

Housing Has Become More Affordable

But it's now harder to get a mortgage

The past decade was a volatile time for home affordability, both in Alaska and nationally. Easy access to credit and low interest rates spurred a run-up in average sales prices from 2003 to 2007, when housing reached its least affordable level. But then the tides turned — and by 2011, falling interest rates and lower home prices brought housing down to its most affordable level in the past decade.

However, home affordability is about more than just the relationship among prices, income, and interest rates. Though monthly payments have been reduced by the last decade's lower prices and rates and its marginally higher wages, today's housing market is considerably different from the heated environment of the mid-2000s. Housing may be more affordable by the numbers, but a new home can be harder to secure.

In the wake of the mortgage crisis that followed accelerated building and lending, access to credit has become tighter and many lenders now require larger down payments than in years past. Other costs, such as mortgage insurance premiums, have increased significantly for borrowers who



don't put down at least 20 percent. This tightening means that for those with poor credit or inadequate cash on hand, the costs of buying a home remain high and entry into homeownership is challenging.

Factors that help determine housing affordability and how they're measured

Each quarter, the Alaska Department of Labor and Workforce Development compiles an index to monitor housing affordability across Alaska. This index, called the Alaska Affordability Index, measures a number of economic housing factors and how they interact, producing a single value.

Sales prices, loan amounts, income, and interest rates are the AAI's main components. The index value estimates 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.

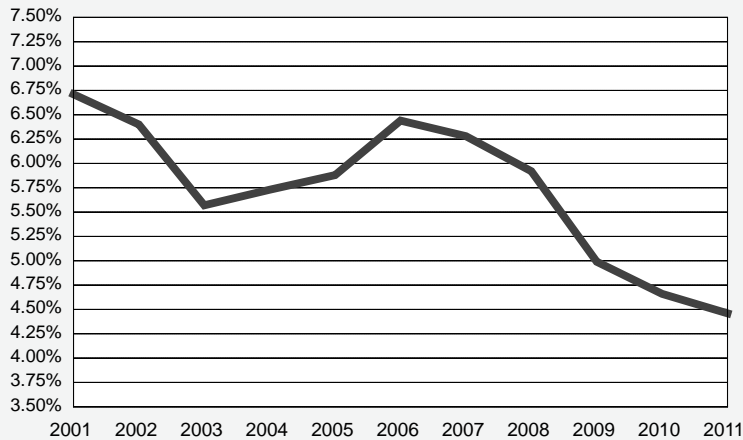
An index value of 1.0 means exactly one person's income is required to afford a typical home. An increasing number means additional income is necessary, making housing

less affordable. A value of less than 1.0 is typically considered more affordable.

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

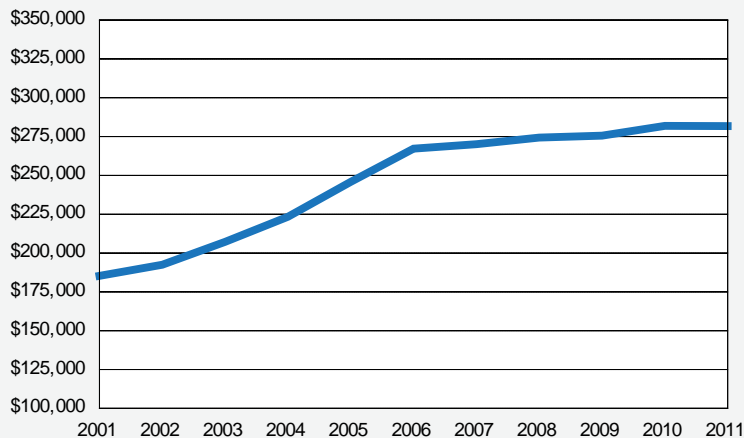
- Hazard insurance and mortgage insurance
- Property taxes, which vary by area and property size
- Utilities, which can be substantial and vary depending on energy type
- Adjustable rate mortgages, where monthly payments can change dramatically based on interest rate shifts

2 Interest Rates Continue to Fall Alaska, 1992 to 2011



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

3 Average Home Prices Level Out Alaska, 2001 to 2011



Note: Prices are for single-family homes.
Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

How to judge affordability

The Alaska Department of Labor and Workforce Development produces the Alaska Affordability Index, or AAI, to track home affordability over time. The index considers several factors — including sales prices of single-family homes, average income, and interest rates — and creates a value that represents the number of wage earners it takes afford an average home.

An index value of 1.0, for example, means that one person's typical monthly paycheck is necessary to buy a home. A higher number means more wage earners are necessary, so housing is considered less affordable. For a more detailed discussion of the index, see the sidebar on page 11.

What's behind the current trend

The AAI shows that the difference in affordability from 2007 to 2011 is primarily due to interest rates, which have fallen dramatically over the past four years. Rates in 2007 averaged nearly 2 percentage points higher than in 2011, when the average interest rate was 4.46 percent. (See Exhibit 2.)

Though average sales prices for single-family homes in Alaska increased significantly between 2003 and 2007, prices hovered near 2007 levels in the years that followed. (See Exhibit 3.)

Finally, average monthly wages have grown somewhat over the past decade, and when adjusted for inflation, have increased 5 percent since 2001.

Regional differences in values

Though the statewide average shows housing is becoming more affordable, it's a different story for some individual markets within the state. Though low interest rates have generally made homes more affordable in most areas, other communities' housing remains significantly less affordable.

In 2011 for example, even with interest rates averaging below 4.5 percent, many parts of the state had index values exceeding 1.5, meaning it took a person's full monthly paycheck plus half of another to afford a home. (See Exhibit 4.)

Topping the list of the least affordable areas in 2011 were Juneau and Kodiak, each with an index value of over 1.6. Juneau and Kodiak have also been high historically, primarily due to higher sales prices and lower average wages.

Anchorage's average sales prices are just as high and in some years higher than Juneau and Kodiak, but Anchorage is considered more affordable because of its higher wages. Anchorage's index value was 1.45 in 2011, making it more affordable than

the Matanuska-Susitna Borough (1.47).

Index values can sometimes be misleading, though, because of the size of a market and variability in prices. For example, Bethel's 2011 index value was 1.49, making it appear more affordable than 1.54 in Ketchikan — but Bethel has a very small housing market and the sales price component of its index can swing significantly. At times, Bethel's index value has climbed as high as 2.0.

Mat-Su's higher-than-average index value, 1.47, is also complicated by its unique housing situation and proximity to Anchorage. Those who own a home in Mat-Su but work in Anchorage earn a higher Anchorage wage while benefitting from lower home costs. This arrangement produces a value of 1.07, the most affordable for any individual area.

It's important to note, however, that the index doesn't consider the cost of commuting. With high gasoline prices, the cost can be significant when considering the frequency and length of the drive between Mat-Su and Anchorage.

National affordability trends

Alaska and the nation as a whole show similar affordability patterns. (See Exhibit 5.) Although the two indexes are calculated differently and aren't directly comparable, historical patterns show peaks and valleys at similar times over the past 10 years.

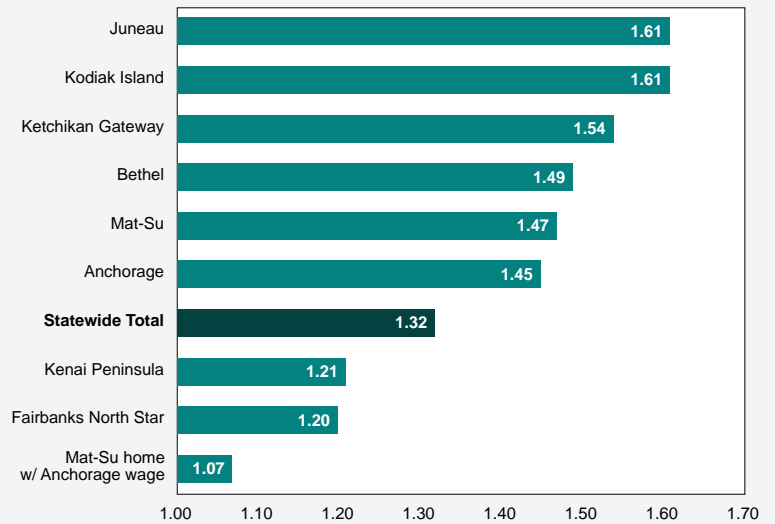
As in Alaska, U.S. housing became increasingly less affordable in the years leading up to the housing crisis, but was at its least affordable level a year earlier than in Alaska. In recent years, the national trajectory toward increasing affordability has been more pronounced, mainly because average U.S. sales prices had fallen farther and faster than in Alaska.

Trend appears to continue

Data from the first two quarters of 2012 suggest interest rates are continuing to drop and reaching new lows. Continued falling rates combined with stability in prices and wages mean housing is likely to remain at its current level of affordability, and possibly become even more affordable in the near future.

4 Wage Earners Needed to Buy a Home

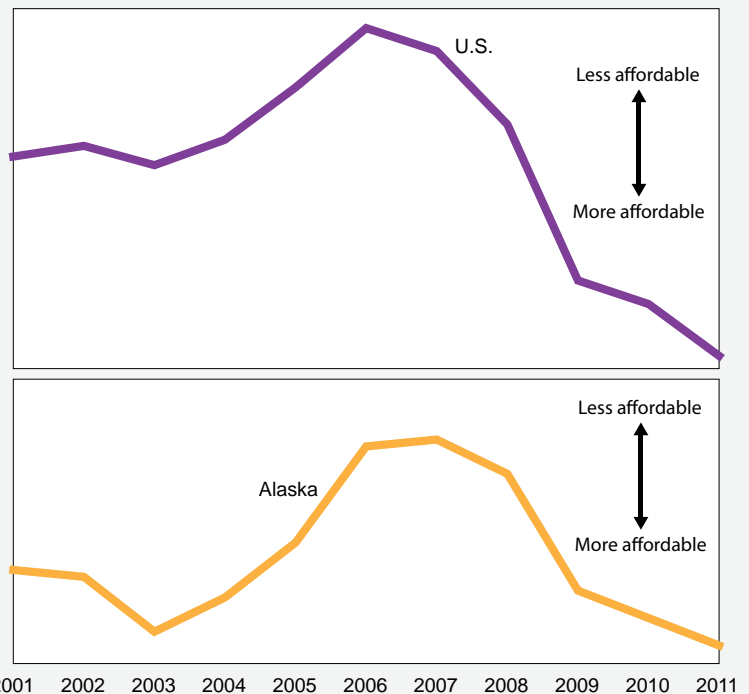
Regional affordability scores, 2011



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

5 Housing Affordability Patterns

Alaska and the United States, 2001 to 2011



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