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GALLATIN VALLEY HOUSING REPORT

TRACKING THE PERFORMANCE OF MONTANA'S MOST VIBRANT HOUSING MARKET



ACKNOWLEDGMENTS

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About this Report

This report is the product of a joint effort of the leaders listed above, including real estate professionals, government officials, lenders, data professionals and researchers who collaborated on all aspects of this project to bring it to a successful conclusion. The purpose of this report is to give a comprehensive statistical snapshot of the status of the Gallatin Valley's residential real estate markets that can be used as a starting point for productive conversations addressing its opportunities and challenges. The data was compiled and the report was written by the Bureau of Business Research (BBER) at the University of Montana. The BBER is greatly indebted to all those individuals who so graciously supplied the data and insights that you see in this report.

This report is available as a downloadable PDF document on our website - www.gallatinrealtors.com.

OUR COMMITMENT IN OUR COMMUNITY



ENSURING THE LAST BEST PLACE IS ELEVATED BY OUR MEMBERS.

Our mission is to empower members in an ever-evolving industry by fostering excellence and innovation to build vibrant communities through the power of real estate.

THE GALLATIN ASSOCIATION OF REALTORS® IS THE VOICE FOR PRIVATE PROPERTY RIGHTS.

This housing report is a component of our advocacy efforts for property ownership, real estate investment, and strong communities. We recognize that property ownership, whether as an owner or an investor, represents a major financial commitment to our community's success. We recognize every time a real estate transaction occurs, it is the result of someone believing that our community is worthy of investment. We should not take it for granted that people want to live here and also see their financial future security tied to this wonderful place. Making policy that doesn't respect the critical role of property owners not only won't increase affordable housing supply but will also damage our economic health.

THE GALLATIN ASSOCIATION OF REALTORS® SUPPORTS IMPROVING ACCESS TO HOUSING & HOMEOWNERSHIP.

The Gallatin Association of REALTORS® is committed to improving access to housing and homeownership for all. Underwriting this report is just one component of our commitment to housing affordability. We are founding members of the Regional Housing Coalition, whose mission is to inform community members, coordinate diverse partners and resources, and catalyze solutions to address housing attainability and affordability needs in Gallatin County.

Our Gallatin REALTORS® Charitable Foundation has pledged to support the HRDC's construction of Homeward Point with a pledge of \$100,000 over five years and has already contributed \$35,000 in the first year. Our members individually volunteer with hundreds of local non-profits. 66% of REALTORS® volunteer on a monthly basis compared to 23% of the general population.

We maintain the most equitable way to increase homeownership is to increase the creation of new housing units. We support public-private development partnerships. We encourage our policymakers to focus on creating an environment where new construction can occur rather than on restrictions or reallocation of existing housing stock.



BIG SKY COUNTRY MLS SUPPORTS COOPERATION WITHIN THE REAL ESTATE COMMUNITY.

The MLS is a powerful force for competition by leveling the playing field so buyers and sellers can work with the professional of their choice, confident that they have access to the largest pool of properties for sale in the marketplace.

The Big Sky Country MLS unites REALTORS® and provides them with superior services, supporting the role they play in a consumer's homeownership needs.

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INTRODUCTION

Joanna Harper- Housing Report Committee Chair



With this report, we are looking back to the 2023 market to better understand the current state of real estate in our service area and glean insights into the mechanisms that shape our housing supply. In a culture climate of artificial intelligence, social media influence, and political gamesmanship, an economic housing report stands out as a resource based on facts that can inform our membership, policy makers, employers, and consumers.

As REALTORS®, we hear consumer's perception that we are in a housing crisis, a housing bubble, a max exodus, and rampant migration; all at the same time. Often these assessments are framed by the current housing challenges of the individual. There is a saying that all real estate is local. This is undeniably true but more importantly, people's view of the housing market is highly personal and informed by social experiences that may leave us wondering if we are even speaking the same language. Having information offers a more universal vocabulary and a productive way of discussing the challenges that are facing our community.

That is why a comprehensive report such as our Annual Housing Report is potentially very valuable. It offers a look into where we were, how we may have gotten here and perhaps what should be considered when evaluating a community's growth policy, an employer's compensation package or entering the real estate marketplace as a consumer of real estate services.

The Gallatin Association of REALTORS® and the Big Sky Country MLS have the practical experience and much of the statistical data to lead the effort to create this report. But we couldn't do it alone. A big thank you goes to all the members of the Housing Report Committee for providing data and guidance to this project.

OVERVIEW

It is a challenge to bring all the activities and accomplishments of Montana's most vibrant housing market up to date. The scale and breadth of all that has been done, is underway, or is being planned in Gallatin County communities during even a single year to meet their housing needs is bigger than a written report.

Gallatin County is under stress due to housing shortages in both the rental and owner-occupied housing market. In particular communities like Bozeman and Big Sky have seen impacts to even higher income households. This challenging dynamic is not easily managed, but as we look deeply at the problem, we see that its origins predate the post pandemic surge in housing demand that turbo charged housing cost growth in the last three years. While not full of surprises, there are many facets of the housing market that are changing, and these changes have important implications for the future.

You may rest assured that every effort has been made in this report to bring you the most current information available, even when the statistics themselves refer to year's past. Census data becomes available for local geographies with a time lag that makes it appear dated. In the interest of being as comprehensive as possible, it is important that we continue to include some historic data.

This report provides a view of housing markets – dealing with demand, supply, and market outcomes. We have also included a section on affordability and how those housing needs are being addressed.

THE GALLATIN COUNTY ECONOMY IN 2023

As we reflect on the economic trajectory through 2023, Montana's landscape has continued to evolve from the seismic shifts brought about by the pandemic. The roller coaster of economic contractions and expansions that marked 2020 and 2021 has given way to a more nuanced picture of recovery and growth across Montana's cities and regions. The shared experience of abrupt downturns followed by vigorous rebounds has transitioned into a phase where disparities in economic fortunes among different locales have become more pronounced.

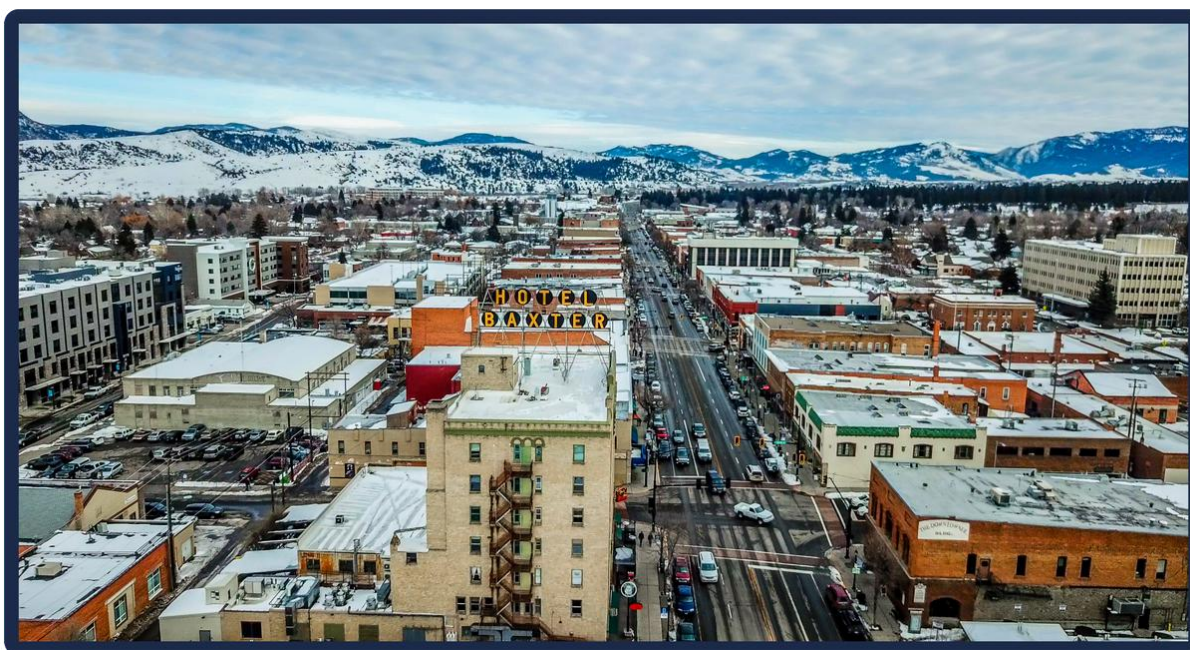
Looking ahead, the economic forecast is mixed, with various factors shaping the outlook in distinct ways across the state. The financial environment has undergone significant changes. Interest rates have climbed, reflecting broader monetary tightening efforts to curb inflation, which remains a concern. Internationally, geopolitical tensions, particularly the ongoing conflict in Eastern Europe, continue to unsettle energy and agricultural markets, affecting local economies in Montana indirectly. Domestic policy shifts have seen the federal government adopting a more adversarial stance towards fossil fuel investments, impacting sectors of the state's economy reliant on these industries.

Gallatin County, maintaining its trajectory as the state's fastest-growing economy, has delivered another year of impressive growth. Bozeman, now firmly established as Montana's second-largest economic hub, has spread its influence and activity to neighboring areas like Belgrade,

Manhattan, and Three Forks, fueled by robust construction and retail sector expansions. The health sector, too, has made significant strides with the development of Billings Clinic's new 58-acre medical campus, signaling a diversification in the region's economic base. Additionally, the local airport's expansion plans, coming on the heels of a recent enlargement, underscore the region's burgeoning connectivity and appeal.

However, this growth has intensified pressures on housing and labor markets. The surge in tourism and the consequent demand for service industries have exacerbated workforce challenges, with some businesses adjusting operations in response. Despite a boom in residential construction, including a notable increase in multi-family units, housing affordability remains a critical issue, with prices and rents among the highest in the state.

Along with robust visitor spending and the region's growing reputation as a desirable relocation destination, the technology sector is poised to drive sustained economic growth. This optimism is further bolstered by the ongoing success of Montana State University and the expansion of trade center activities encompassing finance, professional services, and retail. As Montana navigates the complexities of a post-pandemic economy, Gallatin County stands at a crossroads, with resilience and adaptability key to harnessing the opportunities and overcoming the challenges.



1. HOUSING DEMAND

The dynamics of housing demand are increasingly recognized as a need for housing by full-time residents and a demand for residential space by those who maintain secondary residences and visitors. This comprehensive view captures the variety of housing market drivers affecting buyers and renters.

1.1 Economic Growth

Economic expansion plays a pivotal role in fueling housing demand, with job growth serving as a critical component. Since the conclusion of the Great Recession in 2010, Gallatin County has seen the most substantial employment growth in Montana. This trend of rapid job creation in the county

predated the global pandemic of 2020, placing it well above the state average in terms of employment expansion. Despite a sharp downturn in the second quarter of 2020, the trajectory for job growth quickly recovered and gained significant momentum.

Between 2013 and 2023, payroll employment in Gallatin County grew by nearly 150%, translating to an increase of over 23,000 jobs. Remarkably, this growth continues to account for nearly a third of all new jobs in Montana during this period, underlining Gallatin County's critical role in the state's economic development and the growing pains that come along with rapid economic growth.

Figure 1.1: Payroll Employment
U.S., Montana, and Gallatin County
2013-2023 Index
September 2013 = 100

Source: U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages

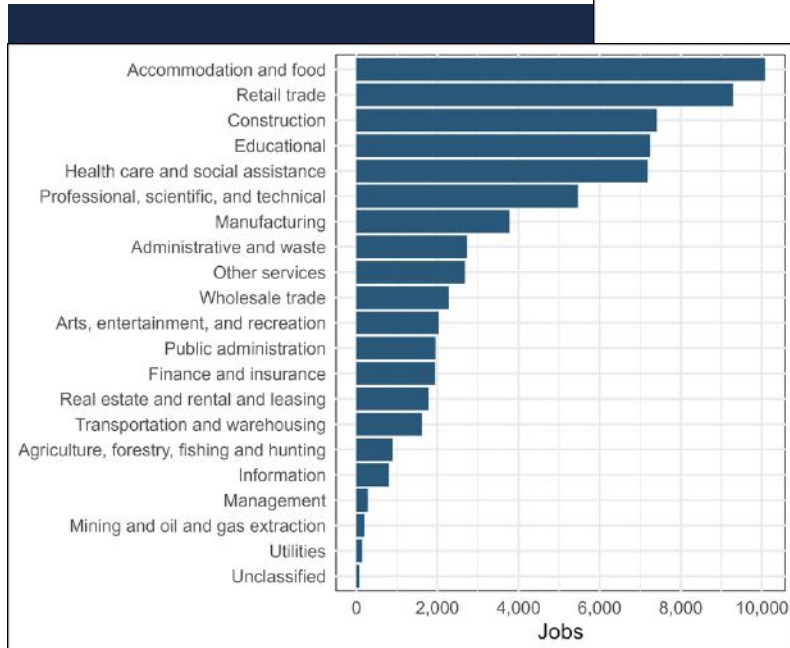
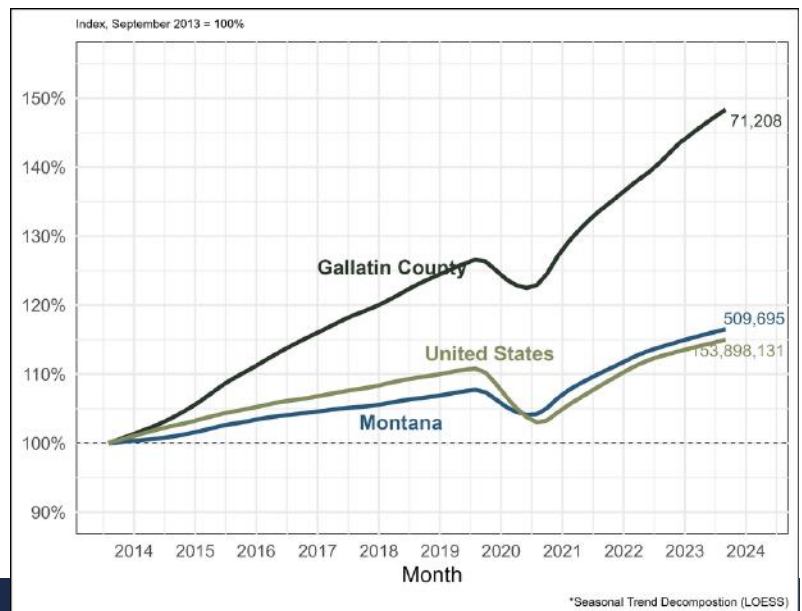


Figure 1.2: Employment by Industry
Gallatin County
2023

Source: U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages

The vigorous recovery of service-oriented occupations post-pandemic is reflected in the job distribution within Gallatin County, spanning across key sectors. Notably, a significant portion of employment is bolstered by tourism-related industries, construction, and educational institutions. The prominent role of education as an employer is chiefly attributed to Montana State University. This diversity underscores the adaptability and resilience of the job market, highlighting sectors that have not only rebounded but also contributed substantially to the economic vitality of the region.

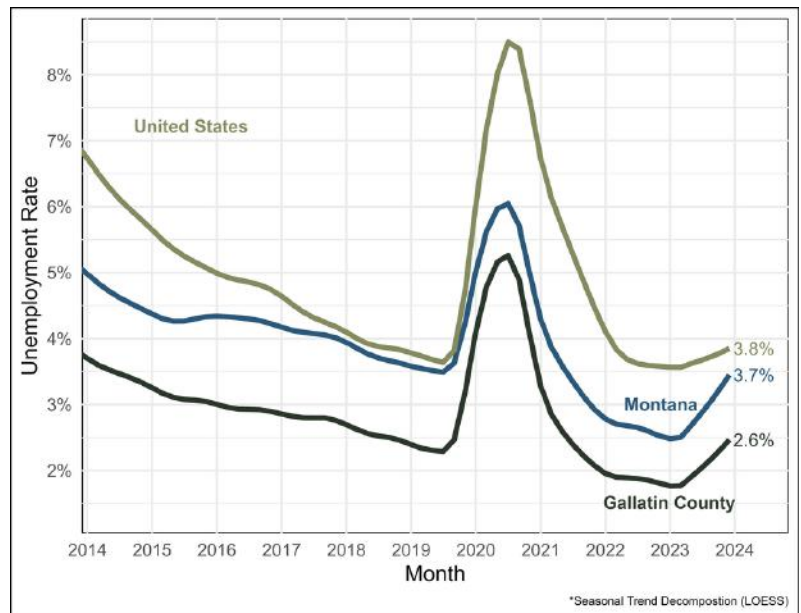
In 2023, Montana’s labor market landscape has seen a notable adjustment from the patterns observed in 2022. Last year, the unemployment rates across the state, and particularly in Gallatin County, hit historically low levels due to strong hiring momentum and a decreasing pool of

available workers. Gallatin County’s unemployment rate impressively dropped to 1.9 percent, significantly lower than both the state and national averages, highlighting the acute challenge of labor scarcity for employers. This shortage had tangible impacts on the operational capabilities of businesses, leading to reduced service hours and availability, a change that did not go unnoticed by consumers.

However, as we move through 2023, there has been a shift in this trend. Gallatin County’s unemployment rate has risen to 2.6 percent, reflecting an uptick from the previously recorded lows. This increase, while still indicating a relatively tight labor market, suggests a relaxation in the previously intense labor demand or potentially an increase in the labor supply. The reasons behind this rise in unemployment could range from economic adjustments, changes in the employment landscape, or variations in workforce participation rates.

Figure 1.3: Unemployment Rate
U.S., Montana, and Gallatin County
2014-2023, percent

Source: U.S. Bureau of Labor Statistics Local Area Unemployment Statistics

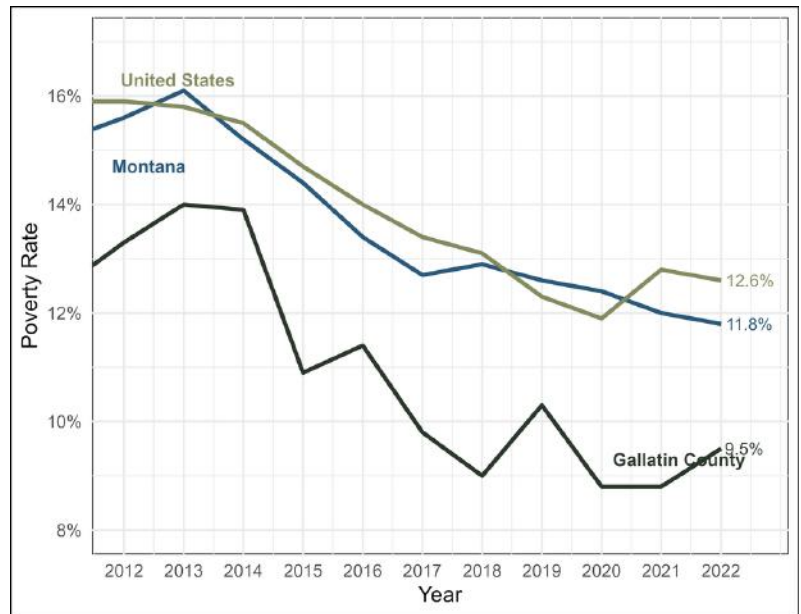


The trajectory of declining poverty rates has continued across much of the United States, reflecting positively on both Montana and Gallatin County. This trend has been supported by enhanced economic stability and more substantial wage increases, and the extended benefits of government assistance. It's important to note that the Census Bureau's methodology for determining poverty rates primarily considers money income, excluding several types of noncash benefits such as housing subsidies. Additionally, the calculation does not account for the poverty status of individuals without stable housing. For context, the poverty threshold used by the U.S. Census for a family of four in 2023 was set at \$29,678.

In 2022, despite the generally positive economic trend and efforts to mitigate poverty, Gallatin County encountered challenges. The proportion of households living below the poverty line increased to 9.5 percent, up from 8.8 percent in 2021. This uptick marked a deviation from the overall declining poverty rates observed nationally and within Montana. The increase in Gallatin County's poverty rate, while still lower than many other regions in rate terms, underscores localized economic challenges that are not reflected in the broader U.S. or Montana rate.

Figure 1.4: Poverty Rate
U.S., Montana, and Gallatin County
2012-2022, percent

Source: U.S. Census Bureau Small Area Income and Poverty Estimates

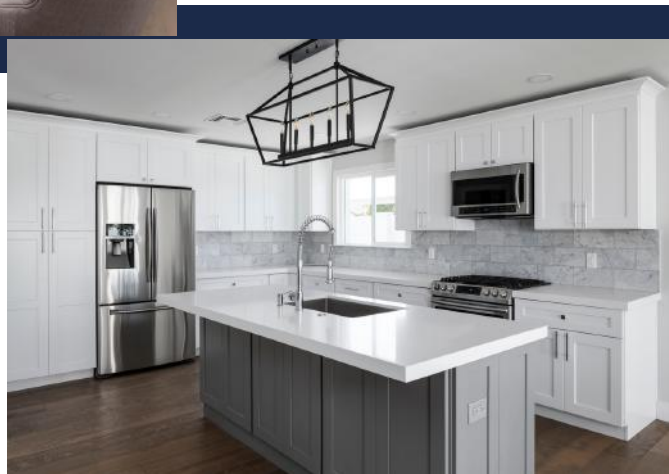
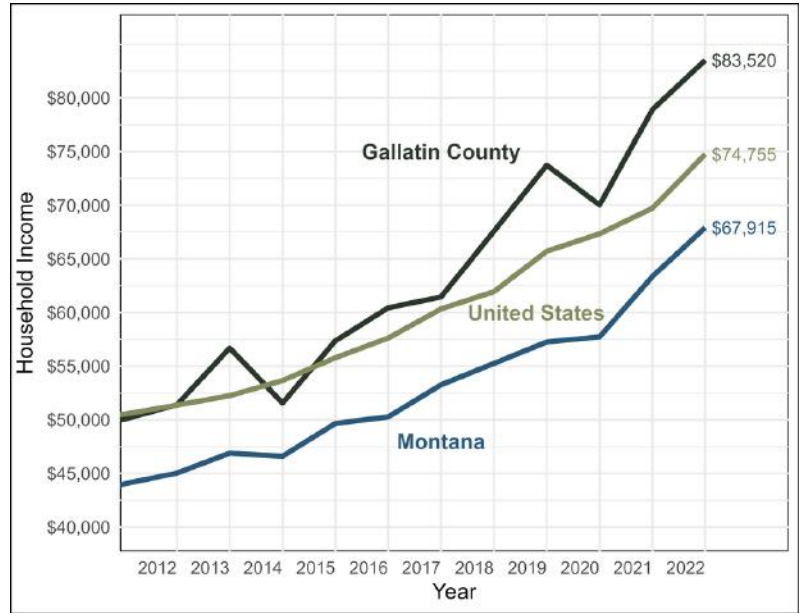


Gallatin County has transformed from an economy with lower-than-average income levels into one where income substantially surpasses both the national and state medians. By 2022, the median income of households in Gallatin County was 12 percent higher than the national median. This represents a significant shift from just a decade earlier when the county’s median household income was approximately on par with the national figure.

The accelerated growth in median household income in Gallatin County can largely be attributed to the burgeoning tech and light manufacturing sectors within the local economy. Additionally, the strong influx of relatively higher-earning new residents has played a crucial role in elevating the overall income levels in the county. This demographic and economic shift underscores the county’s evolution into a more affluent and economically vibrant region.

Figure 1.5: Median Household Income
U.S., Montana, and Gallatin County
2012-2022, percent

Source: U.S. Census Bureau Small Area Income and Poverty Estimates



1.2 Population and Household Demographics

The sustained economic vitality of Gallatin County acts as both a catalyst and a reflection of its evolving population and demographics, significantly characterized by substantial in-migration levels. This trend effectively counteracts the aging and reduced birth rate patterns more typically seen in Montana. The unique demographic profile and age structure of Gallatin County significantly affects housing demand, indicating shifting community needs and preferences.

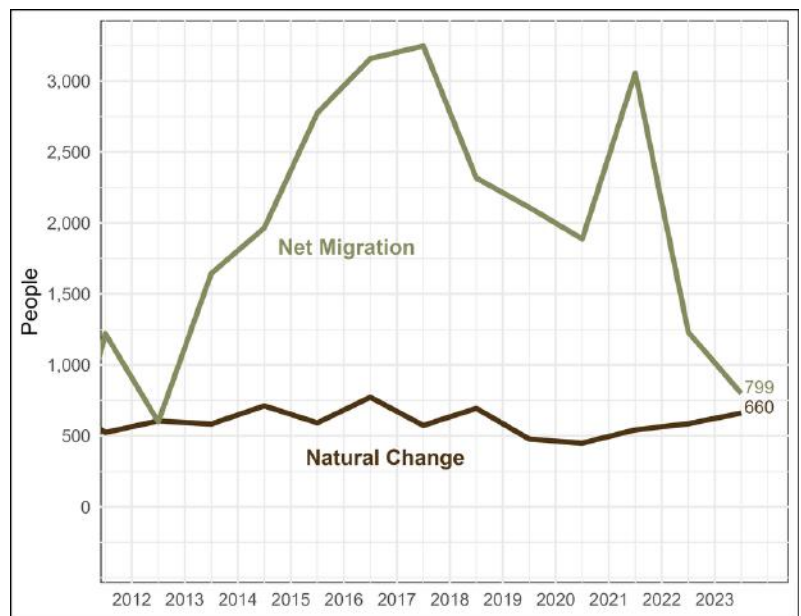
Data from the U.S. Census Bureau shows strong in net migration to Gallatin County over the past decade, underscoring its strong appeal to people from other states as well as from within Montana itself. In 2021, the county saw a peak in net migration, with nearly 2,900 additional residents making it their home, reinforcing Gallatin County's attractiveness as a place to live. This movement is a key

driver of the county's population expansion. However, in the last two years, there has been a notable adjustment in net migration figures, declining from the previous peak to 799. This change reflects a broader trend of decreased mobility, largely attributed to the nationwide rise in inflation including housing costs.

In contrast, the natural change rate in Gallatin County, which represents the difference between births and deaths, remained consistent at 660 in 2022. This stability is in sharp contrast to the negligible growth, or declines observed in other regions of Montana, reflecting unique local dynamics. Across Montana, the natural change has been below the replacement level for around two years, highlighting broader demographic shifts such as an aging population and falling fertility rates. Gallatin County's ability to maintain a stable natural change rate amidst these trends underscores its unique position within the state's demographic landscape.

Figure 1.6: Components of Population Change
Gallatin County
2012 -2023

Source: U.S. Census Population and Housing Unit Estimates Program



Gallatin County’s demographic composition skews significantly younger compared to the overall state of Montana, largely influenced by its economic vibrancy and educational institutions. This younger demographic is particularly evident from the population pyramid, showcasing a robust presence of individuals in the 20 to 29 age range. This stability or growth within the young adult segment suggests a strong attraction or retention of this age group, likely due to employment opportunities and the educational allure of Montana’s largest university located within the county.

Despite the youthful skew, there is a noticeable increase in the proportion of the population aged 65 and older. This shift is attributable to a combination of factors: the aging of the baby boomer generation within the county and the area’s

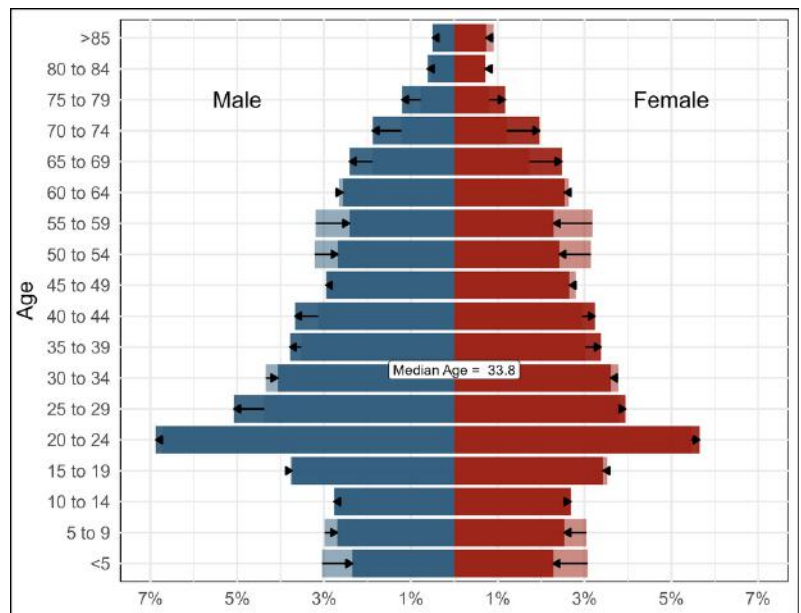
appeal as a retirement destination, thanks in part to its quality of life and relatively easy access to healthcare. These factors contribute to the rising life expectancy and the county’s capacity to attract older new residents looking to spend their retirement years in a vibrant community.

The demographic data also indicates a relative decrease in the younger, particularly under 19 segments of the population. This could reflect broader trends of declining fertility rates or suggest changing family planning preferences among those moving to or currently living in Gallatin County. The shift in the demographic makeup, with a growing young professional base and an increasing older population, underscores the changing social and economic dynamics of the area.

Figure 1.7: Population Pyramid

Gallatin County
2012-2022

Source: U.S. Census Population and Housing Unit Estimates Program



The definition of a household by the Census encompasses individuals, families, or groups of unrelated individuals residing in a single housing unit, which may be a single-family home, an apartment, or a mobile home. This classification excludes group quarters like dormitories, barracks, and prisons. In Gallatin County, where rapid population growth has been a consistent trend, all household types have seen an increase since 2013, as highlighted in Figure 1.8. Notably, the most significant surge has been observed in non-family, multi-person households, which have doubled in size over this period.

This remarkable growth in non-family, multi-person households mirror several factors unique to Gallatin County. Primarily, it reflects the younger demographic makeup of the county's population, a characteristic partly due to its status

as a host to Montana's largest university. Additionally, this trend points to the escalating challenge of housing affordability in the county. As housing costs rise, more individuals find it necessary to live with roommates to make living expenses more manageable. This adaptation is a direct response to the economic pressures of living in an area experiencing rapid population and economic growth, alongside increasing demands on its housing market.

There has been only a very modest increase in the size of family households in Gallatin County in the years since 2013, as shown in Figure 1.9. In 2021 the average family household here was just slightly over three people. While much more variable, the size of non-family multi-person households in Gallatin County, while growing rapidly in number of households is declining in terms of average size showing slightly more than 2.5 people per household of that type.

Figure 1.8: Households by Type

Gallatin County
2013-2022

Source: U.S. Census American Community Survey,
1-year estimates

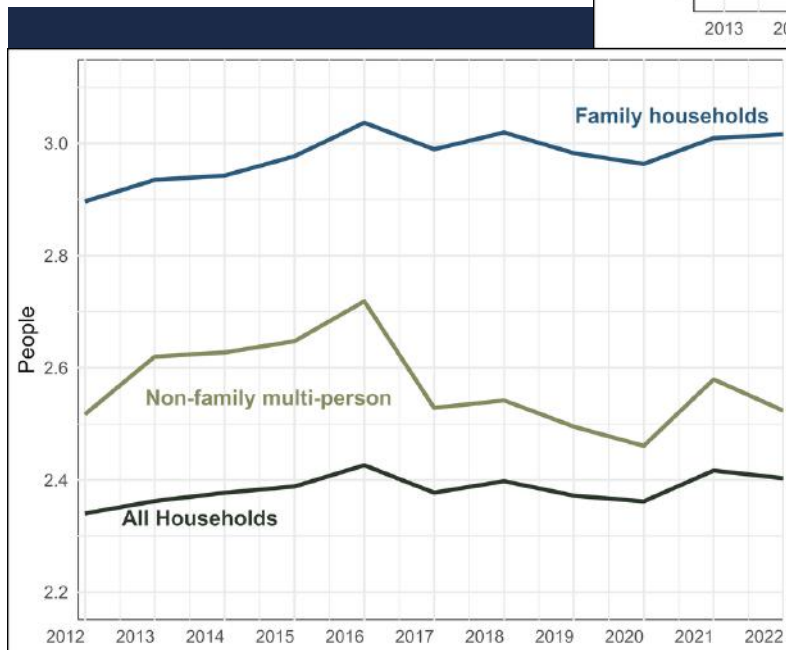
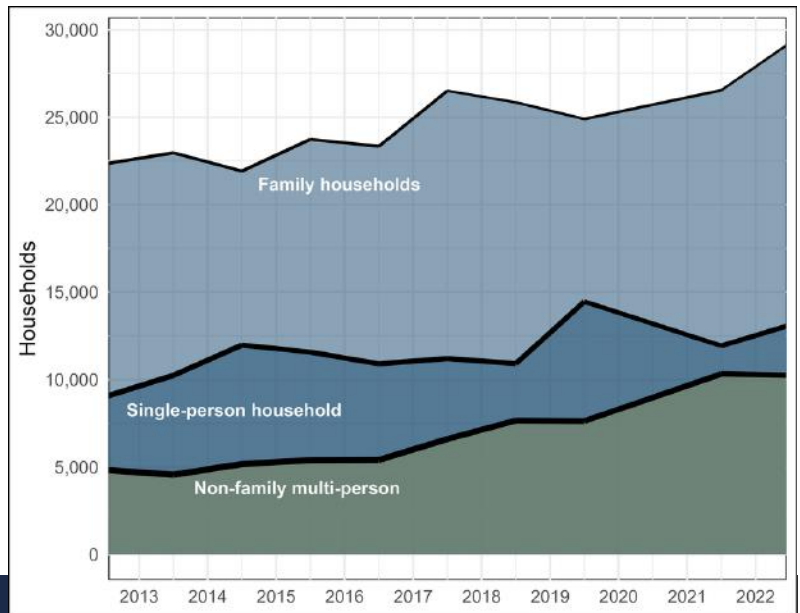


Figure 1.9: Average Household Size by Household Type

Gallatin County
2013-2022

Source: U.S. Census American Community Survey,
1-year estimates.

The recent shortages of housing in Gallatin County and elsewhere have produced increased interest in the portions of the residential housing stock that are not home to full-time residents. The attractiveness of Gallatin County to world-class recreational opportunities, not to mention its scenic beauty, produces a demand for residential space during peak tourism season.

The Census definition of housing vacancy is more than housing that is not being used. It also includes housing that is used by people whose primary residence is elsewhere. This includes second homes, time shares, and seasonal housing. The number of housing units vacant for those reasons has grown substantially since 2012, as shown in Figure 1.10. Its peak of over 3,000 housing units in 2022 represented nearly 6 percent of all housing units in the county.

AirDNA, specializing in short-term rental data, published the number of vacation properties listed by companies like Airbnb and VRBO in Gallatin County's communities, despite their boundaries not aligning perfectly with Census definitions. The data, illustrated in Figure 1.11, reveals a significant decline or stabilization in vacation rentals throughout the county, with Big Sky being the exception.

Notably, Bozeman experienced a sharp decrease of over 130 units in active rentals, a change attributed to the implementation of the 2023 ordinances, specifically Ordinances 1974 and 2149. These regulations were introduced to address the surging vacation rental market, reflecting broader concerns about the impact of short-term rentals on housing availability.

Figure 1.10: Vacant Housing Units for Occasional, Recreational or Seasonal Use Gallatin County

Source: U.S. Census American Community Survey, 1-year estimates

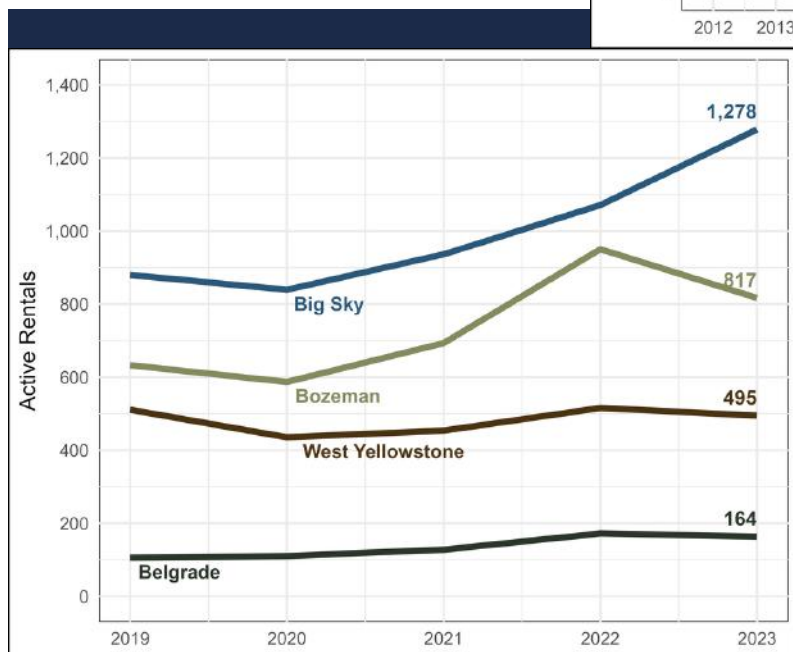
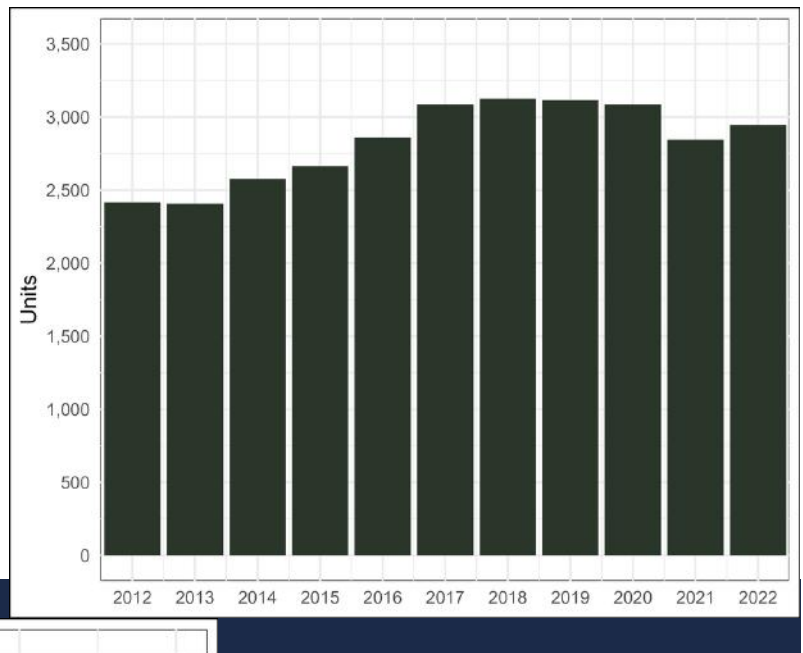


Figure 1.11: Active Short-Term Rentals- Active Short-Term Rentals

Selected Gallatin County Communities 2019–2023

Source: AirDNA

1.3 Airport Activity

As of April 2024, Bozeman Yellowstone International Airport continues to connect to major urban areas across the United States. It has introduced seasonal non-stop flights to two cities in Southern California, increasing the total number of destinations to 25, as shown in Figure 1.12. This expansion of services results not only from the economic development in the area but also further improves Southwestern Montana's economic connectivity and development.

The county's major airport, Bozeman Yellowstone International Airport (BZN), is not only the largest in terms of

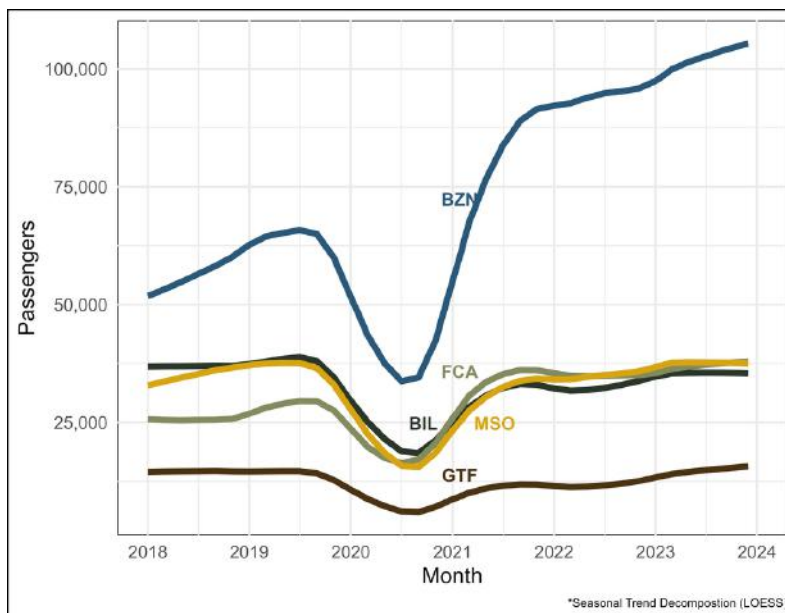
passenger volume but also experiences substantial growth compared to other major airports in Montana. Despite a significant decline during the COVID-19 pandemic that affected all airports, Bozeman Yellowstone International Airport stands out for its swift recovery and ongoing growth in passenger arrivals. The dramatic trend illustrated in Figure 1.13 is seasonally adjusted to reflect that not only is the region becoming a more seasonally accessible and desirable travel destination but is also increasingly becoming a crucial hub for economic activity in Montana.



Figure 1.12: Non-stop Flights from Bozeman Yellowstone International Airport

Source: Bozeman Yellowstone International Airport

Figure 1.13: Enplanements, arriving passengers, 2018 - 2023



Source: U.S. Bureau of Transportation Statistics

2. HOUSING SUPPLY AND OCCUPANCY

The changes in housing demand, influenced by the economic environment, migration, demographic shifts, and other influences, constitute just one aspect of the broader housing market. Equally important is the adaptation of housing stock to align with the increasing yet decelerating demand. Although residential construction continues to be a vital driver of the regional economy, marked by significant building activity in recent years, it's important to note that the peak construction activity observed in 2021 is now being tempered by prevailing economic environment. The elevated costs of certain construction inputs, such as labor, land, and higher borrowing rates, are currently limiting the extent of construction activity.

2.1 Housing Stock

The U.S. Census Bureau's estimates offer a detailed overview of the regional housing stock as it stood in 2022. These annual housing unit estimates, when not aligned with a decennial census year, are derived from the U.S. Census Bureau's 2020 Decennial Census, Survey of Construction (SOC) and the Building Permits Survey (BPS) and may also incorporate responses from the American Community Survey (ACS).

The latest data release presents estimates gathered over a calendar year. For 2022, the county was estimated to have

57,721 housing units, as detailed in Table 2.1. Out of these, 5,731 were identified as vacant or unoccupied. This category encompasses properties in disrepair, newly constructed homes, residences available for sale or rent, and dwellings used by individuals whose primary residence is elsewhere, including vacation homes, short-term rentals, and timeshares. Additionally, the table outlines the group quarters population, referring to individuals, usually unrelated, living in a communal setting where housing and/or services are provided. For instance, in Bozeman, a significant portion of the group quarters population comprises Montana State University students living in dormitories.

The 2022 data presented in Table 2.1 indicate that the city limits of Bozeman and Belgrade collectively account for over half of the county's housing stock. The expansion of housing stock in 2022, as evidenced by the number of building permits issued, demonstrates vigorous growth across all areas. Notably, Belgrade experienced particularly strong growth, with the new permits issued—if constructed—set to represent a 5.1 percent increase in the city's housing stock. Growth, especially in Bozeman, has been characterized by a significant increase in multi-unit structures. Whereas the county saw an even split between single-family homes and multi-family units.

Table 2.1: Housing Stock Estimates Summary, Bozeman, Belgrade, Gallatin County, 2022

	Bozeman	Belgrade	Gallatin County
Housing Units	25,528	4,968	57,721
Change 2021-2022	--	--	2,456
Building Permits 2023*	1,024	254	1,876
Single-family homes	252	129	938
Multi-family units	772	125	938
Vacant Units	1667	212	5731
Group Quarters Population	4202	22	4644

Source: U.S. Census Bureau. *preliminary data from the Building Permits Survey (BPS)

The composition of occupied housing in Gallatin County for 2022, as depicted in Figure 2.1, reveals that single-family detached structures are the predominant housing type. According to Census definitions, single-family structures also encompass attached units such as row houses, assuming they fulfill specific criteria such as having separate utilities and no units situated above or below. Including mobile homes, 77 percent of the housing units are considered single-unit structures, while the remaining 23 percent are units classified as multi-family units.

Occupied housing in Gallatin County is categorized into two interconnected markets: the owner-occupied housing stock

and the rental housing stock. Across the county, approximately 61 percent of all occupied housing units are owner-occupied, though this ratio varies significantly by jurisdiction. The City of Bozeman, influenced partly by its university, younger population, infrastructure, and a notable shift towards higher housing density, stands out as the only jurisdiction in the county with more renters than owners, 58 percent in Figure 2.2. In contrast, housing units situated outside the boundaries of cities and towns are predominantly owner-occupied, with over 80% of the county balance inhabited by homeowners.

Figure 2.1: Occupied Housing Units by Type of Structure

Gallatin County, 2022

Source: U.S. Census American Community Survey, 1-year estimates.

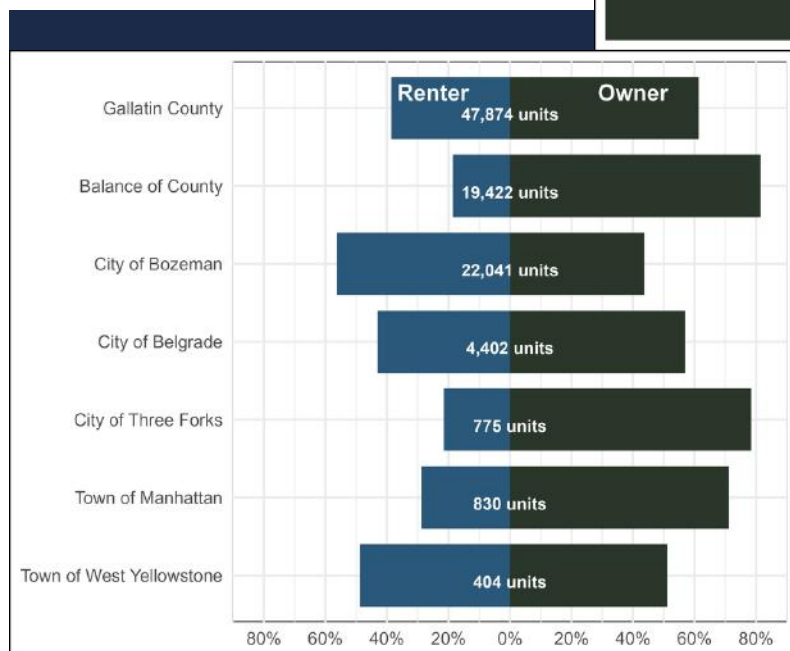
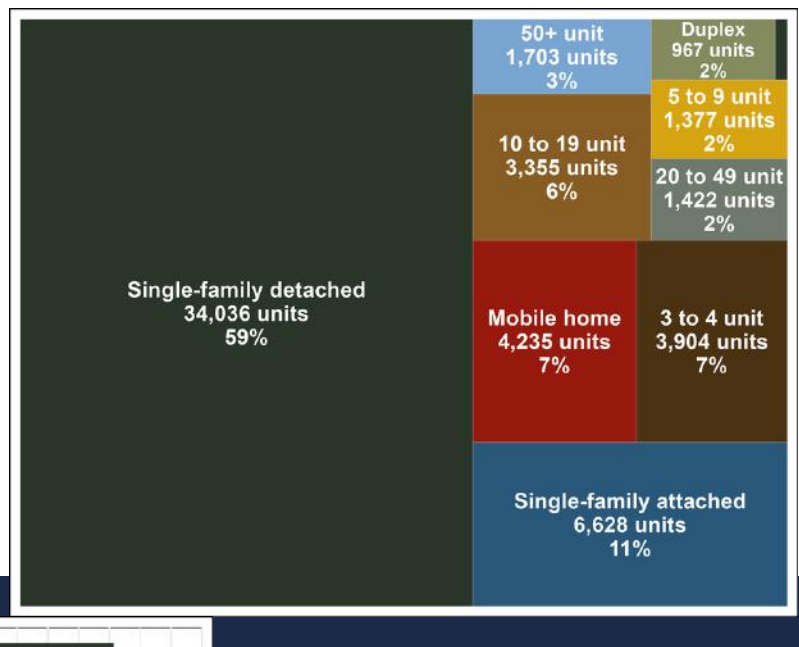


Figure 2.2: Occupied Housing Units by Tenure and Municipality

Gallatin County, 2022

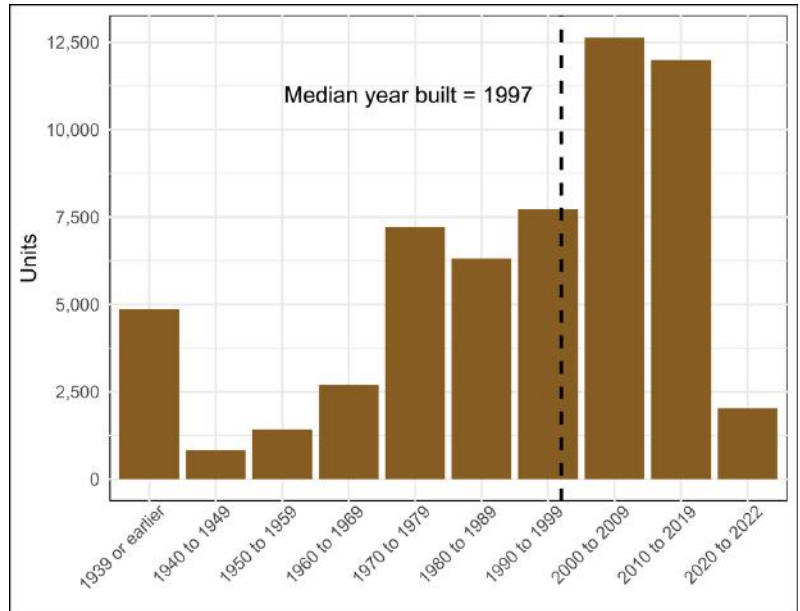
Source: U.S. Census American Community Survey (ACS), 5-year estimates 2018 – 2022.

The economy and population of Gallatin County have seen substantial growth over the past two decades, resulting in a housing stock skewed towards newer constructions. The median year of construction for all occupied housing units in the county is 1997, indicating that more than half of the county's housing stock is less than 25 years old, as shown in

Figure 2.3. This stands in stark contrast to the median construction year of 1985 for metro or micropolitan areas across the rest of Montana. For comparison, the second most current housing stock can be found in the rapidly growing Kalispell metro area - Flathead County - with a median construction year of 1993.

Figure 2.3: Occupied Housing Units by Year Built
Gallatin County
2022

Source: U.S. Census American Community Survey (ACS), 1-year estimates.



2.2 Housing Development

Gallatin County boasts the highest proportion of its total employment in construction industries compared to any other urbanized county in the state, highlighting a significant focus on construction across various sectors. The robustness of its residential construction industry is particularly evident through housing development data, although much of the land development data is primarily available for the City of Bozeman.

The availability of land is crucial for new residential development, especially for single-family, detached homes. This land supply typically originates from two sources: the creation of new lots through the subdivision process, and the sale of previously established lots on the market.

The process of creating new subdivisions in Bozeman, which had been in decline since 2016, experienced a revival in 2020. Although the number of new subdivisions in 2022

didn't reach the high levels seen in 2020 and 2021, as shown in Figure 2.4, there was a significant uptick in the creation of new parcels through the addition of parcels to existing subdivisions, effectively doubling the total in 2022. This increase involved a mix of subdivisions that were established from 2015 to 2022, with a return to lower, albeit preliminary, levels as further parcels are expected to be added to these new subdivisions.

The data on residential lot sales in Gallatin County, as recorded by the Big Sky Country Multiple Listing Service, highlights a market characterized by dwindling supply and robust demand. In 2023, the 48 recorded sales of lots represented less than one-sixth of the sales volume observed in 2020, according to Figure 2.5. Additionally, the per acre price for lot sales last year reached \$987,013, almost doubling the price from 2022.

Figure 2.4: New Subdivisions and Parcels
2014 - 2022

Source: City of Bozeman

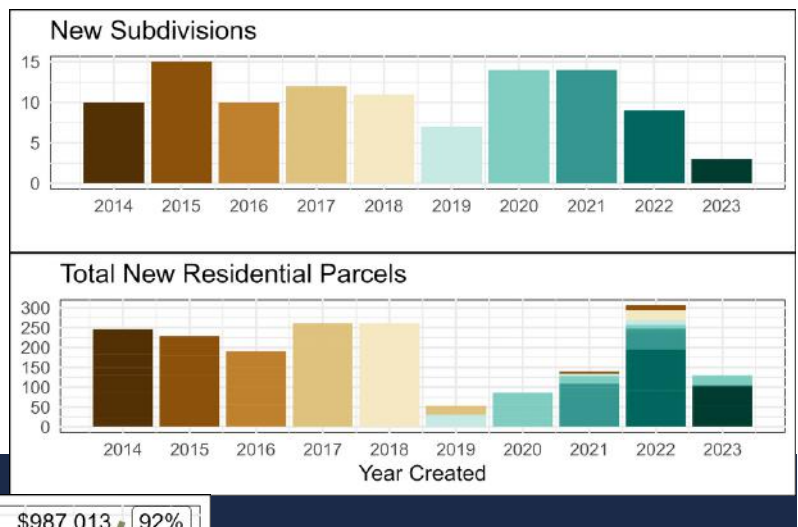


Figure 2.5: Residential Lot Price per Acre and Sales

Gallatin County
2018 - 2023

Source: Big Sky Country Multiple Listing Service

The requirement of building permits by certain jurisdictions is a key method for monitoring the development of new residential units. In the case of single-family homes, the granting of these permits is closely linked with the start of construction activities. Conversely, the development of multi-family units may face delays or even cancellations due to evolving circumstances.

Permit data from Gallatin County reveals a strong supply response to the increase in housing prices over the last three to four years, especially evident in the permits for multi-family units, illustrated in Figure 2.6. In 2021, the number of multi-family units authorized for construction nearly double the annual average seen in the pre-pandemic years, with more than 1,300 units permitted. Despite a slight decrease in the number of multi-family units permitted in 2022 and 2023, the figures significantly exceed those recorded in the decade prior, underscoring a persistent trend towards denser housing construction.

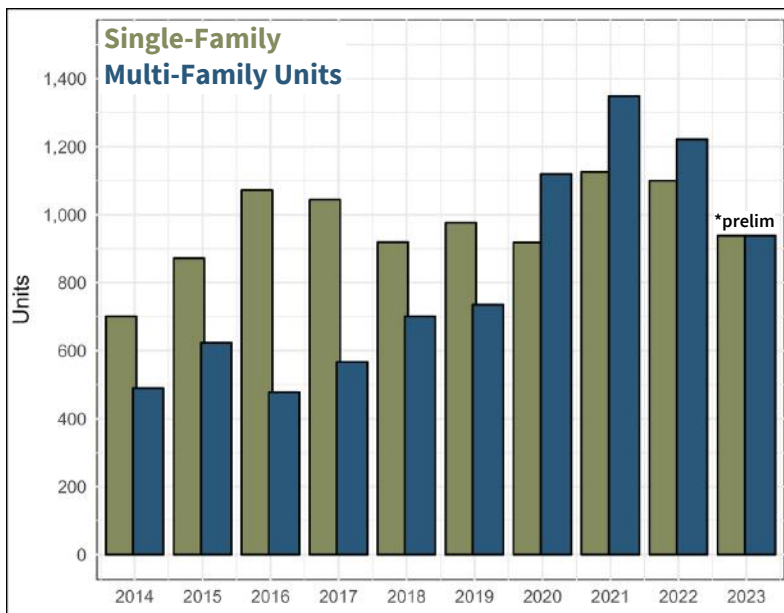
The shift towards density reflects a supply response to rising housing costs but also underscores the efficiencies inherent in multi-family development. Multi-family units generally necessitate fewer considerations regarding subdivision, require less site planning and infrastructure and assuming

sufficient land is zoned for multi-family construction are often easier to permit. Furthermore, the higher density achievable with multi-family developments can render these projects more economically competitive relative to single-family homes. This efficiency and value competitiveness of multi-family units are significant factors in the increased permit activity observed in recent years, as illustrated in Figure 2.6. Such dynamics highlight the crucial role of zoning and regulatory environments in shaping housing supply responses, particularly in areas experiencing sharp increases in demand.

In contrast, the construction of single-family homes has shown a more restrained supply response. Data on single-family home permits exhibit a relatively stable trend since 2016, with a return to pre-pandemic levels in the last year. This stability contrasts with the more volatile pattern observed in multi-family construction, which is influenced by the impact of large-scale multi-unit projects on annual figures—a dynamic common across many housing markets. This distinction highlights the diverse factors driving residential construction trends in Gallatin County, emphasizing a construction market adapting to current demand patterns, higher costs of land and labor, and regulatory conditions.

Figure 2.6: Permitted Housing Units
Gallatin County
2014 - 2023

Source: U.S. Census Building Permits Survey



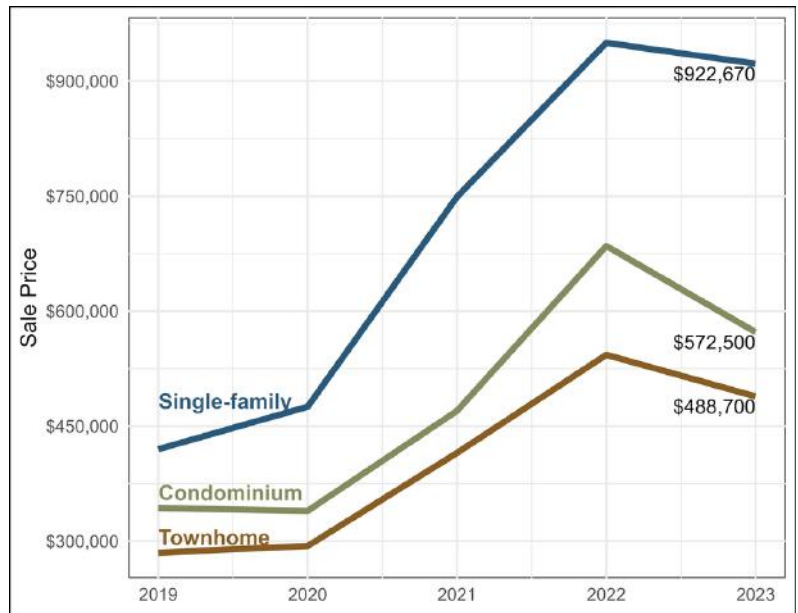
Building permit data not only shed light on the volume and type of construction but also provides insights into the costs associated with building these structures. It's important to note, however, that due to the intricacies of the application process, the values listed on permit applications often deviate from the final construction costs. As depicted in Figure 2.7, the per-unit costs associated with constructing single-family homes significantly exceed those of multi-family structures, a fact consistent with the broader national picture. What is particularly noteworthy is the distinct divergence in cost trends between housing types relative to the number of units in the structure. While permit valuations for single-family homes have shown a strong upward trajectory, the cost trends for multi-family structures are

heading in the opposite direction. This divergence highlights the increasing efficiency of multi-family structures in the region.

The completion of the construction process for owner-occupied properties culminates in the sale and occupancy of the new housing units. A second perspective on residential construction trends can be derived from sales data of newly constructed homes, as recorded by the Big Sky Country Multiple Listing Service (BSC MLS). It's important to note that the classifications of structure types in this figure do not align precisely with Census definitions used in previous tables and figures – for instance, only condominiums in Figure 2.8 are categorized as multi-family according to Census.

Figure 2.8: New Construction Median Sale Prices by Structure Type
Gallatin County
2019 - 2023

Source: Big Sky Country Multiple Listing Service

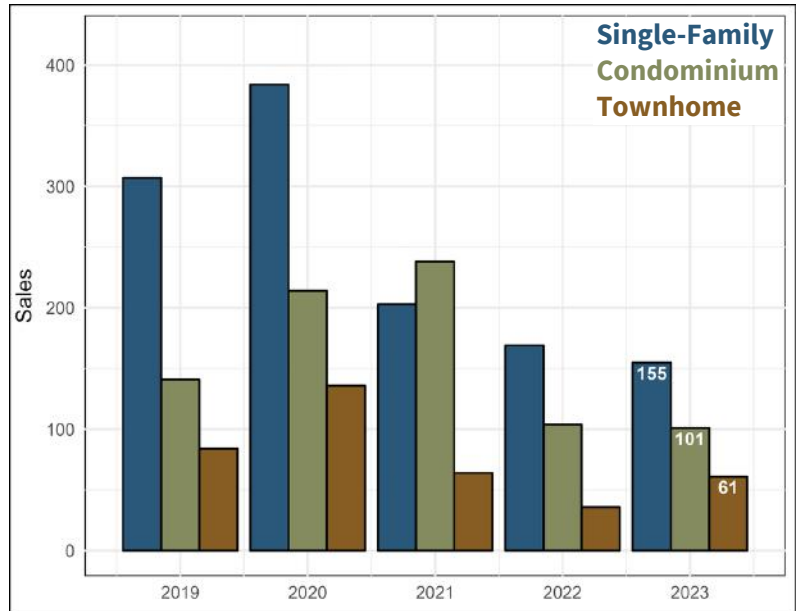


The BSC MLS sales data indicate a peak in sales of new construction homes of all types in 2020, with a subsequent decrease in sales volumes in the following years. An exception to this pattern was observed in the slight increase in condominium sales in 2021. The divergence between this sales trend and the permit issuance trend for single-family homes depicted in Figure 2.6 arises because sales by developers occasionally do not involve REALTOR® transactions that would be recorded by the Big Sky Country MLS.

According to BCS MLS transaction data, the median sales price of newly constructed homes in Gallatin County saw a significant increase in 2020 but has since experienced a decline across all three housing types, as illustrated in Figure 2.9. The decrease in prices was particularly pronounced for condominiums and townhomes, while the prices of single-family homes saw a less substantial decline. This reveals some market preference for single-family homes as purchase prices were less sensitive to rising mortgage rates and the resulting demand cool down.

Figure 2.9: New Construction Sales by Structure Type
 Gallatin County
 2019 - 2023

Source: Big Sky Country Multiple Listing Service



3. OWNER-OCCUPIED HOUSING MARKET TRENDS

Monitoring the dynamics in the owner-occupied housing market is enriched by the availability of various data sources on housing transactions. As a result, there's a wealth of information on how prices, volumes, and inventories have fluctuated, not only in Gallatin County but also in specific areas within the county and across other regions of the state. The past few years have created an ideal environment for rapid price increases, driven by unexpectedly high demand facing off against a supply that has grown much more slowly.

3.1 Sales Price Trends

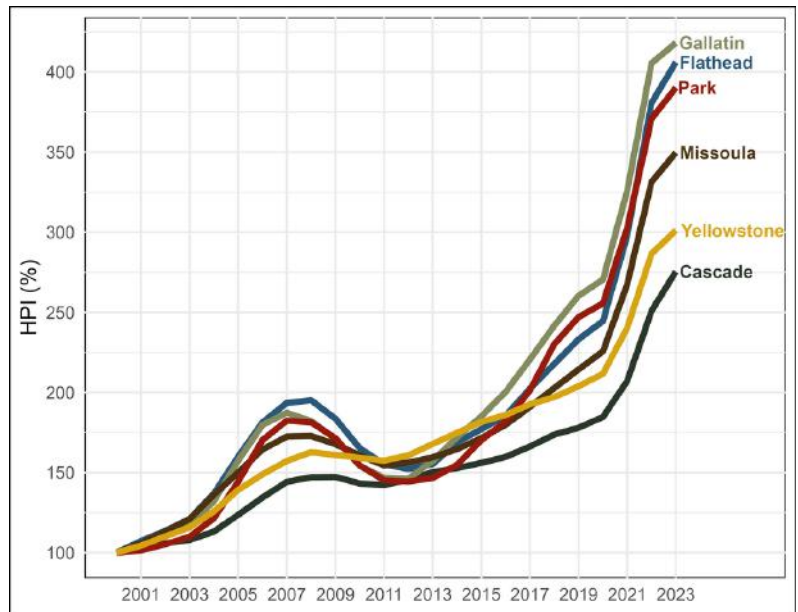
One of the most thorough indicators of housing prices is the Housing Price Index (HPI) from the U.S. Federal Home Finance Agency. The HPI evaluates overall price growth using data on the repeat sales of existing properties. This method contrasts with the timelier but compositionally sensitive data from REALTOR® MLS sales records, which might not accurately reflect market-wide trends if certain types of homes, like new construction or luxury properties, dominate sales at any time.

The historical data on housing prices, as captured by the HPI and presented in Figure 3.1 for the period since 2001, show similar price movement patterns in Montana's larger real estate markets. Notably, there's a discernible cycle of boom and bust around the Great Recession, followed by a rapid price increase starting in 2011. Flathead County, Park County and, more markedly, Gallatin County—all urban areas close to national parks—have experienced significantly faster housing price growth since 2011. By the close of 2023, prices in these counties had surged to about four times the levels recorded in 2000.

Moreover, Gallatin County has distinguished itself from other Montana markets by the largest slowing of price growth for repeat sales, as evidenced by the curve's flattening from 2022 to 2023. This trend indicates a notable moderation in the pace of price increases within the housing market.

Figure 3.1: Housing Price Index for Select Counties
2000 - 2023

Source: Federal Home Finance Agency



The median price of homes sold in Gallatin County, as indicated by MLS data from REALTOR®-facilitated sales, demonstrates a similar trajectory of rapid growth. County-wide prices depicted in Figure 3.2, account for not only the areas outside the city and town limits but also include sales within the Big Sky area that are within Gallatin County's borders. Therefore, the median sales price for single-family homes in Gallatin County closely mirrors that of a home in Bozeman, as presented in Figure 3.4. The sales volume trend, as tracked by the MLS, has declined significantly, indicative of both a marked decrease in trade-up activity and a substantial drop in the number of potential buyers able to afford financing at higher prices and mortgage rates.

One contributing factor to the decline in trade-up activity is the shift in what the same financial investment could yield in terms of home size from 2018 compared to the previous year. In 2018, the middle 50 percent of sales, which reflects the typical price range a homebuyer might anticipate, was between \$200 and \$275 per square foot, when adjusted for inflation to 2023 dollars. For an equivalent transaction in 2023, a homebuyer would face prices ranging from \$300 to \$460 per square foot shown in Figure 3.3 This demonstrates a significant reduction in the size of the house one could afford with the same budget in inflation-adjusted terms.

Figure 3.2: Single-Family Sales and Median Sale Price

Gallatin County
2013 - 2023

Source: Big Sky Country MLS

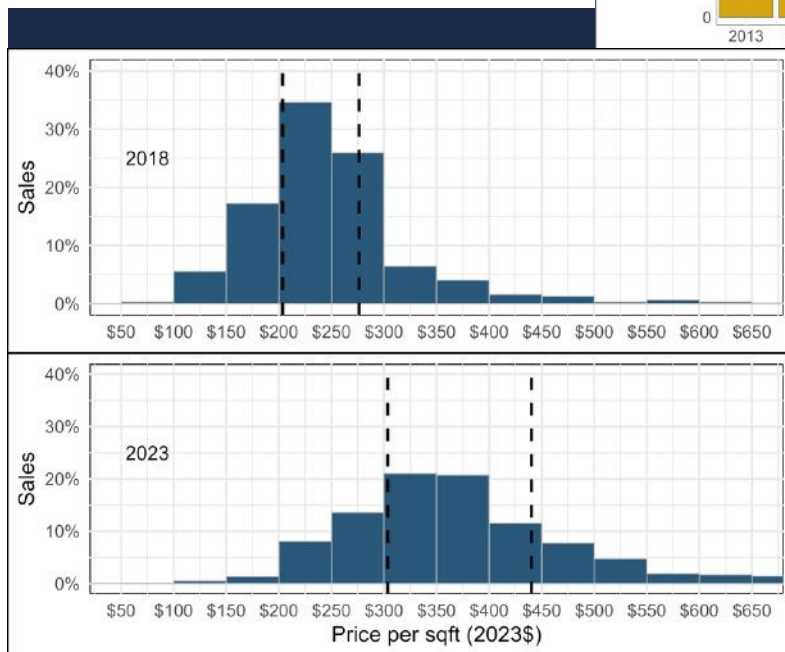
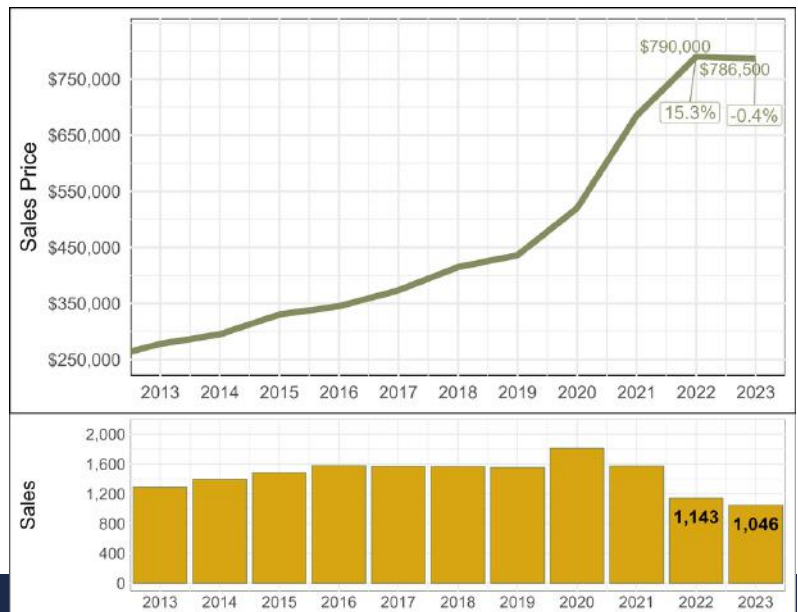


Figure 3.3: Single-Family Sale Price Per Square Foot

2018 vs 2023

Source: Big Sky Country MLS

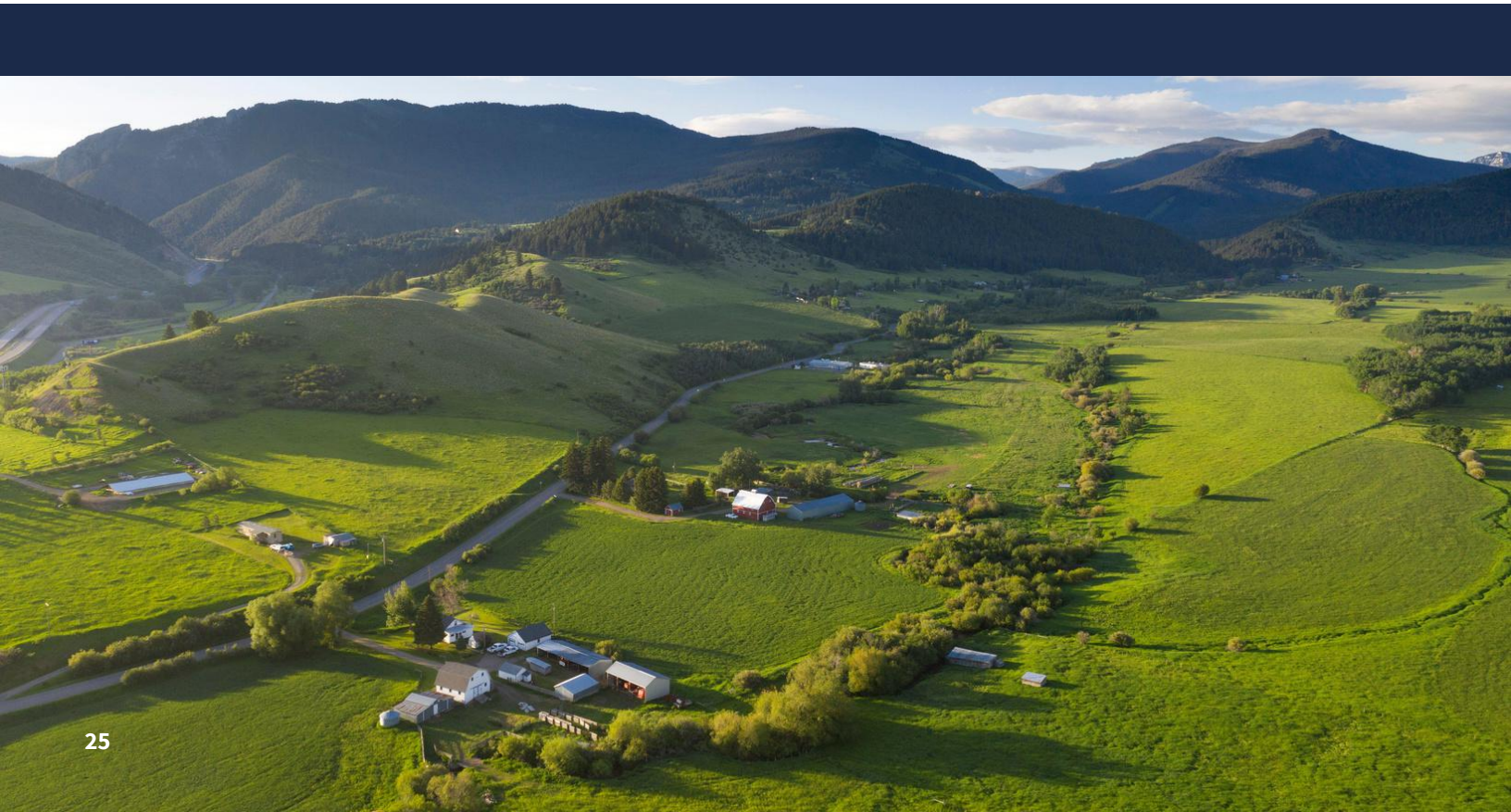
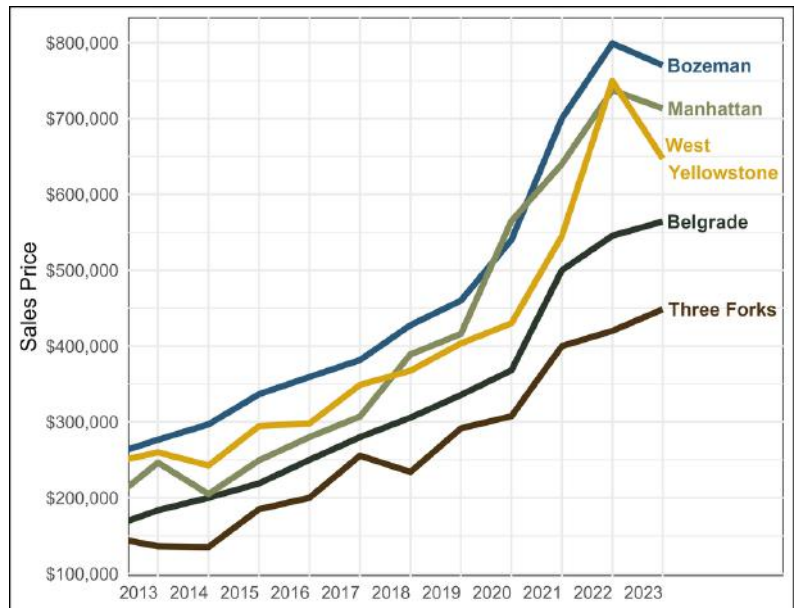
Exploring the sub-markets within the county uncovers significant differences in price levels and trends among the communities, with last year's prices ranging from \$450,000 in Three Forks to just over \$750,000 in Bozeman. Contrary to the sharp declines observed in West Yellowstone, Manhattan, and Bozeman, as shown in Figure 3.4, the historically more affordable jurisdictions of Belgrade and Three Forks did not undergo a decline but experienced only a deceleration in the growth of the median sale price.

To achieve a more direct comparison across different communities, considering the specific characteristics of the

housing stock, such as home size, is useful. This approach allows for a closer to "apples to apples" comparison. The sales price per square foot, a valuable metric for this comparison, is notably higher on average in Bozeman, with the middle 50 percent of sales ranging between \$350 and \$450 per square foot. In contrast, the same amount of money tends to stretch further in Belgrade, where the range lies between \$275 and \$375 per square foot. Although Three Forks had significantly fewer homes for sale, the price per square foot there varied from \$200 to \$325, demonstrating the strong impact of location across Gallatin County after adjusting for home sizes.

Figure 3.4: Single-Family Median Sales Prices
City and Town Limits
2013 - 2023

Source: Big Sky Country MLS



Comparing the differences in housing prices across jurisdictions can also be achieved by describing the general characteristics of the median home within each area. Part of the variation in prices can be attributed to the differences in the attributes of the specific median home sold. For instance, in 2023, homes sold in Belgrade were generally

smaller than those in other jurisdictions. On the other hand, the median home sold in Manhattan was larger across all metrics presented in Table 3.1, illustrating how differences in for sale homes plays a role in explaining price discrepancies across different areas.

Figure 3.5: City and Town Comparison Single-Family Sale Price Per Square Foot 2023

Source: Big Sky Country MLS

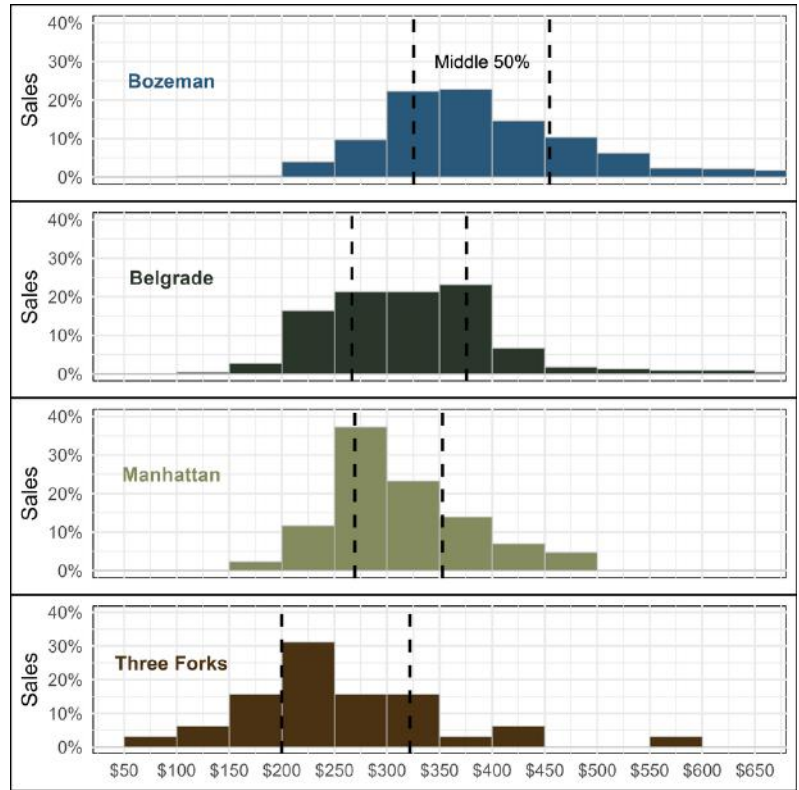


Table 3.1: City and Town Comparison of Median Home Characteristics, 2023

City or Town	Median Sale Price	Bed	Bath	Home Size	Lot Size
Bozeman	\$770,000	4	2	2,100 sq ft	0.20 acres
Belgrade	\$564,000	3	2	1,800 sq ft	0.20 acres
Manhattan	\$713,000	4	3	2,600 sq ft	0.35 acres
Three Forks	\$449,000	3	2	2,100 sq ft	0.16 acres

Source: Big Sky Country MLS

3.2 Home Ownership Affordability

The significant increases in home prices, coupled with a more than doubling of the average interest rates on conventional 30-year fixed-rate mortgages—from 3.0 to over 6.8 percent since 2021—have drastically reduced affordability. Home affordability indexes aim to answer the question: What portion of the monthly payment on a 30-year mortgage for a median-priced home can be afforded by the median-earning household while keeping mortgage debt servicing at or below 30 percent of their income? An affordability index value of 100 means the median-earning

household while keeping mortgage debt servicing at or below 30 percent of their income? An affordability index value of 100 means the median-earning household has exactly enough income to allocate 30 percent towards monthly mortgage payments without financial strain. Values less than 100 suggest less affordability.

As depicted in Figure 3.5, the 2010s began with the affordability index for the county at or near levels indicating unaffordability, with a gradual decline throughout the decade. The sharp decrease in affordability since 2020 has reached unprecedented lows, indicating that even as sales prices declined or growth slowed in much of the region, the affordability for those with a mortgage continued to worsen. According to this metric, the median-earning household in

Gallatin County can only cover about 39 percent of the necessary payment to finance a median-priced home without facing housing cost stress. Furthermore, a household with income in the 75th percentile can only afford 55 percent of this payment. This indicates that a significant portion of households working in Gallatin County are priced out of the market at current prices and interest rates.

Figure 3.6: Housing Affordability Index by Household Income Quartile
Gallatin County
2013 - 2023

Source: U.S. Census American Community Survey, Big Sky Country MLS, Freddie Mac, BBER Analysis.



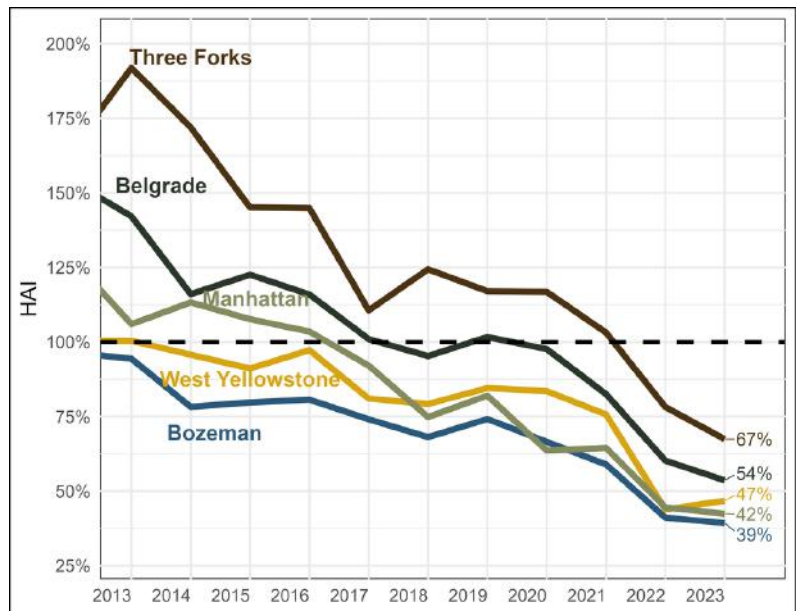
Utilizing Census income estimates from the Small Area Income and Poverty Estimates, we've calculated housing affordability for five incorporated cities and towns within Gallatin County. As depicted in Figure 3.7, there's a significant range in affordability across these communities, with Bozeman ranking as the least affordable and Three Forks as the most affordable. It's worth noting that the Big Sky community is excluded from these comparisons due to its unique market dynamics characterized by a high concentration of luxury homes and relatively low resident income levels, making it difficult to compare with the other communities.

Note that both Three Forks and Belgrade, identified as the more affordable communities among those analyzed, fell into the category of unaffordability within the last three years. By 2023, a household in Gallatin County, on average, could only afford to cover 67 percent of the payment on a median-priced home in Three Forks and just 54 percent in median-priced home in Three Forks and just 54 percent in Belgrade highlighting the widespread issue and increasing issue of a scarcity of attainable housing even as people turn toward areas farther from Bozeman.

Figure 3.7: Housing Affordability Index City and Town Limits

City and Town Limits
2013 - 2023

Source: Small Area Income and Poverty Estimates (SAIPE), Big Sky Country MLS, Freddie Mac, BBER Analysis.



3.3 Housing Finance

The significant role of cash transactions, comprising nearly 32 percent of all single-family home purchases in 2023 as shown in Table 3.1, underscores the economic capabilities of buyers in a year challenging for median earners. This high rate of cash purchases, likely influenced by newcomers from pricier markets, reflects changing dynamics in home buying within Gallatin County. The increase in cash purchases by 5.3

percentage points since 2021, coupled with a decrease in the reliance on conventional mortgage financing by 7.7 percentage points, as indicated in Table 3.2, points to a notable shift in purchasing patterns. Additionally, the growing proportion of FHA loans underscores an evolving diversification in financing options as the market adapts.

Method of Purchase	Sales	% Sales	% Point vs 2021
Conventional	600	57.40%	-7.7
Cash	333	31.80%	5.3
VA	26	2.50%	-1.4
1031 Exchange	24	2.30%	0.5
FHA	41	3.90%	2.3
Other	11	1.10%	0.5
Contract for Deed	3	0.30%	0.0
Rural Development	1	0.10%	-0.1
Trust Indenture Assumption	6	0.60%	0.4
Assumption	1	0.10%	0.1
Total	1144	100.00%	--

Table 3.2: Single-family Sales by Method or Purchase

Gallatin County
2023

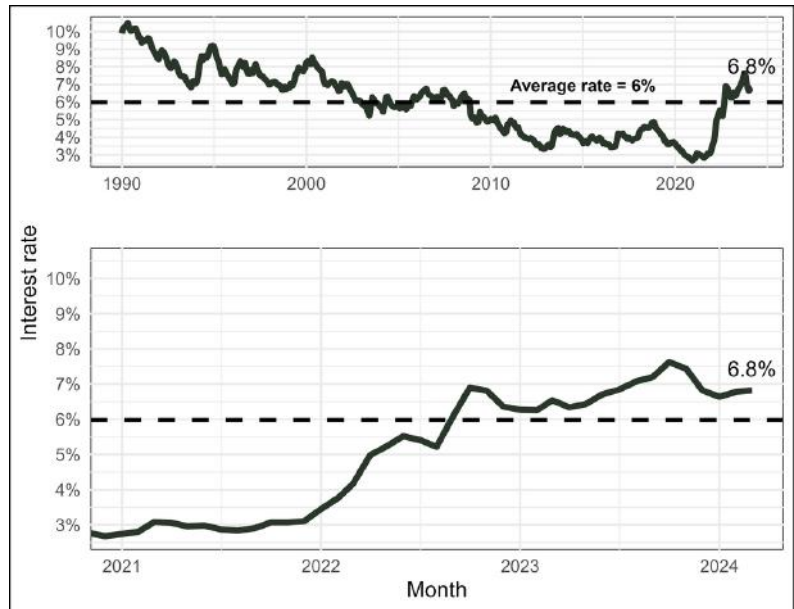
Source: Big Sky Country MLS

One of the most pivotal developments in the housing industry across 2022 and 2023, impacting Americans' ability to become homeowners, was the rapid rise in interest rates for conventional 30-year mortgages. This increase, an indirect result of the Federal Reserve's effort to control inflation, also broadly affected the lending industry. Average 30-year fixed mortgage rates hit a peak of over 7.4 percent in October 2023, before moderating to the 6.6 percent range by year's end. Despite this decrease, the rates remained over 3

percentage points higher than those recorded in late 2021, as depicted in Figure 3.8 This data might come as a surprise to many new homeowners, revealing that a 6.3 percent mortgage rate is in line with the historical average since 1990. However, it's crucial to note that, despite the historic parallels, overall monthly mortgage payments are significantly higher today due to the elevated price levels, even when inflation adjustments are considered.

Figure 3.8 30-Year Fixed Rate Mortgage Average United States 1990 - 2024

Source: Freddie Mac – Primary Mortgage Market Survey



3.4 Homeownership Programs

The federal government plays a crucial role in bolstering demand within the housing market through its various agencies, programs, and policies, which are central to how housing is financed, produced, and subsidized.

The mortgage guarantors Fannie Mae and Freddie Mac dominate the market for securitization and sale of residential mortgages. Conforming loans -those standardize

enough to be bundled and sold in secondary markets—enable local and other lenders to access fresh capital to issue new loans. The set dollar limits for mortgages, detailed in Table 3.3 for conventional mortgages and in Table 3.4 for Federal Housing Administration (FHA) loans, serve as a significant limitation on the borrowing capacity for home purchasers.

Table 3.3: Conforming Loan Limits for Mortgages Acquired in Calendar Year 2024

	One-Unit	Two-Unit	Three-Unit	Four-Unit
Mortgage Limits	\$766,550	\$981,500	\$1,186,350	\$1,474,400

Source: Federal Housing and Finance Agency

Table 3.4: Federal Housing Administration Loan Limits, Gallatin County, 2024

	One-Family	Two-Family	Three-Family	Four-Family	Median Sales Price
Mortgage Limits	\$718,750	\$920,150	\$1,112,250	\$1,382,250	\$625,000

Source: U.S. Department of Housing and Urban Development – FHA Mortgage Limits

Several key programs exist to help lower-income home buyers secure financing for their purchases. These initiatives provide support in the form of supplemental loans (detailed in Table 3.5) and down payment assistance (outlined in Table 3.6), offering crucial assistance to those navigating the housing market.

Table 3.5: Rural Development Single-family Housing Guaranteed Loan Program Income Limits, 2024

	1 – 4 person(s)	5+ persons
Very low income	\$52,600	\$69,450
Low income	\$84,150	\$111,100
Moderate income	\$120,950	\$159,650

Source: U.S. Department of Housing and Urban Development – FHA Mortgage Limits

Table 3.6: Down payment Assistance Programs

	Loan Types	First-time Homebuyer education
Montana Board of Housing	FHA, VA USDA	Required
Montana Community Development Program	FHA, VA, USDA, Conv FNMA HomeReady	Not Required
Lakeview National DPA	Conv FNMA, Conv FMCC, FNMA, HomeReady, FMCC Home Possible	Not Required
Chenoa Fund	FHA	Not Required

4. TRENDS IN RENTAL HOUSING MARKETS

Rents and availability of rental units respond to the same demand and supply factors as the markets for owner occupied housing. Market outcomes are less easily observed because of the difficulty in obtaining timely, comprehensive data on occupancy rates and rents. In recent years, private vendors such as Zillow have published rent information for local geographies that is publicly available, but its quality is not yet well understood. Perhaps the best data on rental markets comes from the Census American Community Survey (ACS), but that information arrives only annually with a considerable time lag. This measure also is an estimate of currently paid rents not the cost of a new lease, which would be more comparable to new sales in the ownership market.

Bozeman is by far the largest rental housing market in Gallatin County, accounting for two thirds of the county’s 20,884 rental units in 2022. The Belgrade stock of rental units is much smaller but has been growing rapidly, 71.9 percent growth since 2017, depicted in Table 4.1. This growth can be a result of either owner-occupied units becoming rentals or new construction.

ACS data indicate vacancy rates well below the 5-8 percent range considered healthy in Bozeman. Belgrade’s higher vacancy rates could be attributed to the rapid growth of newly constructed rental units in the jurisdiction.

Table 4.1: Rental Housing Summary, 2022

Source: U.S. Census American Community Survey, 1 and 5-year estimates, BBER Analysis

	Bozeman	Belgrade	Gallatin County
Rental Units 2022	12,845	2,171	20,884
Change 2017 -2022	2,357	908	3,630
% Change 2017 to 2022	22.40%	71.90%	21.00%
Vacancy Rate 2022	4.20%	9.50%	5.70%
2017	3.70%	4.30%	4.40%
% Units by Structure	--	--	--
Single-family	33.10%	37.70%	38.30%
2-4 units	22.60%	40.10%	23.30%
5+ units	42.40%	15.70%	33.40%

4.1 Trends in Rents and Vacancies

The Zillow Observed Rent Index (ZORI) is a way to understand the average rent prices in a region, smoothing out the highs and lows to give a clearer picture. It's based on the rents of homes that have been listed multiple times, making sure it represents the whole market, not just the properties that are currently for rent. ZORI calculates the average rent prices by focusing on the middle range of rents (from the 40th to 60th percentile) for all types and sizes of rental homes in an area, and then adjusts these figures to match the actual mix of rental homes available. This approach ensures that the index accurately reflects the typical rent in a region.

The Zillow Observed Rent Index indicates a deceleration in the pace of median rent increases in Gallatin County over the past year or two, yet the data presented in Figure 4.1 suggests rental costs may continue to climb in 2024. In Gallatin County, rental prices significantly outstrip those in other urbanized counties of the state, nearing a peak of approximately \$2,250 per month in January. By January, this trend has positioned Gallatin County's rental prices at about 1.7 times higher than those in Yellowstone County, the state's largest county and home to Billings, underscoring the pronounced disparity in rental markets across Montana.

Figure 4.1: Zillow Observed Rent Index
Select Counties
2020 - 2024

Source: Zillow Group Zillow Observed Rent Index, Seasonally Adjusted

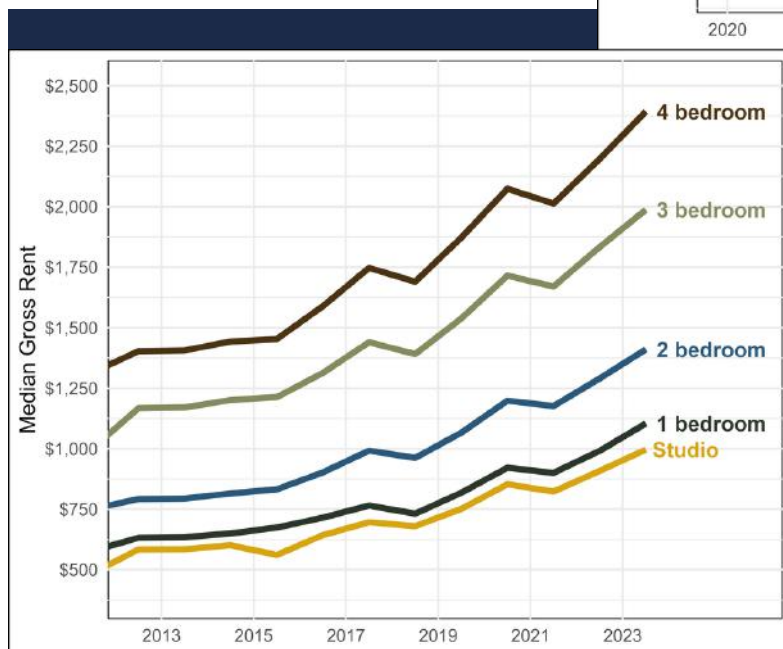
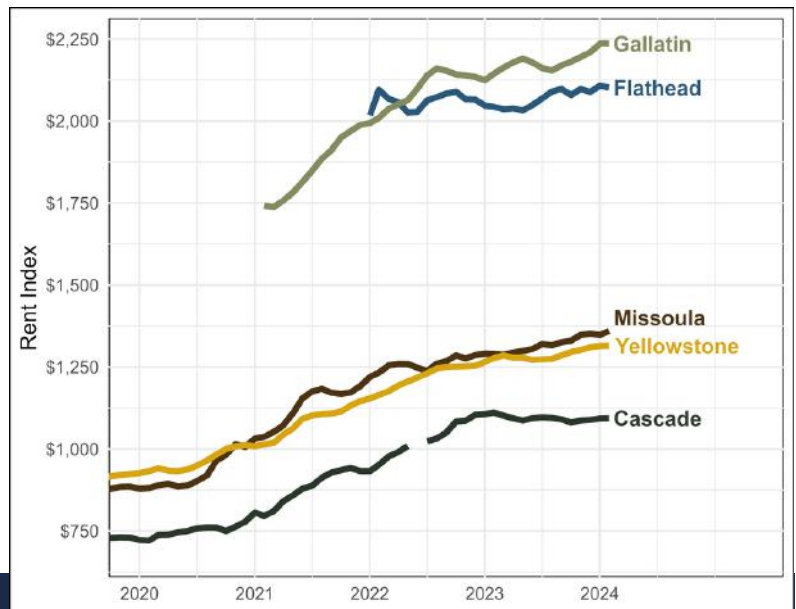


Figure 4.2: Median Rent Estimates by Number of Bedrooms

Gallatin County
2009 - 2024

Source: Zillow Group Zillow Observed Rent Index, Seasonally Adjusted

Another perspective on county rents is provided by the 50th percentile rents identified by the U.S. Department of Housing and Urban Development (HUD), which are part of its evaluation of fair market rents for various programs. This metric offers a closer look at rents according to the type of rental unit, as illustrated in Figure 4.2. There was a significant increase in rents for all unit types starting around the midpoint of the last decade.

Rents have continued to climb, with the noticeable difference in cost between one and two-bedroom units, as well as between two and three-bedroom units, highlighting the specific demand for these types of rental units.

The Census American Community Survey (ACS) data facilitates estimates of vacancy rates for rental housing in specific areas. Focusing on Bozeman, the heart of the rental market, we examine the trends in this jurisdiction's vacancy rates. ACS data reveals a significant drop in rental vacancies in Bozeman beginning around 2014-15, as depicted in Figure 4.3. The rate in 2020 is at least 2 percentage points below what is considered healthy for a market with adequate supply, underscoring the tightness in Bozeman's rental market. Recent data from the Housing Vacancy Survey indicate that housing vacancy rates in the western U.S. increased from 4.5 to 5 percent from 2022 to 2023. This shift suggests a possible easing in the tightness previously observed in rental housing availability over the past year.

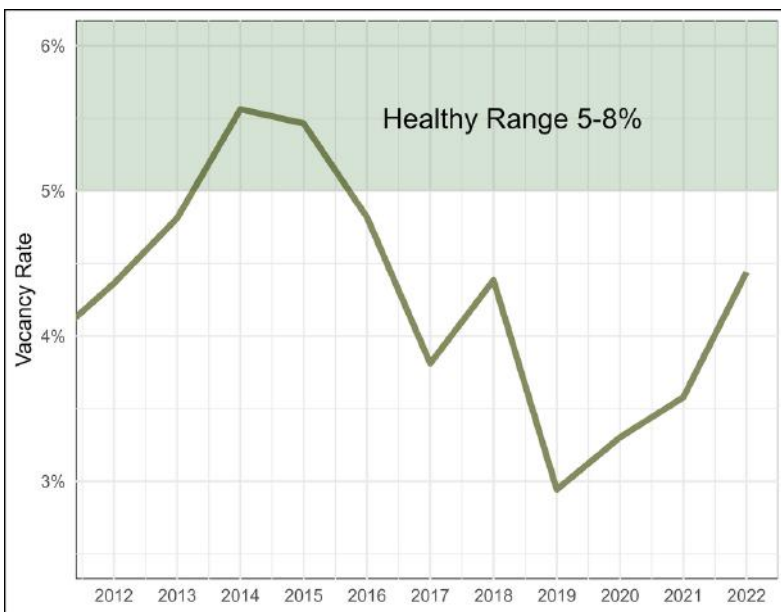


Figure 4.3: Rental Vacancy Rate
City of Bozeman
2010–2022

Source: U.S. Census American Community Survey (ACS), 5-year estimates, Housing Vacancy Survey (HVS), BBER Analysis.



4.2 Rental Affordability

Developing an affordability index for renters, like that for homeowners, entails juxtaposing rents with incomes. Notably, renters generally earn less than homeowners, prompting the calculation of the index across different income brackets for renters through two methodologies, each producing distinct results.

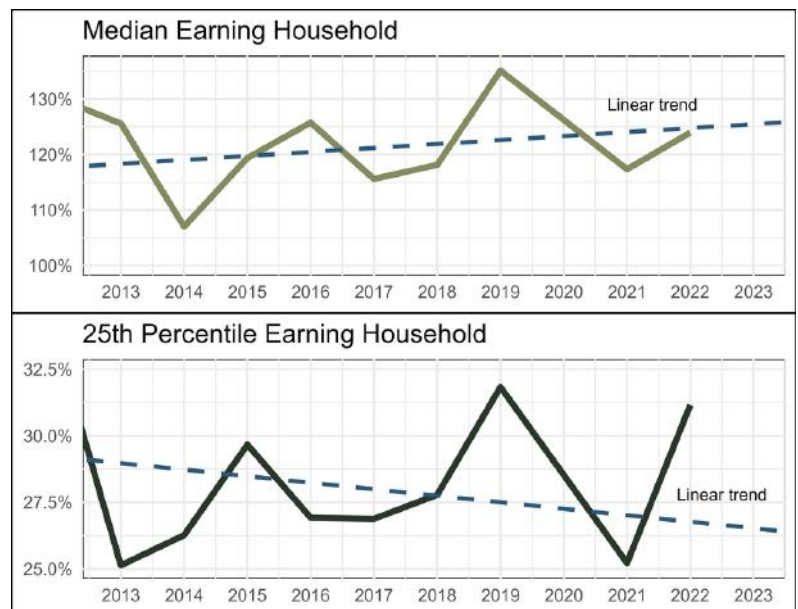
The top panel of Figure 4.4 bases its affordability calculation on the median income of renters. Here, the index values indicate the proportion of median rent that a median-earning renter can manage without spending over 30 percent of their income on housing. All index values exceeding 100 percent indicate that, by this metric, rental housing in Gallatin County is considered affordable. However, this may largely be due to an influx of higher-income households opting to rent. The trend towards

among renters, a shift driven by higher income individuals entering the rental market as escalating home prices may deter more middle-income families from homeownership, thus impacting rental market dynamics.

In contrast, when the analysis applies the 25th percentile of median household income for all households, rather than just renter households, a downward trend in affordability emerges, as depicted in the bottom panel of the figure. This perspective shows that lower-income renters are increasingly struggling to find rental housing. Specifically, households earning in the bottom quarter in 2022 had merely 30% of the necessary income to afford a 3-bedroom apartment, as shown in Figure 4.2. This highlights the intensifying challenge of housing affordability for lower-income renters in the county.

Figure 4.4: Rental Affordability Index Median Earning Renter Household vs. Bottom Quarter Earning Household
Gallatin County
2013– 2022

Source: U.S. Census American Community Survey, U.S. Department of Housing and Urban Development, BBER Analysis.



5. AFFORDABLE HOUSING

For our analysis, affordable housing is identified as housing where the household spends no more than 30 percent of their income on housing costs, including utilities. This 30 percent threshold is primarily a standard for middle-income households but likely underrepresents the financial strain on low-income renters. This discrepancy arises because the cost of other essentials, like food and healthcare, doesn't proportionally decrease with income. On average, American households allocate 12 percent of their income to food and 8.4 percent to healthcare, whereas for those in the lowest 20th percentile, these expenditures rise to 15 percent and 10 percent, respectively.

Gallatin County is home to a significant number of low-income households, the majority of whom are renters. Out of a total of 19,559 renter households in the county, 88 percent earn below the median income, and 78.9 percent have incomes that would be at least considered low-income based on HUD definitions as indicated in Table 5.1. This

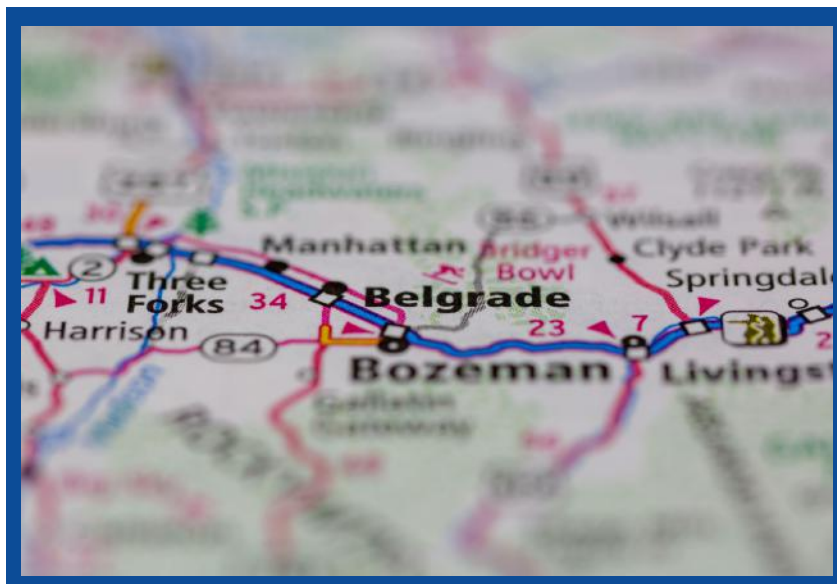
statistic underscores the substantial portion of the renter population that may face considerable challenges in finding housing without straining other household budgets.

In Gallatin County, a significant number of renter households are financially strained by housing costs that consume over 30 percent of their income, making them housing cost burdened. Figure 5.1 reveals that around 5,400 of these households allocate more than 50 percent of their income to rent, thus falling into the severely cost-burdened category. This group has experienced notable growth, highlighted by an uptick in the number of households that spend between 40 and 49.9 percent of their income on rent. This trend underscores a significant and expanding challenge faced by renters in the county. Overall, there are just over 10,000 renter households in Gallatin County identified as cost-burdened, indicating a widespread issue of housing affordability.

Table 5.1: Renter Households by Income, Gallatin County, 2022

Income	Renter Households	% of Renter HHs
Extremely Low Income (<30% AMI)	5,664	29.00%
Very Low Income (<50% AMI)	10,059	51.40%
Low Income (< 80% AMI)	15,431	78.90%
Middle Income (<AMI)	17,205	88.00%
Above AMI	2,354	12.00%
Total	19,559	100%

Source: U.S. Census – American Community Survey, 1-year estimates, BBER Analysis.



Analyzing the breakdown renter households in Gallatin County by income category reveals a significant affordability issue, especially for those at lower income levels. The furthest right brown bar in Figure 5.2 shows that 54 percent of low-income renters—defined as those earning less than 80% of the Area Median Income (AMI)—spend more than 30 percent of their income on rent. This statistic highlights the urgent need for affordable housing in the county, particularly for individuals and families at the lower end of

the income spectrum. Among extremely low-income renters, those households earning less than \$38,000 a year, a staggering 91 percent are considered cost-burdened, with 68 percent facing severe cost burdens—spending more than 50 percent of their income on rent. This situation highlights the deep financial difficulties encountered by this segment of the community in managing not only housing costs but also other vital goods and services.

Figure 5.1: Percent of Household Income Spent on Rent

Gallatin County
2022

Source: U.S. Census American Community Survey, 1-year estimates.

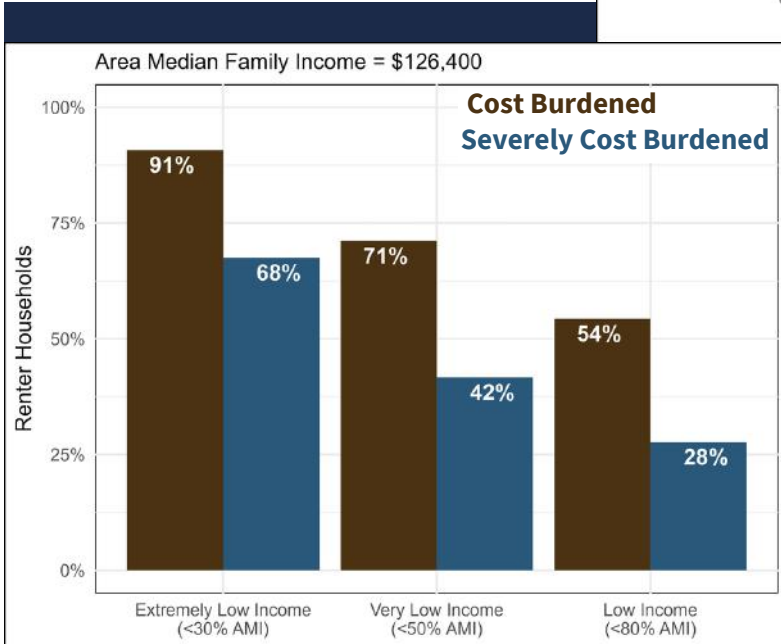
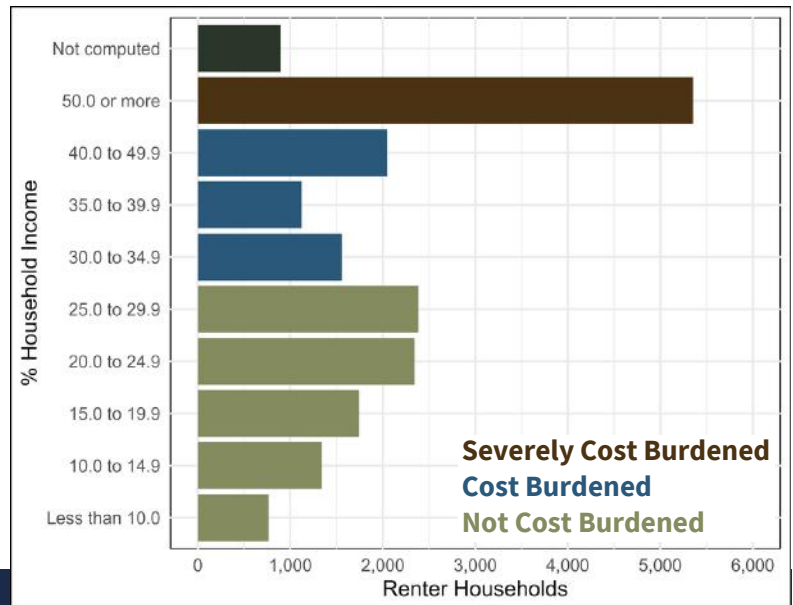


Figure 5.2: Renter Cost Burden by Income Group

Gallatin County
2022

Source: U.S. Census – American Community Survey, 5-year estimates, U.S. Department of Housing and Urban Development, BBER Analysis.

Federal subsidies and rent-restricted units are essential components of the U.S. housing policy framework, aimed at providing affordable housing options for low- to moderate-income individuals and families. These mechanisms help to bridge the gap between the market price of housing and what is affordable for those with limited incomes.

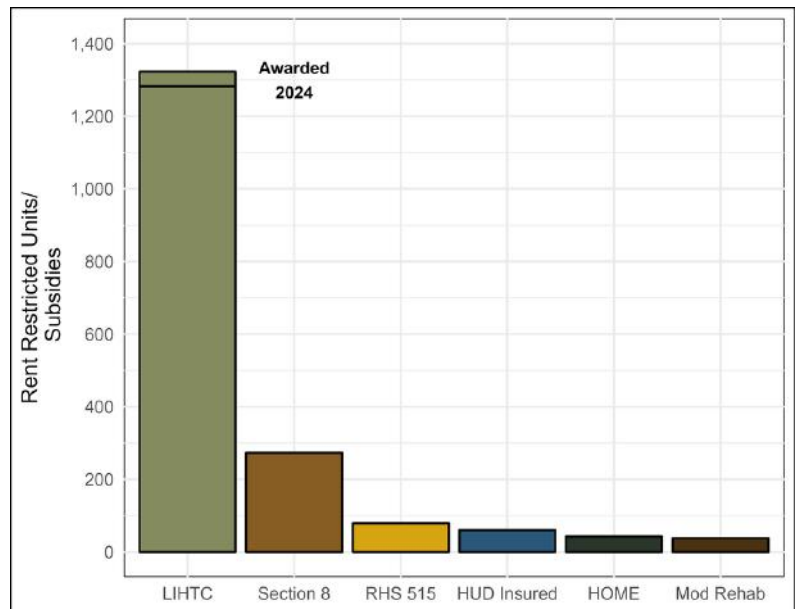
Federal housing subsidies come in various forms, primarily designed to lower the cost of housing for eligible households. These subsidies can be direct financial assistance or tax incentives for developers and landlords to encourage the provision of affordable housing.

Section 8 Housing Choice Voucher Program is administered by the U.S. Department of Housing and Urban Development (HUD), allows recipients to find their own housing (including single-family homes, townhouses, and apartments) that meets program requirements. The subsidy pays a portion of the rent directly to the landlord, with the tenant paying the difference.

Public Housing is operated by local public housing agencies, public housing provides affordable apartments to low-income families, the elderly, and persons with disabilities.

Figure 5.3: Rent Subsidies or Rent Restricted Units
Gallatin County
2023

Source: Montana Department of Commerce - Montana Housing, National Housing Preservation Database.



Rent-restricted units are apartments or homes that have limits on the amount of rent that can be charged, typically as a condition of a federal subsidy or tax credit program like the LIHTC. These units must be leased to tenants who meet specific income eligibility criteria, and the rents are capped to ensure affordability. The goal is to provide housing options that are below the market rate and accessible to those in need.

Low-Income Housing Tax Credit (LIHTC): This is a tax incentive given to developers to encourage the construction

or rehabilitation of rental housing for low-income households. The LIHTC is the primary mechanism for creating affordable housing in the U.S. and within Gallatin County depicted in Figure 5.3.

Rent-restricted units are subject to compliance periods, usually lasting several decades, during which the affordability restrictions remain in place. Developers and property owners agree to these terms in exchange for the subsidies or tax credits that make the development of such properties financially viable.

To understand the need for affordable housing in Gallatin County, we've combined insights from this section to assess the availability of affordable units—both rent-restricted and subsidized—against essential indicators: the distribution of rental households across income categories and the prevalence of cost-burdened renter households.

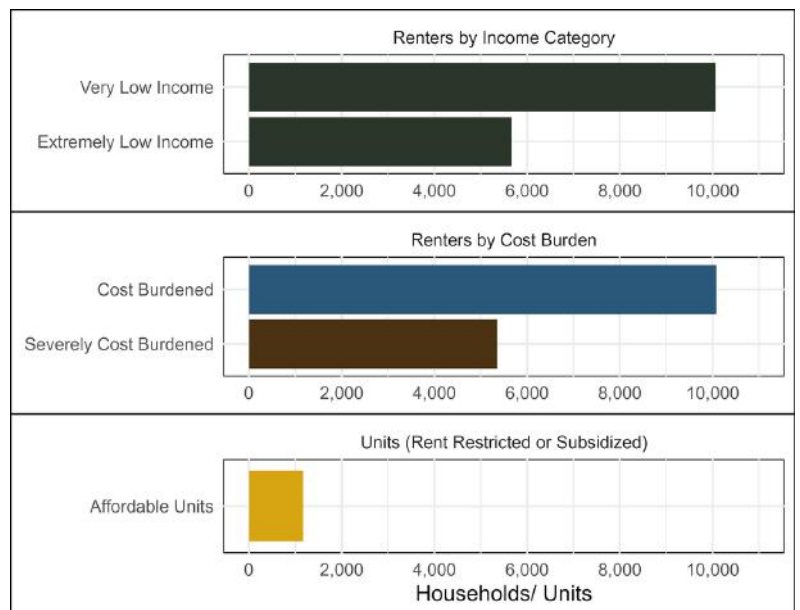
The county faces a considerable demand for affordable housing, evidenced by over 10,000 renter households enduring cost burdens, meaning a significant share of their income is dedicated to housing expenses. Alarmingly, for every rent-restricted or subsidized unit available, there are about 8 households struggling with cost burdens for every rent-restricted or subsidy.

This disparity highlights a substantial shortfall in Gallatin County's affordable housing market, signaling an urgent need to expand the inventory of affordable, rent-restricted, and subsidized housing. Bridging this gap is critical not only for mitigating the financial strain on low-income and cost-burdened families but also for improving access to housing that aligns more closely with their financial capacities.

Figure 5.4: Rent Subsidies or Rent Restricted Units

Gallatin County
2022 - 2023

Source: U.S. Census – American Community Survey, U.S Department of Housing and Urban Development, Montana Department of Commerce - Montana Housing, BBER Analysis.



6. CONCLUSION

In examining the dynamics of Gallatin Valley's housing market, this report has aimed to unravel the complex factors behind the observable trends. There has been vigorous housing demand fueled by economic prosperity and significant migration. Despite a proactive construction response particularly in multi-family developments, there has been further deterioration in housing affordability. Middle-income households are seeing the impact. The challenge of ensuring affordable housing in Gallatin County is formidable, magnified by the balance of maintaining economic vitality while ensuring inclusivity and access for all residents to affordable living options.

Looking ahead, it is essential to recognize that the economic growth driving housing market pressures also yields valuable resources that can be harnessed to address these emerging challenges. Innovations in policy, strategic planning, and community engagement will be critical in navigating the path toward sustainable growth and housing affordability.

As we continue to monitor the housing market in Gallatin County, future reports will assess the effectiveness of recent interventions and policy shifts aimed at alleviating housing stress. The goal will be to not only to document the challenges but also to highlight successful strategies that contribute to a balanced, accessible, and thriving housing market. We are just now starting to see early evidence of the concerted efforts of our community to provide better affordable housing options. The Gallatin Association of REALTORS® is optimistic and remains committed to increasing homeownership, access to housing and building a vibrant community.



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