



ISER RESEARCH SUMMARY

Institute of Social and Economic Research, University of Alaska Anchorage August 1990, R.S. No. 46

Alaska's Housing Today

The four-year slide in Alaska's urban housing markets seems to have ended. But house prices and rents remain far below where they were in 1986, because we still have too many houses for the current population. Prices and rents would be recovering faster, however, if it weren't for the large inventories of properties owned by lenders and the lack of conventional financing for condominiums.

Population and homes sales are up. Residential vacancies and mortgage defaults are down. Thousands of low-quality units have been removed from the housing stock.

Still, prices and rents have increased little if at all, because lenders have had to re-sell large inventories of foreclosed properties, and because most condominium complexes no longer meet the 70-percent owner-occupancy required for conventional financing.

These are among the findings of a recent report, *Alaska Housing Markets in 1990*, prepared by Matthew Berman and Alexandra Hill of the Institute of Social and Economic Research (ISER) for the Alaska Housing Finance Corporation (AHFC). Below we briefly show how the 1986-1988 recession affected prices and rents, and then summarize the report findings.

Prices and Rents, 1980-1990

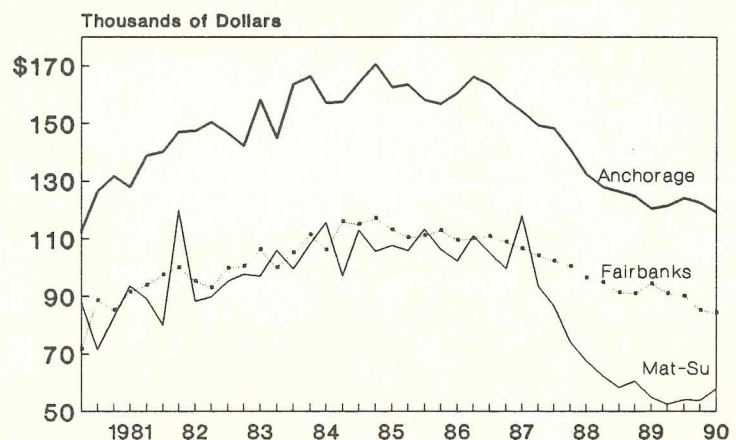
Figure 1 shows price indexes for single-family houses in Anchorage, the Mat-Su Valley, and Fairbanks over the past decade. Prices in all three places went up sharply during the first half of the decade and then began dropping substantially with the onset of the recession in 1986. By the end of the decade prices in Anchorage and Fairbanks had

dropped close to 1980 levels, and in the Mat-Su area prices had dropped below 1980 levels.

House prices in Anchorage were essentially unchanged between the first quarter of 1989 and the first quarter of 1990. In the Mat-Su area, prices went up about 2 percent during that period but remained very low relative to their earlier levels and to Anchorage prices. In Fairbanks, house prices continued to drop through early 1990, but they should bottom out later in the year.

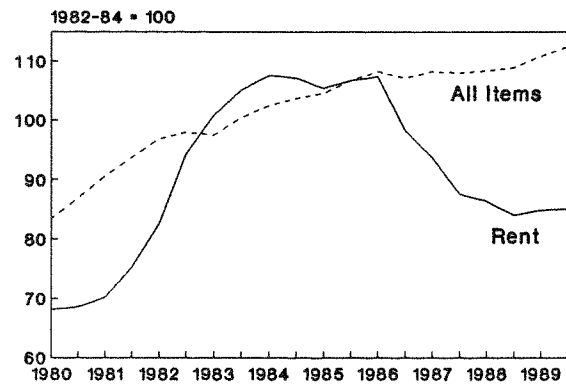
Figure 2 shows changes in the rent component of the Anchorage consumer price index (CPI) over the past decade. That index shows that rent fell by 22 percent from the start of 1986 through 1988. But because overall inflation was 4 percent during that period, rents effectively fell 26 percent.

Figure 1. Price Index for Single-Family Homes
Anchorage, Mat-Su, and Fairbanks
1980-1990



Note: Sources for this and all other figures as cited in *Alaska Housing Markets in 1990*.

**Figure 2. Anchorage Consumer Price Index
Rent and All Items
1980-1989**



Rents increased 1.3 percent between the second half of 1988 and the second half of 1989, but that increase was not as much as overall inflation.

Report Findings

- More aggressive marketing of AHFC's large inventory of foreclosed homes benefited Alaska households but also partly explains why prices and rents didn't increase in 1989.

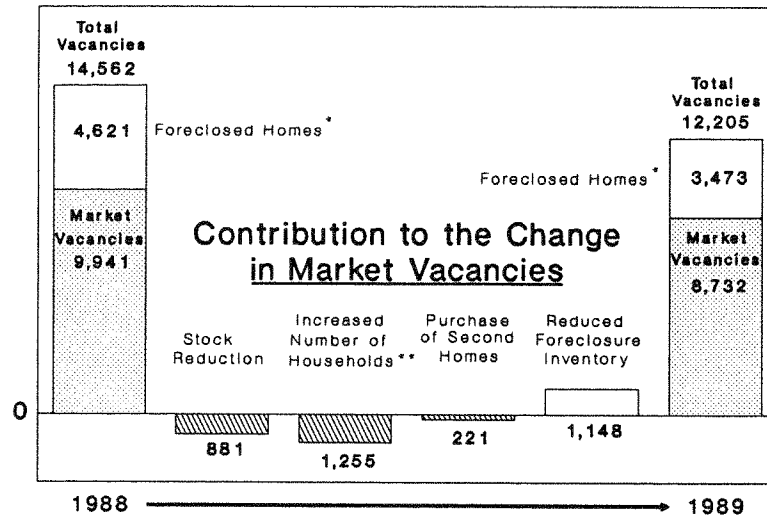
In the past several years AHFC has accumulated thousands of foreclosed properties that it has to re-sell. Stepped-up sales campaigns allowed AHFC to reduce its inventory by more than 1,000 homes last year. (Other major institutional owners had already sold much of their inventories by 1989.)

Those sales enabled many Alaska households to buy better housing than they would otherwise have been able to afford.¹

But placing those units on the market also largely neutralized the price and rent increases that would otherwise have resulted from population growth and elimination of housing. Figure 3 shows that between 1988 and 1989, residential vacancies in Anchorage dropped by 2,350. That drop was due to a combination of about 1,250 new households, the purchase of about 220 units for second homes, and net removal of 880 housing units.

However, about half the reduction in vacancies was taken up by institutional owners returning foreclosed properties to the market, so private owners saw little change in prices and rents. But this effect on price increases is just short-term, and will be eliminated once the institutions have eliminated their inventories.

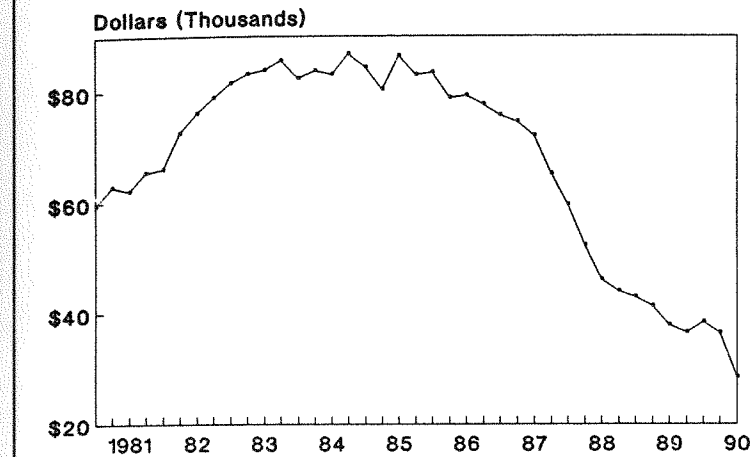
Figure 3. How Much Did Anchorage Vacancies Drop Between 1988 and 1989?



*Includes only single-family, zero lot line, and condominium units
**Includes temporary residents

¹ A 1989 ISER report, *Stabilizing Alaska's Housing Markets*, analyzed the effects on the market of sales of AHFC foreclosures and included a scenario for longer term recovery of the housing markets. The figures in that report would be somewhat altered by the economic impacts of the clean-up of the Prince William Sound oil spill and by the fact that Anchorage landlords removed housing units faster than we had projected. The report is available from ISER for \$7.00; a summary is available at no charge.

**Figure 4. Price Index for Condominiums
Anchorage - Mat Su Region
1980-1990**



- The condominium market continues to be much worse off than the market for single-family houses.

Figure 4 shows that prices for condominiums in the Anchorage area (including the Mat-Su region) continued to slide in early 1990, so that condominiums at the start of the 1990s sold for less than one-third of what they did in the mid-1980s and only half of what they did at the start of the decade. In Fairbanks, prices have dropped to a level around one-half that prevailing in the early 1980s.

A chief reason why the condominium market continues to do poorly is that no conventional financing is available for condominiums in complexes with less than 70 percent owner-occupancy. A 1989 municipal survey showed that just 41 percent of Anchorage condominiums were owner-occupied.

Condominium prices won't rise substantially within the next two years unless lenders are able to devise a program to finance purchases in complexes with less than 70 percent owner-occupancy. Unfortunately, the major national secondary lenders and insurers adhere to that requirement across the country. Because these national lenders are also guarantors and insurers of AHFC loans, it would be very difficult for AHFC alone to get around that rule.

Another factor hurting the condominium market is that changes in the federal income tax code have dramatically reduced the tax benefits for owners of relatively low-cost homes.

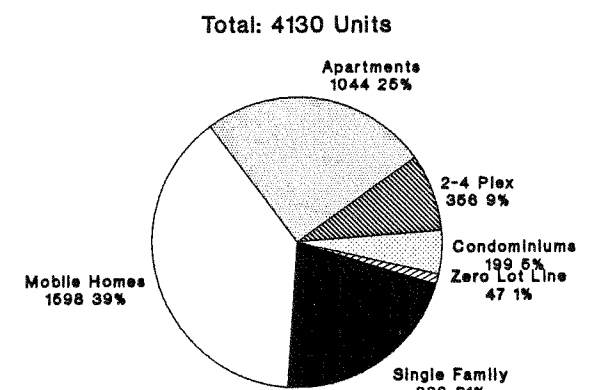
- More than 4,000 units disappeared from the Anchorage housing stock between 1987 and 1989.

Figure 5 shows that most of those were mobile homes (40 percent) and low-quality apartments (25 percent). Another 21 percent were classified as single-family houses, but municipal property appraisal records show that most of those were low-quality houses and cabins with appraised values of less than \$15,000, or residential units on lots zoned for commercial uses.

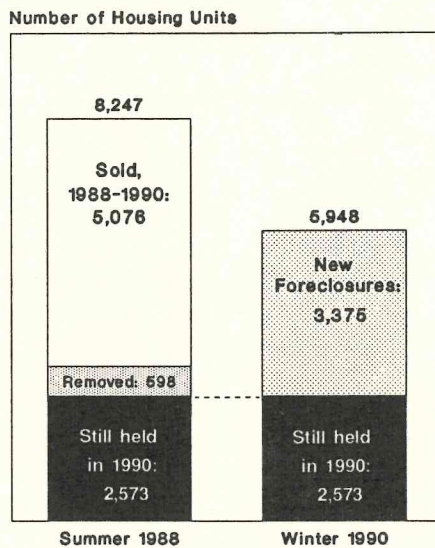
- Construction of new houses virtually stopped during the recession, and we can expect little construction in Anchorage and the Mat-Su region any time soon.

Since 1987, building permits for new houses in Anchorage have averaged about 20 per month, mostly for more expensive homes. With thousands of units still sitting vacant and prices and rents still low, there's unlikely to be much increase in residential construction in the Anchorage area through 1991.

**Figure 5. Anchorage Housing Stock Removed
1987-1989**



**Figure 6. Status of Anchorage Housing Units
Owned by Financial Institutions***
(Winter 1990 Compared to Summer 1988)



*Excludes mobile homes

- The number of foreclosed Anchorage housing units owned by lenders dropped by more than 25 percent from the summer of 1988 to the winter of 1990.

Figure 6 shows foreclosed inventories of lenders dropping from 8,250 to 5,950 during that period, due to a combination of factors: financial institutions sold more than 5,000 units, took in 3,375 new foreclosures, and removed about 600 from the stock. Nearly 2,600 units that had been owned by lenders in 1988 were still in their hands in 1990.

- The rate of new foreclosures has declined rapidly in the past year, but it is unlikely to continue declining in late 1990 and 1991.

Improved economic conditions partly explain the drop in 1989, when Anchorage unemployment rates were at historic lows. With low unemployment, fewer people were leaving the state. ISER surveys found that in 1990 only 9 percent of Anchorage households had plans to leave the state, as compared with 14 percent in late 1987. However, the number of households leaving the state is unlikely to decline further.

In early 1990 about 30 percent of homeowners in urban areas reported having negative equity in their houses—that is, they owed more than their houses were worth. Because prices won't rise significantly through 1991, many homeowners who leave Alaska will be unable to sell their houses and will go into default.

- Prices of single-family houses in the Anchorage and Mat-Su areas should rise enough to keep pace with inflation for the rest of 1990 and 1991. House prices in Fairbanks will likely begin to recover in 1991, increasing at about the same rate as in Anchorage.

Modest population growth and continuing sales from inventories of foreclosed properties will mean modest housing price increases in Alaska's urban areas over the next year and a half.

Editor's Note: *Alaska Housing Markets in 1990* is available for \$5.00 from ISER on the second floor of the library building on the UAA campus (786-7710).

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