

WHERE HOUSING IS HEADED

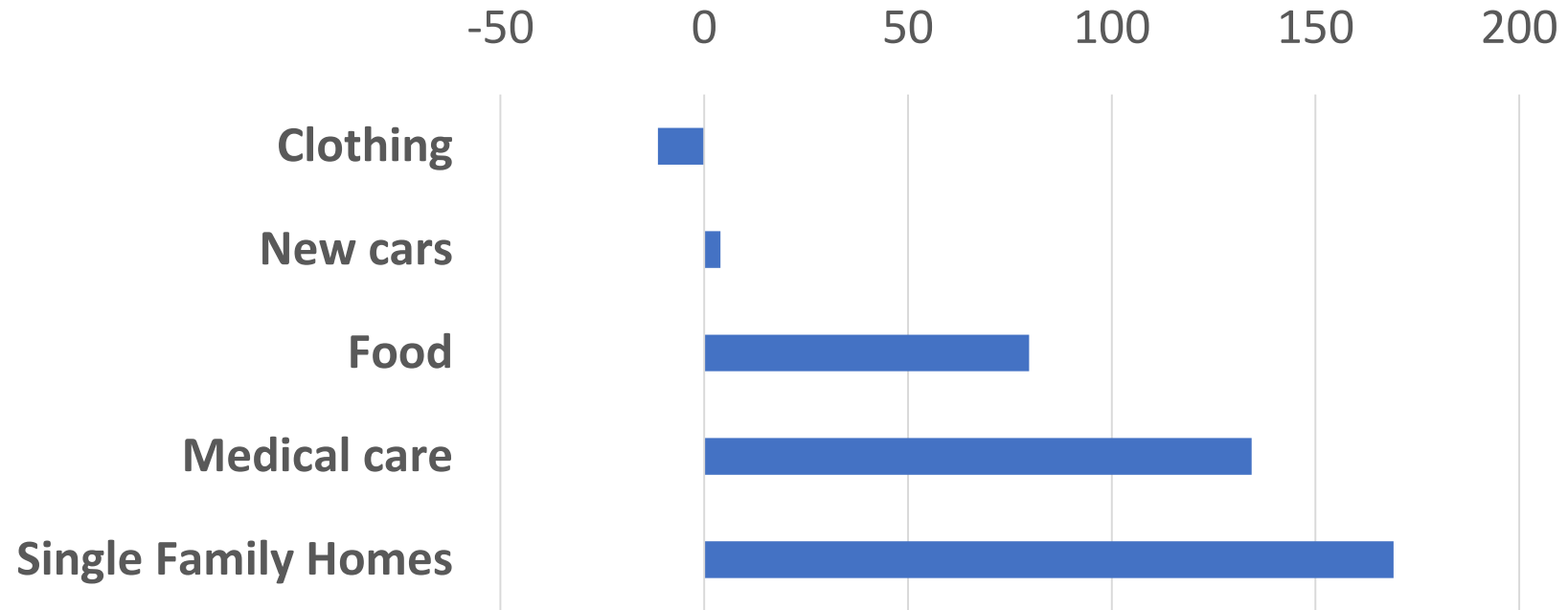
Patrick Barkey
Director,
Bureau of Business
and Economic
Research



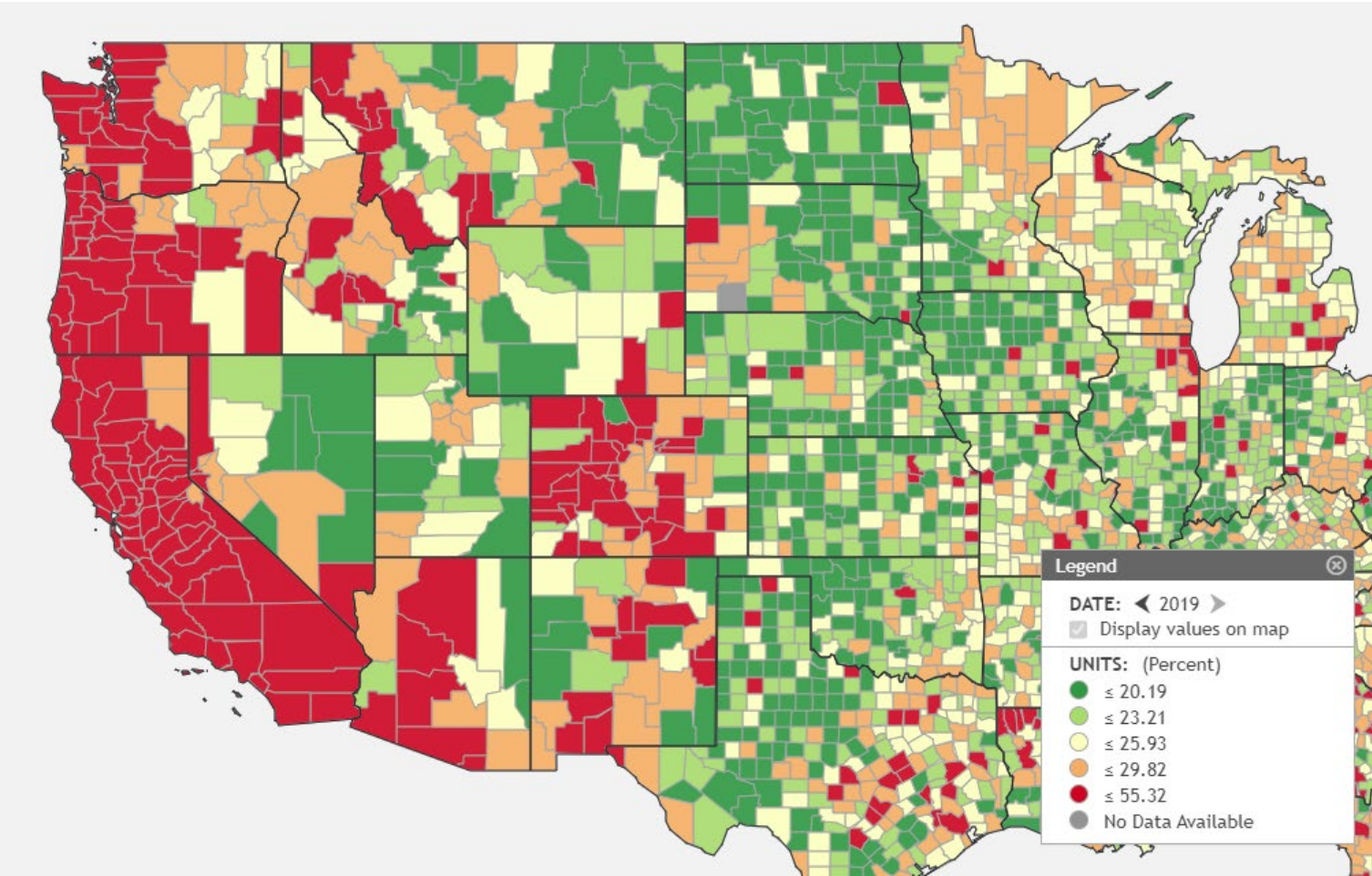
HOW WILL TODAY'S IMBALANCES BE RESOLVED?

Why Are We Talking About Housing?

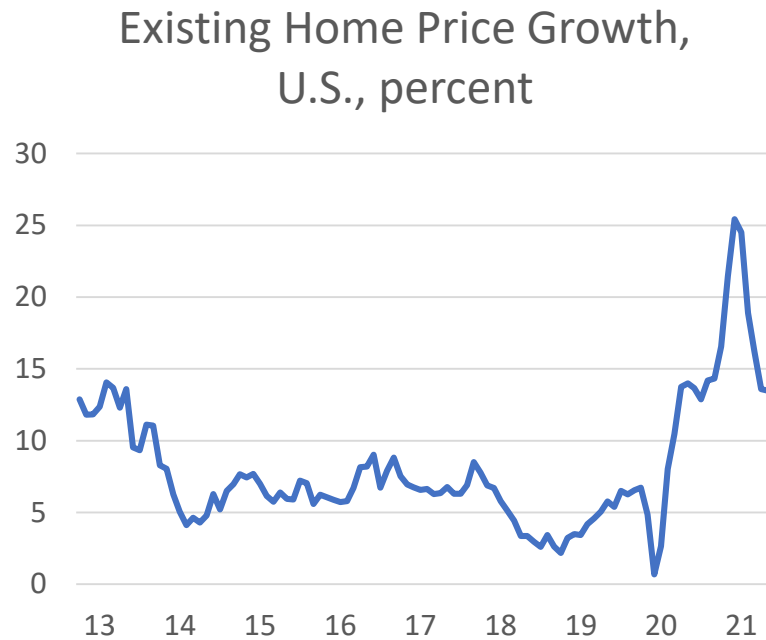
Percent Change in Selected Consumer Items since 1995



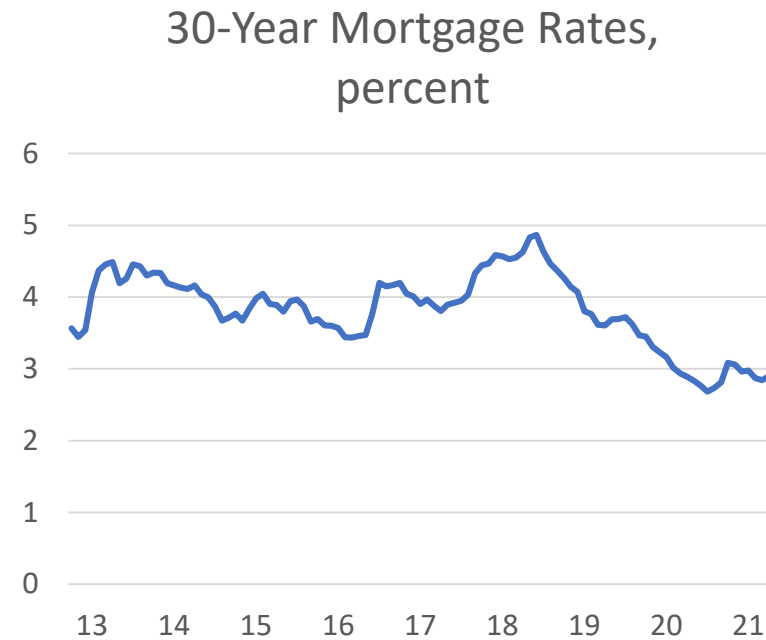
Median Housing Costs as a Percent of Median Household Income, 2019



Home Price Growth and Mortgage Rates



Source: Redfin



Source: Freddie Mac

Investor Market Share Hits Record, Surpassing Pre-Pandemic Levels

Share of purchased U.S. homes bought by investors



Source: Redfin analysis of county records

REDFIN

“High” Housing Prices Matter

- “High” prices = prices pushed higher by regulatory constraints or other inefficiencies
- Even if markets were efficient, the price might be too high for many households
- Not enough money left over for other essentials
- Increase sprawl, commuting costs, congestion
- Reduce labor availability for lower and medium paying jobs
- Limit population mobility and economic growth
- Stops the real estate wealth accumulation that has been an equalizing force in the economy

The Crossfire of Housing Policy

- Mortgage interest deduction
- Mortgage revenue bonds
- Mortgage credit certificates
- Capital gains treatment for sales of primary residences
- Savings and Loan Associations
- FHA insurance
- Fannie Mae and Freddie Mac mortgage guarantees
- Quota for Fannie and Freddie for targeted populations
- Support for institutions like FHLB's
- 30-year fixed rate mortgage with no pre-payment penalty
- FHA and VA loan programs
- HUD Section 502 low-rate mortgages to low-income households
- Infrastructure requirements
- Minimum parking
- Building codes
- Wetlands regulations
- Subdivision requirements
- Exactions
- Height restrictions
- Caps on numbers of units
- Population growth limits
- Urban boundaries or green zones
- Restrictions on rezoning
- Super majority, voter, or multiple jurisdictional approvals
- Minimum lot size requirements
- Delays in local government decision-making

“Only when the tide goes out do you discover who’s been swimming naked”

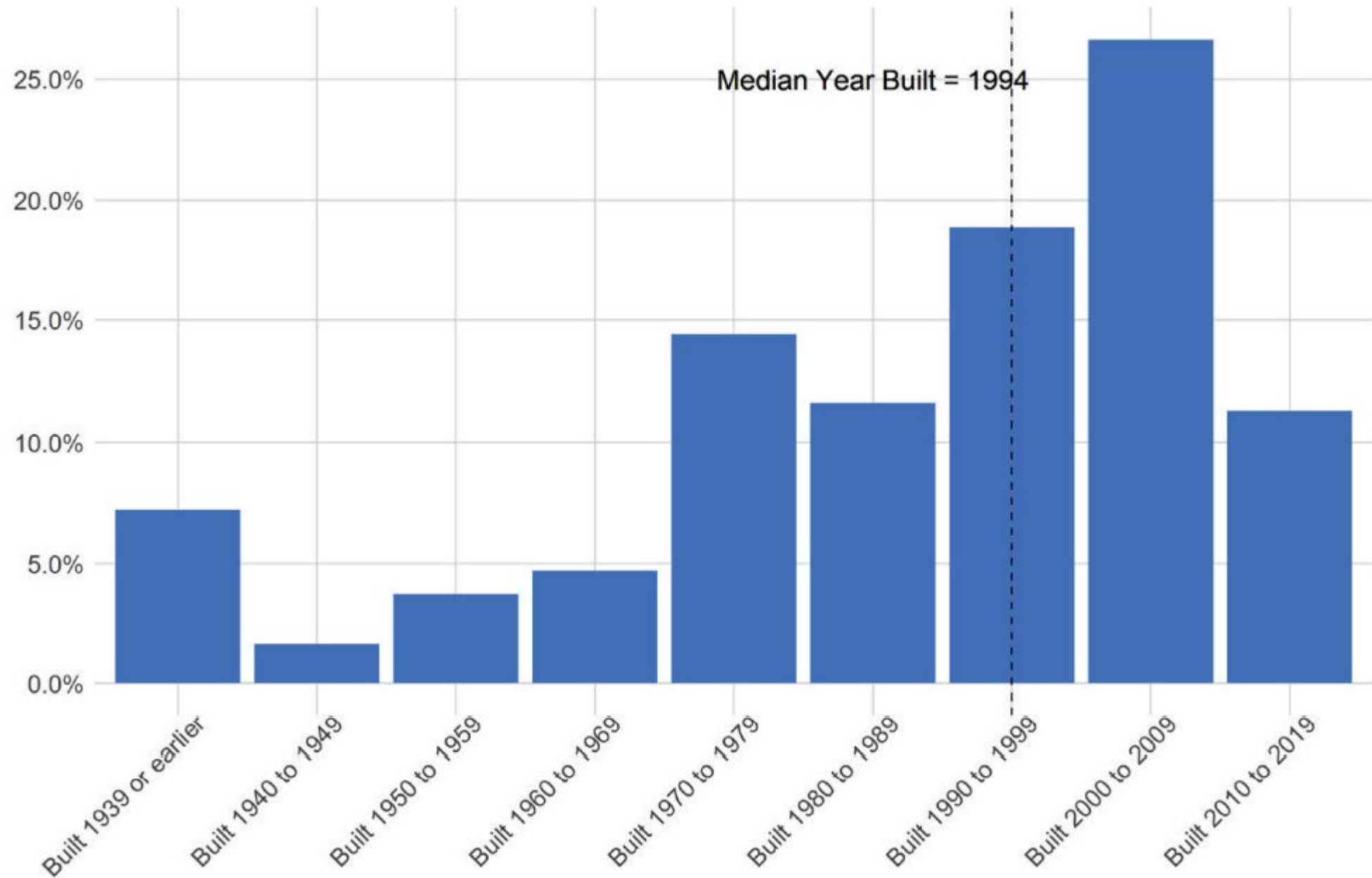
– *Warren Buffett*

Pandemic surge in demand has exposed the impact of chronic underbuilding in Montana’s fastest growing regions that has been playing out for almost 20 years.

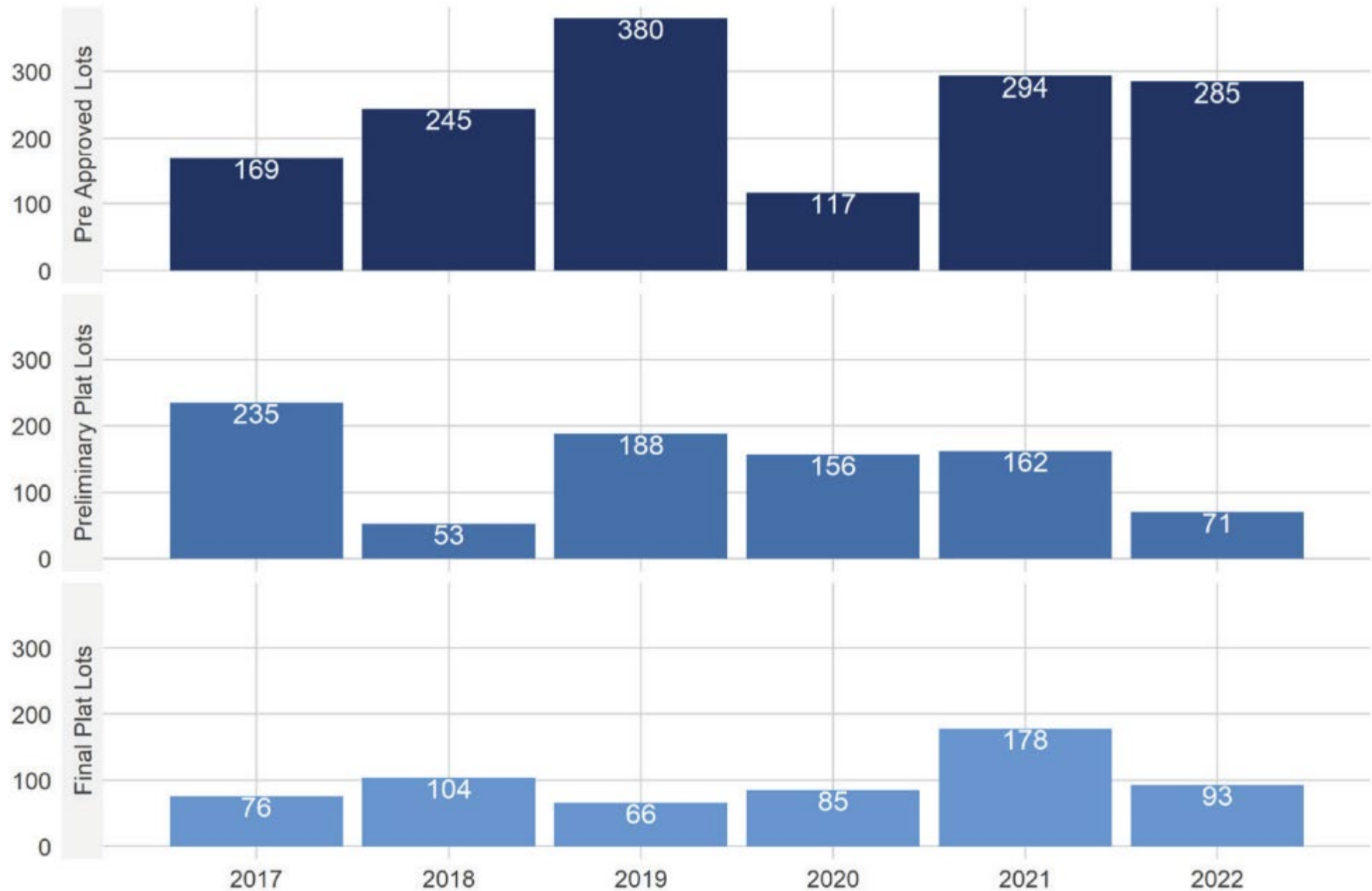
Local regulation of housing exists because it is popular, even if its result is a housing affordability crisis.

The question is: what is the end game for Montana’s housing markets?

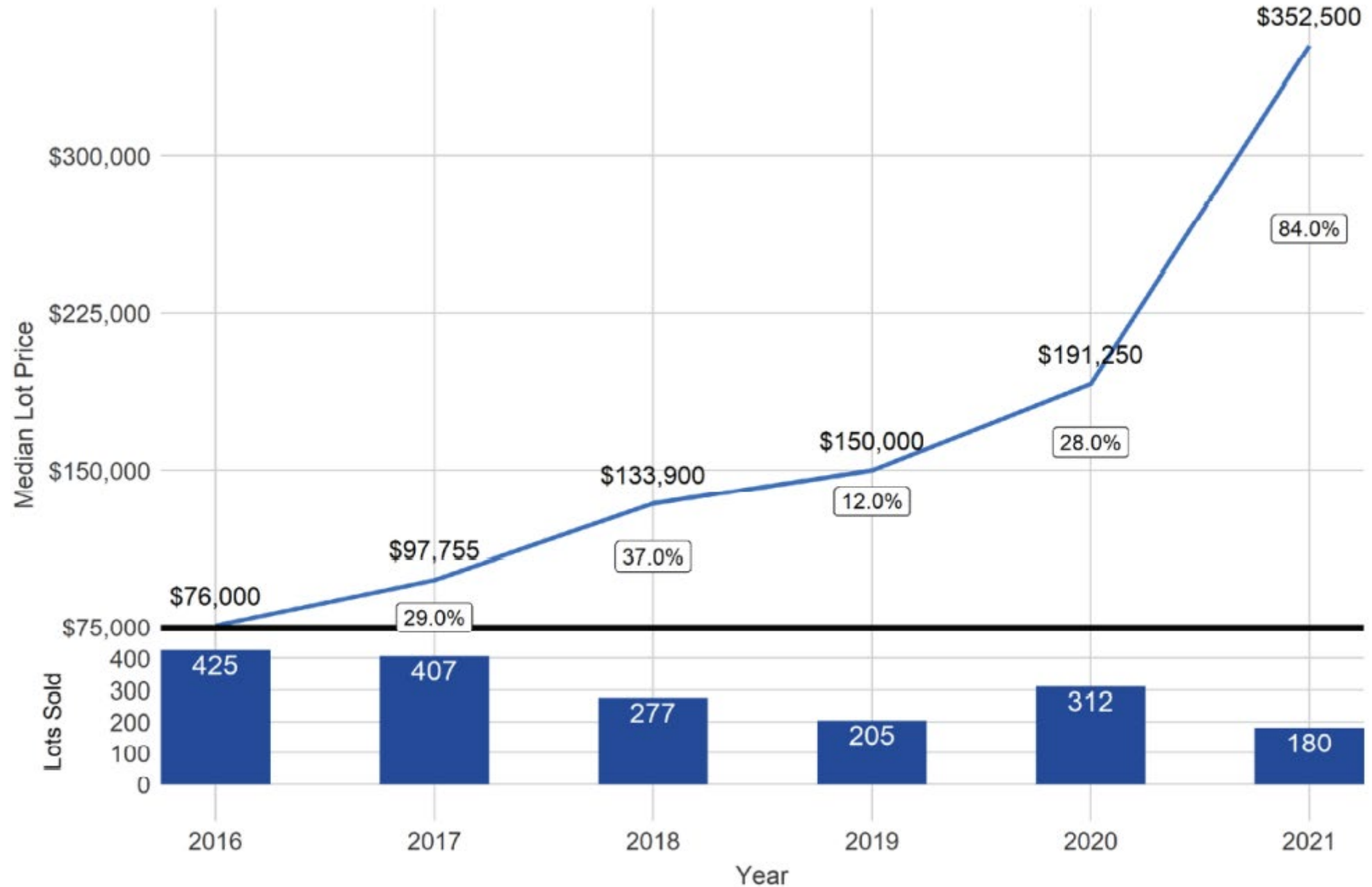
Bozeman Housing Stock by Tenure



Bozeman Lot Development



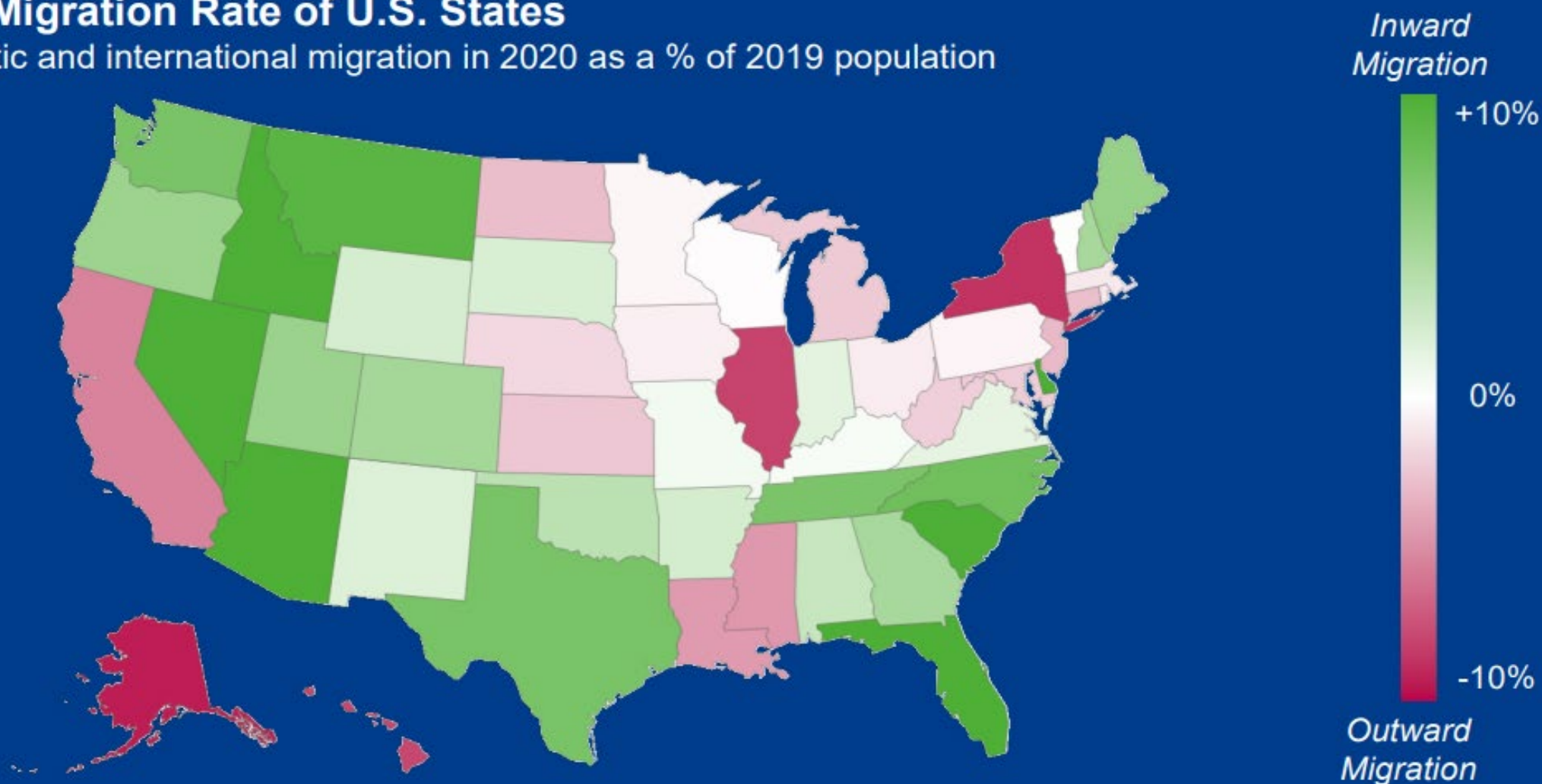
Bozeman Lot Sales



Shifts out of urban areas drove changing demand for goods

2020 Net Migration Rate of U.S. States

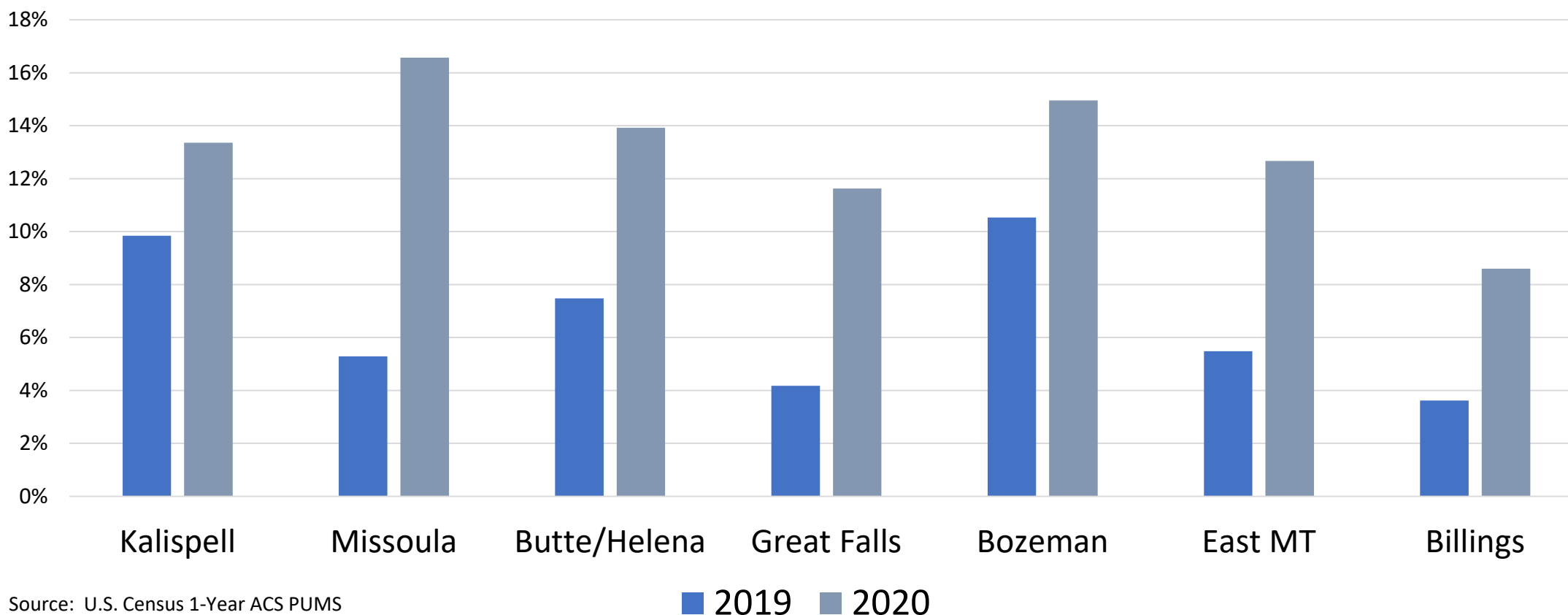
Total domestic and international migration in 2020 as a % of 2019 population



Source: KPMG Economics, U.S. Census Bureau, Haver Analytics

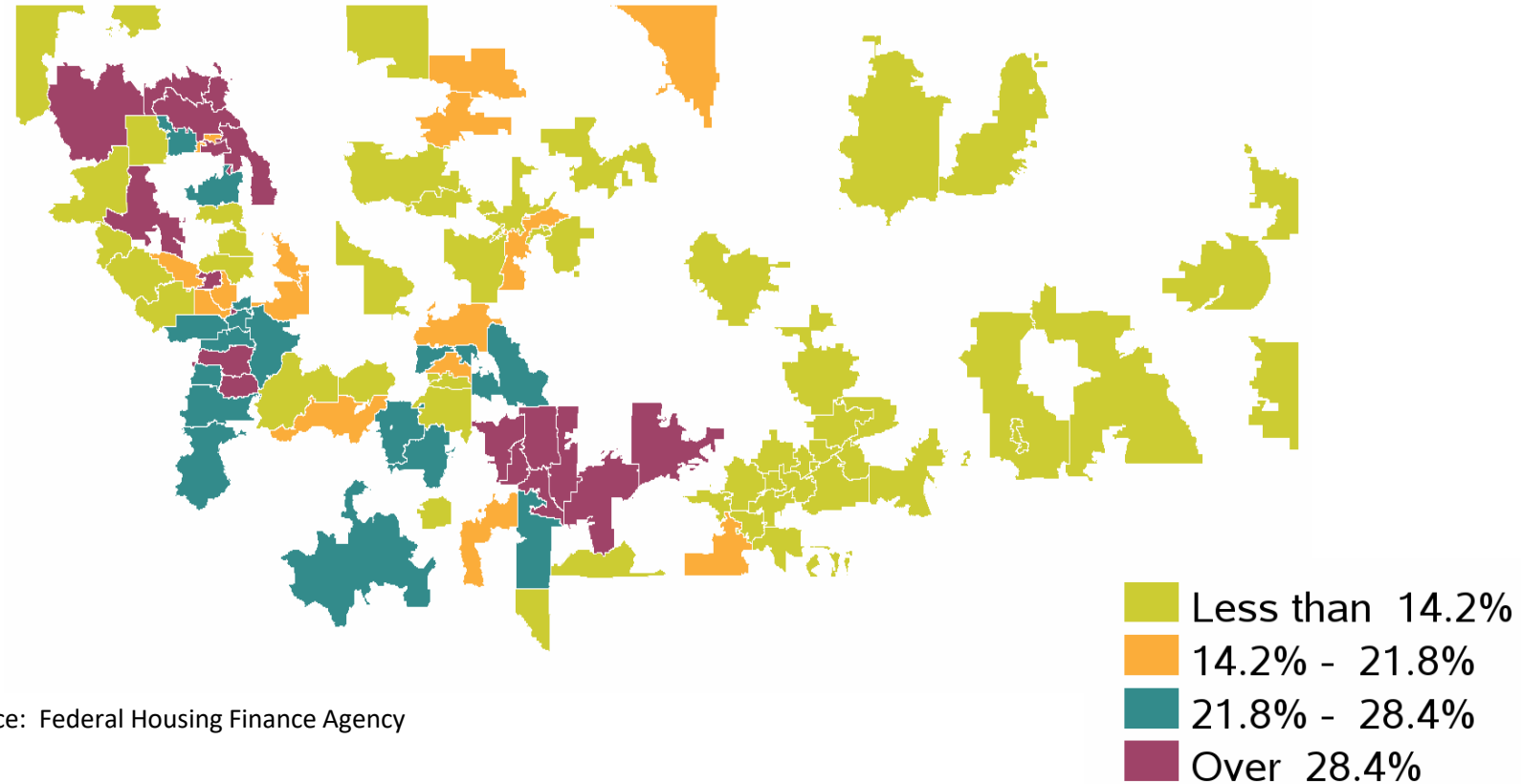
2020 Was A Year to Work From Home

Percent of Workforce Working from Home, 2019-2020



Housing Price Growth Strongest in the West

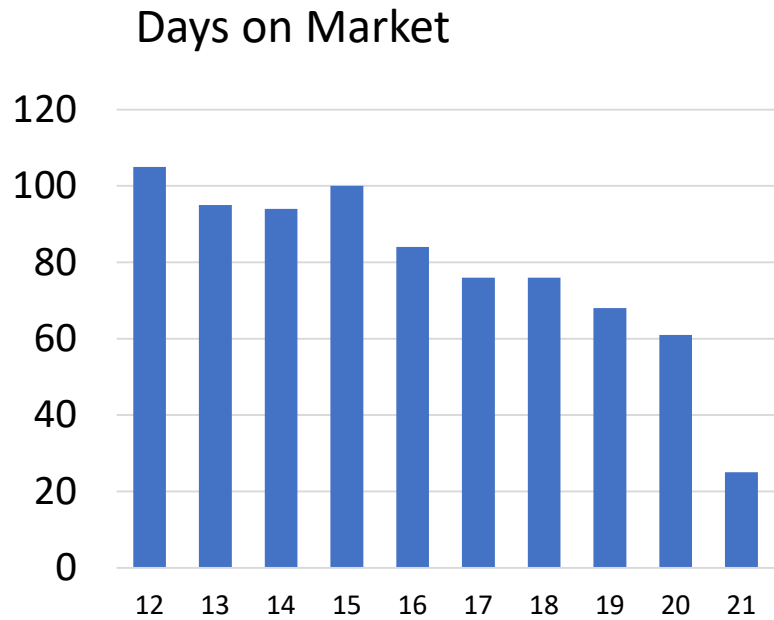
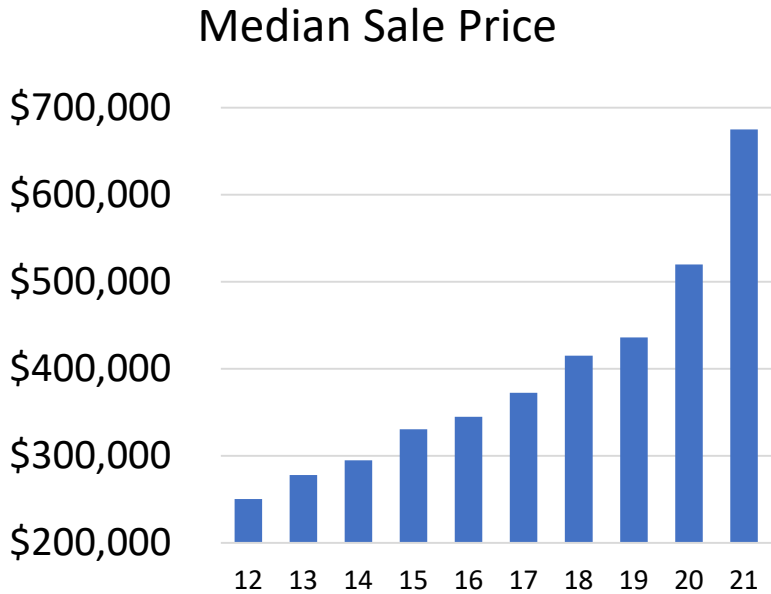
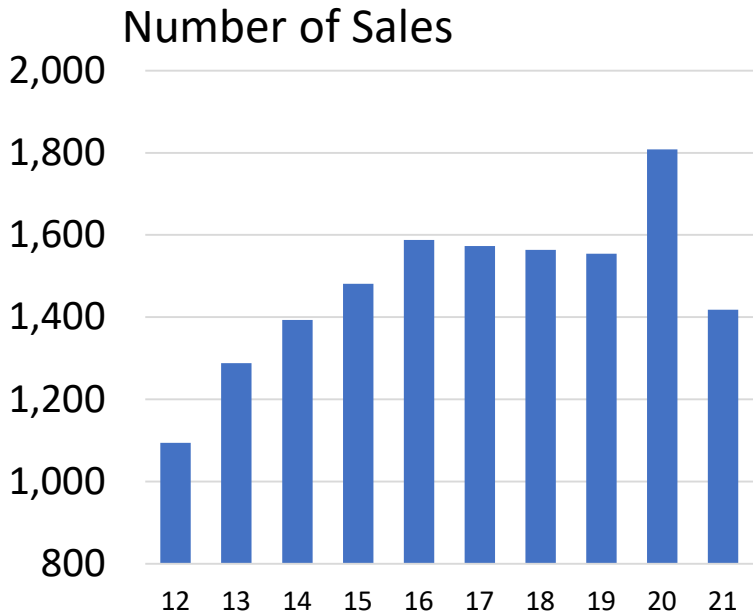
Housing Price Index by Zip Code, Percent Growth, 2016-20



Source: Federal Housing Finance Agency

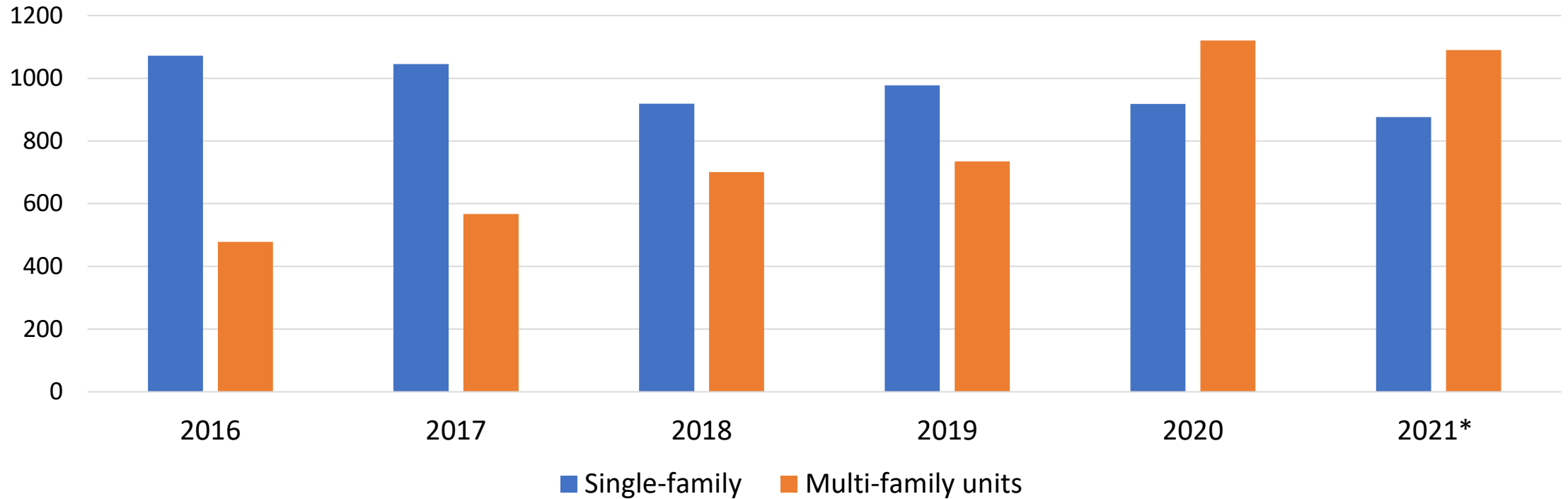
Gallatin County Market Statistics

Gallatin County Market Statistics for Single Family Homes



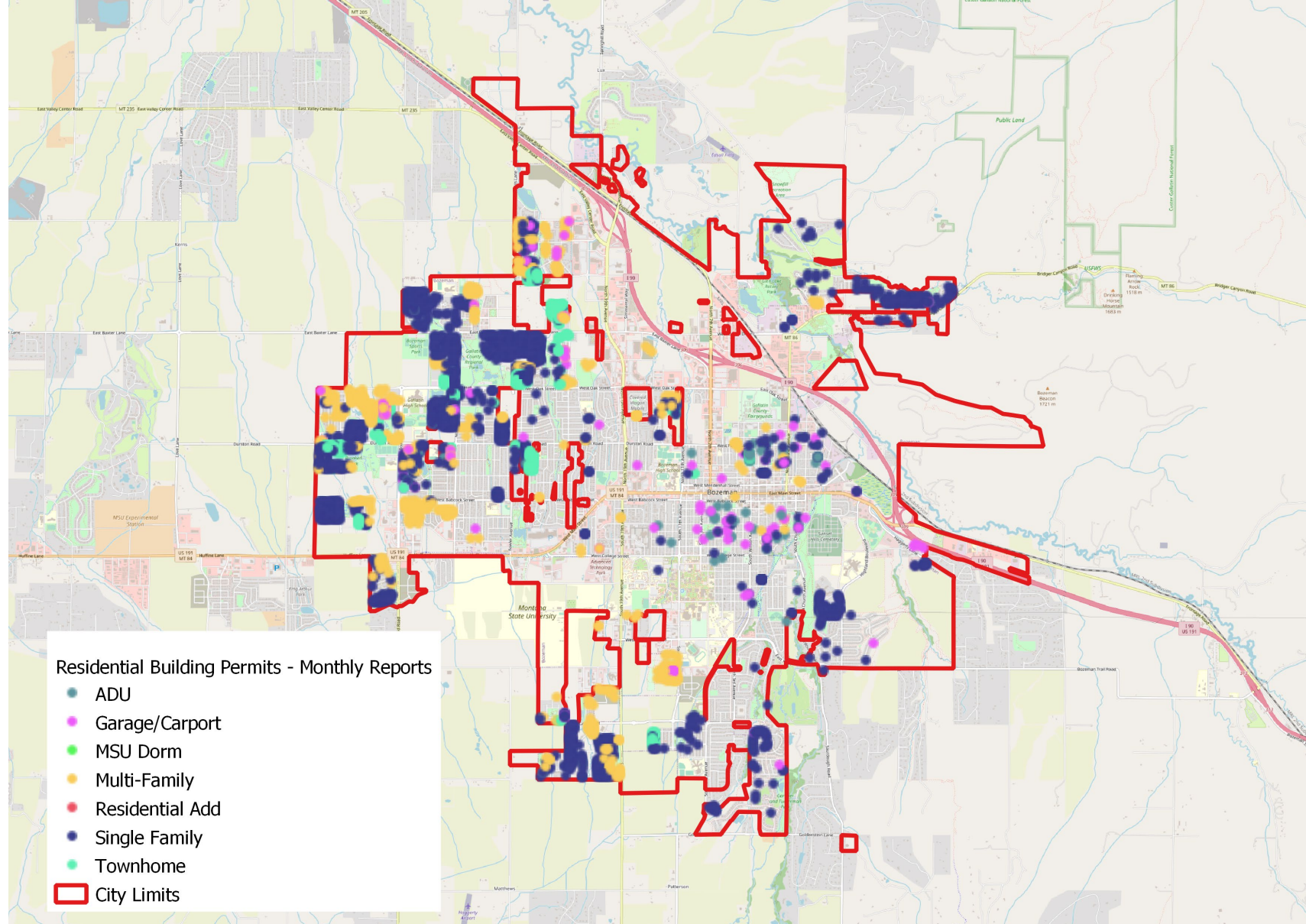
Source: Big Sky Country Multiple Listing Service.

Housing Starts, Gallatin County



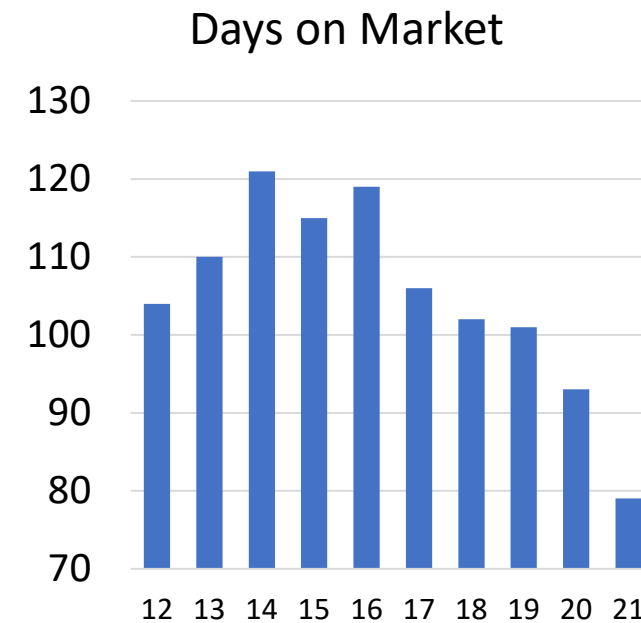
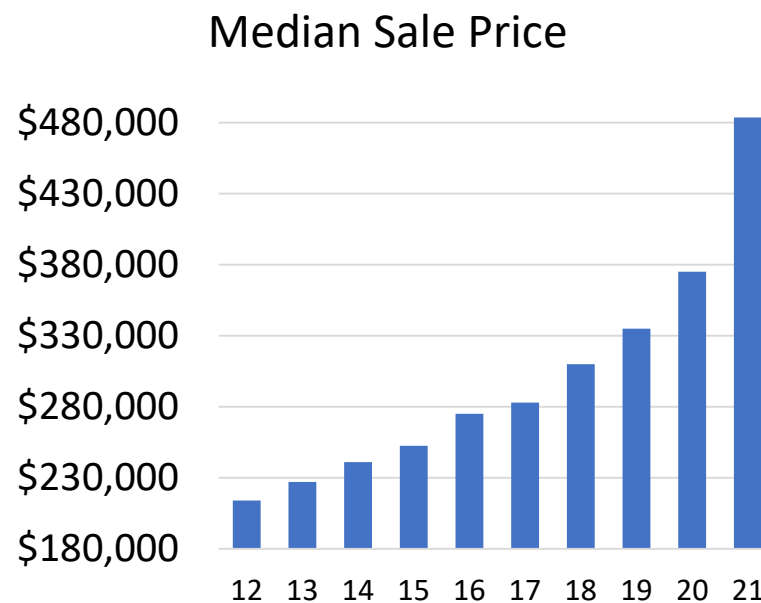
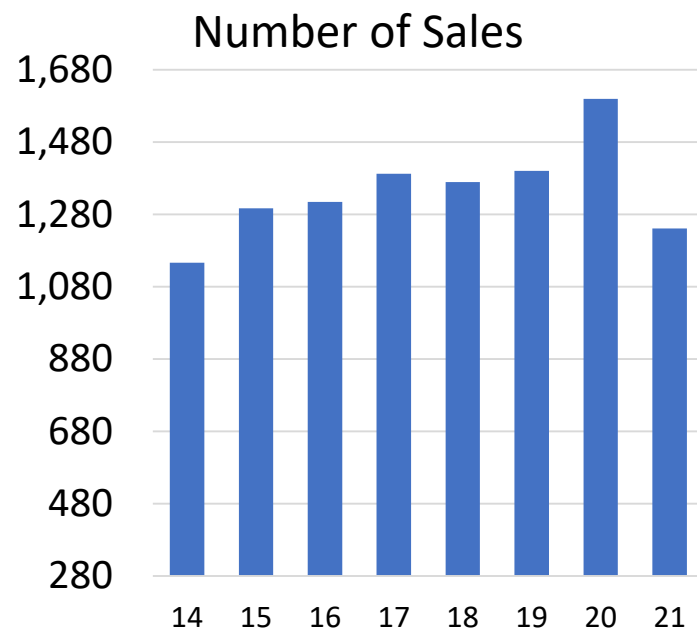
*2021 data include starts through November only

Source: U.S. Census Bureau and Montana Dept. of Labor and Industry



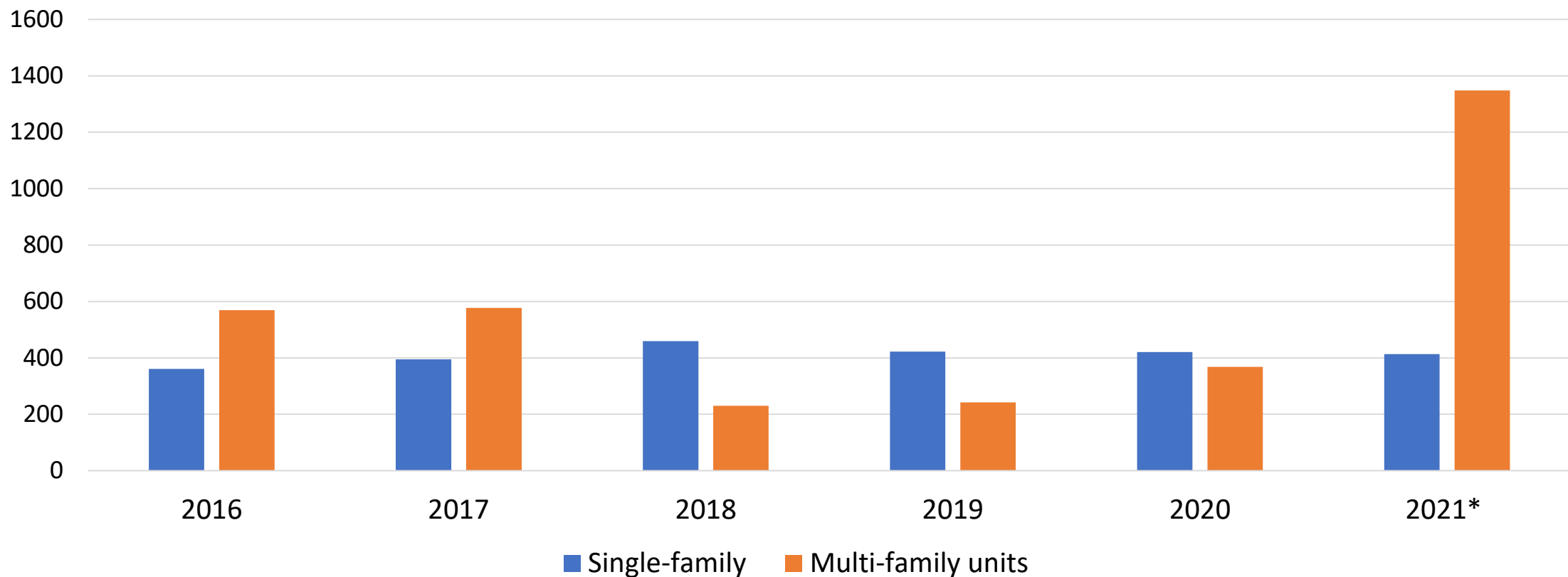
Missoula County Market Statistics

Missoula County Market Statistics for Single Family Homes



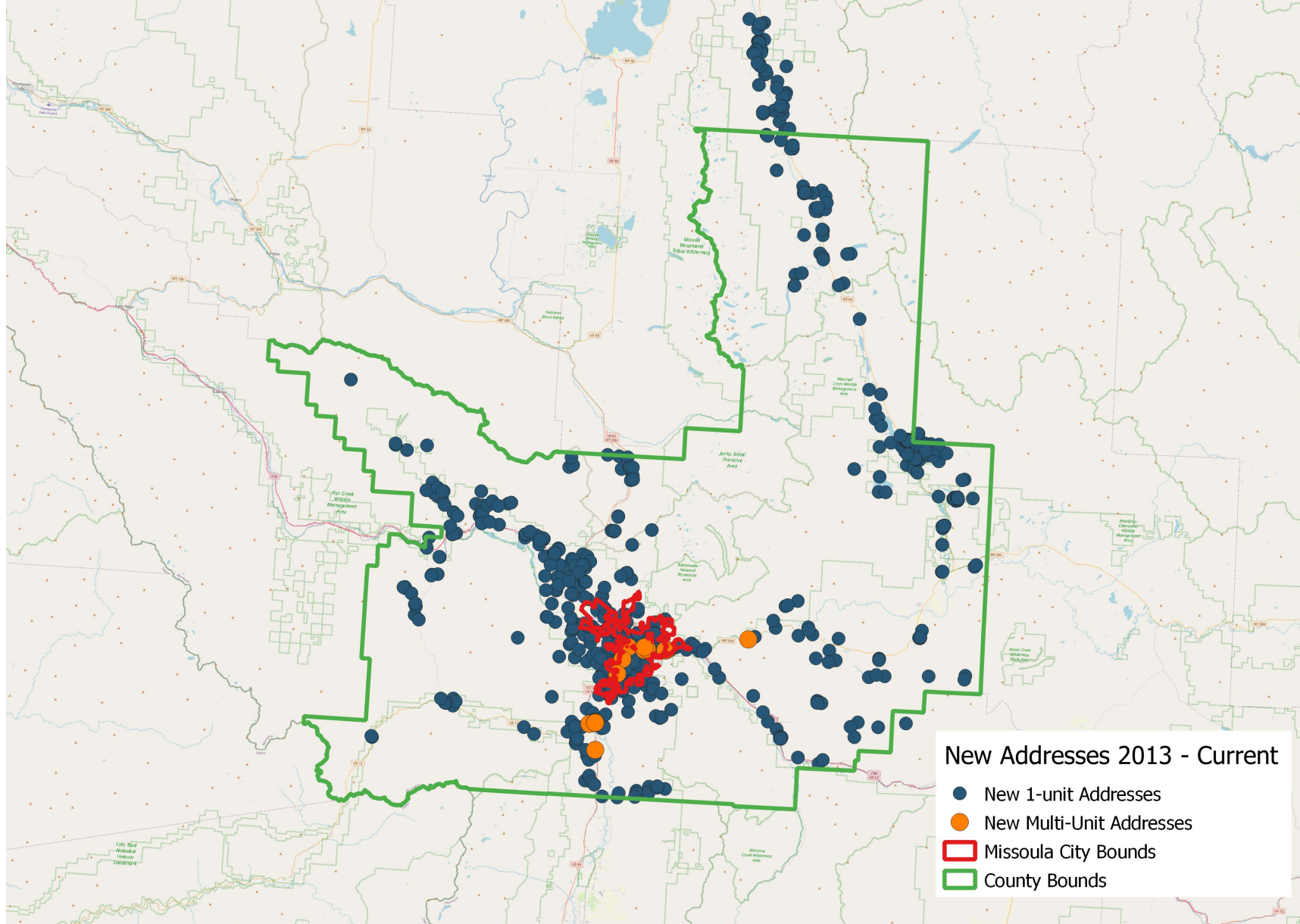
Source: Montana Regional MLS.

Housing Starts, Missoula County

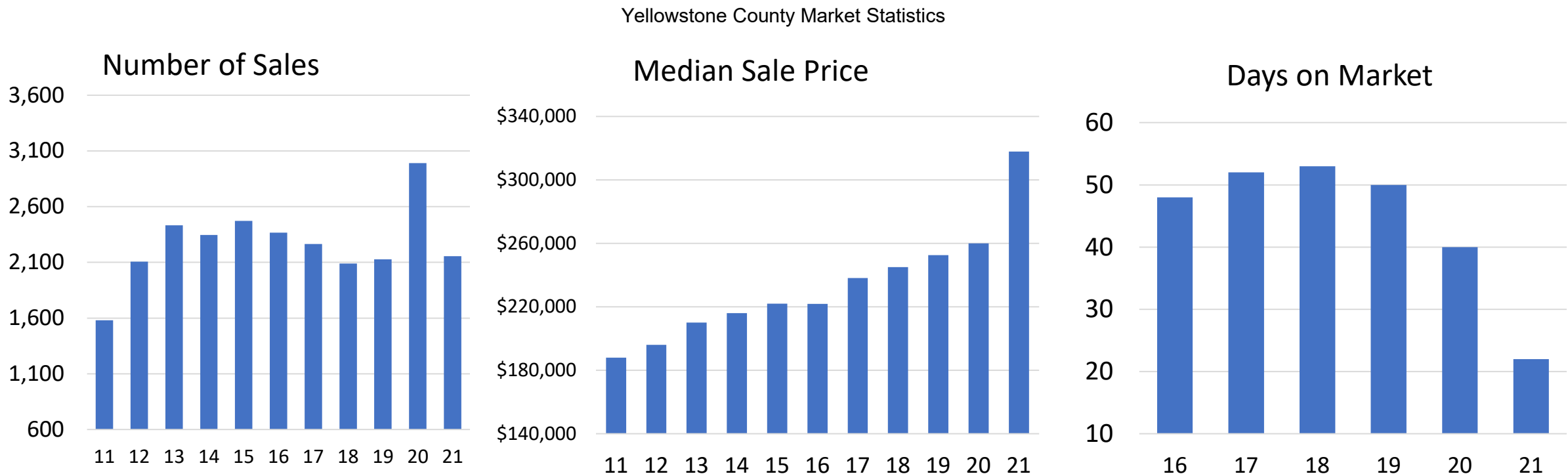


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Source: U.S. Census Bureau and Montana Dept. of Labor and Industry



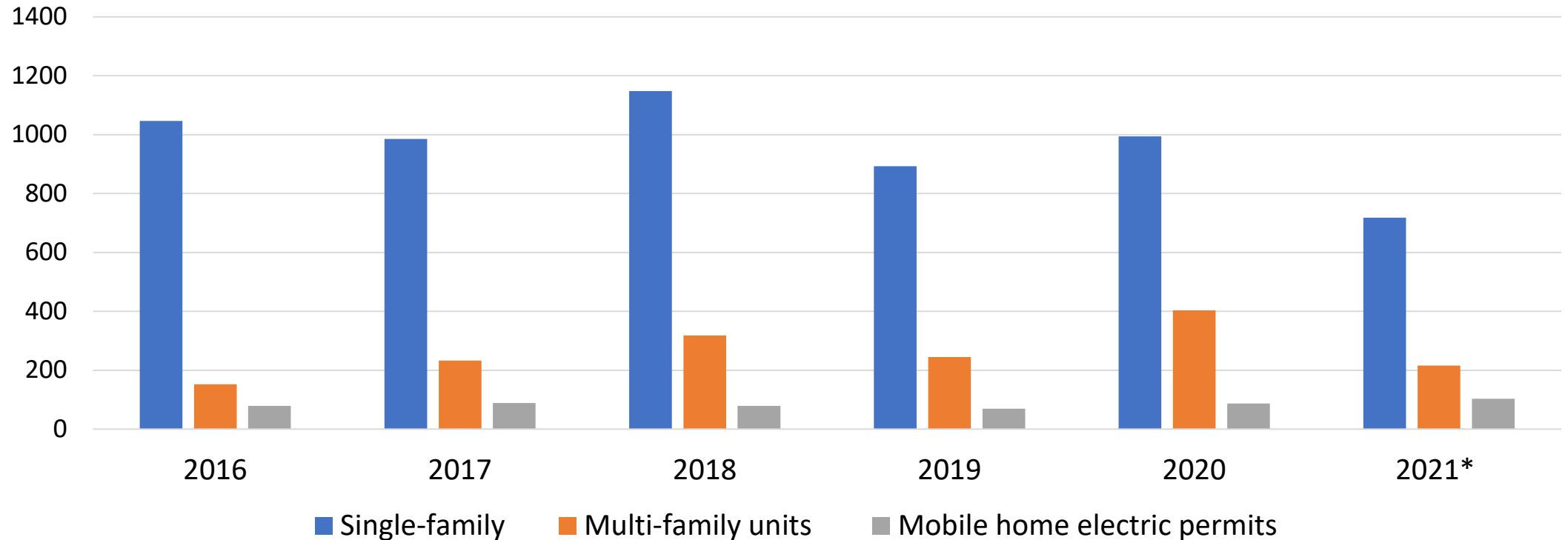
Yellowstone County Market Statistics



Source: Billings Association of Realtors

Building Was Weak in 2021

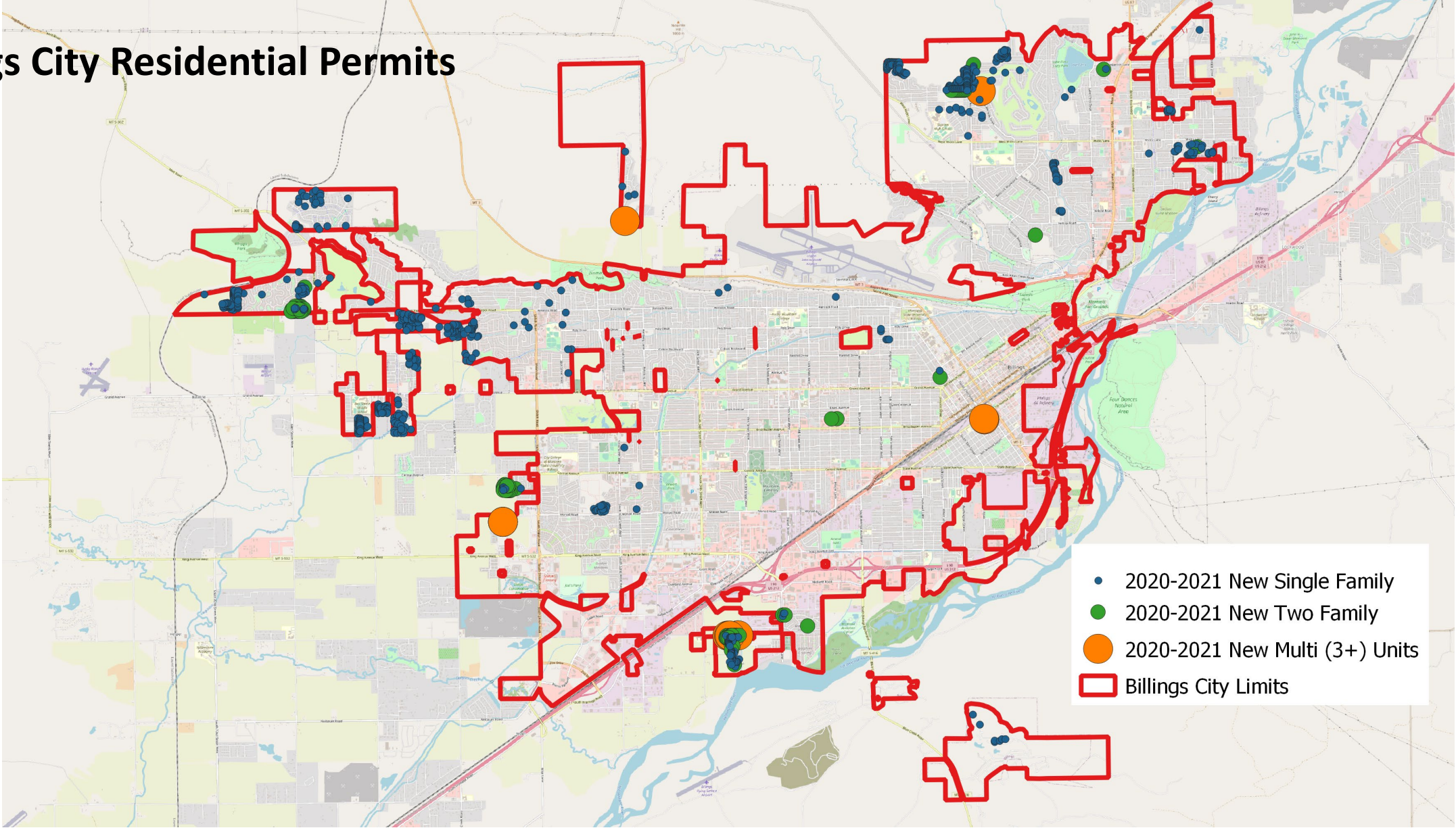
Housing Starts, Yellowstone County



*2021 data include starts through November only

Source: U.S. Census Bureau and Montana Dept. of Labor and Industry

Billings City Residential Permits



Key Takeaways from Outlook Seminars in 2022

- Housing is Local – National Drivers / Local Circumstances
- Companies are getting into the real estate business
- Eviction moratorium during the pandemic had significant impacts
- Affordable Housing programs are seriously challenged
- The three issues for the economy – inflation, labor force shortages, and housing – are all linked
- Still little agreement on what the housing problem actually is

Housing: A Ten Year Perspective

- The 2021 demand spike was an extraordinary event.
- But even if demand growth plummets, rents, prices, and availability will remain stressed
- The spark of strong demand growth has the potential to persist in Montana's hottest markets
- How that growth will be accommodated will largely determine housing outcomes
- Unsolved issues: water/ag land, state override of local restrictions, density, parking,
- The failure to build enough housing may be part of a bigger problem – the problem of building anything at all! (Mark Andreessen).

WHERE HOUSING IS HEADED



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