

Survey of Real Estate Trends

An Assessment by Senior Examiners and Asset Managers at Federal Bank and Thrift Regulatory Agencies

RESULTS OF THE JANUARY 1998 SURVEY

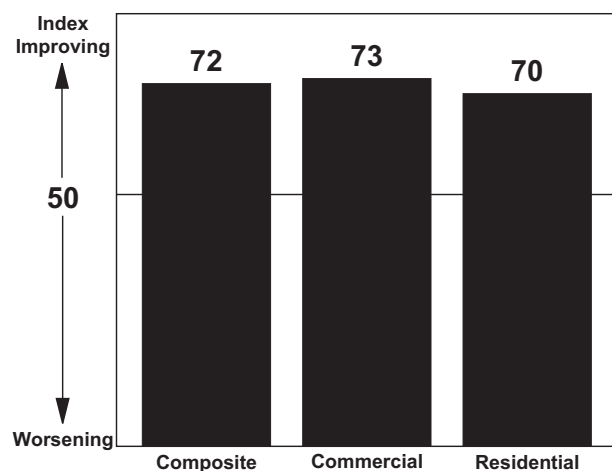
Highlights

- In January, the national composite index was 72, up from 71 in October and from 68 in January 1997. The composite index summarizes the opinion of 298 senior examiners and asset managers at federal banking and thrift agencies on changes in local real estate market conditions during the prior three-month period.
- Readings for residential markets were favorable: 49 percent of January survey respondents described local housing market conditions as improving, compared with 42 percent in October and 38 percent a year ago. Contributing to this favorable observation of short-term changes in housing market conditions were reports of strong home sales and tight housing supply.
- The percentage of participants noting better conditions in their local commercial markets dropped to 49 in January from a record high of 54 in October. Nonetheless, the proportion of respondents who viewed short-term changes in conditions as improving remained high, and was up from 43 percent in January 1997. Responses to questions about key longer-term indicators of average vacancy rates and of average sales volume of commercial properties continued to show improvement.
- Regionally, reports showed an increasingly tight housing market in the West, rising sale prices for existing homes in the Northeast, above-average volume of apartment construction in the Midwest, and increasing sales of commercial properties in the South.

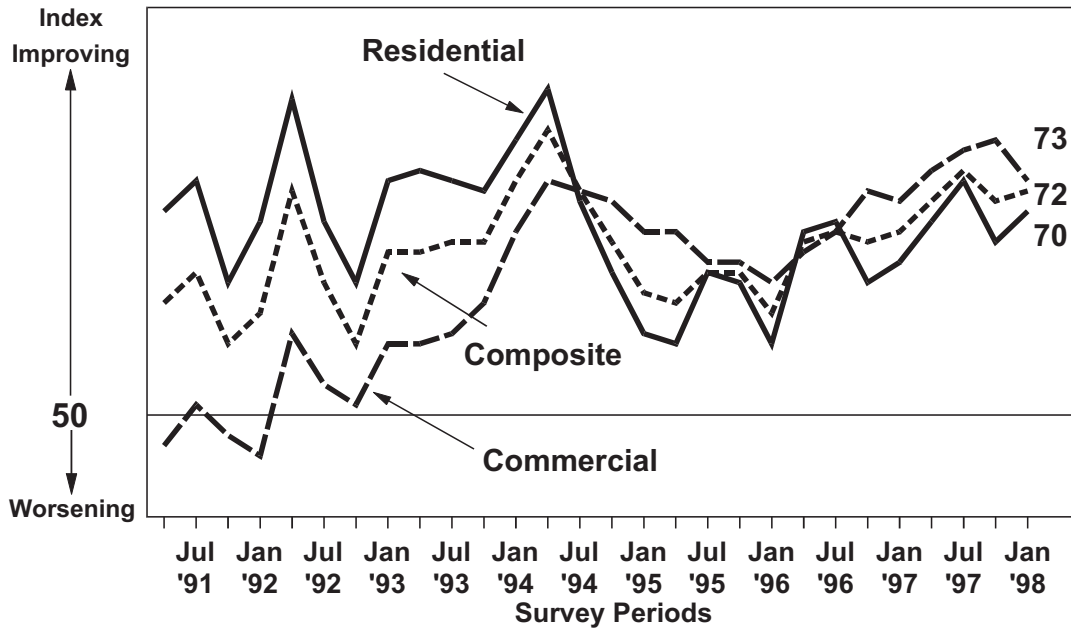
Introduction

Four times a year, the FDIC surveys senior examiners and asset managers from all federal bank and thrift regulatory agencies about developments in their local real estate markets. Participants are queried about changes in the market during the preceding three months and about their views on longer-term trends regarding key market indicators. The latest *Survey of Real Estate Trends*, conducted in late January, detected continued overall improvement in the residential real estate markets since the previous survey in October. The proportion of respondents noting

REAL ESTATE MARKET CHANGES OVER THE THREE MONTHS ENDING IN JANUARY 1998
Summary Indices of Opinions of Senior Examiners and Asset Managers



CHANGING ASSESSMENTS OF REAL ESTATE CONDITIONS
Summary Indices of Opinions of Senior Examiners and Asset Managers



better commercial real estate market conditions remained high but slipped slightly from the last survey. The survey reflected positive trends in market activity in many areas of the nation, with reports of better conditions up notably in residential markets in the West.

National Summary

Three index figures are used – commercial, residential, and a composite of both – to summarize responses to the question of whether real estate markets have improved, deteriorated, or remained the same during the previous three months. Values above 50 indicate that more examiners and asset managers at federal thrift and regulatory agencies believe that short-term conditions are improving rather than declining. Values below 50 indicate the opposite. A value of 50 indicates either (1) a balance between those reporting improving and those reporting worsening conditions, or (2) agreement that conditions are unchanged.

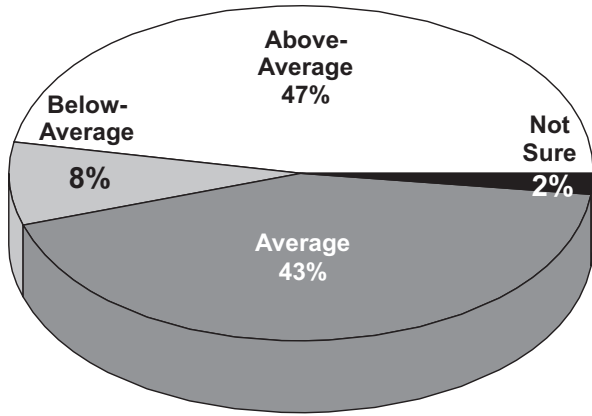
The national composite index was 72 in January, up slightly from October’s figure of 71 and from 68 in January 1997. The composite index for the Midwest showed a three-point decrease from the October survey. Indices in the Northeast and South rose, one and two points, respectively, while the index in the West increased five points.

The national residential index was 70 (up from 67 in October); regional indices were up as well, except in the Midwest, which was down two points. In the South and West, the residential index rose seven and nine points, respectively; the Northeast had a two-point increase. The national commercial index was 73, down four points from a record high of 77 in October. The commercial index also fell in each region – with the exception of the Northeast, which was unchanged.

Residential Real Estate Markets

According to the January survey, reports of improvement in housing markets continued to

PERCENT OF RESPONDENTS IN JANUARY REPORTING EXISTING HOME SALE PRICES WERE . . .



dominate, outpacing reports of decline by a six-to-one margin. The proportion of respondents noting better conditions in their local housing markets was 49 percent in January, compared with 42 percent in October and 38 percent in January 1997.

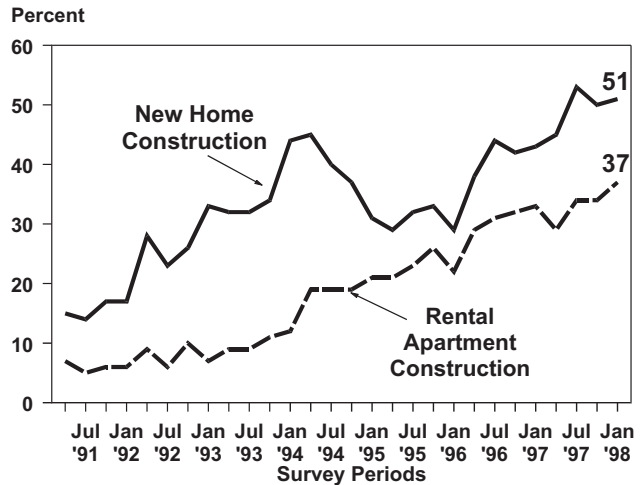
Contributing to the positive assessment of housing conditions were reports of strong home sales and tight housing supply. When asked about the pace of sales of existing homes, 47 percent of respondents described resales as above average, up from 36 percent in January 1997. This perception of increasing sales was consistent with general trends. Recent data reported by the National Association of Realtors (NAR) showed that sales of existing homes rose 3.1 percent during 1997 from 1996, which had previously been a record year. Home sales have been buoyed by low mortgage-interest rates and high consumer confidence.

In addition, 60 percent of the respondents reported increasing prices for existing homes. This figure had changed little since October but was up from 48 percent in January 1997. These observations of rising sale prices also followed general trends, as reflected in recent

data from the NAR. The national median price for an existing home rose 5 percent higher during 1997 from 1996, well ahead of the 1997 inflation rate of 1.8 percent.

Although a majority of respondents continue to characterize their local housing markets as being in balance, tight supply was reported by 17 percent in January, up from 13 percent in October and 10 percent in January 1997. In the West, 33 percent of respondents indicated that residential supply was tight, up from 13 percent in January 1997. Respondents in the Northeast also reported an increase in tight supply (14 percent, up from 6 percent) and a similar uptick was noted in the South (16 percent, up from 11 percent).

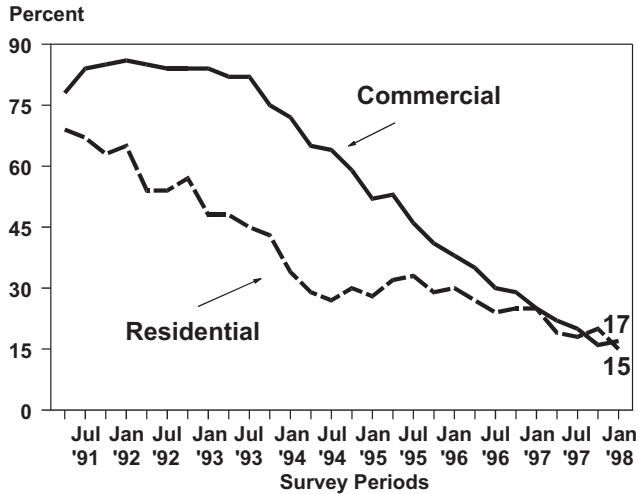
PERCENT OF RESPONDENTS REPORTING AN ABOVE-AVERAGE VOLUME OF RESIDENTIAL CONSTRUCTION



New construction activity remained strong. Just over half of respondents said that homebuilding had been at above-average levels during the previous three months. Assessments of rental apartment construction continued to be positive, with 37 percent of respondents reporting above-average construction levels, up from 34 percent in October. According to the National Associa-

tion of Home Builders (NAHB), the rate of multifamily construction starts jumped in late 1997, renewing fears of overbuilding in this sector. The NAHB report also indicated, however, that demand for multifamily housing is on the upswing.

PERCENT OF RESPONDENTS REPORTING EXCESS SUPPLY IN REAL ESTATE MARKETS

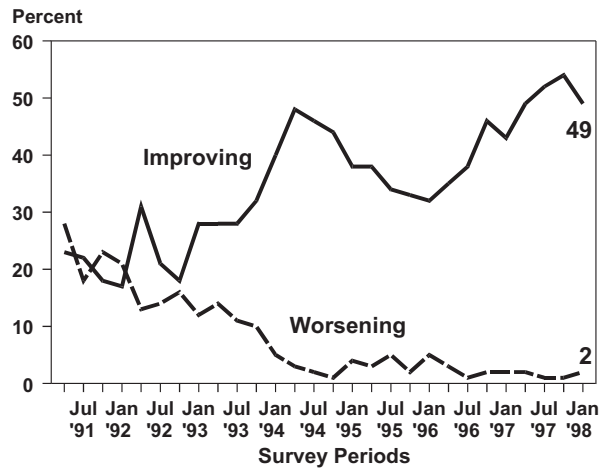


Commercial Real Estate Markets

January reports of improvements in local commercial markets were less frequent than they had been three months earlier, with 49 percent of those surveyed observing better conditions, down from a record high of 54 percent in October. Nonetheless, those who viewed short-term conditions as improving remained high, and was up from 43 percent in January 1997. In addition, there were very few reports of worsening conditions; the decline in such reports has been a consistent trend since the survey began. Another steady trend – also positive – has been the continued progress reported in working down excess inventories of commercial real estate. Seventeen percent of the respondents characterized their local commercial markets as suffering from excess supply. Although this was a slight uptick from the October figure, it is down from 25 percent one year earlier.

Coincident with the overall decline in excess commercial inventory were reports of improving vacancy rates. Fourteen percent of January respondents noted above-average vacancy rates, down from 16 percent in October and 21 percent in January 1997. In fact, 37 percent reported below-average vacancy rates, compared to 33 percent in October, which is in keeping with observations that supply is tight in some local commercial markets. Recent data from CB Commercial confirm that vacancy rates for both downtown and suburban office markets have followed a steady downward trend through the third quarter of 1997 since peaking in the early 1990s.

PERCENT OF RESPONDENTS REPORTING COMMERCIAL REAL ESTATE MARKETS WERE ...



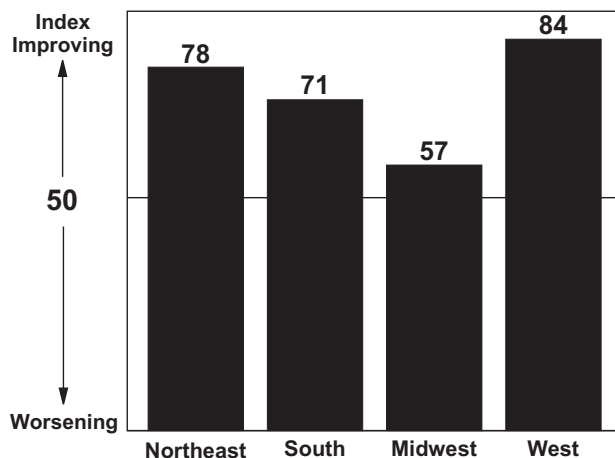
Nationally, 36 percent of respondents cited above-average volumes of commercial sales, and 33 percent observed that commercial rent concessions were declining. In addition, 56 percent of those surveyed noted rising sale prices for commercial real estate properties. Although this proportion was essentially unchanged from the last survey, those saying prices had decreased rose from zero to two percent. Reports of higher prices were increasingly frequent in the West, where 72

percent of respondents reported increasing prices, compared with only 39 percent in January 1997.

Regional Trends

Index readings for residential and commercial markets varied by region. The residential index for the West moved in January to 84 from 75 in October. Underlying the index number for the West was the fact that 73 percent of respondents – up from 59 percent in October – reported that the general direction of their local housing market was better than it had been three months earlier. Similarly, the residential index for the South was 71 in January, up from 64 in October. This uptick in the index reflected an increase in reports of better housing conditions (50 percent in January versus 34 percent in October).

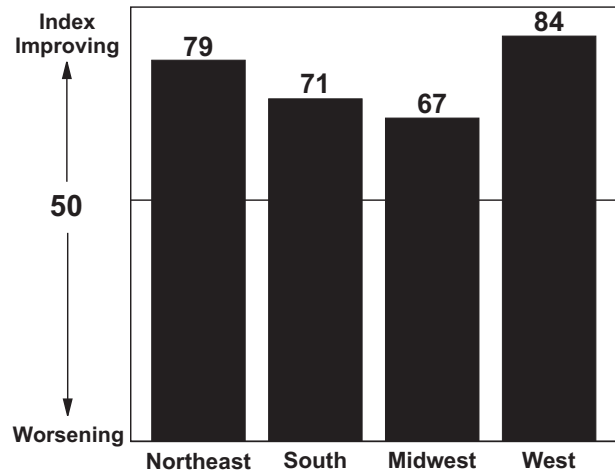
**RESIDENTIAL REAL ESTATE INDICES
IN JANUARY 1998 BY REGION**



Asked for details on local housing markets, 59 percent of respondents in the South noted increasing volume in home sales, up from 43 percent in October. In the Northeast, 60 percent of respondents cited increasing sales prices for existing homes, compared with 41 percent in October. In addition, compared with figures for October, participants in the West, Northeast, and South were more likely

to characterize local residential supply conditions as tight.

**COMMERCIAL REAL ESTATE INDICES
IN JANUARY 1998 BY REGION**



For most regions, the commercial index was down from levels reported in the October survey. In the Midwest, for example, the index dropped from 72 to 67, a shift that reflected (1) a drop in the percentage of respondents reporting better conditions, from 43 percent to 35, and (2) a higher percentage of respondents reporting no change in commercial market conditions. Reports of worsening conditions had little influence on the change. Similar dynamics explain the change in the commercial index for the South: from 75 in October to 71 in January.

Responses to detailed questions about commercial real estate markets revealed increases in the sales of commercial properties among 45 percent of the respondents in the South, up from 36 percent in October. In the West, reports of above-average volume in sales of commercial property increased; but for the first time in several years, the percentage of those reporting below-average sales increased as well. Nonetheless, respondents in the West noted increasing commercial sales prices.

Data and Method of Presentation

The survey results presented at the end of this report are summarized in indices calculated by census region for both residential and commercial real estate markets. The national composite indices are an aggregation of the regional results.

The survey respondents included 298 senior examiners and asset managers experienced in evaluating real estate loan portfolios or in marketing real estate assets. The FDIC respondents included senior experts from the Division of Supervision and the Division of Resolutions and Receiverships. Senior real estate examiners from the Office of the Comptroller of the Currency, the Federal Reserve System, and the Office of Thrift Supervision also participated.

The number of participants in the survey is down considerably, from more than 500 when the survey began in 1991 to just under 300. This decline reflects two changes: first, early surveys included a large number of asset managers from the Resolution Trust Corporation, which closed at the end of 1995; second, agency downsizing has occurred, in part because of declining inventories of real estate assets in receivership from failed banks.

The survey was designed and analyzed by the Division of Research and Statistics at the FDIC. Questions may be directed to Cynthia Angell (202-898-8548) or Daniel Bean (202-898-3931). Geri Bonebrake provided production support. Market Facts, Inc., conducted the survey.

**TO RECEIVE FUTURE COPIES OF THE
FDIC SURVEY OF REAL ESTATE TRENDS . . .**

This Survey is conducted quarterly. If you would like your name to be placed on the mailing list, please write to:

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Survey of Real Estate Trends

An Assessment by Senior Examiners and Asset Managers at Federal Bank and Thrift Regulatory Agencies

APPENDIX

SUMMARY INDICES OF REAL ESTATE TRENDS

	Composite	Commercial	Residential
U.S.	72	73	70
Northeast	79	79	78
South	71	71	71
Midwest	62	67	57
West	84	84	84

Improving market: Index Value > 50

Declining market: Index Value < 50

Notes to Users: The indices presented above were compiled for both residential and commercial real estate markets for the four major U.S. Census Bureau regions. Each regional index is a summary measure of the respondents' opinions about changes in market conditions in the past three months. The number of respondents by region was: Northeast (54), South (97), Midwest (92) and West (55). The national totals include a small number of responses that could not be classified by region.

In constructing the index, a value of 100 was assigned to responses indicating the conditions were "better," and a value of 0 was given to responses saying conditions were "worse." A "no change" answer was assigned a value of 50. Commercial and residential indices at the regional level are the sum of these values divided by the number of respondents in that region for that type of property.

Composite indices at the regional level are the weighted average of the residential and commercial indices for each region. The weights for each region are calculated using the value of construction permits for residential and commercial markets from 1982-1991. National indices are weighted averages of the comparable market measure of each region. The data for both the residential and commercial market weights are from the U.S. Bureau of the Census.

An index value of 50 indicates that the examiners and liquidators responding to the survey believe there has been no change in trends over the last three months. In this case, the opinion of respondents is either unanimous that there has been no change or is, on average, evenly distributed between those who believe the market has improved and those who believe the market has declined. An index above 50 indicates that the number of respondents reporting improvement exceeds the number reporting a worsening of conditions. An index below 50 indicates that the number of respondents reporting a worsening of conditions exceeds the number reporting improvement. The higher the index is above 50, the greater the preponderance of respondents who reported improvement over the number who reported a worsening of conditions.

Census Regions:

Northeast — Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont

South — Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, West Virginia

Midwest — Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin

West — Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming

OVERVIEW

REAL ESTATE TRENDS

COMMERCIAL MARKETS

“What would you say is the general direction of the commercial market now compared with three months ago?”

	A Lot Better	A Little Better	Same	A Little Worse	A Lot Worse	Not Sure	INDEX*
All	7%	42%	49%	2%	—	1%	73
Northeast	2%	60%	34%	4%	—	—	79
South	6%	37%	55%	1%	—	1%	71
Midwest	4%	31%	61%	2%	—	1%	67
West	16%	54%	28%	2%	—	—	84

RESIDENTIAL MARKETS

“What would you say is the general direction of the residential market now compared with three months ago?”

	A Lot Better	A Little Better	Same	A Little Worse	A Lot Worse	Not Sure	INDEX*
All	8%	41%	43%	8%	—	1%	70
Northeast	6%	54%	35%	4%	—	2%	78
South	7%	43%	41%	8%	—	—	71
Midwest	2%	23%	63%	11%	—	1%	57
West	20%	53%	22%	6%	—	—	84

CURRENT REAL ESTATE CONDITIONS

COMMERCIAL MARKETS

“In general, how would you characterize the commercial real estate market?”

	Tight Supply	Supply and Demand Roughly in Balance	Excess Supply	Not Sure
All	21%	59%	17%	2
Northeast	17%	49%	34%	—
South	16%	62%	18%	5
Midwest	19%	74%	4%	2
West	38%	38%	24%	—

RESIDENTIAL MARKETS

“In general, how would you characterize the residential real estate market?”

	Tight Supply	Supply and Demand Roughly in Balance	Excess Supply	Not Sure
All	17%	66%	15%	2
Northeast	14%	65%	21%	—
South	16%	67%	13%	4
Midwest	11%	75%	12%	1
West	33%	49%	16%	2

NOTE: Percentages are calculated by dividing the number of responses in each category within each region by that region's total number of respondents. Numbers may not sum to 100 due to rounding error.

* - See page 8 for an explanation of the Index.

KEY MARKET INDICATORS

RESIDENTIAL

“How would you characterize the current volume of home sales?”

	Much Higher Than Average	Somewhat Above Average	About Average	Somewhat Below Average	Much Below Average	Not Sure
All	6%	41%	43%	8%	0%	2%
Northeast	—	29%	54%	10%	2%	6%
South	9%	50%	36%	4%	—	1%
Midwest	1%	43%	40%	15%	—	1%
West	15%	35%	47%	4%	—	—

“How would you characterize sales prices of existing homes?”

	Increasing Rapidly	Increasing Moderately	Holding Steady	Decreasing Moderately	Decreasing Rapidly	Not Sure
All	4%	56%	37%	2%	—	1%
Northeast	2%	58%	40%	—	—	—
South	4%	57%	35%	3%	—	1%
Midwest	—	52%	47%	1%	—	—
West	13%	60%	22%	4%	—	2%

“How would you characterize the current volume of new home construction?”

	Much Higher Than Average	Somewhat Above Average	About Average	Somewhat Below Average	Much Below Average	Not Sure
All	10%	41%	40%	8%	0%	1%
Northeast	4%	29%	50%	15%	—	2%
South	14%	49%	36%	—	—	1%
Midwest	7%	43%	39%	9%	1%	1%
West	13%	38%	36%	11%	—	2%

“How would you characterize the current volume of rental apartment construction?”

	Much Higher Than Average	Somewhat Above Average	About Average	Somewhat Below Average	Much Below Average	Not Sure
All	6%	31%	37%	21%	2%	4%
Northeast	—	4%	44%	40%	8%	4%
South	9%	43%	35%	8%	—	4%
Midwest	2%	28%	39%	25%	1%	5%
West	9%	38%	27%	20%	4%	2%

NOTE: Percentages are calculated by dividing the number of responses in each category within each region by that region's total number of respondents. Numbers may not sum to 100 due to rounding error.

KEY MARKET INDICATORS

COMMERCIAL

“How would you characterize vacancy rates in commercial real estate?”

	Much Higher Than Average	Somewhat Above Average	About Average	Somewhat Below Average	Much Below Average	Not Sure
All	0%	14%	46%	33%	4%	2%
Northeast	2%	17%	49%	26%	4%	2%
South	—	11%	48%	36%	3%	1%
Midwest	—	10%	53%	29%	4%	3%
West	—	24%	26%	44%	6%	—

“How would you characterize the volume of sales of commercial real estate properties?”

	Much Higher Than Average	Somewhat Above Average	About Average	Somewhat Below Average	Much Below Average	Not Sure
All	3%	33%	53%	7%	0%	3%
Northeast	—	28%	57%	11%	—	4%
South	3%	42%	52%	2%	—	1%
Midwest	1%	22%	61%	9%	—	7%
West	10%	42%	36%	10%	2%	—

“How would you characterize commercial real estate sales prices?”

	Increasing Rapidly	Increasing Moderately	Holding Steady	Decreasing Moderately	Decreasing Rapidly	Not Sure
All	4%	52%	40%	2%	—	2%
Northeast	2%	51%	45%	2%	—	—
South	5%	49%	43%	2%	—	1%
Midwest	1%	49%	44%	1%	—	4%
West	10%	62%	24%	4%	—	—

“How common are rent concessions now compared with three months ago?”

	Much More Frequently	Somewhat More Frequently	About The Same	Somewhat Less Frequently	Much Less Frequently	Not Sure
All	—	3%	58%	27%	6%	7%
Northeast	—	2%	47%	34%	6%	11%
South	—	3%	66%	18%	5%	8%
Midwest	—	1%	61%	27%	4%	7%
West	—	6%	48%	36%	10%	—

“How would you characterize the demand for new office space in your area now compared with three months ago?”

	Much Higher	Somewhat Higher	About The Same	Somewhat Lower	Much Lower	Not Sure
All	3%	37%	54%	5%	—	1%
Northeast	2%	26%	64%	9%	—	—
South	2%	38%	54%	5%	—	1%
Midwest	2%	34%	54%	7%	—	2%
West	4%	50%	46%	—	—	—

NOTE: Percentages are calculated by dividing the number of responses in each category within each region by that region's total number of respondents. Numbers may not sum to 100 due to rounding error.