

Fairbanks' Housing Market

Renting and buying
in Alaska's second-largest city



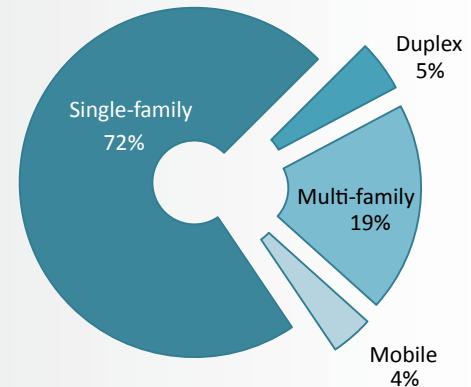
When entrepreneur E.T. Barnette was unceremoniously dumped on the banks of the Chena River in late summer over a century ago, it would have been impossible to foresee that the second-largest city in Alaska would form where he landed after a forced detour.

Fueled by gold rush fever and en route to Tanacross to establish a trading post, Barnette was thwarted by river water too low to navigate and the shadow of fall hanging over his journey. After pushing the steamboat captain as far as he could, Barnette found himself hundreds of miles from his destination with a long winter ahead in the Tanana Valley.

From a distant hilltop, miner Felix Pedro and his companion watched as the steamboat attempted to travel first up the Tanana River and then the Chena before leaving Barnette, his men, and his provisions on the banks of the Chena.

The miners, who had recently found a gold-rich stream and were preparing for a nearly 200-mile

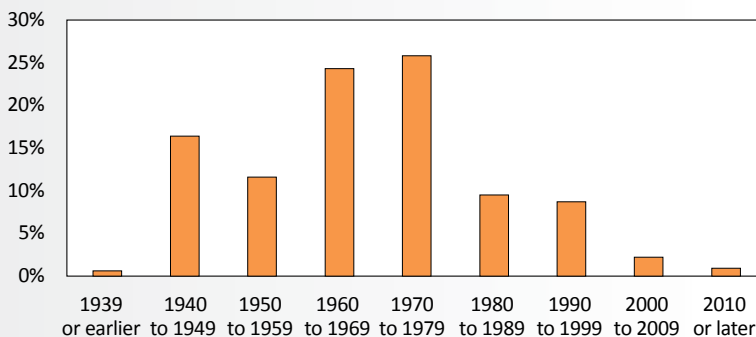
1 Mainly Houses Fairbanks housing mix, 2008-12



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

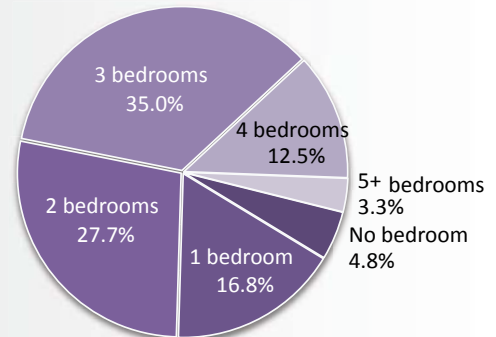
trek to Circle to restock their supplies, jumped on the opportunity to resupply close to their new claim. The discovery of gold in the Tanana Hills

2 Most Homes Built in '70s and '80s Fairbanks, 2008 to 2012



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

3 Most 3 or Fewer Bedrooms Fairbanks housing, 2008 to 2012



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



At left, the author sits in front of her “dry” cabin. Cabins without running water are more common in Fairbanks than in Alaska as a whole or nationwide. As shown in Exhibit 4, 6.1 percent of Fairbanks homes didn’t have complete indoor plumbing between 2008 and 2012. Photo by Karinne Wiebold

Residents of these dry cabins rely on outhouses, like the one below at Chena Hot Springs. Photo by Rosie Rosenberger



sealed the deal, and Barnette established his trading post on the banks of the Chena River, planting the seeds for the Golden Heart City.

Today, the communities of Fairbanks, North Pole, Ester, Fox, College, Salcha, and Two Rivers along with the surrounding area and military installations at Fort Wainwright and Eielson Air Force Base make up the Fairbanks North Star Borough. Each community has its own character, but for this article, references to Fairbanks include the entire borough.

Life in Fairbanks and the surrounding communities is distinct in many ways from other parts of Alaska, and housing is one colorful piece in the mosaic of life in the Interior.

A look at the area’s structures

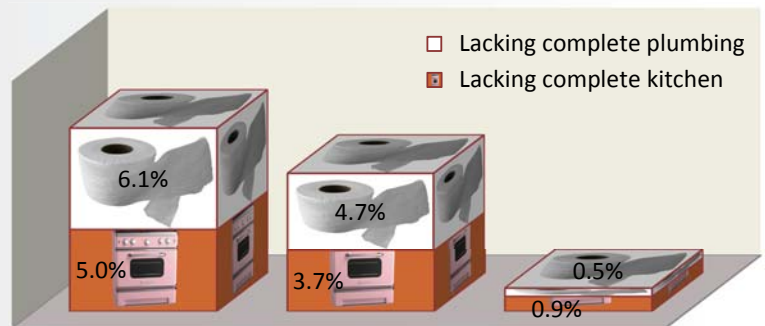
According to the most recent U.S. Census estimates, the Fairbanks North Star Borough has 35,740 occupied housing units, 60 percent owner-occupied and 40 percent rented.

More than seven out of 10 are single-family homes. Apartments and condos together make up 19 percent, duplexes 5 percent, and mobile homes the remaining 4 percent. (See Exhibit 1.)

Compared to the rest of the U.S., Fairbanks has relatively young housing. The 1970s and ’80s were boom years when half of Fairbanks’ housing

4 Roughing It In Fairbanks

Homes lacking amenities, 2008 to 2012



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

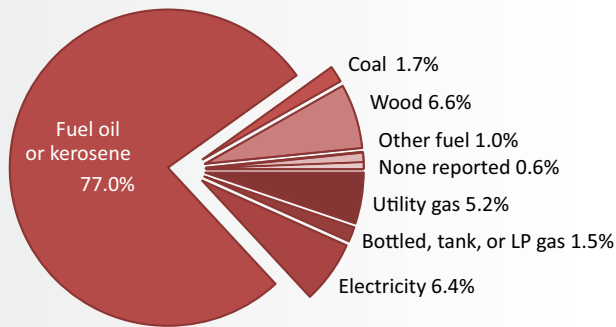
stock was built. (See Exhibit 2.)

After weathering a major flood in 1967, Fairbanks flourished in the economic boom of the pipeline construction from 1974 to 1977 and the continuing oilfield development.

Although three-bedroom homes are the most common size, about half the homes in Fairbanks have no more than two bedrooms. (See Exhibit 3.) Fairbanks has more than twice the national percentage of homes with no bedrooms, such as studio apartments and one-room cabins. However, it has relatively fewer than the state as a whole, at 4.8 percent and 5.5 percent respectively.

5 Oil Heat Most Common

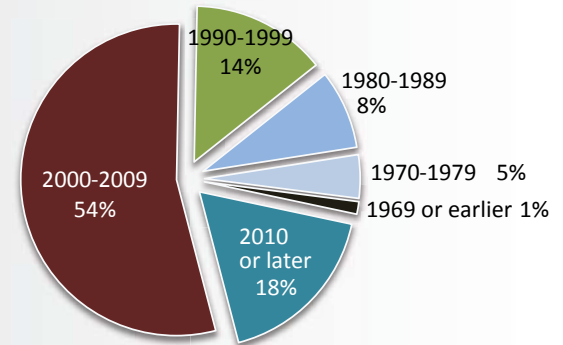
Fairbanks, 2008 to 2012



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

6 When They Moved In

Fairbanks, current home, 2008-12



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

Living without some amenities

Fairbanks stands out for its relative lack of amenities, with nearly eight times the national average of homes lacking complete plumbing or kitchens. (See Exhibit 4.) A significant part of the population lives without these typical creature comforts because of lifestyle choices (the cabin experience), financial choices (dry cabins are cheaper), limited access to municipal water, and the environmental considerations of drilling household wells.

The census estimates that nearly 2,200 Fairbanks homes lack complete plumbing and almost 1,800 don't have a complete kitchen.

Unlike the state as a whole, which has seen a large

decline in the percentage of people living without complete plumbing from 13.8 percent in 1970 to 4.7 percent now, the percentage hasn't changed much for Fairbanks. In 1970, 6.5 percent of Fairbanks residents lived in homes without complete plumbing, just slightly higher than the current 6.1 percent.

Utilities are notoriously high

When it comes to heating their homes, more than three-quarters in the Fairbanks area use oil. (See Exhibit 5.) While natural gas and electricity are also common around the state, wood is the second most common heat source in Fairbanks, with residents three times more likely to burn wood than the national average.

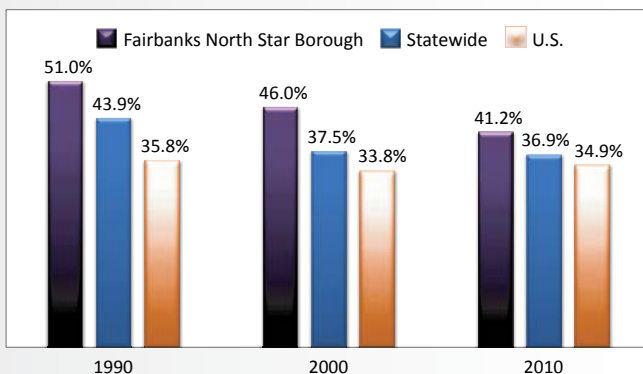
No conversation on housing is complete without looking at utilities, and Fairbanks' utility expenses are notoriously high, recently ranking second behind Hilo, Hawaii, in a national cost-of-living index we discussed in *July Trends*.

Residential electricity is 20.9 cents per kilowatt hour, nearly 70 percent higher than the national average of 12.3 cents per kWh and well over Anchorage's 15.5 cents.

Heating oil is about the same price in Fairbanks as the national average — \$4.09 per gallon versus \$4.07, as of January — but the kicker is quantity. Long, cold winters in the Interior require considerable fuel consumption; a furnace has to heat a home by 100 degrees to raise the indoor temperature to 65 when it's -35 outside.

7 Fairbanks Has More Renters

Versus Alaska and the U.S., 1990 to 2010



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

According to a 2010 Department of Environmental Conservation home heating survey, homes in Fairbanks using central oil furnaces burn an average of 1,135 gallons a year. At 2014 fuel prices, that works out to \$4,642 annually, or \$388 per month.

Many households in Fairbanks don't operate their furnaces May through August, which leaves the cost burden on the other eight months of use at a whopping \$581 per month average.

In terms of the cost per gallon, though, it could be worse. The average statewide price of heating fuel in January was considerably higher at \$5.77 per gallon.

Most moved in fairly recently

Seven out of 10 borough residents moved into their current home after 2000, with more than half moving in between 2000 and 2009. (See Exhibit 6.)

Fairbanks has a higher percentage than the state as a whole who moved to their current home after 2000 — 72 percent compared to 68 percent — likely a result of the military, university students, and more renters buying their own homes in the early part of that decade. According to the 2010 Census, the percentage of homeowners increased from 54 percent in 2000 to 58.8 percent in 2010.

Renter, owner differences

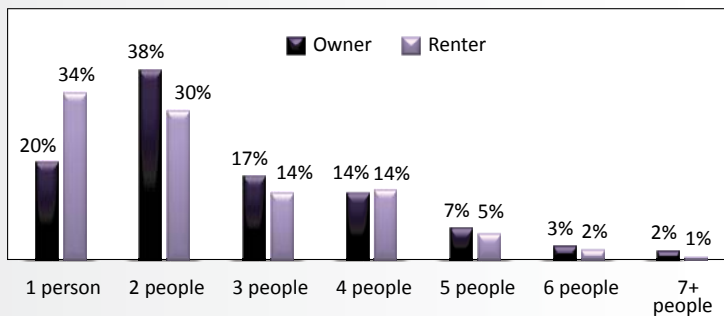
People are more likely to rent in Fairbanks than statewide or nationwide, but the gap is narrowing.

At the time of the 1960 Census, the first one available, Fairbanks was 65 percent renter-occupied. The percentage fell to 51 percent by 1990, at which time Fairbanks had proportionally more renters than Alaska as a whole by 7.1 percentage points and more than the nation by 15.2 percentage points. By 2010, Fairbanks led by just 4.3 and 6.3 percentage points respectively. (See Exhibit 7.)

The prevalence of renting in Fairbanks is likely due in part to the relatively young and mobile military and university populations.

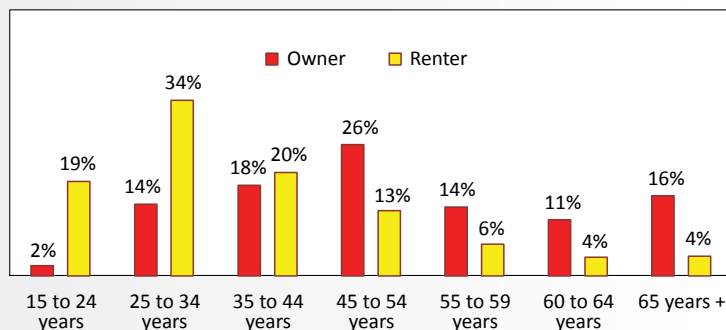
Renters tend to have smaller households than owners. (See Exhibit 8.) According to the most recent census estimates for the Fairbanks area, renter households averaged 2.45 people and owner

8 Owner Households Are Larger Fairbanks, 2008 to 2012



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

9 Renters Tend to Be Younger Fairbanks, 2008 to 2012



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

households averaged 2.75. One in three renter households was a single person compared to one in five owner households.

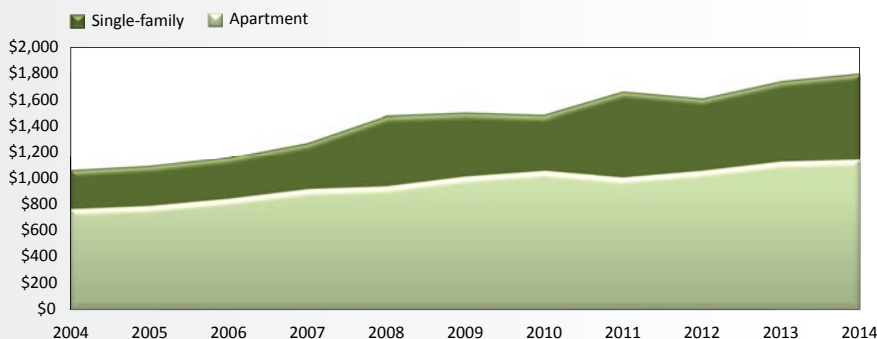
The most typical household size for renters is single-person, and for owners it's two-person — but the majority of both household types have no more than two people (58 percent of owner households and 64 percent of renters). These sizes mirror state and national figures.

Renters also tend to be younger, with Fairbanks householders under age 35 making up 53 percent of all renters but only 16 percent of owners. (See Exhibit 9.)

Renters in Fairbanks are considerably younger than in Alaska as a whole, where 43 percent of renters are under age 35, and dramatically younger than in the U.S., where 37 percent are under 35.

10 Single-Family vs. Apartment Rents

Fairbanks, 2004 to 2014

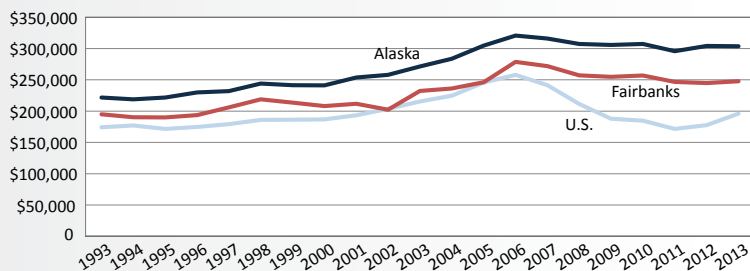


Note: Rents are adjusted to include utilities.

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

11 Average Single-Family Sales Prices

1993 to 2013



Note: Values are in 2013 dollars.

Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; National Association of Realtors

Average rent on the rise

Our annual statewide rental survey, conducted in March each year, showed average rent including utilities has increased 56 percent since 2004, rising from \$783 to \$1,224 per month.

Average single-family rent has increased 70 percent from 2004, from \$1,062 to \$1,802. Apartment rent has gone up from an average of \$767 to \$1,145, a 49 percent rise. (See Exhibit 10.)

Over the last 10 years, rent in Fairbanks has generally fallen in the middle of the spread, with communities such as Kodiak, Juneau, Valdez-Cordova, and Anchorage being more expensive and the Matanuska-Susitna Borough, Ketchikan, Kenai, and Wrangell-Petersburg costing less.

For a bit of historical perspective, consider that according to the 1970 Census, median¹ contract rent was \$205, which when adjusted for inflation equals \$1,059 in 2013 dollars. According to our annual rental survey, the median contract rent in 2013 was \$995, which was 6 percent lower than 1970's inflation-adjusted rent. Though rents have fluctuated over the last 40 years, this peek into the past suggests what we pay in rent hasn't really changed as much as it may seem.

Higher vacancies

Fairbanks tends to have higher-than-average vacancy rates, at 9.9 percent from 2004 to 2014 compared to the survey average of 6.3 percent.

Vacancy took an upward swing in 2014 to 15.6 percent, and though the reasons for the jump aren't clear, military movements were a likely factor.

According to the U.S. Army, Fort Wainwright's population of active duty personnel and families decreased 5.5 percent from last year, and in March 2014 — when the survey took place — 400 soldiers deployed to Afghanistan.

Home prices on an even keel

To get a good sense of the direction of sale prices over the last two decades, it's useful to inflation-adjust prices to control for the changing value of money.

Sale prices peaked across the nation in 2006 and have tapered off since. While adjusted sale prices in Alaska overall and Fairbanks specifically fell, they did not drop as fast or as far as for the nation as a whole. (See Exhibit 11.)

In 2007, U.S. home prices began to fall rather quickly while Alaska's leveled out. National single-family home prices, when adjusted for inflation, fell 24 percent from 2006 to 2013 while Alaska's dipped just 5 percent and Fairbanks' declined by 11 percent.

¹The U.S. Census Bureau uses median rent rather than average rent.

Single-family home prices have gone up more in Fairbanks and the state over the last two decades than in the entire U.S., where adjusted housing prices in 2013 were only 12 percent higher than they were in 1993. In Fairbanks, the adjusted increase was 27 percent, and for Alaska it was 37 percent.

Affordability of renting, buying

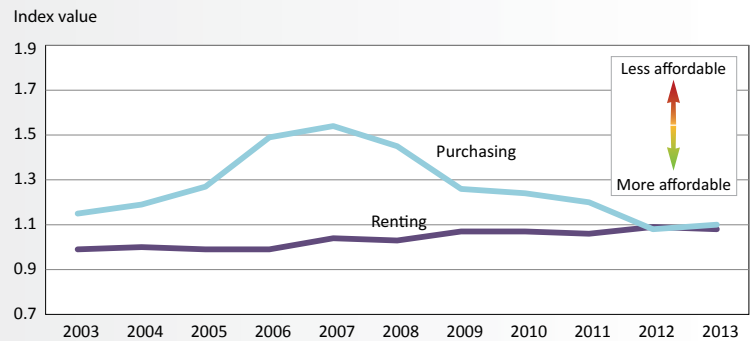
Housing affordability indexes measure the number of average incomes required to afford the average rent or mortgage payment, determined by the dynamic relationship between housing costs and an area's wages. (See the sidebar below for more detail on this method.)

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

Fairbanks' rental affordability has been fairly constant over the last decade. The largest difference between renting and purchasing was in 2006 and 2007, when it would have required an additional half of a second paycheck to buy rather than rent. (See Exhibit 12.)

In 2012, it was actually slightly more affordable to buy than rent. Fairbanks is the only surveyed community to have had that anomaly, although the difference between renting and buying was minor in

12 Affordability of Renting vs. Buying Fairbanks, 2003 to 2013



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

the Matanuska-Susitna Borough that year as well.

In Alaska overall, the rental affordability index averaged 1.02 over the last 10 years, meaning a person with just over the average income in Alaska could afford the average rent. In Fairbanks, the 10-year average was 1.04, and it has been on a gentle rise.

The homeowner affordability index has ranged from a high of 1.54 (2007) to a low of 1.08 (2012) in the last 10 years, averaging 1.27. Purchasing was the least affordable from 2006 to 2008 as sale

Continued on the back page

How the indexes measure the affordability of buying and renting

The Alaska Department of Labor and Workforce Development compiles indexes to monitor housing affordability across Alaska. The 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 estimating monthly mortgage payments. Contract rent is the amount the landlord charges, and doesn't include adjustments for utilities not included in rent.

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 is intended to monitor housing affordability based only on factors the Department of Labor and Workforce Development measures on a regular basis. However, many other factors affect affordability, some of which are unique to households' situations and would be difficult to measure consistently. These factors include:

- 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

KETCHIKAN

Continued from page 14

lation, and it has the potential to become a driving force again. No mines currently operate in southern Southeast Alaska and there's little short-term potential for development of a mine in Ketchikan Gateway Borough. However, a few major sites on Prince of Wales Island are in exploration phases.

If the sites go into production, many of the jobs and service-providing demands could fall to Ketchikan workers and businesses, and Ketchikan businesses have already provided support services to the projects.

The Niblack Project, located 27 miles from Ketchikan on southeast Prince of Wales, is in the advanced exploration phase. Heatherdale Resources reports spending \$37 million on exploratory drilling since 2009 and finding significant deposits of copper, gold, zinc, and silver. The Alaska Legislature has authorized the Alaska Industrial Development and Export Authority to provide bonds of up to \$135 million for development of the project.

The Bokan Mountain Project is located on southern Prince of Wales Island. Ucore Rare Minerals has completed a preliminary economic assessment and is in the middle of a feasibility study. Ucore focuses on extracting rare earth elements — primarily dysprosium, terbium, and yttrium — and the U.S. Department of Defense has contracted with the company to purchase them if the project advances to production. The Legislature has also authorized AIDEA to provide \$145 million in bonds for the project.

FAIRBANKS HOUSING

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prices increased abruptly and interest rates rose temporarily.

Interest rates have been on a steady decline, hitting historic lows in recent years and bringing the affordability index down. The past two years' affordability is unlikely to last, though, as it was driven by record low interest rates that began to rise in 2013 and will likely continue.

Fairbanks is a more affordable place to buy a home than the state overall, with the statewide affordability index generally running 10 to 20 points higher. An increase of 10 points equals an additional 10 percent of an average paycheck.