

Housing market tightens further

Prices jumped in 2021 with high demand, low interest

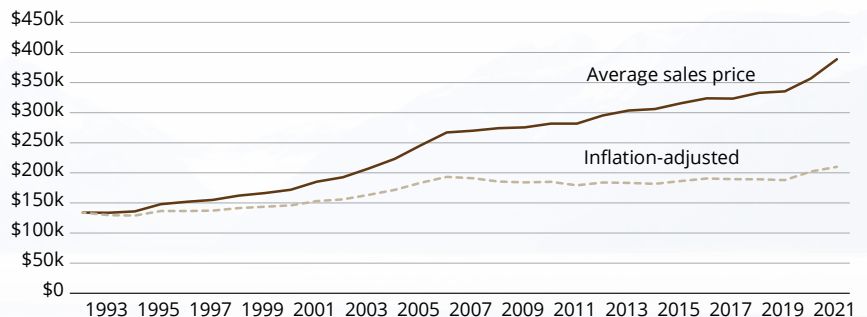
By ROB KREIGER

The low interest rates, tight inventory, and rising sales prices of 2020 continued in 2021, further tightening the Alaska housing market. The burst of refinancing also extended into 2021 but began to cool in the second half of the year as interest rates crept up from their record lows.

Multiple Listing Service data for Alaska's largest housing markets showed higher-than-average numbers of sales closed, increasing prices, fewer days on the market, and sparse active listings last year as demand far exceeded supply.

The number of sales as a percentage of active listings hit record highs in some places in 2021, approaching nearly 500 percent in Anchorage and Juneau during the fourth quarter. Put another way, in those two cities, five houses sold for every house

Rise in Alaska home prices got steeper in 2021

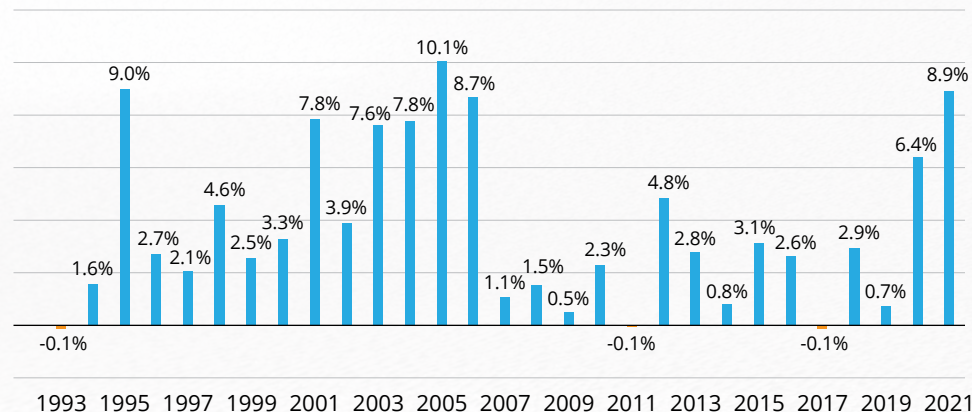


Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation

that came on the market as public listings. For perspective, sales in Anchorage and Juneau as a percentage of their active listings have historically averaged around 86 and 107 percent, respectively.

Although rising interest rates are certain and have climbed fast nationally, the effect they'll have on the current market is less clear. Higher rates push some potential buyers out of the market and

Average home sales price jumped nearly 9% in a year



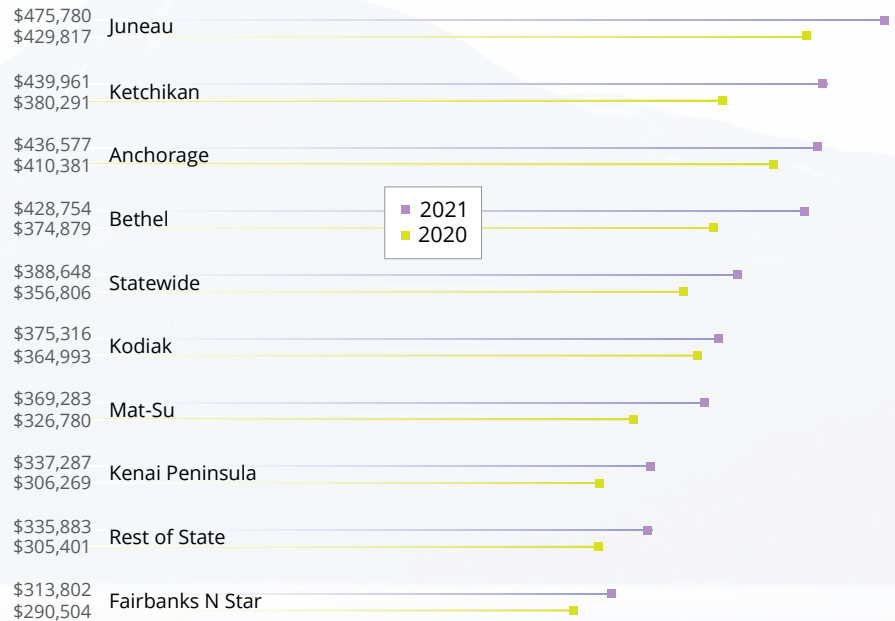
Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation

reduce the amounts people are allowed to borrow, which could reduce demand and, consequently, push prices down.

Data for the first quarter of 2022 show a similar picture to 2021, except with interest rates up sharply to 3.34 percent. More recently, national rates averaged over 5.25 percent, the highest they've been since 2009.

Even if rates increase significantly over the next several months, they will remain historically low. This will keep housing relatively affordable in the short term, but how long the market continues its trajectory will depend on how much the rising rates decrease affordability.

Biggest jump in Ketchikan, highest price in Juneau



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation

Sales prices up 8.9 percent from 2020

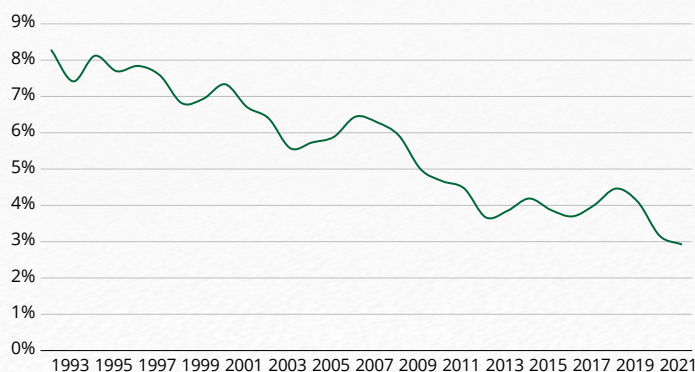
A limited number of homes for sale and many interested buyers pushed the price of an average single-family home in Alaska up to \$388,648 last year, an 8.9 percent jump from the year before and the third-largest percent increase in almost 30 years. The record is 10.1 percent in 2005.

Bidding wars have exacerbated the rise. MLS data suggest many houses are selling at the asking price or higher.

The listings also show that a slightly larger share of the homes sold in some places were bigger and more expensive than before the pandemic. In Anchorage, for example, 45 percent of total sales in 2020 and 2021 were houses with four or more bedrooms. In the five years leading up to the pandemic, it ranged from 41 to 44 percent.

Sales prices varied widely by area but were up across the board. Juneau's average sales price topped the list at just over \$475,000. Ketchikan was second-highest and recorded the largest over-the-year price jump at nearly 16 percent. Prices rose the least in Kodiak, at a little less than 3 percent. Kodiak's average house price was in the middle of the pack. Fairbanks had the lowest average sales price at \$314,000.

Alaska average interest rate, 1992-2021



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation

Interest rates set a new low in 2021 but are rising

Interest rates for 30-year fixed-rate mortgages averaged 2.93 percent in 2021, down from the previous record of 3.16 percent set in 2020.

Low rates have played a major role in

About the Alaska Affordability Index

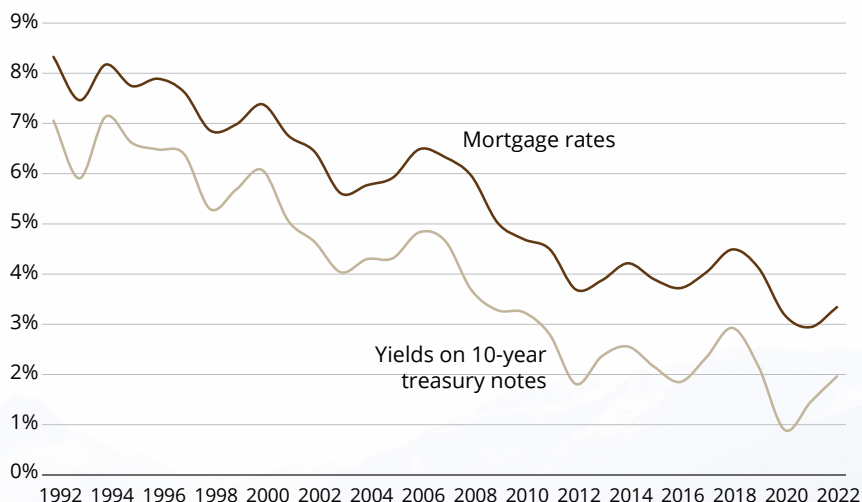
The Alaska Affordability Index represents the number of average wage earners needed to afford an average mortgage in their area. The lower the index value, the more affordable the typical house.

The index value is an area's estimated average monthly payment for a 30-year conventional mortgage with a fixed interest rate on a single-family house, divided by the area's average monthly wage.

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

The estimated average monthly mortgage payment is based on the average sales price and fixed interest rate that mortgage lenders report to the department each quarter in a survey of Alaska's lenders, which we conduct with the Alaska Housing Finance Corporation.

Treasury note yields point to mortgage rate rise



Sources and notes: Federal Reserve Bank of St. Louis, FRED graph observations, market yield on U.S. Treasury securities at 10-year constant maturity, percent, annual, not seasonally adjusted. Interest rate data from Alaska Department of Labor and Workforce Development, Research and Analysis Section and Alaska Housing Finance Corporation, Quarterly Survey of Lending Activity. Data for 2022 are first quarter only.

keeping housing affordable despite rapidly rising prices, but all signs point to higher rates in the coming months.

Yields on 10-year U.S. Treasury Notes are the best indicator of where mortgage rates are headed. Historically, the interest rate data from our Quarterly Survey of Lending Activity have averaged 1.6 percentage points higher than yields.

Yields have been volatile in 2022 but have already hit their highest levels since the pandemic began. Yields exceeded 2.4 percent in the first quarter of this year and topped 3.0 percent in recent weeks, which could put mortgage interest rates well above 4.5 percent in the coming months if historical trends hold.

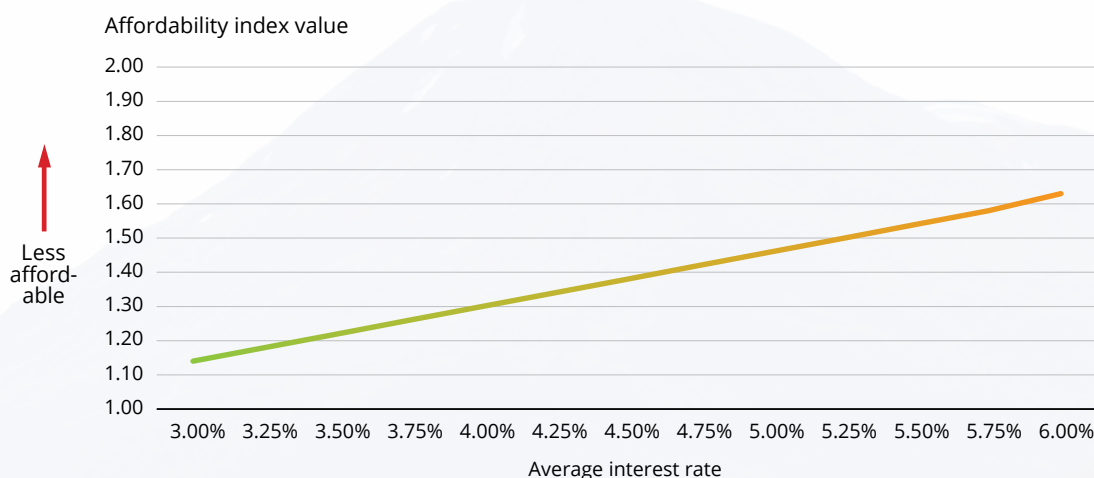
While 2021's average interest rate hit a record low, rates began rising

Low interest rates have kept Alaska housing affordable in recent years



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation

How a rising interest rate would affect home affordability



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation

later in the year. By the last quarter, rates approached 3.0 percent. (The year started at 2.8 percent.)

Affordability held in 2021 despite rising home prices

For this article, affordability is a buyer's ability to pay the monthly principal and interest on an average-priced home based on the average interest rate and an area's average monthly wage. (See the sidebar on the previous page for more on how we calculate the index.)

As mentioned earlier, low rates kept housing affordable and monthly payments manageable in 2021 despite record-high prices. The Alaska Affordability Index averaged 1.14, up slightly from the all-time low of 1.11 in 2020. An index value of 1.0 means affording the average mortgage would require just one typical earner. Increases in the index mean housing is becoming less affordable, and vice versa.

It's important to know that average wage growth during the pandemic might make housing appear more affordable than it is. Alaska's average monthly wage grew 7.2 percent between 2019 and 2020, and all areas we measure recorded an increase.

Because Alaska lost so many jobs over that time, the total wages paid in most places fell — but the average wage rose partly because so many jobs

Earners needed to afford average home by surveyed area, 2019-2021

Area	2019	2020	2021
Bethel	1.70	1.55	1.65
Ketchikan	1.56	1.38	1.43
Juneau	1.60	1.45	1.41
Matanuska-Susitna Borough	1.44	1.28	1.36
Kodiak	1.60	1.41	1.34
Anchorage	1.35	1.21	1.21
Statewide	1.24	1.11	1.14
Kenai	1.15	1.02	1.07
Mat-Su home, Anc worker	1.07	0.96	1.02
Rest of Alaska	0.97	0.94	1.02
Fairbanks	1.11	0.99	1.00

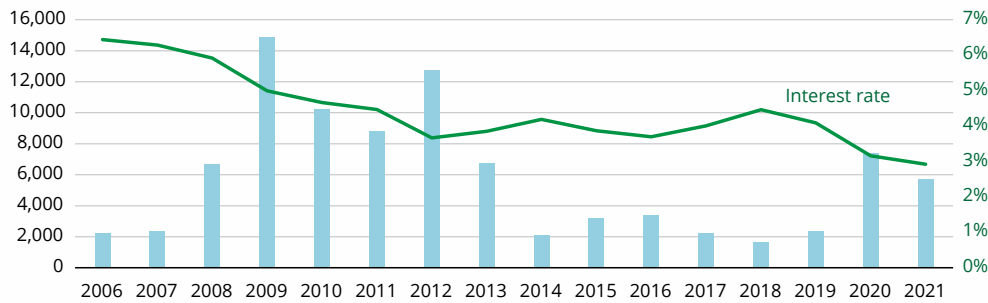
Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation

in lower-paying industries, such as food service and accommodation, disappeared. Those who remained in the workforce tended to have higher-paying jobs in less-affected industries.

Average wages rising while total wages and jobs decline is an unusual situation and an example of how the pandemic moved economic indicators in previously unseen ways. Another example is the unusually large pandemic relief payments that more than offset lost wages overall.

Even with higher average wages, interest rates are still driving affordability. To illustrate how rate

Alaska refinancing starts to cool off after 2020 jump



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and Alaska Housing Finance Corporation

increases could reduce affordability in the coming months, we applied different interest rate values in increments of 25 basis points to the index while holding everything else constant, as shown in the graph on the previous page. Starting at an interest rate of 3 percent, the index value was 1.14, which was the 2021 average.

At an interest rate of 5.25 percent, which is a realistic near-term possibility, the index climbs to 1.5, meaning it will take one person's average earnings plus half of another's to afford a typical home — a big change.

With these rate scenarios, parts of the state that are already less affordable could see their markets change rapidly. The point at which buyers are priced out and things slow down isn't clear, but price increases on the level we saw in 2020 and 2021 will not be sustainable as rates continue to rise.

Affordability varied significantly by area, but all surveyed areas have become more affordable since COVID-19 hit.

Bethel has been the least affordable over time because its sales prices are high while wages are comparatively low. Even Bethel became more affordable recently; its index dropped from 1.7 earners needed before the pandemic to 1.55 and 1.65 in the two years that followed.

Homes in Juneau were more affordable than in Bethel and Ketchikan despite their high prices because Juneau's average wages are higher.

One of Alaska's most affordable housing scenarios is Anchorage workers buying Mat-Su homes. Anchorage wages were 32 percent higher than Mat-Su in 2021 while Mat-Su's average home price was 18 percent lower.

Refinancing activity cools off

History shows that quick interest rate drops spur a rush of refinancing. As the graph above shows, when interest rates fell in the second quarter of 2020, refinancing tripled, then remained elevated through mid-2021.

As rates began to level off in the second half of the year, refinancing slowed. Refinancing will likely return to prepandemic levels as rates continue to rise over the next several months.

Foreclosures remain low

In the second quarter of 2020, foreclosures dropped to their lowest level on record as owner protections kept many people in their homes during the pandemic.

Even though some protections expired in 2021, such as the moratorium on federally backed foreclosures, many options remain for people struggling to make monthly payments. As a result, foreclosures stayed low in 2021 and even declined a bit further from 2020.

While concern grew during the pandemic that a wave of foreclosures would follow the expiration of owner protections, frenzied home-buying appears to be keeping foreclosures down. With such a limited supply of houses for sale, homeowners facing foreclosure can often sell their homes before the process begins and even make a profit. For that reason, foreclosures will likely remain below average until demand subsides.

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