

Housing in Alaska

by
James M. Wiedle
Alaska Housing Finance Corporation

Economics and demographics have shaped the market over the past 30 years

Since Alaska became a state in 1959, its population has nearly tripled to more than 622,000. Much of this growth has occurred during distinct periods of economic expansion, or “booms” in the economy. The households of Alaska today are the outgrowth of many major economic events, from the development of the ALCAN highway during World War II, to the discovery of oil on the North Slope.

Household demographics

From 1960 through 1990, the number of households in Alaska leaped from 57,250 to 188,915. The bulk of the increase came in the early to mid '70s and early '80s with the construction of the Trans-Alaska Pipeline and other significant capital projects. As the population grew larger and wealthier, demand for housing grew. Almost 70,000 units of housing were constructed in the '80s alone. As a result, the number of crowded households (more than one person per room) dropped, from 28% in 1960 to 10% in 1990. Average household size also dropped, from 2.81 persons per household in 1990, to 2.68 persons in 1999.

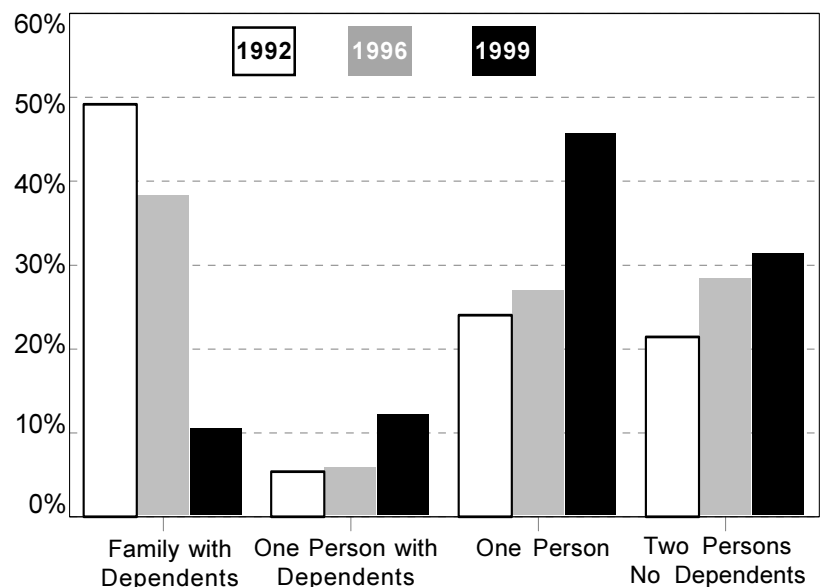
The composition and age of Alaska’s households has also changed. Non-traditional housing arrangements have increased. (See Exhibit 1). In 1970 18% of households were headed by single adults. By 1990, this number had grown to 28%. From 1980 through 1999, the number of family households dropped. In this period, Alaska’s

single-parent households increased by 5%, and couples and families with children dropped by 17%.

More than 42% of Alaska’s households are now headed by people older than 44. The largest increase in householders occurred for those aged 45 to 54, up 9% since 1980. These middle-age Alaskans have shown a greater willingness to stay in Alaska in recent years. The greatest decline in household representation has occurred for those

Household Composition

AHFC borrowers, single-family homes and condos



Note: Due to underwriting procedures, 7% of loans do not contain household data.

Source: Alaska Housing Finance Corporation

aged 25 to 34, down almost 17% since 1980. (See Exhibit 2.) Aging households, downsizing of the military in Alaska, and modest in-migration have contributed to the decline. Historically, this segment of the population has consisted of families in their formative years who are more sensitive to changes in the economic picture and are less likely to reside long-term in Alaska.

Home ownership

A strong economy and favorable interest rates propelled home ownership to its highest level ever in 1997, 67.2%. In the '90s the Alaska Housing Finance Corporation (AHFC) financed more than 21,000 loans. Almost 12,000 of these loans were for first-time homebuyers. (See Exhibit 3.) The demographics of these borrowers reflect the changes that are occurring in Alaska's households. Single parents and one-person households now represent more than 57% of the total number of loans made by AHFC. Similar changes have been reported by other lenders.

While many households have moved into home ownership in the last two decades, large numbers continue to rent. According to the Department of Housing and Urban Development (HUD), there were 43,509 renter households in 1990. Almost half of these households were small families with two to four members and had incomes ranging from \$20,625 to \$33,000 a year. A stable economy and low interest rates over the last six years have moved a portion of these families into home ownership. From 1990 to 1999, renter households decreased by an estimated 3.5%.

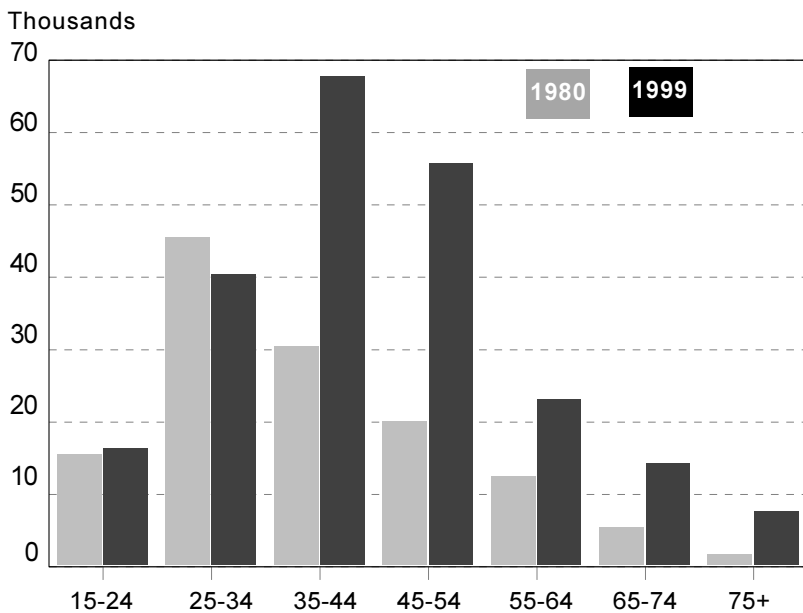
Affordability

From 1980 to 1985 the state's population surged, and so did the need for housing. Many households opted to buy rather than rent. The sudden demand had a negative impact on affordability. The average cost of a single-family home financed by AHFC increased by almost 20%. Despite double-digit interest rates and high housing cost, demand persisted. Consumers, with wage earnings 20 to 30 percent higher than in 1979, bought housing at a record pace. (See Exhibit 4.)

A recession in the late '80s significantly changed the economic picture. More than 20,000 jobs were lost in 1986 and 1987. The state settled into a recession from which recovery did not begin until 1988. As the state moved into the '90s, the economic picture stabilized, but homebuyer behavior changed. No longer experiencing the wage and salary earnings growth of the early '80s, buyers paid greater attention to mortgage lending rates.

Housing affordability peaked in 1993 when interest rates dropped below 8.0%. At this point only 1.2 average wage earners were required to finance a mortgage on an average priced single-family home. Subsequent rising interest rates eroded affordability until the second half of 1997 when interest rates began to fall. Eventually rates would fall below 6.5%, restoring some measure of affordability to homebuyers. However, the

2 Alaska Households By age of head of household



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

rapid 25% increase in housing cost alongside a modest 3.75% increase in wages prevented any reappearance of the affordability seen earlier in the decade. By the end of 1999, 1.4 average wage earners were necessary to finance an average-price single-family home. Condominiums, however, continued to remain affordable, requiring less than one average wage earner to qualify for a mortgage.

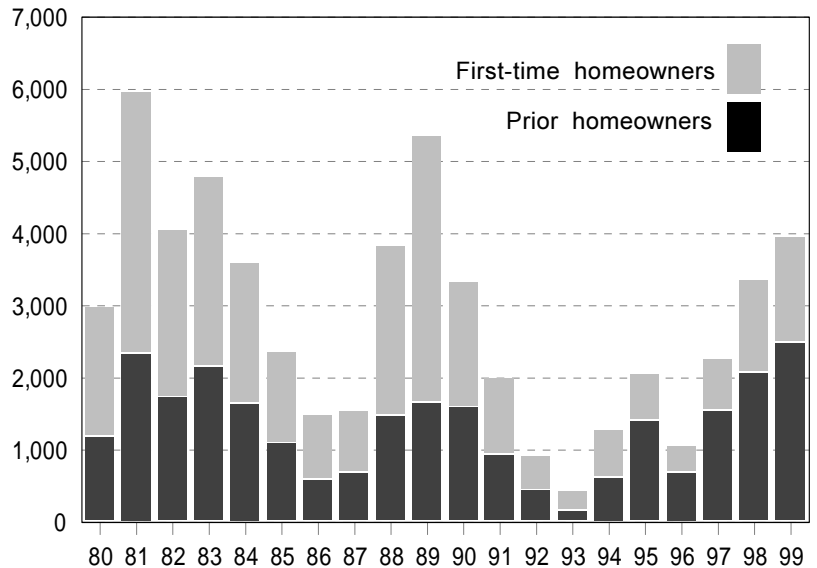
Residential lending activity

Unlike the previous decade, the '90s were a period of stable growth. Growth in loan volume followed the drop in mortgage lending rates. Mortgage lending rates averaged below 9% and lending activity grew by 25%. When rates hit 6.0% in 1999, loan volume exceeded \$1.4 billion. Single-family homes continued to represent the bulk of loan activity in the '90s, 75% of the total.

The increase in activity throughout the '90s can largely be attributed to consumers purchasing more expensive single-family homes. While total value of residential sales grew 27% from 1992 through 1998, the total number of homes purchased grew only 6%. The average sale price of a single-family home in 1992 was \$133,395, and \$166,395 in 1996. Appreciation was 7.5% higher than the rate of inflation, reflecting consumer willingness to pay a premium for single-family homes. On the other hand, the average condominium price has dropped 6.3% since 1992 to \$89,392. Condominium prices bottomed in the late '80s and have not yet recovered. (See Exhibit 5.)

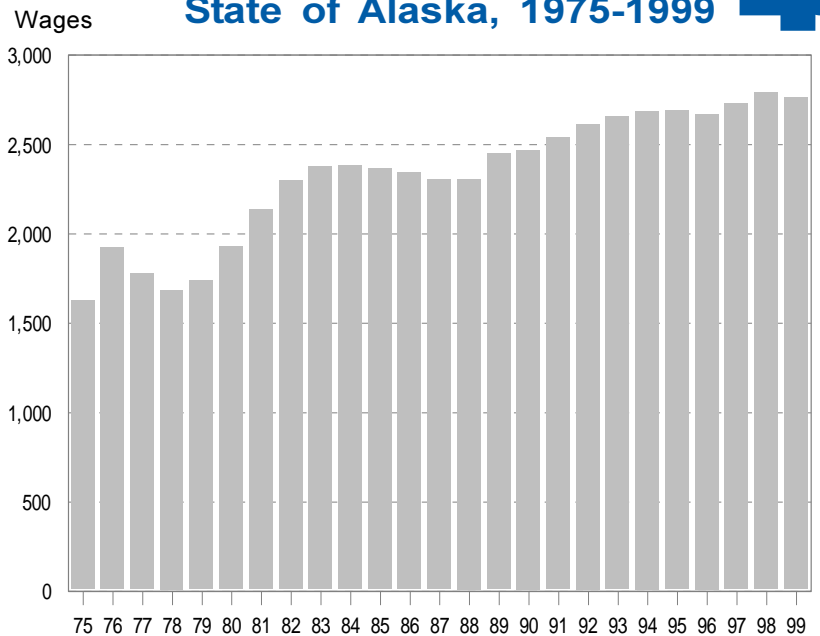
Foreclosure and delinquency activity piled up in the late '80s. As the economy moved into recession the real estate market collapsed. Foreclosures accumulated and by the end of 1989, AHFC had more than 4,780 properties in its inventory—2% of Alaska's housing stock. Unlike the 80s, the 90s have seen very low default activity. Lenders attribute this success to a more stable economic picture and more

Single-family and Condo Loans AHFC first-time vs. prior homebuyers **3**



Source: Alaska Housing Finance Corporation

Average Wage/Salary Income State of Alaska, 1975-1999 **4**



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

conservative lending practices. In 1999, less than 3% of active loans were delinquent over 30 days.

Multi-family activity

Alaska's strongest period of development for housing complexes with five or more units occurred in the early '80s. More than 26% of all residential housing permitted from 1980 to 1986 was multi-family, more than 10,000 units. When 1986 rolled around, however, the state's economic picture changed. Rental vacancy soared and fewer than 300 multi-family units were permitted over the next four years.

As the state's economy picked up in 1990 so did the rental market. Households grew and rental vacancies dropped. By 1995, most areas of the state reported tight rental markets. In some urban communities, one and two-bedroom units were scarce. In response to the tight rental

market, multi-family construction picked up. From 1995 to 1999, three times as many units of multi-family housing were developed as during the prior five years. As the '90s came to an end, 2,422 new multifamily units had been permitted. (See Exhibit 6.) The addition of this stock to the market and an increasing number of households moving to home ownership helped ease apartment vacancy rates in several Alaska communities. In 1996 rates moved above 4.0% and averaged around 6.2% through 2000. (See Exhibit 7.)

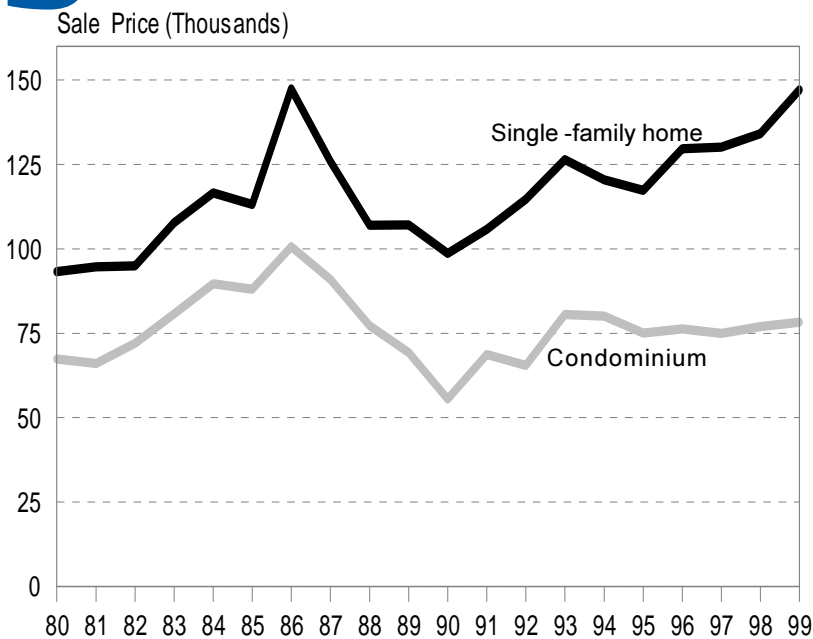
Alaska's multi-family market in the '90s was also strongly influenced by governmental agencies. In 1990, close to half of Alaska's renter households were low income and many paid more than 30% of their earnings for rent. Many state and federal agencies, in an attempt to improve the affordability of multi-family rentals, put forth significant capital outlays for development, rehabilitation, and financing. For example, from 1991 through 2000, AHFC provided \$239 million in multi-family loans, making more than 6,000 rental units available. HUD, through its Multi-family Insurance Program, helped finance nearly 3,000 units of private multi-family stock in Alaska.

Housing stock

According to the 1990 census, almost 72% of Alaska's housing was built prior to 1970. By the end of 1999, the addition of almost 30,000 units of housing had dropped that figure to an estimated 55%. However, the number of housing units 40 years old or older nearly doubled, rising from 15% to 26%. If housing development continues this trend for the coming ten years, over half of Alaska's housing stock will be more than 40 years old.

As housing stock continues to age, both new and long-term homeowners are expending a larger portion of their disposable income on housing related items. The U.S. Census Bureau reports that in the western region of the United States, expenditures for maintenance and repairs rose from \$3.6 billion in 1993 to over \$8.0 billion in

5 Average Sale Price Single-family homes and condos



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

1999. Expenditures for home improvement have also risen from \$13 million to \$21 million.

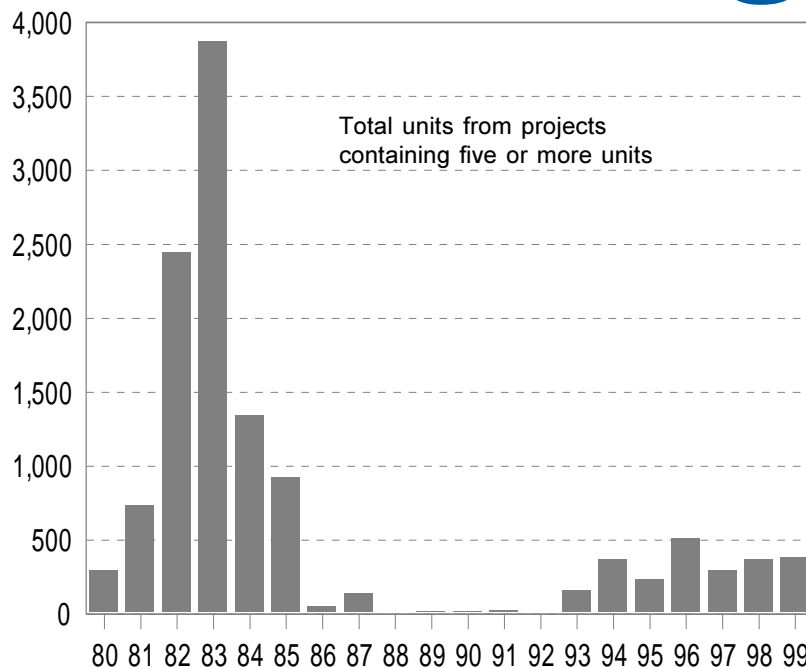
These increases are reflected in Alaska through rising retail spending at building material, hardware, and garden supply businesses. The U.S. Census Bureau estimates that these consumer expenditures grew 65% to over \$476 million in 1997. In a five-year period, yearly consumer expenditures at these establishments jumped from an average of \$1,426 per household to \$2,230. The bulk of expenditures, 86%, are occurring at establishments that retail new building materials and supplies. Spending is expected to increase as homeowners lay out more dollars to maintain and improve their aging homes.

Regional conditions

Housing in areas surrounding Anchorage has shown increasing affordability throughout the '90s. The Matanuska-Susitna Valley, the fastest growing census area in Alaska, has consistently offered homebuyers the lowest-priced housing in Alaska. (See Exhibit 8.) This advantage, however, has eroded from the early '90s. In the early 1990s, homes in the Mat-Su Valley went for 23% to 26% less than in Anchorage. At the end of 1999, the gap had shrunk to 13% due to the large-scale increase in higher-priced new construction and an increase in condominium sales in Anchorage. Another affordability bright spot has been the Kenai Peninsula. Throughout the '90s the Kenai Peninsula has reported prices 13% to 20% lower than the statewide average price for a single-family home.

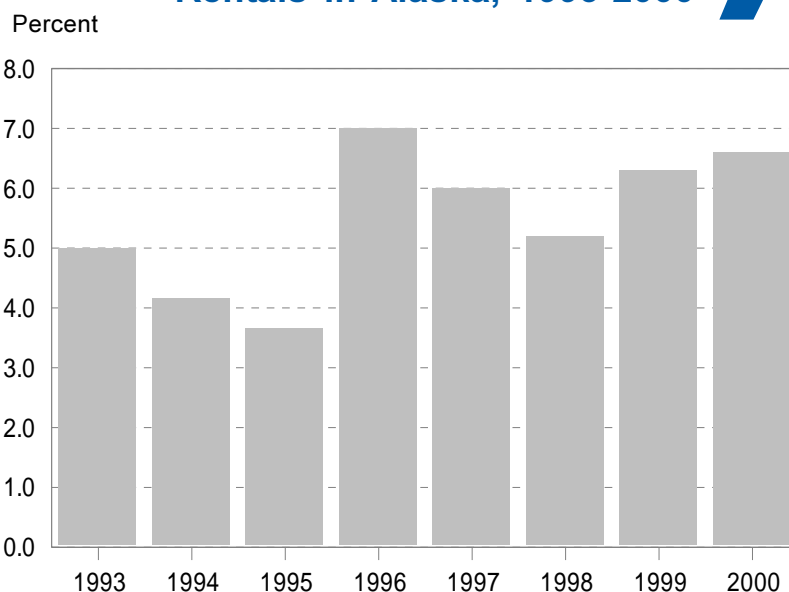
One common theme throughout the '90s has been shrinking lot sizes for new single-family homes priced under \$200,000. Most areas have reported smaller lot sizes in the late '90s. Only the Fairbanks North Star and Kenai Peninsula Boroughs have reported increases in median lot size. These two areas are seeing an increase in housing development outside city boundaries, where lot sizes are typically larger. The largest

Multifamily Units Permitted Alaska, 1980-1999



Source: U.S. Census Bureau, Manufacturing, Mining and Construction Statistics

Apartment Vacancy Rates Rentals in Alaska, 1993-2000



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

decrease in lot size was seen in the Mat-Su Valley, where lot sizes dropped by a median of 10,000 square feet over the ten-year period.

Alaska's rental market has shown regional variation in the latter half of the '90s. The communities with the highest median rents were Kodiak Island Borough, \$817, and the Juneau-Borough, \$813. Kodiak Island Borough, though the most expensive rental market in the state, has experienced the largest drop in rents over the last five years, \$75. The Mat-Su Valley and the Sitka Borough have recorded the fastest-rising rents over the last five years. Some southeast Alaska communities reported the largest increases in vacancy rates. Wrangell-Petersburg and the Ketchikan Gateway Borough have watched vacancy rates climb in the last three years. These markets tend to be more sensitive to economic changes, and the recent downsizing of the timber industry appears to be impacting the rental market.

Rural housing development

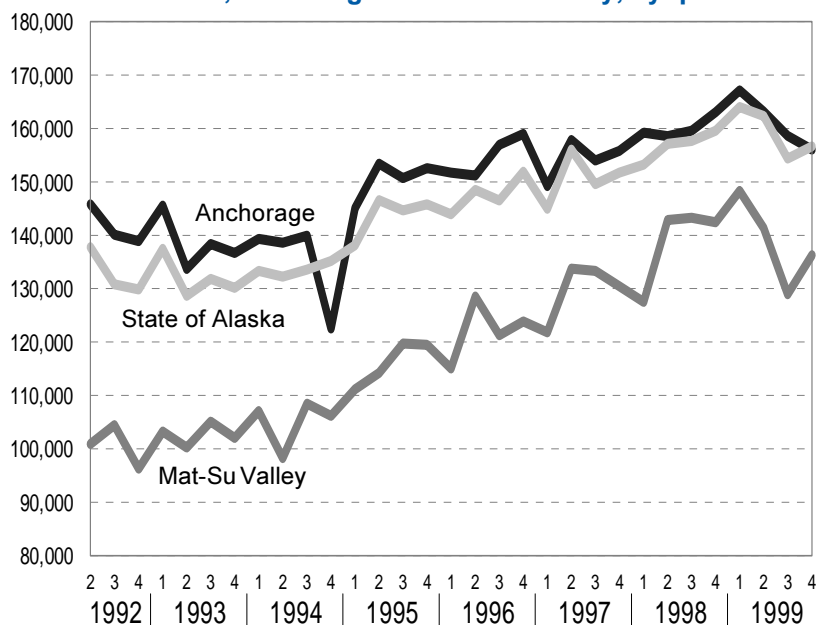
Rural Alaska communities face many unique challenges. Key issues in the development of housing have been identified as overcrowding, structural problems, high costs, and lack of economic development and infrastructure. The 1991 Housing Needs Assessment Study commissioned by the Department of Community and Economic Development reported that more than \$2 billion would be needed to address these issues.

The cost of supplying building products to rural areas usually exceeds the cost of supplying them to urban areas. In the 2000 Construction Cost Survey, the Department of Labor and Workforce Development found that the cost of supplying certain building products to areas like Barrow, Bethel, and Nome ranged from 21% to 86% higher than in most urban areas. The study did not include the cost of land development, water/wastewater systems, and mortgage insurance. These factors further increase the disparity between the cost of rural and urban development.

Despite challenging conditions, rural Alaska communities have experienced positive growth in lending activity in the late '90s through various state and federal programs. For example, under HUD's Native American Programs close to 2,000 new units of housing were financed. Another 800 units of new housing are scheduled for development in rural areas of the state under the Native American Housing and Self-Determination Act. The establishment of the Rural Loan Program by AHFC in the early '80s has resulted in the financing of over 6,500 rural loans, with a default rate of less than 3%. (See Exhibit 9.)

While the bulk of lending activity in rural areas continues to involve existing housing, the age and condition of the stock continue to deteriorate much more rapidly than in urban areas. The costs of water/sewer and other community infrastructure often make the development of

8 Average Sale Price Single family homes and condos Alaska, Anchorage and Mat-Su Valley, by quarter



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

new housing in rural areas difficult. In recent years many agencies have pushed for the capital necessary to overcome these barriers. The Denali Commission and the U.S. Department of Agriculture have contributed to this effort. The AHFC has used its Supplemental Housing Development Fund to assist in infrastructure development, leading to the creation of 5,000 new units of housing in 250 rural communities.

Senior and special needs

Alaska's population continues to age. Alaskans over the age of 65 represent the fastest-growing segment of the state's population. Alaska's elderly population has grown by more than 183% since 1980. Current population projections estimate that Alaska's senior population will swell from 35,658 in 2000 to 124,303 by 2025. (See Exhibit 10.) Along with this growth will come an increasing need for a variety of senior housing options including housing where seniors can live independently or receive assistance in the activities of daily life.

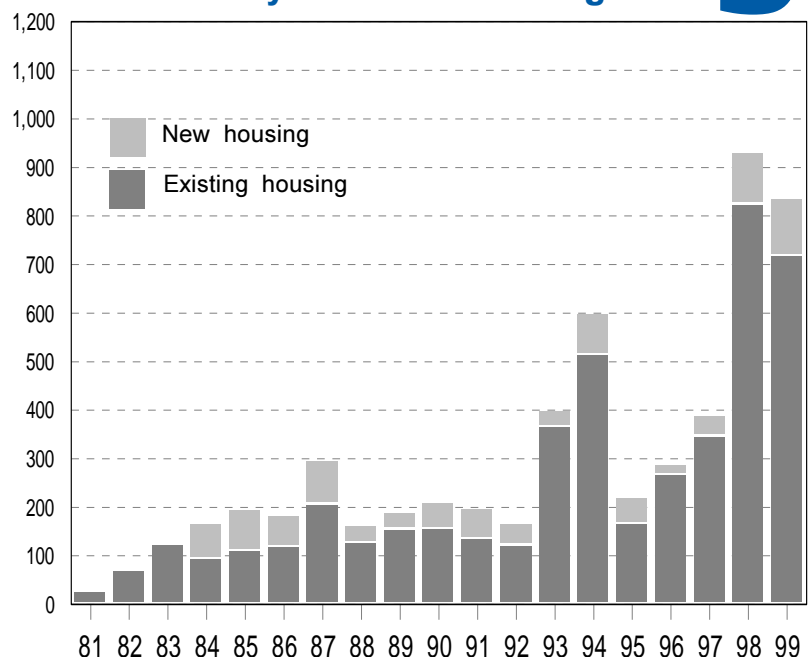
Data available through the State of Alaska and the AHFC report a current inventory of 3,000 senior housing units. Assisted living units, which provide seniors with support in activities of daily life, have increased by over 500% since 1995. Independent senior living facilities have increased at a much more modest level, about 16%. Over the next five years AHFC estimates that close to 1,500 new units of senior assisted and independent living will be needed to keep pace with the growing demand. Seniors with low income will feel the greatest need. An estimated 500 seniors will not have enough income to pay for housing with the living assistance needed.

For Alaskans with disabilities, the biggest challenge is finding accessible, affordable housing. In the 1990 U.S. Census, almost 60,000 Alaskans disclosed disabilities. Among Alaskans aged 16 to 62, 22,740 disclosed having mobility and self-care impairments sufficient to prevent work, walking, or self-care. Because of these

impairments a large percentage of this population lives with extended family or in subsidized rental housing. For the more than a quarter of this population at or below the poverty level, home ownership is unlikely to be an option. When a person with a disability rents on the market they are likely to be in an inaccessible unit. Current rental market statistics estimate that less than 6% of Alaska's rental stock has some degree of physical accessibility.

Over the last five years, however, production of specialized housing for seniors and people with disabilities has increased. The increase in the availability of senior units has occurred largely through Medicaid services and AHFC grant and financing programs. The production of accessible, appropriate housing for people with disabilities has also increased. From 1990 through 1999, the AHFC reports financing more than 1,100 units of affordable housing for seniors and people with disabilities.

AHFC Rural Loans Financed by Rural Loan Program 9



Source: Alaska Housing Finance Corporation

Looking forward

Changes in home ownership will accompany shifts in Alaska's demographic profile over the coming years. Adults under the age of 35 represent the largest segment of Alaska's home buyers. Growth or contraction in this age cohort will affect home sales. If the present decline in Alaskans under the age of 35 accelerates, the rate of home ownership may decline.

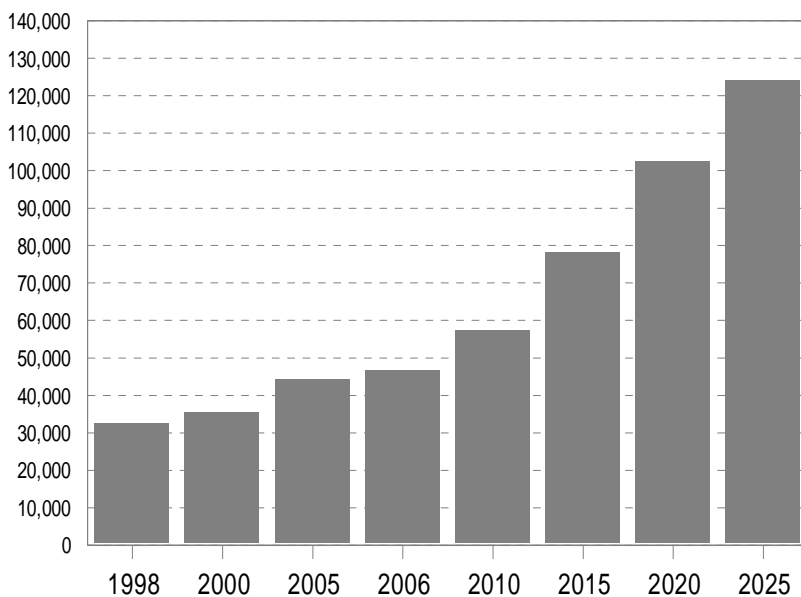
The segment of the market that will feel the greatest impact from demographic changes in the years to come will be multi-family housing. Growth in the number of single and couple households could rekindle interest in condos, apartments, and townhouses. For some of these households, rising costs of single-family units may dictate the purchase of condos, apartments, or townhouses. In some areas of the state, this is

already happening. In Anchorage, the starting price for a lot for a single-family home has reached \$50,000. High land prices will shift some buyers from the single-family market into purchase of a condominium or townhouse. Multi-family activity will continue to grow, with one-story condominiums and townhouses comprising the bulk of it as buyers shy away from apartment-style units.

For many of Alaska's households, demand for multi-family housing will be driven by lifestyle choice or medical necessity, rather than economics. Older "empty-nest" households may opt to "downsize" from their single-family living arrangement. Alaska's growing senior population may spur the development or rehabilitation of assisted living multi-family projects. Similar activity may also occur for the growing disability segment of Alaska's population with a greater emphasis placed on accessibility.

The housing industry today reflects the many changes in the demographic and economic landscape of Alaska. In the '80s, the industry boomed and reeled with Alaska's sudden gain and loss of revenue. In the '90s, a stable economy, and favorable interest rates helped the market achieve an eight-year period of slow growth. Over the next ten years the housing industry will, no doubt, experience more changes as the state's economy expands and contracts. Further, changing demographics are expected to have a significant influence on the type and quality of homes Alaskans will live in.

10 Population 65 and Older Alaska projections 1998–2025



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