

February 29, 2016

Boone County Residential Real Estate Market Overview for 2015

Good morning to all of my friends who earn their living in this Boone County real estate market. We should all feel blessed to be able to live and work in an area with the strength and resiliency of our market. The number of sales that went through the Columbia Board of Realtors in 2015 was up significantly from 2014 and this was reflected in every area of town (see Exhibit 2). Our unemployment is down to 2.6%, which is approaching the incredibly low levels of unemployment we enjoyed in the early 2000's. The fixed thirty year mortgage is still in the upper 3% range, and our median income in Boone County is up slightly from 2014 (see Exhibit 1). The under \$200,000 price point still dominates our market (by a wide margin) and our average and median prices are both up from 2014 (see Exhibit 3). Building permits in Columbia were up from 2014 to 2015 but, surprisingly, the average value is down in 2015 (see Exhibit 4).

The conclusion is the residential market is healthy, is not overstocked with inventory, and home values are headed in the right direction. This is all good for consumers.

The year to year outlook is solid and Boone County in general seems to be trending in a solid direction. However, a look back at the market from 10 years ago is interesting. Here are a few telling statistics:

- 1) In 2005, there were 3,071 homes sold in the Columbia Public Schools boundaries through the Columbia Board of Realtors MLS. In 2015, there were 1,897.
- 2) In 2005, the fixed thirty year mortgage was 6.375%. In 2015 the rate was 3.75%.
- 3) In 2005, there were 1,239 single family detached home building permits issued in the City of Columbia with an average value of \$144,112. In 2015, there were 431 detached home building permits issued in the City of Columbia with an average value of \$249,643.

Over the last ten years, the population in Boone County is up, enrollment at the University of Missouri is up, we have a tax deduction for the payment of home mortgage interest, long term fixed interest rates are down, overall home sales are down, and the number of new construction homes being built is down. What does this mean?

These numbers tell me several things.

- 1) The market in 2005 was over-heated and there was a lot of investor speculation in the single family home market. This also tells me that the market today is under-performing based upon the historic low interest rates.
- 2) Low interest rates encouraging home purchase is a myth. If interest rates were the driver of home purchases, we would be going to the moon. Interest rates determine how much home a person can buy, but do not create a homebuyer. The desire to purchase a home is based upon

need (growing family, shrinking family, job change, relocation) and consumer confidence. If consumers have a changing family dynamic and confidence in the market, they will make a major purchase such as a home purchase. If consumer confidence does not exist, people who are qualified to buy will instead become renters.

- 3) The mortgage interest tax deduction is ineffective in encouraging people to purchase a home. An up-front homebuyer tax credit that creates an immediate, tangible benefit to the homebuyer and a shot in the arm to the local economies has proven to be effective (see the Federal tax credit program in 2010). If I were "King for a Day", I would eliminate the mortgage interest tax deduction (which encourages a greater debt load) and institute a home-buyer tax credit of \$10,000. I would also give a tax credit of up to \$10,000 per year for anyone paying extra principal on a home mortgage.
- 4) Home ownership is less important (or maybe less achievable?) to the current group of people entering the market. Anyone who is under 30 years old was probably at home or in college when we saw the recession in 2007. They saw first-hand the problems faced by parents who lost jobs, saw retirement accounts get hammered, and saw them lose equity in their home or lose their home altogether. Is it possible the consumer confidence needed to make a long-term home purchase has not yet returned?
- 5) This may also signal a lack of ability for the under 30 year old crowd to buy a home. This may be caused by large student loan debt or lagging wages?
- 6) Our population is growing, but home sales and home purchases are down from ten years ago. So where do these people live? The answer is they are renting. The rental market has changed in my twenty years in this business more than any other segment of our market. In the mid-to-late 1990's, the people who rented were students and people who could afford to buy. Today, the student rental market has changed dramatically and there are many people who are qualified to buy but choose not to for some reason. It may be a lack of confidence in long-term job stability, or it may be a desire to remain mobile. Either way, the rental market remains very healthy.
- 7) Is there a large pent-up demand in the entry-level home buyer market? Are there a lot of entry-level home buyers who want to buy but cannot? The City of Columbia has become aggressive in addressing the affordable housing issue and rightly so. If the entry-level home buyer market is not healthy, that eliminates the move-up buyer which then puts downward pressure on all of the price points. A strong entry-level homebuyer market is essential to overall health of the single family home market. The business community needs to engage in the affordable housing issue in Boone County.
- 8) We have an entire generation of homebuyers who have enjoyed under 5% fixed thirty year mortgage interest rates. What happens if/ when rates rise? In the mid 2000's, we had declining interest rates, which allowed people to sell their existing home, buy a more expensive home, initiate a new mortgage at a lower rate, and keep their payments similar to their old payment even though they were buying a more expensive home. This was a large part of the market in 2005. If rates are rising, we will likely see the opposite impact and people will be more inclined to remodel or add on to their existing home.

- 9) Does this reflect a larger number of private transactions that do not go through the Columbia Board of Realtors? I do think the internet has created more and more buyers that deal directly with sellers. However, I do not believe it is anywhere close to explaining home sales that are down 40% from ten years ago when our population is greater and our mortgage interest rates are significantly lower.

All of this is great for speculation and conversation, but how does this impact our business for 2016? I see the following for 2016:

- 1) New home construction will remain in the 400-500 home mark for 2016. This is a healthy level in that I do believe new growth will support the sale or rental of 400-500 new units in the market.
- 2) Home sales that go through the Columbia Board of Realtors should remain in the 1,500-2,000 range. Interest rates are great, homes are still reasonably affordable, and there continues to be steady growth.
- 3) I see good appreciation (3-4%) in the pre-owned home market. As new construction becomes more expensive, this pulls up the values in the pre-owned market.
- 4) The craziness at the University of Missouri will impact our market. How deep and how long the impact remains is yet to be seen. But a decrease in enrollment, which appears is going to happen, decreases the number of dollars following into Boone County which will have a negative impact on housing, sales tax receipts, and the overall economy.
- 5) There is a large supply of new construction developments that will require homes to be in the \$350,000+ price point. There are seven new construction subdivisions that come to mind immediately (there may be more) where a home built on a walk-out basement will start at \$350,000. There is plenty of inventory in this segment of the market.
- 6) The University farm on Sinclair road is a huge wild card. This property is 535 acres +/- and would provide many years of supply in the market in the southwest part of town if developed. If this property gets sold and starts moving in the next year or two, it will put huge pressure on the existing new construction subdivisions in the southwest part of town.
- 7) It is becoming increasingly difficult to produce quality new construction homes under \$200,000. This entry-level portion of the market is a very important part of the market and this gap needs to be filled.
- 8) Ancillary businesses that depend upon home sales (mortgage originators, title insurers, home inspectors, etc) will likely see a solid market in Boone County for 2016 but not much growth, if any.
- 9) The student rental market is healthy and close to becoming over-stocked. This is an issue that does not worry me because the market will take care of this problem, if it happens. In other parts of the country, areas with over-stock in student housing, the units are being converted to senior housing. The market will be a much more effective monitor of the amount of student housing than the City Council.

That is all for today. I hope there is information contained here that is helpful to those who make a living in the Boone County residential real estate market. We are all blessed to be in this market and blessed to live in Boone County, MO. I wish for peace, health, and prosperity for all of you. Have a great year!

Robert A. Wolverton

President

R. Anthony Development

Exhibit 1

Boone County, MO Schedule of Economic Indicators

Unemployment

Area	2014	2015	% Change
Boone County	3.4	2.6	-0.80%
State	5.4	4.4	-1.00%
Federal	5.6	4.9	-0.70%

Source: Bureau of Labor Statistics

Interest Rates

Type	2014	2015	% Change
Fixed 30	3.87	3.75	-0.12%
Prime	3.25	3.5	0.25

Source: Freddie Mac; Federal Reserve

Median Household Income

Location	2014	2015	% Change
Boone County	48,953	49,059	0.2%

Source: US Census Bureau

Note: 2015 income figures have yet to be released.

Exhibit 2

Boone County, MO Schedule of Home Sales/ Inventory

Single Family Detached Homes - Columbia Public Schools

Area	2014 Sales	2015 Sales	Inventory	Months Supply
All Areas	1,299	1,897	457	2.89
Northeast	232	326		
Northwest	171	195		
Southeast	87	161		
Southwest	581	715		
Central	144	189		

New Construction Single Family Detached Homes - Columbia Public Schools

Area	2014 Sales	2015 Sales
All Areas	206	250
Northeast	13	19
Northwest	11	9
Southeast	37	45
Southwest	126	133
Central	3	3

Exhibit 3

Boone County, MO

Schedule of Home Sales by Price Point

Price Point	2014 Sales	2015 Sales	% Change
\$0 - 199,999	1065	1080	1.4%
\$200,000 - 249,999	270	302	12%
\$250,000 - 299,999	139	191	37%
\$300,000 - 349,999	101	136	35%
\$350,000 - 399,999	71	71	0%
\$400,000 +	86	115	34%
Average	\$202,153	210184	4%
Median	\$174,000	185500	6.7%

Exhibit 4

City of Columbia, MO

Schedule of Detached Single Family Residential Building Permits

Month	Number	Volume	Average
Jan-14	35	\$ 8,665,189	\$ 247,577
Feb-14	15	\$ 4,113,628	\$ 274,242
Mar-14	75	\$ 16,923,587	\$ 225,648
Apr-14	32	\$ 8,586,279	\$ 268,321
May-14	30	\$ 8,563,743	\$ 285,458
Jun-14	25	\$ 6,528,344	\$ 261,134
Jul-14	28	\$ 6,974,771	\$ 249,099
Aug-14	28	\$ 7,097,403	\$ 253,479
Sep-14	20	\$ 4,995,072	\$ 249,754
Oct-14	29	\$ 6,990,653	\$ 241,057
Nov-14	20	\$ 6,890,910	\$ 344,546
Dec-14	12	\$ 3,461,930	\$ 288,494
2014 Totals	349	\$ 89,791,509	\$ 257,282
Jan-14	23	\$ 4,964,326	\$ 215,840
Feb-14	23	\$ 4,185,066	\$ 181,959
Mar-14	37	\$ 8,794,612	\$ 237,692
Apr-14	50	\$ 11,749,213	\$ 234,984
May-14	42	\$ 11,409,156	\$ 271,647
Jun-14	37	\$ 11,440,012	\$ 309,190
Jul-14	49	\$ 12,397,322	\$ 253,007
Aug-14	42	\$ 11,120,095	\$ 264,764
Sep-14	25	\$ 7,972,729	\$ 318,909
Oct-14	45	\$ 10,055,897	\$ 223,464
Nov-14	34	\$ 7,481,359	\$ 220,040
Dec-14	24	\$ 6,026,484	\$ 251,104
2015 Totals	431	\$ 107,596,271	\$ 249,643