

Record affordability in Alaska's housing market

Housing affordability is at a record high in Alaska, according to one index produced by the Alaska Department of Labor and Workforce Development. Stagnant home prices, increasing wages and record-low interest rates have all contributed to this phenomenon.

The Alaska Affordability Index measures those factors – home sales prices, incomes and interest rates – to monitor housing affordability levels over time.

What the index means

The index tells us how many average paychecks have to be earned to afford the average single-family home. An index score of 1.36 – the score for the first two quarters of 2009 – means a homebuyer must earn 136 percent of the average income to afford the average home, wheth-

er that homebuyer is an individual, a couple or a group of people.

The index assumes a 15 percent down payment on a 30-year fixed rate mortgage. An average monthly payment is determined based on the average sales price for a single-family home, and the average income and mortgage interest rate.

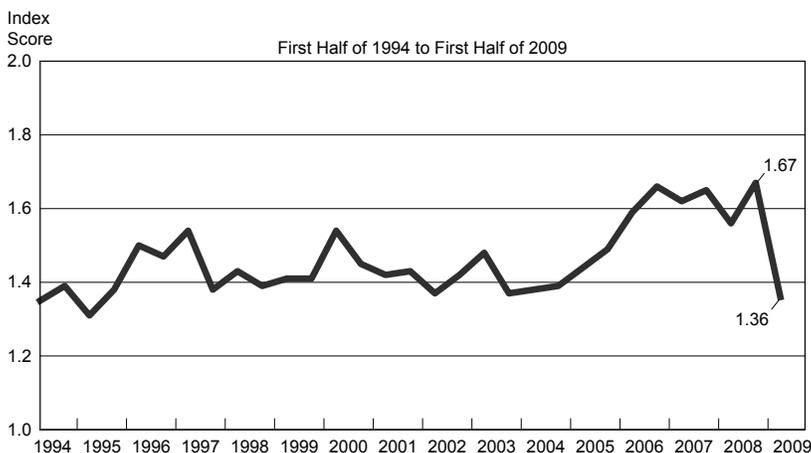
That monthly payment is used to calculate the required monthly income needed to qualify for the mortgage. The required monthly income is then divided by the average income to calculate the index value.

The lower the index score, the more affordable housing is. An index value of less than 1.0 means a less-than-average income is required to afford the average home, and an index value greater than 1.0 means a greater-than-average income is required. An index score greater than 2.0 indicates that more than double the average income is required to afford the average single-family home.

The index measures housing affordability based on factors that the Department of Labor regularly measures, but there are other variables that affect the cost of housing. Those variables aren't included in the index because they're often unique to the homebuyer's situation, or are difficult or impossible to measure.

Some of the variables include insurance costs, both for hazard and mortgage insurance; property taxes, which can vary by area and the size of the property; utility costs, a large part of monthly housing costs that can vary depending on energy type; and adjustable rate mortgages,

1 Alaska Affordability Index Single-family homes, Statewide 1994 to 2009



Note: The lower the index score, the more affordable housing is.
Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

which can cause monthly payments to increase or decrease based on interest rate changes.

A 10-year affordability record

Single-family homes are more affordable now than they've been in the past 10 years, as measured by the Alaska Affordability Index. That's all the more striking when compared with the past three years of record low affordability. (See Exhibit 1.)

The record low index value for January through June (1.36) was immediately preceded by a record high (1.67) for July 2008 through December 2008. That drastic drop in the index value was precipitated by several important changes in the economic environment: changes to home prices, interest rates and wages.

Home price appreciation slows

Average single-family home prices increased at an average of 4 percent every six months from 2000 through 2006. (See Exhibit 2.) Appreciation has slowed more recently, and from January 2007 through June 2009, the average sales price of a single-family home increased at an average of 0.5 percent every six months. From the second half of 2008 to the first half of 2009, the average sales price of a single-family home hardly changed at all.

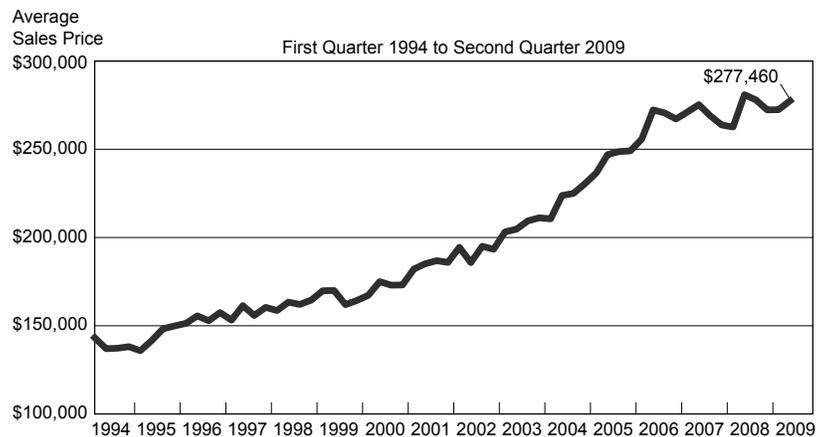
How could the affordability index score have fallen so rapidly, if home prices have simply leveled off? The value of a home is an important determinant of affordability, but it's not the only one.

Interest rates plummet

The average rate for a 30-year fixed-rate mortgage in Alaska hit bottom in the second quarter of 2009 at 4.86 percent. (See Exhibit 3.) Over the long run, interest rates have been trending down, and the beginning of 2009 was the first time since the data have been collected that interest rates have dropped below 5 percent. The Department of Labor began collecting the data in 1992.

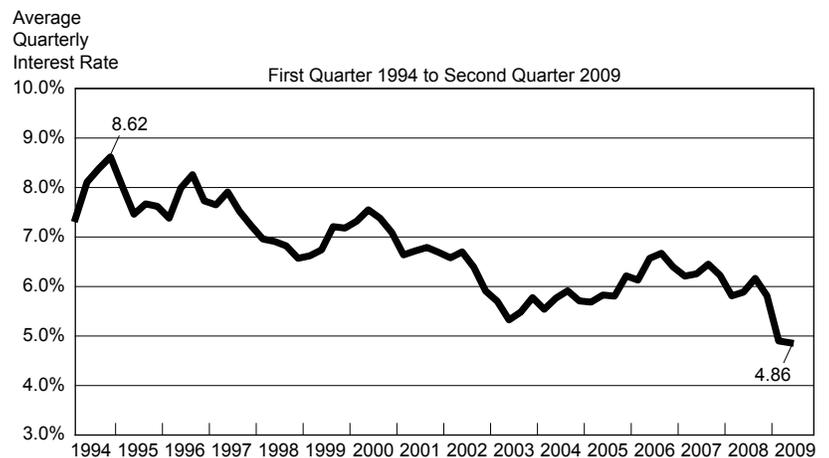
Interest rates are a major player in determining the affordability of housing. For those who

Home Prices Double in 15 Years Single-family homes, Statewide 1994 to 2009 **2**



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

Interest Rates Drop to Record Lows Statewide, 1994 to 2009 **3**

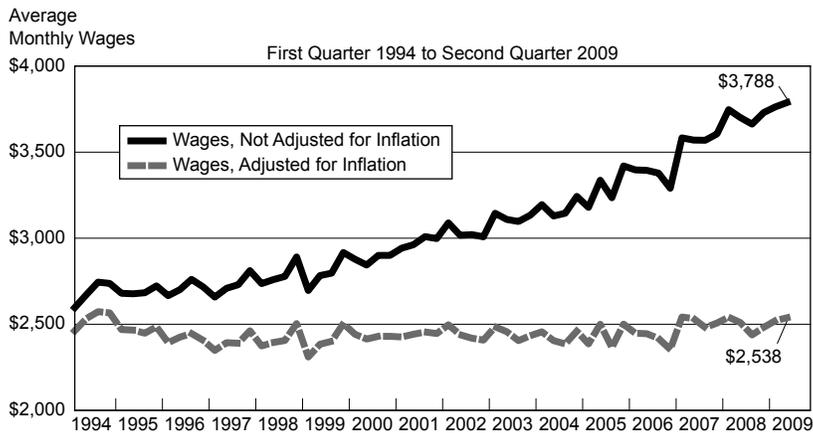


Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

can't afford to pay cash for a new home – and that includes most of us – financing is the only option. Interest is the cost of borrowing money, and when that falls, the cost of housing essentially falls with it.

Interest payments can end up being the majority of the total costs of buying a home. A homebuyer who takes out a \$242,662 loan at 4.88 percent – the average loan amount and interest rate for the first half of 2009 – will pay more than \$215,000 in interest over the 30 years of his or her mortgage, barring refinancing. At the interest rate from a year before, 5.85 percent, total interest

4 Alaska's Average Monthly Wages Statewide, 1994 to 2009



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

payments would exceed the value of the principal – around \$272,750 in interest payments.

Interest rates are historically low, but they will eventually rise again. The Federal Reserve has already cut the federal funds rate (the short term rate at which banks borrow from each other) to nearly zero, so interest rates have few places to go but up from here.

Higher wages put homes within reach

Wages in Alaska have been rising at a slightly faster pace than home prices over the past year, which is a positive as far as affordability is concerned. (See Exhibit 4.)

For a monthly mortgage payment to be considered affordable by the Alaska Affordability Index, it can be no more than 24 percent of a homeowner's gross income. When average wages increase, potential homebuyers can afford a larger monthly payment on their mortgage.

Wage growth, low interest rates and cooling home prices have fortuitously coincided to make housing more affordable than it's been for years; still, this occurrence is likely short-lived.

Regional differences in affordability

The level of home affordability varies across Alaska, which should come as no surprise. Dif-

ferences in wages and home prices drive that variability. Examining the affordability index by region highlights cost of living differences across the state, as well as showcases the index's unique sensitivity to variable factors.

The Kodiak Island and Juneau boroughs, and the Bethel Census Area are the least affordable regions in the state. (See Exhibit 5.) Those three areas are historically the most expensive, and they've maintained that notoriety through the first half of 2009.

Bethel is the only region with a five-year average index value above 2.0, despite a much lower value in the first half of 2009. Bethel has the distinction of middle- to high-end housing prices and some of the lowest wages of the selected regions. It typically has a very low loan volume and is the only truly rural region measured.

Both the Kodiak Island and Juneau boroughs typically have wages below the statewide average, Kodiak dramatically more so. Juneau typically has either the highest or second-highest home sales prices in the state, competing with Anchorage. Those factors combine to make the two rainy, rocky boroughs expensive places to buy a house.

On the other side of the coin are Alaska's more affordable regions. Fairbanks North Star and Kenai Peninsula boroughs are the most affordable areas in the state. Fairbanks and Kenai have below-average wages, but they also have single-family home prices that are well below average.

The remaining areas – the Ketchikan Gateway and Matanuska-Susitna boroughs, and the Municipality of Anchorage – may be in the middle affordability-wise, but they're not without their own contradictions. Anchorage, along with Juneau, has substantially higher single-family home prices than any other area in the state. However, Anchorage has the highest average wages of any area, which makes the city reasonably affordable.

The Mat-Su Borough maintains a reputation for affordable housing that's only partially true. Mat-

Su's affordability index score is among the highest in the state, and that's because wages in the borough are low, even when compared to the low price of housing there.

Many Mat-Su residents don't work in Mat-Su. (Wages are measured where they're earned.) That's why, in addition to the normal Mat-Su index score, an index value is also calculated for an Anchorage worker who buys a Mat-Su house.

The index value for an Anchorage worker who buys a Mat-Su house is consistently the smallest, and for good reason. Anchorage wages are among the highest in the state, and Mat-Su housing prices are among the lowest. Therefore, the most affordable housing in Alaska requires a commute, and as suggested by the 8 a.m. traffic on the Glenn Highway, it's worth it for a lot of people. Of course, there are costs to commuting, like gas, vehicle maintenance and stress.

The one commonality between all regions is that in every area, the first half of 2009 index value is lower than the five-year average.

Record affordability, for now

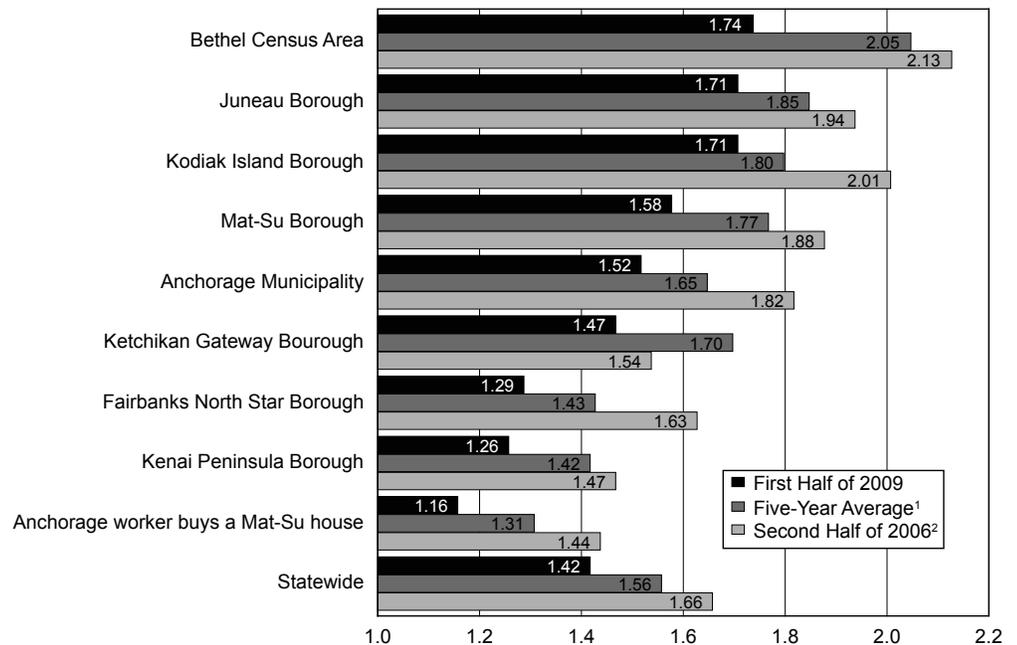
The record low value for the Alaska Affordability Index and the corresponding boost in affordability spells a relief for homebuyers, but the picture could look different in a few months.

The most likely scenario for the near future is waning affordability, but not nearly to the degree seen from 2006 through 2008. Interest rates are subject to change at any time, but they're also unlikely to drop much below their first quarter 2009 level. Average wages will be most affected by the makeup of job gains and losses in the upcoming months. Home prices are

Regional Affordability Comparison

Alaska Affordability Index scores, 2006, 2009 and average

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Note: The lower the index score, the more affordable housing is.

¹ The five-year average is an average of the half years from the second half of 2004 to the first half of 2009.

² The year 2006 was chosen for comparison because it was the highest year in the five-year span.

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

Notes

The Alaska Affordability Index is calculated using average wages and an estimated monthly mortgage payment.

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

Wages are reported as total earnings rather than hourly wage rates, and can be affected by the industry mix and the number of full- and part-time jobs.

The estimated average monthly mortgage payment is based on the average home sales price and interest rate. The Department of Labor surveys Alaska mortgage lenders each quarter to collect that information for the Alaska Housing Finance Corporation. The survey results, called the Survey of Mortgage Lenders, are published quarterly.

The Alaska Affordability Index, which the Department of Labor also creates for AHFC, is published twice a year.

For both the mortgage lender survey and index, go to the AHFC Web site at www.ahfc.state.ak.us, type "Housing Market Indicators" into the search bar and select "Housing Market Indicators" in the middle of the page. Once you're at the Housing Market Indicators Web page, click on "Data and Tables" for the Survey of Mortgage Lenders and "Publications" for the Alaska Housing Market Indicators publication, which contains the Alaska Affordability Index.

subject to both the demand and supply of housing, and while rapid appreciation isn't likely, neither is rapid depreciation. Those changing factors, especially interest rates, will likely push up the affordability index score.

Another important consideration not otherwise included in the affordability index measure is unemployment, since the affordability index represents the number of average paychecks required to buy a home. If there's a growing

portion of the population losing their paychecks, the index value may not change, but the reality is very different.

So much of the news about the economy has been bad lately that there's no shame in reveling in the positive, even if it turns out to be short-lived. Alaska is fortunate to have experienced the affordability boon without the accompanying housing crisis that has plagued other states.

The Retail Industry and Violence in the Workplace

The U.S. had 351 fatalities in the retail industry in 2006, and of those, 39 percent were due to assaults and other violence, according to the U.S. Department of Labor's Bureau of Labor Statistics. Another BLS survey shows that a large number of U.S. retailers, particularly small businesses, lack programs to prevent violence.

The federal Occupational Safety and Health Administration recommends a prevention program with five essential elements: (1) a cultural commitment – including management leadership and employee participation; (2) a careful analysis of the worksite – common high-risk conditions are contact with the public, exchange of money, delivery work, working alone, working nights and early morning, and working in high-crime areas; (3) hazard prevention and control (see below); (4) training and education – including training in operational procedures, use of engineered security features, behavioral strategies and emergency action procedures; and (5) evaluation – keeping records of incidents and paying attention to recommendations from police, advisors, employees and consultants.

What is workplace violence? It can be categorized under the three following types. Here are various ideas for employers:

(1) Violence by strangers or outsiders. Install silent alarm systems, use mirrors or raised platforms to ensure that employees can easily see customers throughout the business; make sure employees and customers can see the area where money is exchanged; use bright and effective lighting; make sure that you have enough staff members for safety, particularly if your business is open at night; use drop safes so that there's only a limited amount of cash on hand (and post signs telling people that); use height markers on exit doors so witnesses can describe assailants' height; use video surveillance equipment to monitor activity; control or limit access to the facility; install locks on doors that lead to staff-only areas; and use physical barriers, such as bullet-proof glass, to protect employees.

(2) Violence by people receiving services. Ensure that workers never work alone; allow workers to carry pagers or cell phones; ensure that employees have access to working phones in each work area; and train employees on what to do in a violent situation.

(3) Violence by acquaintances or employees. Have a written policy clearly stating that violence in the workplace won't be tolerated. The policy should explain what workplace violence is, and what is and what is not acceptable behavior.

Safety consultants with the Alaska Department of Labor and Workforce Development's Occupational Safety and Health are available to provide employers with ideas for diffusing possible violence in the workplace and for developing a safety plan. AKOSH is within the Labor Standards and Safety Division. For more information, call (800) 656-4972.