

# Housing market remains steady

## Low rates, better affordability, and limited supply for sale

By ROB KREIGER

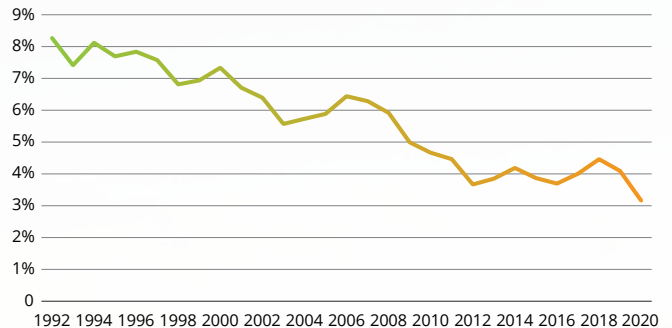
While the broader economy reeled from COVID-19 in 2020, Alaska's housing market remained unusually resilient. Record low interest rates led to a jump in refinancing, and more homebuyers stepped into the market as low rates and wage increases made housing more affordable than it had been since at least 1992. At the same time, limited availability nudged average sales prices higher as buyers competed for fewer houses on the market.

Although this might look like a housing boom, it's more a side effect of the pandemic than a sign of strength. Less new construction, few foreclosures, and sellers' reluctance to list during the pandemic further reduced the number of available homes. Shifting demographics and Alaska's aging population may also be restricting supply.

### Drop in already-low interest rates led to more refinancing

In response to the economic crisis the pandemic

### Interest rates hit a record low in 2020

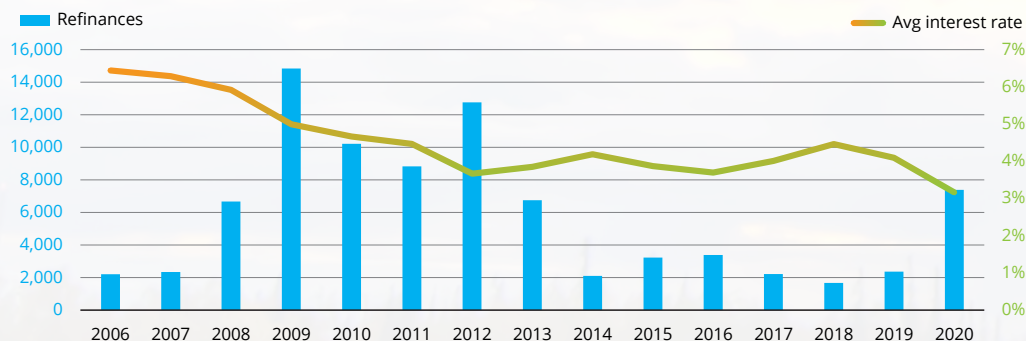


Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and the Alaska Housing Finance Corporation

brought on, the Federal Reserve cut the federal funds rate to zero. This sent yields on 10-year U.S. Treasuries downward, which brought interest rates to historic lows later in the year. Rates for 30-year fixed-rate mortgages in Alaska averaged 3.16 percent in 2020. In the third and fourth quarters, rates averaged less than 3.0 percent.

While these low rates likely attracted more potential homebuyers, the most dramatic and immediate effect was a rise in refinancing.

### Low interest rates spurred a jump in refinancing



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and the Alaska Housing Finance Corporation

Refinancing of single-family homes picked up significantly in the second quarter of 2020 as many homeowners took advantage of the rate drop. Refinancing jumped more than 180 percent from the first to the second quarter and 520 percent compared to the second quarter of the previous year. These increases are significant for recent years, but they aren't records.

Alaska's refinancing numbers are only available back to 2006, but the historical relationship between interest rates and refinancing is clear. Regardless of how high interest rates are, when they drop, refinancing rises. However, low interest rates alone don't always spur significantly more refinancing.

Before 2020, interest rates had already been low for years, averaging in the 4 percent range. The incentive to refinance has more to do with the change in the rate than how low the rate is. The rate generally has to drop by a certain amount for the prospect to become economically viable.

## Why recent years' population losses haven't flooded the market with homes

It might seem logical to assume we'd have a glut of houses on the market right now, given Alaska's population and migration losses in recent years. It's happened before. People sold and foreclosed on their homes and left the state in droves during the oil bust of the mid-1980s. But our current situation, both with the pandemic and the weak economy that preceded it, has little in common with that housing bust.

While Alaska has lost more movers than we've gained for the last eight years straight, it's been more about fewer people moving in than more people rushing for the exits. Alaska has a more rooted population than it had several decades ago, and the numbers of people leaving Alaska each year haven't differed much from the usual historical levels. In fact, the last two years' out-migration numbers were the lowest in a decade. But at the same time, the numbers moving in for the past two years were at a 20-year low.

Vacancy rates show that people who left Alaska in recent years tended to be renters. (See the August 2019 issue for more.) Rental vacancy rates have been rising for the past four years, hitting a 10-year high of 9.2 percent in 2020. The increase began in 2016, a few months after Alaska entered a three-year statewide recession and began losing jobs.

The rental vacancy rate probably climbed even further later in the year, as it was captured when the pandemic was still in its early stages. At that time, it was attributed to seasonal workers who would normally have moved into rental housing in early spring to prepare for summer work, but who hadn't arrived yet. Conditions worsened from that point, and many seasonal industries — especially tourism — ended up with no workers last year.

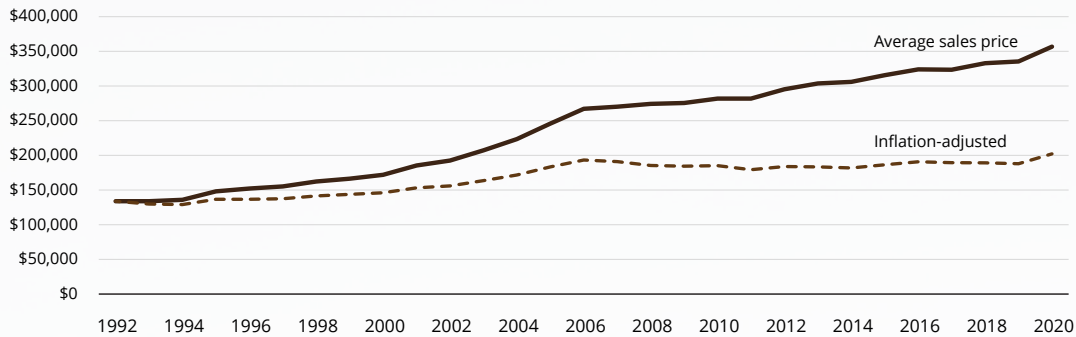
Although recent migration losses haven't flooded the market with houses and sent prices crashing, Alaska's tight housing market can't be considered a boom. For the housing market to truly boom, the number of people moving to Alaska would have to be much higher or at least rising. Conversely, for a housing market to crash, the number of people leaving would have to increase as the number migrating in stayed the same or declined.

## Interest rates made housing more affordable despite rising prices



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and the Alaska Housing Finance Corporation

## Alaska home prices rose in 2020 after a few relatively flat years



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and the Alaska Housing Finance Corporation

Toward the end of 2013, refinancing dropped off as interest rates began to rise. Despite topping 4 percent in 2014, rates stayed low by historical measures for much of the next six years. Refinancing stayed low but still responsive to small changes in interest rates over that time.

Rates will likely remain low for some time, but they show signs of ticking up. As a result — and if historical patterns hold — refinancing will likely slow in 2021.

## Housing became more affordable

Low interest rates were mainly what brought housing to its most affordable levels on record in 2020, despite rising sales prices. Affordability varies significantly by area, as sales prices and wages also differ.

The Alaska Affordability Index measured a statewide value of 1.11 in 2020, meaning it would take one person's average monthly earnings, plus about another tenth, to afford the average monthly payment. (See the sidebar on this page.) This was the closest the index value has come to 1.0 since data were first collected in 1992.

## Sales prices increased with fewer homes for sale

While low interest rates led to a refinancing spike, sales were also up in 2020 — although nowhere near the level to which refinancing rose. The number of loans for single-family houses climbed 13 percent over the year, and the total dollar volume grew 20 percent. Average sales prices rose as

## About the affordability index

The Alaska Affordability Index represents the number of wage-earners needed to afford an average mortgage in their area. The lower the index value, the more affordable a house is.

The index value is an area's estimated average monthly mortgage payment for a 30-year conventional mortgage with a fixed interest rate on a single-family house, divided by the average monthly wage.

The average wage is based on wages employers report to the Alaska Department of Labor and Workforce Development when they submit their unemployment insurance tax reports each quarter.

The estimated average monthly mortgage payment is based on the average sales price and fixed interest rate that mortgage lenders report to the department each quarter in the Survey of Alaska's Lenders, which we conduct with the Alaska Housing Finance Corporation.

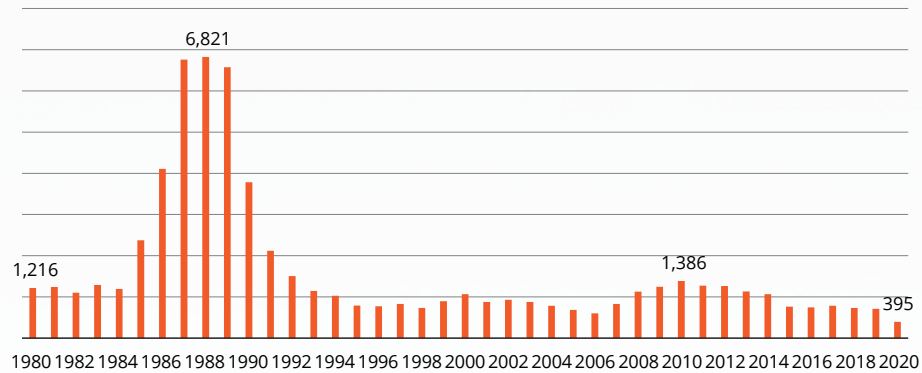
well, by 6.4 percent over the year to reach nearly \$357,000.

Many prospective buyers apparently wanted to take advantage of low rates last year, but not enough homes were on the market to meet the demand. The Alaska Multiple Listing Service's data show active listings were low while sales were historically high. Combining those factors with fewer average days on the market and higher sales prices shows inventory was sparse and conditions were favorable to sellers.

Low supply was likely due to several factors, and not all were linked to the pandemic. The pandemic



## Alaska foreclosures hit an all-time low in 2020



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and the Alaska Housing Finance Corporation

played a clear role, though, as potential sellers may have been reluctant to show their homes and held off on listing them.

Less residential construction also limited the supply, as it hit its lowest level since at least 1992. The pandemic probably caused some building projects to be put on hold, but new home construction had been trending downward for years. In fact, 2019 was the first year home-building had increased since 2014. With fewer new homes hitting the market, buyers had to wait for existing homes to become available.

limited the year's foreclosures to about 400, the lowest number on record. Since the housing market crash in the late 1980s, foreclosures have normally ranged from 600 to 1,300 each year.

Foreclosures will stay low for a while, but it's unclear how long or whether they will return to their pre-pandemic levels or move higher. It will also depend on improvement in the overall economy and the ability of people who are out of work and not making mortgage payments to get back on their feet.

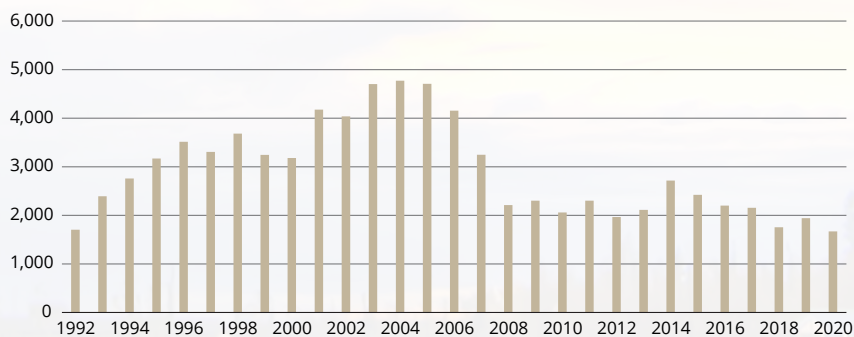
## Pandemic relief measures halted foreclosures indefinitely

Foreclosures would usually put a small number of additional homes on the market, but homeowner protections put in place during the pandemic

## An older population less likely to move may be another factor

The changing age structure of Alaska's population also appears to be contributing to a lack of homes for sale.

## New home construction hit a low in 2020

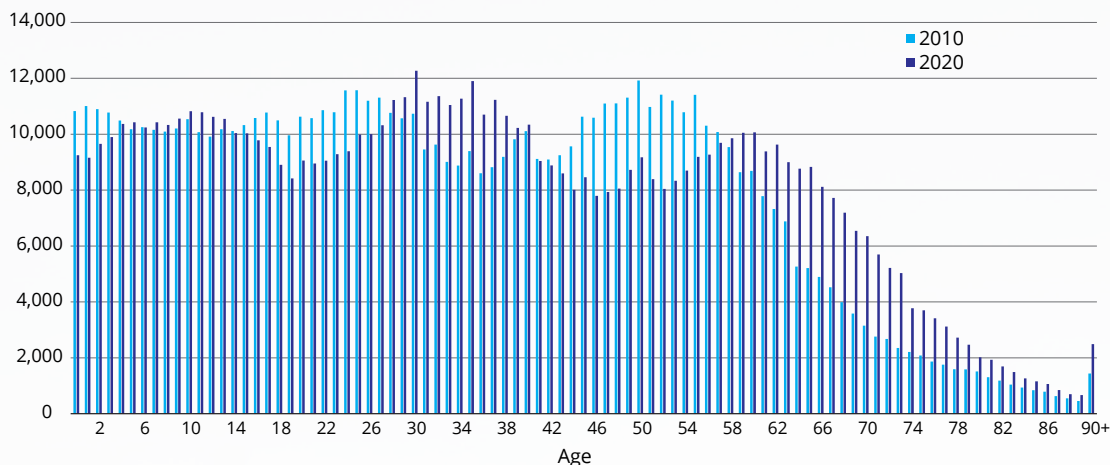


Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and the Alaska Housing Finance Corporation

Alaska's senior population is growing, not because more seniors are moving to Alaska but because the population is aging in place. Just 10 years ago, Alaskans 65 and older represented 7.7 percent of the population, and they are now an estimated 13.1 percent.

Seniors are less likely than younger age groups to move in general, and they may be staying in their homes longer. Their homes are often paid off or are close, and seniors have property tax incentives. People are

## Alaska's population has shifted older over the past decade



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

also living longer, and more services are available.

Alaskans are also more rooted than they were in past decades, with multiple generations of many families living in the state.

Data on homeowners' ages aren't readily available, but to the extent that the older population is staying in their homes, a growing share of Alaska's housing stock is occupied by a segment of the population who might have no motivation to sell.

### Millennials in their mid-30s driving more nationwide demand

Changing age structure might also be increasing

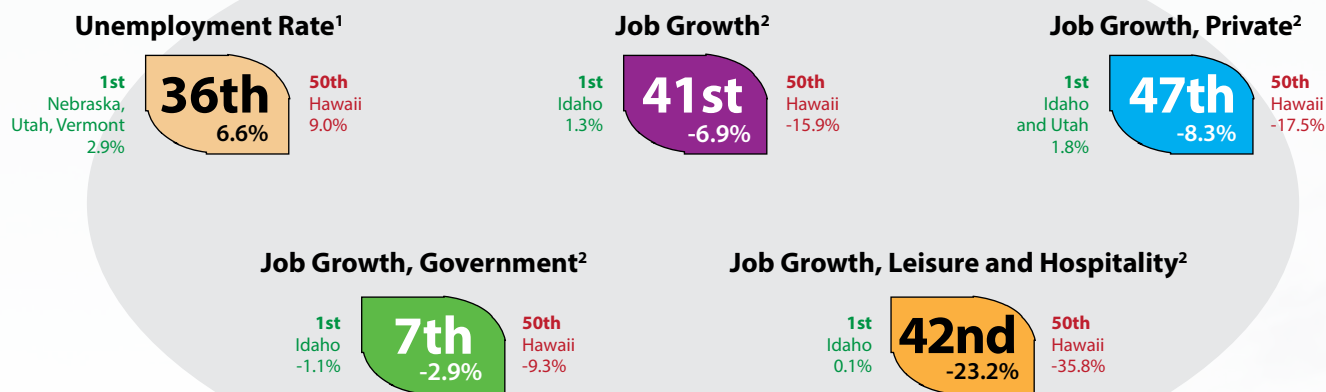
the demand for homes.

A growing body of national data suggests the average age of first-time homebuyers is getting older. For reasons ranging from high student debt levels to difficulty securing down payments, millennials are entering the housing market in their mid-30s rather than their late-20s/early-30s, as previous generations have.

If the national trend is true in Alaska, this could further explain the shortage of available homes for sale, because as the chart above shows, the state is home to a large group of people in their 30s right now.

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# How Alaska Ranks



Note: Government employment includes federal, state, and local government plus public schools and universities.

<sup>1</sup>March seasonally adjusted unemployment rates

<sup>2</sup>March employment, over-the-year percent change

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

## Other Economic Indicators

	Current	Year ago	Change
<b>Urban Alaska Consumer Price Index</b> (CPI-U, base yr 1982=100)	227.258 2nd half 2020	228.495	-0.54%
<b>Commodity prices</b>			
Crude oil, Alaska North Slope, * per barrel	\$65.60 Mar 2021	\$33.21	+97.52%
Natural gas, residential, per thousand cubic feet	\$10.58 Jan 2021	\$10.55	+0.28%
Gold, per oz. COMEX	\$1,770.60 4/19/2021	\$1,711.20	+3.47%
Silver, per oz. COMEX	\$25.84 4/19/2021	\$15.75	+64.06%
Copper, per lb. COMEX	\$4.25 4/19/2021	\$2.34	+81.62%
Zinc, per MT	\$2,821.91 4/19/2021	\$1,940.07	+45.45%
Lead, per lb.	\$0.92 4/19/2021	\$0.74	+24.32%
<b>Bankruptcies</b>			
Business	75 Q4 2020	92	-18.48%
Personal	7 Q4 2020	6	+16.67%
Personal	68 Q4 2020	86	-20.93%
<b>Unemployment insurance claims</b>			
Initial filings	14,852 Mar 2021	32,128	-53.77%
Continued filings	64,297 Mar 2021	51,678	+24.42%
Claimant count	16,397 Mar 2021	14,245	+15.11%

\*Department of Revenue estimate

Sources for this page and the preceding three pages include Alaska Department of Labor and Workforce Development, Research and Analysis Section; U.S. Bureau of Labor Statistics; U.S. Bureau of Economic Analysis; U.S. Energy Information Administration; Kitco; U.S. Census Bureau; COMEX; Infomine; Alaska Department of Revenue; and U.S. Courts, 9th Circuit