2023
GALLATIN VALLEY HOUSING REPORT
TRACKING THE PERFORMANCE OF MONTANA’S MOST VIBRANT HOUSING MARKET
ACKNOWLEDGMENTS

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As CEO of the Gallatin Association of REALTORS® these past few years, I must applaud the efforts of our Government Affairs
Director, Ellen Beck, and the committee which has worked diligently to put together this marvelous compilation of housing
information. We are fortunate to live in such a wonderful location, and as more and more folks around the country discover our
allure, it’s important to be able to track the evolution of housing statistics. This will serve us all well for the future. Enjoy the
Report and have a wonderful year ahead!

Ellen Beck, Government Affairs Director, Gallatin Association of REALTORS®
We hope that the 2023 Gallatin Valley Housing Report will demonstrate the growth and changes we have seen in Gallatin County
and surrounding areas since last year.

Once again, we have relied on a county-wide group of experts in the fields of housing, banking, building, planning, development,
and management to help provide data and information for this Housing Report. This document is not a forecast for housing in
2023 nor does it serve to predict changes in housing trends. It’s purpose is to provide factual, statistical data. What you choose
to do with the information is up to you.

Please reach out to me or members on our panel or on our steering committee if you have questions about any of the information
contained in this report. This Housing Report is available in hard copy and PDF for your convenience. A recording of the unveiling
of the event will be provided on the GAR website at www.gallatinrealtors.com.

About this Report
This report is the product of a joint effort of the leaders listed above, including real estate professionals, government officials,
lenders, data professionals and researchers who collaborated on all aspects of this project to bring it to a successful conclusion.
The purpose of this report is to give a comprehensive statistical snapshot of the status of the Gallatin Valley’s residential real
estate markets that can be used as a starting point for productive conversations addressing its opportunities and challenges.
The data were compiled and the report was written by the Bureau of Business Research (BBER) at the University of Montana.
The BBER is greatly indebted to all those individuals who so graciously supplied the data and insights that you see in this report.
TABLE OF CONTENTS

Introduction and Overview
The Gallatin County Economy in 2022 6
1. Housing Demand 7
   1.1 Economic growth 8
   1.2 Population and Household Demographics 11
   1.3 Airport Activity 14
2. Housing Supply and Occupancy 15
   2.1 Housing Stock 15
   2.2 Housing Development 17
3. Owner-Occupied Housing Market Trends 20
   3.1 Sales Price Trends 20
   3.2 Housing Affordability 23
   3.3 Housing Finance 24
   3.4 Homeownership Programs 26
4. Trends in Rental Housing Markets 27
   4.1 Trends in Rents and Vacancies 28
   4.2 Rental Affordability 29
5. Affordable Housing 30
6. Conclusion 33
INTRODUCTION AND OVERVIEW

It is a daunting challenge to bring all of the activities and accomplishments of Montana’s most vibrant housing market up to date. The scale and breath of all that has been done, is underway, or is being planned in Gallatin County communities in the course of even a single year to meet their housing needs is difficult to capture in a written report. Yet that is exactly what this report attempts to do, however imperfectly. Because any discussion of housing and its challenges in the state’s fastest growing economy must start with facts and information.

Credit it due to the hard-working team of professionals on the Gallatin Association of REALTORS® (GAR) steering committee that provided much of the information you see in this report. Their insights and data provide the content that gives these pages value.

In a sense, nothing that you read in these pages will surprise you. Gallatin County in general, and communities like Bozeman and Big Sky in particular, are experiencing incredible stress in both rental and owner-occupied housing markets that has produced an affordability crisis that is not easily solved. Yet as we peel the onion and examine the many layers of this situation in this report, we see that its origins pre-date the post-pandemic surge in housing demand that turbo-charged housing cost growth in the last two years. And there are many facets of housing activity reported here that may surprise you, and have important implications for the future.

This report is all about information. In the world of housing data, not every fact and data point is available in exactly the form or for the exactly the date that you might wish. Census data, in particular, become available for local geographies with a time lag that makes it appear dated. You may rest assured that every effort has been made in this report to bring you the most current information available, even when the statistics themselves refer to years past.

As with our inaugural report released last year, this report takes a journey through all aspects of housing markets – dealing with demand, supply, and market outcomes. We have also included a section on needs for affordable housing and how those needs are being addressed. Last year was an amazing year, without question. Let us turn these pages to describe exactly how the market evolved.
THE GALLATIN COUNTY ECONOMY IN 2022

It was quite a ride, but the down/up roller coaster of economic growth set off by the pandemic is now largely over in Montana’s cities and regions. During 2020 and 2021 there was a sense of every community sharing the same experience – the shocking declines as the pandemic hit, and the surging gains as normality eventually arrived. And while much about that experience remains fresh, the divergence in growth between places has returned. Expectations for the coming year are varied as well.

Many of the factors that have been important in shaping the pattern and pace of economic growth around the state are beginning to change. Money is no longer cheap – interest rates have surged right along with inflation. A dangerous war in eastern Europe has disrupted energy and agricultural markets. And the federal government has moved from neutrality to outright hostility to fossil fuel investment.

Once again, the state’s fastest growing economy – Gallatin County – has turned in a blistering growth performance. Now solidly established as the second largest economy in the state, Bozeman’s growth has pushed west into Belgrade, Manhattan and Three Forks with strong construction activity and retail growth. Billings Clinic’s new 58 acre medical campus expands health care’s footprint in the economy, one of the few sectors that were less represented in the past. The recently expanded airport is already making plans to expand further.

Pressure on housing and labor markets has been intense. Many of the businesses that serve the surge in visitors and tourists are labor intensive, with some forced to curtail hours or cancel expansions due to workforce issues. Significant growth in residential construction, especially in multi-family units, has not yet softened growth in house prices and rents, among the highest in the state.

Strong tech growth, a continuation of strong visitor spending, and the area’s new attractiveness as a destination for those relocating from other states are expected to power strong growth into the coming years. Other factors supporting growth include the continued strong performance of Montana State University and the continued growth in trade center activities in finance, professional services, and retail trade.
HOUSING DEMAND

It is increasingly apparent that the demand for housing is more accurately described as the demand for residential space, which comes from full-time residents, those who maintain residences elsewhere, and visitors. All three types of demand show up on the buyer’s or renter’s side of the housing market.

1.1 ECONOMIC GROWTH

The growth in the economy, and in particular the growth in jobs, is a huge factor in generating demand for housing. Employment growth in Gallatin County has been stronger than any other part of the state since the end of the Great Recession in 2010. Employment was already growing much faster than the state average before the pandemic hit in 2020 (Figure 1.1). After enduring a severe, but short-lived downturn in the second quarter of 2020, the job growth trajectory has strengthened markedly.

Gallatin County payroll employment grew by 31 percent between 2015 and 2022, or by almost 16,000 jobs. A third of all net new jobs created in the state in that period were created in Gallatin County.

Figure 1.1 Payroll Employment, U.S., Montana, and Gallatin County, 2011-2022
Index, 2011 = 100


Figure 1.2: Employment by Industry, Gallatin County

The strong rebound in people-facing, service jobs in the wake of the pandemic is evident from the distribution of jobs in the local economy across major industries (Figure 1.2). Of particular note are the large number of jobs supported by construction, tourist-related industry, and education employers. The latter is largely due to the presence of Montana State University.

Unemployment rates continued to fall to unprecedented levels across Montana in 2022 as the strength in hiring continued and available labor continued to shrink. Last year the unemployment rate in Gallatin County was a stunning 1.9 percent, lower than both the state and the nation. The shortage of available workers has been a major challenge for employers, and has even been noticed by consumers as the services and businesses they interact with have been forced to cut back on hours and services.

Improving economic security, stronger wage growth and the increased generosity of pandemic-related government transfers have brought down poverty rates across most of the nation, including Montana and Gallatin County. The Census calculation of these rates looks at money income and does not include

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**Figure 1.3: Unemployment Rate, U.S., Montana, and Gallatin County, 2012-2022, percent**

some noncash benefits such as housing subsidies. They also do not include the poverty status of those without stable housing. As an example, the poverty threshold for a family of five in 2022 was $35,801.

While the trend is toward improvement, there remained 8.8 percent of households (both families and individuals) whose money income fell short of the poverty threshold in Gallatin County last year.

Over the last two decades, Gallatin County has shed its status as a lower-than-average income economy into one that has income substantially above the national and state average. In 2022, Gallatin County households had median income that was 13 percent higher than the national figure. Just 10 years earlier, median household income in the county was about the same. The faster than average growth in median household income has primarily come about from the increased presence in the tech and light manufacturing industries in the economy, as well as the strong in-migration of relatively higher earning new residents.

Figure 1.4: Poverty Rate, U.S., Montana, and Gallatin County, 2011-2021, percent

Figure 1.5: Median Household Income, U.S., Montana, and Gallatin County, 2011-2021
1.2 POPULATION AND HOUSEHOLD DEMOGRAPHICS

The vibrant growth of the Gallatin County economy is both a cause and a consequence of its population and demographic structure. That is particularly so because of the high rates of population in-migration, which swamp the impacts of higher life expectancies and lower birth rates that show up more prominently in rural Montana counties. The different age structure and demographic composition of the Gallatin County population has important implications for housing demand.

Net migration, as reported by the U.S. Census Bureau, has varied considerably in Gallatin County over the last 11 years, as shown in Figure 1.6. The net movement of people from other states and Montana counties to Gallatin County has been the dominant force behind population growth, surging to nearly 2,900 people in 2021, the most recent year with data available. Population growth also occurs from the net difference between births and deaths during any given year, referred to as the natural change in population. That source of growth dipped in 2020 due to pandemic-related increases in morbidity and a decline in birth rates.

Figure 1.6: Components of Population Change, Gallatin County, 2010-2021

Source: U.S. Census Population and Housing Unit Estimates Program.
The age structure of the Gallatin County population skews much younger than the state average. As shown in Figure 1.7, those aged 65 years and older make up about 13.5 percent of county population – the comparative figure for the state is 20.1 percent. The large relative size of the 18-24 year age cohort in Gallatin County is an artifact of its status as home to Montana’s largest university. While smaller than the state average, the growing relative size of the oldest age cohort over the years is a product of both increasing life expectancy and the attractiveness of the county to older new residents.

The Census definition of a household is the people – an individual, a family, or a group of unrelated individuals – who occupy a housing unit. The housing unit can be a single family home, an apartment in a duplex or larger building, or a mobile home. It does not include what are known as group quarters, which include dormitories, barracks, and prisons. As you would expect in a county with rapid population growth, all types of households have grown since 2010, as shown in Figure 1.8. The fastest growth has come in non-family, multi-person households, which has doubled in size since 2010. The growth in this category reflects the relative youth of the Gallatin County population, but also declining housing affordability that makes the addition of roommates necessary to fit housing costs within budgets.
There has been only a very modest increase in the size of family households in Gallatin County in the years since 2010, as shown in Figure 1.9. In 2021 the average family household here was just slightly over three people. While much more variable, the size of non-family multi-person households in Gallatin County has fallen since the mid-point of the 2010’s, with the last data point showing approximately 2.4 people in the average household of that type.

The recent shortages of housing in Gallatin County and elsewhere have produced increased interest in the portions of the residential housing stock that are not home to full-time residents. The attractiveness of Gallatin County to world-class recreational opportunities, not to mention its scenic beauty, produces a demand for residential space of partial year duration.

The Census definition of housing vacancy is more than housing that is not being used. It also includes housing that is used by people whose primary residence is elsewhere. This includes second homes, time shares, and seasonal housing. The number of housing units vacant for those reasons has grown substantially since 2009, as shown in Figure 1.10. Its peak of over 3,000 housing units in 2018 represented about 5.7 percent of all housing units in the county.

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**Figure 1.9: Average Household Size by Household Type, Gallatin County, 2010-2021**

**Figure 1.10: Vacant Housing Units for Occasional, Recreational or Seasonal Use, Gallatin County**

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Source: U.S. Census American Community Survey, 1-year estimates.
Short-term rental data vendor AirDNA publishes estimates of the number of vacation rental properties (such as those marketing by companies such as Airbnb and VRBO) for communities within Gallatin County. The geographical definitions of these communities does not exactly conform to the Census maintained boundary definition of those places. The data shown in Figure 1.11 show growth in vacation rentals in Belgrade, West Yellowstone, Bozeman and Big Sky. They also show that, proportionate to the size of each area, these rentals are large in the communities closest to Yellowstone National Park and the Big Sky Resort area.

1.3 AIRPORT ACTIVITY

Bozeman-Yellowstone International Airport continued to provide better access to major population centers around the country in 2022. The non-stop flights, either on a year-round or seasonal basis, grew to total 23 different destinations last year, as shown in Figure 1.12. The connectivity is both a cause and is caused by the economic growth of the region.
The county's two airports have experienced a bounce back in passenger volume after the shutdowns during the pandemic that has been stronger and more sustained than elsewhere in Montana. Enplanements continue to run at levels that are typically 40 percent or more higher than what occurred in the same month of 2019, before the pandemic experience occurred, as shown in Figure 1.13.

Figure 1.13: Enplanements Relative to 2019 Levels, Percent, 2021-2022

HOUSING SUPPLY AND OCCUPANCY

The changes in housing demand produced by the economy, migration, population, and other factors are just one aspect of the housing market. How has the housing stock evolved to meet this demand? Residential construction has always been an important driver of the regional economy, and recent years have seen an impressive amount of building activity.

2.1 HOUSING STOCK

The decennial Census counts provide a picture of housing at the sub-county level. Data for calendar years within each decade must make use of the American Community Survey (ACS) Census data, which are survey-based and often available only for the county as a whole.

Thus, the most current information on housing supply for Bozeman, Belgrade, and Gallatin County as a whole contain a mixture of vintages (either 2021 or 2020) for the most recent data. In 2021, there were 55,263 housing units in the county, as shown in Table 2.1. Of this total, 5,448 were considered vacant by the Census definition of that term. As described above, this definition encompasses such arrangements as vacation

Table 2.1 Housing Stock Estimates Summary, Bozeman, Belgrade, Gallatin County. Source: U.S. Census Bureau.
homes, short-term rentals, and time shares in addition to housing available for sale or rent. The table also describes the group quarters population, which is dominated by the students of Montana State University housed in dormitories.

The 2020 data that are the latest available shown in the Table show that more than 50 percent of the total housing stock in the county are within the incorporated areas of Bozeman and Belgrade.

The growth in the housing stock, as measured by building permits issues in 2022, has been robust in all areas. In percentage terms, the growth is particularly strong in Belgrade, where new permits issued constitute a 8.5 percent expansion in that city's housing stock in a single year. Growth in all jurisdictions, particularly Bozeman, has featured strong growth in multi-unit structures.

The distribution of occupied Gallatin County housing stock by type of structure for 2021 reveal the dominance of single family detached structures in the total, as shown in Figure 2.1. In the Census definitions, single family structures also include attached buildings such as row houses, duplexes, and townhouses that meet certain criteria such as separate utilities and no units located above or below. All other residential structures are considered multi-family.

Almost 61 percent of all of the occupied housing units in Gallatin County are occupied by the owners, with the remainder...
occupied by those who rent. This percentage would be much higher if it were not for the relatively smaller fraction of owner-occupied units in Bozeman, which was just 42 percent in 2021, as shown in Figure 2.2. The balance of the county has over 19,000 housing units that are predominantly owner-occupied.

The very rapid growth of the Gallatin County economy in the last two decades has tilted the composition of its housing stock heavily towards newer vintage units. The median year built of all occupied housing in the county is 1996, as shown in Figure 2.3. This is in contrast to most other parts of Montana. The median year built of the 436,481 occupied units in the state was 1979.

2.2 HOUSING DEVELOPMENT
Gallatin County has the highest fraction of its total employment in construction industries of any urbanized county in the state. While that workforce is devoted to construction of all kinds, the strength and vibrancy of its residential construction industry is amply demonstrated in data on housing development. Much of the sub-county data on development is only available for the city of Bozeman.

New residential development requires land. For single-family, detached structures the supply of residential lots suitable for development comes from (i) the creation of groups of new lots as part of the subdivision creation process, and (ii) the sales of previously created lots in the marketplace.
Since 2016 the number of new subdivisions created within Bozeman has been in decline – until last year. In 2022 the number of new subdivisions reversed course and rose to 25, as shown in Figure 2.4. The number of new parcels created likewise doubled from the depressed level of 2021, adding 417 new parcels in 2022.

The sales of residential lots recorded by the Big Sky Country Multiple Listing Service for Gallatin County reveal a market that exhibits declining supply and high demand. The 87 sales of lots in 2022 were less than a quarter of the sales volume recorded in 2016, as shown in Figure 2.5. The per acre price of lot sales last year was $570,290, the second straight year that saw price growth exceeding 20 percent.

The construction of new residential units is most easily measured by data on building permits issued by those jurisdictions that require them. In the case of single-family home construction, such permits are nearly coincident with construction. Multi-family unit construction can often be delayed or even cancelled as circumstances evolve.

The construction trends in Gallatin County based on the permit data shown in Figure 2.6 reveal a strong supply response to increased housing prices in the last three years for multi-family units. The more than 1,300 units that were permitted in 2021 was nearly double the number of annual permits issued for that category in the pre-pandemic years. Permitted multi-family units fell back slightly in 2022 but still remained high relative to the levels shown in the previous decade.
The supply response of single-family building, in contrast, has been less pronounced. Construction of single-family homes, as measured by the permit data, show a steadier trend dating back to 2016 that has moved up slightly since 2020. This pattern of higher volatility in multi-family unit construction over time is common to most housing markets, owing to the impact of larger multi-unit structure construction on individual year total.

Building permit data also indicate the costs of the structures being built. Because of the nature of the application process, the values on permit applications frequently differ from actual construction costs. As shown in Figure 2.7, the per-unit costs of single-family structures greatly exceeds those of multi-family structures in Gallatin County, which is also the case for most parts of the country. More surprising is that the strong upward trend to permit valuations for single-family structures is not seen in the cost trends for multi-family structures, which are moving in the opposite direction.

The end of the construction process for the owner-occupied side of the marketplace is the sale and eventual occupancy of new housing units. A second take on residential construction trends can be gleaned from the data on sales of newly constructed homes recorded by the REALTOR® Multiple Listing Service (MLS) shown in Figure 2.8. Note that the definitions of structure types shown in this figure do not conform exactly to Census definitions shown in previous tables and figures – all of the structure categories shown in Figure 2.8 would be considered single-family by Census definitions.

Figure 2.7 Permit Valuation Per Unit by Structure Type, Gallatin County, 2010-2022

![Figure 2.7 Permit Valuation Per Unit by Structure Type, Gallatin County, 2010-2022](image)

Note: Data on graph have been adjusted by statistical methods to make trends more apparent. Source: U.S. Census Building Permits Survey.

Figure 2.8 New Construction Sales by Structure Type, Gallatin County, 2019-2022

![Figure 2.8 New Construction Sales by Structure Type, Gallatin County, 2019-2022](image)

Source: Big Sky Country Multiple Listing Service.
The MLS sales data show a peak in new construction sales of all types in 2020, followed by a decline in sales volumes in subsequent years. The exception to this was the slight growth in the volume of condominium sales in 2021. The discrepancy between this trend and the trend in single-family permit data shown in Figure 2.6 is because developer sales often are not REALTOR® transactions that are recorded by MLS.

The growth in the median sales price of newly constructed homes in Gallatin County, as measured by MLS transaction data, has been strongly upward since 2019, as shown in Figure 2.9. The median price of a newly constructed single-family home in 2022 was $950,000, nearly double the amount recorded in 2019.

Figure 2.9  New Construction Median Sale Prices by Structure Type, Gallatin County, 2019–2022

Source: Big Sky Country Multiple Listing Service.

OWNER-OCUPIED HOUSING MARKET TRENDS

Tracking the outcomes in the owner-occupied side of the housing marketplace benefits from the many sources of data on housing transactions. Thus, we know a lot about how prices, volumes, and inventories have behaved, not only in Gallatin County, but in areas within the county as well as in other areas of the state as well. The last few years have been a perfect formula for rapid price increases, as unexpectedly high levels of demand have confronted a much more slowly growing supply.

3.1 SALES PRICE TRENDS

One of the most comprehensive measures of housing prices is the U.S. Federal Home Finance Agency’s Housing Price Index (HPI). The HPI uses information on the repeat sales of existing properties to assess overall price growth. Unlike the more timely data from REALTOR® MLS records of sales, housing price growth data from the HPI correct for changes in the composition of market sales – e.g., when entry level or luxury homes are overrepresented in recorded sales in any given time period.

The history of housing prices as measured by the HPI shown in Figure 3.1 for the years since 2001 reveal the patterns of home prices in Montana’s larger real estate markets have much in common. There is a visible boom and bust cycle in home prices before and after the Great Recession, and the resumption in fast price growth in the years since 2011.
Flathead County and especially Gallatin County, the state’s two urban areas adjacent to national parks, saw much faster housing price growth since 2011, however, with prices in 2011 – the most recent year the HPI is available – more than twice as high as what the county experienced in 2000.

The median price of homes sold in Gallatin County communities, based on the MLS data recorded from REALTOR® facilitated sales, shows the same pattern of rapid growth. As shown in Figure 3.2, the median price of homes sold in all of the county’s cities and towns shown has risen sharply, with the acceleration in prices in Bozeman since 2019 especially prominent. There are sizable differences in the level of prices between the communities, ranging from just over $400,000 in Three Forks to $800,000 in Bozeman for 2022.

Figure 3.1 Housing Price Index for Select Counties, 2001-2021

Figure 3.2 Single-Family Median Sales Prices, City and Town Limits, 2011-2022
The county-wide prices include not only areas outside the limits of the jurisdictions shown in Figure 3.2, but also sales in the portion of Big Sky that lies within the county borders. Thus, the median sales price for single-family homes in Gallatin County is almost identical to the median price in Bozeman, as shown in Figure 3.3. The trend in the volume of sales, as measured by the MLS, has been sharply downward, reflecting both the sharp decrease in trade-up activity as well as the big reduction in the fraction of potential buyers who can qualify for financing at the higher prices.

The focus on the median price for single-family homes obscures the considerable variability in sale prices of individual homes. An examination of the distribution of sales prices, measured in terms of dollars per square foot in Figure 3.4, shows the entire spread of prices to have shifted up sharply between 2018 and 2022. Almost 30 percent of the sales in 2018 were at prices at or below $200 per square foot -- $320,000 for a 1,600 square foot home. In 2022 less than 4 percent of sales were in the same price category.
3.2 HOUSING AFFORDABILITY

The dramatic increases in home prices, together with a nearly 3 percentage point increase in interest rates on conventional 30-year mortgages, has had profoundly negative impacts on affordability. The question addressed by home affordability indexes is: how much of the monthly payment on a 30-year mortgage note for a median-priced home can the median-earning household make and remain at or below the 30 percent threshold for mortgage debt servicing as a percentage of income? When the index is at or above 100, it signifies that the median-earning household can manage the payment. Values less than 100 indicate the opposite.

The bottom line on Figure 3.5 shows that the decade of the 2010’s began with the affordability index for the County in or near the range of unaffordability, drifting lower for much of the decade. The sharp deterioration since 2022 has plumbed new depths. By this measure, the median earning household in Gallatin County can only afford to make about 40 percent of the required payment on financing a median priced home without being subject to housing cost stress. Even the household with earnings in the 75th percentile of the income distribution can only afford to make less than 75 percent of the same payment. Clearly, a large fraction of households in Gallatin County are priced out of the market at current prices.

Figure 3.5 Housing Affordability Index by Household Income Quartile, Gallatin County, 2011-2022

Source: U.S. Census American Community Survey, Big Sky Country MLS, Freddie Mac, BBER Analysis.
Using the Census income estimates from the Small Area Income and Poverty Estimates, we have estimated housing affordability for five of the incorporated cities and towns in Gallatin County. As shown in Figure 3.6, there is considerable variability in affordability across the communities, with Bozeman the worst and Three Forks the best. The Big Sky resort community is not shown on these graphs, as its high proportion of luxury homes and the comparatively low levels of resident income presents a different situation that is difficult to compare with the communities shown. Note that even Three Forks, the most affordable community among those analyzed, slipped into the unaffordable status in 2022.

Figure 3.6 Housing Affordability Index, City and Town Limits, 2011 - 2022


Table 3.1 Single-Family Sales by Method of Purchase, Gallatin County, 2022. Source: Big Sky Country MLS.

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<th>Percent of Sales</th>
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<td>Cash</td>
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<td>FHA</td>
<td>19</td>
<td>1.7%</td>
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<tr>
<td>Other</td>
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<td>Contract for Deed</td>
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<td>0.3%</td>
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<td>Rural Development</td>
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<td>Trust Indenture</td>
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</table>

3.3 HOUSING FINANCE

The fact that cash sales made up almost 31 percent of all single-family homes in 2022, as shown in Table 3.1, is indicative of the financial status of those who managed to purchase in a year when affordability for the median-earning household plumbed new lows. The source of the cash is not reported, but from the sizable numbers of people from other states moving to Gallatin County from other states, it is consistent with what might occur should those new arrivals have sold real estate in other, even pricier markets elsewhere. Conventional mortgage financing, as shown in the table, was used in the majority of sales last year.
One of the biggest stories in the housing industry in 2022 was national in scope – the rapid increases in interest rates for conventional 30-year mortgages that coincided with efforts by the Federal Reserve to bring inflation in check. After peaking at more than 7 percent in November of last year, rates cooled off to the low 6 percent range. Even with this decline, this remains 3 full percentage points above what prevailed in late 2021, as shown in Figure 3.6. The figure shows what many new homeowners may not realize – namely, that 6 percent mortgage rates are the historical average since 1990.

*Figure 3.6 30-year Mortgage Rates, United States, 1990 - 2022*
3.4 HOMEOWNERSHIP PROGRAMS

The federal government has had a long involvement in supporting demand in housing markets. Its agencies, programs, and policies figure prominently in the way housing is financed, produced, and subsidized.

The mortgage guarantors Fannie Mae and Freddie Mac dominate the market for the securitization and sale of residential mortgages. Conformable mortgages are those that are sufficiently standardized to be bundled and sold in secondary markets, allowing local and other lenders access to fresh capital to write new loans. The dollar limits for mortgages, shown in Table 3.2 for conventional mortgages and in Table 3.3 for Federal Housing Administration (FHA) loans, are an important constraint on the borrowing capacity of those purchasing homes.

There are a number of important programs that can assist lower-income home buyers in obtaining financing for purchases. These include programs that offer supplemental loans (Table 3.4) and down payment assistance (Table 3.5).

Table 3.2 Conforming Loan Limits, Conventional Mortgages. Source: Big Sky Country MLS.

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</tbody>
</table>

Table 3.3 Federal Housing Administration Loan Limits, Gallatin County. Source: U.S. Department of Housing and Urban Development – FHA Mortgage Limits.

<table>
<thead>
<tr>
<th></th>
<th>One-family</th>
<th>Two-family</th>
<th>Three-family</th>
<th>Four-family</th>
<th>Median sale price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage limits</td>
<td>$703,800</td>
<td>$901,000</td>
<td>$1,089,100</td>
<td>$1,353,500</td>
<td>$612,000</td>
</tr>
</tbody>
</table>

Table 3.4 Rural development Single-Family Housing Guaranteed Loan Program Income Limits. Source: U.S. Department of Agriculture.

<table>
<thead>
<tr>
<th></th>
<th>1 to 4 Person(s)</th>
<th>5 + Persons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very low income</td>
<td>$49,700</td>
<td>$65,650</td>
</tr>
<tr>
<td>Low income</td>
<td>$79,500</td>
<td>$104,950</td>
</tr>
<tr>
<td>Moderate income</td>
<td>$114,300</td>
<td>$150,900</td>
</tr>
</tbody>
</table>

Table 3.5 Down payment Assistance Programs.

<table>
<thead>
<tr>
<th></th>
<th>Loan Types</th>
<th>First-Time Homebuyer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Montana Board of Housing</td>
<td>FHA, VA USDA</td>
<td>Required</td>
</tr>
<tr>
<td>Montana Community Development Program</td>
<td>FHA, VA, USDA, Conv FNMA HomeReady</td>
<td>Not Required</td>
</tr>
<tr>
<td>Lakeview National DPA</td>
<td>Conv FNMA, Conv FMCC, FNMA HomeReady, FMCC Home Possible</td>
<td>Not Required</td>
</tr>
<tr>
<td>Chenoa Fund</td>
<td>FHA</td>
<td>Not Required</td>
</tr>
</tbody>
</table>
Rents and availability of rental units respond to the same demand and supply factors as the markets for owner occupied housing. Market outcomes are less easily observed because of the difficult in obtaining timely, comprehensive data on occupancy rates and rents. In recent years, private vendors such as Zillow have published rent information for local geographies that is publicly available, but its quality is not yet well understood. Perhaps the best data on rental markets comes from the Census American Community Survey (ACS), but that information arrives only annually with a considerable time lag. Bozeman is by far the largest rental housing market in Gallatin County, as can be seen in Table 4.1, accounting for two thirds of the county’s 17,464 occupied rental units in 2021. The Belgrade stock of rental units is much smaller, but has been growing rapidly in recent years. ACS data indicate vacancy rates well below the 5-8 percent range considered healthy in Bozeman.

Table 4.1 Rental Housing Summary, 2021. Source: U.S. Census American Community Survey, 5-year estimates.

<table>
<thead>
<tr>
<th></th>
<th>Bozeman</th>
<th>Belgrade</th>
<th>Gallatin County</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occupied Rental Units</td>
<td>11,636</td>
<td>1,762</td>
<td>17,464</td>
</tr>
<tr>
<td>Change since 2017</td>
<td>+1,509</td>
<td>+596</td>
<td>+1,830</td>
</tr>
<tr>
<td>% Change</td>
<td>13.0%</td>
<td>33.8%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Vacancy Rate 2021</td>
<td>3.6%</td>
<td>12.9%</td>
<td>5.8%</td>
</tr>
<tr>
<td>2017</td>
<td>3.8%</td>
<td>4.5%</td>
<td>4.4%</td>
</tr>
<tr>
<td>% Units by Structure</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Single-family</td>
<td>33.1%</td>
<td>37.7%</td>
<td>38.3%</td>
</tr>
<tr>
<td>2-4 units</td>
<td>22.6%</td>
<td>40.1%</td>
<td>23.3%</td>
</tr>
<tr>
<td>5+ units</td>
<td>42.4%</td>
<td>15.7%</td>
<td>33.4%</td>
</tr>
<tr>
<td>Total</td>
<td>1,144</td>
<td>100.0%</td>
<td></td>
</tr>
</tbody>
</table>
4.1 Trends in Rents and Vacancies

The estimate of median rents based on the Zillow Observed Rent Index show a mild softening of rents in Gallatin County in the last half of 2022, as shown in Figure 4.1. By this measure, rents in Gallatin County are higher than any other urbanized county in the state, peaking at more than $2,200 per month in mid-2022 before retreating slightly at that point. From the way it is constructed, the index is better suited to estimate growth in rents rather than the monetary amounts.

A second measure of rents in the county comes from what are referred to as 50th-percentile rents recorded by the U.S. Department of Housing and Urban Development (HUD) as part of its assessment of fair market rents used in some of its programs. This measure gives more detail on rents by type of rental unit, as shown in Figure 4.2. The was a marked acceleration in rents for all types of units beginning around the midpoint of the last decade.

The Census American Community Survey (ACS) provides an annual estimate of vacancy rates for rental housing for selected geographies. The ACS data show a marked decline in rental vacancies for the city of Bozeman that commenced around 2014-15. BBER estimates that ACS data will show vacancy rates just over 3 percent in 2022 when the data becomes available.
available, as shown in Figure 4.3. This is at least 2 percentage points lower than rates that would exist in a healthy market with adequate supply.

4.2 RENTAL AFFORDABILITY

A comparison of rents and income yields an affordability index for renters similar in concept to what is calculated for homeowners. Since the income of renters, on average, is lower than that of homeowners, we have computed the index for different categories of income of renters using two different methods, which gives two different results.

The top panel of Figure 4.4 uses the median income of renters in the calculation of affordability. The interpretation of the index values is the percent of the median rent that the median earning renter can afford without devoting 30 percent of income toward housing costs. The fact that all values of the index are below 100 percent indicates that rental housing in Gallatin County is unaffordable by this measure. But the trend is toward improved affordability. This is because the median income of renters is growing faster than median incomes overall in the county, as more middle-income households are squeezed out of the homeownership markets by skyrocketing home prices.

If instead of median income of renter households we use the 25th percentile of median household income for all households, we get a downward trend in affordability, as shown in the bottom panel of the Figure.
AFFORDABLE HOUSING

In this discussion, we define affordable housing as housing in which the household is paying no more than 30 percent of their income on housing costs including utilities. The 30 percent measure is mainly a benchmark for the middle-income level household, and likely understates cost burdens for low-income renters. This is because other necessities, such as food and health care, do not scale down as a proportion of income. The average American household spends 12 percent of its income on food and 8.4 percent on health care, while the fractions for the same expenditure categories for households in the bottom 20 percentile are 15 percent and 10 percent, respectively.

There are a sizable number of low income households in Gallatin County, almost all of whom are renters. Of the total of 17,264 renter households in the county, 84 percent make below median income, and 29 percent earn income that is less than 30 percent of median income, as shown in Table 5.1.

### Table 5.1 Renter Households by Income, Gallatin County. Source: U.S. Census – American Community Survey, 5-year estimates, BBER Analysis.

<table>
<thead>
<tr>
<th>Income Level</th>
<th>Renter Households</th>
<th>% in Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extremely Low Income (&lt;30% AMI)</td>
<td>5,128</td>
<td>29.3%</td>
</tr>
<tr>
<td>Very Low Income (&lt;50% AMI)</td>
<td>8,588</td>
<td>49.1%</td>
</tr>
<tr>
<td>Low Income (&lt;80% AMI)</td>
<td>13,000</td>
<td>73.7%</td>
</tr>
<tr>
<td>Middle Income (&lt;AMI)</td>
<td>14,647</td>
<td>83.9%</td>
</tr>
<tr>
<td>Above AMI</td>
<td>2,817</td>
<td>16.1%</td>
</tr>
<tr>
<td>Total</td>
<td>17,464</td>
<td>100%</td>
</tr>
</tbody>
</table>
There are a significant number of renter households in Gallatin County with housing costs that exceed 30 percent of their income and thus are considered to be housing cost burdened. As can be seen from Figure 5.1, there are about 3,750 renter households that pay more than 50 percent of their income on rent and are considered to be severely cost burdened.

Another way to illustrate this issue is to look at the fraction of renter households in each income category that are either cost burdened or severely cost burdened by rents in Gallatin County. This is presented in Figure 5.2, which shows that over half of those who are low income are paying more than 30 percent of their incomes in rents.

Source: U.S. Census American Community Survey (ACS), 1-year estimates, Housing Vacancy Survey (HVS), BBER Analysis.

There have existed for a number of years a variety of programs aimed at increasing housing security for those with low or modest incomes. These programs are largely federally funded, although often administered by states. The largest is the Low Income Housing Tax Credit (LIHTC) program, aimed at increasing the supply of rental housing that is made available at subsidized, below market, rents. While the number of these more affordable units fall short of the need, as shown in Figure 5.3, there are some expansions in supply of subsidized housing underway.

Detail on the specific construction projects underway aimed at accomplishing this expansion are shown in Table 5.2.


<table>
<thead>
<tr>
<th>Project Name</th>
<th>City</th>
<th>Owners</th>
<th>Construction Type</th>
<th>Total Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arrowleaf Park Apartments</td>
<td>Bozeman</td>
<td>GMD Development LLC, HRDC IX</td>
<td>New Const</td>
<td>136</td>
</tr>
<tr>
<td>Perennial Park Apartments</td>
<td>Bozeman</td>
<td>GMD Development LLC, HRDC IX</td>
<td>New Const</td>
<td>96</td>
</tr>
<tr>
<td>Timber Ridge Apartments</td>
<td>Bozeman</td>
<td>Summit Housing Group, Rusty Snow</td>
<td>New Const</td>
<td>30</td>
</tr>
<tr>
<td>Riverview Apartments</td>
<td>Big Sky</td>
<td>Blueline Development, Jason Boal</td>
<td>New Const</td>
<td>25</td>
</tr>
<tr>
<td>Darlington Manor Apartments</td>
<td>Bozeman</td>
<td>Good Housing Partnership, HRDC IX, Geoff Anderson</td>
<td>Rehab</td>
<td>100</td>
</tr>
<tr>
<td>Comstock Apartments</td>
<td>Bozeman</td>
<td>DevCo Preservation, Chase Huber</td>
<td>Rehab</td>
<td>86</td>
</tr>
<tr>
<td>Castlebar Apartments</td>
<td>Bozeman</td>
<td>DevCo Preservation, Michael Volz</td>
<td>Rehab</td>
<td>72</td>
</tr>
<tr>
<td>Bridger Peaks Village</td>
<td>Bozeman</td>
<td>DevCo Preservation, Chase Huber</td>
<td>Rehab</td>
<td>60</td>
</tr>
<tr>
<td>Boulevards Apartments</td>
<td>Bozeman</td>
<td>Good Housing Partnership, HRDC IX, Geoff Anderson</td>
<td>Rehab</td>
<td>41</td>
</tr>
</tbody>
</table>
CONCLUSION

This report represents an attempt to “look under the hood” of Gallatin Valley housing markets to try to understand what drives the outcomes we all observe. We have seen strong demand for housing, driven by economic growth and strong in-migration of new residents. The response of builders has been strong, especially in multi-family housing, with growth expanding west from Bozeman. And yet the affordability of housing has deteriorated significantly, and there is tangible evidence of middle-income households being squeezed out of homeownership as a result. This is clearly a major challenge for communities in many places to solve, but the challenge in Gallatin County is especially daunting.

Yet it is important to note that the strong economic growth that has pressured housing markets also brings resources to help address the issues that strong growth produces. It is arguably better to tackle the challenges of rapid economic growth than to deal with the opposite – economic decay – for that reason. Look for future reports of this kind to measure the success of those efforts.