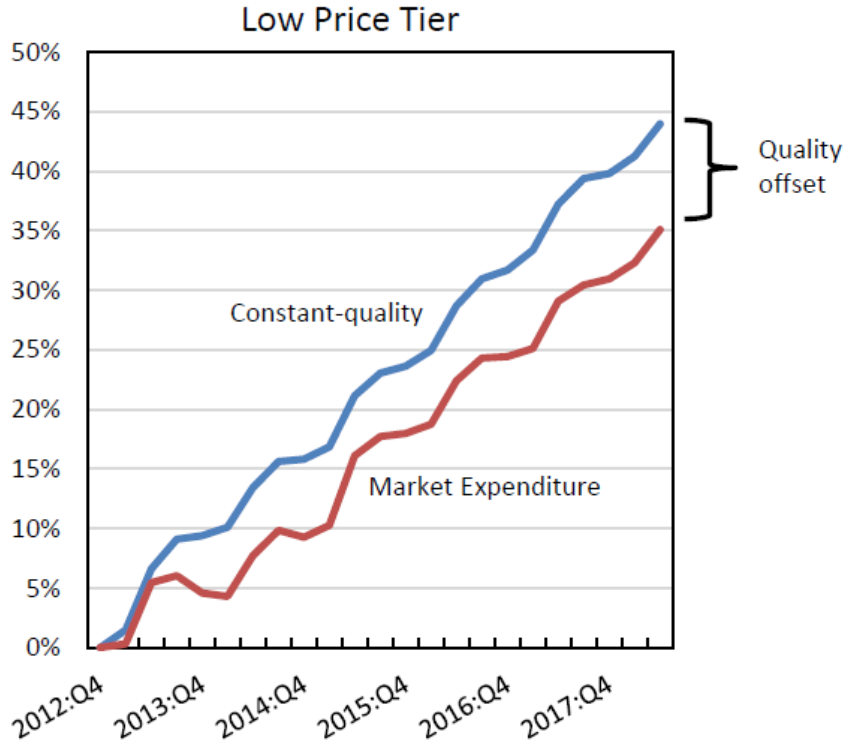
	Share of first-time buyer home purchase loans with					
Risk factor	Aug 2013	Aug 2014	Aug 2015	Aug 2016	Aug 2017	Aug 2018
Credit score < 660	15%	19%	21%	21%	21%	23%
DTI > 43%	24%	24%	27%	27%	31%	38%
CLTV ≥ 95%	64%	67%	71%	71%	71%	71%
30-year term	95%	96%	97%	97%	97%	97%
<b>Risk Layering</b>	27%	30%	34%	35%	37%	41%

Source: AEI Center on Housing Markets and Finance





# Impact of FTB Access to Leverage



Source: AEI Center on Housing Markets and Finance



# Outlook for 2019

- Real estate markets in Montana will remain strong
- Affordability will remain challenging
- Construction will continue to increase to relieve some pressure
- Risk in the markets will continue to grow
- Market will continue to bifurcate between first-time and repeat buyers



# Questions?

