

Survey of Real Estate Trends

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

RESULTS OF THE APRIL 1998 SURVEY

Highlights

- In April, the national composite index of real estate activity was 79 — up from 72 in January and from 71 in April of 1997. The composite index summarizes the opinions of 302 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.
- Sixty-three percent of respondents thought conditions in local residential markets had improved; in the January survey, the comparable figure had been 49 percent. Underlying this positive evaluation of short-term changes were reports of robust new construction and strong home sales.
- Commercial real estate markets also showed improvement. Short-term conditions were described by 56 percent of respondents as improving and by only 1 percent as weakening. Both the sales volume and the sales prices of commercial properties reportedly kept improving.
- Every region showed an increase in the composite index between January and April, with gains noted particularly in the Northeast and the Midwest. In the Northeast, 80 percent of respondents described residential conditions as better in April than three months earlier; in the Midwest, the comparable figure was 53 percent, with 45 percent of respondents also observing improvements in commercial markets in that region.

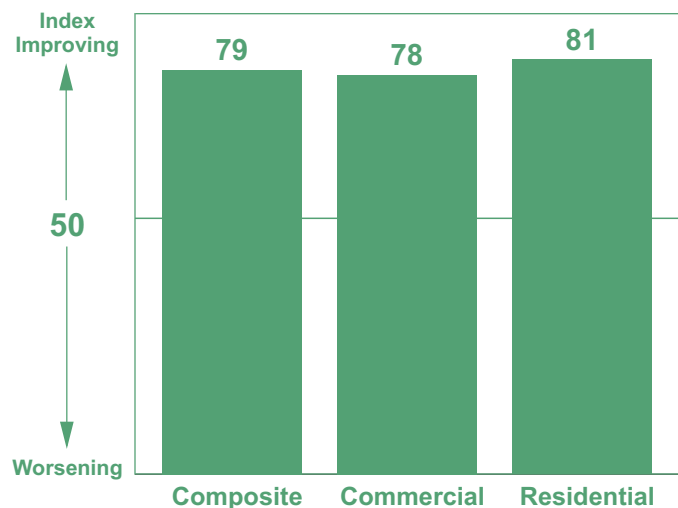
Introduction

In its quarterly real estate survey, the FDIC polls senior examiners and asset managers from all federal banking and thrift regulatory agencies about developments in their local real estate markets during the previous three months. The April 1998 survey marks the seventh anniversary of the FDIC's poll.

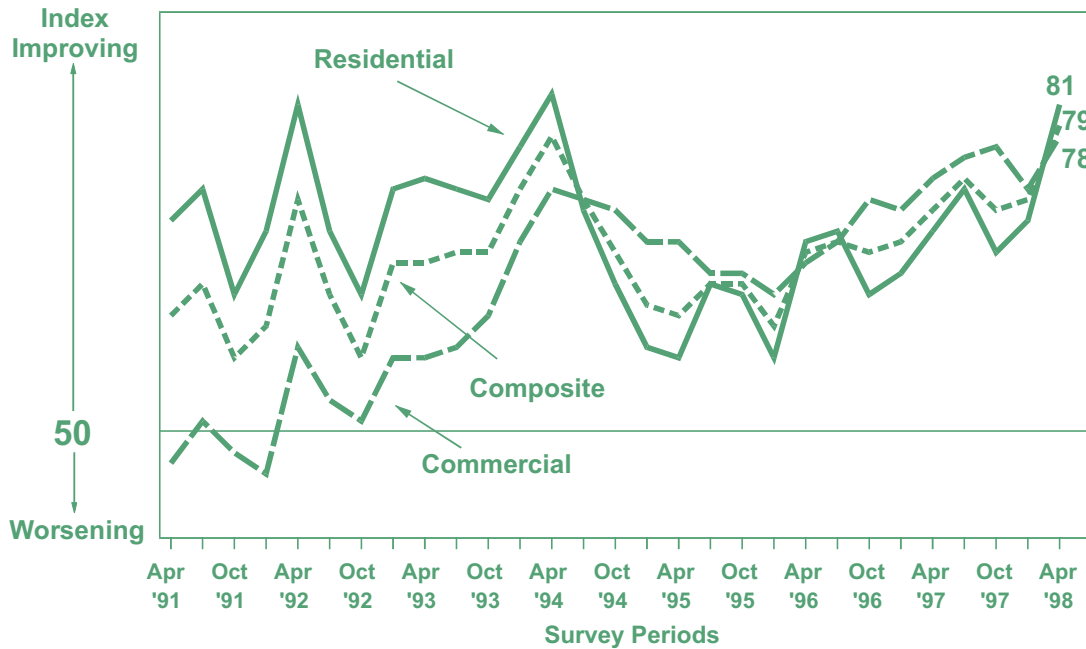
Results of this latest survey were very positive. The proportion of respondents who observed better conditions in residential markets was the highest in four years, constituting one of the most favorable assessments since the survey began. Reports of improving conditions in com-

REAL ESTATE MARKET CHANGES OVER THE THREE MONTHS ENDING IN APRIL 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



mercial markets also increased, with more respondents noting better conditions in April than in any prior survey. Furthermore, the results indicated solid gains in every region, particularly in residential markets in the Northeast and in residential and commercial markets in the Midwest.

National Summary

Three index figures — commercial, residential, 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 reporting improving and those reporting worsening conditions, or (2) agreement that conditions are unchanged.

The national composite index was 79 in April, 7 points higher than the composite calculated from the January survey (72) and 8 points higher than a year ago (71). This year's April figure was the highest index in the seven years of the poll, reflecting positive views on market trends across the nation.

Both the national residential and the national commercial indices also rose in the latest survey. The national residential reading jumped 11 points from January to 81, led by increases in the residential index for every region, particularly the Northeast and the South. Similarly, every region posted an increase in its commercial index in April, resulting in a 5-point rise in the national commercial index to 78.

Residential Real Estate Markets

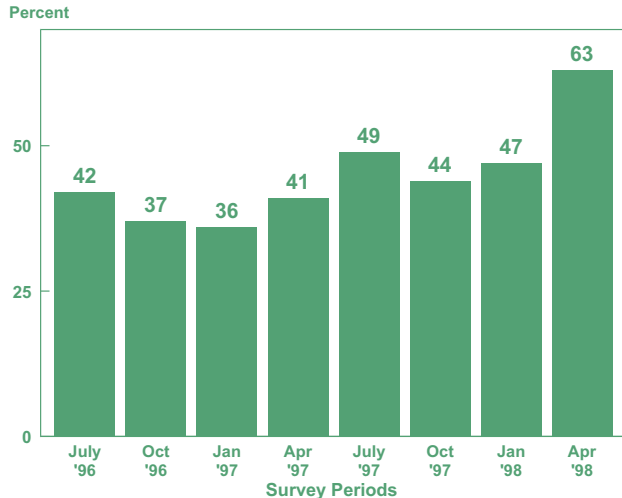
Optimistic assessments of overall housing market trends accelerated in April after a small uptick in January. Sixty-three percent of those surveyed reported that conditions in their local housing markets were better in April than three months before, when the

comparable figure was 49 percent. The April figure was by far the largest in four years.

The good news about housing markets was reflected in answers to more detailed questions. Thirty percent of respondents observed tight supply in their local housing markets; a year ago the comparable figure was 16 percent. In every region, respondents noted a tight supply.

Consistent with this indication of strong demand were reports of robust home sales and residential construction. Sixty-three percent of those surveyed, up from 47 percent in January and 41 percent a year ago, noted that the pace of home sales was above average. Indeed, the National Association of Realtors reported that the momentum from 1997's record-setting pace of existing home sales continued into the first three months of 1998.

PERCENT OF RESPONDENTS REPORTING IMPROVING HOME SALES



In addition, 64 percent of respondents cited new home construction at above-average levels. Comparable figures for January 1998 and April 1997 were 51 percent and 45 percent. In the rental apartment market, 40 percent of the respondents reported above-average construction. According to the National Association of Home Builders, single-

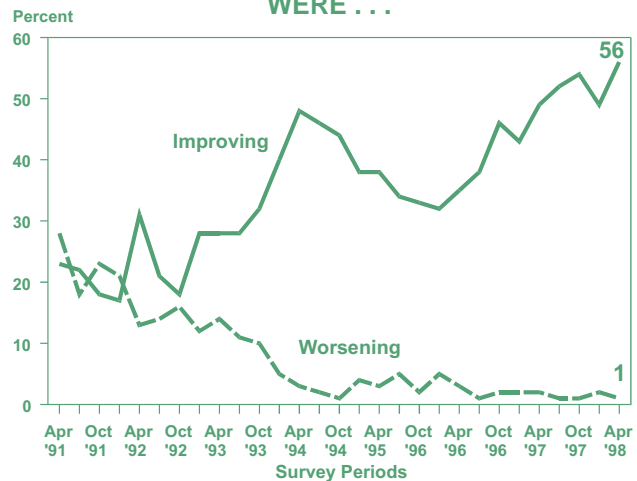
family starts for the first quarter of 1998 were 8.4 percent higher than in the first quarter of 1997, and multifamily starts rose 13.6 percent over the same time frame.

When asked about sales prices of existing homes, almost 75 percent of respondents (up from 60 percent in January) reported increasing prices. By comparison, when the survey began in April 1991, only 18 percent said home prices were rising.

Commercial Real Estate Markets

Reports of improving commercial real estate markets generally have been increasingly frequent during the past two years. And in April, assessments of short-term trends in commercial markets continued to be positive. Fifty-six percent of respondents observed improvements in their local commercial real estate markets. Only 1 percent cited worsening conditions in April — approximately the average for the past year or so.

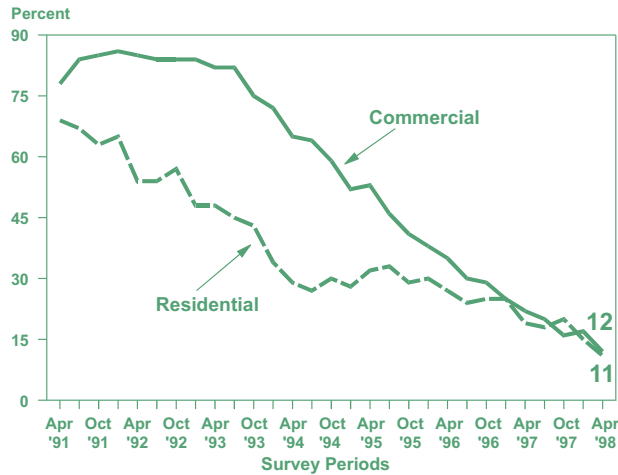
PERCENT OF RESPONDENTS REPORTING COMMERCIAL REAL ESTATE MARKETS WERE ...



The proportion of respondents reporting excess supply of commercial real estate dropped to 12 percent in April from 17 percent in January. A year ago, almost double that figure (22 percent) noted oversupply. Reflecting the continuing decreases in excess inventory,

the percentage of observers in April who characterized supply and demand in their local commercial market as “in balance” was greater — at 66 percent — than in any survey to date.

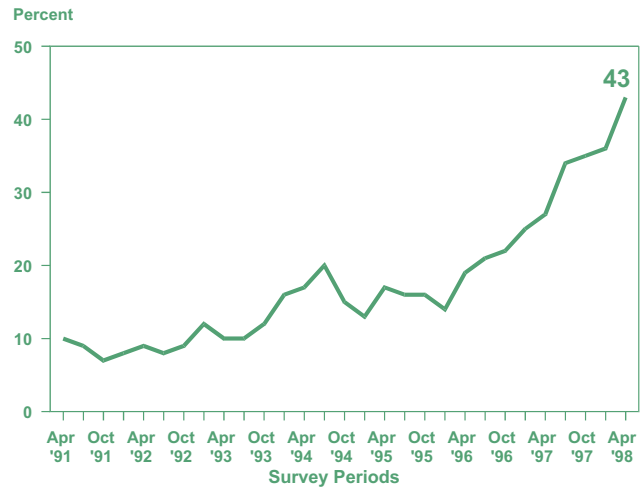
PERCENT OF RESPONDENTS REPORTING EXCESS SUPPLY IN REAL ESTATE MARKETS



The volume of commercial real estate sales nationally kept improving, according to the April survey. When asked about commercial sales activity, 43 percent of respondents observed sales at above-average levels; the comparable percentages in January and a year ago were 36 percent and 27 percent. The proportion of respondents noting higher commercial sales was greater in every region except the South. Commercial property sales activity in the South remained above average but the percentage of respondents noting this was unchanged from January's reading of 45 percent, whereas reports of below-average sales increased.

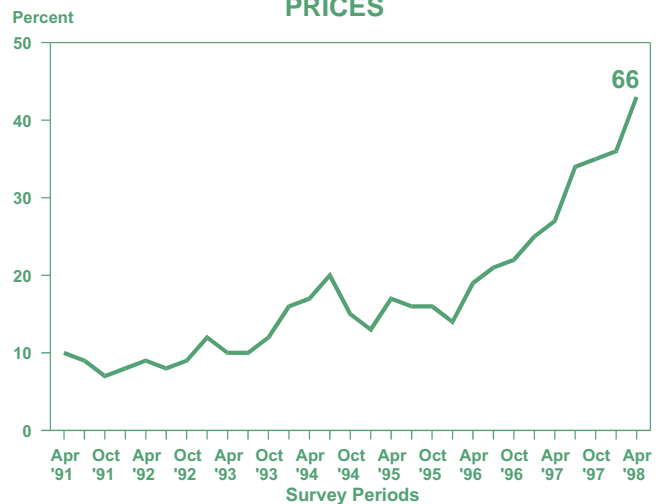
Reports of rising commercial property prices in April reflected the improved pace of commercial sales and the general tightening of commercial markets nationally. Two-thirds of the respondents observed increasing sales prices; the comparable figures in January and a year ago were 56 percent and 48 percent. The remaining respondents witnessed stable

PERCENT OF RESPONDENTS REPORTING ABOVE-AVERAGE SALES OF COMMERCIAL PROPERTIES



commercial sales prices. The proportion of respondents citing increasing commercial sales prices was up in April in all regions, with the biggest change in the West: 87 percent of participants there observed rising sales prices compared with 72 percent in January.

PERCENT OF RESPONDENTS REPORTING INCREASING COMMERCIAL REAL ESTATE PRICES



Demand for space in the key office sector continued to improve, with almost half of the respondents (49 percent) citing a pick-up in demand in April. Moreover, reports of weakening demand in April edged down to 3 percent, from 5 percent three months ago.

Regional Trends

In keeping with the national trend, the composite index for each region also was higher than in the January survey, with the increase in the index ranging from 3 points in the West (87 in April), to 12 points in the Midwest (74). The composite indices for both the West and the Northeast (86) were the highest to date, while the indices for the South (77) and the Midwest (74) remained high.

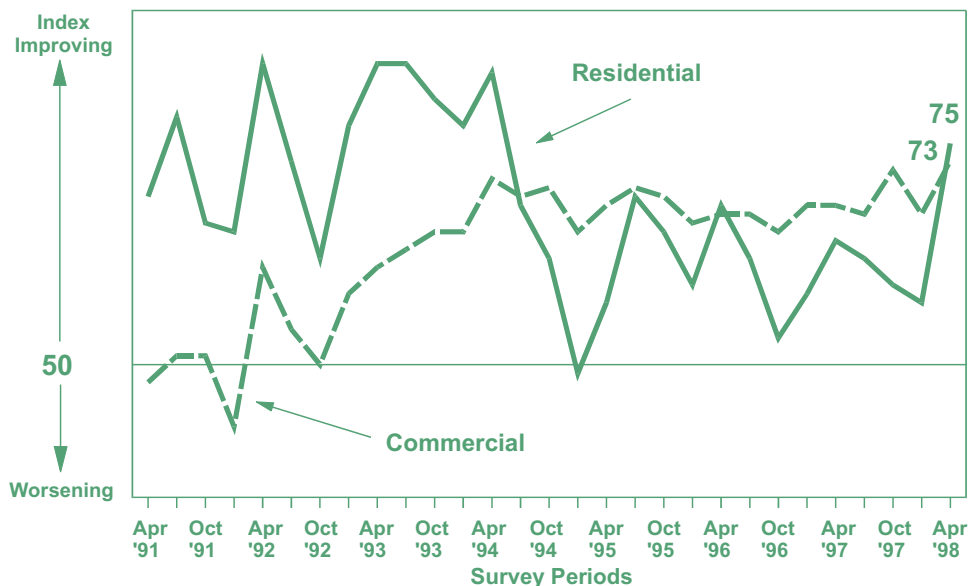
In the Northeast, survey respondents continued to report a strong upswing in real estate markets, especially residential markets, which were reported improved by 80 percent of respondents, compared with 60 percent in January. This large increase reflected a shift from reports of unchanged conditions in January.

Contributing to these observations in the Northeast were favorable reports of homebuilding and home sales prices. Most pronounced was the change over the past year in the percentage of respondents noting that home construction was “above-average”: from 34 percent a year ago and 33 percent in January, up to 52 percent in April. In addition,

70 percent of respondents reported increasing sales prices of existing homes — compared with 60 percent in January and 41 percent a year ago.

In the Midwest, favorable assessments of both residential and commercial markets increased, and the changes were reflected in the rise of the residential index to 75 and of the commercial index to 73. The proportion of respondents who cited improving conditions in housing markets rose to 53 percent from 25 percent in January and 36 percent a year ago. The proportion who noted better conditions in commercial markets increased to 45 percent from 35 percent in January and 38 percent a year ago, and no respondents reported weakening conditions. Of note was the jump to 34 percent in reports of above-average sales volume of commercial properties in the region; a year ago, the comparable figure was less than half — 16 percent. As sales increased, so did prices, according to observers. Sixty-five percent of respondents reported increasing sales prices of commercial properties, up from 50 percent in January and 46 percent a year ago.

CHANGING ASSESSMENTS 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 an aggregation of the regional results.

The survey respondents included 302 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 302, 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.

**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:

FDIC
Public Information Center
801 17th Street, NW
Washington, DC 20434-0001

SUMMARY INDICES OF REAL ESTATE TRENDS

	Composite	Commercial	Residential
U.S.	79	78	81
Northeast	86	83	89
South	77	74	78
Midwest	74	73	75
West	87	87	87

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 (51), South (102), Midwest (89) and West (60). 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	10%	46%	43%	1%	—	1%	78
Northeast	12%	56%	28%	2%	—	2%	83
South	9%	41%	49%	1%	—	—	74
Midwest	6%	39%	54%	—	—	1%	73
West	15%	59%	26%	—	—	—	87

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	13%	50%	34%	2%	—	0%	81
Northeast	10%	70%	18%	2%	—	—	89
South	12%	46%	39%	2%	—	1%	78
Midwest	7%	46%	46%	2%	—	—	75
West	27%	48%	23%	2%	—	—	87

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%	66%	12%	1
Northeast	14%	58%	28%	—
South	21%	68%	10%	1
Midwest	15%	76%	7%	2
West	35%	56%	9%	—

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	30%	59%	11%	0
Northeast	26%	52%	22%	—
South	22%	72%	6%	—
Midwest	27%	63%	10%	—
West	50%	37%	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

“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	10%	53%	32%	5%	0%	—
Northeast	6%	42%	44%	6%	2%	—
South	9%	55%	33%	3%	—	—
Midwest	9%	56%	30%	6%	—	—
West	17%	53%	23%	7%	—	—

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

	Increasing Rapidly	Increasing Moderately	Holding Steady	Decreasing Moderately	Decreasing Rapidly	Not Sure
All	6%	67%	26%	2%	—	—
Northeast	2%	68%	26%	4%	—	—
South	3%	62%	34%	1%	—	—
Midwest	3%	72%	25%	—	—	—
West	18%	67%	12%	3%	—	—

“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	12%	52%	32%	3%	—	1%
Northeast	4%	48%	36%	8%	—	4%
South	17%	53%	30%	—	—	—
Midwest	11%	57%	30%	2%	—	—
West	13%	48%	35%	3%	—	—

“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	7%	33%	40%	15%	2%	3%
Northeast	2%	8%	36%	36%	8%	10%
South	10%	46%	37%	6%	—	1%
Midwest	7%	23%	48%	18%	1%	3%
West	7%	45%	37%	7%	3%	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	—	13%	53%	28%	6%	0%
Northeast	—	23%	56%	12%	9%	—
South	—	9%	54%	33%	3%	—
Midwest	—	12%	54%	29%	5%	1%
West	—	11%	44%	32%	13%	—

“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	4%	39%	45%	6%	1%	4%
Northeast	5%	28%	40%	21%	—	7%
South	2%	43%	46%	5%	—	4%
Midwest	3%	31%	59%	2%	—	5%
West	7%	56%	28%	4%	4%	2%

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

	Increasing Rapidly	Increasing Moderately	Holding Steady	Decreasing Moderately	Decreasing Rapidly	Not Sure
All	3%	63%	31%	0%	—	2%
Northeast	2%	61%	33%	2%	—	2%
South	2%	54%	42%	—	—	2%
Midwest	3%	62%	31%	—	—	3%
West	4%	83%	13%	—	—	—

“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	—	4%	56%	28%	4%	8%
Northeast	—	—	54%	33%	5%	9%
South	—	3%	62%	22%	3%	10%
Midwest	—	6%	60%	23%	2%	9%
West	—	6%	43%	44%	6%	2%

“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	6%	43%	48%	3%	—	1%
Northeast	2%	51%	37%	5%	—	5%
South	5%	30%	59%	5%	—	—
Midwest	3%	49%	44%	2%	—	1%
West	13%	46%	41%	—	—	—

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.