

Survey of Real Estate Trends

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

RESULTS OF THE JULY 1998 SURVEY

Highlights

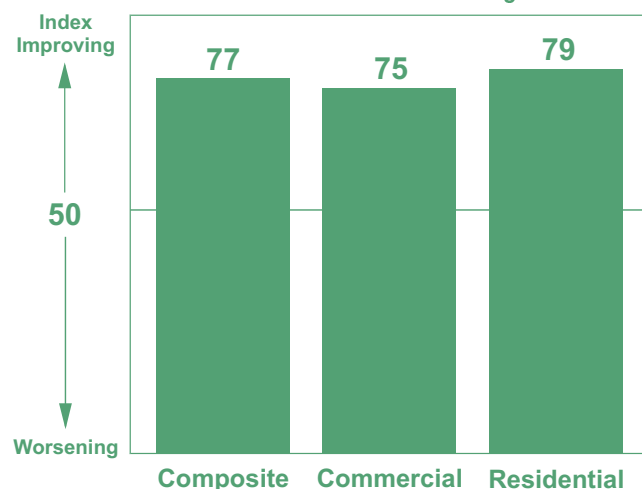
- In July, the national composite index remained high at 77. The index was 79 in April and 74 a year ago. The composite index summarized the responses of 299 federal bank and thrift agency senior examiners and asset managers to the **Survey of Real Estate Trends**.
- Sixty-one percent of respondents described conditions in local residential markets as better than they had been three months earlier. Although this figure was down slightly from April's 63 percent, it was considerably higher than the response last July of just over 50 percent. Assessments of home sales and residential construction were favorable.
- Reports of commercial market conditions continued to be positive, but slightly less so than in April. Fifty-two percent of respondents thought their local commercial market had improved, compared with the survey high of 56 percent in April. A year ago, the proportion was the same 52 percent. Assessments of both the sale prices and the volume of sales of commercial properties remained positive.
- Every region showed a decline in the composite index between April and July. In the Northeast, respondents noted a decrease in excess supply of commercial space as well as increasing sales of commercial properties and increasing home sales.

Introduction

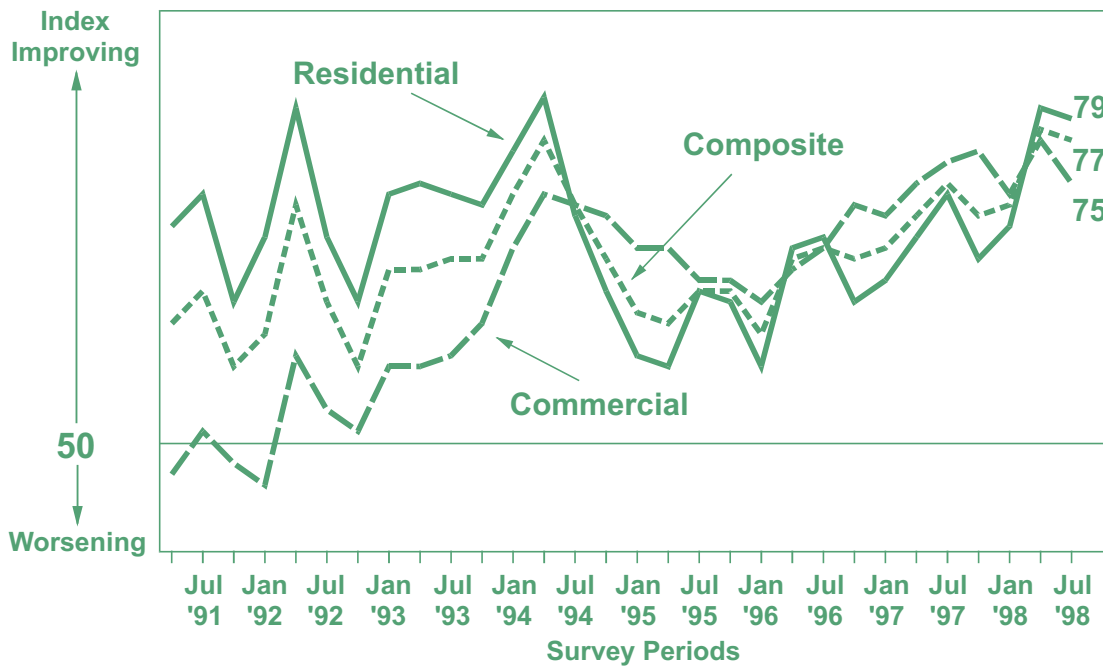
Four times a year, the FDIC queries senior bank examiners and asset managers from all federal bank and thrift regulatory agencies about developments in their local real estate markets during the preceding three months. The most recent **Survey of Real Estate Trends**, conducted in late July, showed that trends in local markets across the country were generally good. Overall assessments of residential and commercial real estate, although not as high as those in April, remained quite positive. Regional readings showed the same trend.

REAL ESTATE MARKET CHANGES OVER THE THREE MONTHS ENDING IN JULY 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



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 reporting improving and those reporting worsening conditions, or (2) agreement that conditions are unchanged.

The overall trend in local market conditions, as reflected in the national composite index, has been positive since January 1996. The national composite index was 77 in July compared with 79 in April, which was the highest figure in the seven years of the poll. A

year ago, the composite index was 74. Both the national residential and the national commercial indices mirrored the quarterly trend of the national composite index. The national residential index dropped back slightly from 81 in April to 79 in July, while the commercial index slipped from its all-time high reading of 78 in April, to 75.

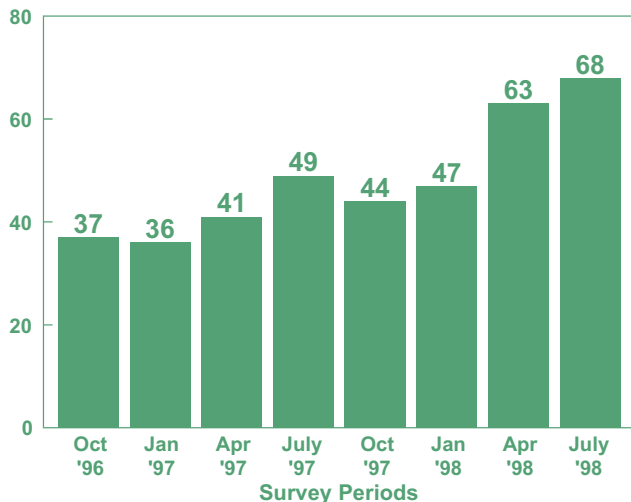
Residential Real Estate Markets

Sixty-one percent of survey respondents described the general direction of their local housing markets as better in July than three months earlier. Although the July figure was down slightly from the 63 percent reported in April, both of these assessments were the most positive since the survey high of 69 percent recorded in April of 1994. The increase in such characterizations from just over 50 percent in July 1997 indicates that general improvements in residential markets have become more widespread over the past 12 months. At the same time, there was a slight uptick in the few reports of worsening condi-

tions in local residential markets, as 4 percent of respondents noted deterioration, compared with 2 percent in April.

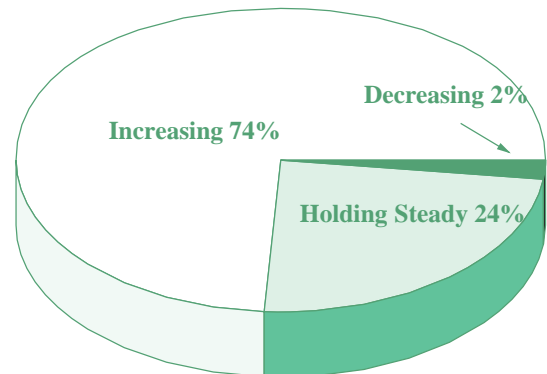
The proportion of respondents noting tight supply conditions in their local housing markets (30 percent) was unchanged from the April reading and almost twice the proportion (16 percent) that reported this a year ago. The U.S. Census reported that the May inventory of new homes for sale (the latest data available) represented 3.9 months' supply at the May sales rate—one of the lowest supply figures in the past several years.

PERCENT OF RESPONDENTS REPORTING IMPROVING HOME SALES



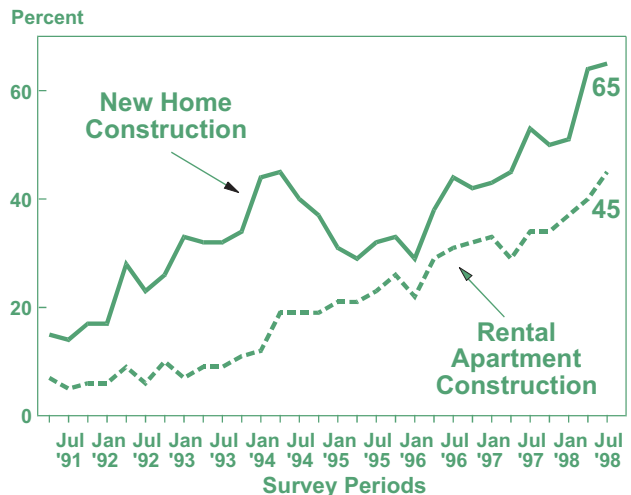
The July survey results showed a continuation of April's favorable assessments of home sales. Sixty-eight percent of respondents perceived sales of existing homes as above-average, up from 63 percent in April and from 49 percent a year ago. Only 4 percent described sales as below-average; when the survey began in April 1991, this figure was 45 percent. Consistent with the perception of strong home sales, more respondents in July noted increasing prices of existing homes for sale—74 percent, compared with 73 percent in April. A year ago, 56 percent reported increasing sale prices.

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



Assessments of residential construction activity continued to be increasingly strong for both new single-family and new multifamily construction. The U.S. Census also reported gains in housing starts in the second quarter over the first quarter. Since April, the proportion of respondents noting above-average construction rose to survey highs of 65 percent for new homes (up from 64 percent) and 45 percent for new rental apartments (up from 40 percent). Furthermore, only 13 percent of respondents said apartment construction was below-average; this was down from 17 percent and was the

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



lowest proportion reported in the survey to date. In contrast, when the survey began, 67 percent of respondents cited below-average apartment construction.

Commercial Real Estate Markets

Assessments of conditions in commercial real estate markets continued to be positive in July, although the frequency of favorable reports was slightly less than it had been 3 months earlier. Fifty-two percent of respondents said their local commercial real estate markets had improved, compared with the survey high of 56 percent in April. The percentage who thought the market was the “same” was 47 in July and 43 in April. Belief that conditions were worsening remained infrequent, rising from 1 percent to 2 percent.

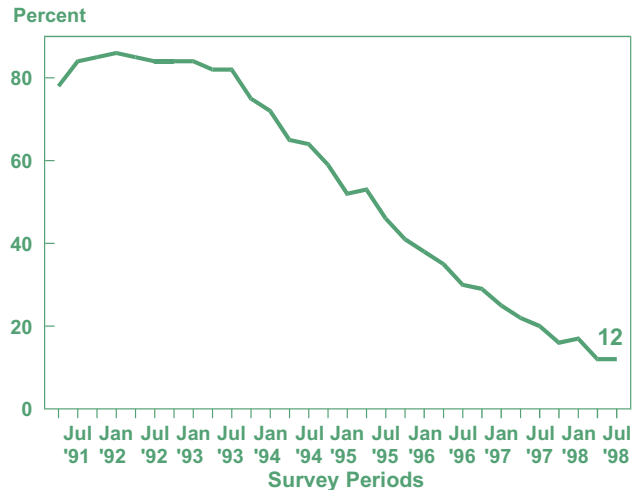
PERCENT OF RESPONDENTS REPORTING COMMERCIAL REAL ESTATE MARKETS WERE . . .



The proportion of respondents who saw excess inventories of commercial space was 12 percent, unchanged from April and down considerably from the 20 percent reported a year ago. Furthermore, 24 percent characterized supply conditions in their local commercial markets as “tight” (up from 21 in April), the highest proportion in the survey to date. For the first survey in April 1991, only 5 percent said conditions were tight. This rela-

tive lack of inventory is reflected in a situation described by Torto Wheaton Research in which new multitenant buildings delivered during 1998 will, before receiving their certificate of occupancy, have been preleased at unprecedented high-percentage levels.

PERCENT OF RESPONDENTS REPORTING EXCESS SUPPLY IN COMMERCIAL REAL ESTATE MARKETS

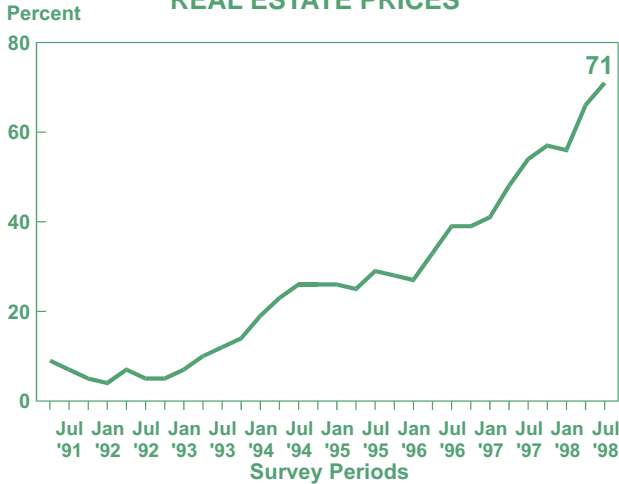


Assessments of both the sale prices and volume of sales of commercial properties remained positive in July. Above-average sales of commercial properties were reported by 46 percent of respondents, up from 43 percent in April and 34 percent in July a year ago. The change in favorable reports of sale prices was even bigger, with 71 percent observing higher prices in July compared with 66 percent three months ago and 54 percent a year ago. In addition, slightly more respondents (36 percent) said rent concessions were less frequent than said so in April (32 percent).

Regional Trends

In general, overall regional trends have been positive since 1996. In July, index readings for residential and commercial markets varied by region. Regional indices remained high despite a slight decline in all except for residential indices for the South and Midwest,

PERCENT OF RESPONDENTS REPORTING INCREASING COMMERCIAL REAL ESTATE PRICES



which were unchanged. The regional commercial indices were as follows: for the Northeast, 79; South, 73; Midwest, 70; and West, 84. The regional residential indices were: for the Northeast, 85; South, 78; Midwest, 75; and West, 81.

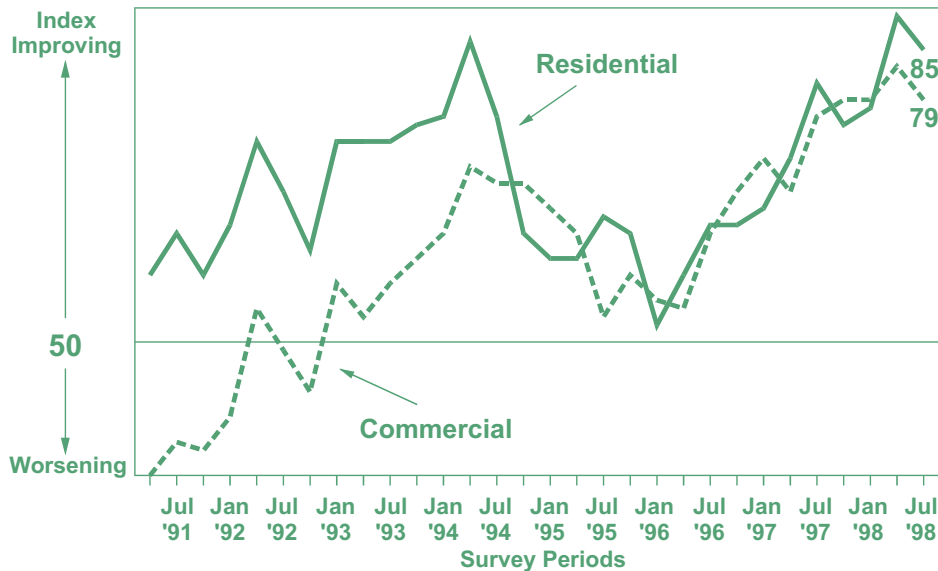
In the Northeast, with a composite index of 82—after April's high of 86, the next highest since the survey began—survey respondents continued to report favorably on real estate markets. Assessments remained

high, as reflected in the commercial index of 79 and the residential index of 85.

In July, 60 percent in the Northeast reported gains in their local commercial markets, down from 68 percent three months ago but up from 56 percent a year ago. When queried for details, respondents noted a decrease in excess supply of commercial space (the percentage of respondents noting this dropped from 28 percent in April to 15 percent) in addition to increasing sales of commercial properties. However, the percentage of respondents who said sales prices were increasing dropped from 63 percent in April to 59 percent in July. Nonetheless, this still compared favorably with the 39 percent recorded 12 months ago.

With respect to residential real estate markets in the Northeast, 72 percent said conditions were better than they had been three months earlier. In April, the comparable figure was 80 percent, and a year ago, 65 percent. The percentage of participants who noted a pick-up in home sales was greater: 57 percent in July saw above-average sales, up from 48 percent in April and from 31 per-

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



cent in July 1997. Reports of increasing home sale prices and above-average home-building were less frequent in July than in April but still stronger than a year ago.

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 299 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 299, 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.	77	75	79
Northeast	82	79	85
South	76	73	78
Midwest	72	70	75
West	82	84	81

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 (105), Midwest (85) and West (54). 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	A Little Better	Better	A Little Same	A Lot Worse	Not Worse	Sure	INDEX*
All	11%	41%	47%	2%	0%	—	75
Northeast	13%	47%	38%	2%	—	—	79
South	7%	41%	50%	1%	1%	—	73
Midwest	7%	33%	59%	1%	—	—	70
West	22%	47%	29%	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	15%	46%	35%	3%	1%	—	79
Northeast	15%	57%	26%	2%	—	—	85
South	8%	51%	38%	2%	1%	—	78
Midwest	10%	45%	41%	5%	—	—	75
West	38%	28%	30%	2%	2%	—	81

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	24%	62%	12%	2
Northeast	28%	55%	15%	2
South	23%	57%	20%	—
Midwest	18%	73%	6%	2
West	31%	61%	4%	4

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%	58%	12%	—
Northeast	34%	51%	15%	—
South	18%	69%	13%	—
Midwest	27%	66%	7%	—
West	53%	34%	13%	—

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	11%	57%	26%	4%	0%	0%
Northeast	6%	51%	36%	8%	—	—
South	8%	65%	25%	2%	1%	—
Midwest	13%	52%	30%	4%	—	1%
West	21%	57%	15%	8%	—	—

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

	Increasing Rapidly	Increasing Moderately	Holding Steady	Decreasing Moderately	Decreasing Rapidly	Not Sure
All	8%	66%	24%	1%	1%	0%
Northeast	4%	59%	34%	2%	—	2%
South	5%	68%	26%	1%	1%	—
Midwest	1%	76%	23%	—	—	—
West	30%	55%	13%	—	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%	52%	30%	3%	1%	1%
Northeast	8%	40%	42%	9%	—	2%
South	17%	56%	25%	1%	1%	—
Midwest	12%	54%	31%	2%	—	1%
West	13%	51%	26%	4%	2%	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	9%	36%	38%	12%	1%	4%
Northeast	2%	15%	51%	23%	2%	8%
South	13%	44%	35%	4%	1%	3%
Midwest	7%	32%	39%	16%	1%	5%
West	11%	45%	26%	11%	2%	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.

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%	9%	51%	33%	5%	1%
Northeast	2%	13%	49%	30%	6%	—
South	1%	12%	55%	28%	3%	1%
Midwest	—	6%	49%	39%	4%	2%
West	—	4%	49%	37%	10%	—

“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	6%	40%	48%	4%	1%	2%
Northeast	4%	32%	51%	11%	—	2%
South	6%	44%	47%	1%	1%	—
Midwest	5%	32%	60%	1%	—	2%
West	6%	53%	29%	6%	2%	4%

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

	Increasing Rapidly	Increasing Moderately	Holding Steady	Decreasing Moderately	Decreasing Rapidly	Not Sure
All	6%	65%	29%	0%	1%	—
Northeast	4%	55%	40%	—	—	—
South	4%	62%	33%	—	1%	—
Midwest	1%	71%	27%	1%	—	—
West	16%	67%	14%	—	2%	—

“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	1%	2%	56%	27%	9%	5%
Northeast	—	4%	43%	36%	9%	9%
South	3%	1%	64%	22%	5%	4%
Midwest	—	—	62%	23%	7%	7%
West	—	4%	43%	35%	18%	—

“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	4%	40%	53%	2%	1%	0%
Northeast	4%	34%	57%	2%	—	2%
South	3%	40%	54%	1%	2%	—
Midwest	2%	35%	60%	2%	—	—
West	10%	51%	37%	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.