The Outlook for Real Estate and Residential Construction

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Montana’s Real Estate Performance: Getting Back to Boom Times?

• Housing prices exceeded their pre-recession peaks two years ago
• Homeownership becoming more attractive
• Credit standards continue to ease
• New home construction still not strong
• Speculative behavior not apparent in Montana
U.S. Housing Prices Have Recovered to Their Pre-Recession Peak

Index, 1995=100

FHFA Housing Price Index, U.S., 1995=100

Source: Federal Housing Finance Agency, Bureau of Economic Analysis
Montana’s Housing Price Recovery Occurred Two Years Ago

Source: Federal Housing Finance Agency, Bureau of Economic Analysis
Growth in Rents Has Increased Since 2011

- $450
- $500
- $550
- $600
- $650
- $700
- $750

3.5% per year
-.1% per year

5.4% per year

Montana Residential Rent, Inflation Adjusted (2014$)
Source: U.S. Census Bureau.
Boom, Bust, and Recovery of Montana Real Estate

Montana Housing Price Index and Montana Median Household Income Index, 2001 = 100
Source: U.S. Federal Housing Finance Agency and Census Bureau.
Will the Erosion of Homeownership Rates Continue?

Source: U.S. Census Bureau
Sales Volumes and Median Prices Up Strongly Since 2012

Source: Montana Department of Revenue
Sales Volumes Plunge Since 2012 Reflect Oil Bust in East

Source: Montana Department of Revenue
Markets Looking Much Healthier
Cascade County Market Statistics

Number of Sales
- 2011: 700
- 2012: 750
- 2013: 800
- 2014: 850
- 2015: 900
- 2016: 950

Median Sale Price
- 2011: $140,000
- 2012: $150,000
- 2013: $160,000
- 2014: $170,000
- 2015: $180,000
- 2016: $190,000

Days on Market
- 2011: 35 days
- 2012: 45 days
- 2013: 55 days
- 2014: 65 days
- 2015: 75 days
- 2016: 85 days

Source: Great Falls Association of Realtors.
Market Has Been Transformed Since 2010

Richland County Market Statistics

Number of Sales

Median Sale Price

Source: Montana Department of Revenue.
Little Change in Market Activity

Custer County Market Statistics

Number of Sales

Source: Montana Department of Revenue.
Markets Looking Much Healthier

Flathead County Market Statistics

Number of Sales

Median Sale Price

Source: Montana Department of Revenue.
Market Continues to Heat Up

Gallatin County Market Statistics for Single Family Homes

Number of Sales

- 2010: 600
- 2011: 800
- 2012: 1,000
- 2013: 1,200
- 2014: 1,400
- 2015: 1,600
- 2016: 1,800

Median Sale Price

- 2010: $220,000
- 2011: $245,000
- 2012: $270,000
- 2013: $295,000
- 2014: $320,000
- 2015: $345,000
- 2016: $370,000

Days on Market

- 2010: 120
- 2011: 110
- 2012: 100
- 2013: 90
- 2014: 80
- 2015: 70
- 2016: 60

Source: Gallatin Association of Realtors.
Sale Price Growth

Missoula County Market Statistics

Number of Sales

Median Sale Price

Source: Montana Department of Revenue.
Markets Looking Much Healthier

Ravalli County Market Statistics

Number of Sales

Median Sale Price

Source: Montana Department of Revenue.
Markets Cooled Slightly in 2016

Yellowstone County Market Statistics for Single Family Homes

Number of Sales

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<th>Year</th>
<th>Sales</th>
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<td>15</td>
<td>2,400</td>
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<td>16</td>
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Median Sale Price

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<td>15</td>
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<td>$200,000</td>
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Days on Market

<table>
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<th>Year</th>
<th>Days</th>
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<tr>
<td>2011</td>
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<td>2012</td>
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<td>2013</td>
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<td>2014</td>
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<tr>
<td>2015</td>
<td>45</td>
</tr>
<tr>
<td>2016</td>
<td>35</td>
</tr>
</tbody>
</table>

Source: Billings Association of Realtors.
Housing Price Increases Since 2000 Closely Track Economic Growth

Housing Price Index by Zip Code, 2015 – Index, 2000 = 100

Legend:
- **Green**: Less than 155.9
- **Orange**: 155.9 - 164.8
- **Blue**: 164.8 - 176.7
- **Purple**: Over 176.7
Strong Housing Price Growth Over the Last Four Years
Percent Growth in Housing Price Index by Zip Code Since 2012

Source: Federal Home Finance Agency
Strongest Price Growth in North Central Montana is in Conrad
Percent Growth in Housing Price Index by Zip Code Since 2012

Conrad, 22.8%
Great Falls, 7.6%

Source: Federal Home Finance Agency
Strongest Price Growth in Northwestern Montana is in Sommers

Percent Growth in Housing Price Index by Zip Code Since 2012

Kalispell, 14.9%
Sommers, 24.1%
Columbia Falls, 18.9%

Source: Federal Home Finance Agency
Strongest Price Growth in Bozeman is West of City
Percent Growth in Housing Price Index by Zip Code Since 2012

Three Forks, 33.7%
Belgrade, 29.8%
Manhattan, 30.4%

Source: Federal Home Finance Agency
Strongest Price Growth in the Missoula area is in the City
Percent Growth in Housing Price Index by Zip Code Since 2012

Missoula 59801, 11.9%

Corvallis, 10.4%

Source: Federal Home Finance Agency
Strongest Price Growth in the Billings area is in Billings Heights
Percent Growth in Housing Price Index by Zip Code Since 2012

Billings Heights, 14.1%
Livingston, 18.9%

Source: Federal Home Finance Agency
Great Falls, MT Metro Area

1980s

Source: BuiltZoom

Notes: areas considered developed when they first exceed 200 currently existing homes per square mile.
Kalispell, MT Micro Area
2000s

Source: BuildZoom
Notes: areas considered developed when they first exceed 200 currently existing homes per square mile.
Bozeman in 1940
Bozeman in 1980s
Bozeman in 2000s
Missoula, MT Metro Area

1940s

Source: BuildZoom

Notes: areas considered developed when they first exceed 200 currently existing homes per square mile.
Missoula, MT Metro Area

1980s

Source: BuildZoned

Notes: areas considered developed when they first exceed 200 currently existing homes per square mile.
Billings, MT Metro Area

1940s

Source: BuildZoom

Notes: areas considered developed when they first exceed 200 currently existing homes per square mile.
Billings, MT Metro Area
1980s

Source: BuildZoom
Notes: areas considered developed when they first exceed 200 currently existing homes per square mile.
Residential Building Activity Shifts West
Single Family Housing Starts, 2015

Source: Bureau of Business and Economic Research
Home Building Far Off Peak Levels of 2005 in West
Single Family Housing Starts in 2015 as a Percent of 2005

Source: Bureau of Business and Economic Research
Single Family Housing Starts, Richland County vs. Montana
Index, 2001 = 100

Source: Bureau of Business and Economic Research and U.S. Census Bureau
Single Family Housing Starts, Custer County vs. Montana
Index, 2001 = 100

Source: Bureau of Business and Economic Research and U.S. Census Bureau
Single Family Housing Starts, Cascade County vs. Montana
Index, 2001 = 100

Source: Bureau of Business and Economic Research and U.S. Census Bureau
Single Family Housing Starts, Flathead County vs. Montana
Index, 2001 = 100

Source: Bureau of Business and Economic Research and U.S. Census Bureau
Single Family Housing Starts, Gallatin County vs. Montana

Index, 2001 = 100

Source: Bureau of Business and Economic Research and U.S. Census Bureau
Single Family Housing Starts, Missoula County vs. Montana
Index, 2001 = 100

Source: Bureau of Business and Economic Research and U.S. Census Bureau
Single Family Housing Starts, Ravalli County vs. Montana
Index, 2001 = 100

Source: Bureau of Business and Economic Research and U.S. Census Bureau
Single Family Housing Starts, Yellowstone County vs. Montana
Index, 2001 = 100

Source: Bureau of Business and Economic Research and U.S. Census Bureau
Mortgage Risk Has Risen Since 2013, Especially in the U.S.

Source: American Enterprise Institute
Mortgage Originations Not Growing as Fast as U.S. Average
New Mortgages, U.S. and Montana, Index \(2013Q2 = 100\)

Source: American Enterprise Institute
Markets in 2017 and Beyond

• Federal support of homeownership remains as strong as ever
• Impact of late 2016 increases in mortgage rates already being felt
• Stage set for another strong performance in Montana markets
• Development patterns, low construction rates will fuel more price growth
• Demographic trends, low rates of home building support medium term forecast of construction breakout
Is Montana Running Out of Workers?

- Talent is always in short supply
- Construction and Health Care are two pressure points
- “Straight line” forecasts are misleading
- Migration, technology and wage adjustments will be part of the solution
U.S. Construction Employment Share is Low in Comparison With History

Percent


~ 500,000 jobs

Source: U.S. Bureau of Labor Statistics
Construction Unemployment Rates Near an All Time Low

U.S. Unemployment Rate, Construction Industry, Percent, Not Seasonally Adjusted
Source: U.S. Bureau of Labor Statistics
Construction Workforce Remains Male Dominated

U.S. Ratio of Women Employees to All Employees, Construction, Percent, Seasonally Adjusted
Source: U.S. Bureau of Labor Statistics
Pool of Unemployed Men Aged 55 and Under is Shrinking

Source: U.S. Bureau of Labor Statistics

U.S. Unemployed Males Aged 55 and Younger, Thousands

Source: U.S. Bureau of Labor Statistics
Connecting the Dots

- Slack does not exist to add 500,000 more construction jobs
- All of the available male workforce 55 and under would have to go into construction (an impossible outcome) for this to occur
- Construction employers will bid away workers from other industries over time (e.g., manufacturing, agriculture)
- Workers will migrate from slower growing regions to the south and west
- Foreign immigration has historically been important (28 percent of construction workers are Hispanic)
- Rising construction costs may choke off some growth
Questions?