

# THE 2017 RENTAL MARKET



Vacancy rates up in most places, average rent increases slightly

By **KARINNE WIEBOLD**

(See exhibits 1 and 2.)

The rental housing market hasn't suffered significant setbacks as a result of the recession and area markets vary, but the overarching trend of near-flat rents and increased vacancies indicate the market is softening.

According to the March 2017 rental survey, Alaska's average rent for all unit types plus utilities increased by just \$7, or 0.6 percent, from last year. The overall vacancy rate rose from 5.8 percent to 7.3 percent.

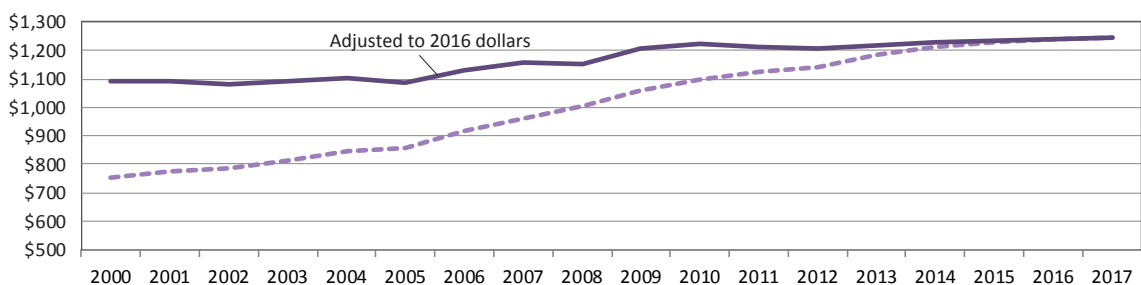
## Overall vacancy above average

Vacancy rates have been trending upward since 2010, reaching a decade high this year (7.3 percent) that's well above the 10-year average of 5.8 percent. But for historical perspective, the current rate is also about what it was in 2009 and 2007, years Alaska was not in a recession.

Vacancy increased in most areas, and when combined

## 1 Average Rent Plus Utilities Remains Fairly Steady

ALASKA, 2000 TO 2017



Notes: Inflation adjustment uses 2016 dollars, as 2017 is not yet available.

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section and Alaska Housing Finance Corporation, 2017 Rental Market Survey

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## Rental Costs and Vacancy Rates by Area

ALL UNIT TYPES, MARCH 2017

Survey Area	Average Rent		Number of Units		Percentage of Units with Utilities Included in Contract Rent							
	Contract*	Adjusted*	Total	Vacant	Vac Rate	Heat	Light	Hot Water	Water	Trash	Sewer	Snow
Anchorage, Municipality	\$1,143	\$1,269	8,306	422	5.1%	75%	22%	79%	49%	95%	49%	88%
Fairbanks North Star Borough	\$1,066	\$1,208	3,001	367	12.2%	89%	15%	77%	91%	84%	91%	77%
Juneau, City and Borough	\$1,174	\$1,305	1,003	57	5.7%	55%	22%	52%	99%	93%	97%	81%
Kenai Peninsula Borough	\$891	\$1,054	1,107	125	11.3%	66%	28%	63%	86%	73%	85%	75%
Ketchikan Gateway Borough	\$1,006	\$1,110	473	47	9.9%	80%	29%	74%	47%	43%	48%	73%
Kodiak Island Borough	\$1,302	\$1,433	375	26	6.9%	76%	10%	69%	97%	94%	97%	66%
Matanuska-Susitna Borough	\$1,103	\$1,253	1,212	92	7.6%	51%	17%	50%	90%	65%	86%	70%
Sitka, City and Borough	\$1,039	\$1,319	345	26	7.5%	36%	9%	36%	13%	20%	22%	55%
Valdez-Cordova Census Area	\$1,179	\$1,337	258	12	4.7%	70%	34%	61%	78%	77%	78%	80%
Wrangell Borough/Petersburg CA	\$744	\$944	158	20	12.7%	44%	9%	31%	41%	46%	41%	53%
<b>Survey wide</b>	<b>\$1,111</b>	<b>\$1,245</b>	<b>16,654</b>	<b>1,222</b>	<b>7.3%</b>	<b>73%</b>	<b>20%</b>	<b>72%</b>	<b>66%</b>	<b>85%</b>	<b>66%</b>	<b>81%</b>

\*Contract rent is the amount paid to the landlord each month, which may or may not include some utilities. Adjusted rent is rent plus all utilities.

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section and Alaska Housing Finance Corporation, 2017 Rental Market Survey

with near-flat rents it indicates diminished demand for rental units.

While the state's population continued to grow overall through 2016, the most recent year available, more people left Alaska than moved in for the last four years, which likely affected the pool of potential renters.

Vacancy rates in Anchorage and Juneau, two traditionally tight markets, remain well below the statewide average at 5.1 percent and 5.7 percent respectively, but both rates are up significantly from 2016, when they were in the 3 percent range. Both cities have been hit by job losses, led by state government declines in Juneau and losses in the oil and gas industry and in professional and business services in Anchorage.

Vacancy rates ranged from 9.9 percent to 12.7 percent in Ketchikan, Kenai, Fairbanks, and the Wrangell-Petersburg area. All four areas' vacancies increased from 2016, and all but Ketchikan are above their 10-year averages. Vacancy rates in small areas can be particularly volatile from year to year, though, so longer periods are necessary to establish a trend.

### Average rent up 0.6 percent

In 2017, average rent including utilities was \$1,245, up just 0.6 percent from 2016. The slight increase was in line with prior years, as rent increases have been minimal over the last eight years.<sup>1</sup> (See Exhibit 1.)

<sup>1</sup>All rents in this article are adjusted for inflation.

### 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 16,500 units provide insight into statewide and local market conditions.

Rent jumped by \$51 from 2008 to 2009, but since then, increases have averaged just \$5, which factors in two years of rent declines over that period (by less than \$10 in 2011 and 2012).

This year, rent went up in half of the 10 surveyed areas, with the largest rent increases in Sitka (7 percent) and Wrangell-Petersburg (6 percent). The Matanuska-Susitna Borough's average rent went up 2 percent, and Anchorage and Fairbanks saw small rent increases of less than 1 percent.

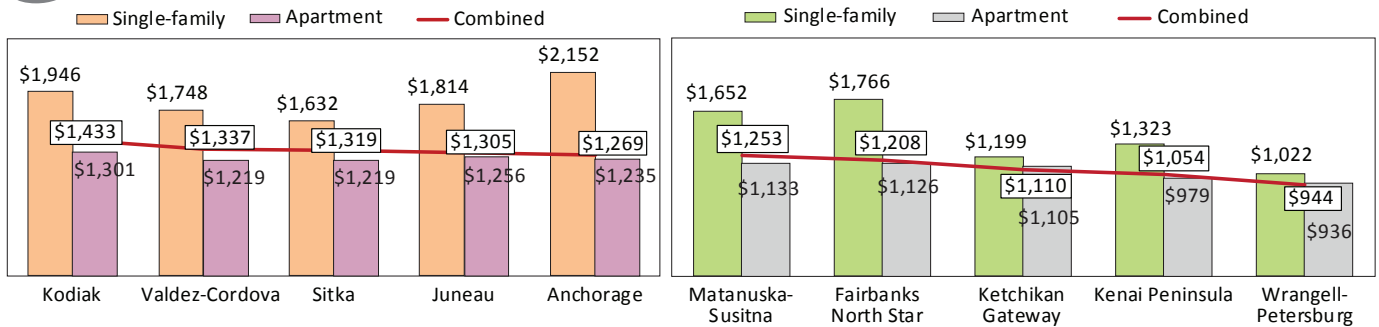
Rent fell in five areas in 2017. Juneau and Valdez-Cordova rents declined by 2 percent and Ketchikan, Kenai, and Kodiak rents dipped by about 1 percent or less.

### How many paychecks needed to afford rent

The rent and utility affordability index estimates how

# 3 Average Rent Plus Utilities in Higher and Lower Cost Markets

## ALASKA BOROUGHES AND CENSUS AREAS, MARCH 2017



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section and Alaska Housing Finance Corporation, 2017 Rental Market Survey

many average wage earners it takes to afford the average rent, including utilities, assuming 30 percent of gross income is available for rent. (See Exhibit 4.) Households are considered cost-burdened if they spend more than 30 percent of total income on rent and utilities.

Affording the average rent statewide requires less than one average monthly paycheck, but affordability ranges from a low of nine-tenths of a paycheck in Anchorage to a high of one full paycheck plus an additional third in Kodiak. Kodiak, the Matanuska-Susitna Borough, and Sitka require substantially more than a single average paycheck to afford rent. However,

renting in Mat-Su requires less than a single paycheck for workers who commute to Anchorage, which has higher average wages.

Fairbanks and Juneau affordability values have shifted considerably since 2000, but in different directions.

A single Fairbanks wage earner had more wiggle room in 2000, when 83 percent of an average paycheck could pay the rent, but now it's almost a full monthly wage. Fairbanks rent increased by 25 percent over that period, when adjusted for inflation, while income growth lagged at 9 percent.

In Juneau, a single wage earner can now afford the average rent, down from 1.12 paychecks in 2000. Income has grown by 9 percent in Juneau since 2000 as well, but average rent was 2 percent lower in 2017 than in 2000, when adjusted for inflation.

# 4 Number of Paychecks Needed to Afford Rent

AFFORDABILITY INDEX, INCLUDES UTILITIES

	2000	2010	2017
Anchorage, Municipality	0.82	0.88	0.90
Fairbanks North Star Borough	0.83	0.98	0.95
Juneau, City and Borough	1.12	1.04	1.01
Kenai Peninsula Borough	0.83	0.88	0.89
Ketchikan Gateway Borough	1.01	0.99	0.98
Kodiak Island Borough	1.26	1.32	1.33
Matanuska-Susitna Borough	1.10	1.08	1.18
Live in Mat-Su, work in Anchorage	0.83	0.79	0.89
Sitka, City and Borough	1.19	1.20	1.22
Valdez-Cordova Census Area	0.95	1.00	1.00
Wrangell Borough-Petersburg CA	0.98	0.97	0.98
<b>Survey wide</b>	<b>0.87</b>	<b>0.92</b>	<b>0.92</b>

Note: Index factors in an area's average wages and average rent plus utilities.

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

## Overview of area rental markets

### Anchorage

The typically tight Anchorage rental market loosened up in 2017. Vacancy increased from 3.8 percent to 5.1 percent, and rent went up by less than 1 percent (\$10).

Anchorage had a building boom between 2002 and 2007, during which it added nearly 3,300 new multi-family units. After that, construction slowed to an average of just under 200 new multi-family units per year. The vacancy rate hit a low of 1.8 percent in 2010, then began to climb again and has been on the rise since. This year's rate is the highest in the past 10 years and well above Anchorage's decade average of 3.5 percent.

The recent rise in vacancy is likely tied to the city's

job losses. Anchorage’s average monthly employment in 2016 was down by about 3,000 from the previous year.

Anchorage’s average rent for all unit types combined has remained near flat for the past decade, with the last significant increase in 2009.

### **Matanuska-Susitna**

Rent and vacancies both increased in the Matanuska-Susitna Borough in 2017, sending mixed signals.

Mat-Su, which leads the state in new housing construction, built approximately 250 new multi-family units each year from 2014 to 2016, which likely led to more vacancies.

The vacancy rate more than doubled this year, from 3.6 percent to 7.6 percent. The current rate is well above the decade average of 5.1 percent but lower than it was in 2005 and 2006, when it exceeded 9 percent.

Average rent has been on the rise in Mat-Su over the past 10 years, and it increased 2.4 percent this year, to \$1,253.

### **Kenai Peninsula**

The rental market in the Kenai Peninsula Borough has softened, with vacancies up and rents down. Average rent decreased by \$5 this year, or half a percent, after a jump of \$60 in 2016 that followed nearly a decade of mostly moderate increases.

The vacancy rate increased from 8.8 percent to 11.3 percent, which is the area’s highest rate since the mid-2000s and well above the decade average of 7.6 percent. Kenai’s vacancy rate topped out at 13 percent in 2004.

Kenai lost about 400 jobs from 2015 to 2016, which likely contributed to its higher vacancy rate and decrease in average rent.

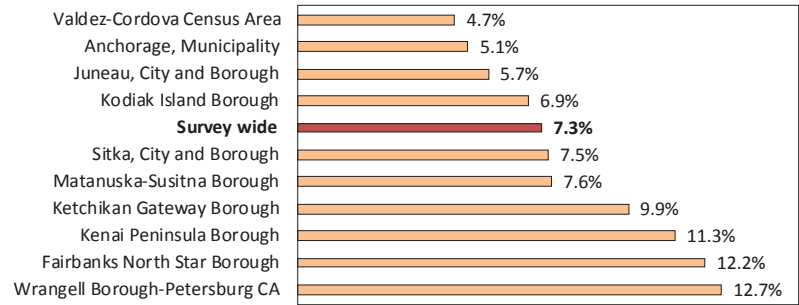
### **Kodiak**

Kodiak’s short-term indicators seem contradictory, with fewer vacancies in 2017 plus a decrease in rent, although the longer-term trend is a weaker market with higher vacancy and lower rent.

The vacancy rate fell to 6.9 percent in 2017 from 8.0 percent the year before, but it’s still above the decade average of 4.3 percent and has been rising since 2010.

# 5 Vacancy Rates by Area

## MARCH 2017



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section and Alaska Housing Finance Corporation, 2017 Rental Market Survey

Kodiak is one of the few places in the U.S. where the Coast Guard provides a significant amount of its own housing and requires it to be filled before service people can rent in the local market. The Coast Guard buckled down on that requirement a couple of years ago and last year added about 20 units to its housing inventory.

Kodiak also lost 200 jobs between 2015 and 2016, and the military population decreased by about 7 percent between 2012 and 2016. These factors, combined with the new Coast Guard housing units and shifts in housing requirements, are likely contributors to the area’s long-term rise in vacancy.

Average rent fell by \$5 in 2017, although at \$1,443 it remains the highest among surveyed areas. Inflation-adjusted rent in Kodiak has declined by 1.9 percent since the 2010 peak of \$1,472.

### **Fairbanks**

The average rent in Fairbanks — \$1,208, including utilities — increased by nearly a percent after falling in 2016, but it’s 2.4 percent lower now than when it peaked in 2010, when adjusted for inflation.

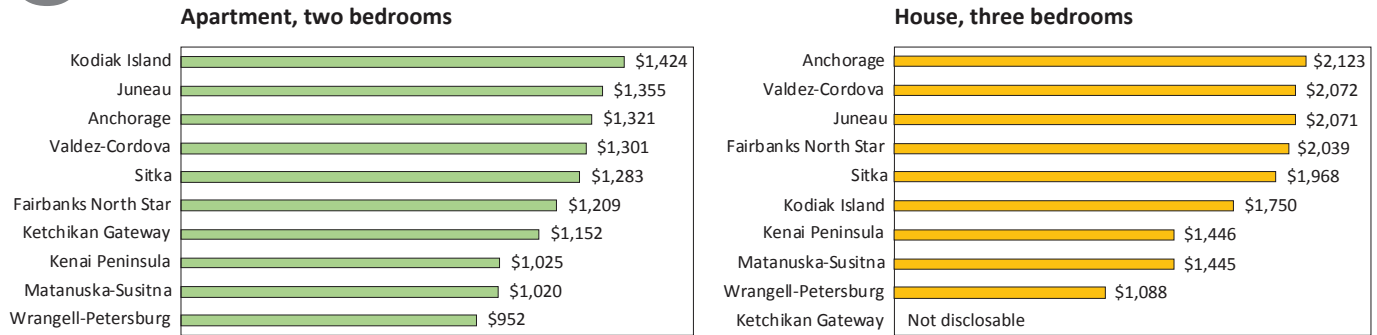
Fairbanks’ vacancy rate has swung widely over the past decade. The rate rose to 12.2 percent in 2017, up a full percentage point from 2016 but lower than in 2014 and 2015 when it hovered near 16 percent, its most recent peak. At the opposite extreme, vacancy hit a low of 5 percent in 2010. The 10-year average is near 11 percent, but in the past five years it’s been closer to 13 percent.

Fairbanks, whose rental market is influenced by the millitary and the university, lost population for several years until growing slightly in 2016. The area’s total population declined by about 1,700 people from 2012 to 2016, the most recent period available.

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## Average Rent Plus Utilities by Unit Type

BY BOROUGH OR CENSUS AREA, MARCH 2017



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section and Alaska Housing Finance Corporation, 2017 Rental Market Survey

The borough also lost 600 jobs from 2015 to 2016.

### Juneau

Juneau's rental market, which is generally tight, opened up somewhat over the past year as rents went down and the vacancy rate went up. Juneau's rent fell by 2.1 percent, to \$1,305, and the vacancy rate rose from 3.3 percent to 5.7 percent.

Vacancy had been in the 3 percent range for the past six years, although the rate was higher in 2005 and 2009 than it is now.

New construction is one likely factor in the shifting rates. Permits for new multi-family units increased significantly in both 2014 and 2016, totaling more than 300 new units, and those permitted in 2016 could further affect the vacancy rate, depending on when they become available.

Employment loss is also a likely contributor, as the area lost about 300 jobs from 2015 to 2016.

### Sitka

Unlike most areas, Sitka's rental market appears to be tightening despite the loss of 300 jobs from 2015 to 2016. Sitka's vacancy rate declined by nearly a percentage point in 2017 and rents went up 7.2 percent, more than any other surveyed area.

Sitka's vacancy rate of 7.5 percent is below its 10-year average of 8.5 percent and down from 8.3 percent in 2016.

Rent has bounced around in the past decade, from below \$1,200 for several years to as high as \$1,310 in 2006. Rents have been on an upward trend since 2014.

This year's increase of nearly \$90 is a large jump, but rent fell by a nearly equal amount from 2010 to 2011. Small areas like Sitka can be particularly sensitive to annual swings.

### Valdez-Cordova

The rental market in Valdez-Cordova sent mixed signals in 2017, with rents and vacancies both down from the year before. Rent fell 2.1 percent, to \$1,337, and the vacancy rate dropped from 5.9 percent to 4.7 percent, the lowest in the survey this year.

Rents in Valdez-Cordova have been up and down nearly every other year for the past decade. Rents and vacancies are more volatile in smaller areas, as a small number of units can spur large percent changes.

While the decade average for vacancies is 5.6 percent, the area's rate has also been volatile, spiking over 9 percent twice in the last decade and falling below the current rate in four of the last 10 years.

### Ketchikan

The rental market in Ketchikan, which typically has low rents and relatively high vacancy rates, appears to be softening in the short term but the long-term indicators are harder to read. The vacancy rate rose slightly in 2017 and average rent decreased 1.1 percent, to \$1,110.

Ketchikan's inflation-adjusted rent hit a high of \$1,123 in 2010, then fell below \$1,100 and remained there for the next five years.

While the 2017 vacancy rate of 9.9 percent is considerably above the statewide average, it's lower than

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## Monitoring doesn't necessarily mean controlling

Finally, with all the comparisons to control panels, it's important to note that the ability of policy makers, businesses, or anyone else to move the measures in the short term is limited. Sound policy making, wise investments, and an entrepreneurial citizenry can help create long-term economic health, but state economies are far too large, stable, and complicated to either crash or soar in the short term based on the pull of this or that lever.

In that sense, our economy is more like a glider than a plane. If it's well constructed and maintained, it's much more likely to fly well in a variety of conditions, many of which are largely out of our control.

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average for Ketchikan and lower than it was in five of the last 10 years. Ketchikan's decade average vacancy rate is 10.4 percent.

#### ***Wrangell-Petersburg***

Wrangell-Petersburg's survey results were mixed, with rent and vacancies both spiking in 2017. Average rent was \$944, up 6.3 percent, which was the second-largest rent increase this year, after Sitka.

Until 2016, Wrangell-Petersburg's rent had been on a slow decline for much of the last 10 years. The area has the lowest rent but also the lowest average wages of surveyed areas.

The area vacancy rate hit 12.7 percent this year, up from 9.7 percent in 2016 and far above the decade average of 6.9 percent. This year's rate is also the highest since it topped out at nearly 19 percent in 2005, after which it remained elevated for the next two years.

Wrangell-Petersburg is the smallest area surveyed, and small areas tend to have large swings in vacancy rates.

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