

Higher rents, fewer vacancies

Anchorage's historic rent increase drove survey total

By GUNNAR SCHULTZ

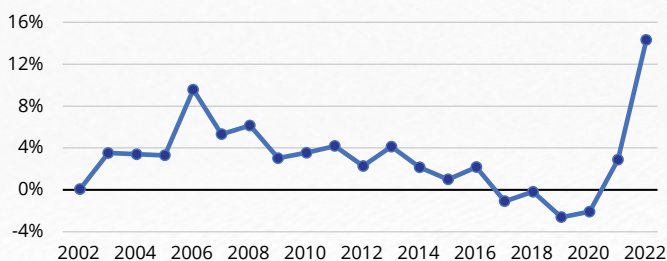
Resembling national trends, tightening vacancy rates and rising rents were themes in our 2022 rental survey, conducted every year in March. Rents were up more than usual in Alaska's three largest rental markets, with Anchorage recording its largest single-year increase in at least 20 years. At the same time, vacancy rates had fallen below pre-pandemic levels in all surveyed areas.

While many of the federal pandemic supports in place last year had expired — including eviction moratoriums, stimulus payments, and expanded unemployment benefits and child tax credits — emergency rental assistance was still circulating at the time of our survey, keeping some tenants in their units. Rental demand from delayed homebuying was another factor of several that contributed to declining vacancy rates. For more on the reasons vacancy rates have dropped, see page 6.

March survey was too early to reflect recent price increases

This year's survey probably came too early to capture recent cost increases that could eventually drive rents higher. Although heating oil prices increased sharply during the first few months of

A big rent increase for Anchorage



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

Rents up in much of the state

	2021 rent	2022 rent	Pct chg
Anchorage, Municipality	\$1,172	\$1,339	14.2%
Survey total	\$1,179	\$1,276	8.2%
Fairbanks North Star Borough	\$1,246	\$1,305	4.7%
Matanuska-Susitna Borough	\$1,051	\$1,092	3.9%
Sitka, City and Borough	\$1,323	\$1,349	2.0%
Chugach Census Area	\$1,241	\$1,265	1.9%
Juneau, City and Borough	\$1,245	\$1,260	1.2%
Kenai Peninsula Borough	\$1,023	\$1,023	0%
Kodiak Island Borough	\$1,270	\$1,270	0%
Wrangell-Petersburg	\$950	\$929	-2.2%
Ketchikan Gateway Borough	\$1,230	\$1,153	-6.3%

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

the year, rents didn't increase more than usual in most areas that rely on oil for heat and hot water. Landlords usually cover these utilities as part of the rent, and they are a sizable expense.

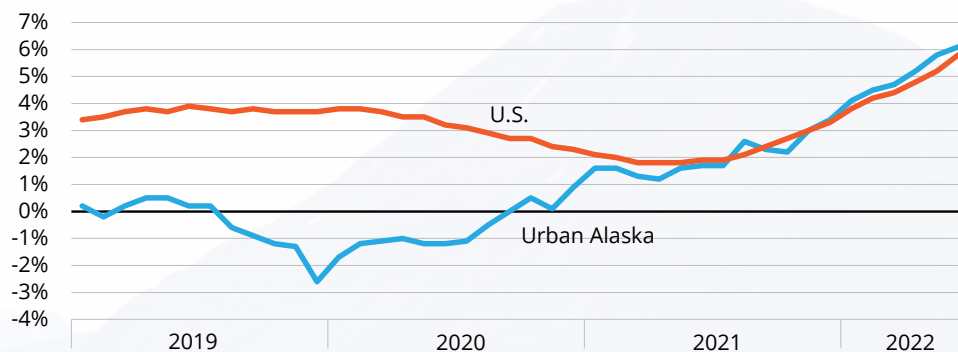
Rents rose in most areas, and especially in Anchorage

Alaska's survey-wide median adjusted rent was \$1,276 in March, an 8 percent increase from the previous year. Sitka rent topped the list at \$1,349 and Wrangell-Petersburg was the least expensive at \$929.

Rents in Anchorage and the Fairbanks North Star Borough exceeded \$1,300, while rents in the Kenai Peninsula and Matanuska-Susitna boroughs were less than \$1,100.

With nearly half the rental units in our survey, Anchorage mostly drove the statewide increase. Rents went up in many places, though, and rents in the Fairbanks North Star and Matanuska-Susitna boroughs also increased more than in recent years. However, Anchorage was the only area where rent hikes outpaced inflation, and 2022's 14 percent increase was the city's largest in at least 20 years.

Urban Alaska rent changes have tracked with U.S. since 2021



Source: U.S. Bureau of Labor Statistics, Consumer Price Index for the U.S. and CPI for Urban Alaska

Why Anchorage's 14 percent rent increase may be misleading

While rents have clearly trended upward, the rent increase in Anchorage (and as a result, the survey total) was likely higher than what many renters were paying. Anchorage rents are often reported as advertised or asking prices for new renters rather than current rents paid by established tenants.

The difference between asking and current rent is typically small, and during normal times, asking rents are a reliable approximation of how much renters are paying. But national data show asking and current rents diverged in many places over the last year as landlords increased rents for advertised units more than they typically would.

While we don't know the magnitude of this difference in Anchorage, the rent increase for Anchorage and the corresponding survey total should be interpreted as upper bounds.

About the rental survey

We partner with the Alaska Housing Finance Corporation to survey Alaska landlords in selected areas each spring.

All rents quoted in this article are median adjusted rent unless otherwise noted. Adjusted rent is the contract rent — the amount paid to the landlord — plus the cost of all utilities. Because utility types and costs vary by area, using adjusted rent makes units more comparable across the state.

The survey combines the Wrangell and Petersburg boroughs because of their small size.

Other sources confirm Anchorage rent has gone up, however. While not directly comparable to our survey, monthly data from the Bureau of Labor Statistics show Anchorage rent has risen steadily over the past year and the increases tracked with changes at the national level.

Consumer price indexes show that Alaska's urban rent changes began to track with the nation's in 2021. (See the chart above.)

While some landlords in the other nine areas we survey also report their asking rent rather than current rent, that's less common and less likely to skew other areas' results. (It's also important to note these reporting differences don't affect vacancy rates.)

Anchorage's recent increases also followed years of declines

Anchorage's rental market has weathered a few years of pandemic-related whiplash. While 2022's rent increase was the biggest on record, that jump and the smaller increase the year before amid declining vacancy rates followed four consecutive years of decade-high vacancies and falling rents.

Overall, Anchorage rents were up about 10 percent from 2016. That's less than 2 percent per year on average, which is in line with the city's historical rent growth.

A closer look at rent and vacancy in Fairbanks and Mat-Su boroughs

Fairbanks and Mat-Su, the next-largest markets,

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Why is the rental market so tight?

The past two years' falling vacancy rates were a stark shift for Alaska. Before the pandemic, the overall vacancy rate had risen every year since 2016, since the state began to lose total population. Vacancy rates were higher during the second half of the decade in most places.

Rent hikes and tightening vacancy during the pandemic have been a national phenomenon. Since the pandemic began, the national vacancy rate has fallen below 6 percent multiple times — a first since 1984.

A range of factors are influencing vacancy rates, and while we can't quantify them, here's a list of likely contributors based on national and Alaska-specific data and analyses.

Likely reasons for falling vacancy

Home sales market kept more people in Alaska renting longer

When households move from renting to owning, they create vacancies in the rental market. At the national level, about one in three homebuyers are first-time buyers, according to The National Association of Realtors.

Normally, the flow of renters buying homes each year steadily frees up rental units, but house prices jumped during the pandemic, pushing some prospective first-time buyers to keep renting longer.

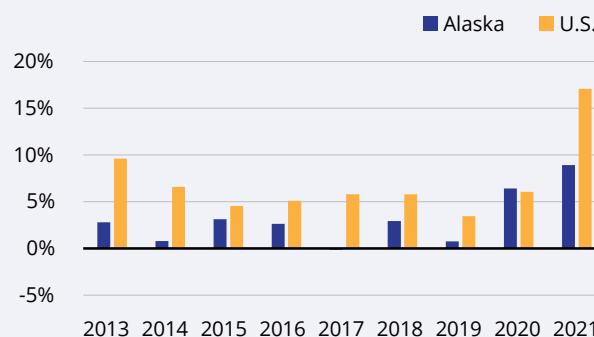
Although record-low interest rates during the

Average sales prices for Alaska single-family homes, 2020-21

	2020	2021	Pct chg
Anchorage, Municipality	\$410,658	\$436,577	6%
Matanuska-Susitna Borough	\$327,237	\$369,283	13%
Fairbanks North Star Borough	\$290,504	\$313,802	8%
Kenai Peninsula Borough	\$305,338	\$337,287	10%
Juneau, City and Borough	\$429,817	\$475,780	11%
Ketchikan Gateway Borough	\$380,291	\$439,961	16%
Kodiak Island Borough	\$364,993	\$375,316	3%
Statewide Total	\$356,768	\$388,648	9%

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

Average sales price changes for single-family homes, 2013-2022



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section and Alaska Housing Finance Corporation, 2012-2022 Rental Market Surveys; and S&P/Case-Shiller U.S. National Home Price Index

pandemic kept mortgages on par with pre-pandemic levels, rising house prices in Alaska raised other costs for prospective homebuyers, such as down payments. In 2021, the average single-family house in Alaska averaged more than \$388,000 — up nearly 17 percent from 2019.

Interest rates increased sharply in early 2022 while home prices remained high, pushing the average monthly mortgage payment up and putting home-buying even further out of reach for some.

With emergency rental assistance, fewer rental openings came from evictions

Evictions are another source of rental vacancies. While the federal moratorium on evictions ended in August 2021, federal emergency rental assistance kept some who were behind on rent in their homes in early 2022.

While Alaska has no publicly available eviction data, more than 26,000 renters — about three in 10 — received a share of the \$262 million in rental assistance distributed during the pandemic to help tenants pay back rent and utilities and offset future payments.

New households formed nationally in 2021

People altering their living arrangements during the pandemic may have also raised demand for rentals over the past year.

In 2020, the number of households in the U.S.

In 2021, people increasingly sought their own living spaces.

decreased for the first time on record, suggesting many people moved in together during the first year of the pandemic. Consolidating living space is common during tough economic times. In the case of COVID, people also moved in with relatives or partners for reasons beyond just lost jobs or tight budgets, including health concerns or taking care of family members.

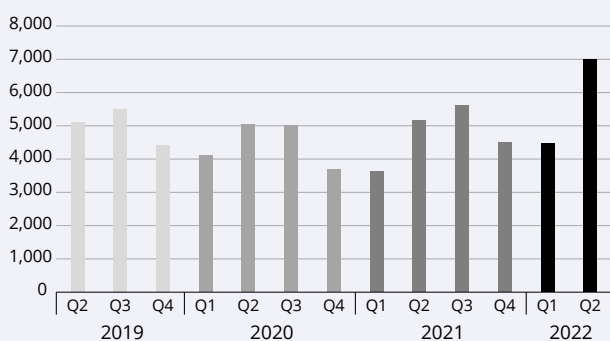
Then, in 2021, the number of U.S. households jumped by the largest number since 2007. The new household growth was driven by nonfamily households — roommates or other unrelated people living together — and younger adults, who are far more likely to rent than buy.

In 2021, people increasingly sought their own living spaces (reasons might include the easing of health concerns and financial constraints and the desire for more privacy and better work conditions as more people worked from home). While we don't know the extent to which these trends held in Alaska, a flood of new households, especially younger ones, would drive up demand and competition for rentals.

Age group most likely to rent has grown

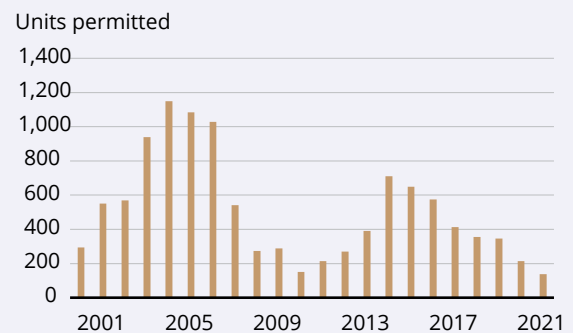
Longer-term demographic trends are another possible factor, as the number of people in the age range most likely to rent has grown. The tail end of the large millennial generation reached young adulthood during the past decade, raising the number of people between the ages of 30 and 40. In 2020, about 60

Numbers of short-term rental listings in surveyed Alaska areas



Source: AirDNA

Decline in Alaska multi-family* home construction after 2014



*Buildings with three or more units

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

percent of renters in the state were younger than 45.

Nationally, this generation is also buying their first homes later than previous generations.

Construction on a long-term decline

New home construction has been low nationwide since the Great Recession of the late 2000s, suggesting building over the last decade wasn't sufficient to meet rising demand.

Building permits for multi-family housing units in the areas our rental survey covers have been falling since 2014 and hit the lowest point in at least two decades in 2021, as the chart above shows.

Some rentals transitioning to Airbnbs

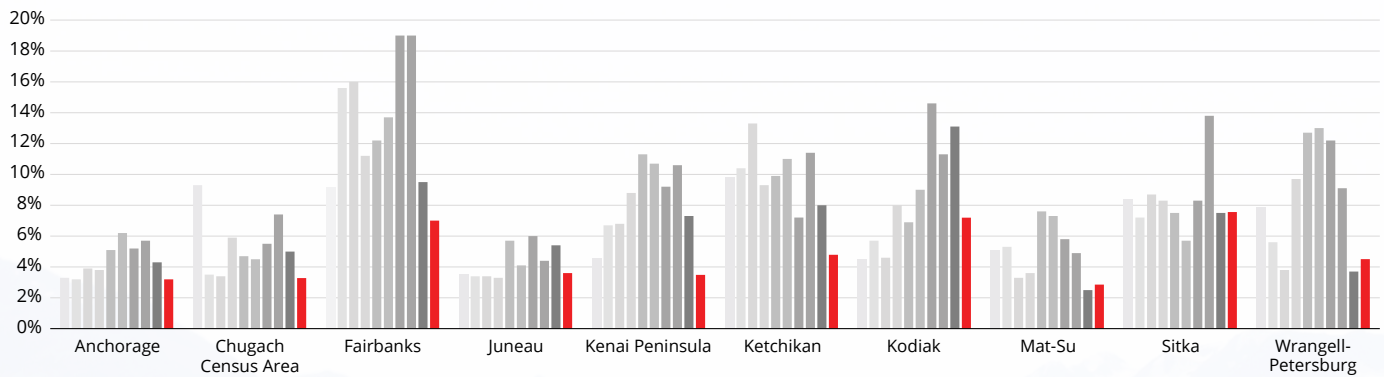
The growing popularity of short-term vacation rentals via hosting platforms such as Airbnb and Vrbo can further restrict the supply of long-term rentals, although Alaska data are limited.

These hosting platforms allow people to rent residential property to guests on a short-term basis (usually less than 30 days of continuous occupancy). Short-term rentals range from a room in an owner-occupied home to an entire apartment or single-family house.

AirDNA, a short-term rental analytics firm, showed that listings on these sites for Anchorage, Mat-Su, Kenai, Fairbanks, Juneau, Kodiak, and Sitka were significantly higher during the second quarter of 2022 than before the pandemic.

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Vacancy rate trends by surveyed Alaska area, 2013 to 2022



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section and Alaska Housing Finance Corporation, 2013-2022 Rental Market Surveys

were among the few areas in the state to gain population in recent years.

While Fairbanks' vacancy rate remained among the highest in this year's survey, it hit its lowest level in over a decade, mainly because the military influx that began in 2020 continued to raise rental demand.

Fairbanks' 5 percent rent increase for 2022 marked the seventh straight year that rent has gone up and the third time in the last four years that the increase has topped 4 percent.

In Mat-Su, rent increased significantly for the first time since 2018 (4 percent). While Mat-Su's population has been growing for a decade, growth slowed from 2017 to 2020, then picked up again last year.

Vacancy had tightened in most surveyed areas this spring

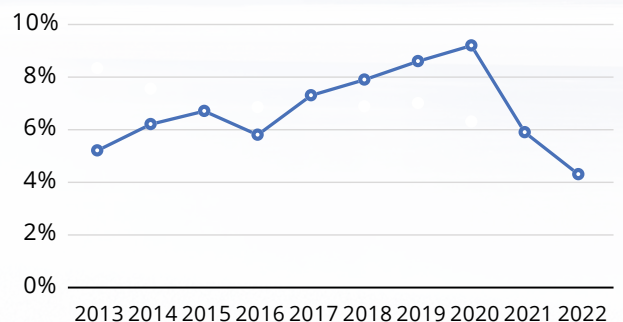
Tightening vacancy rates are one of the main reasons rent goes up. Renters compete for units when vacancy rates are low, giving landlords more pricing power.

While vacancy was tight in the three areas where rent increased most, vacancy rates in all other surveyed areas were also at or near decade lows. (See page 6 for more on this trend.)

The overall vacancy rate fell for a second straight year to 4.3 percent, its lowest in a decade. Mat-Su and Anchorage had the tightest markets at 2.9 and 3.2 percent vacancy, respectively. Rates were highest in Kodiak and Sitka (7.2 and 7.6 percent).

Many of the biggest drops in vacancy came in areas

Alaska's rental vacancy rate



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section and Alaska Housing Finance Corporation, 2022 Rental Market Survey

with historically high vacancy, such as Fairbanks, the Kenai Peninsula Borough, Ketchikan, and Kodiak. Kenai and Ketchikan rates hit record lows in 2022.

Rent still affordable on average, but that isn't the whole story

Our measure of rental affordability is the percentage of an area's average monthly wage needed to cover its median adjusted rent. The U.S. Department of Housing and Urban Development considers housing affordable when occupants spend no more than 30 percent of their gross income on housing costs, including utilities.

While rents have risen everywhere since 2020, rising wages have made renting more affordable in all surveyed areas except Anchorage, where rent increases have outpaced average wage growth. But even with

Anchorage's historic rent increase in 2022, it remained among the more affordable places surveyed.

In 2022, renting in Anchorage required less than 25 percent of the average monthly paycheck, up from 21 percent in 2021 and in line with Anchorage's affordability for most of the past decade. Higher average wages in Anchorage help offset its higher rents.

Most areas' rents required between 22 and 27 percent of the average worker's monthly wages. Kodiak and Sitka were the exceptions, and they have historically ranked among the least affordable places in our survey because of high rents and relatively low wages.

While this measure gives a sense of how well the average worker could afford an area's median rent, it varies widely for individuals.

The U.S. Census Bureau estimates that historically, about 40 percent of renters in Alaska have spent over 30 percent of their household income on rent and utilities. The average renter in Alaska is younger and lower-income than the typical homeowner.

Rising costs and waning pandemic supports have increased the burden on tenants. The prices of

How much Alaskans spend on rent

	Percent of wages spent on rent	Median March 2022 rent	2021 avg monthly wage
Sitka, City and Borough	31%	\$1,349	\$4,363
Kodiak Island Borough	30%	\$1,270	\$4,303
Fairbanks North Star Borough	27%	\$1,305	\$4,847
Matanuska-Susitna Borough	26%	\$1,092	\$4,138
Ketchikan Gateway Borough	26%	\$1,153	\$4,481
Juneau, City and Borough	25%	\$1,260	\$4,998
Survey total	25%	\$1,276	\$5,095
Anchorage, Municipality	24%	\$1,339	\$5,467
Wrangell-Petersburg	23%	\$929	\$4,126
Chugach Census Area	22%	\$1,265	\$5,666
Kenai Peninsula Borough	22%	\$1,023	\$4,644

Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section and Alaska Housing Finance Corporation 2022 Rental Market Survey; and Quarterly Census of Employment and Wages

big-budget items such as food and gas have risen substantially over the last year. Meanwhile, eviction moratoriums, stimulus payments, expanded unemployment benefits, and emergency rental assistance have all expired, adding unusual twists to affordability calculations.

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FEWER VACANCIES

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It's not clear how many units in Alaska are moving from long-term to short-term, but national studies have found that in other parts of the country, short-term rentals can deplete long-term rental stocks.

Anecdotally, our survey did suggest some Alaska units are transitioning to short-term rentals. The table on the right gives some context on their prevalence, as it shows the numbers of short-term rental listings in various places in Alaska relative to their total housing stock.

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Short-term rental listings and total housing units by area

	Q2 2022 short-term listings	Housing units, total
Anchorage, Municipality	2,323	118,293
Kenai Peninsula	2,149	31,330
Matanuska-Susitna Borough	903	42,018
Fairbanks North Star Borough	717	44,270
Juneau, City and Borough	379	13,792
Sitka, City and Borough	151	4,229
Kodiak Island Borough	140	5,450
Ketchikan Gateway Borough	127	6,427
Chugach Census Area	72	3,287
Wrangell-Petersburg	37	3,251

Sources: AirDNA for short-term listings and U.S. Census Bureau, American Community Survey 2016 to 2020 for housing units