

# Alaska Housing Market Indicators

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Spring 2009

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**Prepared for**

Alaska Housing Finance Corporation  
Dan Fauske  
Chief Executive Officer/Executive Director

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**Prepared by**

Alaska Department of Labor and Workforce Development  
Research and Analysis Section

Sean Parnell, Governor  
Commissioner Click Bishop  
Brynn Keith, Research and Analysis Chief

Jeff Hadland, Economist  
Caroline Schultz, Economist

## Acknowledgment

We wish to thank the primary and secondary mortgage lenders listed below for responding to our quarterly survey of mortgage loan activity and for their willingness to continue to participate in future surveys:

- Alaska Home Mortgage
- Alaska Housing Finance Corporation
- Alaska Pacific Bank
- Alaska USA Federal Credit Union
- AUMC Mortgage Company
- Denali State Bank
- Federal National Mortgage Association (Fannie Mae)
- First Bank of Ketchikan
- First National Bank of Alaska
- GMAC
- Homestate Mortgage
- Mt. McKinley Mutual Savings Bank
- Residential Mortgage
- Rural Development (formerly USDA Farmers Home Administration)
- Tlingit-Haida Regional Housing Authority
- Vista Mortgage
- Wells Fargo Home Mortgage

This list includes the major government and private providers of mortgage funds in Alaska, as well as the names of subsidiary companies for which data have been reported by the parent company. Some of the participants are *primary* mortgage lenders. That means they originate loans to keep in their own portfolios or sell them to participants in the secondary mortgage market. Institutions such as Alaska Housing Finance Corporation and Federal National Mortgage Association (Fannie Mae) operate in the *secondary* mortgage market, purchasing mortgages originated by primary lenders.

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# Alaska Housing Market Scorecard

First and second quarters, 2009

## Mortgage Interest Rates

30-Year Fixed  
**4.2%**



The average interest rate fell 162 basis points from the first half of 2008. The rate continues to be lower than the 10-year average of 6.0.

## Number of Loans

Single-Family and  
Condominium  
**3,661**



The reported number of single-family and condominium loans fell 21.6 percent year-over-year and is at its lowest level since the first half of 2000.

## Sales Price Appreciation

Single-Family Homes  
**1.1%**



The average sales price for single-family homes rose slightly in the first half of 2009 compared to a year ago.

## Alaska Affordability Index

Single-Family Homes  
**1.28**



The index fell from the first half of 2008's value of 1.56 to its lowest value since 1993.



The score for the current quarter is based on the ratio of the current value to the historical value for the data set.

## Alaska Quarterly Survey of Mortgage Lending Activity

The Alaska Quarterly Survey of Mortgage Lending Activity summarizes total loan activity reported by participating lenders. These lenders include the major government and private providers of mortgage funds in Alaska, as well as subsidiary companies for which the parent company reported data. Changes in loan activity over time may be affected not only by changes in the market but also by changes in the list of lenders participating.

Some of the participants in the survey are *primary* mortgage lenders. Primary mortgage lenders originate loans to keep in their own portfolios or sell them to participants in the secondary mortgage market. Institutions such as Alaska Housing Finance Corporation and Federal National Mortgage Association (Fannie Mae) operate in the *secondary* mortgage market, purchasing mortgages originated by primary lenders. Secondary mortgage activity is an important source of liquidity for primary mortgage lending.

Although primary lenders and secondary purchasers differ, both provide financing for Alaskans to purchase housing. For the purposes of this report, maintaining the distinction is not particularly important. Therefore, references to "lenders" include both primary lenders and some secondary purchasers. Unless the difference is critical to the discussion, no distinctions are made.

### **Overall Total Loan Activity**

Total lending activity fell statewide in the first half of 2009 compared to one year earlier. This includes the number, loan dollar volume, and sales volume of loans.

The average sales price for both single-family homes and condos rose slightly, while the average price of a multi-family unit fell. The average loan-to-value (LTV) ratio increased 0.8 percentage points over the year, as increases in the average sales prices of single-family homes and condos failed to keep up with the growth in average loan amounts.

Statewide wage increases were greater than the inflation rate – 4.2 percent wage growth versus a 1.2 percent increase in Anchorage's Consumer Price Index (CPI). The average mortgage interest rate decreased over the year, falling from 5.85 percent to a record low of 4.22 percent. Affordability increased slightly during the first half of 2009, rising from historically low levels to historically high levels in half of a year.

- Statewide, in the first half of 2009, the average sales price for all surveyed building types combined fell 2.1 percent year-over-year to \$266,178. Although the average price of condominium and single-family homes rose slightly, a dramatic drop in the prices of multi-family buildings drove the average price down for all building types.

- The Ketchikan Gateway Borough had the state's highest average sales price in the first half of 2009 at \$471,217—up 120.1 percent over the first half of 2008 and the only locale with an average price over \$300,000. The high price can be attributed to multi-family sales. The Kodiak Island Borough was second at \$288,915, which is 20.9 percent higher than the first half of 2008, when Kodiak was the 4th most expensive area.
- The state's lowest average sales price was in the Kenai Peninsula Borough in the first half of 2009. The average there was \$225,045. The Fairbanks North Star Borough had the second-lowest average at \$227,630.
- Average sales prices increased in four of the eight surveyed areas. Prices in Ketchikan Gateway Borough grew 120.1 percent over the year, which was the largest percent increase. After Ketchikan, the Kodiak Island Borough had the next highest rate, increasing 20.9 percent. Kenai Peninsula Borough and Fairbanks North Star Borough average prices increased 2.4 and 1.5 percent respectively.
- Prices in the Anchorage Municipality fell 5.1 percent, which was the biggest drop in all areas. Average prices also fell in Matanuska-Susitna Borough, Juneau Borough and Bethel Census Area.
- The total loan dollar volume for all building types combined statewide fell 18.1 percent, or \$191.4 million, to \$870 billion in the first half of 2009. The average loan amount, based on a total of 2,014 loans, increased 1.1 percent to \$233,129. This increase occurred because the number of loans fell by a greater percentage (17.2 percent) than the total loan dollar volume.
- The average LTV ratio for all building types combined statewide was 87.6 percent, up from 86.6 percent in the first half of 2008. As a percentage, buyers are putting down smaller down payments in four of the eight surveyed areas than they were in the previous year.
- Ketchikan Gateway Borough had the largest change in its average LTV ratio, increasing 35.0 percentage points from 85.6 percent in the first half of 2008 to 50.7 percent one year later. This change is a result of larger-than-usual down-payments on multi-family buildings.
- Over half—58.7 percent—of the state's loan dollar volume occurred in the Municipality of Anchorage. The Matanuska-Susitna Borough had the second largest piece of the lending pie at 15.1 percent. Meanwhile, 9.8 percent of loans were in the Fairbanks North Star Borough. Together, these areas had 83.6 percent of lending activity in the first half of 2009, which are also home to two-thirds of the state's population.

### **Single-Family Homes**

- Four out of every five loans in the first half of 2009 were for single-family properties – 3,001 out of 3,718. This share is slightly higher than the 78.8 percent figure for the comparable period one year earlier. Overall, the number of

single-family loans dropped 15.2 percent from the first half of 2008 level of 3,541.

- Statewide, in the first half of 2009, the average sales price for single-family homes increased 1.1 percent year-over-year to \$275,433.
- The state's highest average sales price for single-family homes was found in the Municipality of Anchorage at \$316,168. This figure is only 0.1 percent higher than the \$315,847 average price from the first half of 2008. The Juneau Borough was second most expensive at \$296,696, which was 0.1 percent lower than the year-earlier level of \$297,064.
- The Kenai Peninsula Borough had the state's least expensive single-family homes in the first half of 2009 with an average of \$221,755, which was 1.6 percent higher than one year earlier. The Fairbanks North Star Borough was next at \$231,125, which was 1.6 percent higher than the previous year.
- The largest growth in sales price was in the Kodiak Island Borough, which rose 17.7 percent in the first half of 2009 to reach \$288,632. Ketchikan Gateway Borough was next with a 16.5 percent increase in price.
- The Mat-Su Borough saw the largest decline in average sales price. The average price fell 2.1 percent, or \$5,043, to \$235,572 in the first half of 2009.
- The total dollar volume of single-family home loans statewide fell 13.3 percent, or \$111.6 million, to \$728.2 million in the first half of 2009. The average loan amount, however, increased 2.3 percent to \$242,662.
- The average LTV ratio for single-family homes statewide was 88.1 percent, up from 87.0 percent in the first half of 2008. Three areas of the state saw their respective ratio increase. Fairbanks North Star Borough and Bethel Census Area had the highest LTV ratios, 91.4 and 91.3 percent, respectively.
- Loan-to-value ratios increase when the average loan amount for an area grows more (or contracts less) than its corresponding average sales price. The Ketchikan Gateway Borough's LTV ratio fell 6.5 percentage points—the biggest jump in the state.
- The Municipality of Anchorage was home to over half of statewide single-family loan activity with 53.8 percent of the loan dollar volume in the state. An additional 17.0 percent of loan volume was from the Mat-Su Borough, and the Fairbanks North Star Borough was next with 11.2 percent.

### **Condominiums**

- Statewide, condominium loan activity fell 27.7 percent, dropping from 913 loans in the first half of 2008 to 660 in the first half of 2009. The Anchorage Municipality dominated condominium sales with 89.8 percent of the state's total loan volume.
- The statewide average sales price of condominiums increased 5.4 percent to \$202,524.

- The Kenai Peninsula Borough was home to the highest average condominium sales price in the first half of 2009 at \$216,024. (Note: No condominium sales were reported in the Ketchikan Gateway Borough, Kodiak Island Borough or Bethel Census Area.) This figure is 28.4 percent higher than the year-earlier value of \$168,214.
- The average condo price in Fairbanks North Star borough fell 26.8 percent to \$113,169 in the first half of 2009, making Fairbanks condos the least expensive in the state. Condo prices also fell in the Mat-Su Borough, where they dropped 17.1 percent to \$161,046.
- The total dollar volume of condominium loans statewide fell 24.4 percent, or \$38.4 million, to \$119.0 million in the first half of 2009. The average loan amount, however, increased 4.6 percent to \$180,375.
- The average LTV ratio for condominiums statewide was 89.1 percent, down from 89.7 percent in the first half of 2008. Three areas saw their respective average LTV ratios fall over the year. The average LTV in the Anchorage Municipality fell slightly from 90.1 percent to 89.5 percent, while the comparable figure in the Fairbanks North Star Borough jumped from 76.8 percent to 88.9 percent – although the Anchorage LTV ratio remained the highest value in the state.
- Condo buyers in the Juneau Borough were putting down the largest down-payments. The LTV ratio in Juneau in the first half of 2009 was 83.3, down from 90.5 in the first half of 2008, the lowest in the State.

### **Multi-Family Activity**

- Statewide, multi-family loan activity increased 54.1 percent, jumping from 37 loans in the first half of 2008 to 57 loans in the first half of 2009. The number of units financed fell, however, from 962 units to 301 units, or 68.7 percent.
- The statewide average sales price of multi-family properties fell 76.4 percent to \$515,942, and the average price per unit fell 68.7 percent to \$97,703.
- Unlike the trends seen in single-family homes and condominiums, the average LTV for multi-family properties fell in the first half of 2009, from 75.4 percent to 66.3 percent.

### **Mortgage Interest Rates**

- The weighted average interest rate for 30-year conventional fixed rate mortgages in the first half of 2009 was 4.20 percent, down from 5.84 percent in the first half of 2008.
- AHFC offered loan products with higher interest rates compared to other lenders. AHFC's average interest rate for 30-year conventional fixed rate mortgages was 6.01 percent; all other lenders collectively averaged 4.16 percent.
- Interest rates for loan products in the AHFC urban portfolio had higher interest rates, on average, compared to those in the rural portfolio in the first half of

2009. The average AHFC urban interest rate was 6.06 percent, while the average AHFC rural interest rate was 5.94 percent.

- The Federal Reserve cut interest rates most recently for the seventh time in 2008 on December 16<sup>th</sup>, lowering the federal funds rate between 75 and 100 basis points to between 0.00 and 0.25 percent. Between the second half of 2007 and the end of 2008, the Federal Open Market Committee cut rates 475 basis points.
- Nationally, interest rates averaged 5.09 percent during the first half of 2009, down from 6.08 percent one year earlier.

### **New vs. Existing Construction**

In the Quarterly Survey of Mortgage Lending Activity, *new construction* is any residential housing constructed within 12 months of the survey date. Any loans that do not fit into the new construction category are classified as *existing construction*.

#### *New Construction*

- Statewide, loan dollar volume of new construction fell \$58.3 million, or 37.2 percent, from one year earlier to \$98.6 million. Total sales fell 34.6 percent to \$123.7 million. The average sales price rose 6.1 percent to \$310,923.
- Of the total statewide dollar volume of loans, 10.7 percent went toward new construction during the first half of 2009. The Matanuska-Susitna Borough's comparable rate was more than double the statewide rate at 23.2 percent.
- For all building types combined, the statewide average sales price for new construction was 19.2 percent higher than existing construction during the first half of 2009.
- The average sales price for new construction and the corresponding percent increase in price were highest in the Ketchikan Gateway Borough: an increase of 386.5 percent to \$1,521,250. The Municipality of Anchorage was the next highest in both categories with an average price of \$361,133, an 8.3 percent increase over its first half of 2008 value.
- The state's least expensive new construction was found in the Fairbanks North Star Borough in the first half of 2009, where the average price was \$252,743. There were no new construction loans in the Bethel Census Area in the first half of 2009. The area typically has very few new construction loans. The Mat-Su Borough had the second lowest average price for new construction at \$256,526.
- Although more loans for new construction were originated in the Municipality of Anchorage than the Matanuska-Susitna Borough during the first half of 2009, the Mat-Su still has a disproportionately large percentage of these loans in comparison. Anchorage has over three times the population of Mat-Su (284,994 versus 82,515, 2008 estimates), but only had 1 more new home loan (145 versus 144).

- Overall, the statewide LTV ratio for new construction was 79.8 percent in the first half of 2009, compared to 82.9 percent in the first half of 2008.

### *Existing Construction*

- Statewide, loan dollar volume of existing construction fell \$133.1 million, or 14.8 percent, from one year earlier to \$768.2 million. Total sales fell 16.1 percent to \$865.9 million; however, the average sales price rose 2.8 percent to \$260,814.
- The number of existing construction loans decreased 13.7 percent to 3,320 in the first half of 2009.
- The number of loans originated for existing construction fell in seven of the eight surveyed areas. The largest percentage decrease occurred in the Ketchikan Gateway Borough, where the number of loans fell 52.5 percent from 40 to 19.
- The Kodiak Island Borough was the only area where the number of existing construction loans didn't fall. There were 60 loans originated in the first half of 2009, up from 47 from a year earlier.
- All of the surveyed areas had an average sales price for existing construction homes over \$200,000. The state's lowest average was found in the Kenai Peninsula Borough at \$214,683, a 6.5 percent increase over the first half of 2008.
- The Kodiak Island Borough had the largest percent increase in the average sales price for existing construction. The average price there increased 25.6 percent to \$284,475. On the opposite end of the spectrum, the comparable figure in the Anchorage Municipality fell 6.0 percent to \$281,091. Anchorage fell from the most expensive area for existing construction to the third most expensive between the first halves of 2008 and 2009.
- Average LTV ratios for existing construction fell in all areas but two – the Anchorage Municipality and Mat-Su Borough. Their LTV ratios, (88.6 and 90.3 percent respectively) are still higher than the statewide average of 88.7 percent.
- The Bethel Census Area was joined by Fairbanks North Star Borough for the highest average LTV ratio for existing construction in the first half of 2009 at 91.3 percent.

### **Employment and Wages**

- The average monthly non-seasonally adjusted unemployment rate in Alaska was 8.7 percent in the first half of 2009, an increase from 6.9 percent unemployment in the first half of 2008.
- The average monthly non-seasonally adjusted labor force in Alaska was 355,936 in the first half of 2009. This value is 0.9 percent over the comparable number in 2008 – 352,655.
- Statewide, the average monthly wage rose 4.2 percent from \$3,724 to \$3,879 in the first half of 2009.

- The North Slope Borough remained home to the state's highest average monthly wage at \$7,185, a 3.6 percent year-over-year increase. The Southeast Fairbanks Census Area remained second, a position it has held since the second half of 2005, with an average monthly wage of \$5,053.
- The state's lowest average wage remained in the Wade Hampton Census Area. The average monthly wage there was \$1,814. The Petersburg Census Area was second lowest at \$2,431, followed by the Aleutians East Borough at \$2,479.
- Only one borough had a wage increase of at least 10 percent since the first half of 2008. The average monthly wage in the Bristol Bay Borough jumped 17.5 percent to \$4,116. The area with the next highest growth was the Denali Borough, where wages increased 9.5 percent to \$4,767.
- Four boroughs and census areas saw their average wages decrease over the year in the first half of 2009: Skagway Borough (-13.8 percent), Aleutians West Census Area (-4.1 percent), Yukon-Koyukuk Census Area (-3.9 percent), and Lake and Peninsula Borough (-3.6 percent).
- The Municipality of Anchorage, which reported the highest average sales price for single-family homes in the first half of 2009, had an average monthly wage of \$4,087, 5.4 percent higher than the statewide average. Meanwhile, with the second-highest average sales price, the Juneau Borough had an average wage of \$3,542, 8.7 percent lower than the statewide average.
- The Kenai Peninsula Borough had the state's least expensive single-family homes in the first half of 2009. The average monthly wage there during the same timeframe was \$3,322, which was 14.4 percent lower than the statewide average.

### **Alaska Affordability**

The Alaska Affordability Index is a measure of the number of wage earners necessary to afford an average home. The index value indicates the number of earners per residence receiving the average wage that are necessary to qualify for a 30-year single-family home mortgage at the average interest rate with a 15 percent down payment. An increase in this index means that a family is less able to afford a home.

- Statewide, housing affordability increased dramatically in the first half of 2009 compared to one year earlier. A 4.2 percent increase in wages and a 162-basis point reduction in the weighted average interest rate contributed to the drop in the Alaska Affordability Index, from 1.56 to 1.28.
- Housing affordability is at a record high, according to this index. The first half of 2009's index score is the lowest since the second half of 1993. This reflects a dramatic turnaround in recent trends of the index, which had been registering record highs as recently as in the previous two quarters.
- Although the Bethel Census Area traditionally is the least affordable surveyed area, the Kodiak Island Borough surpassed it in the first half of 2009. The index score was 1.66 in the first half of 2009 in Kodiak, down from 1.84 a year ago.

- The Bethel Census Area had the second highest index value at 1.56, down considerably from 2.07 in the first half of 2008. The Juneau Borough was next at 1.48 (down from 1.87), followed by the Mat-Su Borough at 1.45 (down from 1.82).
- The Kenai Peninsula Borough had the state's lowest Alaska Affordability Index value in the first half of 2009 at 1.15, down from 1.41 in the first half of 2008. Fairbanks North Star Borough was the second most affordable in the first half of 2009, with an index value of 1.19, down from 1.47 a year ago.
- The Alaska Affordability Index in the Municipality of Anchorage fell in the first half of 2009 from 1.68 to 1.39. Wages rose faster than the payment necessary to purchase the average single-family home. The Municipality of Anchorage had the some of the highest average wages in the state, which serves as a counterbalance against higher-than-average loan amounts.
- Single-family housing was most affordable for Matanuska-Susitna Borough residents who work in the Municipality of Anchorage. The index value for a Mat-Su household with employment in the municipality was 1.06 in the first half of 2009, down from 1.32 one year ago. The average wage is 27.1 percent higher in Anchorage compared to Mat-Su, while the average loan amount on a single-family home in Mat-Su is 30.8 percent lower than Anchorage.
- The gap between single-family and condominium affordability narrowed in the second half of 2009 compared to the previous year. One year ago, the average condominium required 1.14 wage earners to qualify for a 30-year mortgage. In the first half of 2009, this figure fell to 0.95.

### **National Affordability**

The National Affordability Index is compiled by the National Association of Realtors and is interpreted differently than the Alaska Affordability Index. A value of 100 means that a family earning the median income has exactly enough income to qualify for a mortgage on a median-priced home, assuming a 20 percent down payment. A decrease in this index means that a family is less able to afford a home.

- Nationally, housing affordability improved markedly during the first half of 2009 as the index value increased from 128.9 to 171.8. This increase was driven by a 15.2 percent drop in the median sales price of single-family homes and a 99-basis point decrease in the average interest rate.
- The National Affordability Index is still at its highest level since the first half of 1995, the earliest date of this particular index.
- Since July 2008, national affordability has been climbing rapidly. The April 2009 index value of 178.8 is the highest monthly score since 1995, which was when the index was first calculated. Falling home prices in many areas and low interest rates are likely the reason for this high affordability. If the recession continues to put downward pressure on wages, however, affordability may again begin to decline.