

Housing Affordability in Montana

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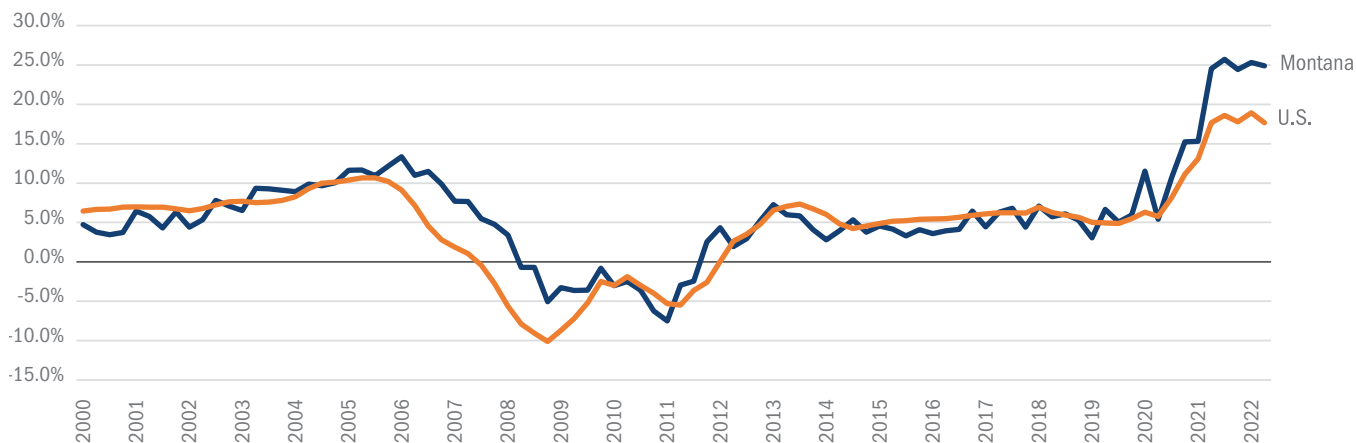


Housing prices have been growing over the last several years in Montana and the U.S., with an acceleration in that growth beginning in 2020. Rising costs of housing affects nearly all Montanans, from renters and buyers to existing homeowners. Some Montanans benefit from increased home values, like those who own investment or rental property. But for many Montanans, housing costs rising faster than incomes strain household budgets and make homeownership less affordable. Local labor markets can also be affected if workers cannot afford to live near available jobs. To understand recent developments in Montana’s housing market, this EAG article explores the rise in housing values.

Cost of housing is increasing

Montana’s home values increased 50% from the first half of 2020 (2020H1) to 2022H1, which is a significant acceleration from the 13.7% growth experienced in the two years prior. **Figure 1** illustrates this rapid growth in home values for Montana compared to the national average. Montana home values have grown the fifth fastest among states since the pandemic, surpassing the U.S. average of 36.5%.¹ By June 2022 the typical home value in Montana reached \$446k, compared to \$296k in June 2020.²

FIGURE 1
Annual Percent Change in House Prices



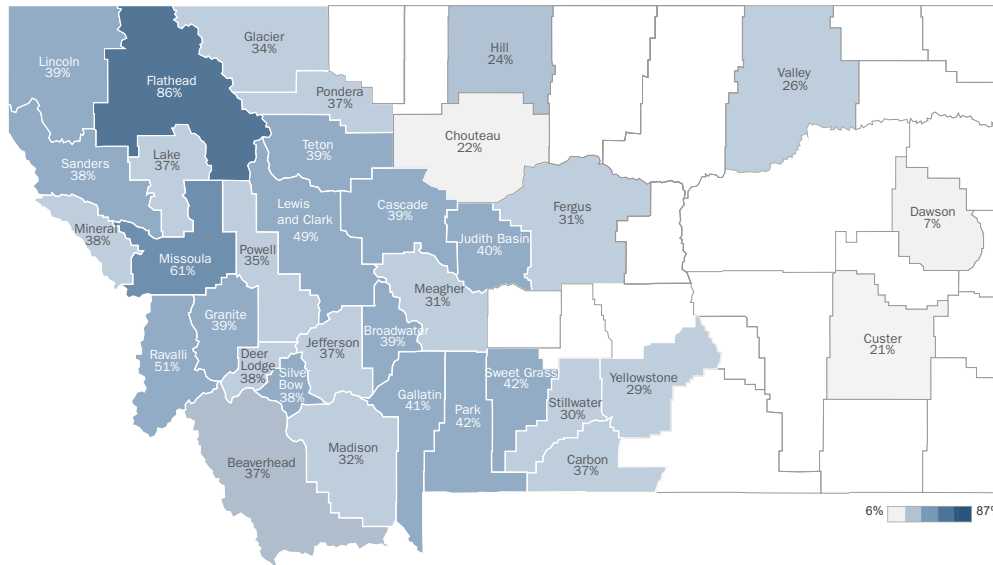
Source: Federal Housing Finance Agency. House Price Index. Purchase-Only Index.

¹ FHFA. HPI. Purchase-Only Index. Not seasonally adjusted. Q1-Q2 2018, Q1-Q2 2020, and Q1-Q2 2022.

² Zillow. ZHVI for All Homes.

Home prices are increasing in every Montana county, with Flathead and Missoula counties posting the strongest growth since the start of the pandemic.³ **Figure 2** shows typical home value growth from the first half of 2020 to the first half of 2022 by county. Growth has been fastest in the western urban areas of the state.

FIGURE 2
Percent Change in Typical Home Values (2020H1 to 2022H1)



Rent prices are also increasing. Across the U.S., rent has increased by nearly 7% in the first six months of 2022 compared with two years prior.⁴ However, rent price growth lags home price growth. Renters are frequently locked into long-term leases that keep a consistent price until a new lease is signed.

Source: Zillow Research Data. ZHVI for All Homes. Jan-Jun 2020 compared with Jan-Jun 2022. Data unavailable for some counties.

Data capturing advertised rents across the U.S. suggest newly advertised rental unit rents are increasing much faster, at a rate of 20% over the same two-year period.⁵ Over 30% of Montanans are renters.⁶

Rising costs decrease housing affordability

The rising cost of homes in Montana helps generate equity for existing homeowners; however, it also creates a barrier for many first-time homebuyers who may not have seen their income grow as rapidly as home values. Like housing, wages have grown quickly since 2020. However, wages have not grown as fast as housing prices. While housing prices increased by 50% from 2020H1 to 2022H1, average hourly earnings for the private sector increased by only 7.2%⁷, reducing the affordability of new mortgages and rent. In 2021, an average Montana renter spent nearly 26% of their household income on rent, while about 42% of renters are cost-burdened, meaning they spend more than 30% of their household income on rent alone.⁸ These shares have likely increased in the last year.

Housing affordability compares house prices to income levels. In Montana, home values are higher than the U.S. average, while incomes are lower than the national average. This difference suggests

³ Zillow. ZHVI for All Homes. January-June 2020 to January-June 2022. Data unavailable for some counties.

⁴ BLS. CPI. Rent of Primary Residence. Not seasonally adjusted. January-June 2020 to January-June 2022.

⁵ Zillow. ZORI for All Homes Plus Multifamily. January-June 2020 to January-June 2022.

⁶ U.S. Census Bureau. ACS. 2021 1-Year Estimates.

⁷ BLS. CES. January-June 2020 to January-June 2022.

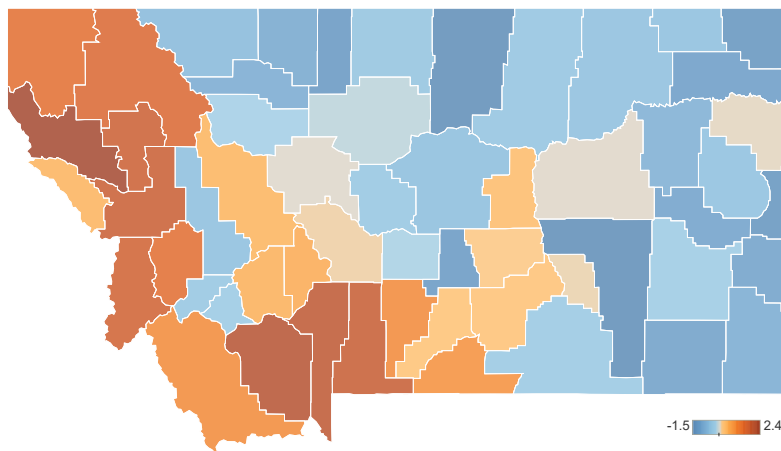
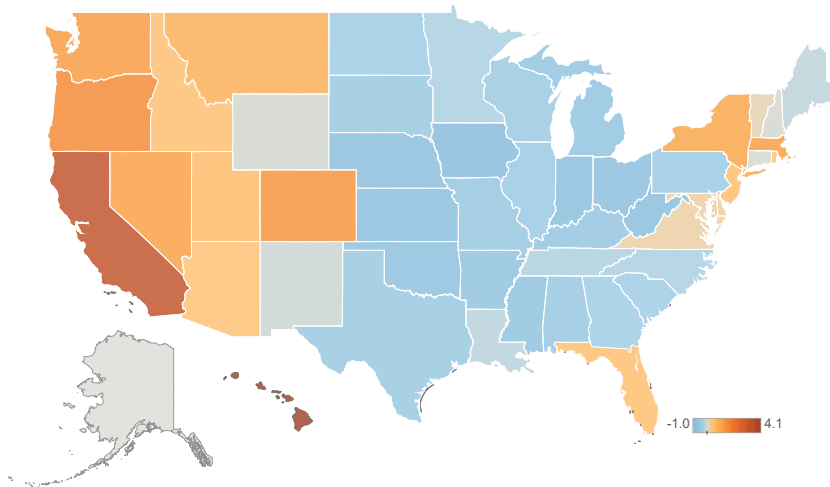
⁸ U.S. Census Bureau. ACS. 2021 -Year Estimates.

homeownership is less affordable in Montana than other parts of the nation, which was true prior to the pandemic as well. Between 2016 and 2020, Montana’s median home value ranked 18th highest of all fifty states while Montana’s median household income ranked 40th.⁹ **Figure 3** compares the ratio of median home values to median household income across the nation. States shaded orange have less affordable housing markets than the national average, and those shaded blue are more affordable. Montana is less affordable than the U.S. average, with a ratio of 4.3, meaning the median home value is 4.3 times the median income.¹⁰ That ratio has increased with the rise in housing prices.

While homes are less affordable in Montana compared to the national average, there are areas of the state where housing is more affordable. **Figure 3** also shows the housing affordability ratio for Montana

FIGURE 3
Ratio of Median Home Value to Median Household Income

Orange/blue values on map represent values higher/lower than the U.S. average



Source: ACS Median home values divided by median household income. 2016-2020 5-year estimates.

⁹ U.S. Census Bureau. ACS. 2016-2020 5-Year Estimates.

¹⁰ U.S. Census Bureau. ACS. 2016-2020 5-Year Estimates.

¹¹ RCG. Housing is Critical Infrastructure: Social and Economic Benefits of Building More Housing. June 2021. Available at <https://cdn.nar.realtor/sites/default/files/documents/Housing-is-Critical-Infrastructure-Social-and-Economic-Benefits-of-Building-More-Housing-6-15-2021.pdf>. Freddie Mac. The Housing Supply Shortage: State of the State. February 2020. Available at <https://www.freddiemac.com/research/insight/20200227-the-housing-supply-shortage>.

¹² U.S. Census Bureau. Rental Vacancy Rate for Montana. Retrieved from FRED, Federal Reserve Bank of St. Louis Oct 7, 2022.

counties. The western urban portion of the state tends to have less affordable housing than the U.S. average. The most expensive areas of the state relative to income levels are in Bozeman and the surrounding area, Missoula and the surrounding area, and the Flathead Valley.

Demand for housing increases prices

Across Montana one contributor to increasing home values is rising demand. Research suggests rising demand has outpaced the supply of residential housing, creating a shortage in the housing market and driving up prices.¹¹ Vacancy rates for rentals also point to the same trend. In 2021, Montana’s rental vacancy rate was 4.1%, down from 6.9% in 2017 and near the series low of 3.4% in 1993.¹²

Historically low mortgage interest rates over the last few years made financing a home more affordable for borrowers.

Figure 4 shows the average 30-year fixed rate mortgage interest rate. The 30-year fixed rate mortgage fell below 3% in July 2020 and remained low throughout 2021.¹³ These low interest rates have made purchasing a home less expensive and increased the number of buyers on the market. In 2022 the Federal Reserve began to raise interest rates to control inflation. This increase coincides with a stalling of home price growth in Montana and the U.S.

FIGURE 4
30-Year Fixed Mortgage in the U.S.



Source: Freddie Mac. 30-Year Fixed Rate Mortgage Across the U.S. Retrieved from FRED, Federal Reserve Bank of St. Louis.

An increase in in-migration has also elevated housing demand in Montana. Montana added nearly 10,000 net in-movers from 2019 to 2020, and nearly 20,000 from 2020 to 2021. In comparison, there were only about 6,300 net in-movers per year between 2010 and 2019.¹⁴ Most of the in-migration since 2020 has occurred in Flathead, Gallatin, and Yellowstone counties. **Figure 5** shows population growth by county, with blue counties showing growth in population since 2020 and orange counties experiencing a decline in population. Population growth includes growth due to in-migration and growth due to natural increases (births minus deaths). Montana's 2021 population growth was primarily due to in-migration.

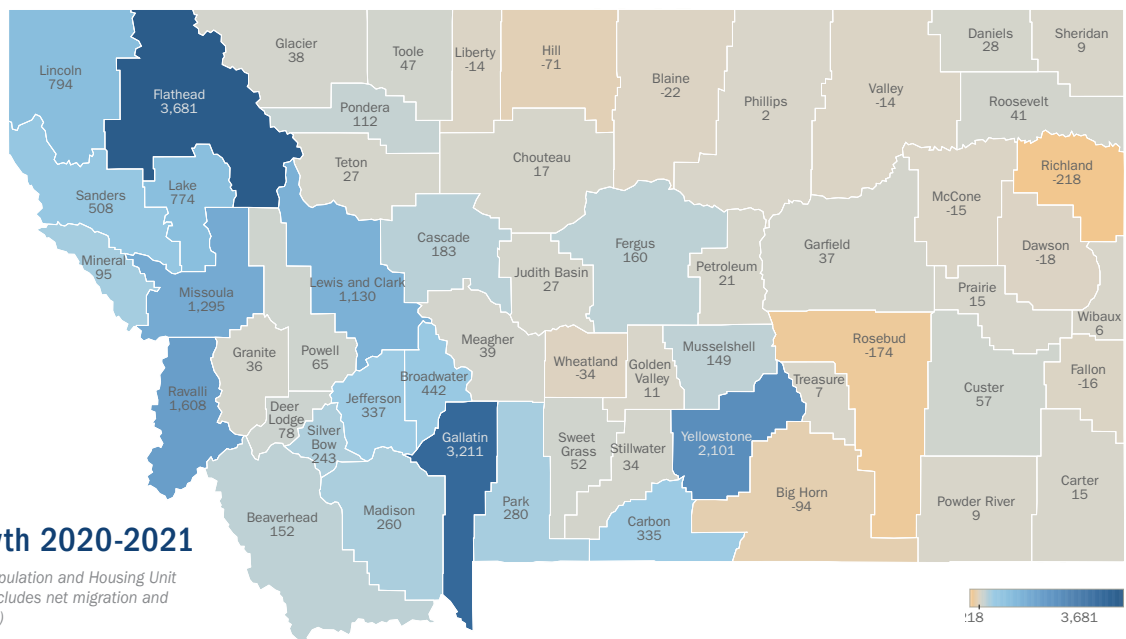


FIGURE 5
Population Growth 2020-2021

Source: U.S. Census Bureau. Population and Housing Unit Estimates. Population growth includes net migration and natural increases (births-deaths)

¹³ Freddie Mac. 30-Year Fixed Rate Mortgage Average in the U.S. Retrieved from FRED, Federal Reserve Bank of St. Louis Oct 7, 2022.

¹⁴ U.S. Census Bureau. Components of Population Change. 2010-20 Vintage Evaluation Estimates for 2010-2020 estimates. Vintage 2021 for the 2021 estimate.

Supply of housing must meet demand to limit price increases

Montana builders have increased their production of residential homes to help meet the rising demand for housing. In 2021, there were 6,419 new housing units permitted, which is 78% higher than the number permitted in 2019 (3,610). Through the first eight months of 2022, another 4,499 have already been permitted.¹⁵ The recent growth in housing permits follows an extended period of slow growth of new housing permits following the 2007 housing market crash. Construction GDP, measuring the industry’s total production, has averaged 1.5% annual growth over the last decade and remains below its 2007 peak (**Figure 6**).¹⁶

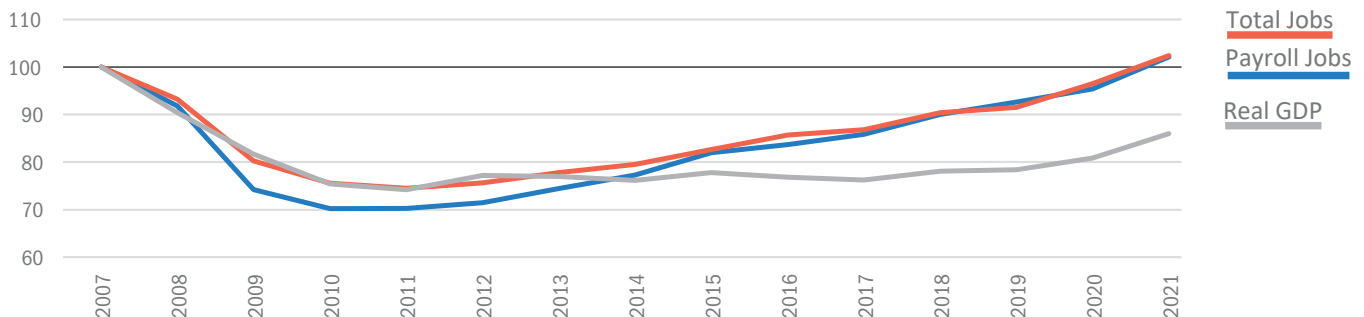
FIGURE 6
New Private Housing Units Authorized by Building Permits (Montana)



Source: U.S. Census Bureau. Building Permits Survey. Retrieved from FRED, Federal Reserve Bank of St. Louis.

New residential construction has in part been limited by worker availability. Following the housing market crash, many workers shifted to other industries to find work. More recently, as demand has rebounded workers shortages have emerged. Many construction occupations such as electricians and plumbers are in high demand and undersupplied.¹⁷ Since 2007 the construction industry has maintained a smaller workforce. **Figure 7** shows real GDP, payroll jobs, and total jobs in the construction industry indexed to their 2007 level. In 2021, total construction employment surpassed its 2007 levels, with 55,000 workers.¹⁸ Continued investment in the construction workforce is necessary to increase housing supply.

FIGURE 7
Real GDP, Payroll Jobs, and Total Jobs in Construction Industry Indexed to 2007 Levels



Source: Payroll job data from BLS, QCEW. Real GDP and Total employment data from BEA.

¹⁵ U.S. Census. Building Permits Survey. Retrieved from FRED, Federal Reserve Bank of St. Louis Oct 7, 2022.

¹⁶ BEA. Real GDP in the private sector construction industry.

¹⁷ Watson, Amy. “Montana Post-Secondary Workforce Report” October 2022. MTDLI.

¹⁸ BEA. Total Full-Time and Part-Time Employment in the Construction Industry.

The cost of housing production has also grown significantly over the last two years. Labor costs have risen in response to the limited supply of workers. Average wages paid to construction workers grew by 12% from 2020Q1 to 2022Q1. The price of lumber and wood products has risen by 48.8% over the last two years, significantly impacting homebuilders' costs and contributing to the rise in home prices.

Conclusion

As interest rates rise, some data sources suggest home price growth is starting to slow across Montana and the U.S. Rising interest rates make financing purchases of homes less affordable, lowering demand. However, home values and rents remain high and difficult to afford for many Montanans, making monitoring home values of interest to many people. To help with this interest, the MTDLI has created a housing affordability dashboard that updates many of the graphs in this EAG article when new data becomes available, including home value growth and factors influencing supply and demand in the housing market. To view this dashboard, go to lmi.mt.gov/Home/Home-Prices.