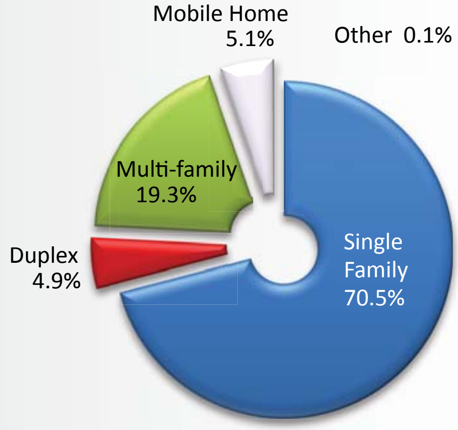
By KARINNE WIEBOLD

# Alaska's Housing Market

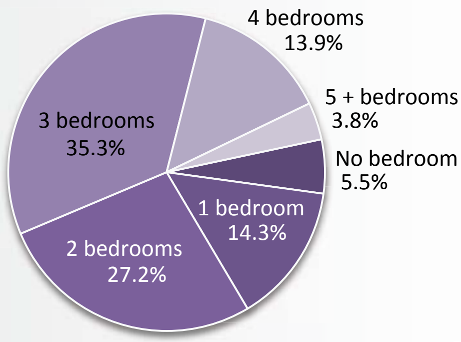
## Characteristics, affordability, and what makes us unique

**1 Houses Dominate Mix**
Alaska housing, 2008 to 2012




*Source: U.S. Census Bureau, American Community Survey 2008-2012*

**2 Mostly 2 and 3 Bedrooms**
Alaska homes, 2008 to 2012




*Source: U.S. Census Bureau, American Community Survey 2008-2012*

Living in Alaska presents many opportunities and challenges, and finding a home is often one of them. If you ask Alaskans about their local housing markets, it's common to hear:

*"There's nothing to rent."*

*"I had no idea it would be so expensive."*

*"Have you seen the price of heating oil?"*

*"I'm not sure if we're going to buy or rent; we might not stay in Alaska more than a couple of years."*

*"Do you know what I could have bought for $300,000 in my home state?"*

In the coming months, *Trends* will feature regional housing profiles that detail some of these costs, as Alaska is so large and diverse that its local markets can differ widely. Despite those local differences, it's helpful to first examine the state housing market as a whole to see how it differs from the rest of the nation.

### Most homes are single-family

According to the most recent census estimates, Alaska has 252,991 occupied housing units, with 64 percent owner-occupied and 36 percent rented.

Seven of 10 housing units are single-family homes. Apartments and condos together make up nearly 20 percent, and duplexes and mobile homes each represent 5 percent. (See Exhibit 1.)

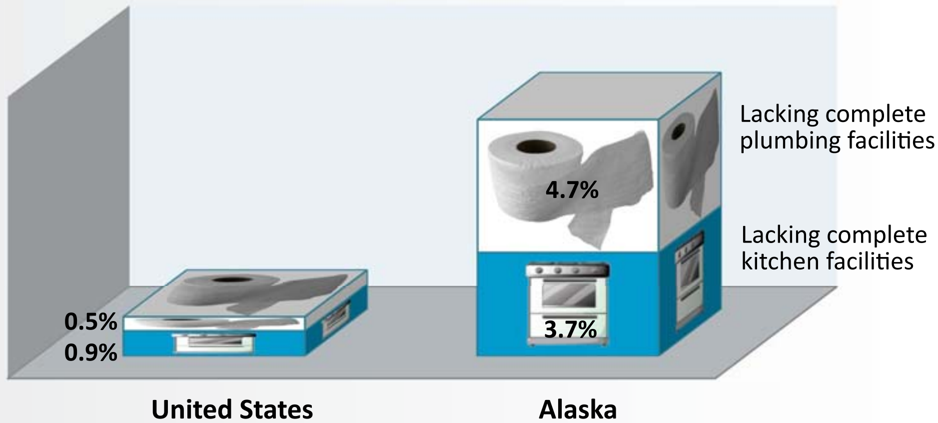
In Alaska, almost half of residences have two bedrooms or fewer while in the U.S. as a whole, only 40 percent are that small. Homes in Alaska generally have between one and three bedrooms, with larger bedroom sizes only making up 18 percent of units. (See Exhibit 2.) Alaska also has two-and-a-half times the U.S.'s percentage of homes with no bedrooms, which include studio apartments and one room cabins.

## More Alaskans do without amenities

Proportionately, Alaska has six times as many homes without complete plumbing or kitchens as the nation. (See Exhibit 3.) This may come as no surprise to legislative staffers renting tiny studios in Juneau during session who make do with a hot plate and mini fridge, or rugged cabin dwellers in the Interior who trudge through snow to view the northern lights from the outhouse.

The census estimates that nearly 12,000 Alaskans live without complete plumbing and more than 9,000 don't have a complete kitchen.

### 3 Alaskans Live Rougher
Homes that lack plumbing, kitchens, 2008 to 2012




*Source: U.S. Census Bureau, American Community Survey 2008-2012*

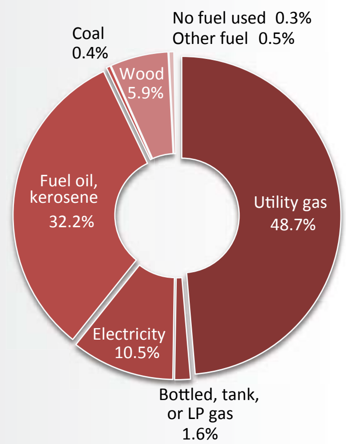
## Oil, natural gas are common

When it comes to heating our homes, nearly half of Alaska uses relatively inexpensive natural gas, which is available in some of the most populated areas including Anchorage, the Matanuska-Susitna Borough, and parts of the Kenai Peninsula.

For the rest of Alaska, fuel oil serves the next largest group, followed by electricity. (See Exhibit 4.)

Almost 6 percent of homes in Alaska heat with wood, nearly three times higher than in the nation.

### 4 Heating Fuels
Alaska, 2008-12




*Source: U.S. Census Bureau, American Community Survey 2008-2012*

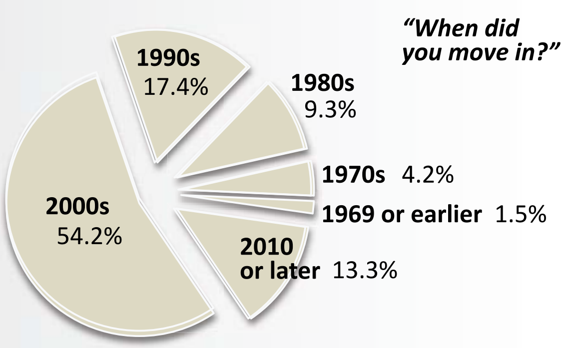
## Most of us fairly new to our current home

Compared to the U.S. as a whole, Alaska has a higher percentage of people who moved to their current home fairly recently, due to our more mobile population. (See Exhibit 5.)

Sixty-eight percent of Alaskans moved to their current home after 2000 compared to 63 percent nationwide. Alaska also has a higher percentage who moved to their homes in the 1980s during the state's oil-fueled economic boom.

The U.S. has three times as many households who are still in the homes they moved into in 1969 or earlier, when Alaska was still a young and sparsely populated state.

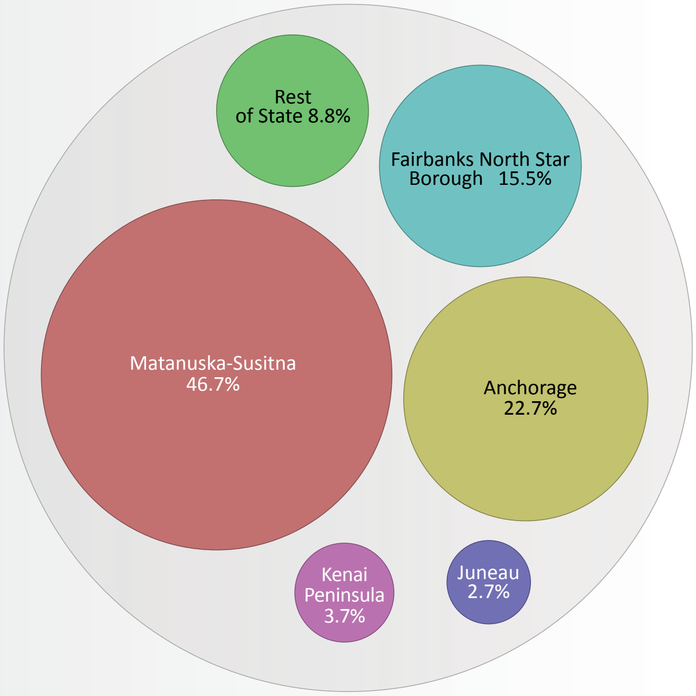
### 5 Time In Current Home
Alaska by decade as of 2008-12




*Source: U.S. Census Bureau, American Community Survey 2008-2012*

## 6 Mat-Su Had Half of New Houses

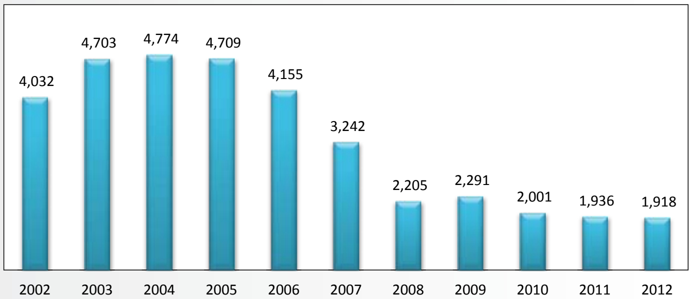
Single-family homes, 2002 to 2012




*Source: Alaska Department of Labor and Workforce Development, Research and Analysis, New Housing Unit Survey*

## 7 New Residential Construction

Alaska, 2002 to 2012




*Source: Alaska Department of Labor and Workforce Development, Research and Analysis, New Housing Unit Survey*

## Construction boomed in Mat-Su

Between 2002 and 2012, 23,919 new single-family homes went up in Alaska. Mat-Su led the state with 47 percent of the new construction, adding nearly 30,000 new residents at the same time.

Although Anchorage has three times the population of Mat-Su, less than half as many single-family homes were built there. (See Exhibit 6.)

Mat-Su has large tracts of undeveloped land, while urban Anchorage is mostly limited to infill sites that restrict growth and increase costs. The Juneau area also lacks developable land, while the Fairbanks North Star Borough has more to work with.

Although the effects of the national housing market crash and recession are evident in recent years' lower residential construction numbers, the dropoff was less extreme because the state didn't participate in the same speculative building that preceded the burst of the national housing bubble. (See Exhibit 7.)

## Fewer Alaskans own homes

Alaska's home ownership rate continues to lag behind the U.S., but the gap had narrowed by the last census. In 1990, Alaska trailed the nation by 8 percentage points, but by 2010 the gap had shrunk to 2 percentage points. (See Exhibit 8.)

Alaskans' tendency to rent may be due to our relatively young and mobile population, with the military, university, and the "call of the wild" bringing people in from the Lower 48. Mat-Su is the exception, with a higher ratio of homeowners than the U.S. as well as the rest of the state.

Since the 1990 Census, the percentage of small, owner-occupied homes with one or two residents has grown, and the share of larger households has declined.

Renters tend to have smaller households than owners. A larger percentage of single-person households rent rather than own, but for households with two or more people, a greater percentage own.

Renters also tend to be younger, with 42 percent of renting householders under age 35, whereas just 14 percent of homeowners are under 35.

Both types of householders are getting older, though, as the population ages. The percentage of owners 45 and over increased from 44 percent in 1990 to 68 percent in 2010, meaning nearly 7 out of 10 homeowners were 45 or older. The increase in renter age is also significant, with the percentage over 45 nearly doubling from 20 to 39 percent during the same time period.

## Rents and vacancy rates

Our annual rental survey, conducted in March each year, examines rents and vacancies in communities across Alaska and inflation-adjusts rents to allow comparisons between years.

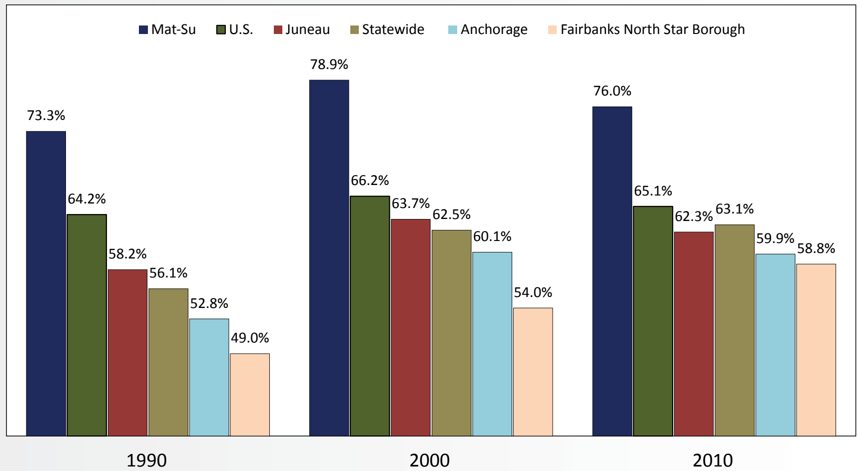
Average adjusted rent in all surveyed areas combined, including utilities, has increased 11 percent since 2002. Rents held steady from 2002 to 2005 at around $1,030 before beginning to rise in 2006, then stabilized in the last couple of years at around $1,150. (See Exhibit 9.)

Rentals have become less available in recent years, with vacancy rates falling from an average of 7.4 percent between 2002 and 2009 to around 4.2 percent between 2010 and 2012.

Fairbanks' vacancy rate is generally higher than other surveyed areas, likely due to the area's especially mobile population. Anchorage and Juneau have tight rental markets, with vacancies consistently under the survey average. (See Exhibit 10.)

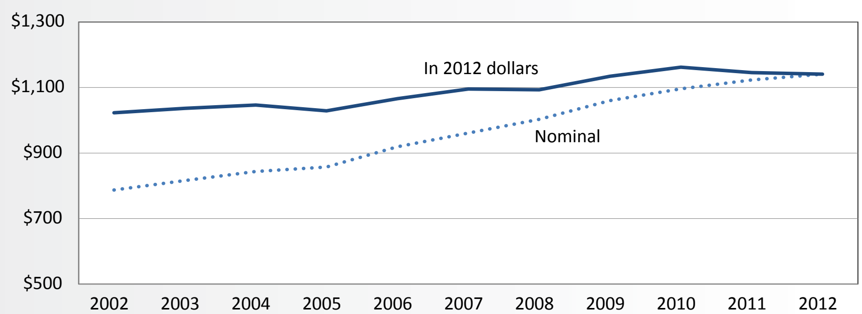
Likely factors behind the decline in rental vacancy rates include a decline in new housing units and tighter lending standards, which make it harder for aspiring homeowners to qualify for a mortgage. Potential homebuyers remaining in the rental market means more competition for units.

### 8 More are Home Owners in Mat-Su
Alaska and U.S. home owners, 1990-2010




*Source: U.S. Census Bureau, 1990, 2000, and 2010 Censuses*

### 9 Rent Has Risen Steadily Over Past Decade
Alaska, 2002 to 2012



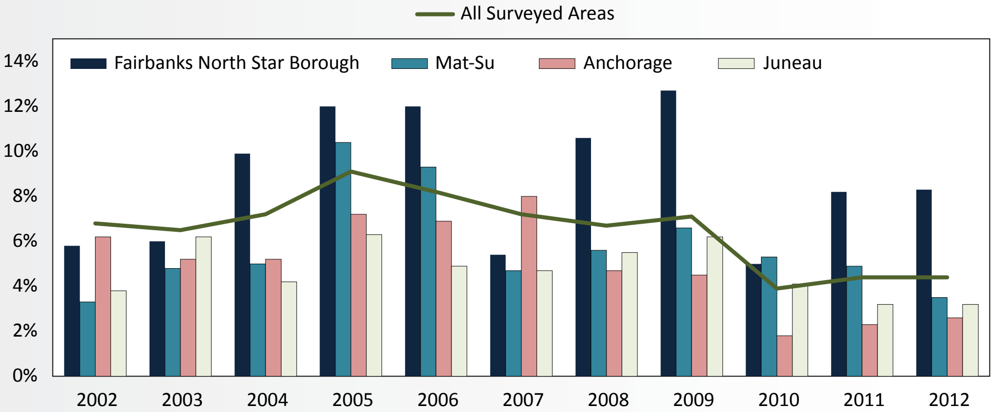

Note: Rent is adjusted here to include all utilities.
*Source: Alaska Department of Labor and Workforce Development, Research and Analysis, New Housing Unit Survey*

## U.S., Alaska prices diverged

While Alaska is clearly a more expensive place to buy a home, U.S. sales prices followed a similar upward trend through 2006. (See Exhibit 11.) In 2007, U.S. home prices began to fall rather quickly while Alaska's leveled out. National single-family home prices, adjusted for inflation, fell 26 percent from 2007 to 2012 while Alaska's dipped just 4 percent.

## 10 Fairbanks Area Has Higher Vacancy Rates

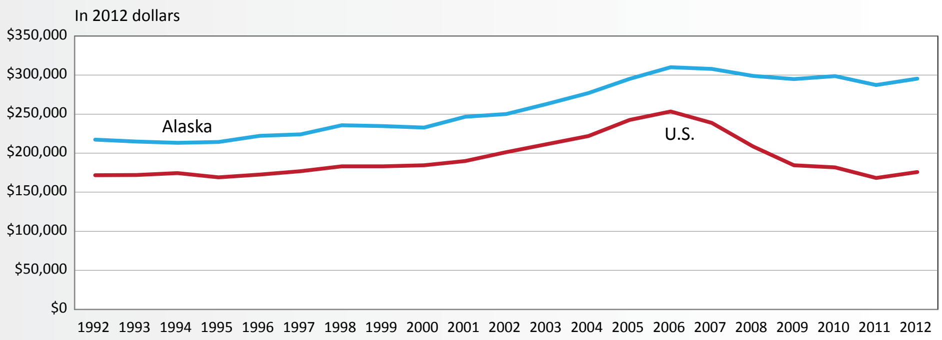
Select community rates, 2002 to 2012




*Source: Alaska Department of Labor and Workforce Development, Research and Analysis, Annual Residential Rental Survey*

## 11 Alaska Has Always Had Higher Home Prices

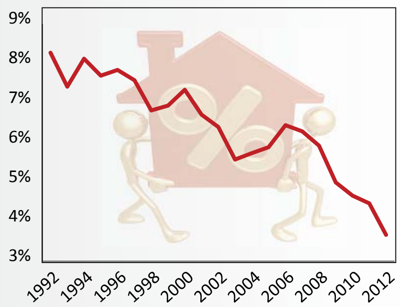
Average single-family sales prices, 1992 to 2012




*Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section, Quarterly Survey of Mortgage Lending Activity; National Association of Realtors*

## 12 Alaska Rates Fell

Interest, 1992 to 2012




*Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section, Quarterly Survey of Mortgage Lending Activity*

In 2012 dollars, Alaska's average single-family home price increased 36 percent, or by $78,000, from 1992 to 2012.

## Interest rates were low for years

Alaska's 20-year average interest rate was 6.32 percent, and our 10-year average was 5.36 percent. In contrast, Alaska's 2012 interest rate averaged just 3.67 percent. (See Exhibit 12.)

Data from the first half of 2013 show interest rates staying low at 3.48 percent, but national data suggest rates are on the rise.

Changes in interest rates affect housing costs, both in terms of monthly mortgages and the price paid over the life of the loan. A single percentage point rise in the interest rate means a roughly 10 percent drop in the price of a house while maintaining the same monthly mortgage payment. In other words, a homebuyer would be paying about the same monthly mortgage for a home purchased for $300,000 at 4 percent interest as a $270,000 home at 5 percent interest.

As another example, consider a homebuyer with a budget of $1,600 for a monthly mortgage payment. In 2010, when Alaska's interest rates averaged 4.66 percent, the buyer would have been able to take out a $310,000 loan. Two years later, when the average interest rate fell to 3.67 percent, the same buyer could have taken out a $350,000 loan for the same monthly payment.

## Foreclosure crisis didn't hit Alaska

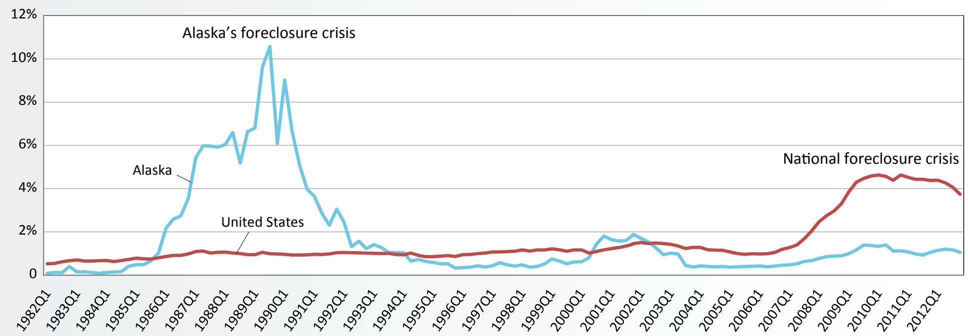
Alaska largely avoided the recent foreclosure crisis that rocked the foundations of the national housing market. At the 2010 peak, national foreclosures reached 4.63 percent of all loans, dwarfing Alaska's peak of 1.40 percent in the same period.

Alaska wasn't exposed to the same damaging combination of subprime/adjustable rate mortgages and an overheated market as the nation. That, combined with a fairly healthy state economy, helped Alaska ride out the storm relatively unharmed.

Alaska had its own foreclosure crisis in the late 1980s and early '90s in the aftermath of oil production declines when foreclosures peaked at 10.57 percent of all loans. (See Exhibit 13.)

## 13 Alaska's Foreclosure Crisis Was Decades Earlier

Alaska and U.S. foreclosures, 1982 to 2012




*Sources: Mortgage Brokers Association; Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Department of Natural Resources, Recorder's Office*

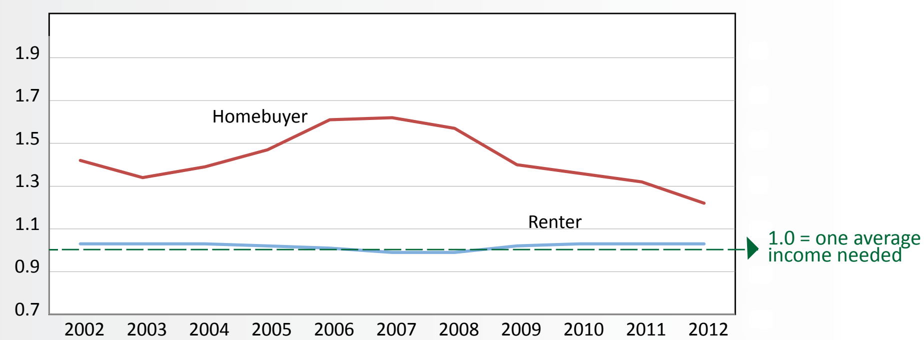
## Rent more affordable than a mortgage

Housing affordability indexes look at the number of average incomes required to afford the average rent or mortgage payment. (For more on the indexes Alaska produces, see the box on page 10.)

For homebuyers, housing cost incorporates the average sales price and the interest rate to approximate a monthly mortgage payment, and for renters it's simply the average rent.

## 14 Renting vs. Buying: Affordability

Alaska, all surveyed areas, 2002 to 2012




*Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section, Annual Residential Rental Survey, Quarterly Survey of Mortgage Lending Activity*

Unlike the affordability of home sales, rental affordability has been largely constant over the last two decades. The largest gap between renting and purchasing was in 2007, when it would have required an additional 63 percent of an income to buy rather than rent. (See Exhibit 14.)

In 2012, the affordability indexes narrowed to where it required less than a fifth of an additional income to buy rather than rent.

In Alaska overall, the rental affordability index tends to hover right around 1.0, meaning a person with average income can afford the average rent.

The homeowner affordability index has bounced up and down in the 1.3s and 1.4s most of the last two decades, with two noticeable exceptions:

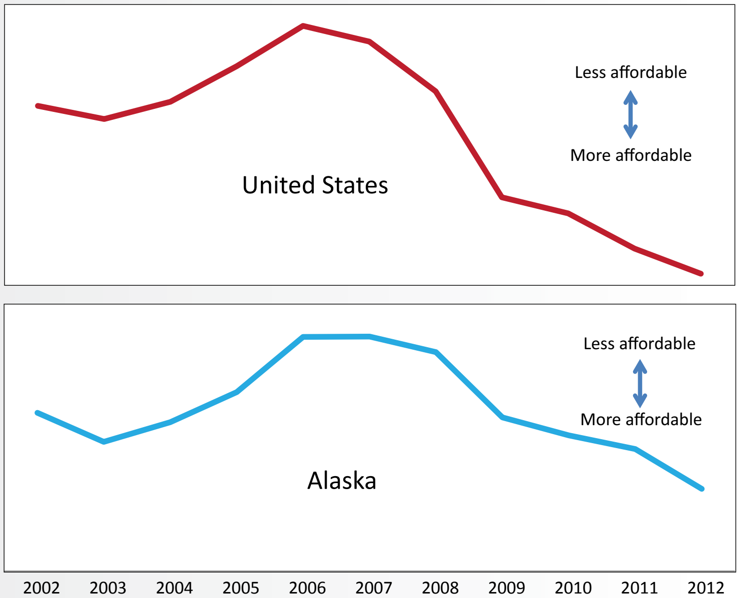
- Between 2006 and 2008, the index went up to 1.62 as sales prices increased and interest rates rose temporarily, increasing the cost of purchasing.
- After that, interest rates steadily declined and reached historic lows. Housing prices remained flat and incomes rose slightly, pushing the affordability index down to 1.22 in 2012.

Data from the first half of 2013 show the index falling even lower, to 1.19. This level of affordability is unlikely to last, as it was driven by record low interest rates that began to rise again in 2013 and will likely continue.

The following is an example of how interest rates affect affordability. Interest rates were low in 2012, but what if a homebuyer were to pay the higher interest rates we had in 1992 on a home in 2012? At that high rate, the income required would increase from $5,075 per month to $8,331 and monthly payments would balloon from $1,218 to $1,999, resulting in an index value of 2.0 rather than 1.22.

Alaska's affordability index and the U.S. index created by the National Association of Realtors use different methods so they aren't directly comparable, but they show the same trends. Similar peaks and valleys appear in both, although the national market peaked a year earlier than Alaska. National affordability had a sharper downturn than Alaska, primarily due to housing prices falling farther and more rapidly. (See Exhibit 15).

## 15 Similar Home Affordability Patterns
Alaska and the U.S., 2002 to 2012




*Note: Because the U.S. and Alaska affordability indexes are calculated differently and use different values, they can't be graphed together or directly compared. This graph compares only the overall shapes of their affordability trends.*
*Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and National Association of Realtors*

## How we determine renting vs. buying affordability

The Alaska Department of Labor and Workforce Development uses two indexes to monitor housing affordability across Alaska. These indexes measure a number of economic housing factors and how they interact, producing a single value.

The Alaska Affordability Index considers sales prices, loan amounts, income, and interest rates to estimate how many wage earners it would take to afford a 30-year conventional mortgage for an average-priced home with 15 percent down, given the average interest rate and average income. Put another way, it tells you how many people have to bring in a paycheck to afford a home.

The Rental Housing Index is similar but uses average contract rents rather than mortgage payments. Contract rent is the amount a landlord charges each month, not including any additional utilities the tenant pays.

An index value of 1.0 means exactly one person's income is required to afford a typical home or average rent. An increasing number means additional income is necessary, making housing less affordable. A value of less than 1.0 is more affordable.

The index monitors housing affordability based only on factors the Department of Labor and Workforce Development measures on a regular basis. Other factors affect affordability, though, and some are unique to households and would be difficult to measure consistently:

- Hazard insurance and mortgage insurance
- Property taxes, which vary by area and property size
- Utilities, which can be substantial and vary depending on energy type
- Adjustable rate mortgages, where monthly payments can change dramatically based on interest rate shifts