Summary of White Paper

Updated March 2009

Background:

Governor Schweitzer convened a meeting of housing representatives from both the public and private sector in December of 2007 and asked the group to come up with a housing plan to focus on Montana's housing needs for next 10 years. One of the things the group identified was the need for data and analysis of the problem. The Housing Coordinating Team, made up of representatives from state and federal housing agencies, non-profit organizations and for-profit building industry associations, took on the task of compiling available information from census data, published studies of housing, and Multiple Listings data. A working group from the Housing Coordinating Team drafted the "White Paper" on Housing in Montana that was subsequently critiqued and published on the website of the Housing Division of the Montana Department of Commerce.

Updated Summary of White Paper

The original White Paper, published in late spring of 2008, made projections of housing needs out to the year 2020 that relied, in part, on trends in the housing market up through 2006. The Housing Market changed dramatically in the last 6 months of 2008. This updated summary captures information from the original White Paper largely unaffected by changes in the Housing Market and therefore still relevant to meeting housing needs in the next ten years.

Definition of Affordable Housing

As recently as the mid 1970s, housing economists noted that the vast majority of households in the United States paid no more than 25% of their household incomes for housing costs. In the late 1970s, this began to change as more and more households began paying 30% or more of their incomes for housing costs. The concern is that the amount of household income used for housing costs leave sufficient income for all of the other costs a households incurs, especially for households with low and moderate incomes. The federal definition of affordable was established at no more than 30% of household income.

What does this mean in Montana? According to Federal population data for 2007, over 75% of Montana households have incomes of less than $75,000 a year, while 57% of households have incomes less than $50,000 and nearly 30% have incomes less than $25,000. An affordability standard for these households at 30% of household income is reasonable; more than 30% for housing costs in these income ranges affects the household's capacity to cover all the other necessary costs of living. Data from the 2000 census indicate that 25% or more of the rental households in 29 Montana counties were paying more than 30% of their income for housing, and in 33 counties, between 10% and 24% of the households were paying more than 50% of their household income on rental costs.

A Look at Homeownership

The first map in the map section of this updated summary illustrates where the median income household could and could not afford to purchase the median priced home using about 30% of income or less, by Montana county, for 2000 and 2006. In 2000, there were six counties in which the median income household could not afford the median priced home. By 2006, the number of counties had grown to 28 in which the median income household could not afford the median priced home. From 2006 into 2008, housing prices continued to climb in most areas of the state, reaching levels higher than those used for the 2006 map. At the same time, incomes did not keep pace with rising house prices.

Where are we now? Will the current housing slump eliminate the affordability gap for Montana households? As of 2006, the median priced home was affordable to the median income household in about half of the counties in Montana, but was not affordable in the other half. How much would home purchase prices have to fall to become affordable? The second map in the Map Section of this Summary shows counties by ranges of how much housing prices, based on 2006 data, would have to come down to be affordable to the median income household in that county. As a statewide average, house prices would have to come down from $172,180 to $140,036, a decline of 23%, to be low enough to be affordable to the median income household. Looking at this question county by county, four counties would have to have a 5 to 10% decline; six counties would require an 11 to 25% decline, seven counties would require a 26 to 50% decline, three counties would require a 51 to 75% decline, and seven counties would have to have more than a 75% decline in median house costs to be affordable. To summarize, if housing prices fell by 10%, there would still be 23 counties in which the median income household could not afford the median priced home. Even if housing prices fell by 25%, the median income household could not afford the median priced home in 17 Montana counties.

A Look at Rental Costs

The third map in the map section of this updated summary illustrates where the median income rental household could and could not afford the rent and utilities for the median priced two-bedroom rental unit, by Montana county, for 2000 and 2006. In 2000, there were 24 counties in which the median income renter household could not afford the median priced two-bedroom rental. By 2006, the number of counties had grown to 36 counties in which the median income renter household could not afford the median priced two-bedroom rental unit. Where are we now? Data from the National Low Income Coalition's "Out of Reach" report for 2008 estimates that rental costs have increased about 7% statewide since 2006. As a statewide average in 2008, more than 90% of the median renter's income was needed to pay for the median-priced two bedroom unit, three times the affordable amount.

Summary of Affordability

Despite the housing slump, Montana continues to have an affordability problem for both renting and purchasing a place to live. The current challenges in the housing market have not lowered the cost of purchasing a home enough to be within the reach of many Montanans, and the pressure on rental units has kept rental costs at or above where they were in 2006, when the median income renter could not afford the rent and utilities on the median priced two-bedroom rental unit in 36 of Montana's 56 counties.

Other challenges facing housing for the future

In some areas, particularly in eastern Montana, the cost of construction of a new home is higher than the local market price, making new investment difficult. At the same time, the condition of housing units in these areas is deteriorating. Fifteen counties in Eastern Montana have more than 15% of their housing stock in unsound condition, and there are 14 communities in eastern Montana that have more than a quarter of their housing stock in unsound condition. Some of these areas are also oil and gas production areas and face severe housing shortages when the oil and gas industry is expanding.

Some areas of western Montana saw rapidly escalating house prices. Starter homes in communities like Missoula, Bozeman, and Kalispell were beyond the reach of young families, many of whom bought houses in outlying rural areas miles away. **The recent spike in gas prices made commuting very costly, causing many to reconsider the long-term implications of building starter homes miles from the communities in which these young wage earners work.**

Local governments are facing escalating costs in providing infrastructure like water and sewer systems to their residents. Many of these systems were built prior to 1920, and now must be replaced, adding significantly to the tax burden of existing properties and making them less affordable.

New residential development faces challenges in getting water. There are now seven closed basins in Montana, i.e., areas where all the existing water has been claimed through water rights. New development must go through the DNRC to request water permits for communal water systems. This process can take several years with no guarantee of success. Water is likely to increase as an area of challenge for future residential development.

The fourth map in the Map Section shows projected increases in the percentage of the population that are Seniors. Senior population will increase significantly over next 10-20 years and beyond. **Seniors will constitute 18.45% of the state's population by 2020, with 49 counties exceeding 18%, and 32 at about 25% or more. Seniors have specific housing needs such as subsidized housing and assisted living that require planning now to ensure that the needed housing is there when the time comes.**

The fifth map in the Map Section of this summary illustrates the share of Montana's population that is living below the federal poverty line**. The portion of the population that is living in poverty is increasing.** In 2005, nearly 15% of Montana's population had incomes below the poverty line and five counties had more than 20% of their populations below the poverty line. This population includes senior and disabled households on limited, fixed incomes. Housing for this population requires subsidies.

Rough estimates indicate that about 55,000 households in Montana are below the poverty line and would benefit from having subsidized housing. Montana has about 15,700 units of housing with subsidized rents that are intended to serve not only households below the poverty line, but also working families with low-income wage earners. **The supply of subsidized rental housing units does not come close to serving all those who need it.** Moreover, nearly 30% of Montana's subsidized housing units are now on year-to-year contracts; **Montana faces the**

potential for up to a 30% reduction in subsidized rental housing stock if owners choose to withdraw yearly contract units from the program. The alternative for many households is market rate housing, which consumes much more than 30% of household income, forcing people to choose between food and rent, medicine and rent, etc.

Mobile homes provide a relatively low-cost housing alternative for lower income households. According to the 2000 census, nearly 52,000 households lived in mobile homes, of which about one third were in mobile home courts. **About 18,200 households live in mobile home courts that are, in some areas of the state, in danger of being closed as land values increase and mobile home courts are converted to other uses.** Moreover, as of May of 2006, 28,635 of the mobile homes in Montana were built prior to 1976, before basic safety and construction requirements were put into place. It is likely that most of these units do not meet these requirements and should be decommissioned and replaced.

Homelessness is increasing; families with children constituted more than 50% of the homeless for the first time in 2007. Homelessness imposes costs on communities far beyond the costs of shelters. A recent study in Billings found that the community spent $31,000,000 in dealing with homeless people in one year, about $13,000 per person.

Indian reservations have shortages of housing, due to both a lack of units and overcrowding in existing units. As a result, housing units are subject to harder use, shorter useable lifespans and cost more to maintain.

Summary Conclusion:

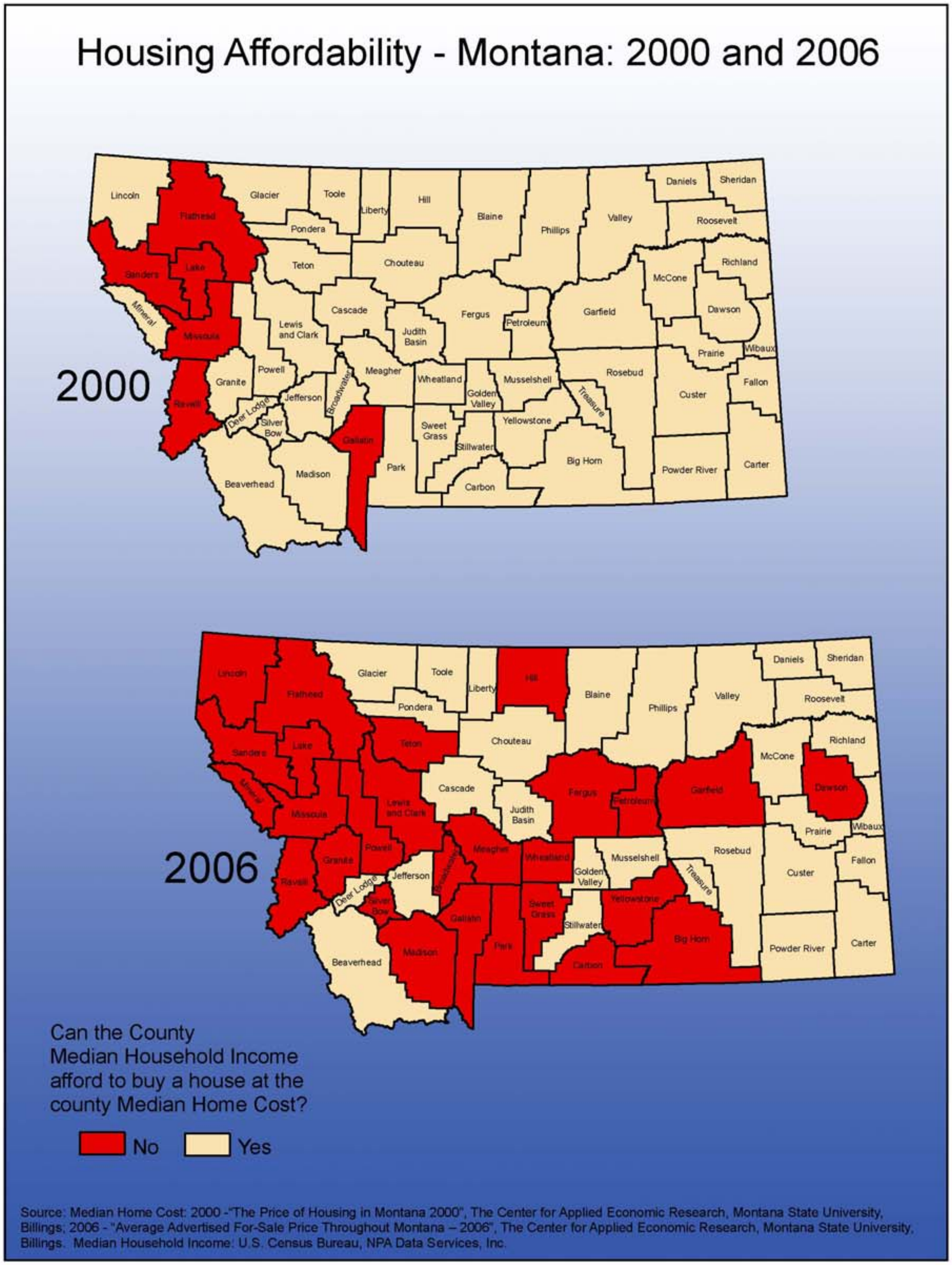
Housing cannot be taken for granted in Montana. Montanans face numerous and serious challenges in meeting the housing needs of our citizens in the years to come.

To see the entire White Paper report or to download additional copies of this summary, go to:

www.housing.mt.gov

Summary of White Paper
Map Section

Map #1



Summary of White Paper
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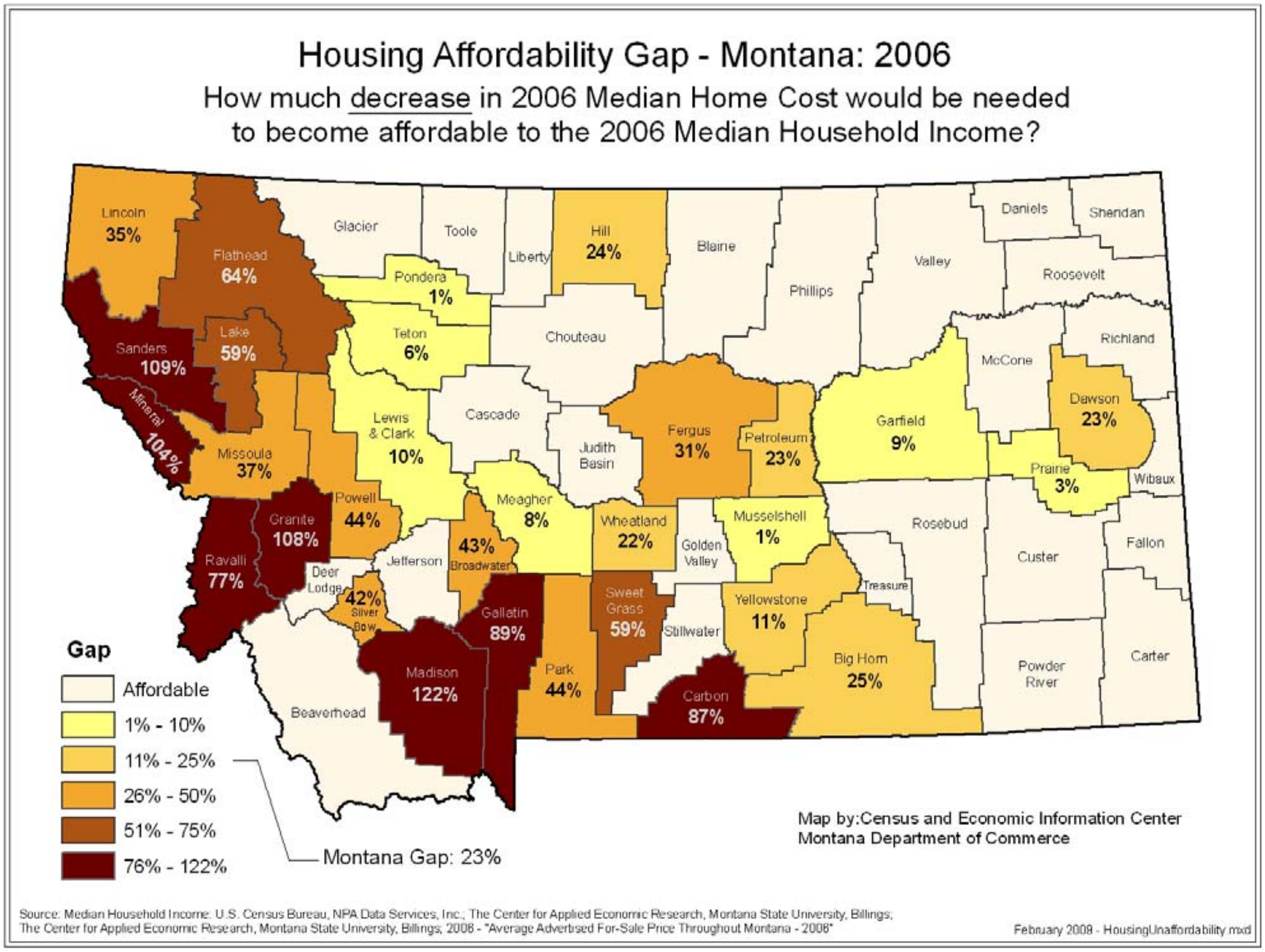
Map #2



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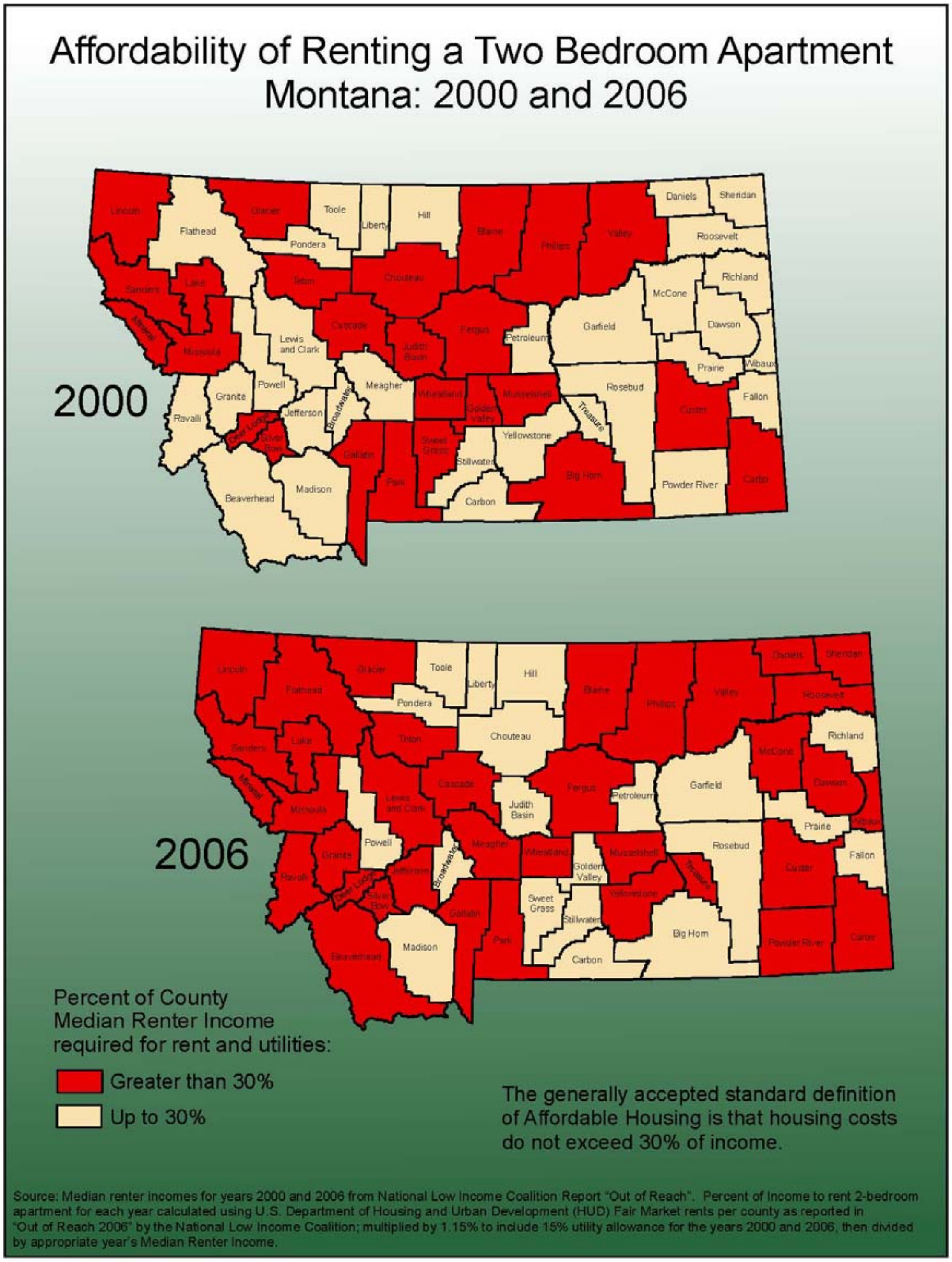
Map #3



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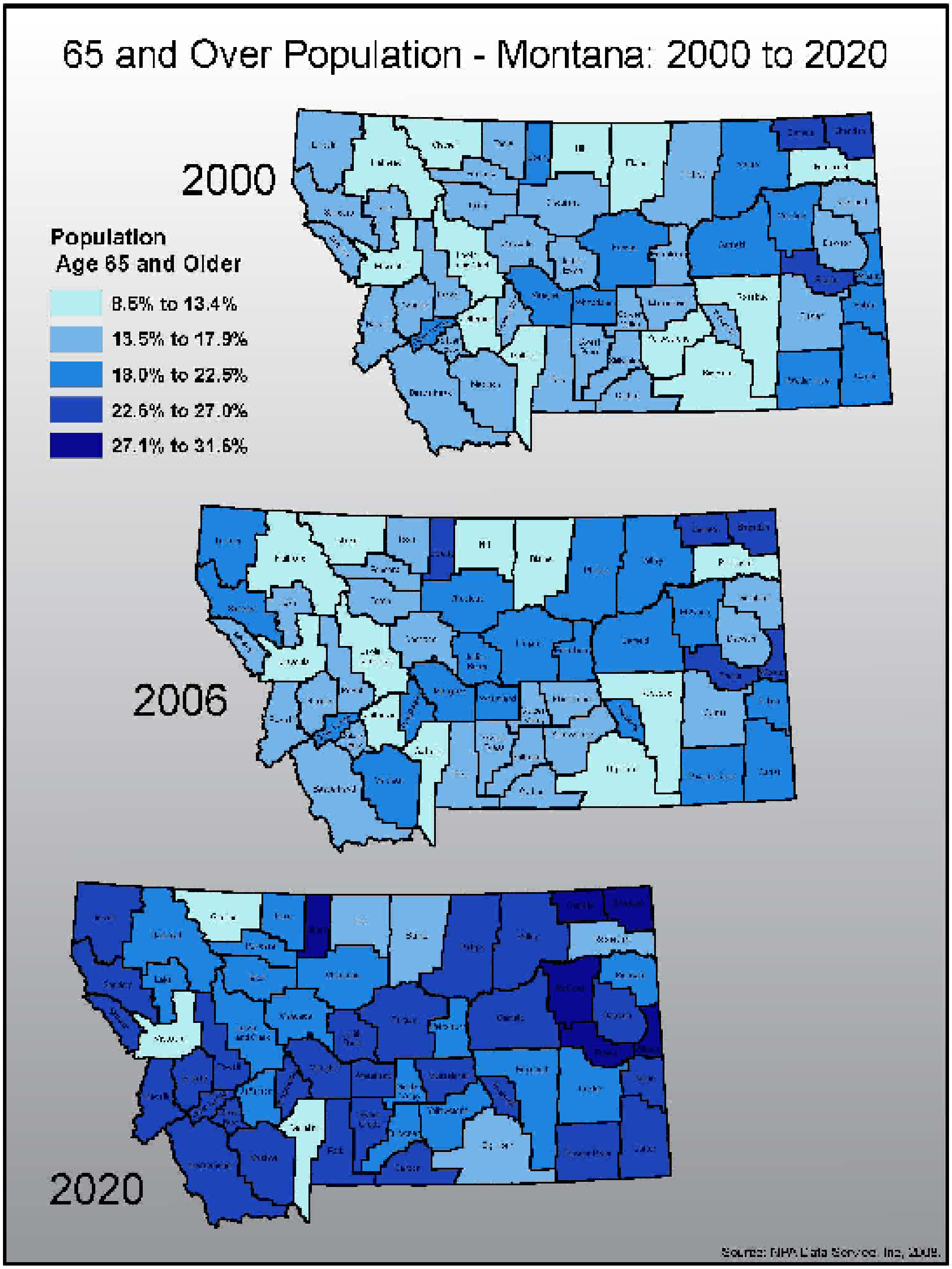
Map #4



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Map Section

Map #5