

ALASKA'S RENTAL MARKET



Rents have held mostly steady in recent years

About the yearly rental survey

Each March, in cooperation with the Alaska Housing Finance Corporation, the Alaska Department of Labor and Workforce Development surveys thousands of landlords across the state to gather residential rental unit information. Data on approximately 15,000 units annually provide insight into statewide and local market conditions.

By **KARINNE WIEBOLD**

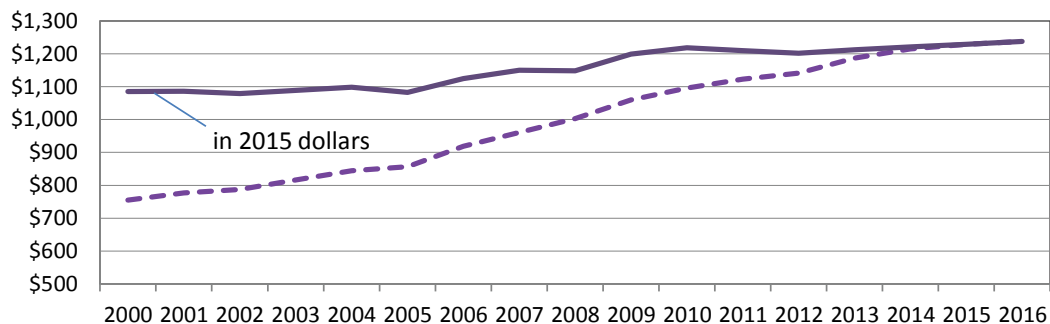
Our 2016 annual residential rental survey shows that Alaska rents are essentially level with last year (see Exhibit 1) and the overall rental vacancy rate has fallen slightly.

Statewide, rents have increased just seven-tenths of a percentage point, or \$9, since last year, bringing the average rent for all unit types to \$1,238 including utilities.

Rents went up faster in some areas, such as the Kenai Peninsula Borough (up 7 percent), Valdez-Cordova Census Area (6 percent), and the Ketchikan Gateway Borough (4 percent). Anchorage, Kodiak, and the Matanuska-Susitna Borough rents each increased

1 Inflation-Adjusted Rent Has Been Flat in Recent Years

ALASKA AVERAGE RENTS INCLUDING UTILITIES, 2000 TO 2016



Notes: Rent includes utilities. Because 2016 inflation adjustments are not yet available, adjusted rent uses 2015 dollars.
Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section and Alaska Housing Finance Corporation, Annual Residential Rental Survey

2 Rents and Vacancy Rates by Area

FOR ALL TYPES OF UNITS, 2016

Survey Area	Average Rent		Median Rent		Number of Units			Percentage of Units with Utility Included in Contract Rent						
	Contract	Adjusted	Contract	Adjusted	Surveyed	Vacant	Vac Rate	Heat	Light	Hot Water	Water	Garbage	Sewer	Snow
Anchorage	\$1,135	\$1,259	\$1,075	\$1,214	8,215	311	3.8%	76.7%	22.4%	80.1%	48.7%	95.0%	48.7%	88.0%
Fairbanks N Star	\$1,049	\$1,199	\$1,000	\$1,115	2,955	330	11.2%	89.9%	15.8%	79.0%	92.6%	84.6%	92.0%	80.5%
Juneau	\$1,185	\$1,333	\$1,100	\$1,253	1,062	35	3.3%	52.0%	19.7%	47.5%	99.0%	90.7%	98.1%	78.9%
Kenai Peninsula	\$888	\$1,059	\$850	\$992	1,000	88	8.8%	67.1%	23.5%	64.3%	86.8%	72.6%	85.7%	76.5%
Ketchikan Gateway	\$990	\$1,122	\$984	\$1,094	389	36	9.3%	74.8%	33.9%	67.6%	50.6%	48.3%	50.6%	69.4%
Kodiak Island	\$1,288	\$1,448	\$1,250	\$1,419	363	29	8.0%	75.5%	9.1%	67.8%	97.8%	96.7%	97.8%	67.5%
Matanuska-Susitna	\$1,076	\$1,224	\$900	\$1,072	1,134	41	3.6%	47.6%	10.6%	46.2%	90.8%	70.9%	83.1%	70.2%
Sitka	\$979	\$1,230	\$900	\$1,163	276	23	8.3%	39.5%	8.7%	40.6%	13.0%	22.5%	26.1%	66.7%
Valdez-Cordova	\$1,189	\$1,365	\$1,100	\$1,300	237	14	5.9%	65.8%	34.2%	56.1%	78.5%	75.9%	78.5%	77.2%
Wrangell Petersburg	\$700	\$888	\$700	\$865	134	13	9.7%	53.0%	14.2%	44.0%	46.3%	49.3%	43.3%	54.5%
Survey Total	\$1,100	\$1,238	\$1,050	\$1,175	16,025	931	5.8%	73.8%	19.9%	72.4%	66.9%	86.4%	66.4%	82.1%

Note: Contract rent is the amount paid to the landlord each month, and it may include some utilities. Adjusted rent includes all utilities.
 Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section and the Alaska Housing Finance Corporation, Annual Residential Rental Market Survey

by less than 1 percent. Fairbanks was the only surveyed area whose rent fell, dropping 1 percent to \$1,199.

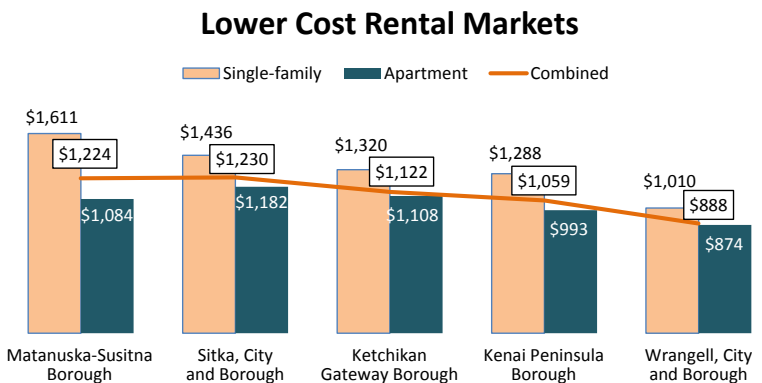
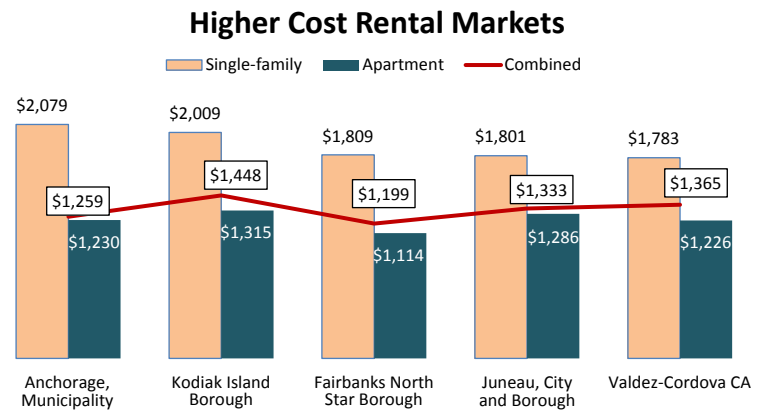
Changes in rents and vacancies affect more than 92,000 households in Alaska, or about a third of the state's total. Unlike home ownership, where monthly mortgage payments are established at purchase and remain fixed, rents are flexible and can move up or down in response to changing market conditions. Rents can be affected by changes in a community's population, jobs and wages, and the for-sale housing market. Though renters aren't insulated from price changes in the same way as homeowners, they can more easily change their housing costs by moving.

High and low cost areas

Some communities are consistently more expensive than others. Higher cost areas include some of the state's most populated, including Anchorage, Fairbanks, and Juneau. Lower cost areas in the survey are Wrangell, Kenai, Ketchikan, Sitka,

3 Higher and Lower Cost Markets

ALASKA RENTS, 2016



Note: Adjusted to include utilities
 Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section and the Alaska Housing Finance Corporation, Annual Residential Rental Market Survey

and the Matanuska-Susitna Borough — although Mat-Su is an unusual case.

Mat-Su, the second most populated borough, falls close to the middle of the spread, even with vacancies well below the statewide average the last five years and the fastest rate of rent increase in the survey over the last 10 years, at 44 percent.

Thirty percent of working Mat-Su residents commute to Anchorage, where wages are considerably higher. Mat-Su also has a much higher rate of homeownership than Alaska overall, at 76 percent versus 63 percent.

In all markets, rents are highest for single-family houses, but the difference between the average apartment and the average single-family home can vary greatly. In Wrangell-Petersburg, a single-family home costs \$136 more, or 16 percent. The spread is much greater in Anchorage, with a single-family home costing \$849 more, or 69 percent. (See Exhibit 3.)

Affordability remains constant

The rental affordability index looks at how many average wage earners are required to afford the average contract rent — the amount paid to the landlord each month — assuming 24 percent of gross income is available for rent.

Affording the average rent statewide requires a single wage earner. By area, Kenai and Wrangell-Petersburg are the most affordable, requiring less than a single earner, while Kodiak topped the charts by requiring 1.44 average earners.

Mat-Su, as discussed earlier, may have lower rent than some other places but it isn't necessarily more afford-

4 Rental Affordability Indexes

PAYCHECKS NECESSARY, 2000 AND 2016

	2000	2016
Municipality of Anchorage	0.96	1.00
Fairbanks North Star Borough	0.99	1.04
Juneau, City and Borough	1.27	1.17
Kenai Peninsula Borough	0.93	0.92
Ketchikan Gateway Borough	1.11	1.10
Kodiak Island Borough	1.43	1.44
Matanuska-Susitna Borough	1.25	1.26
Sitka, City and Borough	1.20	1.15
Valdez-Cordova CA	1.09	1.11
Wrangell Borough-Petersburg CA	1.09	0.92
Survey-wide	1.01	1.01

Note: The affordability index measures how many monthly paychecks it would take to afford the area's average rent, using the area's average wages.

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

able for borough residents because average wages are also lowest. A bit more than a quarter of an additional paycheck is required to afford the average rent in Mat-Su.

When looking back to 2000, we can see affordability hasn't changed much in most places. (See Exhibit 4.) Wages and rents have been moving mostly in tandem.

Vacancies go down slightly

The survey-wide vacancy rate of 5.8 percent was down nine-tenths of a percentage point from 2015, but equal to the 10-year average. (See Exhibit 5.)

5 How Vacancy Rates Have Changed

ALASKA AREAS, 2000 TO 2016

	2000	2002	2004	2006	2008	2010	2012	2014	2016
Municipality of Anchorage	4.3%	6.2%	5.2%	6.9%	4.7%	1.8%	2.6%	3.2%	3.8%
Fairbanks North Star Borough	8.3%	5.8%	9.9%	12.0%	10.6%	5.0%	8.3%	15.6%	11.2%
Juneau, City and Borough	5.0%	3.8%	4.2%	4.9%	5.5%	4.1%	3.2%	3.4%	3.3%
Kenai Peninsula Borough	12.3%	5.1%	13.0%	9.4%	8.0%	8.6%	5.5%	6.7%	8.8%
Ketchikan Gateway Borough	13.4%	17.8%	7.5%	8.4%	7.1%	12.0%	8.2%	10.4%	9.3%
Kodiak Island Borough	7.5%	7.4%	8.2%	5.5%	4.0%	1.3%	2.3%	5.7%	8.0%
Matanuska-Susitna Borough	6.2%	3.3%	5.0%	9.3%	5.6%	5.3%	3.5%	5.3%	3.6%
Sitka, City and Borough	8.1%	2.9%	4.4%	6.2%	11.9%	7.8%	7.7%	7.2%	8.3%
Valdez-Cordova CA	4.8%	8.3%	26.2%	8.6%	7.6%	6.4%	3.1%	3.5%	5.9%
Wrangell Borough-Petersburg CA	17.5%	22.1%	8.2%	12.7%	8.8%	4.4%	4.4%	5.6%	9.7%
Survey-wide	6.6%	6.8%	7.2%	8.2%	6.7%	3.9%	4.4%	6.2%	5.8%

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section and the Alaska Housing Finance Corporation, Annual Residential Rental Survey

Fairbanks' vacancy rate of 11.2 percent was the highest in the survey but down considerably from last year, when it topped 16 percent, and only slightly below its five-year average of 11.4 percent. Military movements and population changes have historically factored into Fairbanks' vacancy rate shifts.

Anchorage (3.8 percent) and Juneau (3.3 percent) both have historically low vacancy rates. In Anchorage, the 2016 vacancy rate is right at the 10-year average, also 3.8 percent. Juneau's 3.3 percent is the same as its five-year average but below its 10-year average of 4.1 percent.

Vacant units say a lot about the rental market. When vacancies are low, the market is "tight" and the demand for units is high, indicating the potential for rents to rise. Because renters are competing for a limited number of units, landlords can charge more. In the long term, low vacancies may be incentive for developers to create more housing.

High vacancies show there are more rentals on the market than there is demand for, and landlords are under pressure to lower rents or offer incentives to attract tenants. Changes in vacancy rates can also mean renters are being attracted to or priced out of homeownership, or that the population is shifting.

When a community's vacancy rate changes, the important questions include: Has there been an influx of new residents? Have home prices fallen, making ownership an attractive alternative? Has a new industry come or gone, affecting jobs and wages? Has credit become easier or harder to come by, affecting the feasibility of ownership?

Although there's no consensus on an ideal vacancy rate, it's generally considered to be between 6 and 7 percent. Some level of vacancy at a variety of sizes and price points is necessary to accommodate renters coming and going. Also, between renters, landlords need to clean, paint, update, and show units to prospective tenants, all of which require periods of vacancy.

Vacancies put pressure on landlords to remain competitive, which benefits tenants by providing them with choice, and therefore power. With tenants having the choice of where to live, landlords have the incentive to compete for their dollars by keeping units in good repair, being responsive to existing tenants, and keeping prices competitive. Without some level of vacancy, this incentive disappears.

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