Why home prices haven't dropped during recession

Range of factors likely keeping market stable, rising in some areas

By **ROB KREIGER**

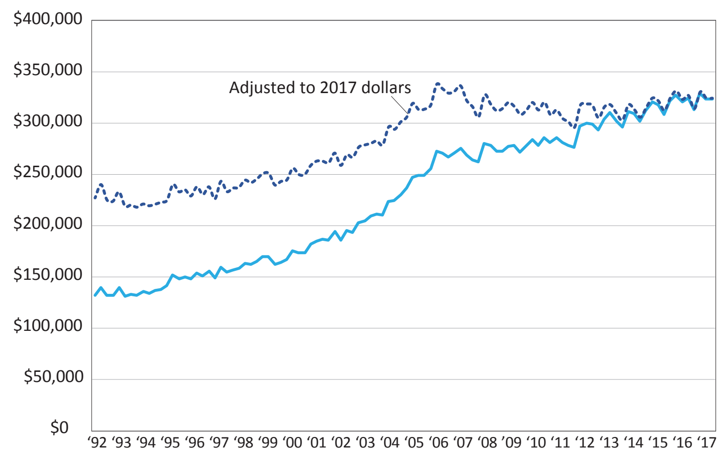
Since Alaska entered a recession in late 2015, prices for single-family homes have remained relatively stable overall and have even continued rising in more populated areas.

That the economic downturn hasn't dragged down the housing market may seem counterintuitive, raising questions about why prices haven't dropped and if they still could. But average sales prices for single-family homes didn't move much in the years right before the recession, either. This suggests the housing market will weather the downturn relatively unscathed. (See exhibits 1 and 2.)

Alaska's steady home values are likely due to migration patterns, controlled building, low interest rates, measured selling and buying, and the fact that a portion of the recession-related job loss has been among nonresidents who don't own homes in Alaska. Unless these variables change significantly, the market will likely remain stable in the near future.

1 Average Price for Single-Family House

Alaska, by quarter, 1992 to 2017



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

Measured net migration losses

Last year was the fifth consecutive year of negative net migration for Alaska, meaning more people left the state than moved in. No period of negative net migration has lasted this long since World War II.

However, the loss has been much more measured than during the 1980s recession, when people fled the state en masse and the housing market crashed. (See Exhibit 1 in the population article on page 9 for a look at Alaska's population trends by major economic event.)

At this point, nothing suggests we're setting up for a repeat of the '80s. In fact, several factors appear to be mitigating the current outflow.

Displaced resident workers have largely been able to find more work in the state. An analysis of resident workers who earned a majority of their 2015 wages in oil and gas, the industry with the deepest job losses, showed 84 percent are still in Alaska and still working, and of those, just over 60 percent are still in oil and gas. Just 7 percent had left Alaska by 2017. A majority of displaced workers from construction and state government, the hardest-hit industries after oil and gas, are also still working in the state. (See Exhibit 3.)

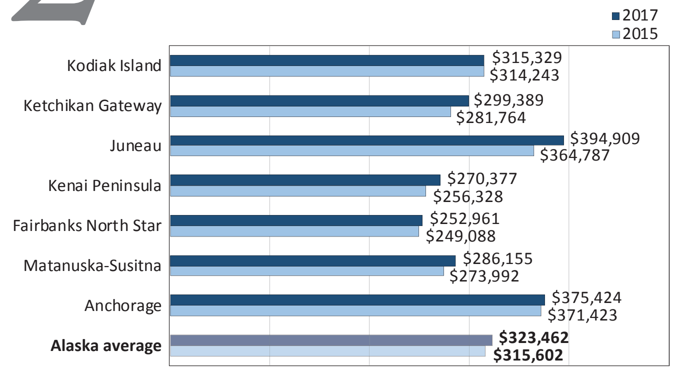
It appears the worst of the job loss has already happened. The biggest declines were in 2016, when employment was down as much as 2.5 percent from year-ago levels. Since then, the losses have slowed and have been well below 1 percent in 2018.

Another major reason people aren't fleeing is the population is older than in past decades and people have deeper roots in the state. Seniors are far less likely to move than younger age groups. Again, for historical context, Alaska's population was much younger decades ago and, on average, had shallower connections to Alaska. Many moved here to participate in the oil boom and then quickly left when the economy turned. (See Exhibit 4.) That's in contrast to the last few years of slow net migration losses, which weren't preceded by a big surge in in-migration.

The senior population is larger than it's ever been and growing rapidly, although seniors remain a smaller percentage of the population in Alaska than nationwide. (See the population projections overview on page 9 for more on the aging trend.) Alaska's senior population is largely those who have aged into the group rather than moved to Alaska in their later years.

2 Prices Up Since 2015

Average house price, 2015 and 2017



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

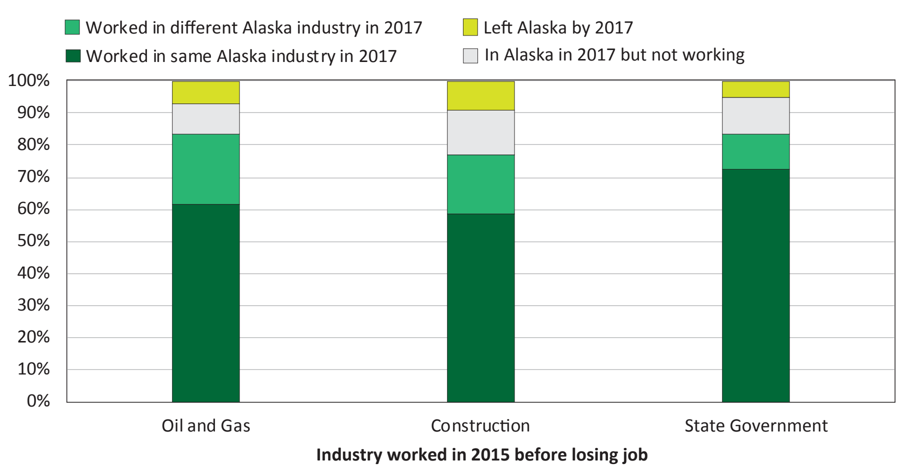
Nonresident job losses unlikely to affect home values

Thousands of people come to Alaska every year to work while keeping their primary residence elsewhere, and industries such as seafood processing and those tied to tourism couldn't function at their current scale without nonresidents. The nonresident numbers and percentages vary by industry, but the overall rate has hovered around 20 percent in recent years.

Oil and gas extraction and oilfield services, which have shed the most jobs during this recession, have nonresi-

3 Most Who Lost Jobs Found Work in Alaska

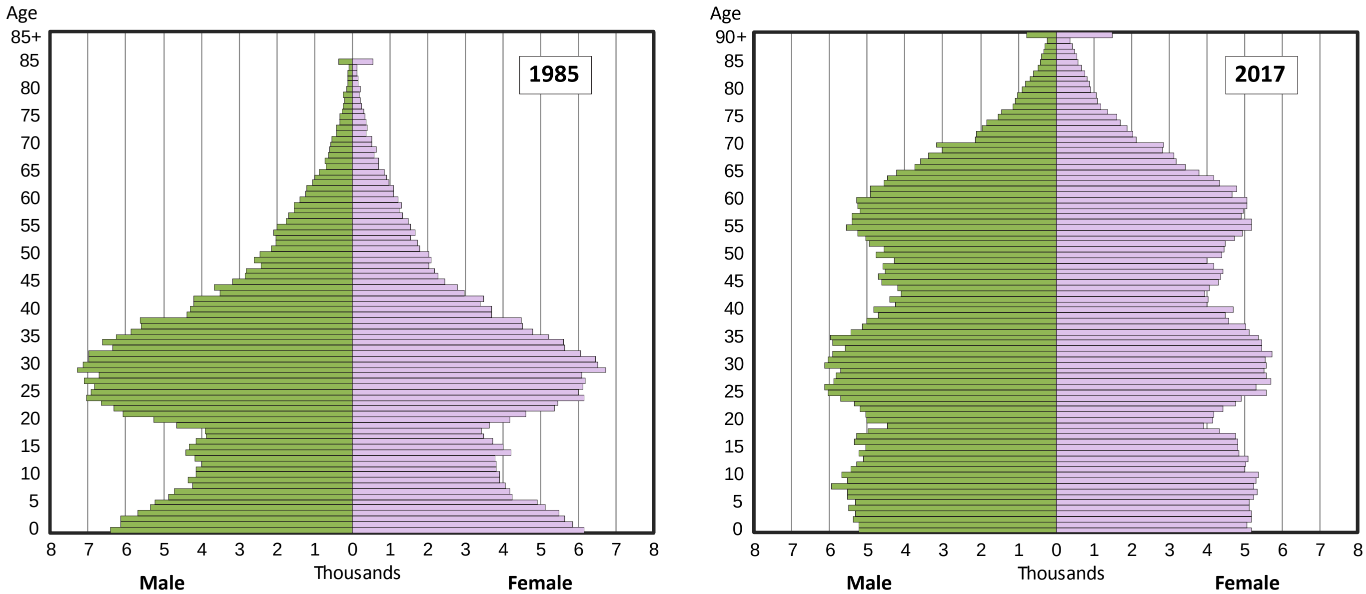
Industries hardest-hit by state recession, 2015 and 2017



Note: Resident workers only
Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

4 State Now Has an Older and More Rooted Population

ALASKA, 1985 AND 2017



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

5 Nonresident Workers and Wages

BY INDUSTRY, 2015

Industry	Percent nonresident	Percent Nonres wages
Agriculture, Forestry, Fishing, and Hunting	54.0%	50.2%
Mining	35.5%	33.3%
Oil and Gas Extraction	29.5%	27.8%
Oilfield Services*	38.8%	38.4%
Utilities	5.1%	3.3%
Construction	22.1%	16.3%
Manufacturing	63.2%	45.7%
Seafood Processing	73.6%	64.6%
Wholesale Trade	9.7%	6.4%
Retail Trade	16.5%	8.8%
Transportation and Warehousing	26.3%	23.6%
Information	10.1%	6.9%
Finance and Insurance	8.2%	4.2%
Real Estate and Rental and Leasing	11.8%	7.7%
Professional, Scientific and Technical Services	24.0%	22.2%
Management of Companies and Enterprises	20.0%	14.9%
Admin Support/Waste Mgmt and Remediation	23.9%	18.6%
Educational Services	22.6%	10.8%
Health Care and Social Assistance	10.7%	8.2%
Arts, Entertainment and Recreation	32.6%	23.9%
Accommodation and Food Services	31.6%	21.8%
Accommodation	47.3%	32.4%
Food Services and Drinking Places	24.9%	16.8%
Other Services	14.5%	9.5%
Local Government	7.1%	4.1%
State Government	6.9%	3.6%
Alaska average	**21.3%**	**16.0%**

*Includes support activities for oil and gas drilling and related operations.

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

dent hire rates well above the state average at 29.5 percent and 38.8 percent, respectively. (See Exhibit 5.) This suggests a significant number of people who lost their jobs in Alaska didn't own homes here, which wouldn't affect home sales.

No signs of overheated residential building

When the national housing market collapsed in the mid-to-late 2000s, Alaska was largely shielded. The state had tighter lending practices and lacked frenzied real estate speculation in the form of buying and selling properties for short-term profit ("flipping") and overheated development based on overestimated demand.

Although Alaska's average sales prices and building activity did rise in the years that preceded the U.S. crash, the increase was subdued and likely driven by declining interest rates, which allowed more buyers to enter the market.

Alaska's building and sales price data show no signs of impending market calamity. The lack of warning signs such as short-term spikes in prices and building activity make a sudden downward shift increasingly unlikely. (See Exhibit 6.)

Low interest rates boost affordability

Low interest rates have helped keep sales prices steady during the recession despite no real wage growth and lower sales volume. Rates have held around 4 percent for the last five years (see Exhibit 7), keeping housing around its most affordable levels since 1993.

The Alaska Housing Affordability Index, shown in Exhibit 8, identifies how many people, earning average wages, would be required to afford a 30-year mortgage on an area's average home at current interest rates. An index value of 1.0 means exactly one average earner could afford the average mortgage, and decreasing index values mean housing is becoming more affordable.

Overall, housing has become considerably more affordable since the late 2000s, a trend that will change as interest rates climb.

Foreclosures remain low

Affordability is closely related to the number of

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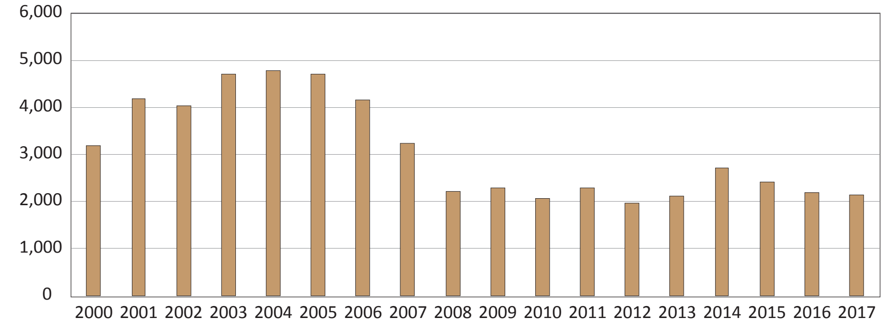
No Recent Run-Up in New Housing Units

Alaska, 2000 to 2017



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

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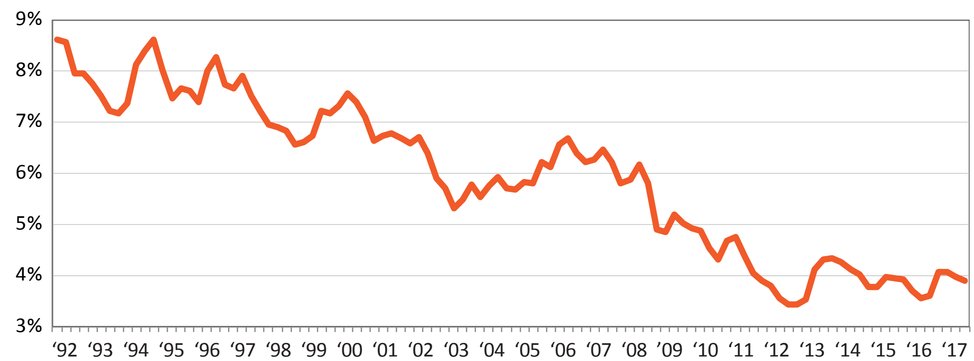
Interest Rates Remain Historically Low

First quarter 1992 to fourth quarter 2017



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

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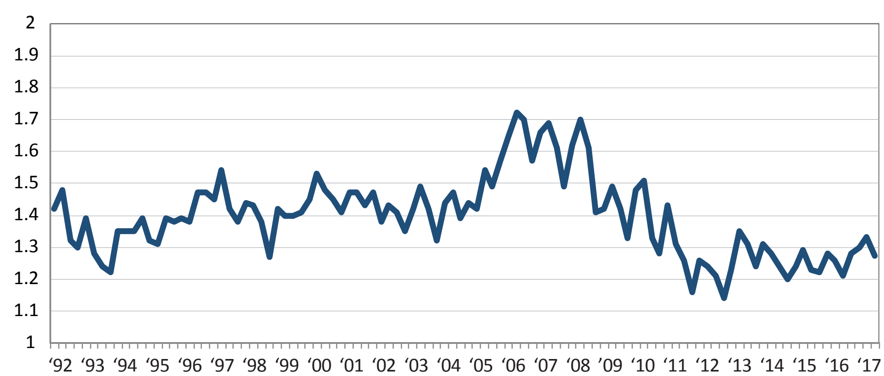
Earners Needed to Afford Average Mortgage

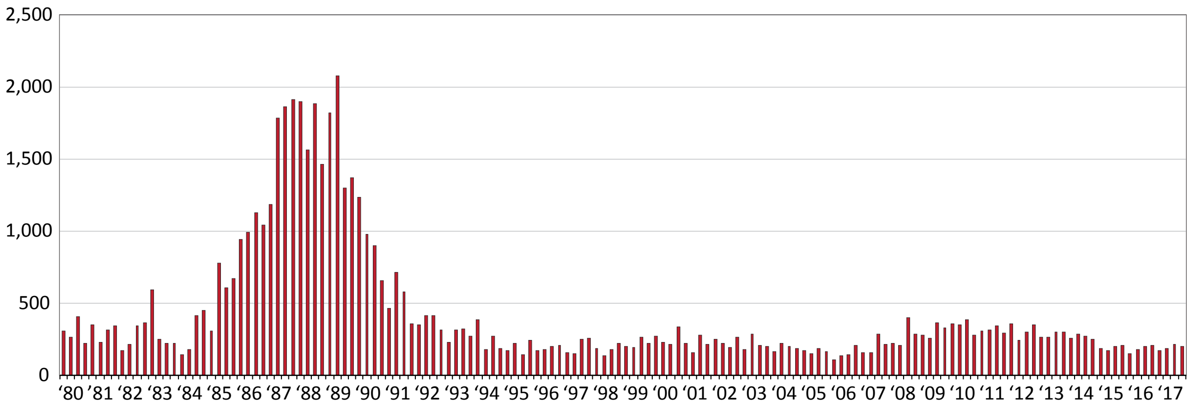
Alaska, first quarter 1992 to fourth quarter 2017



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

9 Alaska's Home Foreclosures Remain Low

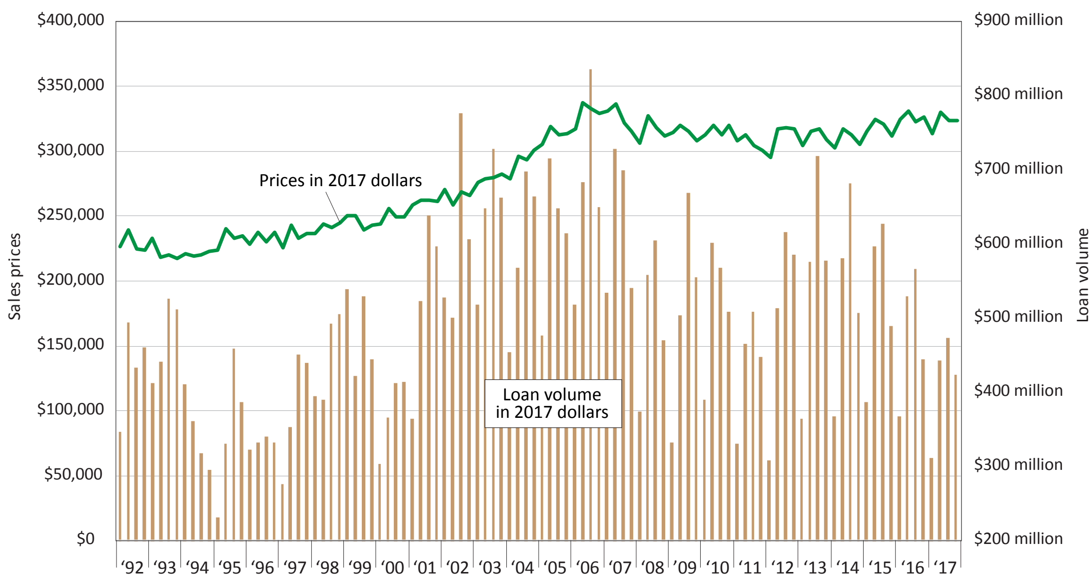
1980 to 2017



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

10 Loan Volume Down But Single-Family Prices Steady

Alaska, inflation-adjusted, first quarter 1992 to fourth quarter 2017



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

foreclosures. When people take on more house than they can afford, circumstances such as job loss can lead them to miss mortgage payments, making foreclosure more likely. On a large scale, as more people lose their homes, prices fall not just from increasing inventory but also from a lack of confidence in the market.

That happened in the mid-1980s, when foreclosures rose sharply with the oil bust, and in the late 2000s on a much smaller scale as the nation suffered a deep recession that briefly brushed Alaska. Aside from that small bump in the late 2000s, Alaska's foreclosures have remained low since 1992 and the last five years show no signs of increase. (See Exhibit 9.)

Some buyers, sellers may wait

Buyers and sellers moving at a more restrained pace can also stabilize prices. The last few years have been

Continued on page 13

Matanuska-Susitna

For the Matanuska-Susitna Borough, we used the last 10 years of data to develop its migration projection, which shows significant growth. Mat-Su will add nearly 65,000 people through 2045: a 61 percent increase. While that's somewhat lower than the last projections, Mat-Su will remain the fastest growing part of the state.

Fairbanks North Star

Fairbanks North Star Borough will add a projected 8,400 people from 2017 to 2045. As with Anchorage and Mat-Su, that's lower than past projections due to five years of negative net migration. To project Fairbanks' net migration, we used migration data from 2000 to 2017, a period that had ups and downs.

For the Interior Region as a whole, we project an increase of 7,600 people (7 percent) over the period, all attributable to the Fairbanks North Star Borough.

Northern and Southwest

The Northern and Southwest regions are younger and have higher birth rates and lower death rates than the rest of the state. We project this will continue, and while age structure alone would suffice for growth, this trend will be compounded by high fertility rates.

These regions are the fastest growing in Alaska after Mat-Su. The projections show nearly 15 percent growth for the Northern Region between 2017 and 2045, and nearly 19 percent for Southwest.

Southeast and Gulf Coast

The Southeast and Gulf Coast regions are the oldest, with less projected growth through natural increase.

We project long-term net growth of about 2,000 people for Gulf Coast. Kenai Peninsula Borough is expected to grow by about 5,000, which will more than compensate for projected losses in the Kodiak Island Borough and Valdez-Cordova Census Area.

Southeast's total population is projected to drop by approximately 5,000, to just over 68,000 people. Juneau's total population is projected to remain flat, decreasing by just 500 over several decades.

Even when the total population changes little, though, a great deal of turnover continues beneath the surface. That information and more is available in the full report, which includes a new appendix that reviews the 2007 projections in light of what's happened since.

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HOUSE PRICES

Continued from page 8

marked by less competitive bidding, fewer buyers, and lower sales volume — but less activity hasn't pushed sales prices down. (See Exhibit 10.)

Even though homes have become more affordable, down payments and mortgage insurance premiums can still be barriers to home ownership. Consider that a 20 percent down payment (which is generally required to avoid paying mortgage insurance) for an average priced home toward the end of 2017 would have been almost $65,000. Even if housing demand is strong and interest rates are low, that's a difficult amount for many to pay up front. As a result, some potential buyers are probably on the sidelines, putting away money and watching the market.

Muted selling can offset less buying, and some sellers may also be sitting on the sidelines, holding on to their property with the intent to sell when the market is most favorable. Homes are still hitting the market and often still selling quickly, although it varies considerably by area and even by neighborhood. The difference is that a home easily sold for asking price now might have had multiple competing buyers a few years ago and bidding would have driven up the final price considerably.

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