

# Survey of Real Estate Trends

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

## RESULTS OF THE APRIL 1999 SURVEY

### Highlights

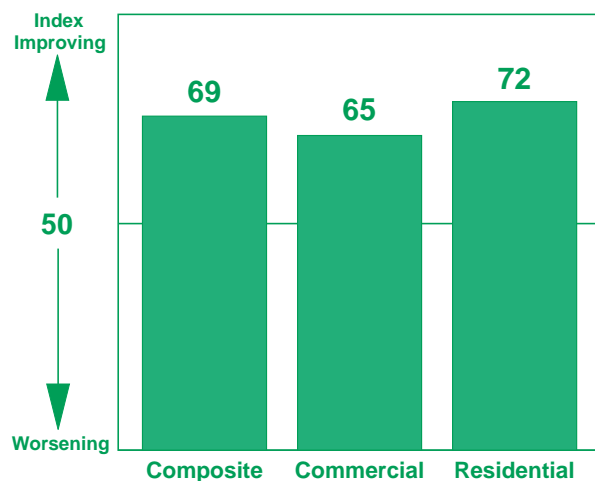
- In April, the national composite index was 69, up from 61 in January. A year ago, the index was 79, a survey high. The composite index summarizes the responses of 292 federal bank and thrift agency senior examiners and asset managers to the **Survey of Real Estate Trends**.
- Almost half (48 percent) of the respondents described the general direction of their local housing market as "better" than it had been three months earlier; in January, the comparable figure was 29 percent. Assessments of the volume of home sales, sale prices, and residential construction were positive.
- One-third of the respondents reported gains in commercial real estate markets, versus 26 percent in January. Evaluations that conditions were deteriorating remained relatively infrequent at 4 percent, down from 6 percent. Both the sales volume and the sales prices of commercial properties reportedly improved.
- The highest proportion of positive assessments came from observers in the Northeast and the West. In the Northeast, reports that housing markets were better more than doubled in April, to 63 percent from 30 percent. Similarly, in the West, 65 percent of respondents noted improving housing markets, up from 34 percent, and 55 percent cited "tight" supply in housing markets.

### Introduction

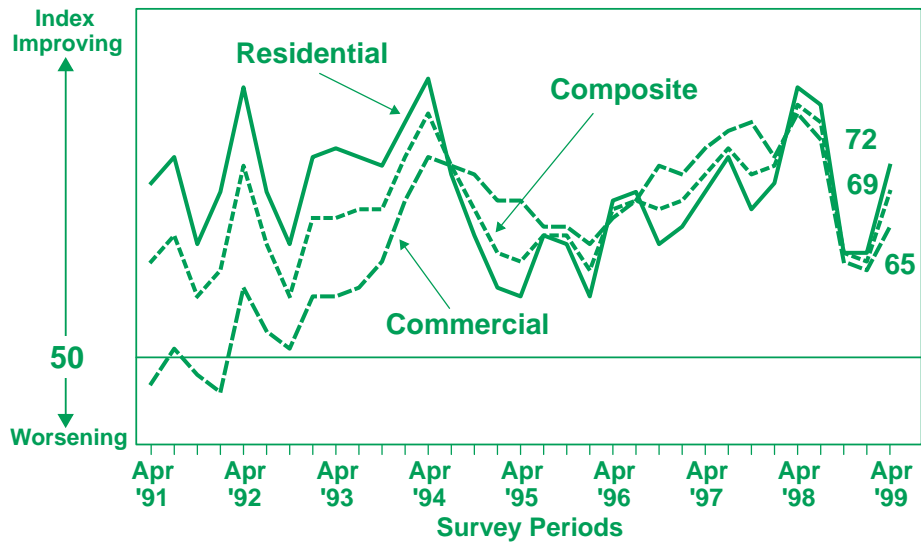
Four times a year the FDIC asks senior examiners and asset managers from all federal bank and thrift regulatory agencies about developments in their local real estate markets during the previous three months. With the April 1999 survey, the FDIC's poll marks its eighth anniversary.

Respondents to the FDIC's latest quarterly **Survey of Real Estate Trends** noted improvements in both residential and commercial real estate markets. The positive results reflected widespread gains across the country. Of particular note was the increasing frequency of reports of improvements in the Northeast and the West.

**REAL ESTATE MARKET CHANGES OVER THE THREE MONTHS ENDING IN APRIL 1999**  
Summary Indices of Opinions of Senior Examiners and Asset Managers



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



**National Summary**

Three index figures – residential, commercial, and a composite of both – are used 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 the number of examiners and asset managers at federal bank and thrift regulatory agencies who believe short-term conditions are improving is greater than the number who believe they are declining. Values below 50 indicate the opposite. A value of 50 indicates either (1) a balance between those who report improving and those who report worsening conditions, or (2) agreement that conditions are unchanged.

The national composite index was 69 in April, 8 points higher than the composite calculated from the January survey (61). This was the biggest gain reported since January 1993, when the index jumped 9 points to 66. The April index reflected positive trends in market activity in all four regions, particularly the West, which registered a composite index of 77 – up from 62 in January.

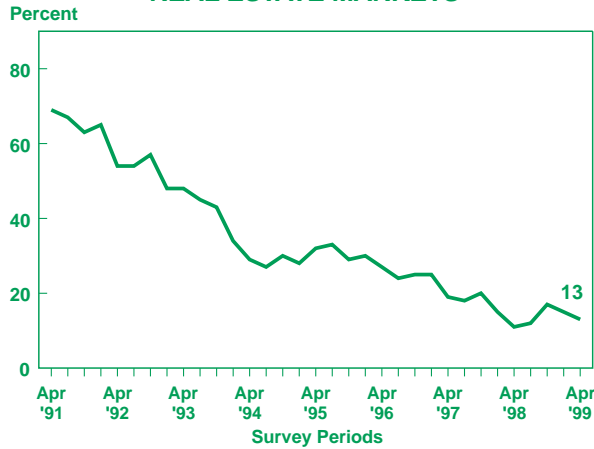
Both the residential and commercial indexes rose in the latest survey. The national residential index was 72, up 10 points from the January figure, again buoyed by particularly strong readings in the Northeast and West. The national commercial index increased to 65 from 60, boosted by big increases in reports of better commercial real estate market conditions in both the Northeast and the West.

**Residential Real Estate Markets**

The increase in positive assessments of residential market conditions in April suggests that more local housing markets are posting gains following several periods of progressively less favorable reports. Almost half (48 percent) of respondents characterized the general direction of the housing market as “better” in April than it had been three months earlier, up from 29 percent in January.

Only 13 percent of the respondents reported excess supply of residential real estate in April, down from 15 percent in January. Also of note is the jump to 27 percent from 20 percent of those noting “tight” supply in housing markets. Indeed, over half (55 percent) of

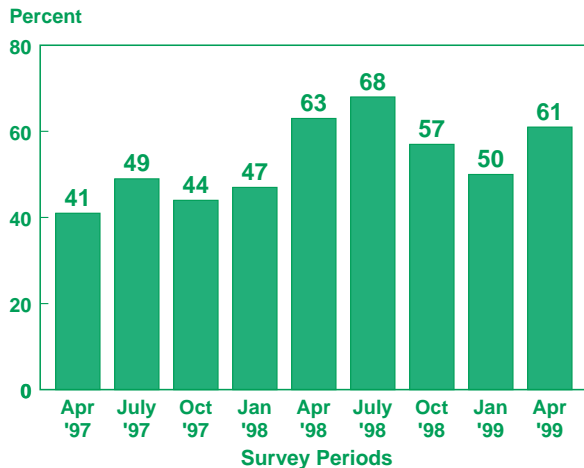
**PERCENT OF RESPONDENTS REPORTING EXCESS SUPPLY IN RESIDENTIAL REAL ESTATE MARKETS**



the respondents in the West reported such conditions.

Home sales activity fared well, according to survey participants. Sixty-one percent cited above-average sales volume in local housing markets, up from 50 percent in January. At the same time, the 2 percent observing below-average sales levels was the lowest proportion in any survey yet. The biggest increase in reports of higher sales volume came from respondents in the Northeast, where 53 percent said residential sales were above average (up from 37 percent in January).

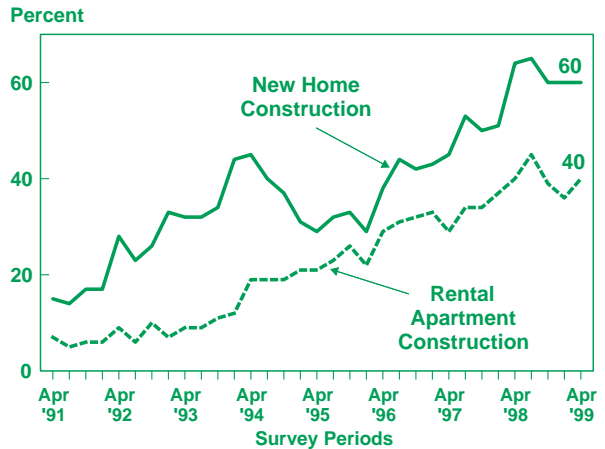
**PERCENT OF RESPONDENTS REPORTING IMPROVING HOME SALES**



In addition, 70 percent of respondents reported increasing prices for existing homes. This figure was up from 62 percent in January. In the Midwest, a record proportion of over three-quarters (78 percent) of respondents saw higher home sale prices.

New residential construction activity remained strong. Sixty percent of respondents said that homebuilding had been at above-average levels during the previous three months. This figure has remained steady since the peak of 65 percent in July 1998. Assessments of rental apartment construction continued to be positive, with 40 percent of respondents reporting above-average construction levels – up from 36 percent in January.

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



**Commercial Real Estate Markets**

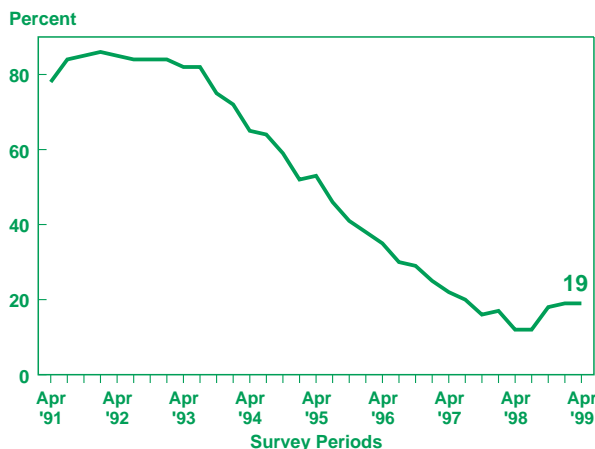
In April, overall assessments of commercial real estate markets were more positive than in the past few quarters, with the most marked improvement observed in the West. Thirty-three percent of respondents reported gains in commercial real estate markets, versus 26 percent in January. At the same time, evaluations that conditions were deteriorating remained relatively infrequent at 4 percent, declining from 6 percent.

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



Reports of oversupply of commercial space had been steadily declining but the decline now appears to have leveled off. Nineteen percent of respondents noted excess supply in their local markets, unchanged from the January reading. Although this was higher than the 12 percent who noted excess supply a year ago, at the same time an increasing number of respondents observed market balance. In fact, 69 percent – the highest survey reading to date – characterized supply and demand in their local markets as in balance. The proportion of observers in the Midwest who said commercial markets were in balance (notably Illinois, Minnesota, and Wisconsin)

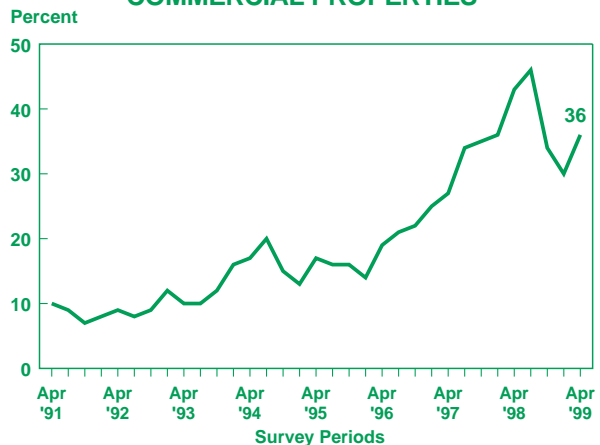
**PERCENT OF RESPONDENTS REPORTING EXCESS SUPPLY IN COMMERCIAL REAL ESTATE MARKETS**



remained at the same record high it had been at for the previous two surveys.

In addition to seeing better market conditions overall, April respondents were encouraging in their evaluations of commercial property transactions. The proportion citing above-average sales of commercial real estate rose to 36 percent from 30 percent. The pick-up in sales was most pronounced in the Northeast (where 26 percent cited above-average sales) and the West (56 percent). Furthermore, the proportion citing increasing commercial real estate prices rose to 59 percent from 47 percent in January; when the survey began in April 1991, the figure was 9 percent. The proportion of reports of increasing prices rose by a wide margin in the Midwest, to 61 percent from 48 percent.

**PERCENT OF RESPONDENTS REPORTING ABOVE-AVERAGE SALES OF COMMERCIAL PROPERTIES**



**Regional Trends**

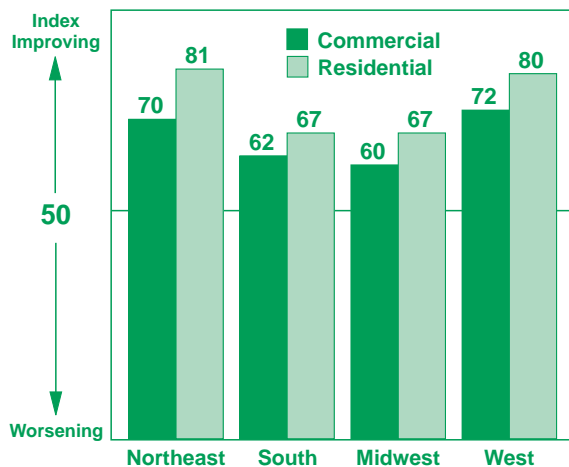
In April regional trends were quite favorable, and index readings for both residential and commercial markets were up. The biggest changes in index figures were from the West, where the composite index figure rose 15 points to 77, followed by the Northeast, where the reading rose 12 points to 76.

The increase in the Northeast's composite index reflected the fact that reports of better

housing markets more than doubled in April – to 63 percent from 30 percent. This huge increase translated into a 16-point rise in the region’s residential index, to 81 from 65. Similarly, the Northeast’s commercial sector showed gains, as 43 percent of respondents cited better conditions (up from 34 percent), giving the commercial index a boost to 70.

In the South and the Midwest, assessments were positive although not as much so as in the West or Northeast. Both regions had residential index readings of 67, up from 64 in the South and from 59 in the Midwest. In the Midwest, 38 percent of respondents said housing markets were better in April, compared with 22 percent three months earlier. Furthermore, more respondents (78 percent) than in any previous survey cited increasing home sale prices. The commercial index in the South rose to 62 from 58 and in the Midwest to 60 from 58.

**REAL ESTATE INDICES IN APRIL 1999  
BY REGION**

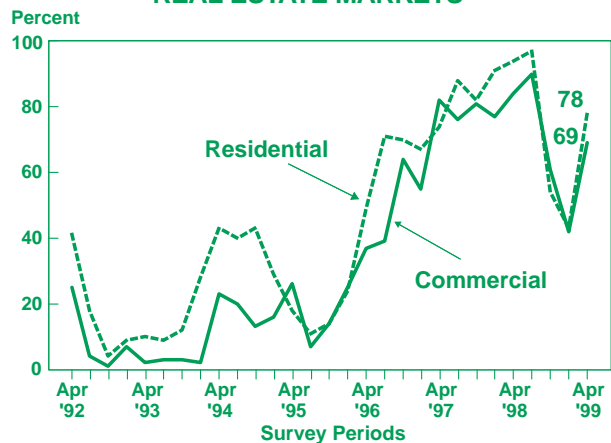


The most positive regional news by far came from the West, where respondents reported favorably on residential and commercial real estate markets. The residential index was 80, up 20 points from 60 in January, while the commercial index rose 7 points to 72.

Improving conditions in California accounted for much of the West’s overall increase: when observers from California were included, 51 percent of respondents in the West saw better commercial conditions, but when they were excluded, the figure dropped to only 29 percent. In California, 69 percent noted gains in commercial markets. California respondents were particularly positive about rising commercial prices (cited by 85 percent) and commercial sales (65 percent).

The most positive assessments in California were of its residential sector. More than three-quarters (78 percent) of respondents reported better residential conditions. Observers saw higher home sales (cited by 81 percent) and increasing home sale prices (96 percent). The Federal Reserve Bank of San Francisco attributes the recent tightening in the housing market to increased demand caused by faster population growth and accelerating household formations.

**PERCENT OF RESPONDENTS REPORTING  
BETTER CONDITIONS IN CALIFORNIA  
REAL ESTATE MARKETS**



**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 aggregations of the regional results.

The survey respondents included 292 senior examiners and asset managers experienced in evaluating real estate loan portfolios or in marketing real estate assets. The FDIC respondents were senior experts from the Division of Supervision and the Division of Resolutions and Receiverships. Other participants were senior real estate examiners from the Office of the Comptroller of the Currency, the Federal Reserve System, and the Office of Thrift Supervision.

At 292, the number of participants in the survey is down considerably from the more than 500 when the survey began in 1991. This

decline reflects two changes: first, early surveys included a large number of participants from the Resolution Trust Corporation, which ceased to exist at the end of 1995; second, the remaining federal regulatory agencies have downsized, partly because inventories of real estate assets in receivership from failed banks have declined.

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

**If you would like your name to be placed on the mailing list to receive future copies of the FDIC's *Survey of Real Estate Trends*, please contact the FDIC at:**

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Washington, DC 20434-001  
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## APPENDIX



## SUMMARY INDICES OF REAL ESTATE TRENDS

	Composite	Commercial	Residential
U.S.	69	65	72
Northeast	76	70	81
South	65	62	67
Midwest	64	60	67
West	77	72	80

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 (55), South (99), Midwest (88) and West (50). 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	5%	28%	63%	4%	—	0%	65
Northeast	7%	36%	56%	2%	—	—	70
South	3%	24%	68%	4%	—	—	62
Midwest	3%	20%	74%	3%	—	1%	60
West	11%	40%	43%	6%	—	—	72

#### 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	9%	39%	49%	3%	—	—	72
Northeast	11%	52%	37%	—	—	—	81
South	4%	34%	58%	4%	—	—	67
Midwest	6%	32%	59%	3%	—	—	67
West	20%	45%	29%	6%	—	—	80

### 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	12%	69%	19%	0
Northeast	9%	62%	29%	—
South	8%	70%	22%	—
Midwest	11%	76%	13%	—
West	23%	60%	15%	2

#### 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	27%	59%	13%	1
Northeast	24%	59%	11%	6
South	15%	68%	17%	—
Midwest	26%	64%	9%	1
West	55%	33%	12%	—

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	12%	49%	36%	2%	—	1%
Northeast	7%	46%	41%	2%	—	4%
South	9%	52%	36%	3%	—	—
Midwest	10%	51%	35%	2%	—	1%
West	25%	43%	31%	2%	—	—

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

	Increasing Rapidly	Increasing Moderately	Holding Steady	Decreasing Moderately	Decreasing Rapidly	Not Sure
All	8%	62%	29%	1%	—	0%
Northeast	6%	59%	33%	—	—	2%
South	5%	58%	37%	—	—	—
Midwest	6%	72%	22%	1%	—	—
West	20%	55%	20%	4%	—	—

#### “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	13%	47%	35%	5%	—	1%
Northeast	4%	44%	39%	11%	—	2%
South	16%	48%	32%	4%	—	—
Midwest	13%	50%	34%	2%	—	1%
West	18%	41%	37%	2%	—	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	9%	31%	38%	17%	1%	4%
Northeast	—	6%	43%	37%	2%	13%
South	14%	41%	38%	5%	—	1%
Midwest	8%	32%	39%	18%	—	3%
West	8%	39%	31%	18%	2%	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	2%	11%	55%	29%	3%	0%
Northeast	—	11%	60%	24%	4%	—
South	3%	13%	54%	28%	1%	—
Midwest	—	10%	59%	30%	1%	—
West	2%	9%	43%	34%	11%	2%

#### “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%	57%	4%	0%	3%
Northeast	2%	24%	60%	9%	—	4%
South	2%	33%	62%	2%	—	—
Midwest	3%	29%	59%	4%	1%	5%
West	9%	47%	38%	4%	—	2%

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

	Increasing Rapidly	Increasing Moderately	Holding Steady	Decreasing Moderately	Decreasing Rapidly	Not Sure
All	1%	58%	41%	0%	—	0%
Northeast	4%	42%	51%	2%	—	—
South	—	53%	47%	—	—	—
Midwest	—	61%	38%	—	—	1%
West	2%	75%	23%	—	—	—

#### “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	0%	6%	65%	18%	3%	7%
Northeast	—	4%	60%	27%	2%	7%
South	—	10%	68%	14%	2%	6%
Midwest	—	4%	74%	10%	4%	9%
West	2%	2%	51%	30%	6%	9%

#### “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	2%	30%	64%	4%	—	—
Northeast	2%	31%	67%	—	—	—
South	—	26%	69%	6%	—	—
Midwest	3%	30%	63%	5%	—	—
West	6%	36%	53%	4%	—	—

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.