Recommendations to Amend P&Z ADU Proposal to Address the Anchorage Housing Affordability Outlook

Developed by Mark A. Foster & Associates (MAFA)
Developed for Rogers Park Community Council / Anchorage Assembly
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MAFA Disclosures:

- Mark A. Foster, dba Mark A Foster & Associates (MAFA), is a semi-retired business management consultant, entering his 38th year of professional engineering, economic and business management consulting across Alaska, U.S. and International markets.

- Current commercial clients:
  - Peter Pan Seafood Litigation Support

- Current advisory board stipend clients:
  - University of Alaska Anchorage, Institute of Social and Economic Research, Center for Alaska Education Policy Research, Collaborative Research: Sufficient Compensation for Retention and Equity (SCORE). National Science Foundation, Robert Noyce Teacher Scholarship Program

- Current and recent pro bono clients:
  - Pacific Environment: Benefits and Costs of Net Zero by 2050 for Alaskan Jobs and Economy
  - Alaska Center for Energy & Power: Railbelt Electric Net Zero by 2050
  - Renewable Energy Alaska Program: Assessment of the Economics of a Railbelt Renewable Portfolio Standard (80% by 2040)
  - Rogers Park Community Council: Recommendations to Amend P&Z ADU Proposal to Address Anchorage Housing Affordability Outlook

- Mr. Foster has owned and rented houses in Anchorage since 1989 and currently owns/operates an ADU within his primary residence in Anchorage.
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Executive Summary
Peer Review Literature on Short Term Rentals and Affordable Housing Findings

• Short-term rentals drive higher housing prices, reducing local housing affordability\(^1\)

• Absentee landlords are moving properties out of the long term rental and for-sale markets and into the short-term rental market, reducing the housing supply, which, in turn, increases the cost of living for local renters.\(^2\)

• Deregulated ADU policies are associated with growth in short term rental market share and higher rental and home prices, reducing local housing affordability – compared to communities/neighborhoods with ADU policies which include owner-occupancy requirements.\(^3\)

• Owner-occupancy requirements associated with home sharing, including ADUs, mitigate against rent and housing price escalation and improve the outlook for affordable housing\(^4\)
Executive Summary
Local Anchorage Housing Market Changes Parallel the Peer Review Findings

• Growth in short term rentals appear to be driving rental price growth in Anchorage:
  • Recent rapid growth in the development of and conversion to short term rentals (+31% increase in Anchorage area AirDNA listings YOY 1st Qtr 22 vs 19)\(^5\) was associated with a large escalation in overall market rental rates (+14% rental rate increase in Anchorage YOY March 22 vs 21)\(^6\) compared to the prior five-year trend of essentially flat nominal rental rates.
  • The growth in short term rental market listings accelerated across 2022 (2-4th Qtrs)\(^7\) and is poised to continue into 2023\(^8\) -- even without the proposed P&Z ADU proposal which appears likely to exacerbate, not ameliorate, the trend in rental and housing price escalation in the absence of Short-Term Rental (STR) mitigation measures.
Executive Summary
Local Anchorage Housing Market Developments Considerations

• Growth in local incomes have generally outpaced housing costs over the past three decades in Alaska and in Anchorage.9

• In contrast, the current outlook, reflecting the dramatic growth in short term rentals in 2022 and projections through 2023 and associated increase in local rental prices, present a serious and substantial challenge to local housing affordability.

• The proposed deregulation of ADUs presents a material risk that the associated growth in ADUs will chase high value short term rentals, similar to what has been found in other housing markets, exacerbating the recent uptick in rent and housing cost escalation in Anchorage.

• If Alaskans are successful in harvesting billions in federal subsidies associated with the Bipartisan Infrastructure Law (BIL) & Inflation Reduction Act (IRA) over the next few years, infrastructure spending can be expected to drive an increase in demand for seasonal construction worker housing, further exacerbating rent and housing price escalation and diminishing rent and housing affordability compared to our previously favorable affordability trends over the last three decades.
Executive Summary

Recommendations

• Retain the existing requirement that either the primary residence or the ADU must be owner-occupied to mitigate against excessive rent and housing price escalation associated with the shift to short-term rentals.

• Retain the existing purpose clause that highlights the development of affordable housing in the community of Anchorage is a goal of Anchorage planning, zoning and housing policies.
Executive Summary Endnotes

1. Barron, Kyle, Edmund Kung, and Davide Prosperio, “Research: When Airbnb listings in a City Increase, So Do Rent Prices,” Harvard Business Review, Economics, April 17, 2019, “…that means in aggregate, the growth in home-sharing through Airbnb contributes to about one-fifth of the average annual increase in U.S. rents.”

   - “Taken together, our results are consistent with the story that, because of Airbnb, absentee landlords are moving their properties out of the long-term rental and for-sale markets and into the short-term rental market.”
   - “…absentee landlords are reducing the housing supply, which, in turn, increases the cost of living for local renters.”


5. AirDNA, Anchorage Short Term Rental Market Listings, 1st Qtr 2022 vs 1st Qtr 2019 (pre-COVID)

6. State of Alaska, Department of Labor and Workforce Development, Research & Analysis, Alaska Economic Trends, September 2022, Anchorage’s historic rent increase drove survey total, Gunnar Schultz, p. 4

7. AirDNA, Anchorage Short Term Rental Market Data, 2019-2022

8. AirDNA, Anchorage Short Term Rental Market Data, 2023 Outlook

Market Data/Analysis

• Anchorage Housing Market Review
• Peer review literature on affordable housing, ADUs and Short-Term Rentals
• Subject Matter Expert Testimonials on Short Term Rentals
• Anchorage vs. Large Metro Homelessness & Rents
• Anchorage Jobs Outlook
Alaska & Anchorage Market Review
Anchorage Housing Markets

Alaska Economic Trends September 2022, Higher rents, fewer vacancies, Gunnar Schultz, pp. 4-9

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

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

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section
Anchorage Housing Markets
Alaska Economic Trends September 2022, *Higher rents, fewer vacancies*, Gunnar Schultz, pp. 5-6

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.
Anchorage Housing Markets
Alaska Economic Trends September 2022, Higher rents, fewer vacancies, Gunnar Schultz, pp. 6

Why is the rental market so tight?

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.

MAFA NOTES:
1. Anchorage sales price pct chg < Statewide Total
2. Alaska sales price changes < U.S.
3. Home sales market prices is likely a relatively minor factor retaining prospective home buyers in rental market in Anchorage relative to other markets in Alaska or the U.S.
Anchorage Housing Markets

Why is the rental market so tight?

Some rentals transitioning to Airbnbs

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.

Numbers of short-term rental listings in surveyed Alaska areas

![Graph showing significant increase in short-term rental listings in Alaska areas.](image)

Source: AirDNA

MAFA NOTES:
1. Short-term rental listings in surveyed Alaska areas were dramatically higher in 2022 vs 2021 & 2022 vs 2019 (preCOVID)
2. Short-term rentals are highly likely a major factor driving higher rental prices in surveyed Alaska areas (which is likely dominated by Anchorage data)

+31% 22/19 Q1

+40% 22/19 Q2
Anchorage Housing Markets

AirDNA Anchorage Short Term Rental Market Data Review, Monthly Active Listings, 2022 vs 2019

Anchorage Short Term Rental Market Monthly Active Listings, 2022 vs 2019

+615 active listings from 2022 vs. 2019
Anchorage Housing Markets

AirDNA Anchorage Short Term Rental Market Data Review, Monthly Occupancy Rate, 2022 vs 2019

Monthly Occupancy Rate remains high (and seasonal) even with dramatic expansion in total listings
Anchorage Housing Markets
AirDNA Anchorage Short Term Rental Market Data Review, Booking Demand, Listing Nights Booked, 2022 vs 2019
Anchorage Housing Markets
AirDNA Anchorage Short Term Rental Market Data Review, Total Market Revenue, 2022 vs 2019
Anchorage Housing Markets

AirDNA Anchorage Short Term Rental Market Data Review, Rate History

Average Daily Price: 2022 vs. 2019
Anchorage Housing Markets
AirDNA Anchorage Short Term Rental Market Data Review, Rate Outlook

Booked Rate: 2023 projected vs 2022

Booked Rates in 2023 are projected to run 22% to 33% above 2022 through July.
Review of Peer Review & Academic Literature & Subject Matter Expert Testimonials
Peer Review Literature Findings

=> Short-term rentals drive higher housing prices, reducing local housing affordability
=> Deregulated ADU policies are associated with growth in short term rental market share and higher rental and home prices, reducing local housing affordability

• Barron et al (2021); Koster et al (2021); Horn and Merante (2017); Garcia-Lopez et al (2020); Valentin (2021) all show that Airbnb has a positive causal effect on the prices [price escalation] of both the rental and housing markets
  • Barron, et al (2021) found that home-sharing through Airbnb alone is responsible for about 20% of the average annual increase in U.S. rents

• Jain et al (2021) show that Airbnb data can be used as a leading predictor of gentrification [restoration and upgrading of housing stock, often resulting in displacement of lower-income people as prices rise faster than incomes], indicating that Airbnb contributes to the gentrification of the neighborhoods it enters

• Bekkerman et al (2021) summarized that it’s well known that one of the downsides of short-term rentals is that they can reduce the availability of housing for long-term residents, thus driving up both rents and house prices for locals.

• Bekkerman et al (2022) found that not all short-term rentals are the result of reallocation of housing stock from long-term rentals to short term rentals. Some short-term rentals are created as the result of new housing units [e.g., ADUs] being added to the city’s housing stock.
  • Demand for short-term rentals has been driving the creation of extra housing capacity...and short term rentals have been driving growth for housing that is suitable for home-sharing, i.e., ADUs
  • Short-term rental regulation, e.g., owner occupancy requirements, can mitigate gentrification associated with the growth in short term rentals which have been driving higher housing and rental prices.
Recent Subject Matter Expert Testimonials
David Wachsmuth, Canada Research Chair Urban Governance, McGill University, Montreal, CBC Interview, December 15, 2022:

• “I was a little surprised to see [a Halifax Councillor insisting on more information, more data is needed on short term listings] because I think at this point it really is very clear what the impact of short-term rentals have been on housing.”
  • “It's also very clear what the kind of viable paths forward are because cities across the country…and actually really across the world...have been implementing rules. We have a lot of evidence about what's working and what's not working. It's hard for me to understand why having a little more time for staff to do a little more research would really make any difference at all.”

• "If you allow commercial short-term rentals...you're not going to have any overall impact on the number of homes...that have been taken off the [local residence market] market [and shifted to short term rentals...reducing supply for local year-round residents and driving up prices & reducing affordability for local year-round residents]"

• "The goal isn't to get rid of short-term rentals. The goal is to encourage more home sharing, where people are actually living in the units they are renting out occasionally, and less commercial short-term rentals. Let's make sure that we don't lose our full-time housing stock to full-time, short-term rentals."

• "If you go back...10 years and look at Airbnb, it's mostly home sharing..."
• "...over the course of the last decade that ratio [commercial short-term rentals versus home sharing] has flipped upside down."
• "...fewer than 10 per cent of the listings are making a majority of all of the money"
• "...home sharing listings...have been pushed to the margins by a relatively small number of commercial operators"
• "...that's why, on the whole, cities and provinces are looking to restrict those small number of commercial operators who are having an outsized negative impact on housing [affordability]."
Short Term Rental Outlook
U.S. Real Estate Investment Sector Reporting

- Economic concern is riding high as the year closes, but data shows the vacation rental industry remains stronger than expected in our outlook report for 2023 [U.S. 2023 Short-Term Rental Outlook, AirDNA, December 12, 2022]
  - Interest in vacation rental stays has exceeded high expectations; actual demand exceeded the 21% forecast increase in 2022; 2023 growth projected at 6% YOY
  - Number of active listings grew by 21% in 2022, number of night supplied grew 25%; 2023 growth projected at 9% YOY
  - Short term rental premiums (vs. new mortgage payments) moderate as interest rates rise
  - Short term rental demand continues to outpace auto trips, hotel demand, total travel spending, air passenger growth rates

- During a down market, demand for rental homes tends to increase as economic uncertainty makes it challenging to purchase a home. The uptick in demand can create new opportunities for property owners seeking renters as well as real estate agents who want to build a new client base in the rental space. In November, JPMorgan Chase & Co’s asset-management team arm announced it was acquiring more than $1 billion in single-family rentals – the rental market is poised for a massive year in 2023 despite the state of the economy. [Michael Lucarelli, Forbes Council Member, December 22, 2022]
Anchorage versus Large U.S. Metros: Homelessness & Rents
Large U.S. Metro Homelessness & Housing Costs

Recent national studies

Homelessness is a Housing Problem: How Structural Factors Explain U.S. Patterns, Gregg Colburn, Clayton Page Aldern, University of California Press, March 2022

**Housing-Related Factors Predict Rates of Homelessness**

Over the course of the book, the researchers illustrate how absolute rent levels and rental vacancy rates are associated with regional rates of homelessness. Many other common explanations—drug use, mental illness, poverty, or local political context—fail to account for regional variation.
Anchorage Homelessness & Housing Price Trends

Anchorage regression analysis with available data (2012-2022) paralleling regression analysis for Large U.S. Metros by Colburn & Aldern (2022)

Rescale & map onto regression analysis for Large U.S. Metros for comparison

Municipality of Anchorage:
Avg. Contract Rent versus Point In Time Homeless Count Per 1,000, 2012-2022 Panel Data
(Avg. Contract Rent in 2019$)

\[
y = -0.0048x + 9.431
\]

\[R^2 = 0.2067\]
How does Anchorage map onto the Large U.S. Metros Homelessness & Rental Cost picture? Anchorage is a distinct outlier compared to Large U.S. Metros

While national studies indicate absolute rent levels and rental vacancy rates are associated with homelessness, the data from Anchorage (2012-2022) tell a different story. From 2012-2022 it does not appear that the relatively low rent levels and moderate rental vacancy rates in Anchorage are correlated with homelessness – suggesting homelessness in Anchorage is driven by other factors. Nonetheless, the recent rapid rise in rental rates and reduced rental vacancy rates may contribute to additional homelessness.
Alaska Jobs Outlook
Alaska / Anchorage Jobs Outlook
Alaska Economic Trends, January 2023

Statewide forecasted job recovery to pre-pandemic levels, by industry

Anchorage's forecasted job recovery to pre-pandemic levels, by industry

Infrastructure bill to boost jobs tied to construction for five years

Anchorage is also the state's construction industry headquarters, so the city will benefit disproportionately from the billions in federal infrastructure money that will begin as a trickle this year, then grow larger over the next five. While the specific projects aren't yet clear, the consensus is some will begin this year.

On top of this massive federal stimulus, the capital budget for fiscal year 2023 of $2.7 billion is more than three times higher than the previous fiscal year.

The availability of skilled labor will partly determine how much employment growth will result. The shortage of construction materials is another concern, as some supply chain problems wrought by the pandemic remain unresolved.

An uptick in the oil industry and construction, especially with the infrastructure bill, will also lift the professional and business services sector in 2023. Architectural, engineering, environmental, and other consulting services represent over half of these jobs.
MAFA Relevant Qualifications

- Residential construction market analysis (1982)
- Alaska residential real estate market analysis (1986)
- Alaska vs. CONUS Economic/Market Analysis
  - Telecom Act of 1996
  - Affordable Care Act 2010
  - CARES Act/Coronavirus Relief Funds (2020-2022)
  - Bipartisan Infrastructure Law (BIL, 2021)
  - Inflation Reduction Act (IRA, 2022)
- Anchorage rental market assessment and transactions (2014)
- Anchorage home ownership market assessment and transactions (2018)
References

- Peer review and academic working papers/reports
- Subject Matter Expert Testimonials
- U.S. & Alaska & Anchorage Market Data/Analysis
References
Peer review and academic literature references, page 1 of 2


- Boeing, Geoff, Max Besbris, David Wachsmuth and Jake Wegman, “Tilted Platforms: rental housing technology and the rise of urban big data oligopolies,” Urban Transformations, 2021, 3:6,


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Peer review and academic literature references, page 2 of 2

- Colburn, Gregg, and Clayton Page Aldern, Homelessness is a Housing Problem: How Structural Factors Explain U.S. Patterns, University of California Press, March 2022
- Einav, Liran, Chiara Farronato, and Jonathan Levin, “Peer-to-peer markets,” Annual Review of Economics, 2016, 8, 615-635
References, annotated
Subject Matter Expert Testimonials

• David Wachsmuth, co-author: Short-term rentals in Canada: Uneven growth, uneven impacts, Jennifer Combs, Danielle Kerrigan, David Wachsmuth, School of Urban Planning, McGill University, Canadian Journal of Urban Research, Summer 2020, Volume 29, Issue 1, pages 119-134
  • The key findings from the research is that the growth of STRs has come at the expense of both housing availability and affordability in cities around the world, both by facilitating the conversion of apartments and homes into dedicated short-term rentals and by increasing the economic value of properties which host STRs either full time or part time. These trends have been magnified by increased commercialization in the rental sector.
  • Airbnb activity is growing at substantially higher rates in small towns and rural areas

• MAFA NOTE: Commercialization of the short-term rental market has accelerated in 2021 and is slated to continue to increase across 2022 and into 2023 as commercial aggregators and investment bankers look for bargains in markets with moderation in housing price growth relative to short term rental return outlooks.
  • See for example, Joint Center for Housing Studies at Harvard University, “The State of the Nation’s Housing 2022 (2022), tabulation of CoreLogic data through 2021, available at:
  • See for example:
    • Economist
    • Financial Times
References, annotated
Reports/Articles

- **AirDNA:**
  - Anchorage Short-term rental market data, 2017-2022 (accessed January 4, 2023)
  - Anchorage Short-term rental market outlook, 2023 (accessed January 4, 2023)
  - U.S. 2023 Short-term rental outlook, December 12, 2022

- **The economic costs and benefits of Airbnb: No reason for local policymakers to let Airbnb bypass tax or regulatory obligations**, Josh Bivens, Economic Policy Institute, January 30, 2019
  - The economic costs Airbnb imposes likely outweigh the benefits
  - Airbnb might suppress the growth of travel accommodation costs
  - Rising housing costs are a key problem for American families, and evidence suggests that the presence of Airbnb raises local housing costs
  - The potential benefit of increased tourism supporting city economics is much smaller than commonly advertised
  - Property owners benefit from Airbnb’s capacity to lower the transaction costs of operating short-term rentals, but the beneficiaries are disproportionately white and high-wealth households
  - The shift from traditional hotels to Airbnb lodging leads to less-reliable tax payments to cities
  - City residents likely suffer when Airbnb circumvents zoning laws that ban lodging businesses from residential neighborhoods
  - Because Airbnb is clearly a business competing with local hotel lodging, it should be subject to the same taxation regime as hotels
References, annotated
Reports/Articles

- Alaska Economic Trends, Alaska Department of Labor & Workforce Development, Research & Analysis
  - Alaska Housing Market Tightens Further: Prices Jump in 2021 with high demand, low interest, Rob Kreiger, June 2022, pp. 4-8
    - Low interest rates have kept Alaska housing affordable in recent years (Alaska affordability improved by 19% from 2009 to 2021), p. 6
    - Affordability held in 2021 despite rising home prices (Alaska affordability improved by 8% from 2019 to 2021), p. 7
    - Anchorage affordability improved by 10% from 2019-2021, p. 7
    - One of Alaska’s most affordable housing scenarios is Anchorage workers buying Mat-Su homes. Anchorage wages were 32 percent higher than Mat-Su in 2021 while Mat-Su’s average home price was 18 percent lower, p. 8
  - Higher rents, fewer vacancies: Anchorage’s historic rent increase drove survey total, Gunnar Schultz, September 2022, pp. 4-9