The Outlook for Real Estate and Construction

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Reasons for Optimism?
Real Estate and Construction

Reasons for Optimism?

• Strong volumes nationally
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• Steady price increases
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• Mortgage risk subsiding
Reasons for Optimism?

- Strong volumes nationally
- Steady price increases
- Mortgage risk subsiding
- Positive industry sentiment

- 2018 volumes down
- 2019 volumes looking stronger
- Bifurcated market
- Affordability getting worse
- Tight inventories
Strong Housing Price Growth Since 2011

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

Source: Federal Housing Finance Agency
National Price Growth Not Evenly Distributed Across Price Tiers

Source: AEI Center on Housing Markets and Finance
Markets Looking Healthier

Silver Bow County Market Statistics

Source: Montana Department of Revenue.
Home Price Appreciation Since 2012 by Market Segment

Source: American Enterprise Institute

Real Estate and Construction
Home Price Appreciation Since 2012 by Market Segment

Source: American Enterprise Institute
Median Price-to-Income Ratio for Entry-Level Homes

Source: American Enterprise Institute
<table>
<thead>
<tr>
<th>Location</th>
<th>2012</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>2.7</td>
<td>3</td>
</tr>
<tr>
<td>Silver Bow</td>
<td>2.4</td>
<td>2.8</td>
</tr>
<tr>
<td>Cascade</td>
<td>3</td>
<td>3.1</td>
</tr>
<tr>
<td>Lewis &amp; Clark</td>
<td>3.1</td>
<td>3.3</td>
</tr>
<tr>
<td>Yellowstone</td>
<td>3.1</td>
<td>3.4</td>
</tr>
<tr>
<td>Gallatin</td>
<td>3.1</td>
<td>3.4</td>
</tr>
<tr>
<td>Missoula</td>
<td>3.3</td>
<td>3.6</td>
</tr>
<tr>
<td>Flathead</td>
<td>3.6</td>
<td>4</td>
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</tbody>
</table>

Source: American Enterprise Institute
Percent of Households That Are Cost Burdened

Source: U.S. Census Bureau.
Percent of Households That Are Cost Burdened

Source: U.S. Census Bureau.
Silver Bow County Cost Burdened Households

Source: U.S. Census Bureau.
Affordable Housing Units Per 100 Extreme Low Income Households

Source: The Urban Institute
Affordable Housing Units Per 100 Extreme Low Income Households

Source: The Urban Institute
Months Supply of Homes by Market Segment: US Time Series

Source: AEI Center on Housing Markets and Finance
Months Supply of Homes by Market Segment

Source: American Enterprise Institute
Months Supply of Homes by Market Segment

Source: American Enterprise Institute
New Home Construction Leveling Off
Housing Permits, Montana
Looking Ahead to 2020

- Interest Rates Likely to Remain Low
Mortgage Rates Looking to Bottom Out

Source: IHS Markit
Looking Ahead to 2020

• Interest rates likely to remain low
• Real estate risk may be subsiding
The National Mortgage Risk Index (NMRI) measures how the loans originated in a given month would perform if subjected to the same stress as in the financial crisis that began in 2007. It measures the default risk of newly originated mortgages by assigning every loan a predicted default rate based on its credit score, CLTV, DTI, Loan Term, ARM status, and Agency. See NMRI methodology for details.
Looking Ahead to 2020

• Interest rates likely to remain low
• Real estate risk may be subsiding
• Home builder sentiment indicates positive outlook
Positive Builder Sentiment

NAHB Home Builder Traffic of Prospective Buyers

Source: National Association of Home Builders
Outlook for 2020

- Real estate markets in Montana will remain strong
- Low interest rates will continue to drive demand
- Affordability will get worse, particularly for entry-level homes
- Lowered market risk will boost optimism
Questions?