The Outlook for Real Estate and Construction

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

Real Estate and Construction
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

- Less than 152.4%
- 152.4% - 164.2%
- 164.2% - 176.7%
- Over 176.7%
Price Growth in Great Falls Region is More Restrained
Percent Growth in Housing Price Index by Zip Code Since 2012

Conrad, 11.9%
Great Falls, 11.6%

Source: Federal Home Finance Agency
Whitefish Pacing Price Growth in Northwest Montana
Percent Growth in Housing Price Index by Zip Code Since 2012

Kalispell, 19.3%
Somers, 24.2%
Whitefish, 26.8%

Source: Federal Home Finance Agency

BUREAU OF BUSINESS AND ECONOMIC RESEARCH
UNIVERSITY OF MONTANA
Real Estate and Construction
Strong Price Acceleration in Bozeman
Percent Growth in Housing Price Index by Zip Code Since 2012

Belgrade, 41.0%
Bozeman, 36.2%
Bozeman, 35.0%

Source: Federal Home Finance Agency

Real Estate and Construction
Price Growth More Restrained in Helena
Percent Growth in Housing Price Index by Zip Code Since 2012

Helena, 10.9%
Townsend, 12.6%

Source: Federal Home Finance Agency

BUREAU OF BUSINESS AND ECONOMIC RESEARCH
UNIVERSITY OF MONTANA

Real Estate and Construction
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

Real Estate and Construction
Billings Home Prices Holding Up
Percent Growth in Housing Price Index by Zip Code Since 2012

Livingston, 24.6%

Billings, 16.6%

Source: Federal Home Finance Agency
No Sign of Moderation in Rents

Montana Residential Rent, Inflation Adjusted (2014$)

Source: U.S. Census Bureau.

Real Estate and Construction
Will the Erosion of Homeownership Rates Continue?

Source: U.S. Census Bureau.
Markets Looking Much Healthier

Cascade County Market Statistics

<table>
<thead>
<tr>
<th>Number of Sales</th>
<th>Median Sale Price</th>
<th>Days on Market</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1100</td>
<td>$190,000</td>
<td>145</td>
</tr>
<tr>
<td>1000</td>
<td>$180,000</td>
<td>135</td>
</tr>
<tr>
<td>900</td>
<td>$170,000</td>
<td>125</td>
</tr>
<tr>
<td>800</td>
<td>$160,000</td>
<td>115</td>
</tr>
<tr>
<td>700</td>
<td>$150,000</td>
<td>105</td>
</tr>
<tr>
<td>600</td>
<td>$140,000</td>
<td>95</td>
</tr>
<tr>
<td>500</td>
<td>$130,000</td>
<td>85</td>
</tr>
<tr>
<td></td>
<td></td>
<td>75</td>
</tr>
<tr>
<td></td>
<td></td>
<td>65</td>
</tr>
<tr>
<td></td>
<td></td>
<td>55</td>
</tr>
<tr>
<td></td>
<td></td>
<td>45</td>
</tr>
<tr>
<td></td>
<td></td>
<td>35</td>
</tr>
</tbody>
</table>

Source: Great Falls Association of Realtors.
Markets Looking Much Healthier

Flathead County Market Statistics

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

Gallatin County Market Statistics for Single Family Homes

Number of Sales
- 600
- 800
- 1,000
- 1,200
- 1,400
- 1,600

Median Sale Price
- 110
- 120
- 130
- 140
- 150
- 160
- 170

Days on Market
- 70
- 80
- 90
- 100
- 110
- 120

Source: Gallatin Association of Realtors.
Sale Price Growth

Missoula County Market Statistics

Number of Sales

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Median Sale Price

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>$180,000</td>
<td>$200,000</td>
<td>$220,000</td>
<td>$240,000</td>
<td>$260,000</td>
<td>$280,000</td>
</tr>
</tbody>
</table>

Source: Montana Department of Revenue.
Markets Looking Much Healthier

Ravalli County Market Statistics

Number of Sales

- 2011: 150
- 2012: 250
- 2013: 350
- 2014: 450
- 2015: 550
- 2016: 650

Median Sale Price

- 2011: $160,000
- 2012: $180,000
- 2013: $200,000
- 2014: $220,000
- 2015: $240,000
- 2016: $260,000

Source: Montana Department of Revenue.
Markets Looking Much Healthier

Silver Bow County Market Statistics

Number of Sales

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>300</td>
<td>325</td>
<td>375</td>
<td>400</td>
<td>425</td>
<td>450</td>
</tr>
</tbody>
</table>

Median Sale Price

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>$90,000</td>
<td>$100,000</td>
<td>$110,000</td>
<td>$120,000</td>
<td>$130,000</td>
<td>$140,000</td>
</tr>
</tbody>
</table>

Source: Montana Department of Revenue.
Markets Looking Much Healthier

Yellowstone County Market Statistics

Source: Billings Association of Realtors
Markets Looking Much Healthier

Fergus County Market Statistics

Number of Sales

Median Sale Price

Source: Montana Department of Revenue.
Markets Looking Much Healthier

Hill County Market Statistics

Number of Sales

- 2011: 100
- 2012: 140
- 2013: 120
- 2014: 160
- 2015: 140
- 2016: 20

Median Sale Price

- 2011: $70,000
- 2012: $110,000
- 2013: $130,000
- 2014: $130,000
- 2015: $150,000
- 2016: $170,000

Source: Montana Department of Revenue.
New Home Construction is Restrained
Housing Permits, Montana

Real Estate and Construction
BUREAU OF BUSINESS AND ECONOMIC RESEARCH
UNIVERSITY OF MONTANA
Surge in Multi-Family Structures
New Privately Owned Housing Units Under Construction, 5-Units or More, U.S.

Source: U.S. Census Bureau
Housing Starts, 2016 as Pct. Of Peak

Source: BBER

Real Estate and Construction
Housing Starts, Cascade County vs. Montana
Index, 2001 = 100

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

Real Estate and Construction
Housing Starts, Flathead County vs. Montana
Index, 2001 = 100

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

Index, 2001 = 100

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

Real Estate and Construction
Housing Starts, Lewis and Clark County vs. Montana

Index, 2001 = 100

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

Source: Bureau of Business and Economic Research and U.S. Census Bureau.
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, Silver Bow County vs. Montana

Index, 2001 = 100

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

Source: Bureau of Business and Economic Research and U.S. Census Bureau.
Home Inventories Lowest in 25 Years
Homes for Sale as Percent of Households, U.S.

Source: NAR and U.S. Census Bureau
Steady Growth in Mortgage Originations

Mortgages Originated, Montana

2013  2014  2015  2016  2017*

10,000  14,000  18,000  22,000  26,000

Mortgage Dollar Volume, Montana

2013  2014  2015  2016  2017*

0  0.5  1  1.5  2  2.5  3  3.5  4

Source: AEI

Real Estate and Construction
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.
Looking Ahead to 2018

• Interest Rates are Moving Up
Mortgage Rates Creeping Up to Historical Norms

Source: IHS Markit
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?