

Economic Recovery - Newspaper Article

It's time to take economic action

Picture this scene: a very ill patient is laying in a hospital bed. His original case of influenza is nearly gone, but it was so severe that it left him susceptible to pneumonia, which is now threatening his recovery. His vital signs are deteriorating and his prognosis is uncertain.

But oddly, the doctors can't decide what to do! They're huddled in another room, locked in heated debate. Should they do anything, or should they just let nature take its course? If they do "do something," what should it be? Who should do it? Who should get the credit if it works? Who might get blamed if it fails?

Does this scene sound preposterous? It is, but it could happen right here in Alaska. In case you haven't already guessed, the pneumonia patient is the Alaska economy, and the doctors are its elected officials, business leaders, journalists and economists.

As the debate drags on, Alaska is entering its third year of recession. But in recent months, the relevance of the debate has increased. We now have more of an opportunity to stop the deterioration than we had before. The reason is that the nature of our problem has changed.

Two years ago, a large drop in oil prices left a hole in our economy that couldn't be filled. Period. But after losing nearly 10 percent of our jobs and people since then, we have completed most of the necessary downsizing. Our new problem is controlling the financial aftermath of such a sudden and severe adjustment.

That, however, is doable. Financial damage control is much more realistic than trying to immediately replace billions of dollars in lost oil revenue. Yet, the payoff could be enormous.

Indeed, one should not underestimate the damage further financial deterioration could cause and the corresponding benefits of preventing it.

There was nothing about the 1929 stock market crash and ensuing recession that, in themselves, forced the U.S. into a decade-long depression. Rather, it was excessive adherence by policymakers to the "let nature take its course" doctrine during the following five years. That moral doctrine is what led Congress and the central bank to stand idly by while the financial aftermath snow-balled and wiped out nearly



By Scott Hawkins

one-third of the nation's banks, crushed its real estate and business asset values and perpetuated the economic downturn.

Sound familiar? Those that see no parallel between the U.S. in the early 1930s and Alaska in the late 1980s should look again. Four of Alaska's 14 banks have failed in the past year, and they were four of its largest seven. Two are in FDIC receivership and two more were merged with each other and given reprieve through an infusion of capital. Business and real estate assets have plunged in value. Long-time, well-established Alaskans have gone bankrupt.

The potential for yet another cycle of foreclosures, bankruptcies, liquidations, falling asset values, falling financial institutions, job losses, etc., is very real. The FDIC has yet to dispose of the loans and real estate that it is already holding in receivership. Several other banks and thrifts are considered vulnerable, and the newly merged bank has yet to come to grips with the massive portfolio of real estate and troubled loans.

The manner in which these troubled assets are managed will be crucial. If the various managers put short-term cash recovery as their highest priority, they will deal with debtors rigidly and market the foreclosed properties and business assets aggressively.

Obviously, this would further depress asset values and prolong Alaska's financial deterioration. Yet, how can individual managers be expected not to strive for short-term cash recovery, especially in today's business environment?

Several ideas have surfaced in recent weeks. Permanent Fund director Dave Rose has suggested that the state establish a "bridge bank" that would swap stock for real estate with the FDIC and other financial institutions, and then hold those properties off the market or manage them with the intention of stabilizing the market. When the properties are liquidated gradually over period of years, the proceeds — minus expenses — would be returned to the stockholders.

Sealaska and the state Commissioner of Commerce and Economic Development, Tony Smith, are investigating a real estate investment trust (REIT) that would buy up properties, hold them for a period of time, and sell them gradually. It would be funded by native corporations, wealthy Alaskans, not-so-wealthy Alaskans and perhaps even the state.

The organization I represent, the Anchorage Economic Development Corporation (AEDC), has proposed something very similar to Dave Rose's "bridge bank." We would establish a statewide non-profit, non-governmental affiliate to purchase the FDIC's portfolio of loans and properties and manage both with a long-term view toward economic stabilization. Our purchase would be funded by the proceeds of a long-term bond issuance that, depending on how it is structured, may require a "moral backing" or capitalization loan from the state.

Once the FDIC purchase is complete, our concept can be expanded so that some of the troubled assets of other banks and thrifts can be purchased as well. Any surplus revenues that this non-profit corporation realized (in excess of expenses and debt service) would be returned to state and local governments for distribution as economic development block grants.

All of the above proposals are compatible and mutually reinforcing and all seek to stop Alaska's financial deterioration by marketing troubled assets less aggressively. They would stop the deterioration of real estate and business asset values by easing the aggressive competition among sellers. The economy would "hit bottom" sooner, values would begin to recover sooner, and virtually everyone would benefit. A public purpose would be served.

But this is not an issue that can wait a year. If nothing significant is done soon, nature will take its course. And we may or may not like the results.

Economist Scott Hawkins is president of the Anchorage Economic Development Corporation.

Legislature Must Intervene

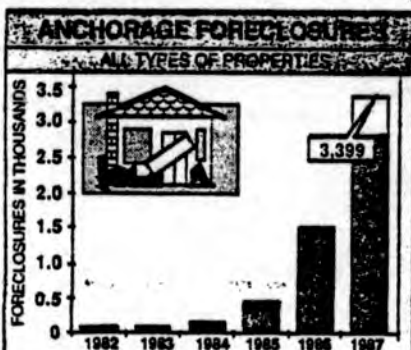
ALASKA'S ECONOMY

A monthly look at economic indicators



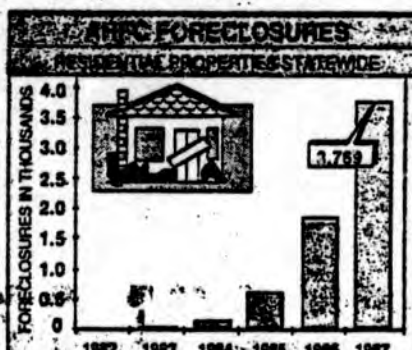
Source: Alaska Dept. of Labor

The number of jobs in Alaska and Anchorage continued to fall in December, meaning the recession continues. But the rate at which they're falling is slowing. Strongest sectors in Anchorage are oil and gas, shipping and trucking, food stores and federal jobs. Weakest are construction, restaurants/bars, finance, insurance, real estate. The big service sector showed a small decline.



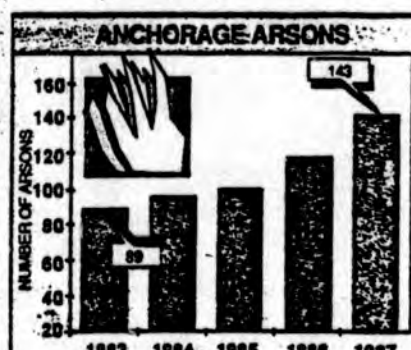
Source: Mosaic Computer Services Inc.

Real estate foreclosures set a record last year with 3,399, up 124 percent from 1986. Most of these foreclosures were houses. In 1986 foreclosures grew the most: 216 percent.



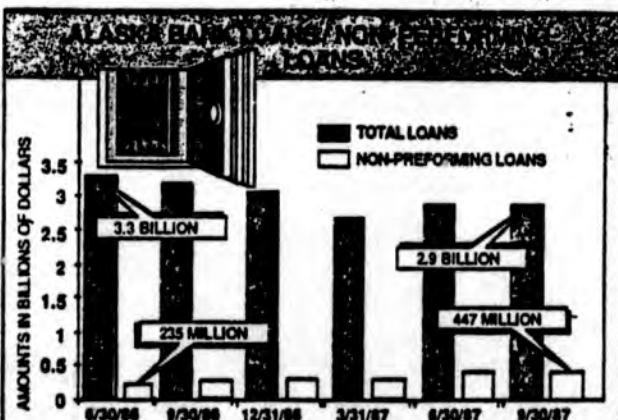
Source: Alaska Housing Finance Corp.

AHFC has financed most of the housing loans in Alaska this decade. Foreclosures grew 102 percent last year. About 850 foreclosures, or 23 percent, were mobile homes.



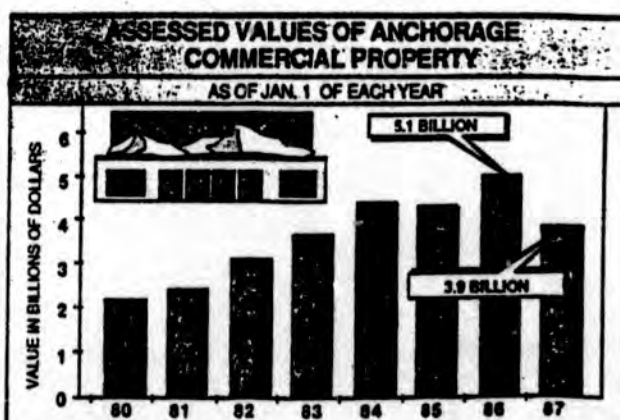
Source: Anchorage Fire Department

Arsons in Anchorage totaled 12 percent of all fires last year, more than double the level of 1985. A poor economy likely is to blame in part, said Robert Taylor, a city fire inspector.



Source: Shearman & Co. Inc., bank financial reports, Alaska Division of Banking

The level of bad loans at Alaska banks is rising while the total number of loans made has fallen off. Non-performing loans total about 16 percent of all loans at Alaska banks, about three times the national average.



Source: Municipal Assessor's Office

Commercial real estate assessed values peaked in 1986 at \$5.1 billion. Assessments made a year ago showed total values of \$3.9 billion, down 24 percent. New assessments for this year are due in March.

ALASKA ECONOMY: Question of state real estate bailout can be confusing

Continued from Page C-1

bill white

State bailout or not?

Questions, yes; answers, sort of

If you don't keep your head down these days, you're likely to get stung by all the hysterical rhetoric shooting through the air about the Anchorage commercial real estate market.

Cash reserves are depleted! Thousands of our friends and neighbors are near ruin! Crashing real estate values will topple hundreds of businesses and mercilessly throw thousands of people out of work! The FDIC will brutally dump its real estate holdings and spread misery everywhere! The Japanese and other OUTSIDERS are ready to swoop down and seize control of Anchorage! The recession is going to become a depression that's going to last for years and years! Oh, despair!

That's a lot of hysteria and rhetoric all right. What's the truth, what's really going on? An Anchorage legislator asked me that last week, as he was being besieged to lend his endorsement to a state rescue effort.

I have an answer, or rather answers. Unfortunately, they are not definitive. But I hope by laying out what I have learned the level of discussion will rise.

First, I must say the hysteria has been focused exclusively on commercial or investment real estate. This has nothing to do with saving your home. Don't be fooled when you hear the words "save our real estate." They're talking about your home.

Now for one of the truths: The legislator asked me for: "Is it a little over a month ago, there wasn't much hysteria at all. But suddenly, members of the Get Government Off Our Backs Party defected and organized under a new banner."

The State Owes Us a Bailout Party, whose emblem is an open hand.

Another truth: Buying Anchorage real estate during the early to mid-1980s was one of the most incredibly bad investments since Hunt brothers tried to corner the silver market. The Alaska Housing Finance Corp. is selling its foreclosed houses at 1981 prices. And just about anybody who bought commercial or investment real estate since 1982 and still owns it probably is eligible for the Dummy Hall of Fame.

This, of course, is hindsight.

Commercial real estate is overbuilt. Rents are falling. Vacancies are rising. This hurts landlords. Obviously, nobody — not the builders, buyers or lenders — saw the fall coming, or they would have stayed away from real estate.

But despite rising foreclosures, only a small number of properties have gone back to lenders. A relatively larger number of commercial real estate loans are troubled.

Commercial real estate assessed values have fallen far. In Anchorage, the total value fell 24 percent last year to \$3.9 billion. This year's number will be out next month, and it's likely to be down again.

GETTING A FIX

As hard as I have tried, I cannot get a solid fix on the state of the commercial real estate market. No one else seems to have one, either.

The main problem is that lenders from all over the nation have financed Anchorage real estate investments.

Bob Motznik of Motznik Computer Services Inc. last week searched local property appraisal records and found that Weyerhaeuser Mortgage Co. owns 47 parcels, Great Western Savings Bank owns 14, Fleet Real Estate Funding has 21, Firemans Fund Mortgage Corp. owns 14 and City Federal Savings Bank has 44.

Ever heard of any of those guys? That's what they foreclosed on. Who knows what local loans still are active with them.

But some pretty good pieces of the picture can be had. For example, Alaska bank financial reports reveal a lot.

Alaska banks — this excludes credit unions and savings and loans — had assets of about \$5.2 billion as of Sept. 30. Of that, about \$165 million, or 3 percent, is listed

as "other real estate owned," which is where they put their foreclosed property. A year earlier they owned \$98 million in OREO. That's a 68 percent increase in a year.

Some people make a mistake right here. They assume the \$165 million is all foreclosed commercial property in Anchorage. It's not. A lot of it is houses and land. A lot of it isn't in Anchorage.

Of that \$165 million total, \$70 million — or 42 percent — was held by Alaska Mutual Bank, United Bank Alaska and United Bank Alaska Southeastern, which have since been saved by the FDIC and reformed as Alliance Bank. Alliance needs to sell its real estate, but it won't dump it because that would cause more foreclosures.

Another \$33 million — or 20 percent — was held by Alaska National Bank of the North and First Interstate Bank of Alaska, which later failed and shut down. The FDIC picked up the real estate.

Ah yes, the dreaded FDIC property.

This property is the focus of much hysteria. The FDIC is going to dump it, sending commercial real estate values spiraling down, according to the Bailout Party. No we won't, says the FDIC. Will too. Will not. And on and on.

Well, what exactly is it that the FDIC owns in Anchorage and should the state buy it?

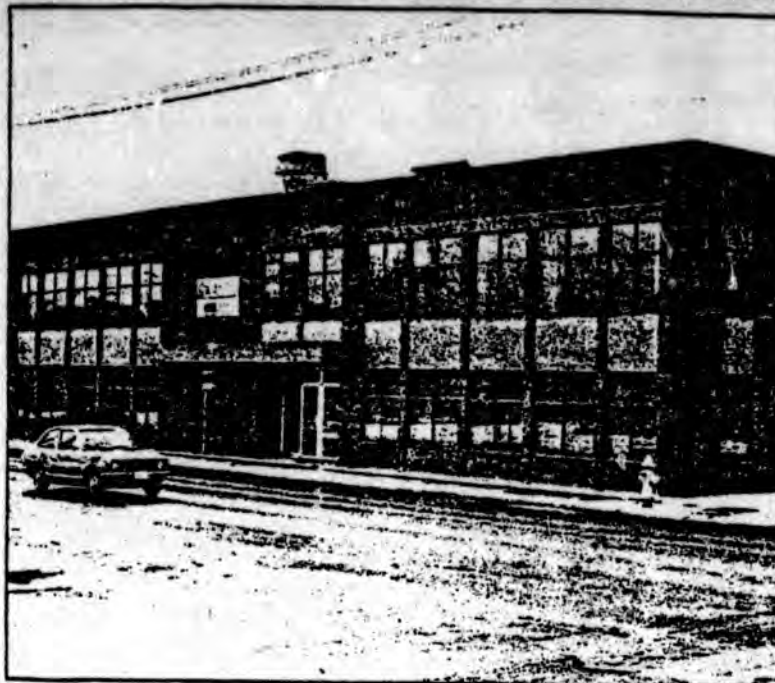
According to the list the agency gave me, it owns 57 condos, 82-plus lots or raw land parcels, one zero-lot-line, seven single-family homes, a duplex, six fourplexes, two apartment buildings, a day-care facility, an office condo, two industrial buildings, a warehouse condo, two hangars at Merrill Field, and an abandoned, dilapidated hotel in downtown.

This is the stuff that's going to vaporize the commercial real estate market in Anchorage? Not hardly.

Another agency whose stockpile of commercial real estate holdings we can see is the Alaska Industrial Development and Export Authority, which provided low-cost state money for development.

AIDEA has 14 properties worth \$8.2 million that it has foreclosed on in Anchorage. They are a Diamond Boulevard strip mall, a grocery store, three retail/warehouses, a small office building, five offices/warehouses, an office/shop, an office condo and a single-family house.

It would be a mistake to leave you with the impression



The economic downturn in recent years has caused many vacancies in office buildings.

that all of the foreclosed commercial property is junk. A nice downtown office building or two is owned by the lender.

BAD LOANS

The bank financial reports also can tell us about bad loans on their books. A certain amount of these bad loans involve real estate. A certain amount will be foreclosed on.

As of Sept. 30, Alaska banks had \$447 million in non-performing loans, on which payments were at least 90 days past due. This is up 54 percent from one year earlier. The pace at which loans are becoming "non-performing" is slowing, according to Willis Kirkpatrick, the state's top banking regulator.

The \$447 million represents 15 percent of the banks' total loans of about \$2.9 billion. That percentage is three times the national average.

Non-performing loans secured by real estate totaled \$292 million on Sept. 30, up from \$140 million on June 30, 1986.

Non-performing business and other loans totaled \$153 million, up from \$75 million 15 months earlier. Some business loans — for inventories, accounts receivable, etc. —

are in trouble because of real estate investments. For example, Alaska Statebank has a strong real estate loan portfolio and a relatively weaker business loan portfolio. Ralph Whitmore, head of the bank, said some businessmen who borrowed also made real estate investments that soured; these investments are draining the business. Whitmore noted his bank's non-performing loan portfolio has stabilized in recent months.

Through the Bank of the North and First Interstate closures, the FDIC has about \$200 million in loans. Because nobody wanted to take them from the FDIC, we can assume these loans are real stinkers.

What can be concluded is that something less than \$447 million in local bank loans will go bad, some of which involve real estate foreclosures.

THE JAPANESE

This still leaves some of the rhetoric unchallenged.

To get answers, I had lunch recently with most of the commercial agents at Jack White Co., a local real estate agency. These agents are the guys who sell commercial and investment property. They

put tenants and landlords together.

This is what they told me about the market (there wasn't unanimity on all these points):

• A few commercial sales have happened, mostly tenants buying their buildings. A Seattle investor bought 168 apartment units last fall.

• Financing is difficult to get. Local lenders are very conservative and the secondary lenders Outside won't touch Alaska, although they have helped finance a lot of Anchorage real estate investments.

• After long resistance, bankers about six months ago started agreeing to lower payments and other breaks for distressed borrowers.

• Japanese and Outside institutional investors aren't hovering over Anchorage waiting to buy until the market hits bottom. Most properties aren't high enough quality to interest them. The best properties are occupied and not for sale.

• Rents for the class A properties are falling, and vacancies are rising. This is a double whammy for the owners. They're right on the break-even point. Some owners have done OK because they had tenants locked in on old leases. As these leases

expire and the tenants renegotiate their rents, the pressure on rents to fall will continue.

• As much as 100,000 square feet might have come on the market because of bank closures and mergers last year.

POLITICS

Real estate has been the source of tremendous wealth in Anchorage. In the early 1980s boom, real estate also was connected to a certain amount of economic activity. Lots of jobs were created for construction workers, bankers, title company employees, real estate agents. The sources of this growth largely were state-financed construction projects and state-subsidized mortgages.

We do know this wealth is falling. As I said, assessed values of Anchorage commercial property declined a big 24 percent last year.

Falling real estate values do suck potential growth out of the economy. Investors can't cash in their equity and spend it on new wealth. They might have to tap other funds to keep their real estate investments afloat.

The question is: What is greater, the amount of growth lost by the absence of potential investment money in a bum real estate market, or the amount of new wealth created by expansion of basic economic sectors?

As I have written in the past, the federal government and oil industry are growing. These are two of the four basic industries in Anchorage. The other two are state government and tourism, both of which are off a bit. Most other sectors — which rely on the solidity of the four basic industries — are still shrinking, but more slowly than in the past.

Most economists predicting the recession will bottom out this year say basic economic growth will out-muscle the opportunities lost by dropping real estate values; this does not mean the values won't drop farther.

Those arguing for a bailout — many of whom have heavy real estate investments — take the opposite position. They want the legislature to purchase foreclosed property and warehouse them to buy a bottom to the market.

Who is right?

You can make up your own minds. It's not an economic question anyway.

This is politics.

□ Bill White is business editor of the Daily News.

Anchorage Daily News - Sunday, February 7, 1988

fdic foreclosures

The following is a list of real estate owned in Alaska by the Federal Deposit Insurance Corp. The FDIC obtained the property after the closure of Security National Bank in 1988 and of Alaska National Bank of the North and First Interstate Bank of Alaska last fall. The FDIC supplied the list.

ANCHORAGE
Hotel, corner of West 8th Avenue and C Street, in need of extensive repairs.
Two hangars at Merrill Field, 4,200 square foot office building, 26 paved tie-downs.
Shop of 4,600 square feet, office of 3,200 square feet, 7040 Homer Drive.
Nine-unit warehouse condo, 230 E. Potter, 1,178 to 2,419 sq ft per unit.
Industrial building, 6340 Petersburg St., two story, 12,476 sq ft.
Seven office condos, 201 Barrow St., 993 to 3,600 sq ft.
Day-care facility, 101 Davis, 3,254 sq ft.
Apartment building, 4534 Lake Otis Parkway, 38 units.
Mara Cates Apartments, 310-320 W. 32nd St., six two-bedroom units, 12 one-bedroom units.
Three fourplexes, 9521, 9531 and 9541 Morningglade, each unit contains two bedrooms, two baths.
Fourplex, 7410 Nancy St., each unit has two bedrooms, one bath, 792 sq ft.
Fourplex, 7410-7420 Nancy St., each unit has two bedrooms, one bath, 792 sq ft.
Fourplex, 7400 Nancy St., each unit with two bedrooms, one bath, 650 sq ft.
Duplex, 1437 Birchwood, each unit contains two bedrooms, one bath, 1,160 square feet.
Single-family house, 4228 Laurel St., four bedrooms, two baths, two-car garage, 1,872 sq ft.

aidea foreclosures

The following is a list of real estate owned by the Alaska Industrial Development and Export Authority. The state agency helps finance commercial development through low-interest state financing. AIDEA acquired the property in loan foreclosures.

ANCHORAGE
Shopping mall, 300 E. Diamond Boulevard, 27,820 sq ft.
Grocery store, 2600 E. 10th Ave., 6,988 sq ft.
Retail/warehouse, 3243 Commercial Drive, 4,200 square feet.
Retail/warehouse, 7900-7910 King St., 6,172 sq ft.
Retail/warehouse, East 6th Avenue and Juneau Street, 13,600 sq ft.
Office building, 444 H St., 4656 sq ft.
Office/warehouse, 2121 Abbott Road, 12,000 sq ft.
Office/warehouse, 1418 Spar.
Office/warehouse, 6841 Fairbanks St., 7,500 sq ft.
Office/warehouse, 6236 Hansen Way, 13,394 sq ft.

Single-family house, 10506 Prospect Drive, three bedrooms, three baths, garage and carport.
Single-family house, 8220 Kip Court, three bedrooms, two baths, garage, 1,700 sq ft.
Two single-family houses, 1151 and 1153 W. 71st Ave., each with four bedrooms, two baths, 2,688 sq ft.
Zero-lot-line house, 6060 Clear Haven Circle, three bedrooms, 2 1/2 baths, two-car garage.
Two condos, 9810 and 9820 Morningglade, each two bedrooms, two baths, one-car garage, 716 to 759 sq ft.
Twelve condos, 201 Barrow St., units typically having 2-3 bedrooms, 1 1/2 baths, 700 to 1,100 sq ft.
Condo, 2020 W. 35th Ave., townhouse style, two bedrooms, one bath, 700 sq ft.
Six condo units, 11301 and 11311 Pyramid Drive, each with two bedrooms, one bath, garage, 786 sq ft.
Sixteen condos, Lakeside Street, each with three

bedrooms, 2 1/2 baths, 1,270 square feet.
Three one-bedroom condos, 409 Taylor St., each with one bath, 540 sq ft.
Six ten condos, 4000 Sager St., each with three bedrooms, 2 1/2 baths, two-car garage, 1,820 sq ft.
Plex, condos, 324 E. Dowling Road, three-story townhouse style, each with three bedrooms, 2 1/2 baths, two-car garage, 1,782 sq ft.
Two-bedroom condo, 3608 Lois Drive, one bath, carport, 700 sq ft.
Eleven single-family lots, East 57th Avenue and Klans.
Twenty single-family lots off Jewel Lake Road and West 80th Avenue; commercial lot at Dowling Road and the Gerdard Highway frontage road.
Four single-family lots, 100th Avenue.
Two lots, 1.81 and 3.81 acres, on east side of

Office/warehouse, 6161 B St., 9,500 sq ft.
Office/shop, 5001 Eagle St., 10,550 sq ft.
Office condo, 101 9th Ave., unit A-7, 860 sq ft.
Single-family house, 4228 Laurel St., 1,872 sq ft.

OUTSIDE ANCHORAGE
Wesley, retail/warehouse, Airport Heights subdivision, 24,098 sq ft.
Palmer, vacant lot, Shaw Tr-Lakes #2.
Anchor Point, Keystone Center shopping mall.
Homer, office building on Kachemak Drive, 11,792 sq ft.
Homer, shopping mall/office building, Kachemak View Addition, 8568 sq ft.
Chitna, garage.
Valdez, retail/office, Mineral Creek Subdivision.
Fairbanks, J. McCall Inc. yard, Mile 7 of Richardson Highway.
Fairbanks, River Shopping Mall.
Fairbanks, grocery store/apartment building.
Central, 4,400 sq ft big lodge on 3.8 acre lot.
Barnes, hangar at Barnes Airport.
Juneau, Jordan Creek Office Condo, 1,193 sq ft.
Sitka, 18 units of 20,000 sq ft business park.

Seward Highway between Huffman and O'Malley roads.
Lots totaling 720,676 sq ft, north of Dowling Road, south of Alpine Apartments.
Lots, Vacant Circle, Birchwood Estates Subdivision.
Sixteen lots, Vacant Circle of West 80th Avenue.
Single-family lot, 227 Potter, currently contains old, dilapidated building.
Fourteen patio lots, Park Down Estates.
Five single-family lots, about 20 miles north of Anchorage off the Glenn Highway, .93 to 1.84 acres.
Single-family lot, 6821 Cheryl St.
Raw land on Stamp Circle off Upper DeArmon Road, 1.17 acres.
Raw land, East 1/2 addition subdivision.
EAGLE RIVER
Single-family house, Junita St., three bedrooms, 2 1/2

baths, car port, 734 sq ft.
Single-family house, 8900 Tostee, three bedrooms, 1 1/2 baths, garage, 1,844 sq ft.

PALMER
Motherlode Lodge at Hatcher Pass, two story recreational lodge with restaurant, lounge, 17 guest rooms on 4.80 acres.
Single-family house, 7875 Woodview Drive, 3 bedrooms, 2 baths, spa, 1,859 sq ft.
Single-family house, 17550 Mead Road, three bedrooms, 1 1/2 baths, 1,440 sq ft.

Single-family residence, 250 Albrecht, two bedrooms, 1 1/2 baths and 1,130 sq ft.

Single-family residence, 230 Albrecht, three bedrooms, one bath, 1,148 sq ft.

Mobile home, 10701 Oak Circle and Marsh Road, 52,25x12-foot Fleming, two bedrooms, one bath, 675 sq ft.

Single-family and commercial lots, and a single-family home, Palmer-Wasilla Highway, 15 residential lots, two commercial lots.

Raw land, 730 Isenberg Circle, 5.77 acres, electricity, gas and water available.

Raw land, Mile 91 of Parks Highway, 80 undeveloped lots 1 1/2 miles east of Highway.

Raw land, Clark-Wolverine Road, 20 undeveloped acres on Lazy Mountain.
Raw land, Clark-Wolverine Road, 50 undeveloped acres on Lazy Mountain.
Raw land, eight miles east of Palmer, four acres near Polar Raceway.

WASILLA
Commercial office space, near Carr's Mall, 8,578 sq ft.
Shop/warehouse, 5251 Mayflower Lane, 4,800 sq ft.
Shop, 3,200 sq ft. warehouse, 1,800 sq ft. office.
Office condo, Fairbrook Road, Unit A.

Fourplex, 680 Recluse Circle, each unit with two bedrooms, one bath, 1,000 sq ft.

Single-family house, 5650 Alderwood Drive, three bedrooms, two baths, 950 sq ft.

Single-family house, Amberwood Subdivision, three bedrooms, two baths, 1,405 sq ft.
Single-family house and barn, 760 Hyer Road, three bedrooms, 2 1/2 baths, workshop.
Single-family house, Longbeach Subdivision, three bedrooms, two baths, garage, 1,594 sq ft.
Single-family house, 3550 Banner Way, five bed-

rooms, two baths, upgraded, 3,016 sq ft.
Single-family house, 300 Schwalbe Drive, three bedrooms, two baths, deck, 1,640 sq ft.

Two lots, Amberwood Subdivision, 40,000 sq ft. each, private well and septic tank.
Six parcels raw land, Mile 80 Parks Highway, 238 acres.

Raw land, Mile 80 Parks Highway, commercial/industrial zoning, five acres, unimproved.
Raw land, Mile 80 Parks Highway, 238 acres, 68 lots.

BIG LAKE
Office/locks, Burtchore Subdivision, 9,200 sq ft of office space, 33 units of storage space with a dock and shop area.

Thirty half-acre lots, north of Edgerton Highway at mile 7.2.

TALKEETNA
Nine lots, one acre each.

SEWARD
Fourplex, 1902-1904 Phoenix, each unit with two bedrooms, two baths.
Lots, 1.48 acres, gravel road access, no utilities.

STERLING
Two single-family homes, 1st Street, one with two bedrooms, one bath, 1,342 sq ft., the other has three bedrooms, one bath and 1,440 sq ft.

SOLDOTNA
Restaurant, 44315 Sterling Highway, the old Wendy's Restaurant.

SENAI
Two lots, Merle Avenue, near Nishik, set up for a mobile home.
Raw land, 910 Third St., 33 acres.

Raw land, mile 14.1 Kasilof Ferry River Road, 58.76 acres, no road access.

HOMER
Fourplex, 105 Bayview, each unit with two bedrooms, two baths.
Single-family house, Old Sterling Highway, four bedrooms, 1 bath.

Condo, 1394 Lakeshore.
Condo, Landings Condo, two bedrooms, one bath, 776 sq ft.
JUNEAU
Restaurant, 7099 Old Glacier Highway, the old Wendy's restaurant.

The real estate market: Some good news, but more bad

The current real estate depression is the worst one in the history of Alaska. In some areas, buyer demand is nonexistent.

The effects are far-reaching. It has hurt everyone from the multi-millionaires who no longer have deep pockets to the mobile homeowner who has lost all equity. The depression has caused six banks to fold. When a bank closes the doors, it's not only the stockholders and employees who suffer, but also the real estate owner who no longer collects rent from a prime tenant.

Here are some specifics:

Single Family Homes — The price drop averaged 30 percent in two years. Appraisers now use a value decrease of -1 percent per month for homes priced below \$160,000. (Four years ago it was plus 1 percent per month.) A flood of higher priced homes came on the market in '85 and '86 caused by the "golden handshake" policy of oil companies, which sent new retirees out of Anchorage. Most of these homes have now been absorbed and the inventory is down from last year. In short, the worst is over and upper-priced homes should not decline much more in value.

Condos — Prices have dropped 50 percent in two years. Sales are negligible. There's no financing for many units, and the oversupply is so huge that there's no hope for a solution in the foreseeable future.

Mobile Homes — Similar to the condo problem. What can be done with thousands of vacant units?

Apartments — The overall vacancy rate is about 25 percent with much higher vacancies in lower end and older buildings. In three years the rent on a two-bedroom apartment has dropped from \$750 per month to \$450.

Sale prices have also nosedived. A 78 unit project that sold for \$46,000 per unit in '84, resold in '87 for \$15,400 per unit. Prices have tumbled below replacement costs and are at the level obtained in the early '70s. Four-plexes that sold for \$250,000 a few years ago now sell for \$100,000 to \$150,000.

Office Space — The overall



By
Sewell F.
Faulkner

vacancy rate has climbed to about 22 percent or a total of 1,700,000 square feet in Anchorage. This is equivalent to six Hunt Ensearch buildings standing vacant. Rents have decreased 33 percent in two years. Most buildings now have a negative cash flow because rent receipts do not cover maintenance and debt service.

Industrial Space — Construction and oil service companies have been the main users and with construction flat and oil drilling way down, the result is lots of vacant space. Warehouse rents have plummeted from a high of \$.85 to as low as \$.35 per square foot per month.

Retail Space — Indoor malls have good occupancy with the exception of the new Fifth Avenue Mall, which is a super addition to downtown Anchorage and probably the nicest mall in the state. Rates have decreased 50 percent in a hodgepodge of strip malls that never should have been built and occupancy is low. Good quality, well-planned strip malls are 90 percent full.

Commercial Land — We know of only two sales of commercial land in the entire municipality in 1987. Despite a completely dead market, there has been no dumping at give away prices yet.

Residential Land — Aside from a few lot sales there were no large sales of residential land in 1987.

Recreational Property — From the Mat Valley to the Kenai, the demand for cabins and remote sites was way down; i.e., we know of only three waterfront parcels that sold in all of Kachemak Bay in 1987.

Alyeska is one exception to the above; well-located chalets are holding their value. The im-

mediate future for Alyeska is bright, mainly because work starts this year on the first phase of the new 30 million dollar hotel, serial tramway, surface lifts and restaurant. Also, Robert Trent Jones has completed a design study for a championship golf course on municipal land near Alyeska. Unfortunately, as in Anchorage, there is an over supply of condos and some prices have dropped 50 percent from their '84 high.

Summary — The above real estate report is probably the most dismal ever written in Alaska and possibly the most dismal ever created by a real estate broker. In short, the stock crash on Oct. 19, in proportion, is nothing compared to the two year bash in Southcentral Alaska real estate.

So, what's ahead?

What can be done?

There are two answers.

The first is to sit back and hope something unpredictable will solve our problems. This is a possibility and has happened before. Examples are the 1973 Middle East war that caused oil prices to skyrocket or the 1964 earthquake that produced a reconstruction boom.

The second answer is not to try to conquer a multi-billion dollar problem in one swoop but to work on it from many fronts. Inching forward with a number of solutions could definitely help put some confidence back in our economy. Here are a few specific areas that could help:

1. Economists should quit burying their heads in sand and simple job statistics and examine the real estate segment, especially commercial real estate.

2. Lenders, whether individuals or institutions, should realize that workouts are much better than foreclosures. Lower debt costs are a necessity for most property owners.

3. Bankers and/or the Federal Deposit Insurance Corporation should refrain from dumping real estate that could further depress the market. At the same time, we should be very grateful to the F.D.I.C. for the huge investment it has made in our econ-

omy.

4. Certain attorneys should forget their adversary role and aim toward "workouts."

5. Local governments should do everything to help. Do they realize that tax appraisals are usually two years behind the market whether it's a rising market or a falling one. Also, is a 20 percent penalty fair for a tax bill

paid one day late?

6. The state government should ... (too numerous to mention.)

If some of the above steps, plus others, are taken this year, we feel sure that we can start seeing daylight again. We must remember that we're not the first city or state to hit a crash. For instance, 10 short years ago Boston was in a similar quag-

mire with a depressing 13 percent unemployment rate. Today, Boston is riding the crest of a boom with real estate prices soaring. The future for Alaska is definitely a good one with much higher oil prices and enjoying life in the very best of our 50 states.

Sewell F. Faulkner is with The Jack White Company, an Anchorage real estate firm.

Saturday, January 23, 1988, The Anchorage Times A-7

Frank Rod

Mayor gets grim view of economy

Consultant recommends wide-ranging measures

By DON HUNTER
Daily News reporter

Instead of nearing a late-1988 rebound, as some economists have predicted, Anchorage is caught in a downward spiral that can be interrupted only by a comprehensive attack on unemployment and gluts in housing and commercial real estate markets, according to a report prepared for Mayor Tom Fink.

"It would be nice to argue that recovery is just ahead," consultant Vic Fischer wrote in the 98-page study called "Anchorage Recovery Program: Review of Economic Factors."

"But in reality, even the slight growth they (more optimistic economists) project is not likely to occur. Unless the situation changes drastically, the downward pressures on the economy will slow and defeat economic recovery," Fischer said in the report.



Vic Fischer

Fischer is a former Democratic state senator and a planning and economic development specialist. Fink paid his company, Vic Fischer and Associates, \$26,000 to assess the economic damage to Anchorage precipitated by the collapse in world oil prices in 1986. On the whole, the study echoes many of the ideas Fink has offered for restoring the economy.

But Fischer attacks one well-publicized element of Fink's recovery plan: He labels a proposal to use public funds to buy foreclosed properties to prop up the real estate market as a politically impractical concept that detracts from serious attempts to improve the economy.

"What I concluded," Fischer said Wednesday, "was that this infatuation with the real estate market as being the ... focus of a crisis, is just a red herring, particularly talking about the bailout. ...

"There is not going to be an appropriation from anybody for a bailout. Anybody can talk about it as something horrible that we mustn't do, but it completely diverts us from dealing with some of the tough, underlying problems," Fischer said.

"One has to deal with all aspects, with every aspect of the depressed economy and the depressing economy. In housing, for example, it's not just single-family houses, it's not just condos, it's not just mobile homes, it's all those damn things."

ECONOMY: Consultant says rebound not in sight

Continued from Page A-1

In coping with those underlying problems, though, Fischer embraces a number of tactics taken by Fink. Among those is the idea of trying to stabilize the commercial real estate market by taking older, vacant properties off the market until demand increases.

Fink originally proposed using the Alaska Permanent Fund to finance such acquisitions, but since has said he would accept other financing sources, public or private, that could accomplish the same end. Fischer says real estate trusts could acquire and hold property with little if any public investment needed.

Fink commissioned Fischer to write the report last month, after another study, by the University of Alaska Anchorage's Institute for Social and Economic Research, concluded that recovery is in sight.

Fischer formerly headed the organization that became ISER.

A week after release of the ISER study, the mayor told the Anchorage Board of Realtors he had hired Fischer "just to refute" the ISER study.

Fischer, then and now, insists that neither the mayor nor any city official tried to influence his findings. In several instances, however, Fischer's findings reflect what Fink has been saying since his campaign for mayor last fall:

- The best way to salvage the plummeting value of the city's housing stock is by eliminating surplus, substandard apartments and condominiums, moving lower-income families into better dwellings and using other vacant condos and apartments as university dormitories or for needy groups.

- The state should create or expand jobs programs reminiscent of

the Great Depression-era projects devised by Franklin Roosevelt to put people to work.

- "The crash of the commercial property market ... is one of the basic causes of the continuing economic slide," Fischer's study says. The only way to affect the commercial market in the short run is "taking and keeping property off the market ... until a stabilized level of prices and rents is attained."

- Anchorage's economy is sick and getting sicker. In Fischer's analogy, it has a cancer "which spreads unseen and eats us away, bit by bit, organ by organ. If not treated it can destroy us."

- The principal choice facing Alaska officials is between action and inaction. "Should we act to arrest the downward spiraling of the economy? Should we act to salvage the people who are losing their homes? Should we act to slow the failure of businesses and the loss of jobs? ... Or should our choice be inaction? We could sit back, do nothing, and wait for the economy to right itself. Essentially, this would mean keeping government out of the situation and letting the marketplace determine what happens. Of course, that might be like waiting for the cancer to cure itself."

- Because a large proportion of the city's populace is employed by the government, many people are insulated from the effects of the recession and do not understand how deeply it hurts others.

Any similarity between his suggestions and Fink's is merely coincidental, Fischer said Wednesday.

"I can't help that," he said. "The mayor has talked about it, (Commerce Commissioner) Tony Smith has talked about it, Rick Halford. ... I was not out to discover new

truths. My assignment was to document the character of the Anchorage economy, to define the problems and look at the preconditions for recovery."

"Fink had (a list with) 15 or 20 different items on it; none of the items were longer than one sentence," Fischer said. "I did not even refer to those. Those were ideas that were being thrown out as a means of starting a dialogue."

In a couple of instances, the economic picture worsened between the draft and final versions. A sentence in the draft about population trends — "The most recent data suggests that the steep drop is over and the rate of loss is slowing" — fell out, and the number of jobs lost in Anchorage in 1986 and 1987 grew from 17,000 in the draft to 21,000 in the final report.

Fischer attributed those changes to updated city projections.

The ISER study released early in January reported that drops in statewide employment had slowed and predicted job growth would resume at a rate of about 1.4 percent annually over the next eight years and that population would grow at a rate of about .8 percent annually. Parts of the ISER study are excerpted in Fischer's report.

The difference in the studies, Fischer said, is that ISER only looked at employment prospects.

"The situation is that they did not consider the downward pressures, for instance the fact there are still thousands of bankruptcies in the works, hundreds of millions in delinquent loans. As those are foreclosed, there are going to be more job losses, more businesses go out, more housing vacated, and so on and so forth."

State senate bill would create a real-estate monopoly

I've learned to watch for the word "stabilization" in titles of bills in the Legislature this year. It's become a red flag signaling the worse kind of mischief.

I wrote on April 15 about one such bill, the "Bankers' Bail-Out." I said then that this particular bill was the worse example of the "welfare for business" programs to surface so far. Four days later a couple senators recaptured the "worse bill" title with a new version of SB 408.

This legislation would establish "real property liquidating organizations" to achieve "stabilization of the real estate market." These real property liquidating organizations would be formed by banks, state agencies or other entities holding title for foreclosed real estate property for the purpose of holding real estate off the market to keep home prices higher.

These "organizations" are in fact what antitrust lawyers call a "combination in restraint of trade." The bills sponsors seek to control real estate prices in the same way the Organization of Petroleum Exporting Countries tries to control oil prices, and for the same reasons.

SB 408 would apply to both residential and commercial property.

The bill states, "The Legislature intends to ensure the stability of the



**Fred
Pratt**

state's real estate markets and prevent a precipitous decline in real estate prices by displacing competition with government regulation in matters relating to the sale and disposition of real property held by financial institutions and state and federal agencies as a result of foreclosure actions."

Think about that for a moment. The "problem" is the homebuilders and developers overbuilt and real estate dealers and bankers have oversold property in Alaska. The inevitable result in a free economy is that prices fall until supply catches up with demand.

That's bad for the developers, dealers and bankers, but it's good for the consumer because he has more property to choose from and lower prices.

These senators feel that we should instead create monopolies in the real estate market to control property under foreclosure, with the express purpose of keeping prices up.

Now you don't have to be as smart as a state senator to know what would happen next. With all the foreclosure property off the market, real estate prices would go up so much that even more homes would be built. That would perpetuate the oversupply on the real estate market from a short-term "problem" to an enduring economic illness.

Alaskan state senators should know this because we've all watched very closely while exactly the same thing happened in the world oil market. OPEC members limited their own oil production to drive prices up. The higher prices and tight supplies helped bring new supplies into the market from places like Alaska and the North Sea. Eventually, the market collapsed for everyone.

But the effect would reach far beyond the housing market. A liquidating organization could acquire businesses that went belly-up and wound up owned by a bank or state agency. The liquidating organization could be any corporation, trust, fund, partnership, joint venture or other legal entity, and it could continue to operate the business.

That businesses who fail wouldn't drop out of the market, but would continue to compete with the remaining healthy businesses

even more strongly because they could get some rather sweeping legal exemptions to cut their overhead costs.

The sponsors of SB 408 realize they are doing something that would get a businessman in jail if he tried it on his own.

The bill states, "... the Legislature intends to grant authority to the commissioner of Commerce and Economic Development to provide by regulation that ... a real property liquidating organization will be immunized as necessary possible (sic) against potential liability under federal antitrust laws and state antitrust, competition and trade practices laws arising from the operation of the organizations."

This exemption is given in the broadest terms.

The bill would add new language to state law regarding the powers of the commissioner of Commerce and Economic Development saying, "If the commissioner determines that the exemption is necessary to carry out the purposes of this chapter, the commissioner may by regulation exempt real property liquidating organizations from any state law other than this chapter or from any regulation other than one adopted under this chapter."

One could almost understand, with a long stretch of normal moral perception, why the state might want to exempt a banker from antitrust laws in order for him to manipulate the real estate market to his advantage. It's impossible to understand why it would still be necessary to allow a single politically appointed state official to absolve the banker from laws against murder, rape or arson.

If a business property put into these "liquidating organizations" continues to operate, it could get exemptions from mining wastewater regulations, workplace rules, fair employment laws or anything else that suits them and the commissioner of commerce.

What's even more amazing is that these bills are the work of two people who should know better; Sen. Tim Kelly, R-Anchorage, and Sen. Arliss Sturgulewski, R-Anchorage.

Stranger yet is the fact that the bills are being taken seriously by their colleagues. SB 408 was sent to only two committees, and one of those waived consideration of the bill. The Senate Finance Committee was considering SB 408 last week.

Free-lance journalist Fred Pratt has been covering Alaska business and politics for the past 15 years.

Saturday-Sunday, April 2-3, 1988

Bank president opposes bailout for banks

The president of the new Alliance Bank visited Ketchikan this week and said he and his group oppose a state bailout for Alaska banks.

Fred Burrows joined Alliance the first of February, a few days after United Bank of Alaska, Southeast joined United Bank Alaska and Alaska Mutual in a merger and reorganization financed by the New York-based Hallwood Group with \$65 million.

Burrows said in an interview Monday that the action needed to assist banks and private citizens is to avoid dumping all foreclosed property in Alaska on the market at once. He said the property should be put in the market over a period of years such as seven or 10, although he said he hasn't studied the issue enough to give a recommended time.

He said Alliance Bank has 2,000 pieces of foreclosed property in its possession. The total of all foreclosed property held by the Federal Deposit Insurance Corporation, other government agencies and banks represents at least \$1 billion in value. Because of the recession in Alaska, people find the appraised value of their homes less than the balance they owe on the mortgage. Many are jobless and unable to make payments or move. To dump more property on the real estate market now would depress the value of real estate more and worsen the situation, Burrows said.

The FDIC, which insures bank customers against losses, however, doesn't like to hold property which it acquires from failed banks. Burrows said if FDIC suddenly dumped

all of the property it holds, that instead of property values dropping the 20 percent they have in the Anchorage area, they would drop two to three times that amount.

Burrows said the economy in Southeast is good compared with Anchorage. This was echoed by Ketchikan Alliance branch manager Dick Axelson, who said that only one Ketchikan property is among the 2,000 which Alliance has taken back on foreclosure.

Burrows joined Alliance Bank as president after 21 years with First Interstate in Oregon and Washington where he rose to president of the Seattle branch. He also ran an advertising agency and recently worked for the Seattle Convention and Visitor Bureau in promoting the new Seattle convention center which opens in June.

Alliance Bank has 13 offices throughout Alaska and is negotiating for a second bank office in Juneau. Its current Juneau office is in Mendenhall Valley and Burrows hopes to see the bank move into the old Alaska Bank of the North offices in the Sealaska Building in downtown Juneau. Bank of the North is one of the four major Alaska banks which failed last year. Bank of the North's assets were purchased by National Bank of Alaska.

Burrows said banking problems aren't confined to Alaska. Banks in other states hit by the depression in the oil and farming are failing. And not all banks in Alaska are failing. He said First Bank of Ketchikan is a sound institution.

Women unionists decry inequity

BEIJING (AP) - The top women officials of labor federations in seven cities issued a statement Friday complaining that women on the job received unequal treatment and demanding a public debate on the issue.

"We call upon the media, economic and theoretical communities, leaders at all levels of the (Communist) party and government ... and all men and women workers to air their own views and actively join in a discussion," the seven women said in the statement, published on the front page of the newspaper Workers' Daily.

Their statement, drafted at a meeting in Beijing, was especially critical of what they said was a growing tendency to fire women once they have children.

Many enterprises also have done away with maternity leave and other "women's benefits" in order to cut costs now that companies are being held responsible for their own profits and losses.

"Some people believe that when a woman becomes pregnant and has a child it is a private matter and becomes a burden for the enterprise," the statement said. "But others believe women carry two heavy loads, of helping produce material goods for society and perpetuating the human race, and this contribution deserves social recognition and special protection."

Women were regarded as inferior in traditional China's rigid social hierarchy but are promised equal treatment in Communist China.



Panama City traffic jammed streets in reaction to their inability

Panamanians would accept

PANAMA CITY, Panama (AP) - Police replaced Gen. Manuel Antonio Noriega's heavily armed soldiers on the streets Friday for the first time since last month's attempted coup against the Panamanian strongman.

The U.S. Defense Department announced it will send 1,300 additional military personnel to Panama, bringing the total number of American troopers there to nearly 12,000.

Panamanians, who are predominantly Roman Catholics, took time out from political activity on Good Friday to prepare for the Easter weekend, but for many that meant only another day of hunger

Funds from National Park Service resurrect plans for Denali resort

The Associated Press

Planning efforts for a resort in Denali State Park have been resurrected with \$100,000 from the National Park Service, state officials say.

A combination of public opposition and the legislature's refusals to ante up

\$200,000 for further study and preparation of a concession contract halted the planning 18 months ago.

But with the \$100,000 from the park service, the state over the next 10 months will revise the Denali State Park master plan. The revisions will provide site selection cri-

teria for a visitor complex and assess the effects of increased public use and recommend park amenities such as trails, campgrounds and parking areas, officials say.

"One of the elements will be the concept of a resort complex and a National Park Service visitor center," said

Neil Johannsen, director of state parks.

The state Department of Natural Resources and federal government hope to increase tourism at the 324,240-acre state park and relieve overcrowding at Denali National Park about 100 miles to the north.

"Things are getting worse up there," Johannsen said of the national park. "We're hitting the point where arguably the top visitor attraction in the state has hit the saturation point."

The Department of Natural Resources also will try again for \$200,000 grant when the

legislature convenes in January. The money would allow the state to look more closely at the economics of a visitor complex in the state park.

The idea of a resort at Denali State Park has been kicked around for nearly 20 years.

ANWR: Congressional, state critics say land swap proposal could cost taxpayers billions

Continued from Page C-1

ets of valuable, privately owned land in the seven refuges without spending federal money.

But at least two of the Native groups have received offers from oil companies for higher rent and royalty payments than the Interior Department generally gets on its oil leases.

Under the plan, the Old Harbor Native corporation would receive rights to 55,000 acres in the Arctic refuge. The Interior Department says these oil rights are worth \$45.7 million, including the value of royalty payments if

recoverable oil is discovered on the land.

Texaco Inc., however, has offered Old Harbor a cash payment of \$45.7 million just for the rights to drill on the 55,000 acres. It also is offering to pay an annual rental of \$3 an acre; a 14 percent royalty on any oil and gas taken from the acreage, and a 1½ percent royalty on the value of any petroleum it recovers from other portions of the refuge.

On its oil and gas leases, the Interior Department gets rental payments of \$2 an acre a year. Its usual royalty rate is 12½ percent, a level that Horn has asked Congress to set on any federal leasing in

the arctic refuge.

The other offer was made to the Koniag Regional Corporation by a consortium headed by Chevron. It applies to 3,183 refuge acres that Interior values at \$77.4 million, including prospective royalties.

Jim Eason, director of the Alaska Division of Gas and Oil, says the Chevron group is offering Koniag a cash payment of \$55 million for the oil rights; annual rental of \$10 an acre on 2,560 acres and \$5 an acre on the balance; a 20 percent royalty with a chance to change this to 40 percent of net profits from drilling on the acreage; a ½ percent roy-

alty on the value of any petroleum taken within six miles of the acreage; and a ¼ percent royalty on any petroleum Chevron would take from any other part of the refuge.

Even if no oil were found in the refuge, these two offers combined would bring Koniag and Old Harbor payments totaling 84 percent of what Interior says their interests are worth.

In trying to convince Congress to open the refuge to oil exploration, Horn has said its reserves could rival the 9 bil-

lion-plus barrels of oil at Prudhoe Bay.

At a royalty rate of 12½ percent, the federal and Alaska treasuries would lose 4.125 cents for each barrel extracted from land traded to Natives.

"The value of the royalty interest alone, should significant discoveries occur, potentially may be measured in the billions of dollars," according to a study by the Alaska Division of Oil and Gas.

Mobil Oil, which is not allied with any of the Native corporations, has been lobby-

ing against the trades. In a memo circulated on Capitol Hill, it said that Interior "significantly undervalued" the refuge land and "significantly inflated" the value of the land it would receive from the Native corporations.

Tom Marshall, former director of the Division of Oil and Gas, said in a consultant study for the National Wildlife Federation, which opposes any drilling in the refuge, that he believes Interior's projections of the refuge's oil reserves are conservative.

Notice...

STATE OF ALASKA NOTICE OF PUBLIC HEARING NEW WASILLA AIRPORT Project No. 55908

The Alaska Department of Transportation and Public Facilities (ADOT&PF) in cooperation with the Federal Aviation Administration (FAA) and the City of Wasilla will hold a public hearing on the proposed relocation of the Wasilla Airport, on Tuesday, November 17, 1987. The hearing will be held at 7:00 p.m. in the City of Wasilla Council Chambers at 290 E. Heming Avenue in Wasilla.

A general aviation airport is proposed for construction south of Jacobsen Lake and the Alaska Railroad Corporation (ARRC) tracks approximately three miles west of the existing airport in Wasilla. The new facility would replace the existing Wasilla airport and would improve the level of air service and safety to the City of Wasilla and surrounding area.

The proposed airport would include a 3,700-foot runway, two aprons, connecting taxiways, and an access road. In addition,



Legislator proposes a plan to attack economic ills

By SEN. ARLISS STURGULEWSKI

Of all of the economic booms and busts Alaska has experienced, this bust is affecting more of us more severely than any other. Consequently, it's time for the legislature to address fiscal policy issues so that future booms and busts won't affect us so dramatically. During the coming session, we must create some long overdue financial tools.

Billions of dollars rolled into state coffers from the most recent oil boom and then rolled right out again. We spent money on experiments in agriculture, in renewable resource development, in housing, in industrial development, and on quality of life improvements.

There's no denying there were some resounding successes and some equally resounding failures. Our successes have been in areas in which government should be successful. We spent money on school programs and have a good school system statewide.

We improved the health of our citizens through water and sewer projects and through grants to health care providers.

Some successes were cooperative efforts with the private sector. Alaska Industrial Development Authority funded projects that were able to stand on their own merits. The partnerships formed by the Alaska Seafood Marketing Institute with the fishing industry and by the Division of Tourism with the visitor industry paid off in expanded markets for our fish and a steadily increasing stream of visitors to Alaska.

Experiments in which we attempted to directly accelerate pri-

vate development were less successful, however. The Alaska Renewable Resources Corporation only lasted a few years. Agriculture is badly limping and the effort to start a red meat industry was far from successful.

It has become increasingly clear that the private sector must be on its toes to find the competitive and profitable edge and that government's role is to assist through reasonable regulation, responsible resource management and the elimination of roadblocks.

More specifically:

- Now is the time to devise a spending limit that works. The current constitutional spending limit bears absolutely no relationship to the amount of our annual budgets. The constitutional spending limit must be rewritten to tie it to the prior year's budget, and also outline how to dispose of excess revenue when we have it.

- Excess revenue should be at least partially dedicated to a constitutionally mandated budget reserve fund. Rather than frantically casting about for dollars just to keep the state running when revenues plummet as they did in 1985, we will know there is a source of funds for basic costs of government.

- It is critical that we devise and adopt criteria for the funding of capital projects. Life, health, and safety projects should be first in line for funding. Education and transportation both are the responsibility of government and should be funded based on need. Projects that will lead to real economic development should receive priority. Included in the criteria for all of the above must be operations and maintenance costs and a maintenance plan.

- Although it may seem like closing the barn door after the horse has run away, we need to set standards of accountability for municipal grants, and for grants to non-profit corporations that deliver government services.

- School capital funding has turned into a monster. With the promise of 80 percent reimbursement by the state, municipalities sold \$300 million worth of bonds in one recent year. The debt service on those bonds has become a burden on the state and a source of anxiety for municipalities as they watch to see if the state will budget for the full entitlement. The state should fund for basic schools; extras should be paid for by communities.

- The Alaska Permanent Fund is an excellent counter-cyclical tool for us. It has meant the maintenance of our excellent credit rating in the face of a down economy. It also means that we have a source of income about which the legislature needs to make some decisions — and then go to the voters to confirm those decisions. I personally support using the income of the fund for continuation of the dividends, inflation-proofing, and partial funding for a constitutionally established budget reserve fund.

These are all decisions that can and must be made now. Without the proper tools in place, the next boom could find us allowing history to repeat itself. We can do better.

□ Sen. Arliss Sturgulewski is chairman of the Senate Community and Regional Affairs Committee and the Senate Special Committee on Local and Regional Economic Opportunity.



KANNER

Economic chances not all bad — you just have to look for them

The problems and opportunities of real estate markets like ours have become popular topics of discussion on the national real estate scene. Such markets are most often categorized as severely distressed. Others in similar condition are Houston, Dallas, Tulsa and Oklahoma City. We are not unique. This type of market will be with us for a while. We must learn how to cope with it, but even more important, how to take advantage of it and prosper.

The current debate about what the state should do, if anything, to alleviate adjustments in both the residential and commercial sectors illustrates the magnitude of the problem in our economy.

Unfortunately, only a few are taking advantage of the opportunities for solid investment. Many people think that depressed prices and distressed owners are signs that they should stay out of real estate. They reason that the market is going to get a lot worse before it gets better.



chris stephens

This kind of thinking is wrong. It assumes that in a distressed market, all properties are distressed. Nothing could be further from the truth. They assume the current situation accurately portrays the future. That kind of thinking during the recent boom is what got us into this mess in the first place. And it implies that the time to step in is after the market has improved when prices have gone

up, not now when they are low.

The entire market is not depressed. Some excellent properties are doing very well in this market. There are, however, distressed owners with excellent properties who must sell. This puts good properties on the market at bargain prices. Because investors are few, opportunities is out there to make sound investments in excellent properties.

We need to remember that every situation and opportunity is unique. As our past can teach us, the future of Alaska will be shaped by events totally different than our current situation. Change is inevitable. Alaska still has tremendous natural resource wealth and a very small population, which will continue to create healthy market opportunities and wealth-generating investments.

Finally, we must rely on our own perceptions and be willing to invest when others are fearful. We all want to avoid risk. But most avoid risk by waiting until the market is proven safe, because so many others are

investing and making money at it.

What is happening instead is that people are selling because the price is high. They are the people who bought when the market was down, and no one else would buy. Though everyone knows you buy low and sell high, most people buy high and sell low. They are afraid to buy when the price is low because no one else is buying. So they wait, and sure enough, prices do go up.

Distressed real estate markets offer the opportunity of a lifetime, much better than during the boom. Quality properties can be purchased at a price far below replacement value, often with easy financing. When the market recovers, those who invest now will be selling to those who wait until the market is proven safe and prices are higher.

☐ **Chris Stephens, CCIM, is a local associate broker specializing in investment and commercial real estate.**

ANCH DAILY NEWS 2/21/88

AAA TrustPort	24	5.72	— .01	AAA TrustPort	24	5.72	— .01	AAA TrustPort	24	5.72	— .01
AAA PrimePort	25	5.25	+ .16	AAA PrimePort	25	5.25	+ .16	AAA PrimePort	25	5.25	+ .16
AAV Fd	26	4.11	.....	AAV Fd	26	4.11	.....	AAV Fd	26	4.11	.....
ActiveAssetGovt	27	6.20	— .00	ActiveAssetGovt	27	6.20	— .00	ActiveAssetGovt	27	6.20	— .00
ActiveAssetMoney	28	6.42	.....	ActiveAssetMoney	28	6.42	.....	ActiveAssetMoney	28	6.42	.....
AlcedonCash	29	6.42	.....	AlcedonCash	29	6.42	.....	AlcedonCash	29	6.42	.....
AlcedonGovt	30	6.14	+ .01	AlcedonGovt	30	6.14	+ .01	AlcedonGovt	30	6.14	+ .01
AllianceCapRes	31	6.25	.....	AllianceCapRes	31	6.25	.....	AllianceCapRes	31	6.25	.....
AllianceGovtRes	32	6.01	+ .01	AllianceGovtRes	32	6.01	+ .01	AllianceGovtRes	32	6.01	+ .01
AmerCapResv a	33	6.34	— .01	AmerCapResv a	33	6.34	— .01	AmerCapResv a	33	6.34	— .01
AmNat	34	6.24	— .01	AmNat	34	6.24	— .01	AmNat	34	6.24	— .01
AutCah	35	6.48	— .01	AutCah	35	6.48	— .01	AutCah	35	6.48	— .01
AutGovt	36	6.12	.....	AutGovt	36	6.12	.....	AutGovt	36	6.12	.....
AxeHoughtonMM	37	5.93	.....	AxeHoughtonMM	37	5.93	.....	AxeHoughtonMM	37	5.93	.....
BabsonMoneyMkt	38	5.99	— .01	BabsonMoneyMkt	38	5.99	— .01	BabsonMoneyMkt	38	5.99	— .01
GrantMM	39	5.95	— .01	GrantMM	39	5.95	— .01	GrantMM	39	5.95	— .01
BirrWilson	40	5.44	.....	BirrWilson	40	5.44	.....	BirrWilson	40	5.44	.....
BostonCoCash	41	6.24	— .00	BostonCoCash	41	6.24	— .00	BostonCoCash	41	6.24	— .00
BostonCoGovt	42	5.52	+ .01	BostonCoGovt	42	5.52	+ .01	BostonCoGovt	42	5.52	+ .01
BullBearDuk	43	6.48	+ .01	BullBearDuk	43	6.48	+ .01	BullBearDuk	43	6.48	+ .01
CAM Fund	44	unavail	.....	CAM Fund	44	unavail	.....	CAM Fund	44	unavail	.....
CBA MoneyFd	45	6.17	— .23	CBA MoneyFd	45	6.17	— .23	CBA MoneyFd	45	6.17	— .23
CIMCO	46	5.91	— .01	CIMCO	46	5.91	— .01	CIMCO	46	5.91	— .01
CA TPMP	47	6.18	— .02	CA TPMP	47	6.18	— .02	CA TPMP	47	6.18	— .02
CalvertSocial af	48	6.09	— .01	CalvertSocial af	48	6.09	— .01	CalvertSocial af	48	6.09	— .01
CapitalCashMgt	49	6.03	.....	CapitalCashMgt	49	6.03	.....	CapitalCashMgt	49	6.03	.....
CapitalPreservFd	50	5.55	— .19	CapitalPreservFd	50	5.55	— .19	CapitalPreservFd	50	5.55	— .19
CapitPreservII	51	5.44	+ .09	CapitPreservII	51	5.44	+ .09	CapitPreservII	51	5.44	+ .09
CapT MM	52	6.04	.....	CapT MM	52	6.04	.....	CapT MM	52	6.04	.....
CardinalGovtSec	53	6.07	+ .21	CardinalGovtSec	53	6.07	+ .21	CardinalGovtSec	53	6.07	+ .21
CarltonCsh	54	6.11	— .08	CarltonCsh	54	6.11	— .08	CarltonCsh	54	6.11	— .08
CarnegieGovtSecur	55	5.93	.....	CarnegieGovtSecur	55	5.93	.....	CarnegieGovtSecur	55	5.93	.....
CashAssets	56	6.52	— .04	CashAssets	56	6.52	— .04	CashAssets	56	6.52	— .04
CashEquity	57	6.32	— .01	CashEquity	57	6.32	— .01	CashEquity	57	6.32	— .01
CashEquityMgt	58	6.16	+ .01	CashEquityMgt	58	6.16	+ .01	CashEquityMgt	58	6.16	+ .01
CashMgmtTrAm a	59	6.22	+ .01	CashMgmtTrAm a	59	6.22	+ .01	CashMgmtTrAm a	59	6.22	+ .01
CashResvMgmt a	60	unavail	.....	CashResvMgmt a	60	unavail	.....	CashResvMgmt a	60	unavail	.....
CentennialGovtTr	61	5.71	— .15	CentennialGovtTr	61	5.71	— .15	CentennialGovtTr	61	5.71	— .15
CentennialMMTr	62	6.01	— .02	CentennialMMTr	62	6.01	— .02	CentennialMMTr	62	6.01	— .02
ChurchillCashRsv	63	6.28	— .02	ChurchillCashRsv	63	6.28	— .02	ChurchillCashRsv	63	6.28	— .02
CignaCash	64	6.48	— .01	CignaCash	64	6.48	— .01	CignaCash	64	6.48	— .01
CignaMM b	65	6.43	— .02	CignaMM b	65	6.43	— .02	CignaMM b	65	6.43	— .02
ColonialGovtMMkt	66	5.69	— .04	ColonialGovtMMkt	66	5.69	— .04	ColonialGovtMMkt	66	5.69	— .04
ColumbDyIncma	67	6.01	.....	ColumbDyIncma	67	6.01	.....	ColumbDyIncma	67	6.01	.....
CompositeCashMg a	68	5.81	— .01	CompositeCashMg a	68	5.81	— .01	CompositeCashMg a	68	5.81	— .01
CoreFdcash	69	6.20	+ .07	CoreFdcash	69	6.20	+ .07	CoreFdcash	69	6.20	+ .07
CortlandGeneral	70	6.01	.....	CortlandGeneral	70	6.01	.....	CortlandGeneral	70	6.01	.....
CortlandUSGovt	71	5.80	.....	CortlandUSGovt	71	5.80	.....	CortlandUSGovt	71	5.80	.....
CouCarRP	72	6.46	.....	CouCarRP	72	6.46	.....	CouCarRP	72	6.46	.....
CountryCapital	73	5.51	+ .01	CountryCapital	73	5.51	+ .01	CountryCapital	73	5.51	+ .01
CurrentInterest	74	5.67	.....	CurrentInterest	74	5.67	.....	CurrentInterest	74	5.67	.....
CurrentIntUSGovt	75	5.32	+ .01	CurrentIntUSGovt	75	5.32	+ .01	CurrentIntUSGovt	75	5.32	+ .01
DBLAM Portfolio	76	6.50	.....	DBLAM Portfolio	76	6.50	.....	DBLAM Portfolio	76	6.50	.....
DBLAM Portfolio	77	6.50	.....	DBLAM Portfolio	77	6.50	.....	DBLAM Portfolio	77	6.50	.....
DBLAM Portfolio	78	6.50	.....	DBLAM Portfolio	78	6.50	.....	DBLAM Portfolio	78	6.50	.....
DBLAM Portfolio	79	6.50	.....	DBLAM Portfolio	79	6.50	.....	DBLAM Portfolio	79	6.50	.....
DBLAM Portfolio	80	6.50	.....	DBLAM Portfolio	80	6.50	.....	DBLAM Portfolio	80	6.50	.....
DBLAM Portfolio	81	6.50	.....	DBLAM Portfolio	81	6.50	.....	DBLAM Portfolio	81	6.50	.....
DBLAM Portfolio	82	6.50	.....	DBLAM Portfolio	82	6.50	.....	DBLAM Portfolio	82	6.50	.....
DBLAM Portfolio	83	6.50	.....	DBLAM Portfolio	83	6.50	.....	DBLAM Portfolio	83	6.50	.....
DBLAM Portfolio	84	6.50	.....	DBLAM Portfolio	84	6.50	.....	DBLAM Portfolio	84	6.50	.....
DBLAM Portfolio	85	6.50	.....	DBLAM Portfolio	85	6.50	.....	DBLAM Portfolio	85	6.50	.....
DBLAM Portfolio	86	6.50	.....	DBLAM Portfolio	86	6.50	.....	DBLAM Portfolio	86	6.50	.....
DBLAM Portfolio	87	6.50	.....	DBLAM Portfolio	87	6.50	.....	DBLAM Portfolio	87	6.50	.....
DBLAM Portfolio	88	6.50	.....	DBLAM Portfolio	88	6.50	.....	DBLAM Portfolio	88	6.50	.....
DBLAM Portfolio	89	6.50	.....	DBLAM Portfolio	89	6.50	.....	DBLAM Portfolio	89	6.50	.....
DBLAM Portfolio	90	6.50	.....	DBLAM Portfolio	90	6.50	.....	DBLAM Portfolio	90	6.50	.....
DBLAM Portfolio	91	6.50	.....	DBLAM Portfolio	91	6.50	.....	DBLAM Portfolio	91	6.50	.....
DBLAM Portfolio	92	6.50	.....	DBLAM Portfolio	92	6.50	.....	DBLAM Portfolio	92	6.50	.....
DBLAM Portfolio	93	6.50	.....	DBLAM Portfolio	93	6.50	.....	DBLAM Portfolio	93	6.50	.....
DBLAM Portfolio	94	6.50	.....	DBLAM Portfolio	94	6.50	.....	DBLAM Portfolio	94	6.50	.....
DBLAM Portfolio	95	6.50	.....	DBLAM Portfolio	95	6.50	.....	DBLAM Portfolio	95	6.50	.....
DBLAM Portfolio	96	6.50	.....	DBLAM Portfolio	96	6.50	.....	DBLAM Portfolio	96	6.50	.....
DBLAM Portfolio	97	6.50	.....	DBLAM Portfolio	97	6.50	.....	DBLAM Portfolio	97	6.50	.....
DBLAM Portfolio	98	6.50	.....	DBLAM Portfolio	98	6.50	.....	DBLAM Portfolio	98	6.50	.....
DBLAM Portfolio	99	6.50	.....	DBLAM Portfolio	99	6.50	.....	DBLAM Portfolio	99	6.50	.....
DBLAM Portfolio	100	6.50	.....	DBLAM Portfolio	100	6.50	.....	DBLAM Portfolio	100	6.50	.....

s—Yield includes capital gains or losses.
b—Fixed charges vary yield based upon account size.
c—Primarily Federally tax-exempt securities.
t—As of previous day.

A proposed solution to the real estate recession

HAYDEN GREEN

Alaska has been besieged by a plague — it called a real-estate recession and it is going infect even more people before it's over. Unless the state intervenes and stops the vicious spiral that the market is in, prices will continue to deteriorate.

This is not a problem that can be passed off only affecting investors who "paid their money and took their chances." It is a social problem that affects thousands of Alaskans.

The hundreds of millions lost in the recession does not include the decline in appraised values. Declining market values are for many people only paper losses; that is, inflation has taken them away. But the real costs being borne in Alaska today are mostly hidden costs, ones that are seldom mentioned.

For example, it has been estimated that 60 percent of the homes in Alaska have a negative equity. What that means is that a portion of the debt service being paid on these homes goes to pay for value that no longer exists. Every month millions of dollars flow out of the state to pay for this negative equity.

A second social cost that is accumulating is in the form of deferred maintenance. Thousands of condos, single family homes, apartment and commercial buildings in both the



private and public sector are not being properly maintained.

A recent study released by economists at UAA is giving many people unwarranted optimism. The economists have stated, and rightly so, that the economy will bottom out in mid-1988. This projection is based on an estimate of the number of jobs lost in the work force.

This does not, however, mean that the purchasing power of the typical family in Alaska will increase or that real estate markets will turn around.

The "HOAP" program introduced by AHFC is not going to resolve this problem either. It will, in fact, make the problem worse for many individuals and prolong the agony for AHFC.

Lenders don't want all of this property so they have devised a way to keep the property in the hands of the borrowers by increasing their loan obligation. A person who already has a negative equity and cannot make his

payments is being encouraged to borrow more money. Then he will end up with a larger negative equity and an even greater incentive to default in the future. Some solution!

Only two solutions will cure the real estate problem; that is, increasing the population or reducing the supply of housing or some combination of both. Increasing the population while reducing the supply is the answer.

The least expensive means of removing some property from the market would be to create a "distressed real estate holding company." This would be a quasi-governmental/private corporation similar to AHFC.

It would need to be funded by seed money to form the entity and to guarantee interest payments on bonds for the first five years. Its primary source of money would be through the sale of 15-year bonds on the world market. Banks and secondary lenders, working in concert with mortgage insurers, could sell distressed real estate holdings to this company in exchange for stock in the corporation.

Of course the holding company would expect to purchase the property at favorable rates, including a reduction for mortgage insurance settlements. This would help resolve some of the asset to liability ratio difficulties facing banks by converting debt for stock (an asset) and it would help get some Alaskans out of housing they cannot afford

without bankruptcy being their only remedy.

Using the money raised through bonding, the holding company would manage this inventory of property while, at the same time, taking it off the market. This would reduce the supply and help restore some of the lost value in all our homes.

As prices recover, the property would be returned to the market place over a 5- to 10-year holding period, being sold at future market prices and the holding company using this profit to repay the interest and principle on the bonds and to pay back the stock issued to the banks. The holding company would create jobs for property managers, maintenance people, real estate agents, and contractors hired to bring deficient property up to code.

This plan will not remove some of the real marginal property from the market. The holding cost of some properties is greater than any economic benefit that will ever be derived from them; therefore, the holding company should not be obligated to purchase just any property. The worst case examples should be removed from the market through demolition.

□ G. Hayden Green is a professor of real estate at University of Alaska Anchorage.

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For Self-

State expert: Economy

By LARRY PERSILY
Associated Press Writer

FLKS 1/20/88
JUNEAU—Alaskans must expect a different economy in the future, without oil money as the answer and with lower wages as the reality, says Commerce and Economic Development Commissioner Tony Smith.

"The ultimate solution to the problem is industrial development," Smith told a dozen senators and representatives Friday. Industry creates jobs, he said.

Oil money is not the answer to

Alaska's sour economy, he said in testimony before the first meeting of the joint legislative committee on economic recovery.

Smith reported that hard rock mining in Alaska is up 30 percent this year. Tourism, timber and military spending also are on the rise.

"Ultimately, we need a number of small initiatives to allow us to manage our way through the situation," Smith said.

"The oil industry tells me that they squeezed 40 percent out of

their cost system," he told legislators. As the oil industry reduces its cost of doing business in Alaska, he said, it "squeezes the cream" out of the state's economy.

Jobs that paid \$4,000 a month for cooks on the North Slope will be replaced with ones that pay \$1,200 a month on the ski slopes, he said.

Smith said he met this week with Juneau's mayor and talked about new mining jobs in the area that will pay \$10 to \$15 an hour.

"We're looking at a different economy," he said. "We spent our way

will never be same

into the problem. We can't spend our way out of the problem."

In giving a lesson of realism, he said Alaskans can no longer afford to "perpetuate the bubble" of a wealthy economy.

Senate co-chairman of the committee, Lloyd Jones, opened the session with a statement that caught no one by surprise: "We're at a time when the state certainly needs some economic recovery."

The Ketchikan Republican said the state's wealth is in its natural resources. "They're laying out

there on the ground, in the ground and in the ocean."

House chairman of the committee, Max Gruenberg, followed with a report on everything bad about the economy.

The Anchorage Democrat said bankruptcies and home loan defaults are at their highest levels and thousands of jobs have been lost. He said the committee wants to hear from people who know where the economy has been, where it is going and what can be done to help it get better.