

January 30, 2019

Boone County Residential Real Estate Market 2018 Market Overview

Good morning on one of the coldest days in Boone County history. The 2018 Residential Real Estate Market in Boone County can only be described as bipolar. The first half of the year was hot in all areas of the market. The second half of the year was very slow. The following are a few observations:

- 1) The overall market for home sales is solid. Per the Columbia Board of Realtors (CBOR), sales in Columbia were up 3% and sales were up in Boone County 2.3%.
- 2) According to CBOR, the average sale price in Columbia was up 4% to \$233,623. The average sale price in Boone County was up 6% to \$226,530.
- 3) According to CBOR, the median sale price in Columbia was up 3% to \$208,000. The median sale price in Boone County was up 4% to \$195,000.

All of this would be expected in a market that is rising with strong consumer confidence, low unemployment, and low mortgage rates. It also shows that inflation is here. Monthly inflation in 2018 was 2-2.5% which matches our increase in sales for the year but is below the increase in average and median sale prices for Columbia and Boone County.

When looking at the market by area, the monthly supply of homes ranges from a low of 1.23 months to a high of 4.65 months (See Exhibit 2). This is very healthy and shows that there is no geographic area of the market that is suffering. Then looking at the market by price point, all price points below \$400,000 have a monthly supply of 5 months or less. The monthly supply of homes over \$400,000 is 8 months, which is a little high, but not unreasonable.

There are two areas of the market that are experiencing a high level of volatility. The residential rental market has seen a very large number of new living units hit the market in 2018 and there are more coming for 2019. Anecdotally, I am hearing of projects that have very high levels of vacancy (20-40%) and I know from personal experience that there is downward pressure on rents in larger units (3+ bedrooms). Smaller units (1-2 bedrooms) have a high level of demand and seem to be doing quite well as long as they are well located and well maintained. Poorly maintained or poorly located living units are under tremendous pressure due to the fact that prospective tenants have a large number of options. In addition, our experience is that the number of bathrooms in a unit has become as important as the number of bedrooms in a unit. The newer buildings typically have a private bath per bedroom which is very attractive to prospective tenants. We are finding that a three bedroom two bath unit has very little more market value than a two bedroom two bath unit.

The new construction single family detached home market saw a large decrease in the second half of 2018. The number of single family home building permits issued in the City of Columbia declined from 377 in 2017 to 245 in 2018 which represents a decline of 35% (See Exhibit 4). The number of single

family home building permits issued in Boone County declined from 356 in 2017 to 269 in 2018, which is a 24% decline. The new construction market has become heavily weighted toward custom build jobs and less toward speculative building. The new construction market got hit by a perfect storm in the second half of 2018. Major increases in the cost of materials, labor, and regulatory requirements have driven new construction prices up 15-20% over the last 24 months. The second issue faced was a very contentious mid-term election cycle in the second half of 2018. It is normal in a major election year (Presidential election) that the market goes dormant around the first of September and then resumes once the election is over. We usually do not see this in a mid-term election. However, this year the mid-terms were very contentious and seemed to have the same impact on the market as a Presidential election. The last issue is that home ownership is a lesser priority for the generation coming into the market today than it was for previous generations. There are lots of reasons for this, but it seems the generation entering the housing market today is very comfortable renting.

Conclusions

- 1) The overall market in Columbia/ Boone County is solid and rising. Unemployment is at historic lows, interest rates are still below 5%, our overall supply is reasonable, and consumer confidence is high.
- 2) Well located, well presented homes have a very solid market. However, the increase in rental options gives people coming into the market a lot of options. Therefore, a poorly presented or poorly located home has a very weak market. In years past, a seller could overcome issues by leaving allowances for carpet, painting, appliances, etc. I do not believe this as the case currently. Sellers must have their home in excellent, move-in condition or potential buyers will take the easy, expeditious route of renting until they find the right home or can build a new home.
- 3) I believe well located, well presented, affordable (under \$300k) homes are undervalued by as much as 5%. The cost of building a new home has escalated dramatically and this also causes upward pressure on prices for really great pre-owned homes.
- 4) We went through a period of several years where it was less expensive to buy a home than it was to rent a home. During this period, people continued to rent even though it was more expensive. Now, the dramatic increase in new rental units combined with increased construction costs has made renting less expensive than buying. Therefore, I see a higher percentage of people choosing to rent and the percentage of people choosing to buy decreasing. I see this trend continuing until our overall population growth is sufficient to absorb the new rentals available in the market.
- 5) New jobs are coming to Boone County. Northwest Medical Isotopes, American Outdoor Brands, and Aurora Dairy are all opening facilities in Boone County and all will bring really good jobs to our area. This will help to bring growth to our area which will help to absorb the new rentals in the market.
- 6) The overall single family detached home starts in Columbia/ Boone County are down approximately 30%. This is a tremendous decline in revenues for our area and needs to rebound. Unfortunately, I do not see this rebound until the rental market is absorbed.

- 7) New entrants into the market are more comfortable renting than previous generations. No one wants to go through the process of buying a home if they are going to decrease their standard of living. People coming from college today are used to living in beautiful rentals with great finishes, pools, clubhouses, weight rooms, tanning beds, etc. A large number of them will continue to rent rather than buy a home that has a lesser level of finish or decreases their lifestyle. In addition, the new entrants into the market want to remain mobile to pursue job opportunities or for other reasons. Moving when encumbered by a lease is far less complicated than having to sell a home in order to move.
- 8) The average age of first time home buyers seems to be increasing. I have no statistical backing, but rather personal experience and what I hear from others in the market. In the mid 90's, it seemed that our first time home buyers were in their mid 20's. People are going to school longer, graduating with more debt, waiting longer to get married, and waiting longer to have kids than ever before. Therefore, I see the average age of first time home buyers increasing into the low to mid 30's. I see this as a long-term direction and not a short-term trend.
- 9) There were 10% more single family detached home building permits issued in Boone County than in the City of Columbia for 2018. I attribute this to \$2 per gallon gasoline and lesser cost to build in the County versus the City. Some prefer the smaller town lifestyle offered in Hallsville, Ashland, Centralia, Harrisburg, Fayette, Moberly, and Boonville. When gasoline is \$2 per gallon, the cost of commuting from these places to work in Columbia is immaterial.
- 10) The speculative new construction home market still exists, but is much smaller than in years past. The speculative market is very competitive due to increased buyer expectations as well as the fact that they are competing with rentals and other homes for sale. As less new homes are built and the rental market is absorbed, this will drive the cost of pre-owned homes up which will help the speculative new construction home market.
- 11) We do have negatives in the job market which dampens the enthusiasm for the "move up" buyer. A buyer who already lives in Columbia will choose to stay put if they are concerned about job stability. We are still feeling the impacts of the turmoil at the University in 2015, Boone Hospital is facing major changes, and State Farm is quietly downsizing the Columbia office. This all adds to a lack of confidence for the "move up" homebuyer.
- 12) New entrants into the market are demanding the "cool factor" in their homes and are also very environmentally conscious. Great finishes, lots of electronics, and energy efficiency are very important to the entry level home buyers.
- 13) Specialized housing continues to be popular. It began with housing specifically geared to students, but now has expanded to other area such as the over-55 crowd.
- 14) We are facing a major school redistricting process. This will often result in people selling and moving within our area in order to get into the schools they desire. This will hopefully increase the volume of sales for 2019.

All of this adds to a market that is healthy and keeping pace, but not going through the roof. Under 5% fixed thirty year mortgage money, new job creation, and a market that is in balance would indicate that our market should be going to the moon. But it is not. We are doing well and keeping pace, but I do not see this market improving dramatically until our population grows enough to absorb the current rental

inventory. Overall, I see the over-all market for 2019 continuing to tread water and keeping up with inflation. The new construction will continue to weigh heavily toward custom build jobs and I do not see any significant increases in speculative building for 2019. I see most speculative starts will happen in the fall of 2019 which will produce inventory for Spring of 2020.

As always, I hope for a happy, healthy, and prosperous year for each of you in 2019.

Robert Wolverton

President

R. Anthony Development Group, LLC

Exhibit 1

Boone County, MO Schedule of Economic Indicators

Unemployment

Area	2017	2018	% Change
Boone County	2.3	2.4	0.10%
State	3.4	3.1	-0.30%
Federal	4.1	3.9	-0.20%

Source: Bureau of Labor Statistics

Interest Rates

Type	2017	2018	% Change
Fixed 30	4	4.75	0.75%
Prime	4.5	5.25	0.75%

Source: Freddie Mac; Federal Reserve

Median Household Income

Location	2017	2018	% Change
Boone County	\$ 49,899	\$ 50,813	1.8%

Source: US Census Bureau

Exhibit 2

Boone County, MO
Schedule of Home Sales/ Inventory

Single Family Detached Homes - **Columbia Public Schools**

Area	2017	2018 Inventory	Months Supply	
All Areas	1,856	1912	466	2.92
Northeast	305	323	71	2.64
Northwest	213	215	22	1.23
Southeast	163	165	64	4.65
Southwest	654	687	176	3.07
Central	209	203	39	2.31

Single Family Detached Homes - **All Boone County**

Area	2017	2018 Inventory	Months Supply	
All Areas	2,222	2277	589	3.10
Boone Northeast	265	230	81	4.23
Boone Northwest	129	120	37	3.70
Boone Southeast	68	72	9	1.50
Boone Southwest	85	100	37	4.44
Boone South	132	162	53	3.93

New Construction Single Family Detached Homes - **Columbia Public Schools**

Area	2017	2018 Inventory	Months Supply	
All Areas	221	200	131	7.86
Northeast	25	39	24	7.38
Northwest	20	27	7	3.11
Southeast	43	35	29	9.94
Southwest	118	74	48	7.78
Central	2	2	0	0.00

New Construction Single Family Detached Homes - **All Boone County**

Area	2017	2018 Inventory	Months Supply	
All Areas	286	276	165	7.17
Boone Northeast	35	34	16	5.65
Boone Northwest	8	5	0	0.00
Boone Southeast	0	0	1	#DIV/0!
Boone Southwest	3	16	19	14.25
Boone South	35	44	21	5.73

Exhibit 3

Boone County, MO

Schedule of Home Sales by Price Point - **Columbia Public Schools**

Price Point	2017	2018	% Change	Inventory	Monthly Supply
\$0 - 199,999	968	929	-4%	186	2
\$200,000 - 249,999	342	359	5%	91	3
\$250,000 - 299,999	202	209	3%	80	5
\$300,000 - 349,999	127	132	4%	55	5
\$350,000 - 399,999	102	114	12%	50	5
\$400,000 +	115	171	49%	111	8
Average	\$ 219,513	\$ 223,623			
Median	\$ 194,450	\$ 208,000			

Schedule of Home Sales by Price Point - **All Boone County**

Price Point	2017	2018	% Change	Inventory	Monthly Supply
\$0 - 199,999	1,240	1,189	-4%	192	2
\$200,000 - 249,999	393	405	3%	96	3
\$250,000 - 299,999	228	243	7%	82	4
\$300,000 - 349,999	137	165	20%	55	4
\$350,000 - 399,999	104	100	-4%	44	5
\$400,000 +	123	180	46%	119	8
Average	\$ 219,513	\$ 226,530			
Median	\$ 194,450	\$ 195,000			

Exhibit 4

City of Columbia, MO
Schedule of Detached Single Family Residential Building Permits

Year	Number	Volume	Average
2017	377	\$ 92,136,804	\$ 244,395
2018	245	\$ 61,128,871	\$ 249,506

Exhibit 5

Boone County, MO
Schedule of Detached Single Family Residential Building Permits

Year	Number	Volume	Average
2017	356	\$ 75,971,227	\$ 213,402
2018	269	\$ 64,030,422	\$ 238,031