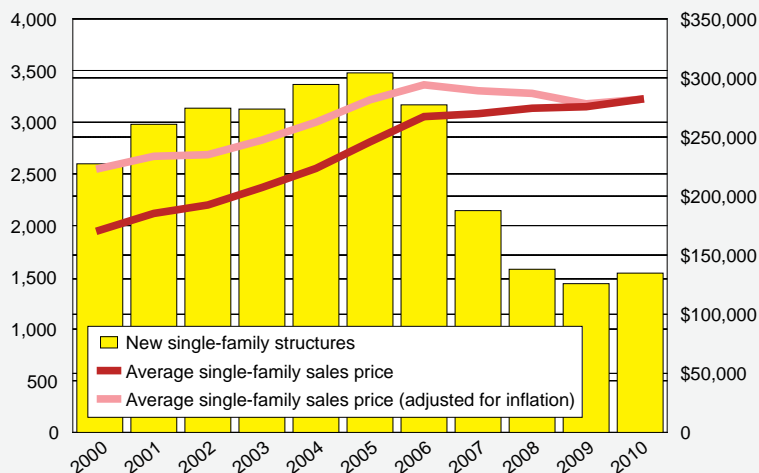


Alaska Residential Construction

A look at the housing market and employment

1 Building Decline Pinches Prices Alaska, 2000 to 2010



Note: Inflation-adjusted (real) figures in 2010 dollars.
Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

Construction of new homes seems to have finally stabilized after an up-and-down decade.

The word “feverish” was frequently used to describe the pace of residential construction in Alaska between 2001 and 2005 as around 3,000 new single-family homes went up each year. But after reaching a peak in 2005, building activity began to decline as early as 2006, dropped precipitously in 2007, then bottomed out in 2009.

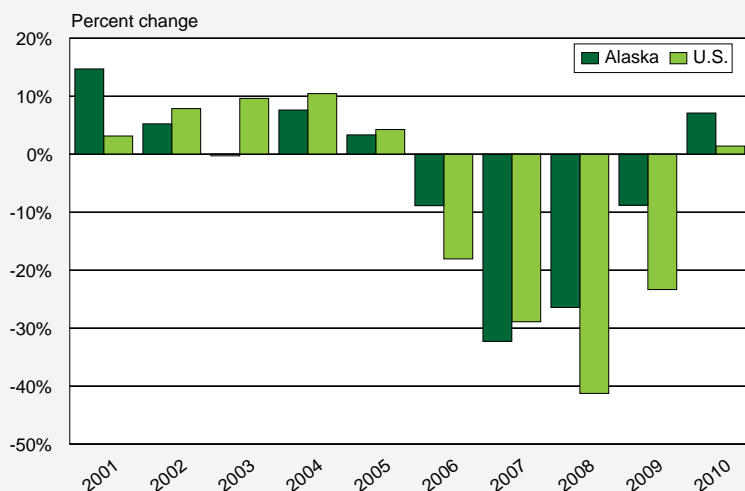
The number of new residences fell from 3,477 in 2005 to 1,439 in 2009 — a nearly 60 percent drop in just four years. Concurrent with the lull in building, inflation-adjusted home values in Alaska also declined between 2006 and 2009 as the housing market stabilized. (See Exhibit 1.)

Alaska’s construction numbers followed the same basic path as the nation’s over the last decade. More than 8.5 million single-family homes were built nationwide between 2000 and 2005, a big jump from the 5.5 million built between 1990 and 1995. Residential construction peaked in 2005 at 1.7 million — 40 percent more than in 2000.

Like Alaska, U.S. home construction bottomed out in 2009 with just 441,000 new single-family units — a decline of 74 percent from the 2005 high. Although Alaska and national housing markets shared a common trajectory, the fallout from Alaska’s housing bust was less severe. (See Exhibit 2.)

There were important differences between the Alaska and national housing markets in the years leading up to the housing bubble, and one was the construction boom in the Matanuska-Susitna area. (See Exhibit 3.)

2 U.S. Building Falls Further Single-family home construction, 2001 to 2010



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; United States Census Bureau

Mat-Su housing remains hot

Between 2000 and 2006, the population in the Matanuska-Susitna Borough grew 30 percent, compared to just 8 percent in Anchorage and 7 percent in the state as a whole. Mat-Su's growth from migration was more than four times higher than in Anchorage during those years, when over three-quarters of the borough's population growth came from people moving in.

What made Mat-Su's population explosion remarkable was that unlike other Alaska booms, it wasn't driven by resource development. The Mat-Su Borough thrived in part by selling inexpensive housing to Anchorage workers who couldn't afford their desired standard of living in a city running low on developable land.

The average single-family home in Mat-Su cost \$212,997 in 2005, but was \$285,600 in Anchorage. Newly built homes had an even higher premium in Anchorage, costing over 60 percent more.

In 2000, one-third of new single-family homes in Alaska were built in the Mat-Su area, even though it was home to just 9.5 percent of the state's population. By 2005, 46 percent of new homes were built in Mat-Su, though its share of the state population had grown to just 11.2 percent. This rapid growth might have been cause for alarm if Anchorage had been on a similar track. Instead, construction of single-family homes in Anchorage had been tapering off since a peak in 2001, the most recent year Anchorage outpaced Mat-Su in new single-family homes. (See Exhibit 3.)

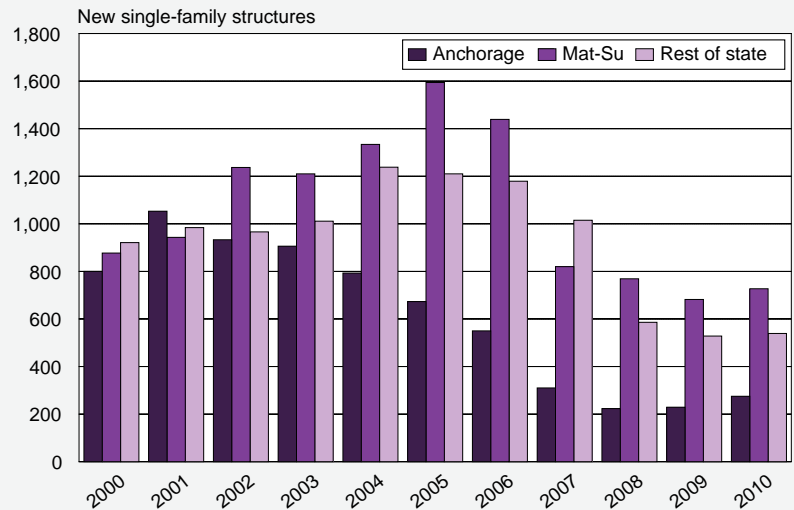
Anchorage cools off

Anchorage's decline was likely due in part to the Mat-Su boom, but it may also have been a natural consequence of the city's growth and shortage of available land.

Single-family homes make up a smaller portion of new residential construction in Anchorage. Of all the housing units built in Anchorage between 2000 and 2010 — including single-family houses, condos, multi-family units, and mobile homes

Mat-Su Outpaces Anchorage 3

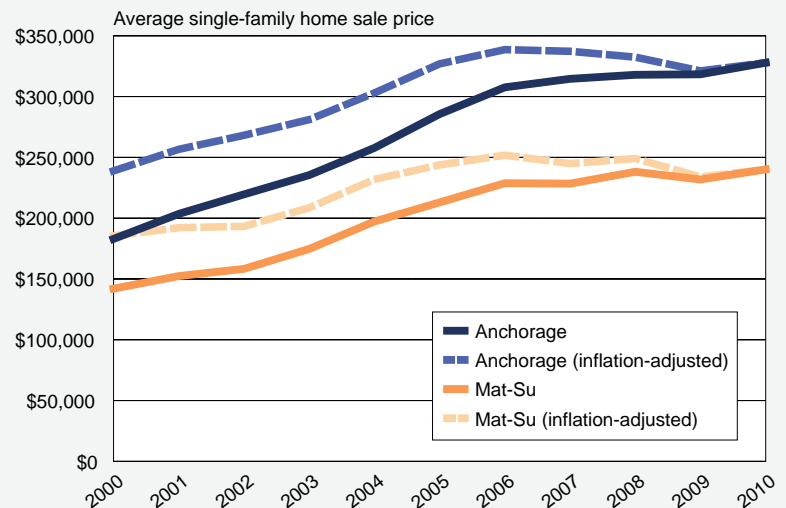
Single-family home construction, 2000 to 2010



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

Prices Can't Keep Up With Inflation 4

Anchorage and Mat-Su homes, 2000 to 2010



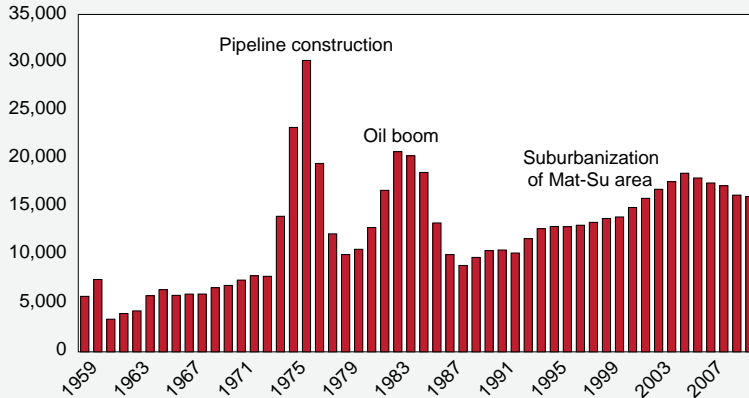
Note: Inflation-adjusted (real) figures in 2010 dollars.

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

— 46 percent were single-family in contrast to 84 percent in the Mat-Su Borough.

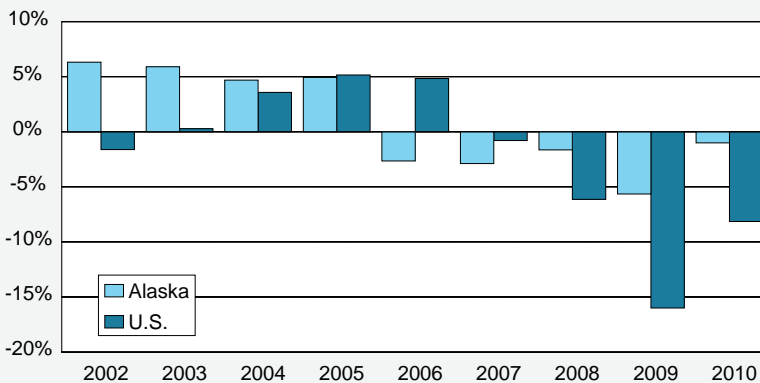
Prices for single-family homes in both Anchorage and Mat-Su appreciated at around 9 percent per year between 2000 and 2006, which meant that Mat-Su prices never began to approach Anchorage's. This ensured Mat-Su housing remained a

5 Historical Construction Employment Alaska, 1959 to 2010



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; U.S. Bureau of Labor Statistics

6 Construction Employment Percent change, Alaska and U.S., 2002 to 2010



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; U.S. Bureau of Labor Statistics

lower-cost alternative. (See Exhibit 4.)

Unlike many of the massive housing development projects standing empty in places like Nevada and Florida, the construction boom in the Mat-Su area never unreasonably outpaced demand.

A softer landing in Alaska

As early as 2005, housing markets in parts of the Lower 48 had begun to show signs of weakness. In Alaska, single-family home construction fell 10 percent in 2006 from the 2005 peak, and then

dropped 43 percent from 2006 to 2007. As building activity subsided, sale prices in Mat-Su and statewide flinched from the contraction. In addition, statewide mortgage lending fell substantially between 2006 and 2008 and continued to taper off through 2010.

Between 2000 and 2007, statewide single-family nominal sales prices increased 7.7 percent on average each year. But after the 2006 change in price trends, single-family nominal sales prices appreciated at an average of just 1.3 percent annually. However, those prices couldn't keep up with inflation. The inflation-adjusted values — or “real” prices — fell around 2 percent each year between 2006 and 2009.

A better starting point

The residential building boom in Alaska didn't have the same shaky foundation that destabilized much of the rest of the country. For one, Alaska didn't have the same speculative building fever that resulted in so many half-finished vacant houses across the country.

Alaska's lending practices also appeared much more conservative. To the credit of Alaska mortgage lenders and borrowers, a much smaller percentage of Alaska mortgages active throughout the decade were subprime¹ or adjustable rate, both indicators of increased default risk.

Alaska has remained one of the healthiest states in terms of mortgage delinquencies throughout the housing market collapse, most recently ranking second behind North Dakota for the lowest delinquency rate in the country.

Employment ups and downs

Construction employment is often a barometer of the overall economy in Alaska and has tracked with large economic events over the last half-century. (See Exhibit 5.) Construction workers were in high demand during building of the Trans-Alaska Oil Pipeline and the oil boom that followed in the 1980s.

After a loss of 10,000 jobs with crashing oil prices, construction began a stable and predictable climb in 1988 that ratcheted up during the suburbanization of the Mat-Su area.

Seventeen years of employment growth ended in 2005 and Alaska lost nearly 2,500 construction jobs — the biggest decline in construction employment in Alaska since the 1986-88 recession.

A look at recessionary losses

Nationwide, construction employment reached its peak in 2006 just before the housing market imploded. Between 2006 and 2010, U.S. construction jobs dropped by 2.2 million: a third of all wage and salary jobs lost in the same period, with 440,000 of those in the residential construction industry.

Notably, construction employment peaked in Alaska a year before it did in the Lower 48, indicating employment cycles had more to do with softening demand for new housing than with the mortgage crisis. Between 2005 and 2010, Alaska lost 2,435 construction jobs, 618 of them in the residential building industry.

The most dramatic shedding of construction jobs statewide and nationwide was in 2009 and overall construction industry employment is still on the decline for both the U.S. and Alaska, even though Alaska residential construction employment grew by 2.5 percent in 2010. (See Exhibit 7.)

Anchorage and Mat-Su still the main players

Most of the state's construction growth in the early 2000s was in the Anchorage/Mat-Su economic region, where activity peaked in 2005. There were an increasing number of jobs in residential construction as suburban neighborhoods went up in Mat-Su communities.

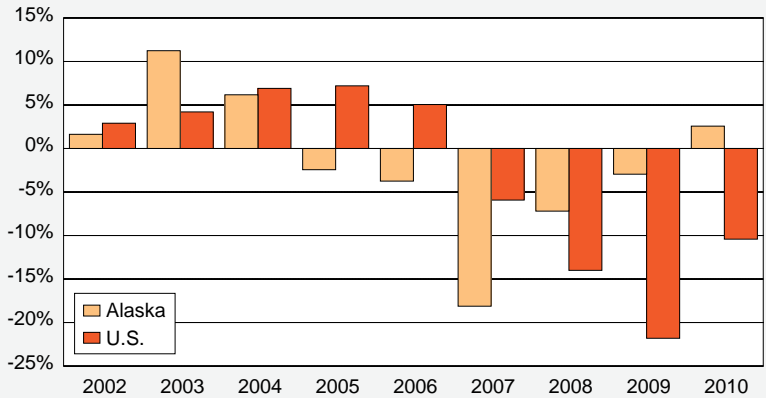
The growing residential housing market was accompanied by private-sector construction of retail box stores in the area and commercial office space in downtown Anchorage.

The government also undertook big projects in the region: the state expanded Ted Stevens Anchorage International Airport and started major

Residential Building Employment

Percent change, Alaska and U.S., 2002 to 2010

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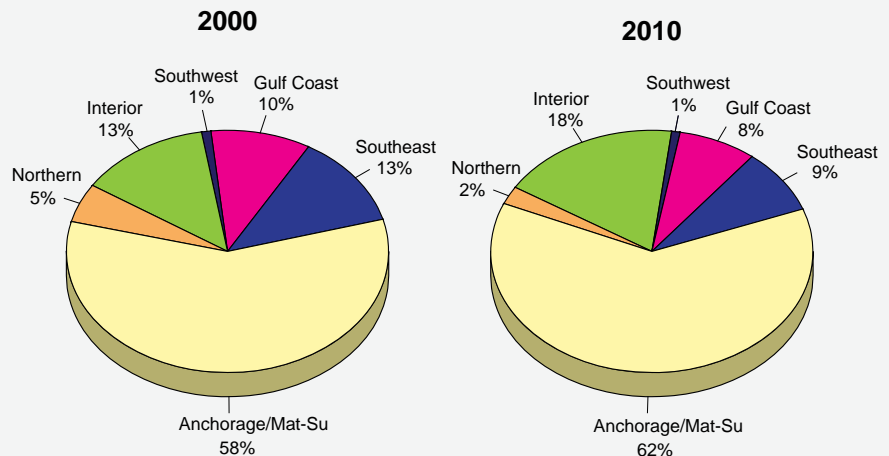


Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

Construction Employment by Region

Alaska, 2000 and 2010

8



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

road construction.² Elsewhere in the state, the federal government updated military installations and local governments improved schools and hospitals.

The Fairbanks area's employment patterns were similar to Anchorage/Mat-Su as the city grew, ramping up from 2000 to 2005 and then falling off. But outside these two regions, construction employment held steady — and even though Anchorage and Mat-Su gained and lost the most construction jobs in the last 10 years, they are still the main players. Their share of statewide

9 Construction Tied to Housing Market

Employment and wages, Alaska, 2010

	2010 avg employment	2010 total wages	2010 avg annual earnings
Construction, all types	16,095	\$1,128,233,532	\$70,099
Residential building construction	1,515	\$66,407,570	\$43,845
New single-family general contractors	863	\$37,413,876	\$43,374
New multifamily general contractors	—	—	—
New housing operative builders	—	—	—
Residential remodelers	526	\$18,941,757	\$35,988
Specialty trade contractors	7,883	\$502,846,216	\$63,786
Residential poured foundation contractors	109	\$6,035,108	\$55,453
Residential structural steel contractors	—	—	—
Residential framing contractors	134	\$5,169,182	\$38,504
Residential masonry contractors	30	\$891,379	\$29,630
Residential roofing contractors	95	\$3,563,973	\$37,581
Residential siding contractors	49	\$2,168,079	\$44,171
Other residential exterior contractors	—	—	—
Residential electrical contractors	346	\$19,514,204	\$56,372
Residential plumbing/HVAC contractors	798	\$48,104,772	\$60,288
Other residential equipment contractors	15	\$626,798	\$41,327
Residential drywall contractors	218	\$8,597,645	\$39,409
Residential painting contractors	127	\$4,587,737	\$36,219
Residential flooring contractors	75	\$3,091,091	\$41,215
Residential tile and terrazzo contractors	49	\$1,446,858	\$29,478
Residential finish carpentry contractors	180	\$6,485,745	\$36,082
Other residential finishing contractors	30	\$838,897	\$28,437
Residential site preparation contractors	265	\$10,631,810	\$40,171
All other residential trade contractors	138	\$5,674,695	\$41,146

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

construction employment went from 58 percent to 62 percent between 2000 and 2010. (See Exhibit 8.)

New homes use many firms

The construction industry is divided into three broad categories:³

1. Building construction, which includes residential and commercial
2. Heavy and civil engineering construction, which is typically in transportation and utilities
3. Specialty trade contractors, who handle jobs such as installing plumbing and pouring concrete

The housing market is mostly tied to the residential building sector, but it uses specialty trade firms as well. (See Exhibit 9.)

In 2010, residential building made up 9 percent of total construction employment, and nearly half of construction jobs were in specialty trades. (See Exhibit 10.)

Employment and earnings

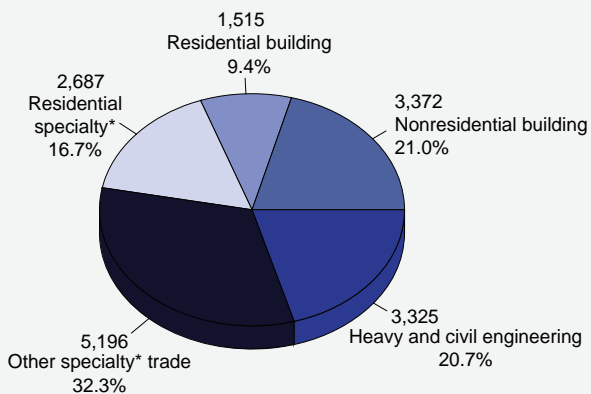
The major economic events of the 1970s and 1980s in Alaska were markedly different from the early 2000s. As the economy mushroomed in the race for resources, construction employment gains were accompanied by strong growth in construction earnings, which include overtime — often a significant factor in construction. (See Exhibit 11.) But following the oil bust, earnings dipped to historically low levels, bottoming out in the 1990s and remaining flat throughout the years of stable employment growth.

Although construction employment fell steadily from 2006 to 2010, average earnings for construction workers increased by about \$8,000 between 2005 and 2010. In fact, average earnings in construction outpaced all other sectors in 2007, 2008, and 2009 before leveling off in 2010. The main reason for the increase in average earnings is that many of the jobs lost were in segments of the construction industry that tend to pay less.

Construction earnings still rank high among industries (see Exhibit 12), averaging \$70,099 a year in 2010. Among the residential construction industries in Exhibit 9, residential building jobs paid \$43,845 in 2010, while residential specialty earnings ranged from \$60,288 among plumbing and heating, ventilation, and air conditioning contractors to \$29,478 in tile contracting.

10 Construction by Category

Alaska employment, 2010



*Specialty trade contractors handle jobs such as installing plumbing and pouring concrete.

Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; U.S. Bureau of Labor Statistics

Self-employed builders

Some workers that are exempt from state unemployment insurance laws aren't captured in wage and salary records. Because of self-employed and family-employed businesses, the wage records cited above likely understate the loss of jobs, both in the state and nationally. For example, the U.S. Census Bureau reported there were 4,772 "nonemployer" construction firms with \$258 million in sales in Alaska in 2009, compared to 5,130 and \$318 million in 2007.⁴

These numbers should be compared only generally with the other numbers in this article, however. Sales are a broader measure than earnings, and a nonemployer construction firm needs only one job with sales of at least \$1,000 to be counted, unlike the job numbers, which are a monthly average.

Notes

¹Subprime lending (also referred to as near-prime, nonprime, and second-chance lending) is loaning to people who may have difficulty maintaining the repayment schedule. These loans are characterized by higher interest rates and less favorable terms to compensate for higher credit risk.

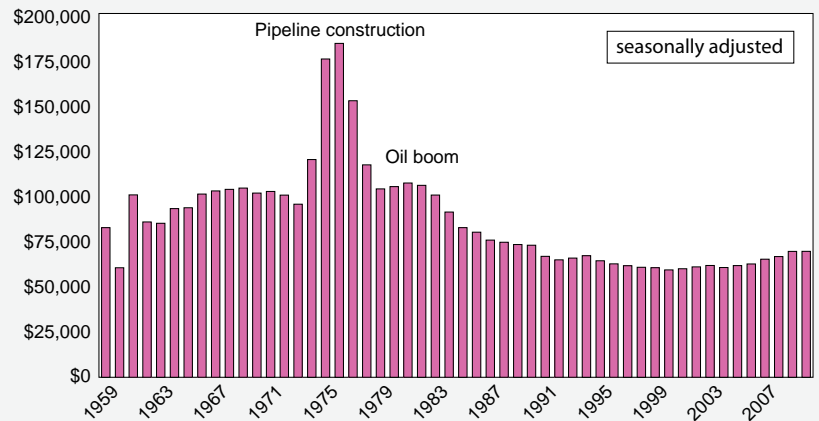
²Alaska Economic Trends, November 2003

³Construction employers are classified according to their main activity. So even if a contractor works on both residential and commercial buildings, those jobs will be counted in the category in which the firm does the most work.

⁴U.S. Census Bureau Nonemployer Statistics. Receipts include gross receipts, sales, commissions, and income from trades and businesses, as reported on annual business income tax returns.

Historical Average Annual Earnings 11

Alaska construction industry, 1959 to 2010

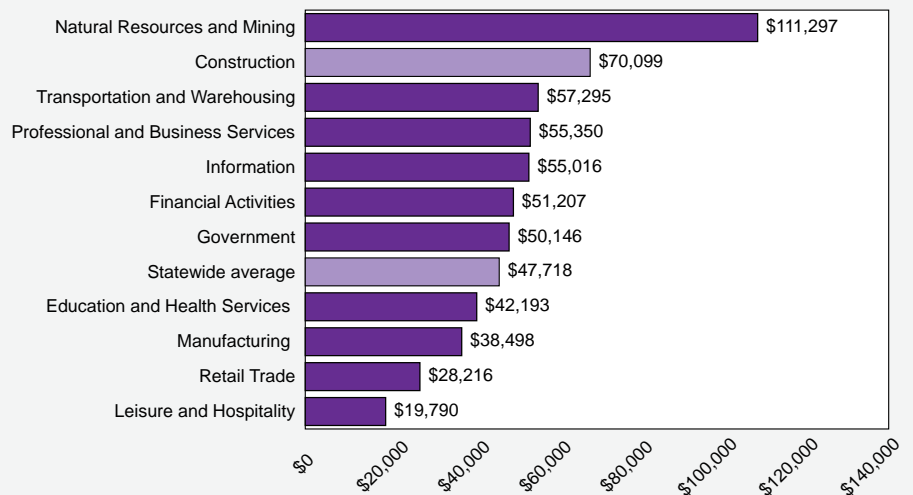


Note: Average annual earnings are adjusted for inflation using all urban consumer price indexes.

Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; U.S. Bureau of Labor Statistics

Construction Jobs Pay Well 12

Earnings in all Alaska industries, 2010



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; U.S. Bureau of Labor Statistics