Survey of Real Estate Trends

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

RESULTS OF THE JANUARY 1999 SURVEY

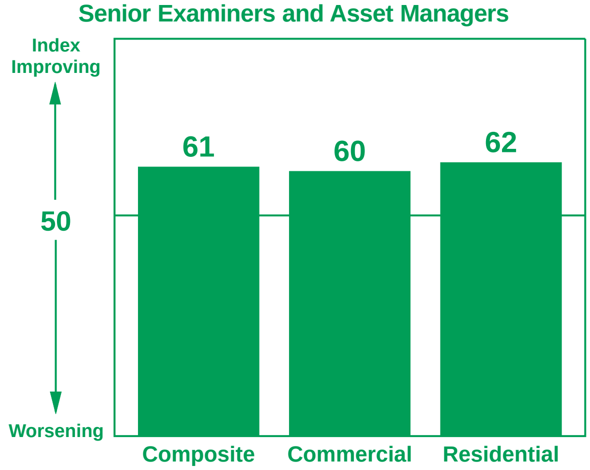
Highlights

- In January, the national composite index was 61, down slightly from 62 in October. The composite index summarizes the opinions of 304 senior examiners and asset managers at federal bank and thrift agencies on changes in local real estate market conditions during the prior three-month period. An index number above 50 indicates markets are improving.
- Twenty-nine percent of respondents thought conditions in local residential real estate markets had improved; in the October survey, the comparable figure had been 36 percent. Reports of worsening conditions fell to 5 percent from 11 percent.
- Twenty-six percent of those surveyed reported positive news about their local commercial real estate markets, down slightly from 28 percent in October. Those observing deteriorating conditions decreased to 6 percent.
- Survey participants in every region continued to see improvements in local real estate markets, as indicated by regional indices above 50. The slight decrease in most index readings reflected a shift - similar to that seen in October - from reports of better conditions to reports that conditions had not changed. At the same time, reports of worsening conditions decreased.

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. According to the results of the latest ***Survey of Real Estate Trends***, conducted in late January, their assessments of trends in local real estate markets remained positive, but not as much so as in earlier surveys. Nonetheless, reports of improvements in both housing and commercial markets continued to outweigh reports of decline by a wide margin. Furthermore, although reports of better conditions in both residential and commercial markets were less frequent than in October, the difference reflects an increase in reports

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



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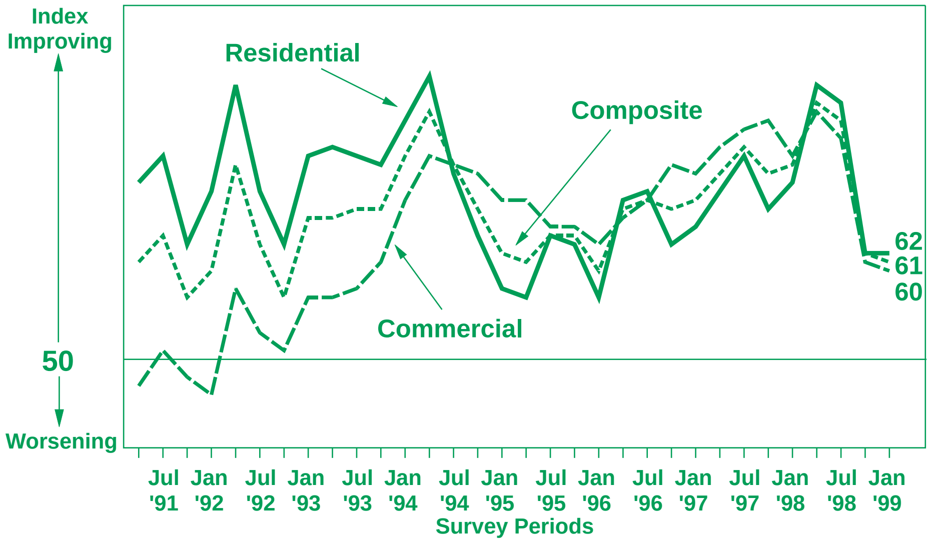
CHANGING ASSESSMENT OF REAL ESTATE CONDITIONS
Summary Indices of Opinions of Senior Examiners and Asset Managers



of no change in conditions in the markets. This, coupled with a decrease in reports of deterioration, indicates views that the real estate expansion is slowing down rather than that conditions have started to deteriorate.

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 national composite index was 61 in January, down slightly from October's figure of 62. The reading remained basically favorable, indicating that more respondents observed gains than declines in their local real estate markets. However, the January figure was 18 points below the national composite index's recent peak of 79 in April 1998. Much of the difference is due to an increase in those observing no change in either commercial or residential markets, from less than half of the respondents in April to two-thirds in January.

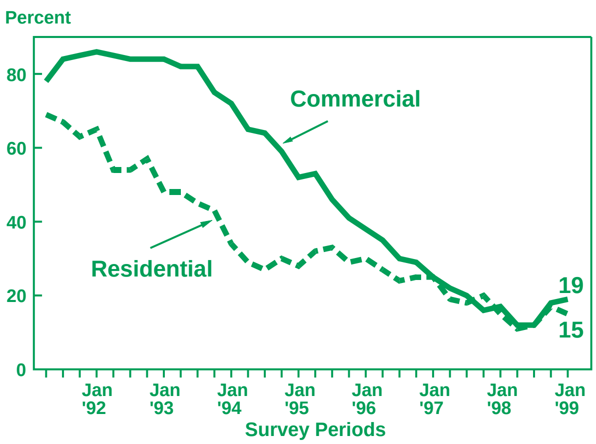
The national index summarizing trends in residential markets was 62, unchanged from October. The national index measuring developments in commercial real estate markets edged down one point to 60. Regionally, the composite index for the Northeast gained one point from the October survey; indices in the South and the Midwest fell one point, and the index in the West decreased three points.

Residential Real Estate Markets

Assessments of overall trends in residential real estate markets were less upbeat than in the surveys conducted last spring and summer. The proportion of respondents saying housing markets were on the upswing slipped to 29 percent in January from 36 percent in October and 61 percent in July.

However, the readings seem to signal a stalling of the robust housing market rather than a downturn. With only 5 percent saying conditions were weaker during the past three months (down from 11 percent in October), positive views still outweigh negative ones by a margin of almost 6 to 1. Consistent with this assessment was the fact that excess supply in local housing markets reportedly remained in a much-improved range - the 15 percent who noted oversupply was much lower than the recent peak of 25 percent in January 1997.

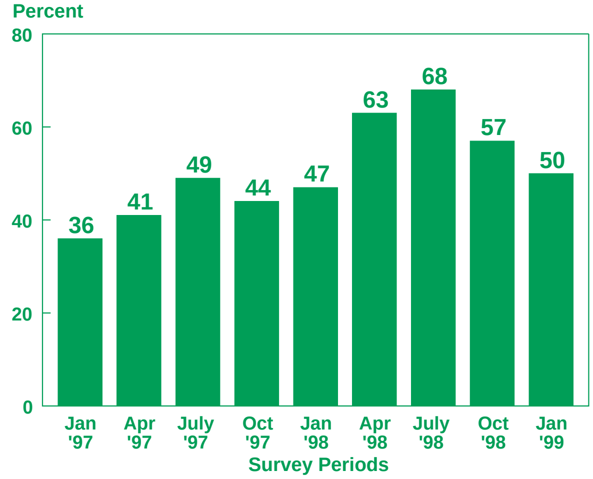
PERCENT OF RESPONDENTS REPORTING EXCESS SUPPLY IN REAL ESTATE MARKETS



Housing market activity was thought to be somewhat lackluster relative to the strength noted in assessments in the April and July surveys, but reports of above-average home sales and increasing home prices were higher than a year ago. Exactly one-half of the respondents perceived above-average home sales; in January of last year, the figure was 47 percent, which spiked up to 68 percent in July, reflecting the traditionally stronger spring housing market.

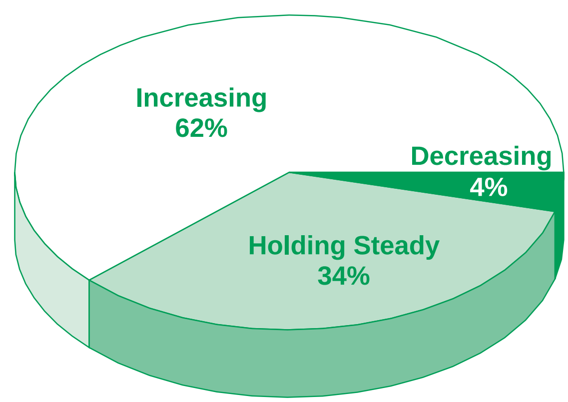
Sixty-two percent reported increases in existing home prices, slightly more than the 60 percent who noted higher prices a year ago.

PERCENT OF RESPONDENTS REPORTING IMPROVING HOME SALES



The incidence of rising home resale prices was particularly evident in reports from the Northeast (54 percent, from 39 percent in October) and the South (65 percent, up from 60 percent). Price appreciation was reported most frequently in New Jersey and in the states of Alabama, Kentucky, Mississippi, and Tennessee.

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

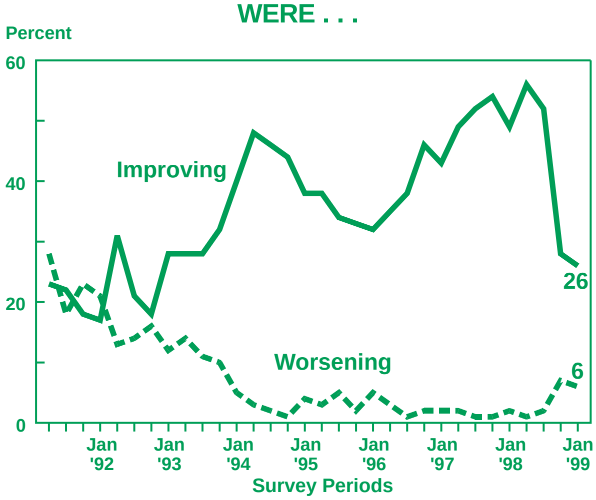


Findings of above-average homebuilding were unchanged from October's 60 percent and less frequent than in July (65 percent) but remained in a much-improved range relative to a year ago (51 percent). Rental apartment construction fell back according to respondents, 36 percent of whom noted above-average construction, down from 39 percent in October. Reports of below-average apartment construction increased to 20 percent in January after bottoming out at 13 percent in July.

Commercial Real Estate Markets

Reports of improved conditions in commercial real estate markets were less frequent in January than in surveys in early- and mid-1998. The proportion of respondents saying commercial real estate markets had improved in recent months edged down to 26 percent in January from 28 percent in October and 52 percent in July. At the same time, only 6 percent of January respondents cited worsening conditions, down slightly from 7 percent in October.

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

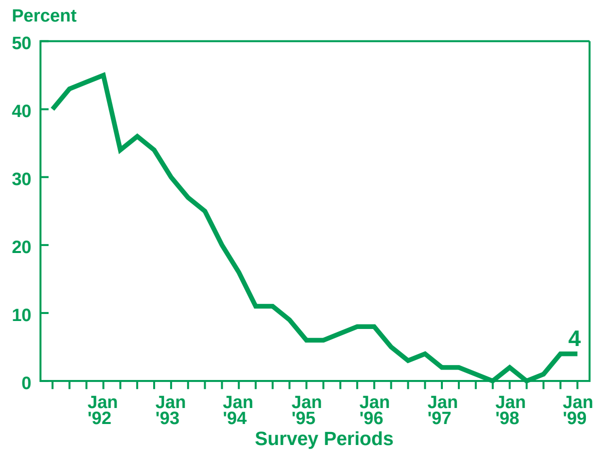


However, a majority of respondents in January - as in October - reported that commercial markets remained essentially unchanged during the prior three months. In fact, at 67 percent, this was the largest proportion of "no change" reports since the survey began in April 1991. This high frequency of observations of "no change" followed reports of improvement in April and July, which were the most favorable consecutive assessments of commercial markets yet received.

The percentage of respondents noting an increase in the excess supply of commercial real estate edged up slightly to 19 percent from 18 percent in October. However, at the same time, there was a noteworthy increase in reports characterizing local markets as "in balance." In fact, a record proportion of market observers (67 percent) stated this view, which was also echoed in record proportions in the Northeast and the West.

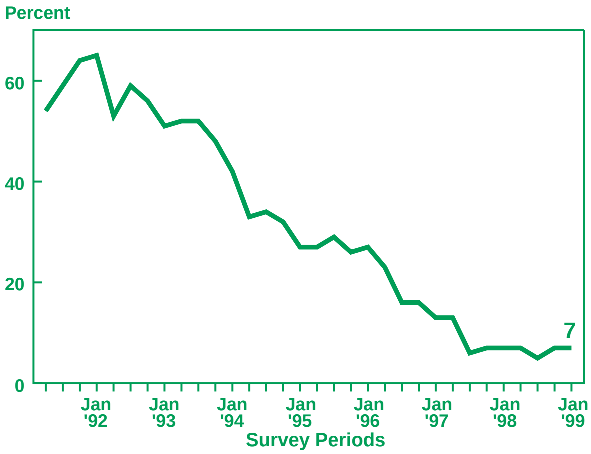
Reports of falling commercial real estate prices have diminished markedly since the first survey and remained low at 4 percent, whereas almost half (47 percent) noted increasing prices. When the survey began in April 1991, these proportions were generally reversed. According to the Landauer Real Estate Market Forecast, average prices for commercial office properties through mid-1998 were well above typical rates of a few years earlier, ranging from $140 to $150 per square foot.

PERCENT OF RESPONDENTS REPORTING DECREASING SALES PRICES OF COMMERCIAL PROPERTIES



Responses to questions about sales of commercial properties also reveal a steady decrease in below-average volume of sales. In January, only 7 percent reported below-average levels of activity, little changed for

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



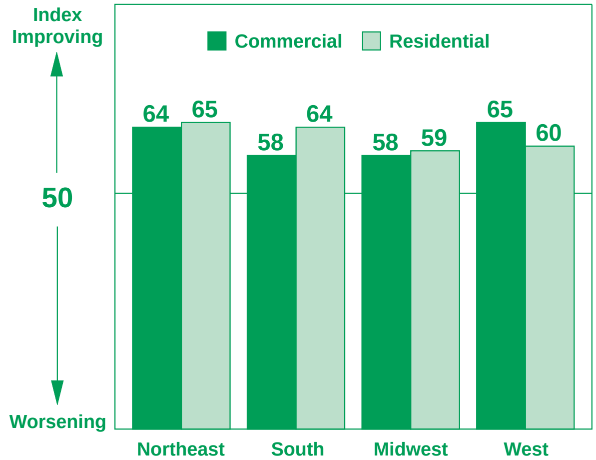
over a year and a half and a great improvement since January 1992, when two-thirds cited sales at below-average levels.

Regional Trends

Index readings for residential and commercial markets varied by region. The residential index for the Northeast moved up in January to 65, from 63 in October. Underlying the index number for the Northeast was the fact that reports of better conditions in local housing markets was - at 30 percent - unchanged from October, while reports of worsening conditions fell to zero from 4 percent. In addition, home sales prices and market balance in the region were assessed as stronger than three months ago. Conversely, the residential readings shed one or two points for the South (64), Midwest (59), and West (60). The declines reflected fewer reports of improvements; at the same time, there were also fewer reports of deterioration.

The commercial index for the West dropped to 65 from 68, as a majority of respondents found conditions unchanged (65 percent) rather than improving (33 percent); those noting worsening conditions declined. Responses to detailed questions revealed that a record proportion (63 percent) of those in the

REAL ESTATE INDICES IN JANUARY 1999 BY REGION

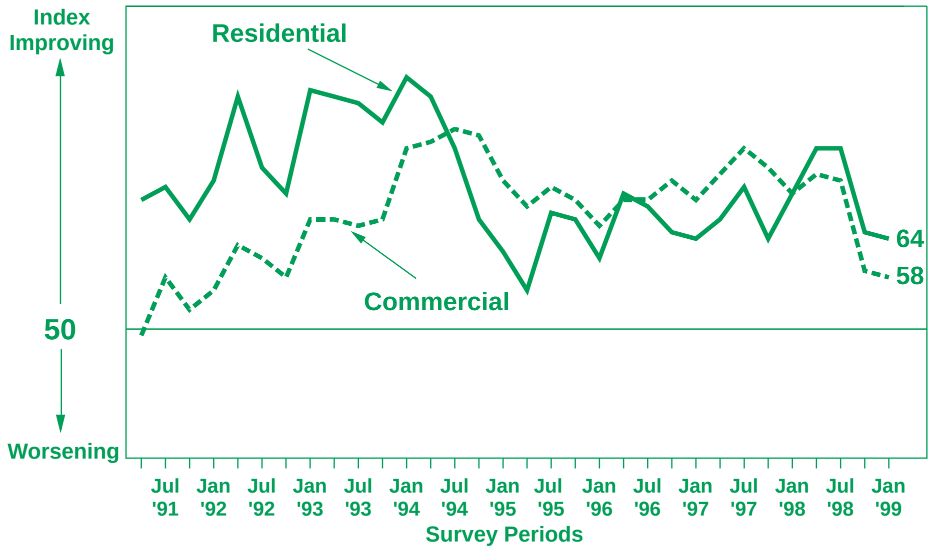


West viewed markets as "in balance." The commercial market index for the Northeast remained at 64 as reports of improving conditions increased slightly, as did reports of worsening conditions. Nonetheless, no respondent in the Northeast cited decreasing commercial sales prices, down from 9 percent in October.

Although examiners and asset managers in the South continued to report positive news about their local real estate markets, as indicated by the indices for residential (64) and commercial (58) markets, the readings backtracked somewhat from their recent peaks in April and July 1998. Favorable assessments of both residential and commercial conditions were less frequent in January, as 32 percent cited residential gains compared with 50 percent a year ago, and 24 percent noted better commercial markets compared with 43 percent last January. Again, however, a shift to reports of "no change" was evident in the assessments. Asked for details, participants in the South observed increases in home sales prices and in both home and apartment construction; reports of above-average commercial sales and increasing commercial property prices moderated but remained high.

CHANGING ASSESSMENT OF REAL ESTATE CONDITIONS IN THE SOUTH

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 included 304 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 304, 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

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APPENDIX

SUMMARY INDICES OF REAL ESTATE TRENDS

	Composite	Commercial	Residential
U.S.	61	60	62
Northeast	64	64	65
South	61	58	64
Midwest	58	58	59
West	62	65	60

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 (56), South (105), Midwest (91) 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.

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	2%	24%	67%	6%	0%	1%	60
Northeast	2%	32%	60%	6%	—	—	64
South	2%	22%	65%	7%	1%	2%	58
Midwest	—	20%	74%	5%	—	1%	58
West	7%	26%	65%	2%	—	—	65

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	4%	25%	66%	5%	—	—	62
Northeast	—	30%	70%	—	—	—	65
South	6%	26%	64%	4%	—	—	64
Midwest	1%	21%	73%	5%	—	—	59
West	8%	26%	53%	14%	—	—	60

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%	67%	19%	2
Northeast	11%	66%	23%	—
South	6%	66%	25%	2
Midwest	12%	71%	13%	4
West	24%	63%	11%	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	20%	65%	15%	—
Northeast	17%	63%	20%	—
South	11%	73%	17%	—
Midwest	18%	73%	9%	—
West	45%	37%	18%	—

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	8%	42%	41%	7%	0%	0%
Northeast	2%	35%	50%	11%	—	2%
South	9%	48%	41%	3%	—	—
Midwest	7%	44%	43%	7%	—	—
West	18%	37%	29%	14%	2%	—

"How would you characterize sales prices of existing homes?"

	Increasing Rapidly	Increasing Moderately	Holding Steady	Decreasing Moderately	Decreasing Rapidly	Not Sure
All	4%	58%	34%	4%	—	—
Northeast	—	54%	43%	4%	—	—
South	3%	62%	34%	1%	—	—
Midwest	3%	62%	32%	3%	—	—
West	10%	49%	31%	10%	—	—

“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%	36%	3%	0%	1%
Northeast	2%	35%	56%	4%	—	4%
South	14%	54%	30%	1%	—	1%
Midwest	17%	42%	36%	6%	—	—
West	14%	51%	29%	4%	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%	30%	39%	18%	2%	4%
Northeast	—	2%	50%	37%	4%	7%
South	12%	48%	30%	8%	—	3%
Midwest	5%	26%	44%	20%	1%	5%
West	6%	33%	39%	14%	4%	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.

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%	15%	56%	25%	2%	1%
Northeast	—	11%	62%	19%	6%	2%
South	2%	19%	55%	22%	1%	1%
Midwest	—	16%	58%	25%	1%	—
West	2%	11%	50%	35%	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%	27%	60%	7%	—	4%
Northeast	—	17%	68%	11%	—	4%
South	3%	30%	58%	5%	—	4%
Midwest	1%	24%	64%	8%	—	2%
West	7%	37%	46%	7%	—	4%

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

	Increasing Rapidly	Increasing Moderately	Holding Steady	Decreasing Moderately	Decreasing Rapidly	Not Sure
All	0%	47%	47%	4%	—	2%
Northeast	—	34%	66%	—	—	—
South	1%	46%	45%	5%	—	2%
Midwest	—	48%	49%	1%	—	2%
West	—	63%	28%	9%	—	—

“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	—	7%	65%	17%	4%	8%
Northeast	—	4%	60%	23%	2%	11%
South	—	8%	70%	11%	5%	6%
Midwest	—	7%	66%	16%	4%	8%
West	—	7%	59%	26%	2%	7%

“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	1%	24%	67%	6%	—	2%
Northeast	—	19%	75%	6%	—	—
South	1%	20%	66%	10%	—	3%
Midwest	2%	27%	67%	2%	—	1%
West	—	30%	63%	7%	—	—

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.