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Juneau property values drop, but collapse unlikely

This time next year, when the Juneau assessor certifies her Jan. 1, 2009, valuation of area property, the number is likely - for the first time in 20 years - to reflect a decline.

Residential values appear to have peaked sometime in mid-2007, and since then have likely declined by 1 or 2 percent, says Assessor Robin Potter.

"If this continues, we're probably not going to see any increases in the valuation, and we could see a decline," Potter said. Assessed values lag the market, she emphasized.

So far Juneau hasn't seen anything like the freefall in property values that occurred in the 1980s, and occasioned the last drop in Juneau's assessed value

"We've got a lot on the market, but if sellers are realistic about the price, their properties are moving," Janie Bee Powell, a broker who was here during the 1980s, told me last week in an interview.

There are parallels, however. In the three years before the crash, assessed values increased by 47 percent. From 2003 to 2006 Juneau saw a similar 45 percent increase.

There are differences, too. In the mid-1980s there was a big overhang of vacant housing built on speculation; 21 percent of multi-family housing stood vacant then. According to the city, in March of this year only 4 percent of the borough's multi-family residential units were vacant.

In the late 1970s and early 1980s state spending grew at double-digit rates. In the mid-1980s, when state spending finally stabilized, it punctured the economic bubble that state spending, particularly state investments in housing, had created. By contrast, the state-spending boom Alaska is

experiencing today is still accelerating, isn't focused on housing, and is buttressed by huge state savings accounts.

The value of residential construction permits issued through June 23 in 2006 was \$12.8 million. This year the comparable cumulative value through June 23 was only \$3.1 million, a drop of 76 percent. Permits for new commercial construction also fell.

But the permit data has a silver lining. Remodeling permits grew from \$11.9 million in 2006 to a whopping \$37 million this year to date, enough to boost the total value of permits. The market is telling us something important: Juneau isn't expected to need a lot of additional structures in the next few years, but the demand for improvements hasn't diminished. Juneau households and businesses, by these investments, reflect a cautious but fundamentally optimistic outlook.

Data on Juneau's rental market is also positive. According to the Alaska Housing Finance Corporation (AHFC), the number of rental units in Juneau grew by almost 9 percent in 2005, but since then has seen little change.

Vacancy rates varied little over this period, ranging between 4 and 6 percent. Rents were stable, too, until this year, when they popped up by 6 percent. The rise suggests that rental units may be harder to find right now. That may reflect increased demand from newcomers who have been unable to sell a house down south or find acceptable financing in today's tighter lending market.

Across the nation, housing prices peaked in July 2006. Since then, according to the widely quoted Case-Shiller index, prices have dropped 18 percent. But Juneau's real estate market marches to a different drummer. As AHFC chief Dan Fauske recently noted, Alaska largely avoided the overbuilding and loose financing that led to problems in the Lower 48.

"Folks want to know if Alaska is heading for another market crisis like the one we experienced in the mid-1980s. The answer is no," Fauske said. "The 1980s crisis was an economic crisis, not a housing crisis. Today ... the state's economy is doing just fine."

Fauske's analysis is on target, but as the world economy teeters on the brink, caution is certainly justified. Juneau's 2009 assessed value will likely reflect a modest decline. That is certain to hurt municipal finances, which depend on property taxes for 45 percent of Juneau's own-source revenue. It will make a dent in the wealth of Juneau households.

But it shouldn't be any disaster. As I discussed in this space in March (see "The Recession and Juneau's prospects," http://www.juneauempire.com/stories/030908/opi_255333519.shtml), Juneau has a lot going for it, including that it's a great place to live and work. A

modest drop in Juneau real estate values won't change that.

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