

Survey of Real Estate Trends

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

RESULTS OF THE JULY 1999 SURVEY

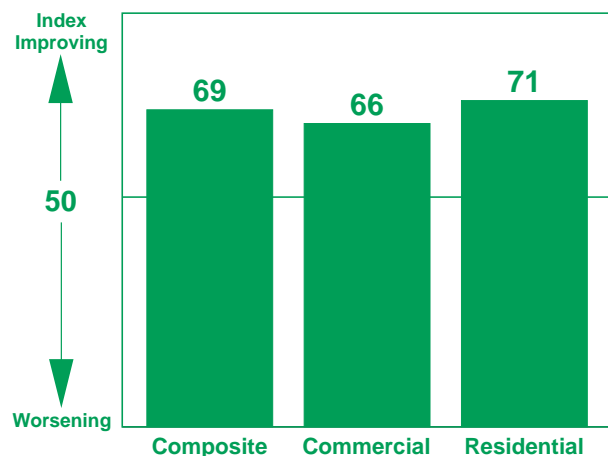
Highlights

- In July the national composite index was 69, unchanged from the April figure. The composite index summarizes the opinions of 293 senior examiners and asset managers at federal bank and thrift regulatory agencies on changes in local real estate market conditions during the prior three-month period. An index above 50 indicates markets are improving.
- Residential markets continued to strengthen according to 45 percent of survey respondents, while only 3 percent noted worsening conditions. There were increasing reports of robust home sales (64 percent) and higher home sale prices (72 percent).
- Gains in local commercial markets were noted by 35 percent of the respondents, up from 33 percent in April, and observations of deteriorating conditions declined slightly to 3 percent. Reports of below-average commercial real estate sales were, at 3 percent, the lowest of any survey to date.
- The Midwest registered the biggest increase in reports of improving residential and commercial markets. Respondents there were the most favorable of any survey to date about increasing home sales, home prices, and sales of commercial real estate.

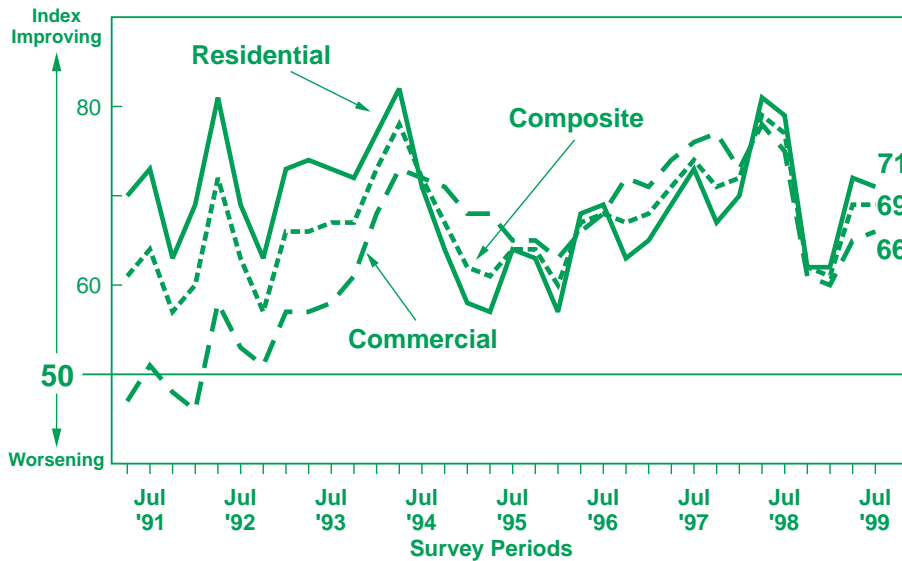
Introduction

In its quarterly real estate survey (first conducted in April 1991), the FDIC polls 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. According to results of the most recent **Survey of Real Estate Trends**, conducted in late July, improvements in residential and commercial markets continued to be widespread. Reports of better conditions were up notably in commercial markets in the Midwest.

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



CHANGING ASSESMENT 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 conditions are improving is greater than the number who believe they are declining. Values below 50 indicate the opposite. The further the index is from 50, the more the respondents agree about recent developments. 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 of survey responses in July held steady at the positive reading of 69 recorded in April. The repeat reading represented the continuation of solid improvements in real estate markets across the country, following the low reading of 61 posted in January.

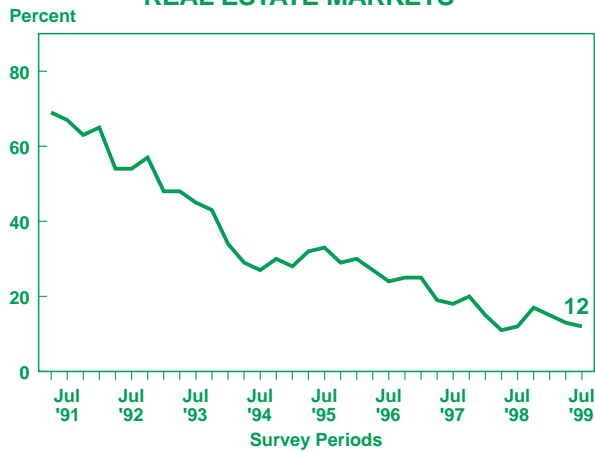
The national residential index edged down 1 point to 71 in July. Overall, the steady, positive reading indicated that housing markets maintained gains reported in April after slower activity noted late last year and earlier this year. With the exception of the Midwest, where the index rose 2 points to 69, the regional residential figures were unchanged or declined.

The national index for commercial markets edged up 1 point to 66 in July. Overall, the national commercial index was buoyed by the strong index figure in the Midwest, which rose 7 points. In the other three regions, the figure was unchanged or declined slightly.

Residential Real Estate Markets

According to the July survey results, reports of improvement in local housing markets continued to outpace reports of decline by a wide margin. The proportion of respondents noting better conditions in their local housing markets was 45 percent in July, compared with 48 percent in April. At the same time, only 3 percent of those surveyed in July noted that conditions had worsened. This relatively low response was unchanged from the previous survey.

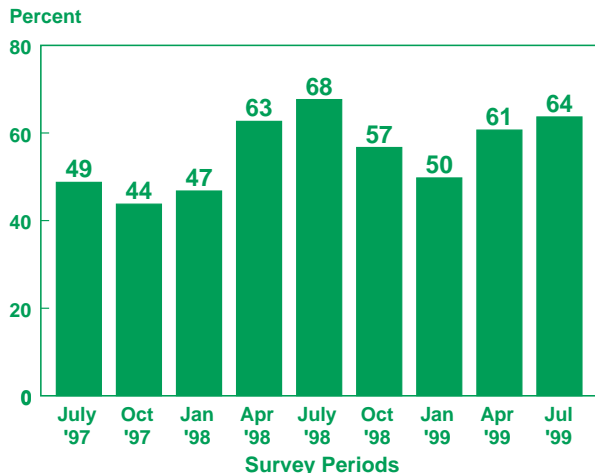
PERCENT OF RESPONDENTS REPORTING EXCESS SUPPLY IN RESIDENTIAL REAL ESTATE MARKETS



Reports of excess supply continued to decline. When asked about supply and demand conditions in their local housing markets, only 12 percent noted excess supply in July, down slightly from 13 percent in April. In fact, reports of tight conditions increased. Thirty-six percent of observers indicated that residential supply was tight, the highest proportion in any survey yet. Tight housing supply was cited in every region by a record or near-record proportion of respondents.

Consistent with this indication of strong demand were reports of robust home sales and price increases. Sixty-four percent of those surveyed, up from 61 percent in April,

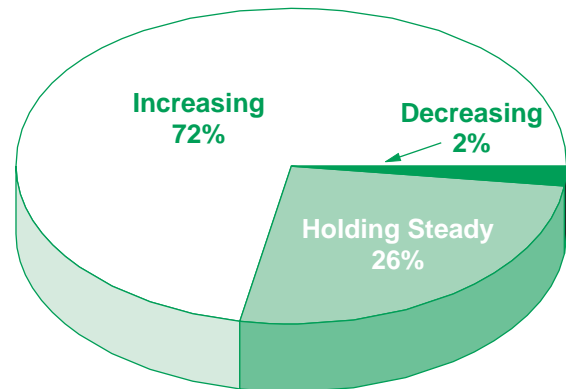
PERCENT OF RESPONDENTS REPORTING IMPROVING HOME SALES



noted that the pace of home sales was above average. Only 1 percent cited below-average sales volume, the lowest figure to date. According to the National Association of Realtors (NAR), June was the eighth month in a row when resales topped 5 million – ahead of last year’s record sales.

In addition, 72 percent of the respondents reported increasing prices for existing homes, up from 70 percent in April. These observations of rising sale prices were in keeping with preliminary data from NAR, which reported the national median price for an existing home up 5.7 percent from March to June, well ahead of inflation during the same period.

PERCENT OF RESPONDENTS IN JULY REPORTING EXISTING HOME SALES PRICES WERE . . .



Commercial Real Estate Markets

The results of the July survey indicate that commercial market improvements reported in the April survey continued into the summer. Gains in local commercial markets were noted by 35 percent of the respondents, up from 33 percent during the previous three-month period. Furthermore, the proportion of respondents citing worsening conditions declined slightly to 3 percent in July.

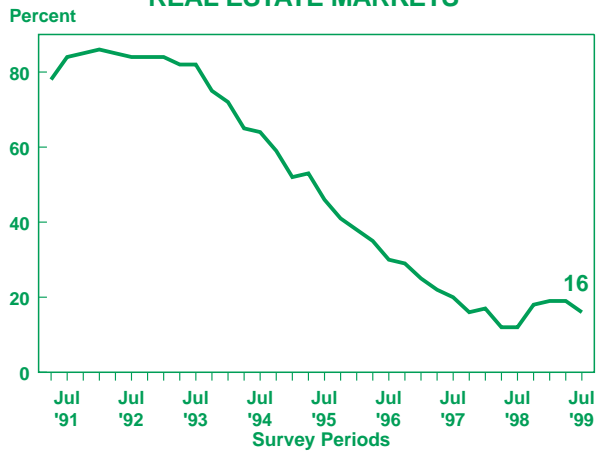
The percentage of respondents noting excess supply of commercial real estate fell to 16 percent from 19 percent in April. By contrast, when the survey began, that figure

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



was 78 percent. At the same time, the percentage of observers who characterized supply conditions as tight jumped 7 percentage points, to 19 percent from 12 percent in April. Reports of tight commercial supply were up in all regions and, in fact, doubled in the Northeast (18 percent) and Midwest (20 percent).

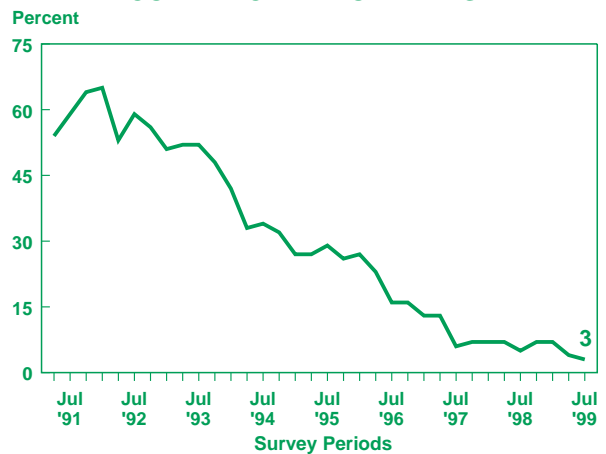
PERCENT OF RESPONDENTS REPORTING EXCESS SUPPLY IN COMMERCIAL REAL ESTATE MARKETS



Only 3 percent of the respondents in July reported that commercial real estate sales were below average. This was the lowest proportion of the survey to date. Indeed, reports of commercial real estate sales have improved dramatically since the initial survey (April 1991) in which 54 percent of the

respondents reported below-average commercial sales. Although a majority characterized sales as average, 40 percent noted that commercial property sales were above average in their local markets. In the West – where assessments were the most positive – 51 percent of respondents rated the volume of commercial property sales as above average.

PERCENT OF RESPONDENTS REPORTING BELOW-AVERAGE SALES VOLUME OF COMMERCIAL PROPERTIES

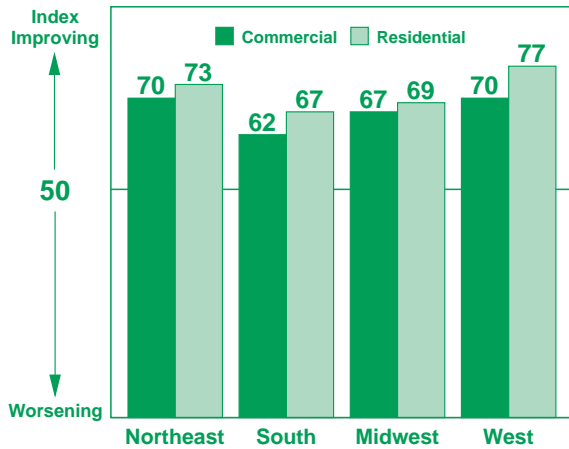


Commercial real estate prices continued to be viewed favorably. Almost 60 percent said that sale prices of commercial properties had increased during the previous three months. There were no reports of decreasing prices in any of the four regions.

Regional Trends

Index readings for residential and commercial markets varied by region. The commercial index was unchanged in the Northeast (70) and South (62), as a majority of respondents found conditions unchanged rather than improving; those who noted worsening conditions declined or held steady in the low single digits. In the West, the commercial index declined from 72 to 70, a shift that reflected (1) a drop in the percentage of respondents reporting better conditions, from 51 percent to 47 percent, and (2) a higher percentage of

REAL ESTATE INDICES IN JULY 1999 BY REGION



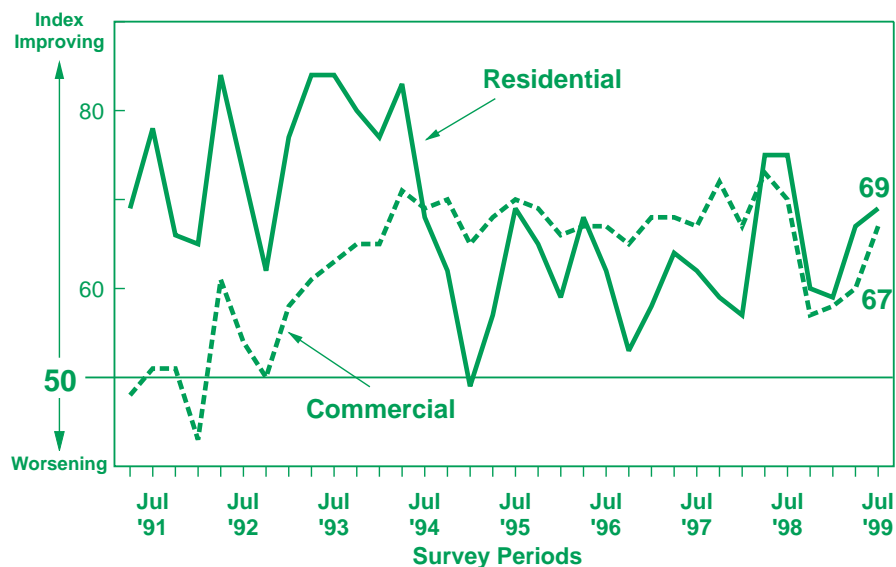
observations of no change in commercial market conditions. Reports of worsening conditions had little influence on the change. With respect to housing markets, the residential index was down from levels reported in the April survey in the Northeast (73) and West (77 percent). Although a majority of respondents in these regions reported improving conditions, the proportion citing worsening conditions edged up slightly. The residential index was unchanged in the South (67 percent).

In general, the biggest increase in favorable

assessments of real estate markets came in the Midwest. Growing strength in Midwest real estate markets was apparent from the frequent reports of improvements in July, resulting in an increase in the regional composite index to 68 in July from 64 in April. The Midwest was the only region where observers saw improvements in both the commercial and residential real estate markets. Moreover, far fewer reports of weakness were recorded in the Midwest than in any other region.

In the Midwest, the regional housing index rose to 69 in July from 67 in April, as reports of better conditions rose to 39 percent, and reports of worsening conditions fell to only 1 percent. With respect to commercial real estate markets, the regional commercial index jumped to 67 in July from 60 in April, boosted by reports of gains by 34 percent of the respondents (up from 23 percent in April) and no reports of deterioration. Asked for details on local markets, respondents in the Midwest gave the most favorable responses in any survey to date about increasing home sales (67 percent), residential sales prices (79 percent), and sales of commercial real estate (39 percent).

CHANGING ASSESSMENT OF REAL ESTATE CONDITIONS IN THE MIDWEST Summary Indices of Opinions of Senior Examiners and Asset Managers



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 were 293 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 293, 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 as the number of failed banks itself has declined.

The survey was designed and analyzed by the Division of Research and Statistics at the FDIC. Cora Gibson and 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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APPENDIX

SUMMARY INDICES OF REAL ESTATE TRENDS

	Composite	Commercial	Residential
U.S.	69	66	71
Northeast	72	70	73
South	65	62	67
Midwest	68	67	69
West	74	70	77

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 (58), South (96), Midwest (87) and West (52). 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	3%	32%	62%	3%	—	—	66
Northeast	2%	39%	57%	2%	—	—	70
South	2%	25%	70%	3%	—	—	62
Midwest	—	34%	66%	—	—	—	67
West	12%	35%	47%	6%	—	—	70

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	7%	38%	52%	3%	—	—	71
Northeast	4%	46%	46%	4%	—	—	73
South	4%	33%	61%	2%	—	—	67
Midwest	2%	37%	60%	1%	—	—	69
West	23%	39%	31%	8%	—	—	77

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	19%	66%	16%	—
Northeast	18%	67%	16%	—
South	10%	72%	18%	—
Midwest	20%	64%	16%	—
West	33%	57%	10%	—

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	36%	51%	12%	1
Northeast	30%	59%	11%	—
South	27%	56%	15%	2
Midwest	36%	55%	9%	—
West	60%	27%	12%	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	12%	52%	34%	1%	—	1%
Northeast	7%	54%	36%	4%	—	—
South	11%	51%	38%	1%	—	—
Midwest	8%	59%	32%	—	—	1%
West	25%	42%	29%	2%	—	2%

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

	Increasing Rapidly	Increasing Moderately	Holding Steady	Decreasing Moderately	Decreasing Rapidly	Not Sure
All	9%	63%	26%	2%	—	—
Northeast	7%	64%	27%	2%	—	—
South	4%	59%	35%	2%	—	—
Midwest	2%	77%	20%	1%	—	—
West	33%	46%	19%	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	13%	53%	31%	2%	—	1%
Northeast	7%	46%	38%	7%	—	2%
South	14%	57%	30%	—	—	—
Midwest	10%	59%	30%	1%	—	—
West	21%	44%	27%	4%	—	4%

“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	10%	36%	35%	16%	0%	3%
Northeast	—	18%	36%	36%	2%	9%
South	17%	47%	28%	6%	—	1%
Midwest	7%	37%	39%	15%	—	2%
West	14%	35%	39%	12%	—	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	1%	13%	52%	29%	6%	0%
Northeast	—	12%	55%	28%	6%	—
South	1%	19%	55%	24%	1%	—
Midwest	—	10%	54%	33%	3%	1%
West	2%	8%	39%	33%	18%	—

“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%	37%	53%	3%	—	4%
Northeast	—	29%	59%	2%	—	10%
South	3%	38%	52%	3%	—	3%
Midwest	3%	36%	55%	5%	—	1%
West	8%	43%	45%	2%	—	2%

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

	Increasing Rapidly	Increasing Moderately	Holding Steady	Decreasing Moderately	Decreasing Rapidly	Not Sure
All	3%	56%	40%	—	—	2%
Northeast	2%	49%	47%	—	—	2%
South	—	56%	43%	—	—	1%
Midwest	—	60%	39%	—	—	1%
West	12%	55%	29%	—	—	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%	72%	16%	4%	6%
Northeast	—	4%	67%	16%	6%	8%
South	—	3%	76%	14%	2%	5%
Midwest	—	1%	79%	13%	1%	6%
West	—	4%	57%	27%	8%	4%

“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%	28%	63%	6%	—	1%
Northeast	—	29%	69%	—	—	2%
South	1%	26%	64%	8%	—	1%
Midwest	—	28%	66%	5%	—	1%
West	12%	31%	49%	8%	—	—

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.