



2022 GALLATIN VALLEY HOUSING REPORT

DATA AND INSIGHTS ON MONTANA'S MOST VIBRANT REAL ESTATE MARKET

ACKNOWLEDGMENTS

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Rob Wigton, CEO, Gallatin Association of REALTORS® and BSCMLS

As CEO of the Gallatin Association of REALTORS®, we are thrilled to present this inaugural housing report. Our plans are to update this document annually as our area continues to evolve. Information is just that – statistical data that paints a picture. What makes this area special are the people and businesses who have made Bozeman and the surrounding cities and towns their home.



We present this report on behalf of the nearly 1600 members of GAR and the Big Sky Country Multiple Listing Service, knowing that you can depend on their expertise as trusted real estate advisers. Thank you for taking the time to read through this report.

Ellen Beck, Government Affairs Director, Gallatin Association of REALTORS®

We are excited to present the first Gallatin Association of REALTORS® housing report. REALTORS® are embedded in our community. They are a key resource to what is happening in housing, development, lending, community activities and so much more. This report will provide a comprehensive picture of the housing market in Gallatin County with the most up to date data available.

Bozeman and the surrounding areas have seen massive growth in the past few years. Hopefully, this report will provide a comprehensive picture of our community today. We welcome any feedback or questions about the report and the data. Please reach out if you have questions. This report is available in hard copy and PDF for your convenience. Additional information can be found on the GAR website at www.gallatinrealtors.com

Special Thanks to One Valley Community Foundation

The One Valley Community Foundation collaborated with Gallatin Association of REALTORS® to bring the annual housing report to Gallatin County community members. One of our major areas of work is to bring data and community vitality measures to policy and funding discussions, and to make those same data and measures available and understandable to the people who live, work and do business here in Gallatin County.





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INTRODUCTION AND SUMMARY

The past 10 years have been extraordinary ones for Gallatin Valley housing markets. Strong growth in housing prices and residential rents that commenced shortly after the end of the Great Recession of 2007-09 became superheated in 2021, as an unexpectedly strong surge in demand hit a supply constrained marketplace. Yet even as some of the special factors that made last year so extraordinary for demand, inventories and prices start to unwind, the drivers of supply and demand in the marketplace will still place pressure on housing markets to cope with the rapid growth of the Gallatin County economy.

What are those drivers exactly? That is the question this annual report, a project supported by the Gallatin Association of REALTORS® and put together by a team of professionals with decades of experience in the marketplace, seeks to address. By tapping the expertise and resources of REALTORS®, bankers, title insurance companies, public administrators and economists, we are able to bring to you the information and insights on permitting, construction, population and demographics, labor market trends, housing programs and real estate activity that more precisely defines where market drivers are today, and where we can expect them to go in the future. In every category, to the extent possible, we have tried to present this detail both within the county and for Gallatin County as a whole.

The portrayal of housing markets in the Gallatin Valley spelled out in this report is one of high demand, accelerating prices and high construction activity. 2021 was clearly an above-trend growth year in almost every sector of the economy and housing markets were profoundly impacted. Some of the highlights of the findings include:

- Median prices for homes sold surged by 31.7% in 2021 for the county as a whole, the second straight year of superheated growth after the pre-pandemic period that saw prices grow between 5% and 12% per year.
- Monthly rent was \$1.70 per square foot for apartments in Gallatin County in 2021, an 11.1% increase from 2020.
- Housing affordability declined significantly through 2020, the last year for which data were available. Median household income was only 83% of the qualifying income needed to purchase the median priced home.
- Gallatin County moved into second place across all Montana counties in population in the 2020 census. Population growth was strongest in Belgrade over the past decade, at 38.7%. Bozeman's population grew by 36.6% over the same period.
- The unemployment rate in the fall of 2021 fell to 1.8% in Gallatin County, the lowest jobless rate recorded in decades. Employers continue to struggle to find available workers even as strong in-migration from both within and outside of Montana grew the working age population.
- 2020 and 2021 marked the first time that multifamily housing units permitted exceeded permits for single-family homes, indicating a pivot towards higher density development. Both categories showed residential construction growing strongly.

- Inventories of homes for sale continue to be extraordinarily low across the county, resulting in lower volumes of sales and escalating prices.
- Developable lots saw prices surge by 84% in 2021, due to high demand and continued low levels of new lot creation.
- Conventional mortgage rates averaged less than 3% during 2021 as the Federal Reserve Bank pursued a highly stimulative monetary policy. These rates are lower than anything experienced in the past 50 years.
- Gallatin County contains 1,284 housing units receiving subsidies for rental assistance, or 7.6% of all county rental units. Many of the subsidies on these units are set to expire in the coming decade.

Many other details on the economy, demographics, permitting, incomes and financial aspects of the Gallatin Valley housing marketplace are included in this report. It is our intention to use this document as a means of understanding the performance, the drivers, and the likely future path for what is arguably our more important physical asset – our homes.



HOUSING DEVELOPMENT AND OCCUPANCY

The U.S. Census Bureau has been tracking housing for a long time and a primary concept in its scorekeeping is the housing unit. Housing units consist of apartments, single rooms, single-family homes or separate living quarters within an area. These are the basic units that make up the residential housing stock of a community.

Housing units have been tabulated every 10 years as part of the U.S. census since 2000. As seen in Table 1, there has been considerable growth in housing in Gallatin County.

Since the turn of the century, Gallatin County has created 23,344 net new housing units. More than half of that growth occurred during the construction boom in the first half of the 2000s. The previous decade saw strong growth, but 2,249 fewer units were added from 2000 to 2010.

The majority of housing units that exist in Gallatin County today are single-family structures, which account for more than two-thirds of the total housing stock (Figure 1). Multifamily structures make up a quarter of the units in the county. The remaining 7% of units are mobile homes, RVs or other structure types.

Table 1. Housing units. Source: U.S. Census Bureau.

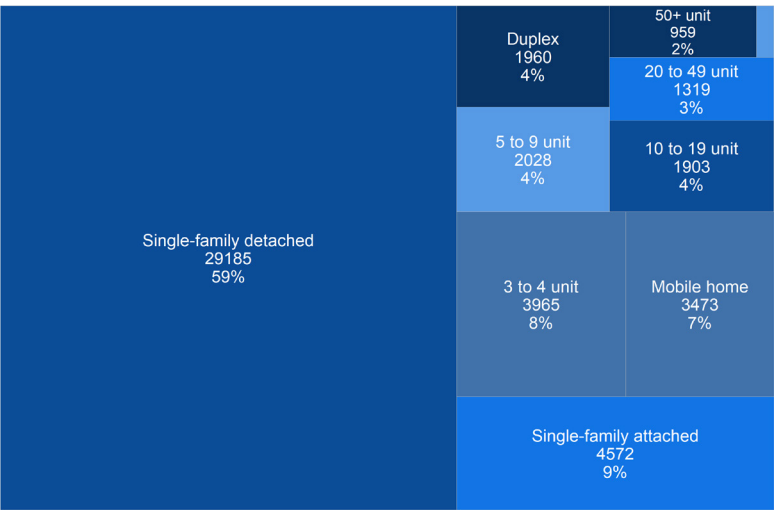
Census	2000	2010	2020
Housing units	29,491	42,289	52,835
Change	+8,141	+12,798	+10,546
Percent change	38.1%	43.4%	24.9%

The strong building trends in Gallatin County have given the region a housing stock that is relatively young (Figure 2). The median year built of residential structures in Gallatin County is 1994. The substantial building activity in the 2000s produced about a quarter of the units counted in 2019. Gallatin County's housing stock is the youngest in Montana and is younger than 95% of all counties nationwide.

DEVELOPMENT SINCE 2016-17

Residential development is a process that ultimately depends on the creation of buildable lots. Tracking this process yields insights on the nature and strength of building activity. Because the data are available, we focus on the city of Bozeman in this discussion.

Figure 1. Housing units by structure type, Gallatin County, 2019. Source: U.S. Census Bureau, American Community Survey, 2019.



The first step in developing buildable lots is the creation of new subdivisions and parcels. However, other methods produce buildable lots. A subdivision is a single piece of land divided into parcels that will either be developed or further subdivided before building a residential structure.

The city of Bozeman, in the past five years, completed an average of 20 subdivisions resulting in the addition of 312 total parcels each year within city boundaries. Since 2019, the creation of new subdivisions and parcels has drifted downward slightly.

Bozeman's proposed subdivisions pass through two phases before final review: preapproval and preliminary approval. Montana requires a preapproval review by the city staff, including surveying and graphical depiction of development plans. After this, final plat conditions are set within the preliminary plat application. Once the preliminary plat meets these conditions, the plat is submitted for final plat review. Once approved, the land can be sold or conveyed (Department of Community Development 2015). Figure 4 depicts these subdivision steps over time and within each stage of development from early phases on top in dark blue to final buildable lots at the bottom.

Figure 2. Residential housing stock by year built, Gallatin County, 2019. Source: U.S. Census Bureau, American Community Survey, 2019.

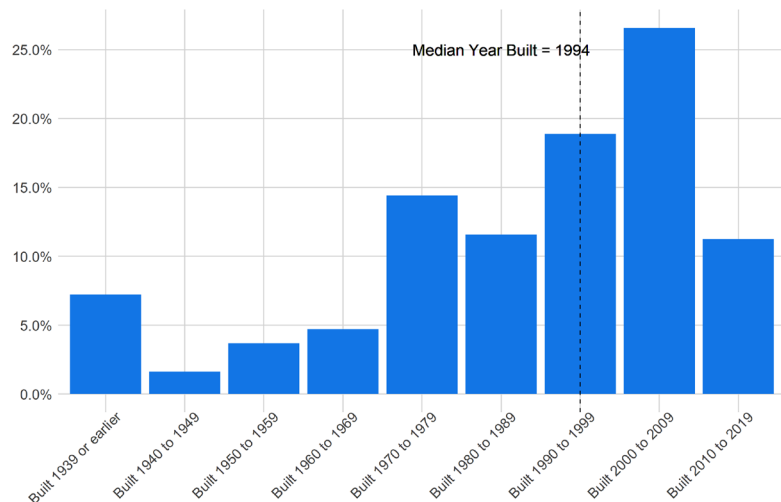
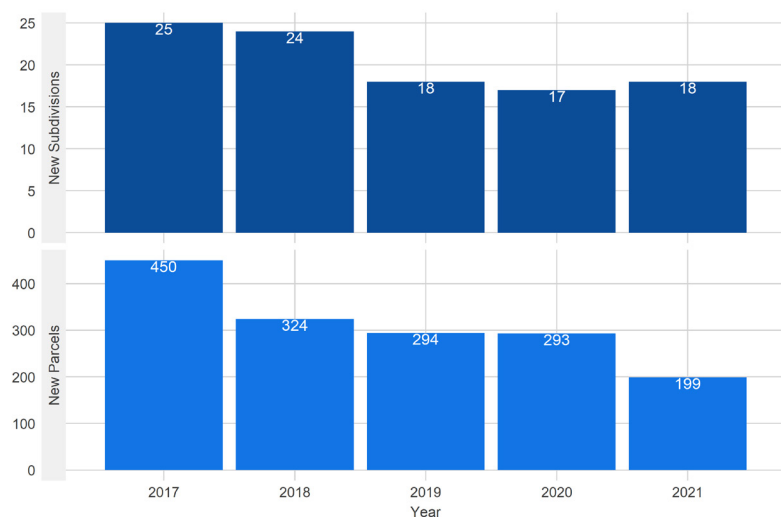


Figure 3. New subdivisions and total parcels, Gallatin County, 2017-21. Source: City of Bozeman.



The city of Bozeman had a preapproval peak in 2019 with 380 preapproved lots. These filtered down into the next few years of preliminary lot approvals and ultimately final plat- ted lots. The years 2021 and 2022 showed relatively large preapproved lots and bodes well for increasing buildable lots over the next couple of years.

The number of lot sales in Gallatin County has fallen since 2016 (Figure 5). The number of lots sold in 2021 was less than half the number sold each year in 2016 and 17. The de- creased new supply occurred at the same time as pandem- ic-related demand intensified, resulting in an 84% increase

in the median sales price in 2021. The median lot price in 2021 was \$352,500.

Another measure of development activity is the number of building permits opened for new residential structures. The U.S. Census's Building Permit Survey collects data monthly by permit-issuing places. In Gallatin County, permit-issuing places are Belgrade, Bozeman, Manhattan and West Yellowstone. The remainder of the county is supplemented with new residential electrical permit hookups from the state building codes program part of the Montana Department of Labor and Industry.

Figure 4. Plat lot approvals, Bozeman, 2017-22. Source: City of Bozeman.

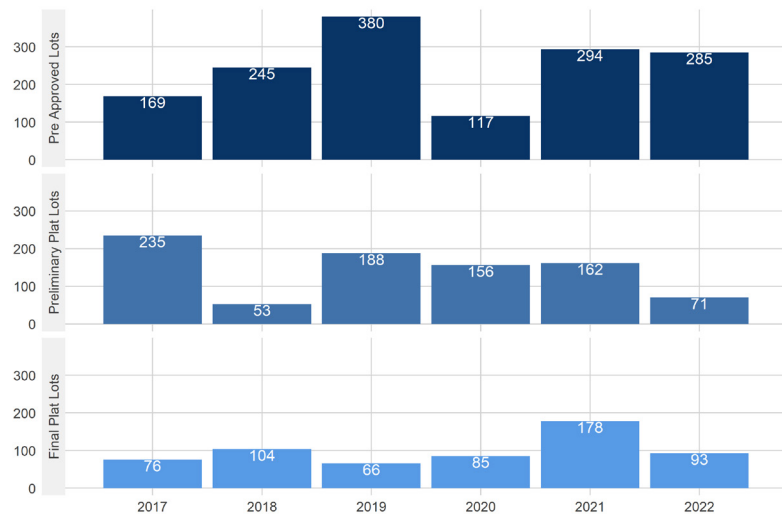
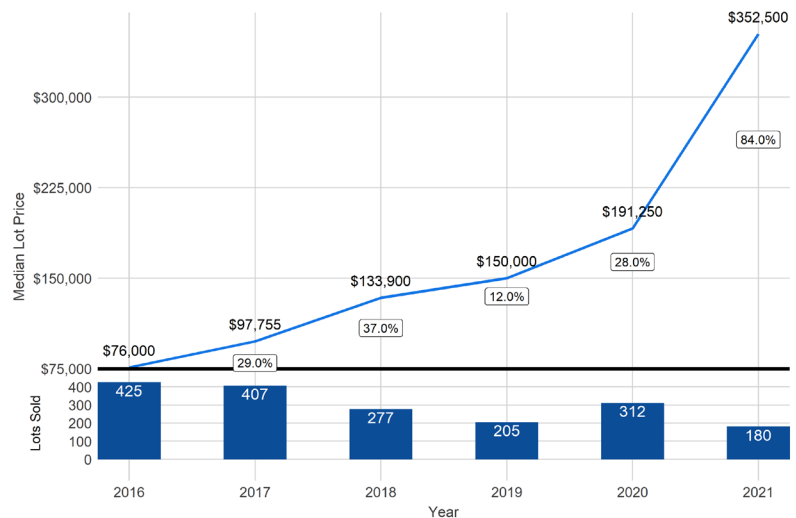


Figure 5. Residential lot sales, Gallatin County, 2016-21. Source: City of Bozeman.



Since recovering from the great recession, Gallatin County has intensified permitting activity and developers began increasing permitting in about 2012. This surge slowed in 2016 and appeared to shift focus towards multifamily units. Single-family permits have declined since their peak in 2016, and for the past two years multifamily permitted units exceeded that of single-family units. Through November, permits in 2021 were on track to exceed the previous year.

Overall incorporated areas – Bozeman, Belgrade, Three Forks, Manhattan, and West Yellowstone – contain most of the occupied housing units within the county, 56.8% despite

covering much less area. Bozeman's city limits alone contain 44.6% of the occupied housing units within the county.

Occupied housing units separate into two tenure categories: owner-occupied and renter-occupied (including short-term rentals). Renter-occupied units reported by the American Community Survey are all occupied housing units not owner-occupied. This split shows how residential units divide between ownership and rental markets.

Figure 6. Residential building permits, Gallatin County, 2010-21. Sources: U.S. Census Bureau, Building Permit Survey, Montana Department of Labor and Industry.

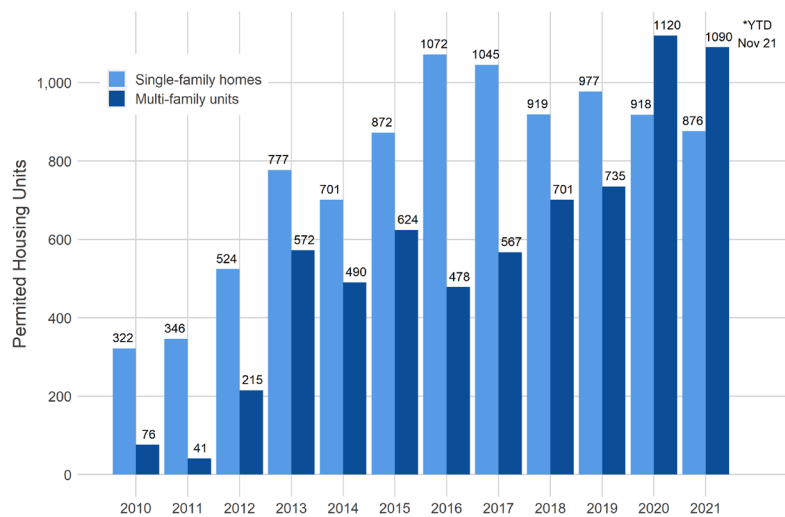
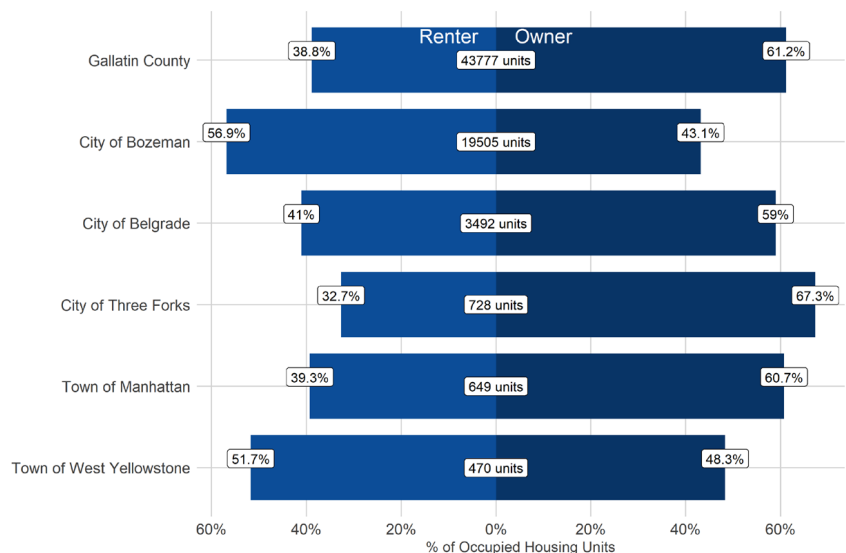


Figure 7. Occupied housing tenure, Gallatin County, 2019. Source: U.S. Census Bureau, American Community Survey, 2019.



The mix of housing in Gallatin County is tilted in favor of owner-occupied units by a roughly 60/40 percent fraction (Figure 7). Higher ownership levels hold within Belgrade (59%), Three Forks (67%) and Manhattan (61%) of units.

The city of Bozeman, and to a lesser extent the town of West Yellowstone, differ from this county average with rentals making up a larger share.

In the town of West Yellowstone this partially reflects the short-term rental market associated with tourism around Yellowstone National Park. There are an estimated 605 short-term rentals in the broader West Yellowstone zip-code (Bigart et al. 2021). These are likely not picked up in U.S. census data.

HOUSING DEMAND: POPULATION AND INCOME

Gallatin County has experienced the strongest population growth in the state by a wide margin. The 30.2% between decennial census years 2020 and 2010 was four times higher than the national growth rate and three times higher than Montana overall. Bozeman alone accounts for 54.4% of the total population growth since 2010 within the county, with Belgrade accounting for an additional 10%. Growth in unin-corporated areas was approximately one-third of total county population growth between 2010 and 2020.

Since the 2020 Census, the Bozeman micropolitan area is expected to be upgraded to a metropolitan statistical area (MSA), becoming Montana's fourth MSA. Additionally, Gallatin County moves into the number two most populous county in the state behind Yellowstone County.

The trends in population growth in individual communities are all strongly upward (Figure 10). Belgrade in particular has become the fast-growing city in the county.

Resident's ages within county are one factor in housing demand, as age is a significant predictor of whether or not people choose to rent or own a home. In general, renters tend to be younger and lower earning, and homeowners tend to be older and higher earning. The largest share of home buyers nationally is 22 to 40 years old, 37%.

Gallatin County has most residents in the 20-24 age category (12.1%) reflecting university enrollment and suggests a substantial seasonal rental market. In addition, there is evidence that many of these students stay to work in the local area after graduation (Hollenbaugh 2019).

The median age in the county is approximately the age of the median first-time homebuyer, 33.8. Another center of the population is those near retirement, aged 55 to 69, nearly the national average of 55 for repeat homebuyers (National Association of REALTORS® 2021). Interestingly both of these groups, first-time homebuyers and those reaching retirement age, are looking for what classifies as starter homes.

Figure 8. Population, Gallatin County, 2010-20. Source: U.S. Census Bureau, Population Estimates Program.

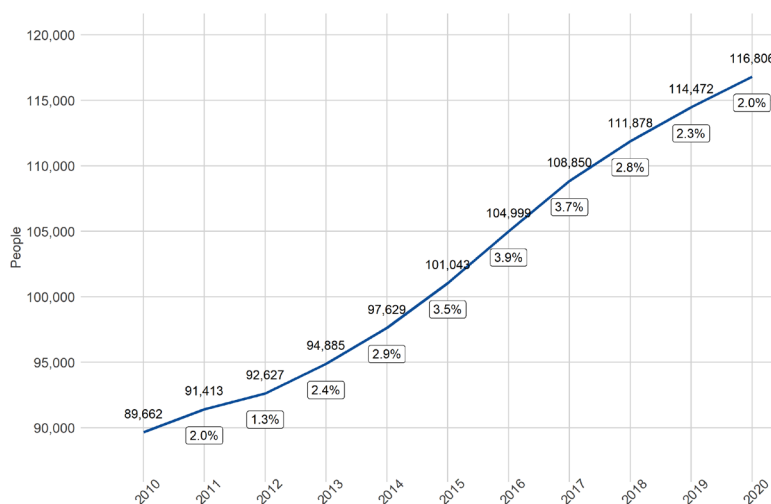


Figure 9. Percent of population growth between 2010 and 2020 census. Source: U.S. Census Bureau, Population Estimates Program.

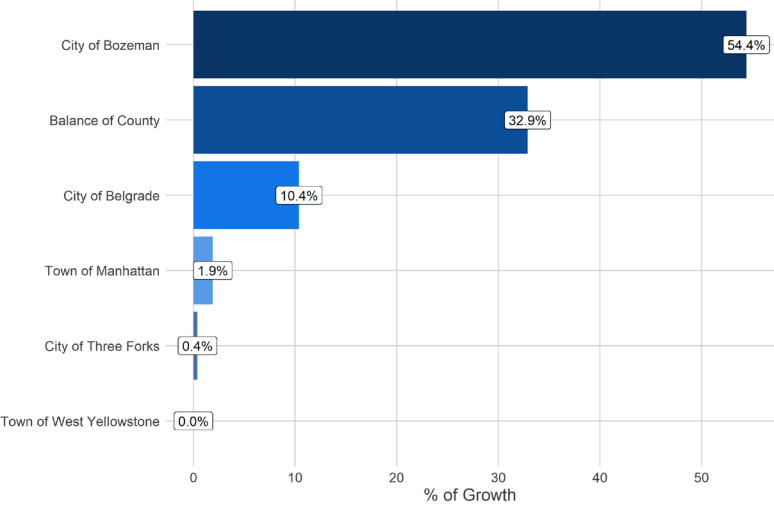


Figure 10. Municipality population trends, 2010-20. Source: U.S. Census Bureau, Population Estimates Program.

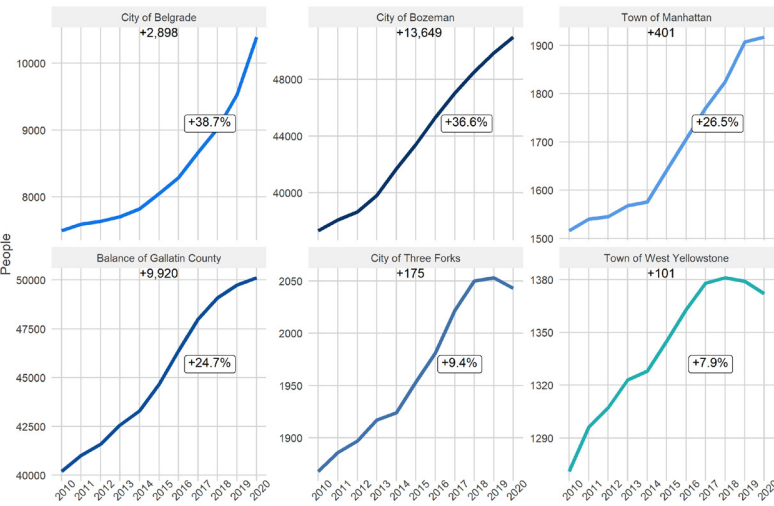
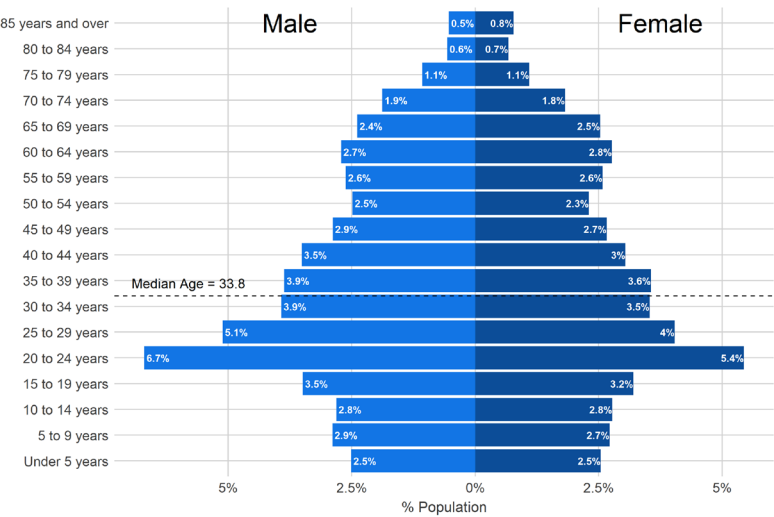


Figure 11. Population by sex and age, Gallatin County, 2020. Source: U.S. Census Bureau, Population Estimates Program.



It is useful to decompose population growth into two pieces, natural increase and net migration. Natural increase is population increases from birth rates exceeding death rates in the county. Net migration is the number of people moving into an area minus the number of people moving out of an area. As seen in Figure 12, the growth in county population has been driven especially by net migration. This in turn has come from the economic opportunities created by growth in the economy, as well as the high amenity and attractiveness of the area.

Where do migrants to (and from) Gallatin County come from? As shown in Figure 13, the largest number of net migrants

to Gallatin County come from other counties in Montana. Over the 2015-19 period, an average of almost 785 people on net moved to Gallatin County from other places in Montana. There was also strong migration from Colorado, Minnesota and nearby Western states.

Population projections made by BBER call for continued strong growth in Gallatin County's population. However, growth rates are expected to decrease over the next 20 years from about 3% per year to just over 1%, in line with the national average. Population projections expect the county population to be around 145,000 by 2030.

Figure 12. Gallatin County components of population change, 2010-20. Source: U.S. Census Bureau, Population Estimates Program.

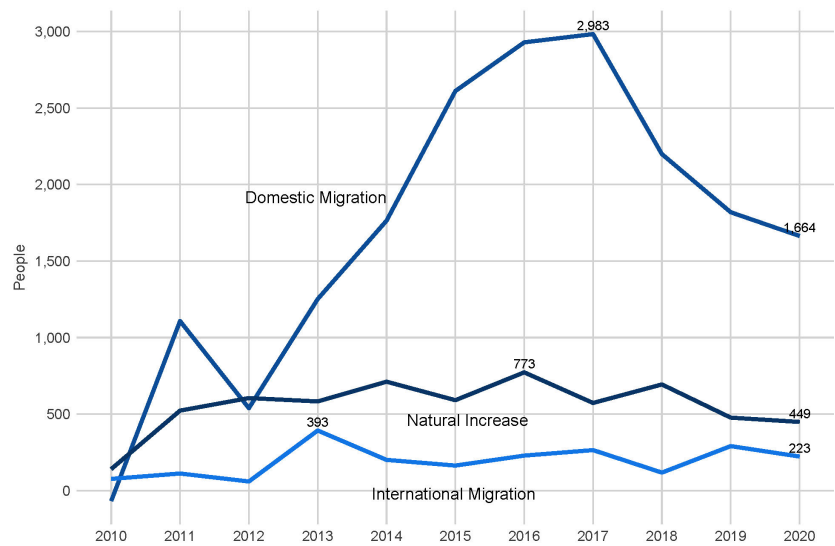
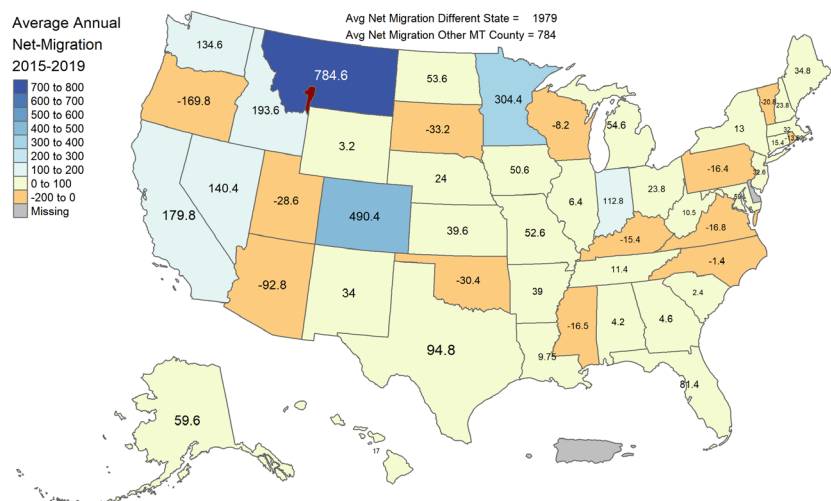


Figure 13. Average net-migration by state, Gallatin County, 2015-19. Source: U.S. Census Bureau, American Community Survey.



HOUSEHOLD INCOME

The growth in median household income in Gallatin County has also been dramatic. As shown in Figure 15, in the year 2009 median household income of \$47,065 was 11% higher than the state. In 2020, income in the county had grown to \$70,029, which was 21% higher than the state as a whole. None of these figures are adjusted for inflation.

Homeowners have median household incomes that are double that of the renters, reflecting the tendency of renters to be younger and composed of fewer people per household. As we move from left to right in Figure 16, we see typical life

stages of earnings. Renter occupied represents early career earnings, those with mortgages are midcareer earnings, and those without mortgages tend to be late career and retirees without mortgages.

EMPLOYMENT

Gallatin County is the second largest economy in the state, behind only Yellowstone County in employment, total wages and personal income.

The top five industries in terms of payroll employment in Gallatin County in the first quarter of 2021 were retail trade,

Figure 14. Population projections, Gallatin County, 2021-31. Sources: Montana Department of Commerce, Census and Economic Information Center, Bureau of Business and Economic Research.

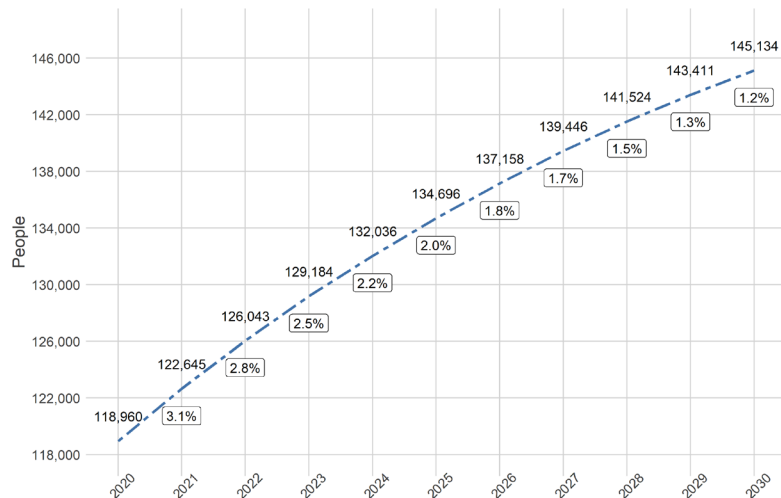
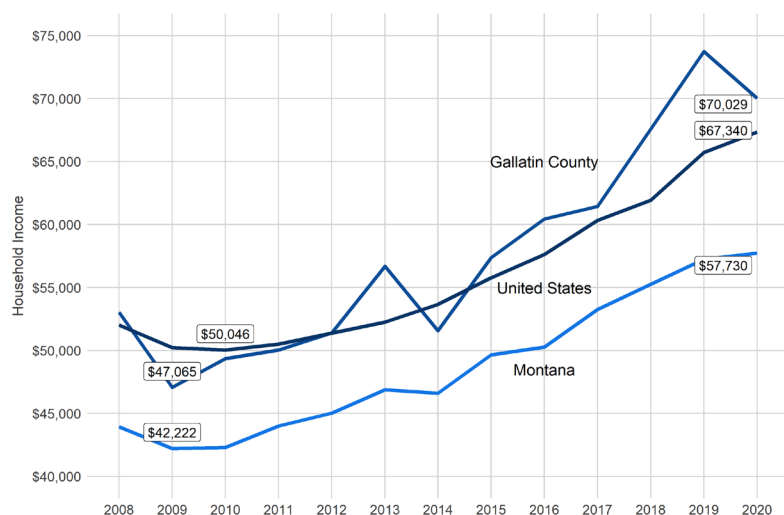


Figure 15. Median household income, Gallatin County, 2008-20. Source: U.S. Census Bureau, small area income and poverty estimates.



accommodation and food services, construction, health care and social assistance, and professional, scientific and technical services.

TRAVEL FOR WORK

Gallatin County residents do not necessarily work in the same places as they live. The Census Longitudinal Employer-Household Dynamics matches residents' work census block group with their home block group and aggregates the distance between them into four distance categories: less than 10 miles, 10 to 24 miles, 25 to 50, and greater than 50 miles. This data only represents payroll employment and doesn't

Table 2. Distance from work to home, employed in Gallatin County. Source: U.S. Census Bureau, longitudinal employer-household dynamics.

Distance	Count	Share
Total jobs	61,410	100%
Less than 10 miles	37,788	61.5%
10 to 24 miles	8,051	13.1%
25 to 50 miles	2,983	4.9%
Greater than 50 miles	12,598	20.5%

Figure 16. Median household income by renters and owners. Source: U.S. Census Bureau, American Community Survey.

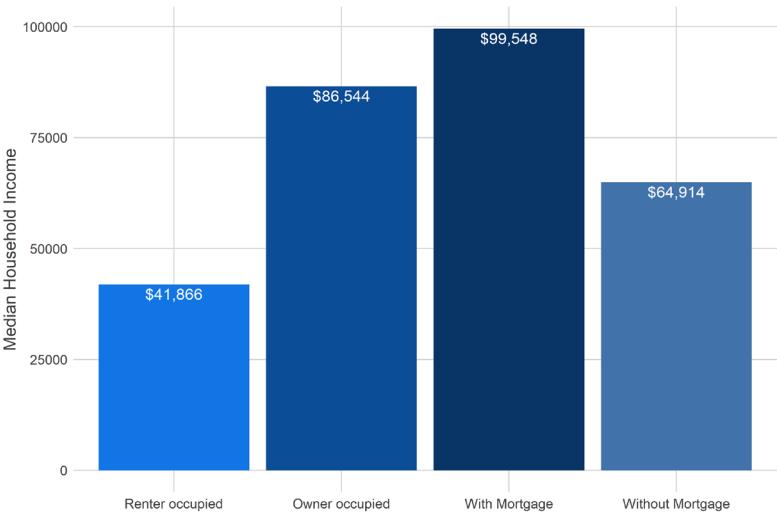
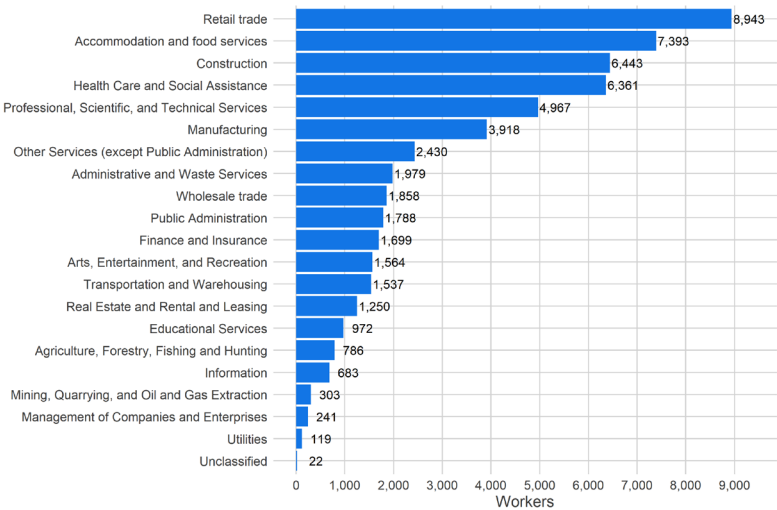


Figure 17. Employment by industry, Gallatin County, 2021 Q1. Source: U.S. Bureau of Labor Statistics, quarterly census of employment and wages.



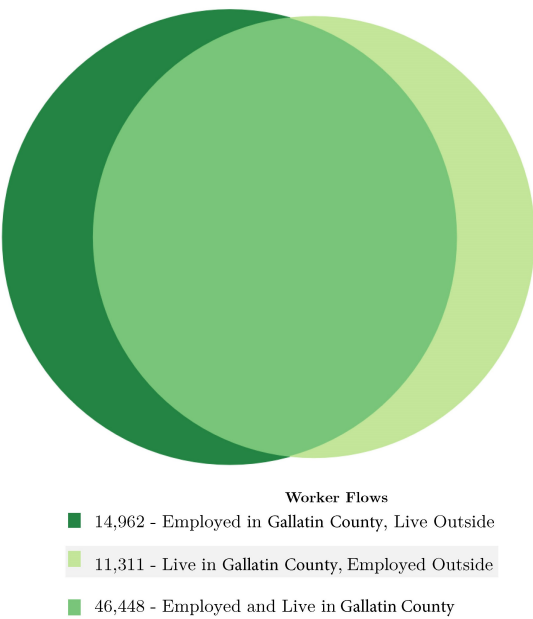
include agricultural, independent contractors and self-employed workers.

Gallatin County in Q1 of 2020 had a total employed population of 61,410 people. A majority of these workers, 61.5%, traveled less than 10 miles for work. The second-largest group, 20.5%, was workers that travel more than 50 miles from their work in Gallatin County to their homes. Overall, 38.5% travel greater than 10 miles for work.

A majority of those employed in Gallatin County are employed and live in the county. Overall the county in 2019 saw a net inflow of 3,651 workers from outside the county. Included in the live-in Gallatin County, employed outside, category are those that commute across county boundaries and remote workers (Figure 18).

For residents of the county, Figure 19 depicts the block group location of their jobs. The size and shade of the point are scaled to match the number of residents employed in each block group.

Figure 18. Inflow/outflow job counts employed in Gallatin County, 2019. Source: U.S. Census Bureau, longitudinal employer-household dynamics.



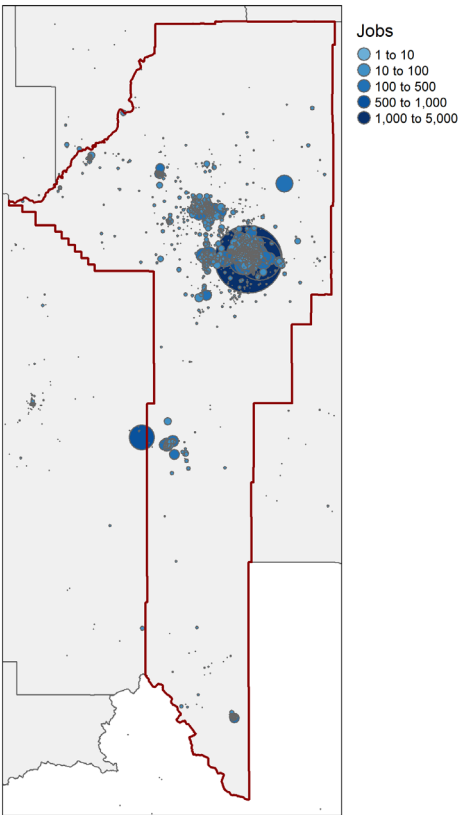
As reported by non-farm employment, Gallatin County residents primarily work in the areas immediately surrounding Bozeman and the municipalities of Belgrade and Manhattan. With other smaller employment clusters around Big Sky and West Yellowstone.

UNEMPLOYMENT

The unemployment rate in Gallatin County is considerably lower than that of Montana and the nation overall, reflecting high employment relative to the workforce. Gallatin County's relatively high retirement age population is one factor in the low relative levels of unemployment as retirees are mostly not included in the workforce.

The unusual peak in the first quarter of 2020 reflects the job losses and resignations associated with the COVID-19 pandemic. As of Q3 of 2021, the unemployment rate was 1.8%, the lowest unemployment rate in the county's history, and represents a quick recovery from the 2020 employment shock relative to the rest of the U.S.

Figure 19. Job counts map, 2019. Source: U.S. Census Bureau, longitudinal employer-household dynamics.



POVERTY

Gallatin County has lower poverty rates than both the U.S. and Montana and has seen its poverty rate drop 5.2 percentage points since peaking in 2013. As of 2020, the poverty rate is about 3 percentage points lower than that of the U.S. and Montana.

Figure 20. Unemployment rate, Gallatin County, 2011-21. Source: U.S. Bureau of Labor Statistics, local area unemployment statistics.

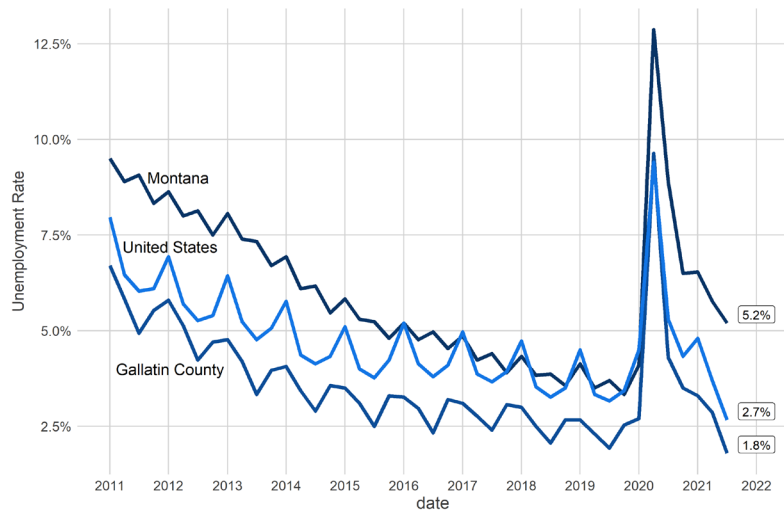
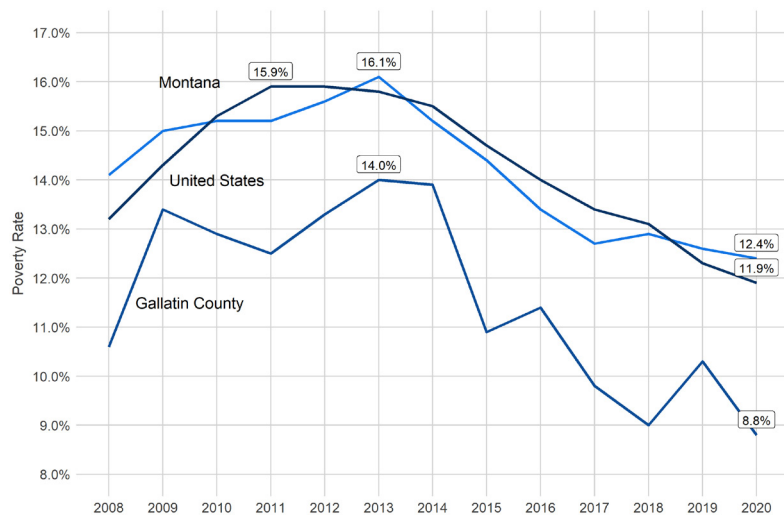


Figure 21. Poverty rate in percent, Gallatin County, 2008-20. Source: U.S. Census Bureau, small area income and poverty estimates.



RENTAL HOUSING

The Gallatin County rental housing market is tight. One prominent measure of the rental market is the vacancy rate—the proportion of the rental inventory that is vacant or unoccupied. Vacancy rates between 5% and 8% tend to indicate a balanced or healthy rental market.

Gallatin County's overall rental vacancy rate has hovered around the bottom of a healthy range, crossing this benchmark only three times from 2010 to 2019. Gallatin County's vacancy rate in 2019 was 3.9%, indicating a very tight rental housing market.

Commercially owned multifamily apartment rentals make up a small portion of the rental units in the county. However, overall trends in this vacancy follows overall vacancy rates in Figure 23. Therefore, this measure can illuminate recent vacancy trends through 2021 and show that overall vacancy rates likely continued to tighten this year.

In Figure 23, annual apartment rental vacancy rates reached healthy levels only once over the past 12 years. Since then, apartment vacancy was volatile and tight. For example, despite increasing vacancy rates from 2018 to 2020, vacancy rates dropped in 2021 and sit at a low 2.1%. The second lowest value since 2010.

Gallatin County median gross rents show that from 2017 to 2019, rental prices have appreciated substantially faster in Gallatin County than in the rest of the state. The most recent available year shows rents in the county increased almost double the rate of Montana. All indications suggest the COVID-19 pandemic exacerbated this trend.

One indication of further rent increases during the COVID-19 pandemic is apartment rents per square foot from commercially owned multifamily apartments (Figure 25).

The average commercially owned apartment rent per square foot has increased every year since 2010. The last two years have seen rapid increases, 5.5% from 2019 to 2020 and 11.1% from 2020 to 2021. The low vacancy rates and increasing prices indicate a tight rental market and rapidly growing rental prices.

One explanation for the tight rental market is that rents have kept up with household income growth compared to single-family housing prices since 2010. In Figure 26, values were indexed to compare changes over time in comparable units since 2010. These values do not compare overall levels but changes over time. Greater distance between housing costs and household incomes indicates declining affordability.

Figure 22. Rental vacancy rate, Gallatin County, 2010-19. Source: U.S. Census Bureau, American Community Survey, 2019.

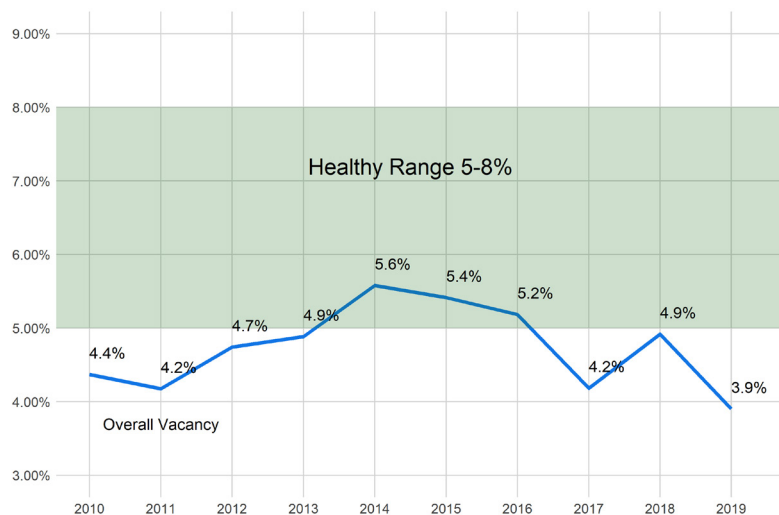


Figure 23. Apartment vacancy rate, Gallatin County, 2010-21. Sources: CoStar, Economic & Planning Systems, City of Bozeman.

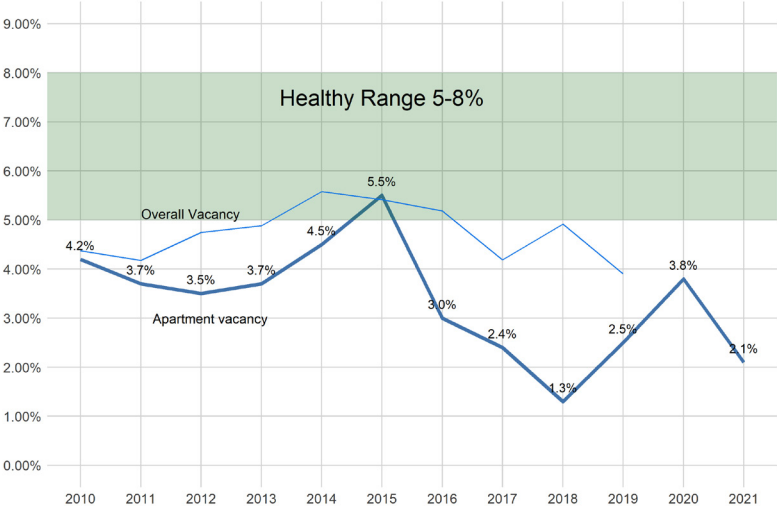


Figure 24. Change in rent, Gallatin County, 2011-19. Source: U.S. Census Bureau, American Community Survey, 2019.

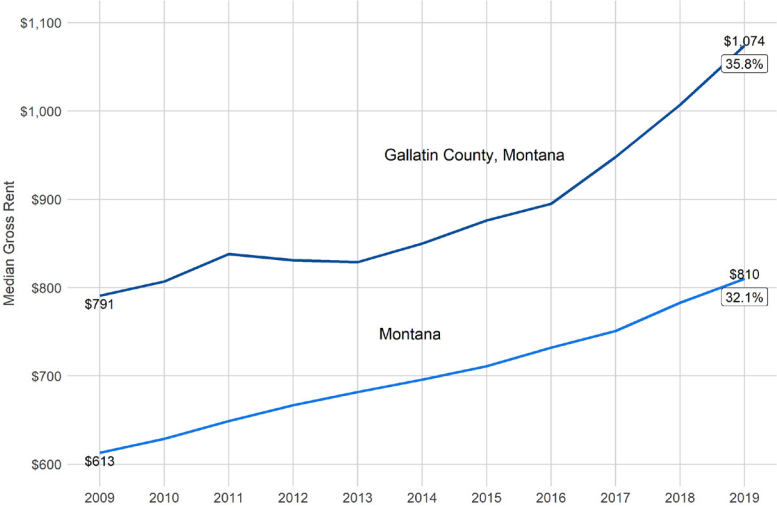


Figure 25. Average rent per square foot, Gallatin County, 2010-21. Sources: CoStar, Economic & Planning Systems, City of Bozeman.

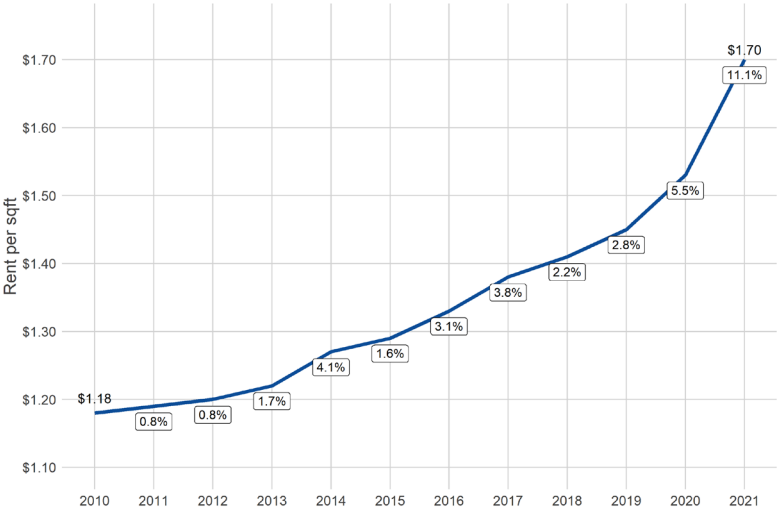
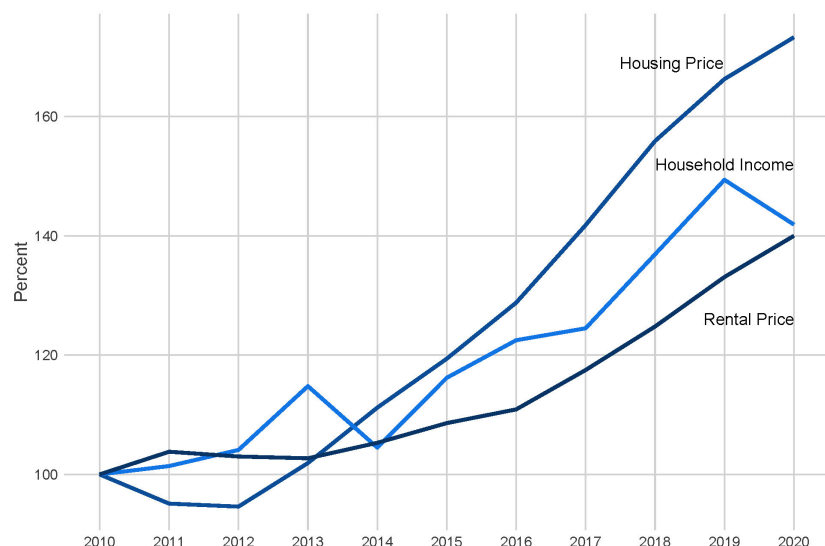


Figure 26. Comparative trends in incomes and housing costs, Gallatin County, 2010-20. Sources: Federal Housing Administration, U.S. Census Bureau.



Growth in the owner and renter costs relative to household income shows that the owner market has seen prices grow 41 percentage points more than incomes over the past 10 years, but rental prices have grown 1.9 percentage points slower than median incomes. Thus, renting is becoming the

more affordable choice for many than purchasing, increasing the number of people in the rental market.

HOUSING SALES AND PRICES

Median sales prices saw a quick recovery from the Great Recession from 2011 to 2019 with double-digit growth rates in three of the eight years. From 2019 to 2021, housing prices skyrocketed, boasting 19% growth in 2020 and 32% growth in 2021. As a result, the median sale price of single-family homes in 2021 was \$685,000, 2.9 times its 2011 value.

Total homes sold also made a recovery from 2011 to 2016 leveling off at around 1588 sales. In 2020, about 238 more homes were sold than in previous years. In 2021, sales returned to normal volumes.

Sales in 2020 were unusual tracking the COVID-19 pandemic. Initially in the second quarter sales were lower than normal during the mass layoffs and resignations early in the pandemic, but in the summer rebounded to the highest quarterly sales volume continuing through the end of 2020.

The year 2021 saw very low sales volumes in all quarters relative to the previous two years partially due to a lower number of home listings in Gallatin County.

Looking at the distribution of home sales prices in 5-year increments, we can see how the distribution of single-family homes prices changed over time. The sales prices were grouped into income ranges and counted for 2012, 2016, and 2021. Figure 29 shows the shift in the distribution of sales since 2012.

The center of the distribution in 2012 lied in the 200,000 to 275,000 range containing about 35% of sales. In 2021 this range made up less than 1% of sales.

Diving deeper into the sales price distribution in 2021, we can get a better picture of the single-family homes market (Figure 30).

The sale price distribution centers around \$685,000 but skews towards expensive homes with 27.8% of sales sold for greater than 1 million and only 1.5% of homes sold for less than \$350,000.

Figure 27. Median sales price and homes sold, Gallatin County, 2011-21. Sources: Big Sky Country Multiple Listing Service, Gallatin Association of REALTORS®.

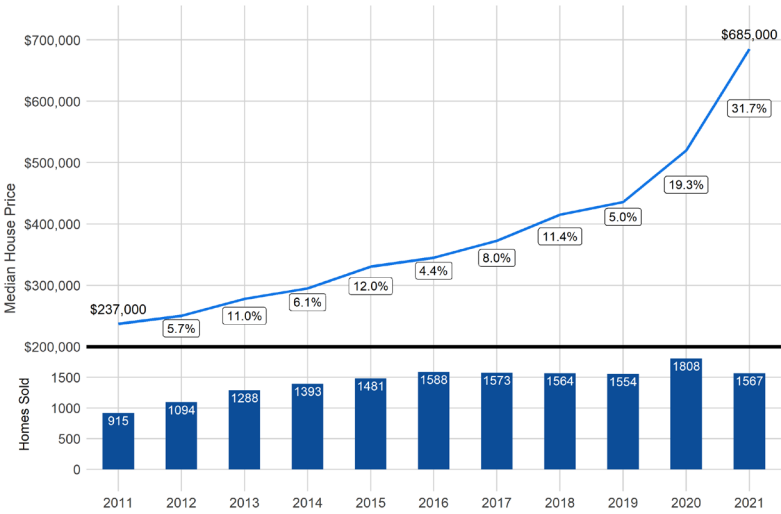


Figure 28. Number of sales by quarter, Gallatin County, 2019-21. Sources: Big Sky Country Multiple Listing Service, Gallatin Association of REALTORS®.

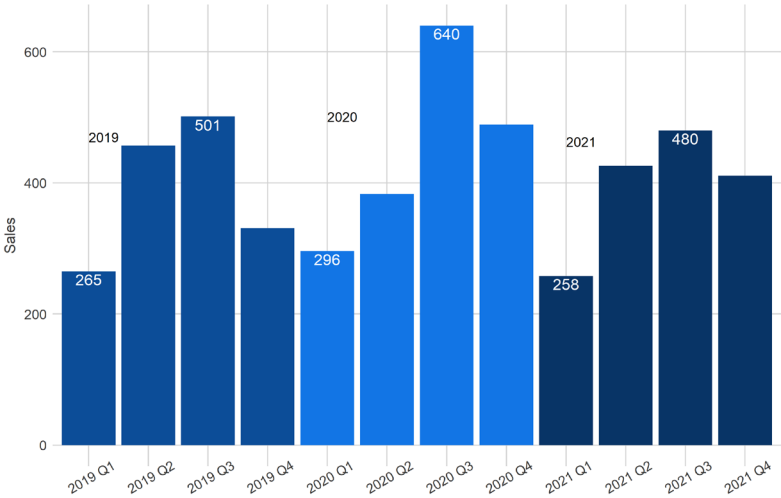
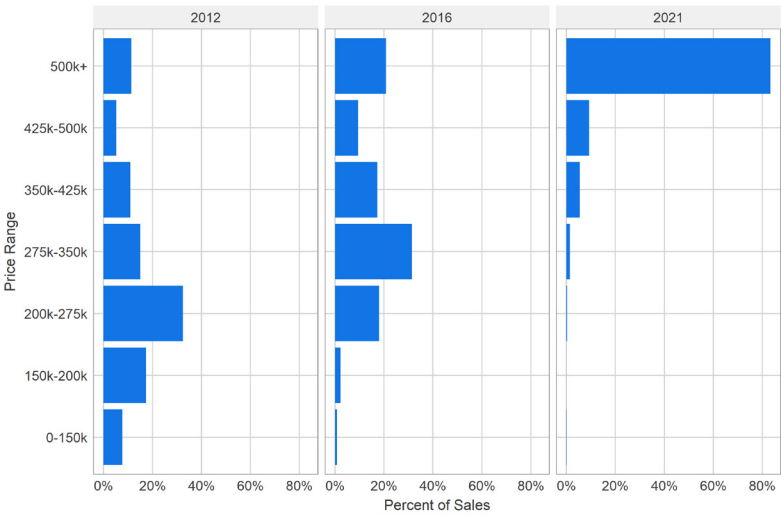


Figure 29. Sales by price range, Gallatin County, 2012-21. Sources: Big Sky Country Multiple Listing Service, Gallatin Association of REALTORS®.



New construction sales increased in all three categories from 2019 to 2020. However, an increase was only found in 2021 for condos, despite the overall decrease in listings and sales in 2021. Again, reflecting the general transition from single-family housing towards multifamily housing we saw in building permitting activity (Figure 6).

Sales prices increased for all categories from 2019 to 2021. Price growth occurred most strongly in new single-family structures, 13.2% and 57.6% in 2020 and 2021, whereas condos and townhomes did not change substantially until 2021.

Since the Great Recession, Gallatin County had a rapid recovery in housing prices, pacing the state for most of the

past 10 years. As a result, Gallatin has the most significant price growth of any county in Montana, 30 percentage points higher than Flathead County and 43 percentage points higher than Missoula County.

From July of 2016 to about July 2020, the number of total active listings in the county hovered around an average value of 684 monthly listings. However, starting in the summer of 2021, when there are usually a relatively high number of homes for sale, the number of active listings plummeted to 181 active listings. As of November 2021, the county had 232 active listings. This low inventory indicates continued upward pressure on prices as few homes were for sale and demand did not decline in 2021.

Figure 30. Sales price distribution, Gallatin County, 2021. Sources: Big Sky Country Multiple Listing Service, Gallatin Association of REALTORS®.

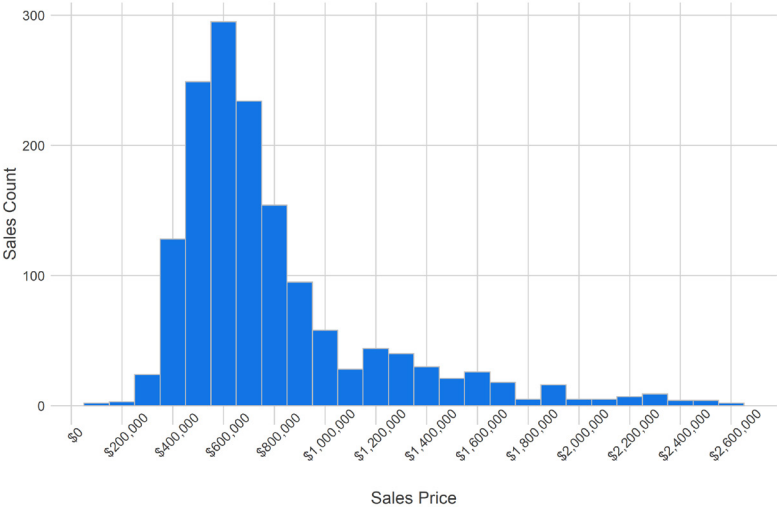


Figure 31. New construction sales, Gallatin County, 2019-21. Sources: Big Sky Country Multiple Listing Service, Gallatin Association of REALTORS®.

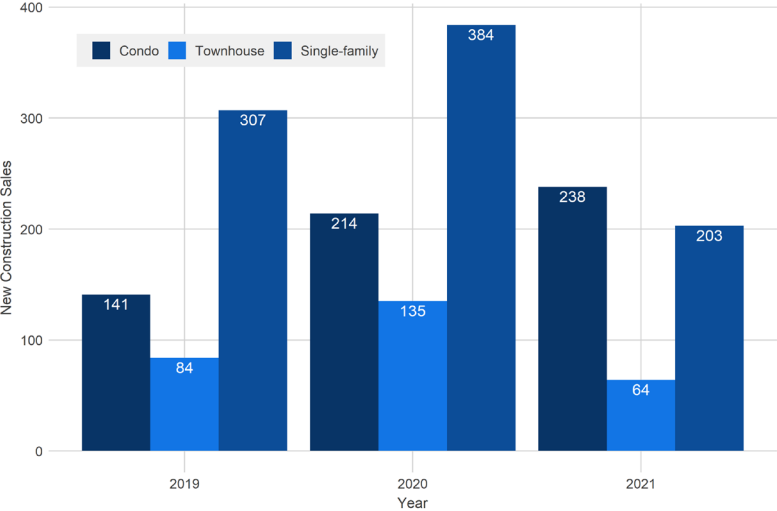


Figure 32. New construction median sales price, Gallatin County, 2019-21. Sources: Big Sky Country Multiple Listing Service, Gallatin Association of REALTORS®.

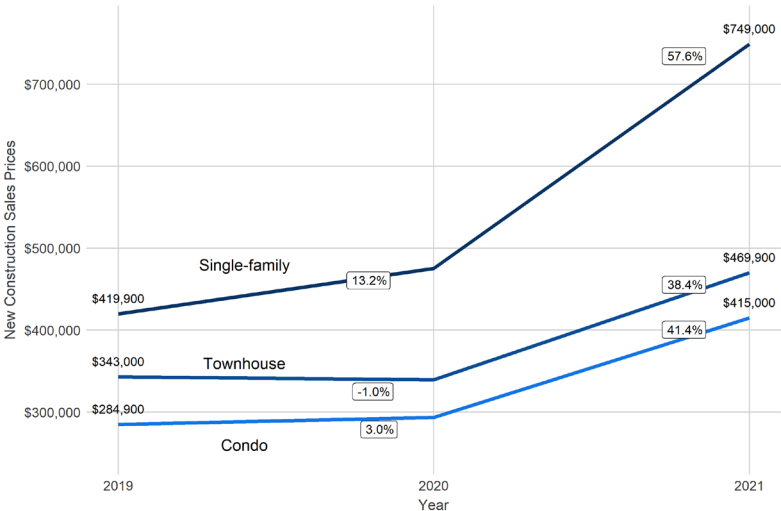


Figure 33. Housing price index. Select counties, 2010-20. Sources: U.S. Department of Housing and Urban Development, Federal Housing Administration.

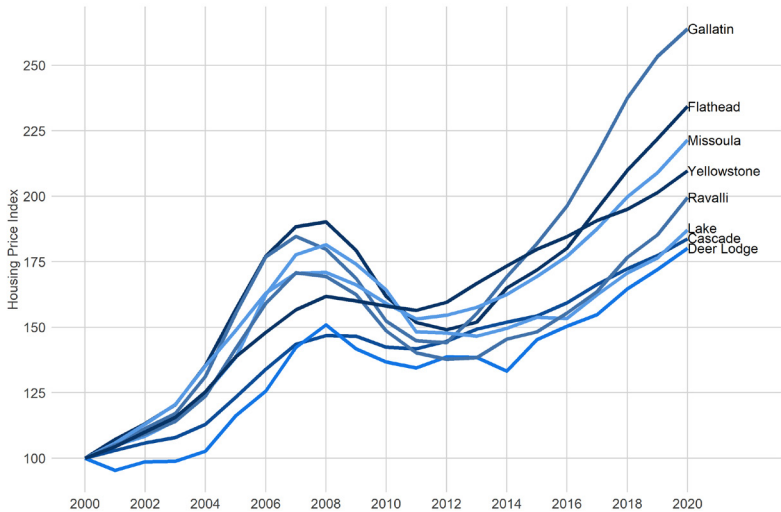


Figure 34. Active listings, Gallatin County, 2010-20. Source: Realtor.com, market hotness index.

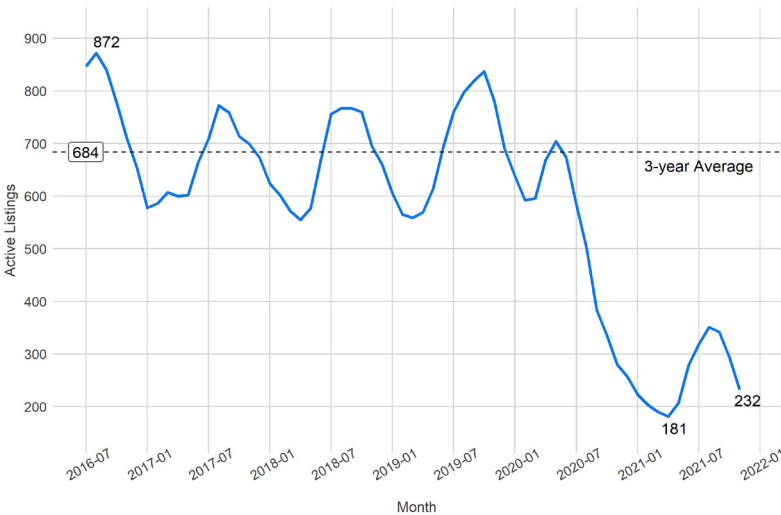
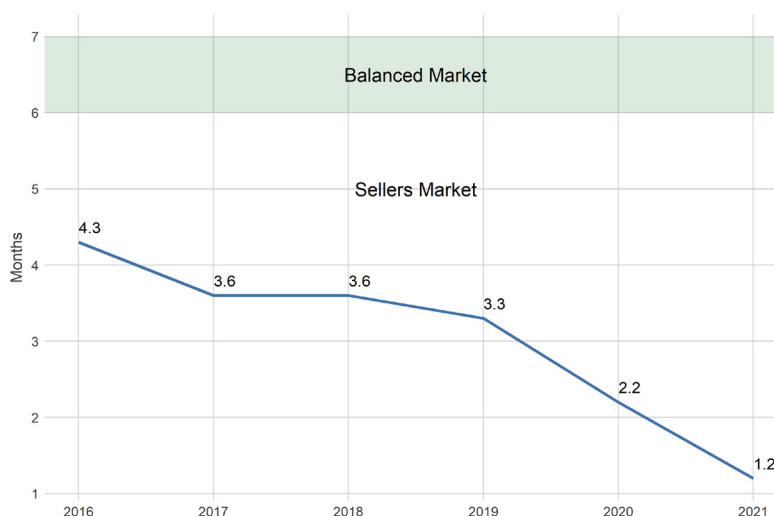


Figure 35. Months' supply of inventory, Gallatin County, 2016-21. Sources: Big Sky Country Multiple Listing Service, Gallatin Association of REALTORS®.



Another important indicator of the housing market is the absorption rate, the ratio of the number of active listings in a month divided by the total number of homes sold in a month, the signals of the supply and demand for homes. One measure of absorption is the months' supply of inventory, interpreted as the expected number of months active listings sell given its current pace. For example, a month's supply of 3 would indicate that all active listings would sell within three months. Note that this measure is a ratio that depends on both seller and buyer activity.

Figure 35 is the annual average months' supply as there is substantial seasonal activity. A supply of six months is a benchmark for a moderate sellers' market. Lower than six

months' supply indicates improved bargaining power for sellers.

Gallatin County's month's supply has favored sellers and higher prices since 2016. The change since 2019 has been dramatic dropping about a month each year. The lower number in 2021 partially reflects the drop in active listings we observed in Figure 33.

The 2021 months' supply continues to give sellers unprecedented bargaining power and there is a long way to go before the home ownership market could be considered balanced.

HOUSING FINANCE

A majority of homes are financed with conventional loans. The second largest is cash purchases, with 26.6% of sales paid for with cash despite a substantial increase in home sales prices.

Fannie Mae and Freddie Mac are restricted to purchase single-family mortgages with origination balances below conforming loan limits. Table 4 reports these limits for Gallatin County. Any loans with origination balances above this limit are known as jumbo loans.

Veteran's Affairs loans is a loan program from the government available to veteran's or in certain cases families of de-

ceased veterans. The loans do not have a required down payment. In 2021, 61 sales in the county were financed by VA loans.

Federal Housing Authority loans are guaranteed by the federal government and were only used 1.6% of sales in 2021. These loans can be obtained with low credit scores and require a 3.5% down payment. The loan limits for 2022 are shown in Table 5.

The United States Department of Agriculture Rural Development loans applies to buyers outside the Bozeman city limits. These loans require low or no down payment.

Table 3. Percent of sales by method of purchase, Gallatin County, 2021. Source: Big Sky Country Multiple Listing Service.

Method of Purchase	Sales	Percent of Sales
Conventional loan	1024	65%
Cash	419	26.6%
Veterans Affairs	61	3.9%
1031 Exchange	25	1.8%
Federal Housing Agency	28	1.6%
Rural development (USDA)	2	0.6%
Trust indenture	3	0.3%
Contract for deed	5	0.2%
Other	9	0.1%
Total	1576	100%

Table 4. Conforming loan limits, Gallatin County, 2022. Source: Federal Housing Finance Agency.

	One-family	Two-family	Three-family	Four-family
Mortgage limits	\$647,200	\$828,700	\$1,001,650	\$1,244,850

Table 5. Federal Housing Administration loan limits, Gallatin County, 2022. Source: Federal Housing Administration.

	One-family	Two-family	Three-family	Four-family	Median sale price
Mortgage limits	\$603,750	\$772,900	\$934,250	\$1,161,050	\$525,000

Table 6. Rural development single-family housing guaranteed loan program income limits, 2022. Source: U.S. Department of Agriculture.

	1 to 4 person(s)	5 + persons
Very low income	\$45,200	\$59,700
Low income	\$72,300	\$95,450
Moderate income – guaranteed loan	\$103,950	\$96,100

Only two homebuyers bought homes with rural development loans in 2021. The income limits for USDA loans for Gallatin County in 2022 are displayed in Table 6.

INTEREST RATES

Interest rates on conventional 30-year fixed mortgages reached their lowest annual value in each year since 2019.

This trend slowed in 2021 and may have reached the lowest value, 2.96% over the next couple of years. Jan 2022 has already indicated rising rates of 3.45%.

AREA MEDIAN INCOME

Area Median Income (AMI) are commonly used income thresholds used to determine eligibility for public program dollars, down payment assistance, subsidized rent and so on. These income thresholds are based on county level median incomes and broken down by household size. For example, a three-person household making less than \$64,000 dollars would qualify for services targeted at the very low-income category of 50% AMI.

Figure 36. 30-year fixed rate mortgage average, United States, 2012-21. Source: Freddie Mac

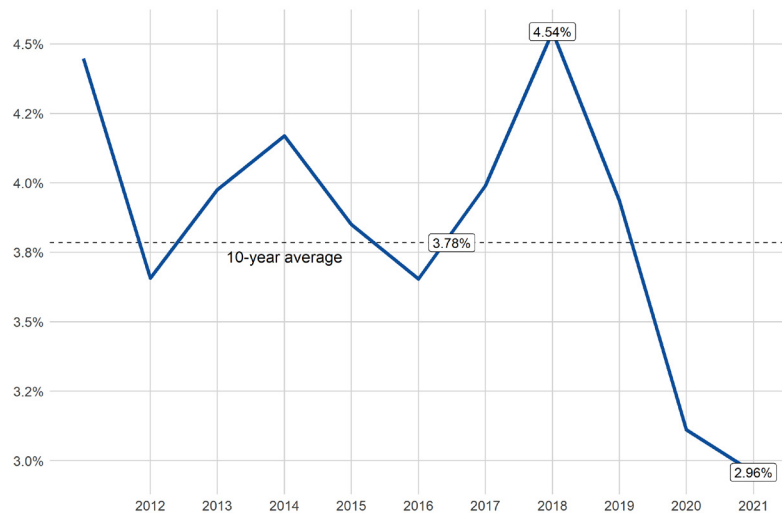


Table 7. Area median income, Gallatin County, 2021. Source: U.S. Department of Housing and Urban Development.

	1-person	2-person	3-person	4-person	5-person
Extremely low (30%)	\$18,700	\$21,350	\$24,000	\$26,650	\$31,040
Very low (50%)	\$31,150	\$35,600	\$40,050	\$44,450	\$48,050
Low (80%)	\$49,800	\$56,900	\$64,000	\$71,100	\$76,800
Median (100%)	\$62,300	\$71,200	\$80,100	\$88,900	\$96,100
Moderate (120%)	\$74,760	\$85,440	\$96,120	\$106,680	\$115,320
High (150%)	\$93,450	\$106,800	\$120,150	\$133,350	\$144,150

COMMUNITY LAND TRUST

Community land trusts are community-based organizations used to address housing affordability. The community land trust retains ownership of the land but enters into a long-term lease with a prospective owner, allowing moderate-income people to build equity in a home on leased land, sheltered from rising markets. The seller earns only a specified portion of the increased property value when the lease owner sells. The trust keeps the remainder for future moderate-income people. This ownership agreement prevents market factors from affecting the value of the property. In 2021, there were 98 homes serviced by community land trust in Gallatin County.

Table 8. Homeownership programs. Sources: HRDC, HUD, Fannie Mae, Freddie Mac.

Service	Income targeting	Served annually
Homebuyer's education (8 hours, HUD certified)	Available to all	550 households
Homeownership counseling (at least 1 hour, done after HBE)	Available to all	550 households
Down-payment assistance (up to \$30,000)	Low income, HHS earning less than 80% AMI	10 households
HomeReady mortgage (Low, 3% down-payment program)	Low income, HHS earning less than 80% AMI	--
Home possible mortgages (Low, 3% down-payment program)	Low income, HHS earning less than 80% AMI	--
Foreclosure prevention counseling	Available to all	--

HOUSING AFFORDABILITY

In addition to prevailing financing rates, there are two fundamental drivers of housing affordability in any market – prices and incomes. To compare the two in similar units, values were indexed with values starting at 100 for the base year 2000.

Figure 37 shows housing prices are outpacing income growth. Home price growth has exceeded household income growth every year since 2000. In two periods, this becomes clear 2000 to 2008 and 2012 to 2020. As the wedge between house prices and income grows, housing becomes less affordable. Affordability can be made formal with a calculation of the Housing Affordability Index (HAI).

The Housing Affordability Index (HAI) measures overall affordability combining factors affecting the affordability of owner-occupied housing into a simple measure. HAI has many variations, but all combine median sales prices, median household income, and prevailing interest rates. Variations of this measure utilized by organizations, such as The National Association of REALTORS® and the U.S. Department of Housing and Urban Development, to assess affordability within a housing market.

The construction of the HAI here computes the monthly housing payment for the median-priced home in Gallatin County. First, we assume a 5% down payment and a con-

ventional 30-year mortgage financed at the market rate prevailing at the time of the loan. It then compares this payment's magnitude to the median-earning household's monthly cash income in the same community. Households that must devote more than 30% of their income to pay for housing are said to be housing stressed. HAI is set to 100 if precisely 30% of monthly income equals the monthly payment on a conventionally financed, median-priced home. Therefore, values of the HAI below 100 indicate that the median-earning households cannot afford a median-priced home.

Affordability in Gallatin County has declined from its peak in 2012. In 2012, the median-earning household had 118% of the income necessary to afford a median-priced home.

Whereas in 2020, the median-earning household had just 83% of the income to afford a median-priced home.

Household income estimates for 2021 have not been released, but if we assume that median household income does not continue to fall and stays at a constant \$70,029, given 2021 interest rates and single-family sales prices, the HAI was 65%. Meaning a household earning \$70,029 in 2021 would have just 65% of the income necessary to afford a median-priced home in 2021.

The share of income spent on housing follows the simple rule of thumb that any household who spends more than 30% of their gross income is cost burdened.

Figure 37. Home price vs. household income growth, Gallatin County, 2000-20. Sources: Federal Housing Administration, U.S. Census Bureau.

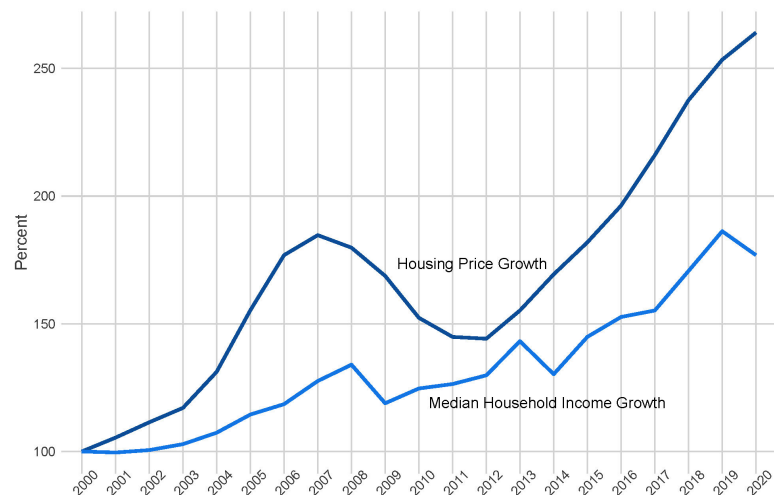
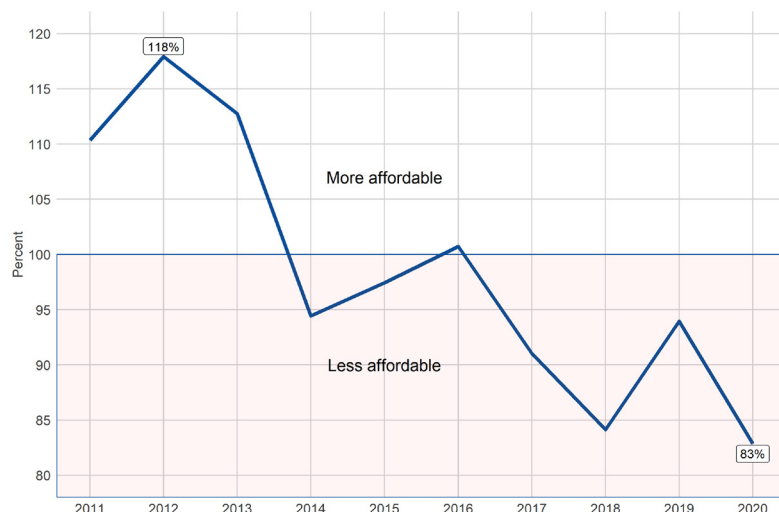


Figure 38. Housing affordability index, Gallatin County, 2011-20. Sources: Big Sky Country Multiple Listing Service, Freddie Mac, U.S. Census Bureau.



Of the renter households in the county and Bozeman around 47% are cost burdened.

There is a clear drop off in the fraction of cost burdened households by median incomes. Households earning less than \$35,000 make up 33.9% of the cost burdened renters in the county and 38.4% in Bozeman.

A smaller portion of owner households are considered cost burdened, 23.4% in the county and 23.7% in Bozeman. These are again broken down by household income. Overall, there were 4,805 cost burdened owner households in the county. 1,991 of these households live in the Bozeman city limits.

There are two income categories that dominate cost burdened households. The lowest income category under \$20,000, and the \$50,000 to \$75,000 range. The range corresponding with the median-earning household. This suggests that the median-earning owner households are more or just as likely cost burdened compared to lower earning owner households in Gallatin County.

RENTAL ASSISTANCE PROGRAMS

Gallatin County had a total of 16,996 renter households or 38.8% of households. The income distribution of households is shown in Figure 41 along with the area median income categories. These categories are based on percent-

Figure 39. Cost burdened renter households, Gallatin County, 2019. Source: U.S. Census Bureau, American Community Survey, 2019.

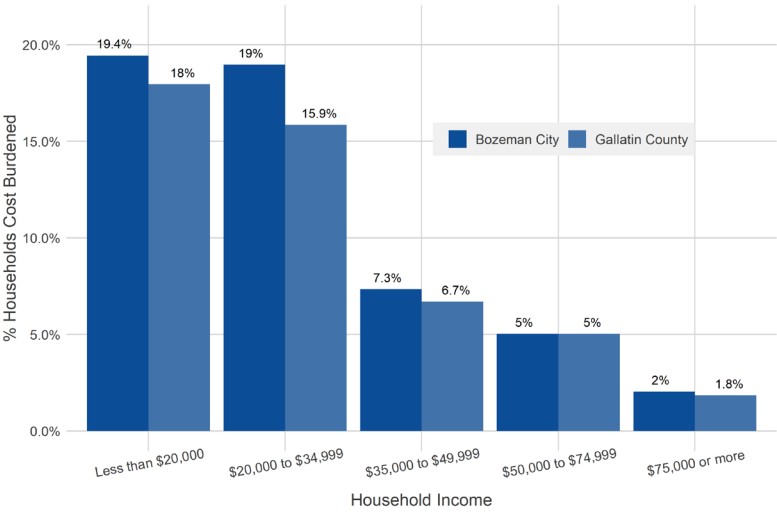
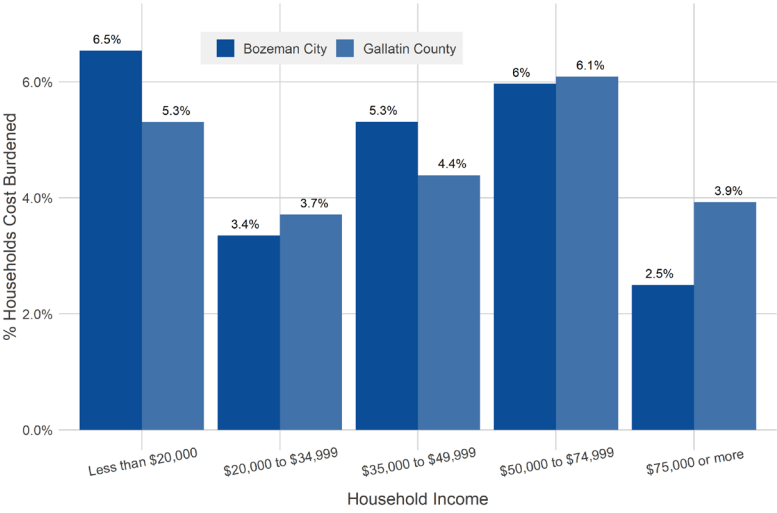


Figure 40. Cost burdened owner households, Gallatin County, 2019. Source: U.S. Census Bureau, American Community Survey, 2019.



ages of the area median income, \$73,700 in 2019 (80% of AMI is considered low, 50% very low and 30% extremely low incomes). These distinctions are shaded in red with the estimated number of households in each group. These numbers give some context to the size of the rental affordability challenges that the county faces.

Figure 41 shows clearly that while the median income is relatively high for Montana, there are a substantial number of households in the very low and extremely low-income levels, 11,600 very low-income households and 6,500 extremely low-income households.

Gallatin County contains 1284 affordable units receiving subsidies or other forms of assistance. The Human Resource Development Council in Bozeman estimates well over 75% of the counties affordable units are not rent subsidized.

Affordable units are distributed among several programs (Figure 42). Given that there are 6,500 extremely low-income households there is a relatively large disparity in the number of available affordable units.

The largest program in the county by housing units is the Low-Income Housing Tax Credit (LIHTC) with 853 rent restricted units. LIHTC incentivizes developers with a devel-

Figure 41. Income distribution and number of households by income category, 2019. Source: U.S. Census Bureau, American Community Survey, 2019.

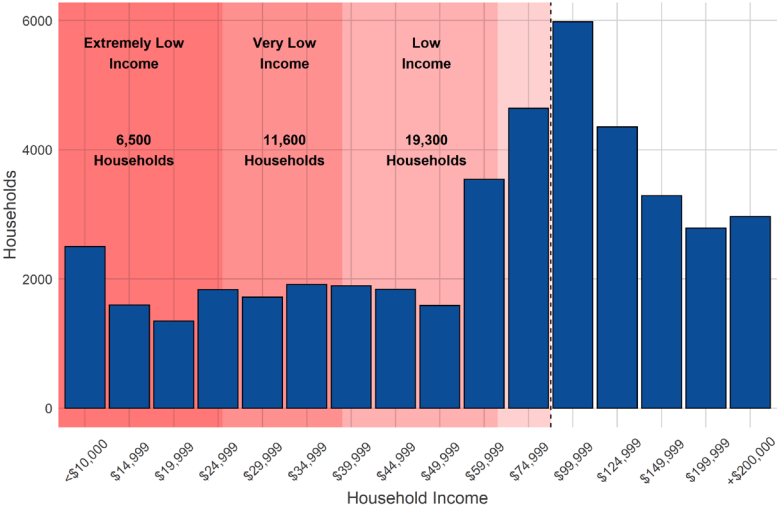
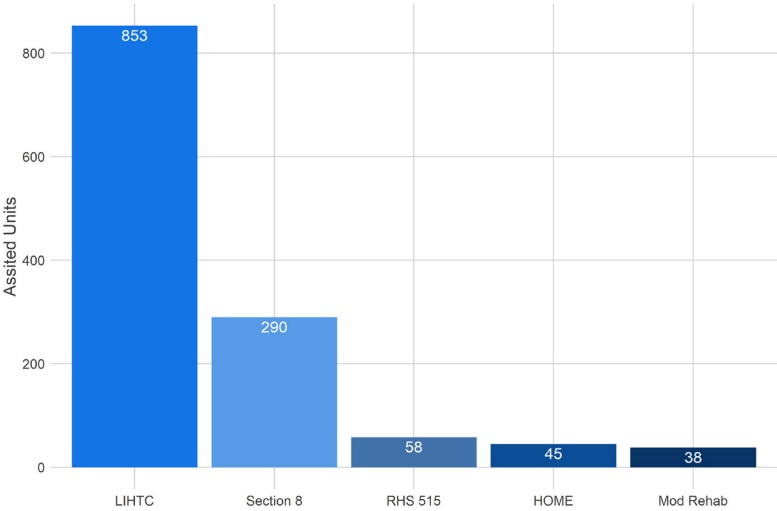


Figure 42. Subsidized housing units, Gallatin County, 2021. Source: Montana National Housing Preservation Affordable Housing Database.



opment subsidy in exchange for reduced rents. While these units are more affordable than rent subsidized units, they may remain out of reach for many low-income households.

Rural Rental Housing Loans (RHS 515), HOME Investment Partnerships Program and Moderate Rehabilitation combined make up 141 of the total affordable units.

All of the subsidized units have expiration years, but we focus in on the two largest programs by units to show substantial expiration over the next 20-30 years. The units in dark blue show that from 2030-2039, 438 LIHTC units will expire.

Section 8 subsidized units are mostly set to expire in 2040-2049. These tend to be targeted at households with disabilities or elderly members.

Housing choice vouchers allow lower-income families to afford market rents by subsidizing a portion of the total rent. The demand for this type of rental assistance program has been growing (Table 9).

Since 2018 the length of the Section 8 voucher waitlist has increased. As of October 2021, the waitlist for housing choice vouchers contained 1091 households.

Figure 43. Subsidized units by expiration, LIHTC and Section 8. Source: Montana National Housing Preservation Affordable Housing Database.

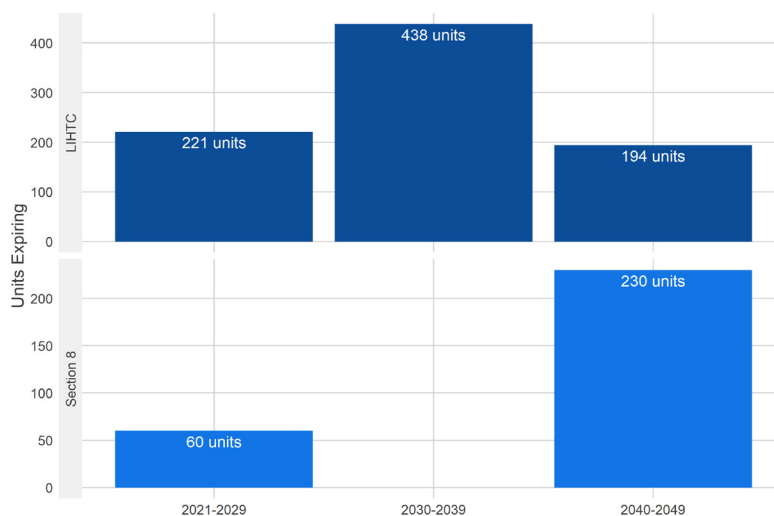
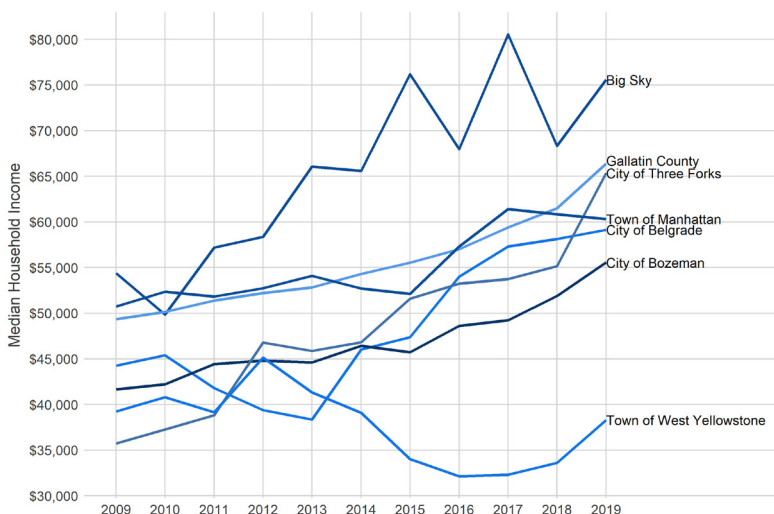


Figure 44. Median household income by municipality. Source: U.S. Census Bureau, American Community Survey, 2019.



PEOPLE EXPERIENCING HOMELESSNESS

One form of extreme unaffordability is complete unaffordability or homelessness. The instability caused by homelessness turns many basic necessities into near impossibilities including access to adequate food, health care, personal safety, employment and shelter.

Housing and Urban Development released a census count of people experiencing homelessness on a night in January provided by Montana Continuum of Care Coalition. These estimates are known to severely undercount the actual

homeless population severely. Key missing people are those outside the shelter network, homeless students and homeless youth.

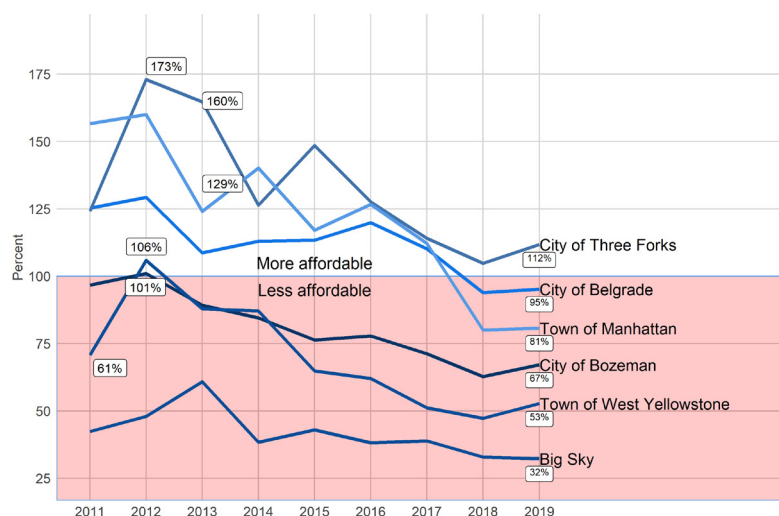
Table 9. Gallatin County, Gallatin Housing Authority, housing choice voucher waitlist, 2017-21. Sources: Gallatin Housing Authority, HRDC.

	2017	2018	2019	2020	2021
People on waitlist	759	235	530	887	1091
Change from previous		-524	+295	+357	+204

Table 10. Houseless individuals point-in-time survey, January 2017-21. Sources: HUD, Montana Continuum of Care, HRDC.

	2017	2018	2019	2020	2021
People Houseless	115	133	116	154	156
Change from Previous		+18	-17	+38	+2

Figure 45. Housing affordability index by municipality. Sources: Big Sky Country Multiple Listing Service, U.S. Census Bureau, Freddie Mac.



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