

Paul Burow Presentation Notes

All notes taken by Keith Miller, any mistakes or omissions are his fault alone.

- Paul was involved in the creation of the MOR Annual Housing Report, which he is sharing with the group. It can be found at <https://www.missoularealestate.com/five-valleys-housing-report/>
- 524 Missoulians moved away in 2021, and 1,233 out of state people moved into Missoula.
- Missoula County skews younger than the rest of the state, and the rest of the country. Average age is 36-37 years old.
- Average household size in Missoula is 2.25 people, which is less than both the State and US average. That means Missoula needs more housing than the average US city.
- In the city of Missoula, 55% of people rent, and 45% of people own.
- Missoula homeowners median income is \$83K, and renter's median income is \$39K.
- To afford a home in Missoula, while following federal guidelines for how much income should be spent on housing, someone's income should be \$105K, with a 5% down mortgage.
- The average Missoulian needs to double their income to afford a median priced home, with a 5% down payment.
- Median home prices are highest in Bozeman, and next highest in Kalispell, with Missoula in third.
- Over the last few years, a lot of housing inventory, especially single families, a lot of that was sold off to home owners. So we lost a lot of our housing stock. It used to be 50-50 renters and owners, now it's 55% owners to 45% renters.
- Cost burdened mean they need to spend over 30% of their income on housing. 48% of all renters are paying over 30% of their income to rent. 27% of owners pay over 30% of their income to their mortgage. And even 16% of those with paid off houses are still cost burdened, because of taxes, insurance, etc.
- Median sales price last year at the end of 2022 was up to \$540K for single family homes. Even townhouses are up to \$475K. Condos \$330K. Manufactured homes are over \$300K.
- 1,100 closings last year, a typical year is 1,200-1,400 closings. So supply is still very constrained.
- \$520K was the average between all housing types.
- There were only three closings under \$150K last year.
- There were only 26 closings for houses under \$300K last year.
- Housing stock like this that used to exist, simply doesn't anymore.
- During 2021 and 2022, closings were substantially above their list price. But that trend has ended, and the median closing price is essentially equal to the list price.
- Cash closings are still elevated above historical levels.
- Foreclosures are essentially nonexistent.
- Lot sales- Median price is now \$162K, which means that sewer and water are stubbed in, and it's ready to build. Almost half of the cost of a lot is bringing in the water, sewer, and other tasks to make it build-ready.
- Absorption rate- How fast things are selling. A normal market range is 6-9 months. We haven't been in that range since 2017. The rate has risen since an extreme low in 2021 and 2022, and we're still not into the normal range. Anything under \$500K is pretty much selling immediately.
- MOR is working on forecasting how many homes we need to get to a healthy market. If we listed 212 houses tomorrow, we could touch the normal range of 90 days.

- The time from when a developer first submits for a subdivision, to when the plats are finally approved, it takes the City of Missoula around 9 years. In the County, it's 6.5 years. Some of that is lots that are created and never built on, so that affects the average a bit. The informal estimate by an experienced developer at the group was 3 years. That is why there is so much "Build-to-rent" subdivisions, because they can move a lot faster through the subdivision process, because it's all one lot.
- Building permits significantly declined over the last year. There was a spike in 2021 to 1,400 units, but that's done. Missoula needs roughly 1,200 units per year to meet demand, and we're well below that.
- The median year that a Missoula home was built is 1980. So the inventory we have is 43 years old on average.
- The average rent for a 3 bedroom home in Missoula is \$1,733 per month, and the average rent for a 3 bedroom unit in a multifamily is \$1,400 per month.
- In 2022, the average one bedroom is over \$1,000. That's pretty much the only bedroom count that has vacancy right now, because that's the main housing type being built right now.
- A healthy vacancy rate is 5-8%, and we're well below that rate. That's why there are double digit rent increases in rent every year. In 2022, it's up 11.4%.
- For 2022, we were at 1.2% vacancy rate. In 2021, we were at 1.3% vacancy rate.

The next notes are current market data, in March of 2022.

- \$537 is the median home price, it was \$520K at the end of 2022. So we're up 16% from the same time last year. We are not seeing any real price drops.
- New listings- It is plummeting. 10% drop from this time last year.
- Closings- 965 closings in the last 12 months, that's down 26% from last year, which was an exceptionally slow market.
- Median days on market. 90-180 days is a healthy market. Currently, we're at 47 days. It's coming back down as well.
- Months supply of homes for sale. We are at 1.6 months of supply. We should be at 3-6 months. Coming down.
- Anecdotally, Paul is seeing 1-2 offers on houses, not the 14-15 we were seeing last year. But the offers coming in are still at asking price.
- We're seeing similar data from other cities. Butte has gotten pretty expensive all of a sudden, it used to be pretty cheap.
- Very few people want to sell their house that has a 3% interest rate, and buy a more expensive house with a 6-7% interest rate, which could easily double their mortgage interest.
- 99% of all mortgages in America on existing homes are below the current interest rate.
- Missoula's land is so constrained. Infrastructure is so expensive, and there is so much protected land, and hills/mountains, there is just not enough land to overbuild on.
- Paul predicts rents will not drop. He is having a hard time finding employees, because their housing has gotten more expensive. That's a common story in Missoula, with our unemployment rate at a record low 3%.