

ANCHORAGE HOUSING

Housing stock and characteristics of the market in the state's largest city

By **KARINNE WIEBOLD**

Anchorage is home to a little more than 300,000 people, making it easily the state's largest city. It has more than three times the population of the second-largest area, the Fairbanks North Star Borough, and more people than the next four largest boroughs combined. Four out of every 10 Alaskans live in the Municipality of Anchorage.

According to the most recent data from the U.S. Census Bureau's American Community Survey, the city has 104,980 occupied housing units, shown by area in the map on the opposite page. Of those, 59 percent are owner-occupied and 41 percent are rented. Six out of 10 are single-family homes. Apartments and condos make up 28 percent, and duplexes and mobile homes make up the other 10 percent. (See Exhibit 1.)

A building frenzy in the 1970s

The 1964 earthquake damaged or destroyed many buildings in Anchorage, including residences, but construction flourished during pipeline construction from 1974 to 1977 and the oilfield development that followed in the early 1980s.

The boom years for Anchorage construction were the 1970s, and to a lesser extent the '80s, when more than half the housing stock was built. About a quarter of Anchorage homes were built before that period and about a quarter after. (See Exhibit 2.)

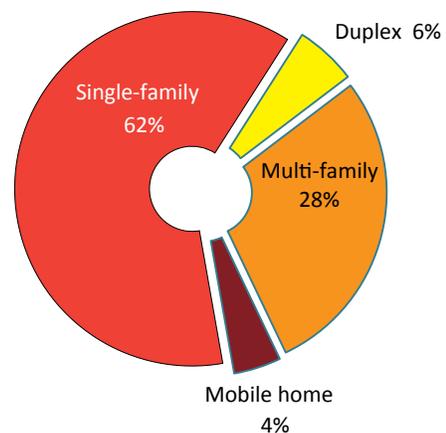
After the building boom of the early '80s, the Anchorage housing market suffered a dramatic increase in foreclosures when the price of oil dropped and the

state's economy fell into a deep recession.

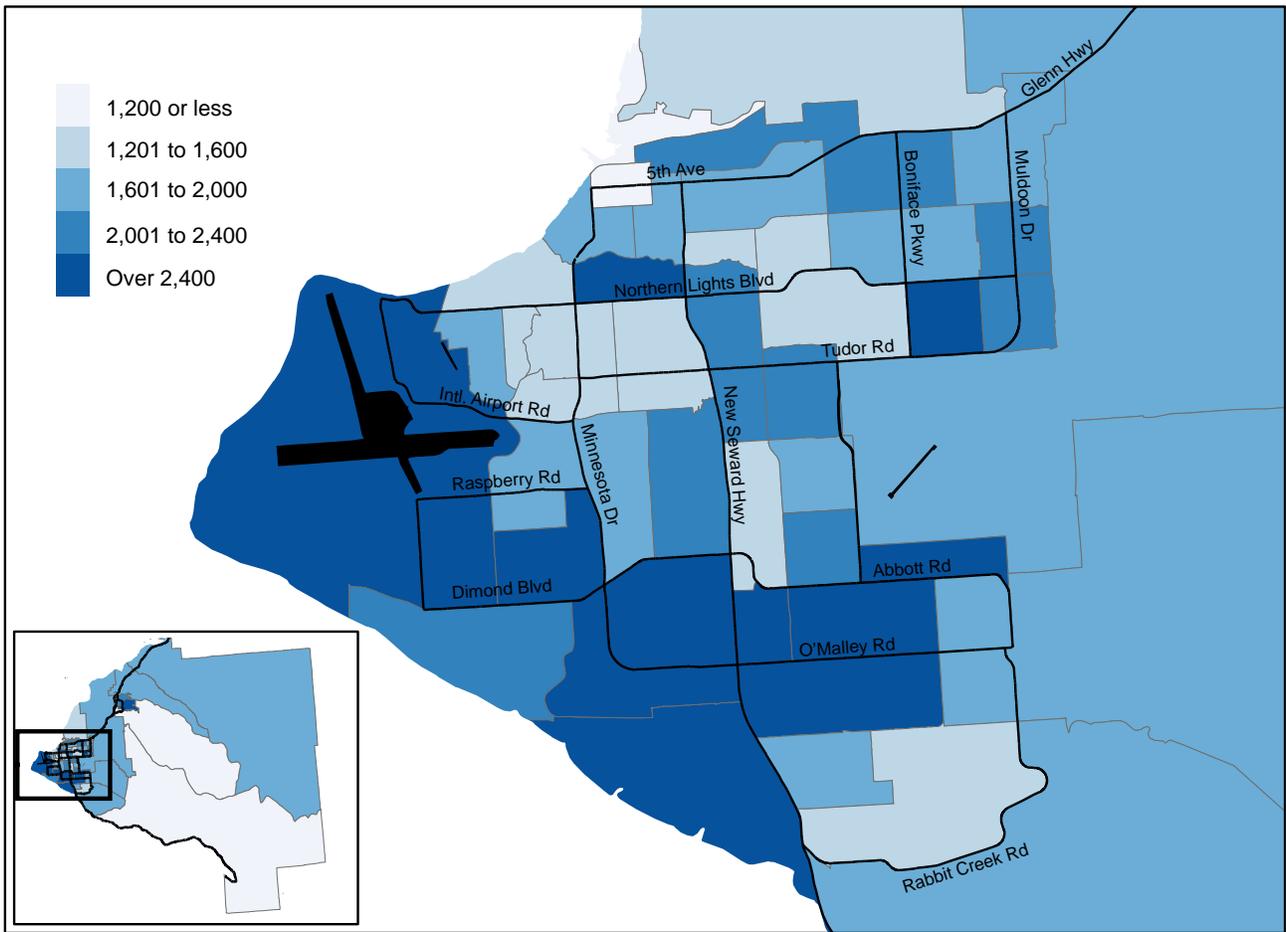
Housing characteristics

Despite Anchorage being much larger, the nearby Matanuska-Susitna Borough has led the state in single-family construction over the last decade. From 2003 to 2013, 4,797 new single-family homes were permitted in Anchorage versus 10,588 in Mat-Su, where land is more plentiful and affordable. During that period, Anchorage was the site of 21 percent of the new single-family construction, compared to 47 percent in Mat-Su. (See Exhibit 3.)

1 Most are Houses ANCHORAGE, 2011 TO 2013



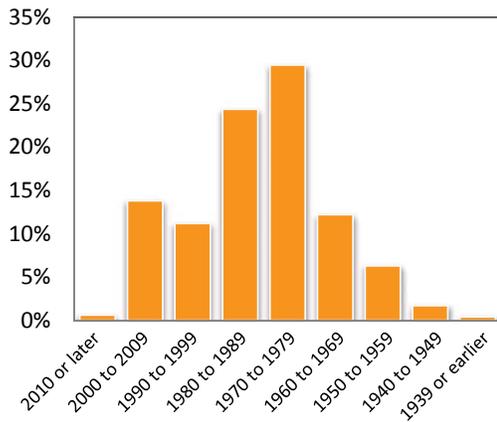
Source: U.S. Census Bureau, American Community Survey



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and U.S. Census Bureau, American Community Survey

2 Most Built in '70s and '80s

ANCHORAGE HOMES, 2011 TO 2013



Source: U.S. Census Bureau, American Community Survey

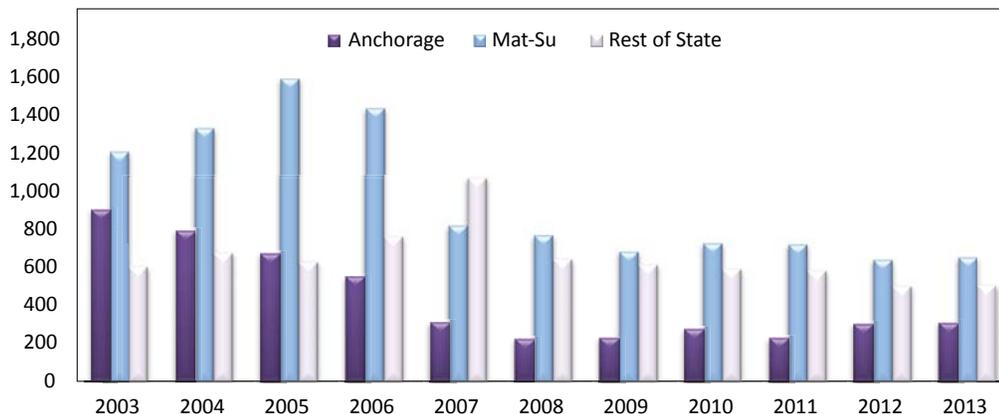
In Anchorage, the most common home size is three bedrooms — there are nearly as many three-bedroom homes as there are all smaller homes combined. (See Exhibit 4.)

When it comes to homes with no bedrooms, such as studio apartments and one-room cabins, Anchorage looks a lot like the nation as a whole, at 2.0 percent of its housing stock, compared to a national average of 2.2 percent. It looks very different from Alaska as a whole, though, where 6.1 percent of homes have no bedrooms. The gap is similar for plumbing and kitchens. Just 1.1 percent of Anchorage homes lack complete plumbing and kitchens in contrast to the state's 7.7 percent.

Eight out of 10 homes in Anchorage heat with utility gas. Electric heat is a distant second at 14.1 percent. (See Exhibit 5.) Heating with oil or wood is relatively uncommon in Anchorage compared to the rest of the state. Only 2.5 percent of homes in Anchorage heat with oil, and statewide it's nearly a third. Statewide, 6.3 percent of homes are heated with wood but in Anchorage that drops to less than 1 percent.

3 Mat-Su Leads in New Single-Family Homes

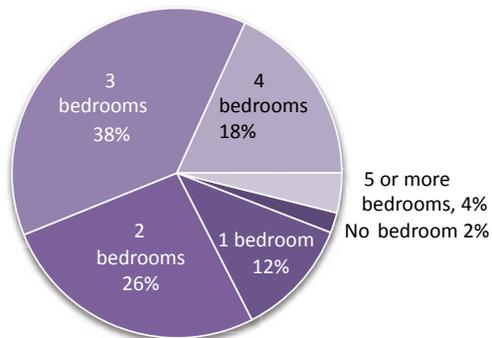
VERSUS ANCHORAGE AND THE REST OF THE STATE, 2003 TO 2013



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

4 3 Bedrooms Most Common

ANCHORAGE, 2011 TO 2013



Source: U.S. Census Bureau, American Community Survey

Unlike most of the state, Anchorage has access to natural gas and it's relatively inexpensive, even compared to the nation overall. According to the U.S. Energy Information Administration, the cost of natural gas delivered to residential consumers has been lower in Alaska than the national average since 1975.

Electricity in Anchorage runs about 19 to 26 percent higher, depending on provider, at between 15.0 and 15.9 cents per kilowatt hour, compared to the national average of 12.6 cents/kWh. Anchorage pays 28 percent to 30 percent less for electricity than Fairbanks, where the rate is 20.7 cents/kWh.

Three-quarters of Anchorage residents moved into their current home after 2000, with a third in 2010 or later. (See Exhibit 6.) Anchorage has a slightly higher

percentage who moved to their current residence after 2010 than Alaska overall, and nationally only 27 percent of households moved in so recently.

Renters and owners

Anchorage has a legacy of renting. According to the 1970 Census, renters made up 62 percent of Anchorage households. That fell to 47 percent by 1990, when Anchorage renting was 3 percentage points higher than the state and 11 percentage points more than the country. In the last two decades, the percentage of renters in Anchorage has held steady at four out of ten households while it's fallen statewide. (See Exhibit 7.)

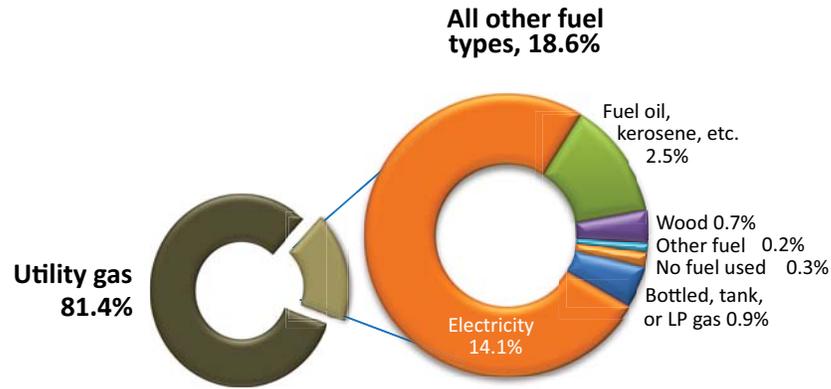
The renter-owner split becomes even more prominent when you compare Anchorage to neighboring Mat-Su. While 60 percent of Anchorage residents were homeowners in 2010, a whopping 76 percent in Mat-Su owned homes.

Regardless of income, renters spend a higher percentage of it on housing. (See Exhibit 8.) According to the census, 39 percent of Anchorage homeowners with a mortgage spent less than one-fifth of their income on housing, compared to just 28 percent of renters. On the flip side, a third of renters spent 35 percent or more of their income on housing, while only 20 percent of owners were similarly cost-burdened. The census estimates that from 2011 to 2013, homeowners carrying a mortgage owed a median of \$1,968 each month, while the median for renters was \$1,150.

Renters tend to have smaller households than owners. (See Exhibit 9.) According to the most recent census estimates for Anchorage, renter households aver-

5 What Else Anchorage Uses For Heat

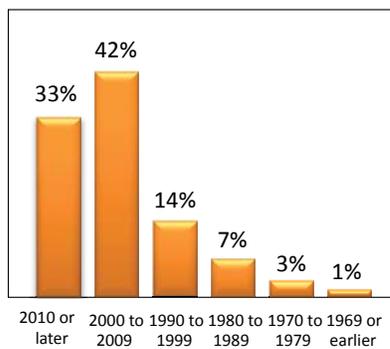
ANCHORAGE, 2011 TO 2013



Source: U.S. Census Bureau, American Community Survey

6 When They Moved In

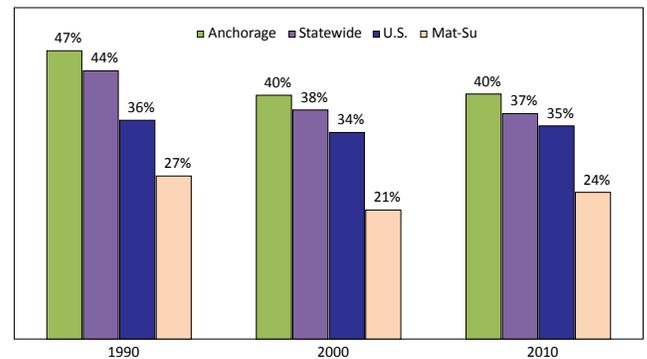
ANCHORAGE, 2011 TO 2013



Source: U.S. Census Bureau, American Community Survey

7 Anchorage Has More Renters

1990, 2000, AND 2010 CENSUSES



Source: U.S. Census Bureau

aged 2.61 people and owner households averaged 2.87. A little more than one in three renter households are a single person, but it's just one in five for owner households.

The most typical household size for renters is single-person (35 percent), for owners it's two-person (37 percent), and regardless of renting or owning, the majority of households comprise no more than two people (57 percent of owner households and 63 percent of renters). Household size distributions in Anchorage generally mirror state and national figures.

Finally, renters tend to be younger, with householders under 35 making up 44 percent of renters but only 15 percent of owners. Anchorage renters are considerably younger than national renters, where only 36

percent are younger than 35. Householders over 65 make up 14 percent of all U.S. renters but only 6 percent in Anchorage. The most common age range for Anchorage renters is 25 to 34, and the most common age range for homeowners is 45 to 54. (See Exhibit 10.)

Rent averages \$1,250 a month

Average rent in Anchorage, including utilities, has increased 48 percent since 2004, rising from \$844 to \$1,250 per month.

Average single-family house rent has increased 58 percent since 2004, from \$1,291 to \$2,043. Apartment rent has risen from \$833 to \$1,221, up 47 percent.

(See Exhibit 11.)

Over the last 10 years, rent in Anchorage has hovered near the top of the spread, with Kodiak and Valdez-Cordova being more expensive, Juneau and Sitka being fairly close, and Mat-Su, Ketchikan, Kenai, and Wrangell-Petersburg being less expensive.

Low vacancy rate

Anchorage vacancies are some of the lowest in the state, ranging from a 10-year high of 8.0 percent in 2007 to a low of 1.8 in 2010. The average vacancy rate from 2004 to 2014 was 4.5 percent, while the survey-wide rate was 6.3 percent. Juneau and Kodiak, two other high-priced rental markets, have similarly low vacancies, at 4.5 percent and 4.4 percent respectively.

Low vacancies are typical of high-cost areas. As renters compete for a finite number of rentals, prices often rise in response to high demand.

Home sales prices have leveled out

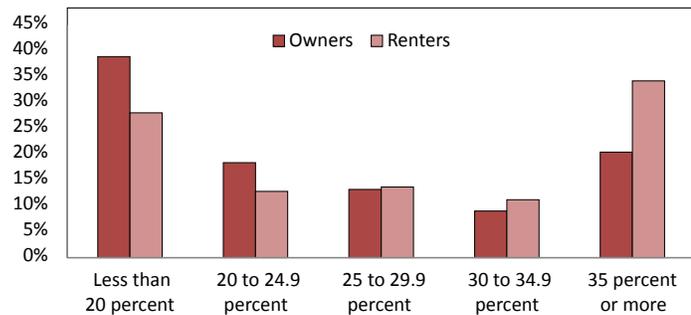
To better understand sales prices over the last two decades, it's useful to inflation-adjust them to control for the changing value of money. Adjusted sales prices peaked across the board in 2006 and have tapered off since.

While prices in Alaska overall and Anchorage both fell, they didn't fall as fast nor as far as the nation as a whole. (See Exhibit 12.) In 2007, U.S. home prices began to fall rather quickly while Alaska's leveled out. Adjusted national single-family home prices fell 24 percent from 2006 to 2013, while Alaska's dipped 5 percent and Anchorage's declined by 6 percent.

Single-family home prices have gone up more in Anchorage, and

8 Renters Spend Bigger Income Share

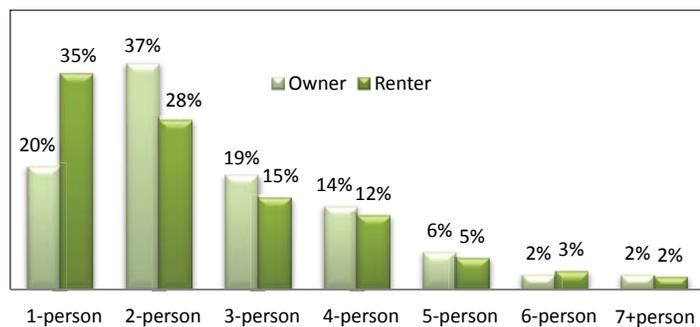
ANCHORAGE, 2011 TO 2013



Source: U.S. Census Bureau, American Community Survey

9 Owner Households Are Larger

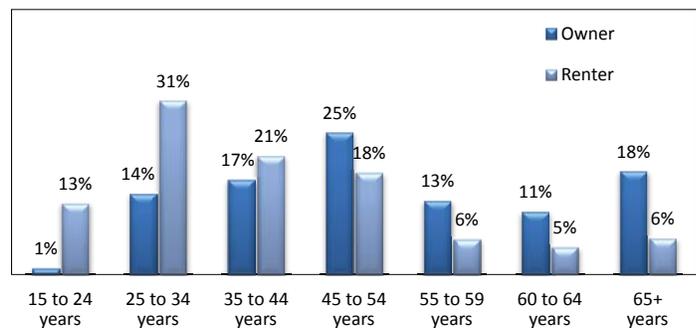
ANCHORAGE, 2011 TO 2013



Source: U.S. Census Bureau, American Community Survey

10 Renters Are Younger

ANCHORAGE, 2011 TO 2013

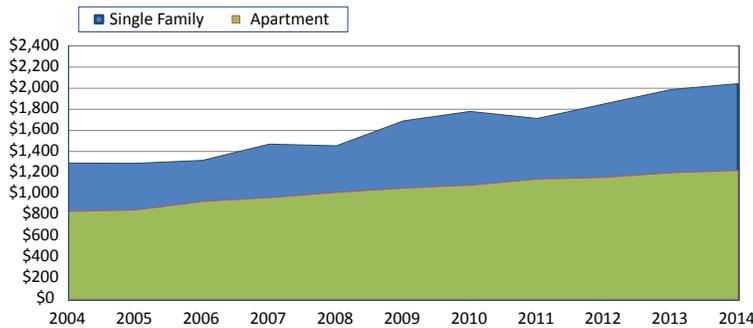


Source: U.S. Census Bureau, American Community Survey

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Rent for Apartments and Houses

ANCHORAGE, 2004 TO 2014



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

statewide, over the last two decades than in the U.S., where 2013 housing prices were only 12 percent higher than they were in 1993, when adjusted for inflation. The adjusted increase was 48 percent in Anchorage and 37 in Alaska.

Affordability

The housing affordability indexes look at the number of average incomes required to afford the average rent or mortgage payment, and take average wages into account as well as housing costs. (See the sidebar that follows for more detail.)

For homebuyers, housing cost incorporates the average sales price and interest rate to approximate a monthly mortgage payment, and for renters it's simply the average rent.

Rental affordability has been more constant than purchasing affordability over the last decade and a half. The largest difference between renting and buying was in 2007, when it required more than three-quarters of an additional income to buy rather than rent. In 2012, the affordability difference in Anchorage was at its lowest level in more than 15 years. (See Exhibit 13.)

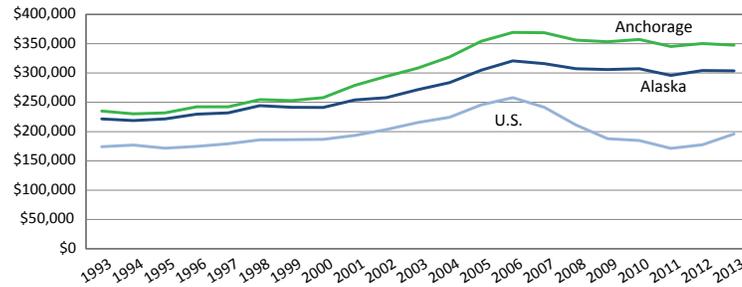
In Alaska overall, the rental affordability index has averaged 1.02 over the last 10 years, meaning a person with the average income in Alaska can afford the average rent. In Anchorage, the 10-year average was 1.0, and the index has been on a gentle rise.

The homeowner affordability index has ranged from a high of 1.72 (2007) to a low of 1.32 (2012) in the last 10 years, averaging 1.52. Values were

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Sales Price of the Average House

SINGLE-FAMILY, ADJUSTED FOR INFLATION, 1993 TO 2013

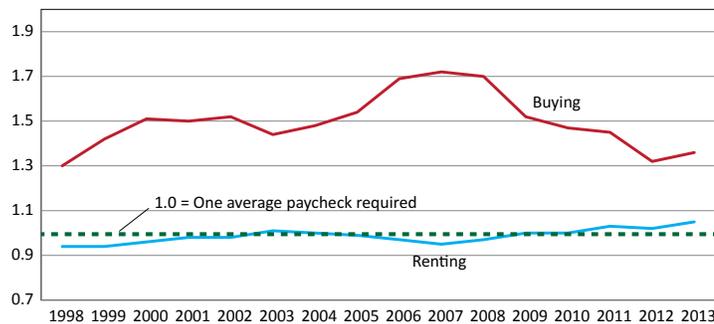


Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and National Association of Realtors

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Affordability of Renting vs. Buying

ANCHORAGE, 1998 TO 2013



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

highest between 2006 and 2008 as interest rates rose temporarily, increasing the cost of purchasing. Generally, interest rates have been on a steady decline, reaching historic lows and pushing the affordability index down. The last two years' level of affordability is unlikely to last, though, as it's been driven by record low interest rates.

Anchorage is a less affordable place to purchase a home compared to the state as a whole, with the Anchorage index generally running 10 points higher.

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How affordability is determined

The Alaska Department of Labor and Workforce Development creates indexes to monitor housing affordability across Alaska. The indexes measure a number of economic factors and how they interact, producing a single value.

The Alaska Affordability Index considers sales prices, loan amounts, income, and interest rates to estimate 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 must bring in a paycheck to afford a typical home.

The Rental Housing Index functions like the homeowner index but uses average contract rent rather than estimating monthly mortgage payments. Contract rent is the amount the landlord charges the tenant, not including utilities that aren't already included in rent.

An index value of 1.0 means exactly one person's income is required to afford a typical home or average rent. An increasing number means additional income is necessary, making housing less affordable. A value of less than 1.0 is more affordable.

The index is intended to monitor housing affordability based only on factors the Department of Labor and Workforce Development measures on a regular basis. However, many other factors affect affordability, and some are unique to households 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

JUNEAU NEIGHBORHOODS

Continued from page 8

pieced. That's the same as Anchorage and Seattle, but considerably higher than the 82 percent rate statewide.

Owner-occupancy varied significantly across the borough, from more than 80 percent in Auke Bay/Lynn Canal to 50 percent downtown. (See Exhibit 4 on page 7.)

Downtown's overall occupancy rate was the lowest at 87 percent, but it's probably higher than the data show because of short-term and seasonal populations.

Housing cheaper downtown and in Lemon Creek

Median monthly housing costs varied by about \$800 across Juneau areas in recent years, with the highest at more than \$1,900 in the Auke Bay/Lynn Canal area and the lowest downtown at around \$1,100.

The major factors here are housing value and size. Home values are highest in Auke Bay, with a median of \$432,200 for owner-occupied units and more than 30 percent worth \$500,000 or more. Values were lowest in the Lemon Creek area at \$230,800. In the middle were downtown at \$321,600, Douglas Island at \$331,200, and the valley at \$281,669. Some areas, such as downtown and Lemon Creek, also have smaller homes on average and more multi-unit buildings and mobile homes than areas like Auke Bay.

Older housing is downtown

Most of Juneau's oldest houses, many from before statehood, are downtown. Housing construction in the Mendenhall Valley took off during the 1970s and 1980s with the expansion of Alaska's economy, and it became Juneau's largest area. Since 1990, most of the new construction has been in the Auke Bay area. (See Exhibit 5 on page 8.)

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