HOUSING:
A STEADY MARKET

Alaska recession slows growth, but market remains healthy

By KARINNE WIEBOLD

Although Alaska’s housing market appears to have slowed somewhat with the state recession, it shows no signs of decline.

Sales prices and rents are stable and foreclosures are down. Fewer new units are being built and sales volume is lower, but that may be helping the market stabilize by reducing supply.

Average price up slightly, sales down

Sales prices for the average single-family house increased by 2.6 percent from 2015 to 2016, from an average of $316,000 to $324,000. (See Exhibit 1.) Alaska is more expensive than the U.S. in general, averaging nearly 40 percent more for a single-family home. In 2016, the average home in the U.S. cost $234,000.

While Alaska prices are essentially holding steady, the number of sales has declined. About 6,500 homes sold in 2016, down 11 percent from 2015.

The nation continues to recover from the past decade’s Great Recession, when house prices tumbled and foreclosures skyrocketed. U.S. inflation-adjusted prices fell 33.5 percent from the peak to the trough while Alaska’s dipped just 7.2 percent. By 2016, Alaska’s prices were within $3,000 of the 2006 high of $327,000 while the U.S. still lagged its 2006 peak by $31,000.

Single-family home prices are steady throughout most of Alaska, with moderate increases in most markets, including Anchorage (3.3 percent), Matanuska-Susitna Borough (3.4 percent), Fairbanks North Star Borough

Alaska’s House Prices Mostly Steady

ALASKA AND U.S., AVERAGE SINGLE-FAMILY HOME, 2016

Note: All values are adjusted to 2016 dollars.
Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section and Alaska Housing Finance Corporation Quarterly Survey of Mortgage Lending Activity; and National Association of Realtors
Values Up Modestly in Most Areas

AVERAGE PRICE OF SINGLE-FAMILY HOME, 2016

Statewide Anchorage Mat-Su Fairbanks North Star Kenai Peninsula Juneau Ketchikan Gateway Kodiak Island Bethel Census Area

$315,602 $371,423 $273,992 $249,088 $256,328 $364,787 $281,764 $314,243 $276,222 $323,909 $383,830 $283,204 $257,654 $269,436 $373,046 $322,754 $303,396 $239,333

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section and Alaska Housing Finance Corporation Quarterly Survey of Mortgage Lending Activity

Interest rates remain low

Interest rates remain at historic lows, hovering between 3.5 and 4.5 percent over the last five-and-a-half years. (See Exhibit 3.)

In 2015, Alaska’s interest rates ranged between 3.75 and 4.0 percent, moving upward in the second half of the year. In 2016, rates trended downward again, settling at 3.57 percent in the fourth quarter.

Interest rates are another example of how the national recession affected Alaska’s housing market, this time in a positive way.

Mortgage interest rates are determined by a variety of factors, but are heavily influenced by the Federal Reserve lending rate (called the federal funds rate), which has been kept low since late 2008 to stimulate the national economy through inexpensive borrowing.
4 Affordability Steady in Recent Years

PAYCHECKS NEEDED TO AFFORD AVERAGE ALASKA HOME, 2000 TO 2016

After keeping the federal funds rate near zero for seven years, the Federal Reserve increased it by a quarter of a percent in December 2015, again in December 2016, and most recently in March 2017. Additional rate increases are likely as the national economy strengthens.

Increases in the federal funds rate will mean higher mortgage interest rates and will increase the cost of purchasing a home. For example, when interest rates rise from 3.5 percent to 4.5 percent on a home loan of $300,000, the total interest paid will increase by $62,000 over the 30-year life of the loan.

Mixed local affordability changes

Affordability, measured by the number of average paychecks required to afford the average single-family home, is determined by area’s wages, sales prices, and interest rates.

Statewide, affordability held steady from 2015 to 2016, at just under one-and-a-quarter average paychecks required to afford the typical home. (See Exhibit 4.) Wages were essentially flat over that period, and declining interest rates offset the moderate increase in sales prices.

At the local level, buying became more affordable in Fairbanks, Juneau, and Kodiak and less affordable in Anchorage, Mat-Su, Kenai, and Ketchikan, although changes were slight for Anchorage and Mat-Su. Kenai’s drop in affordability was due to a slight decrease in average wages coupled with an increase in sales prices.
Fewer New Homes Built in 2016

NEW RESIDENTIAL UNITS, ALASKA, 1993 TO 2016

In Ketchikan, wages increased, but sales prices increased more.

Average rent plus utilities is $1,238

Rents have also plateaued in recent years. Statewide, rents increased just seven-tenths of a percent in 2016, or $9, bringing the average rent for all unit types to $1,238, including utilities. (See Exhibit 5.) The survey-wide vacancy rate in 2016 was 5.8 percent, down nine-tenths of a percentage point from 2015 but equal to the 10-year average.

Rents went up faster in some areas, such as the Kenai Peninsula Borough (7 percent), Valdez-Cordova Census Area (6 percent), and Ketchikan (4 percent). Anchorage, Kodiak, and Mat-Su rents each increased by less than 1 percent. Fairbanks was the only surveyed area whose rent fell, dropping 1 percent to $1,199.

Changes in rents and vacancies affect about 92,000 households in Alaska, or about a third of the state. Unlike home ownership, where monthly mortgage payments are established at purchase and remain fixed, rents are flexible and can move up or down in response to changing market conditions such as changes in a community’s population, jobs, wages, or the for-sale housing market. Though renters aren’t insulated from price changes in the same way as homeowners, they can more easily change their housing costs by moving.

New residential construction slows

New housing construction was tepid at best in 2016. The 2,100 new housing units built across the state represented a 12.5 percent decline from the year before. (See Exhibit 6.) While housing construction was slow in 2016, it was on par with 2013 and slightly higher than 2010 and 2012.

While a long way from the boom years of the early-to-
mid-2000s, slow growth in new housing may help the market weather the state recession because Alaska will be more likely to avoid a housing glut that could have resulted from the combination of job and population loss.

Financing for larger developments as well as individual homes dried up considerably in the aftermath of the national recession and housing crisis, which precipitated Alaska’s initial reduction in housing construction. Although Alaska didn’t suffer the job losses, increased foreclosures, and drops in value that marked most of the U.S., the state was still hit by the resulting lending contraction.

After Alaska’s new units hit a recent high of 2,700 in 2014, the declines in 2015 and 2016 were likely due to Alaska developers’ caution as oil prices plummeted and the state braced for the economic aftershocks.

Anchorage’s new units declined most, from 850 in 2015 to 423 in 2016. The reduction was most dramatic for multi-family construction, although new single-family construction also dropped significantly.

New units in the Fairbanks North Star Borough fell from 250 to 177, with losses in both single- and multi-family units.

The Mat-Su Borough added 929 housing units in 2016, essentially level with the year before.

Juneau was one of the few areas to build more housing in 2016 than the year before, adding 241 new units to its inventory after building just 96 in 2015. Single-family new units were on par with the prior year, but multi-family units were up considerably and included several projects for special needs populations.

### Fewer and fewer foreclosures

Alaska foreclosure rates have been on a downward trajectory since 2010 despite the state recession. This is due to low interest rates, which make refinancing an appealing way to lower housing costs, and to a stable sales market, which gives homeowners an alternative to foreclosure.

At the end of 2016, Alaska’s foreclosure rate was 0.60 percent, well below the national rate of 1.53 percent. (See Exhibit 7.)

The nation weathered foreclosure rates three to four times higher than Alaska’s during its foreclosure crisis from 2009 to 2012, which was precipitated by an overheated housing market, rapidly increasing sales prices, speculative building, and reckless lending practices.

Alaska’s 1980s recession brought even higher foreclosure rates. Thousands of Alaskans lost or left their homes as real estate values tanked, and foreclosures peaked at 10.57 percent in the third quarter of 1989 — more than 10 times the national average at the time. Unemployed property owners who could no longer make payments and owners unable to sell for what they owed foreclosed at alarming rates.

Although we can’t predict how the state’s housing market will react as the Alaska recession continues, the current state market is unlike the 1980s in several important ways, including less of a pre-recession building boom, less dramatic job losses, lower interest rates, and a more stable and embedded population.

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