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It's getting even harder to find a house in Anchorage. A local economist shares her struggle.

April 12, 2022 by Kavitha George, Alaska Public Media

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Hannah Hennighausen, her partner Ben Milner and their dog Peanut. Hennighausen and Milner have been looking for a home in Anchorage for about a month. (Courtesy of Hannah Hennighausen)

Anchorage's housing market has become frustratingly competitive for many home buyers, who are finding themselves locked in bidding wars over a smaller and smaller pool of homes.

Hannah Hennighausen is one of those hopeful buyers. She's also a postdoctoral researcher in the economics department at the University of Alaska Anchorage. She studies how the real estate and insurance markets are influenced by natural disaster risk. We asked how her house search is going.

Listen here:

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The following transcript has been lightly edited for length and clarity.

Hannah Hennighausen: My partner and I recently learned that we're going to be able to stay in Anchorage long term, which is great for us. And so we started looking for a home approximately a month ago. We've toured at this point, probably 12 or 15 houses, put offers on a couple and... so far we don't have a home yet.

So far, I've been outbid. Most recently, I think our bid was pretty similar to the winning bid, except they offered all cash. And they waived all contingencies, where we still kept our life safety contingency and do not have all cash.

Kavitha George: Is waiving contingencies getting more common? And I've been even hearing about people placing bids without seeing the house first?

Hannah Hennighausen: Sight unseen definitely appears to be common. Definitely trying to pay cash is something that realtors and sellers are looking for. But for me, I would say the most unfortunate consequence of this market is the fact that all these contingencies are being waived. Inspection, contingencies, appraisal gaps, whatever they may be, are things that I think in the past have, in some ways served as buyer protection. You can imagine an inspection looking for faulty wiring or whatever it may be, are now needing to be waived.

Kavitha George: Could you see that backfiring on the next generation of buyers over the next five or 10 years?

Hannah Hennighausen: Yes, so it's because the market is so competitive, because there are so many bids on each of these houses. And I'm not an expert, but I would say that my gut feeling is that that could have negative consequences for people who potentially are already a bit stretched to get into a home because these prices are quite high as well. And then maybe they don't have the cash flow to cover some of the things that need to be fixed in a home that otherwise would be covered by a seller in a different market.

Kavitha George: Got it. So help us break down some of the major forces impacting the housing market right now. We're seeing low stock, less construction — what's causing this tight market?

Hannah Hennighausen: Anchorage's for sale inventory is very low right now. In February 2022, there was a 65% drop in inventory relative to February 2020, just before lockdowns began. In real terms, that dropping inventory equates to 788 homes.

Low inventory is being driven by a number of factors, including a shift toward remote work, a lack of new construction, and the fact that current homeowners — many of whom refinance their mortgages under historically low rates — have little incentive to put their homes on the market, as they will be met with many of the same roadblocks facing first time homebuyers.

And that inventory that does come on the market is purchased quickly. So in February 2022, the median property was on the market for four days before it was purchased. Compare that to February 2020, when the median property sat for 23 days on the market before it was purchased. But low inventory is only one side of the puzzle here. We're also seeing large increases in demand stemming in part from a change in preferences towards homeownership and especially single family homes.

Together, these shifts in supply and demand mean that, nationally, housing prices have increased by approximately 20% over the last two years. It also means that in an effort to get in a home, homeowners are increasingly waiving these inspection contingencies I talked about and paying cash when they can.

Kavitha George: Is the pandemic entirely to blame for these problems? Are there other factors at play?

Hannah Hennighausen: I saw when I was looking at the data, the pandemic is playing a large role, a very large role. But we were already seeing a drop in for-sale inventory before the pandemic began. And that I think is in part because people are staying in their homes longer as they age. So it used to be that as you aged, you sold your home and maybe even moved in with your kids, wherever it may be. But now people are staying longer in their homes. And so that inventory is just not being released to the market.

Kavitha George: The other thing that's at play is that interest rates are also ramping up. And that certainly doesn't help the issue of affordable housing in the short term. Could you explain how that's expected to impact home buying over the next year or so?

Hannah Hennighausen: Sure. So, with increasing interest rates, we should see a decrease in home prices as people are increasingly priced out of the market, as their mortgages get bigger. The extent to which that is true depends on the proportion of cash buyers in a given market — those cash buyers are largely unaffected by interest rates. And how much rent prices are rising, because a rental property is going to be your substitute for a mortgage. So if rent prices are increasing even faster, then it's still rational to get that mortgage. And the degree to which people are willing to extend themselves in order to purchase a home. The reality is that people need a roof over their head, and they will pay what they need, either through a mortgage or through rent.

Kavitha George: How does this market affect first-time buyers?

Hannah Hennighausen: For first-time homebuyers, this is an especially difficult market. When you don't have the cash to pay for a home outright, or at the very least cash to cover an appraisal gap or fix faulty wiring, your offer will be seen as less competitive than others. In the meantime, you'll be paying increased rental prices, further cutting into your ability to save towards a home.

Kavitha George: And renters might feel like this doesn't apply to them. But does it?

Hannah Hennighausen: Oh, absolutely. I mean, every time a property exchanges hands, there's potentially a new loan on it. And you know, even if it's not a loan, even if it was paid with cash, landlords certainly want their properties to be rented at the market rate and that market rate is increasing.

Kavitha George: So what fixes this? How do we get out of this?

Hannah Hennighausen: There are a couple of solutions. A lot of them are going to be based on who you vote into office. So we definitely want to change some of our zoning laws to ensure that we can have more multi-unit structures on a given lot. The number of minimum parking spaces for each residential lot — if we can reduce that, then we can put more residential lots in. So in general, zoning, increasing construction where we can. I think that'll be through an easier permitting process, maybe even some subsidies. I think building more, having more inventory is the best way forward.