

# 2023 Missoula & Bozeman Residential Real Estate Outlook: Meeting the Housing Needs of Thriving Economies

**Missoula and Bozeman are experiencing a substantial influx of population, with Missoula expected to see an increase of 10,000 residents and Bozeman projected to add nearly 25,000 people over the next decade.**

While the popular TV show Yellowstone may be perceived as the driving force behind Montana's growth, the reality is cities like Bozeman and Missoula are experiencing rapid economic expansion. This growth is leading to employment opportunities and attracting more residents to the state. From 2015 to 2021, Missoula and Bozeman's gross domestic products (GDPs) grew by 38% and 64% respectively, while the US GDP only experienced a 28% increase.

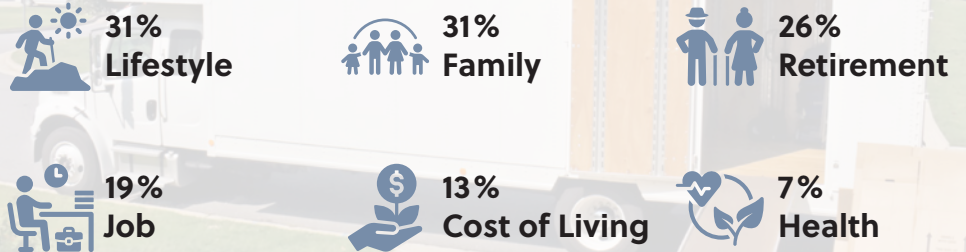
During the same period, 20,000 jobs were created between the two cities, fueling demand for housing. Demand is not only from employment growth but also retirees, second homeowners, and remote workers. Furthermore, the robust short-term rental market is turning available housing inventory into vacation rentals, adding to the demand for housing in these areas.



Scan the QR code to download Sterling Advisory Services latest report covering Montana's booming Short Term Rental market.

## Why Are People Flocking to Montana?

What's the secret behind Montana's allure? Take a peek at the 2022 United Van Lines Mover Survey.



Some respondents chose multiple reasons

## Current Housing Market Conditions

In the short term, Missoula and Bozeman are facing the challenge of restoring equilibrium to their housing markets. The period spanning from 2020 to early 2022 witnessed a severe housing shortage in both cities, leading to a rapid surge in rents and home prices. Although the scarcity of rental housing has started to ease up, the availability of for-sale housing in Missoula and Bozeman continues to remain limited.

## Supply

In Q1 2023, Bozeman and Missoula experienced an increase in apartment vacancy rates, which can be attributed to the substantial number of units delivered during the second half of 2022. The demand for rental homes has been robust, owing to the ongoing employment growth and pent-up demand.

Missoula is expected to deliver around 1,200 market-rate multifamily units in the next two years, which includes units delivered to date in 2023, units under construction and approximately 100 units in permitting. Beyond 2024, the development may slow down. The 955 units in the planning stage are unlikely to deliver en masse before 2026. Consequently, there could be a limited pipeline in the region of deliveries in 2025.

In contrast, Bozeman has nearly 1,300 units under construction and an additional 700 units in permitting. If built out, all units under construction, in permitting, and in planning would nearly double the multifamily unit inventory in the market. Bozeman's pipeline remains robust, with new projects emerging in planning and transitioning to permitting.

## Millennial Perspectives on the American Dream

Despite facing economic challenges, the majority of millennials (51.5%) have achieved homeownership as of 2022, according to RentCafe. To gain deeper insights into this demographic's perspective, Zonda conducted a recent housing survey that revealed several noteworthy findings.



**98% of millennials would like to own a home**



**33% expect to buy a home within the next three years**



**Building equity is the top motivating factor**



**Affordability is the biggest barrier to homeownership**

For potential buyers hoping that rising interest rates would drop home prices in Missoula, 2022 was a disappointing year. Though transaction volume is down, and the number of listings are up, home prices have also continued a steady climb to a median of \$530,000, up 17.2% over 2021. This continues to push the homeownership rate down in Missoula. Permits for single family, duplex and triplex homes were down 24% from 2021.

In Gallatin County, the number of for-sale listings are up, while sales prices

are drifting down. In March 2023, the median sale price was \$685,000 down 4% from March 2022. Bucking national trends, permits for single family, duplex and triplex homes were up 15% over 2021. The steady supply of new for sale housing in Gallatin County continues to push the homeownership rate upwards, even as homeownership continues to remain unaffordable for much of the population.

**Demand**

Missoula and Bozeman have experienced positive employment growth over the past nine years, with Missoula’s rate averaging 1.6% per year and Bozeman’s exceeding 4%. Looking ahead, state employment projections indicate that Missoula will grow at a rate of 1.1% over the next decade, while Bozeman is projected to grow at 1.2%.

It is generally accepted by economic development professionals that a job created in an economy generates demand for about one new home. However, it is worth noting that Missoula and Bozeman have below-average wages compared to their above-average home prices. It is crucial that the housing market aligns with the incomes of the population, as demand may be suppressed otherwise.

Based on local employment growth, Missoula has generated demand for

an average of 900 new homes per year since 2016, while permitting an average 987 homes per year. This data suggests a slightly oversupplied market if only demand generated by employment growth is considered. In comparison, Bozeman has created an average demand for around 2600 new homes per year, while permitting 1850 homes yearly.

Second homeowners and remote workers also contribute to housing demand. It is difficult to estimate the exact impact of remote work, but anecdotally, it has contributed to housing demand across Montana. According to US Census estimates, the number of second homes in Gallatin County has increased by 19% over the past decade, while Missoula has seen a 25% increase.

A lack of homeownership opportunities due to rising interest rates and high home prices in Missoula and Bozeman is also driving demand for rental housing. Missoula has also seen a drop in the production of for sale housing, exacerbating the problem.

**Balance**

In 2023 and 2024, Missoula’s vacancy rates are expected to rise. If all units in the pipeline deliver by 2024, the vacancy rate could exceed 8%. Although rent growth may stagnate, any declines

will likely be minimal. If employment in the region continues to grow at the anticipated rate of 1.1%, the vacancy rates would quickly decline by late 2025 due to the limited supply of new housing in the pipeline.

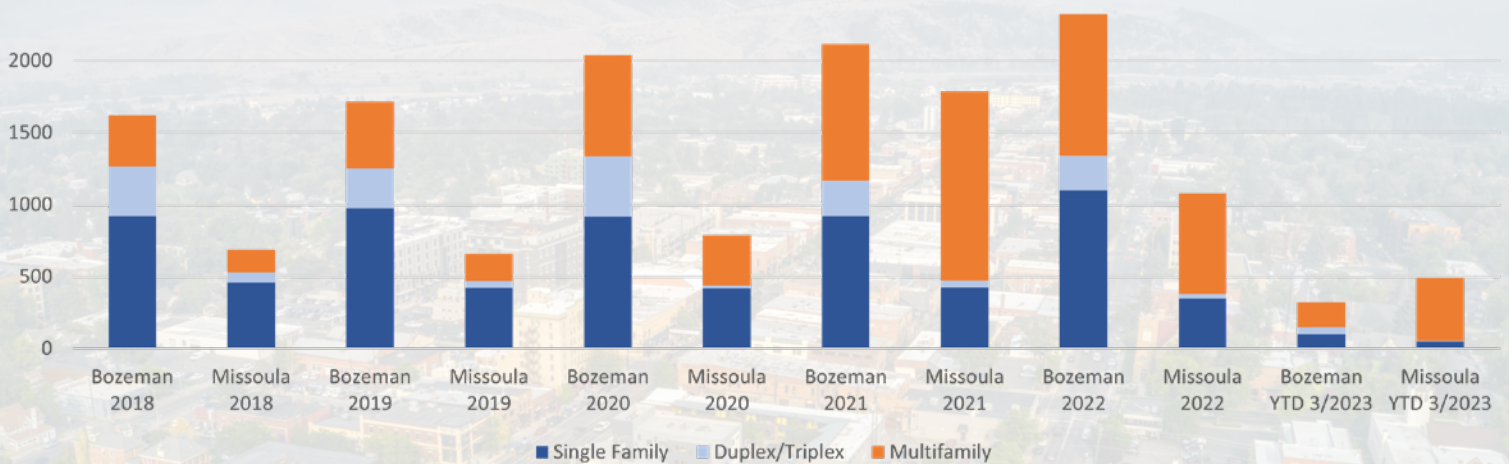
It is projected that Bozeman’s vacancy rate will surpass 5% by mid-2023 and continue to increase. As a result, average rental rates are expected to decline, as many communities offer incentives to lure tenants. The softening market is likely to cause numerous projects to drop out of the pipeline. Moreover, the for-sale market is still active, and if home prices or interest rates drop, demand for rental properties may decline as more households are able to buy.

Bozeman’s strong employment growth is expected to restore balance to any oversupply by late 2025-2026, particularly if developers reduce the pace of development. However, this may be too late for projects that are slated for delivery in 2023 and 2024 and were underwritten with overly optimistic rent growth projections.

**Age and Housing Needs**

To effectively plan for future housing needs, it is crucial to consider how age influences housing preferences. As people age, their housing needs change, and it’s important to cater to those changing needs.

**Residential Building Permit Trends by Year & Type | Missoula and Bozeman**



Gallatin County has issued 96% more residential permits than Missoula County over the past five years. Of the 9,810 permits issued by Gallatin County in this time frame, 35% were for multifamily units. Missoula County issued 5,002, 54% were for multifamily units. In the same time period, the home ownership rate decreased by 1% in Missoula County and increased by 1% in Gallatin County.

# Market Dashboard

## MISSOULA COUNTY

## GALLATIN COUNTY



Missoula's GDP in 2021 was **\$5.4 billion**, up 10% over 2018. It has the third highest GDP in the state behind Yellowstone and Gallatin. GDP per capita was \$45,168.

Gallatin County's GDP in 2021 was **\$8.1 billion**, up 34% over 2018. It has the second highest GDP in the state behind Yellowstone. GDP per capita was \$66,007.



The top growth job sectors for Missoula County over the past decade are **Professional, Scientific and Technical Services (48%)**, Construction (43%), and Manufacturing (42%)

The top growth job sectors for Gallatin County over the past decade are **Construction (125%)**, Administration & Support (98%) and Management of Companies (95%)



As of 2021, Missoula's median income is **\$65,862**, up 4% from 2020. This lags the US median by 7%.

As of 2021, Bozeman's median income is **\$78,910** up 13% from 2020. This exceeds the US median by 11%.



Median home price for the first quarter of 2023 was **\$530,000** in Missoula County, up 20% from January 2022.

Median home price for March 2023 was **\$685,000** in Gallatin County, down 4% from March 2022.



Average rent for Missoula in the first quarter of 2023 was **\$1,380** per month, with a vacancy rate of **3.67%**.

Average rent for Bozeman in the first quarter of 2023 was **\$2,169** per month, with a vacancy rate of **3.78%**.



**1,078** housing permits were issued in Missoula County in 2022, down 40% from 2021.

**2,324** housing permits were issued in Gallatin County in 2022, up 10% from 2021.

Source: FRED St. Louis, MOR, Big Sky MLS, US Census, SterlingCRE Advisors

Typically, individuals in their 20s prefer rental apartments due to limited budgets and small households. However, as they move into their 30s and beyond, their need for more space increases, making homeownership more attractive. Retirement age adults tend to prioritize accessibility and proximity to services when selecting a place to live.

In Missoula, projections indicate an aging population, with most of the growth occurring among those between 35 to 59 years old, who are in their prime homebuying years. The average age of first-time homebuyers in the area is 36, and those in their 40s and 50s often upgrade to larger homes using equity gained from their starter homes. Additionally, there will be a surge in the population aged 80 and older, who typically require more access to services. However, assisted living facilities tend to charge high rates, resulting in many older adults needing

to live independently for as long as possible.

In Missoula, the best opportunities for developers are the production of affordable for-sale product such as duplexes and town homes, rental options with larger floor plans to accommodate families and accessible housing options for older adults.

In Bozeman, a baby boom is expected to occur, with a projected 30% increase in the population under age 18 over the next decade. There will also be robust growth among those between the ages of 35 to 59, which is expected to increase demand for single-family homes in the market. Bozeman shows strong growth across all age groups, indicating demand for a wide variety of for-sale and rental homes.

Key opportunities for developers in Bozeman is housing that can accommodate families with children.

Larger rental plans, single family homes, duplexes and triplexes will remain in demand. Additionally, developers may consider offering multigenerational homes, particularly those featuring private secondary living quarters. This option can be a source of income if offered as short-term rentals, a lucrative market for Bozeman.

# Top Three Housing Options to Consider in Missoula and Bozeman

## Build to Rent



Build-to-rent communities offer a variety of housing types typically only available for-sale, like single-family homes and townhouses, all designed to be rented rather than purchased. Missoula Lofts and Grange at Urban + Farm in Bozeman are two examples located in Montana.

**Why they make sense?** Rentals are no longer just for young singles. Increasingly, families and older adults are renting by choice or necessity. They prefer more space than traditional apartments offer.

## Multigenerational Homes



With an aging population and the rising cost of housing, multigenerational homes have become a popular option for families. These homes are designed to accommodate multiple generations, with separate living areas and often separate entrances.

**A smart choice because...** They can be more affordable than purchasing separate homes and can offer the benefits of shared caregiving. They can also be offered as short-term rentals, providing additional income to the homeowner.

## Accessible Housing



As the population ages, accessible housing becomes increasingly important for independent living. Homes with first-floor master bedrooms, easily adjacent to community services, elevators in apartments and condominiums, and community lawn maintenance are some features that can help serve older residents.

**Whats the appeal?** Older adults want to remain independent. Having housing that is accessible and conveniently located helps them stay independent as long as possible.

## Your Development Questions Answered.



You need accurate and up to date market information to develop successful residential and commercial real estate projects. Our team integrates a comprehensive database of Montana market information with extensive knowledge to help you execute your vision.

Services include:

**Valuations | Market & Feasibility Studies | Demographic Analysis**



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