

# Survey of Real Estate Trends

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

## RESULTS OF THE OCTOBER 1999 SURVEY

### Highlights

- In October, the national composite index was 62, down from April's and July's figure of 69. The composite index summarizes the opinions of 297 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.
- Thirty-one percent of respondents thought conditions in local residential real estate markets had improved; in the July survey, the comparable figure had been 45 percent. Reports of worsening conditions rose to 10 percent from 3 percent.
- Thirty-three percent of those surveyed reported positive news about their local commercial real estate markets, down slightly from 35 percent in July. Those observing deteriorating conditions edged up to 4 percent from 3 percent three months earlier.
- Regionally, although assessments continued to be favorable, October's results showed a slowing of gains in residential markets in all regions, and of commercial markets in the Midwest and West.

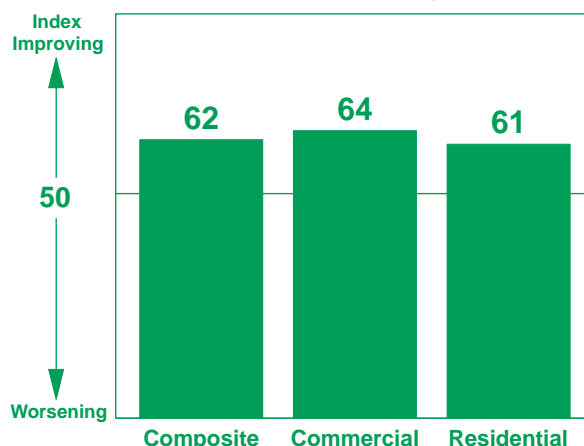
### Introduction

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 from the FDIC, the Federal Reserve System, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision are queried about changes in the markets during the preceding three months.

In the most recent quarterly Survey of Real Estate Trends, conducted in late October, reports of improvement clearly were less widespread than they had been in July, notably in the residential sector. Nonetheless, assessments of improving market

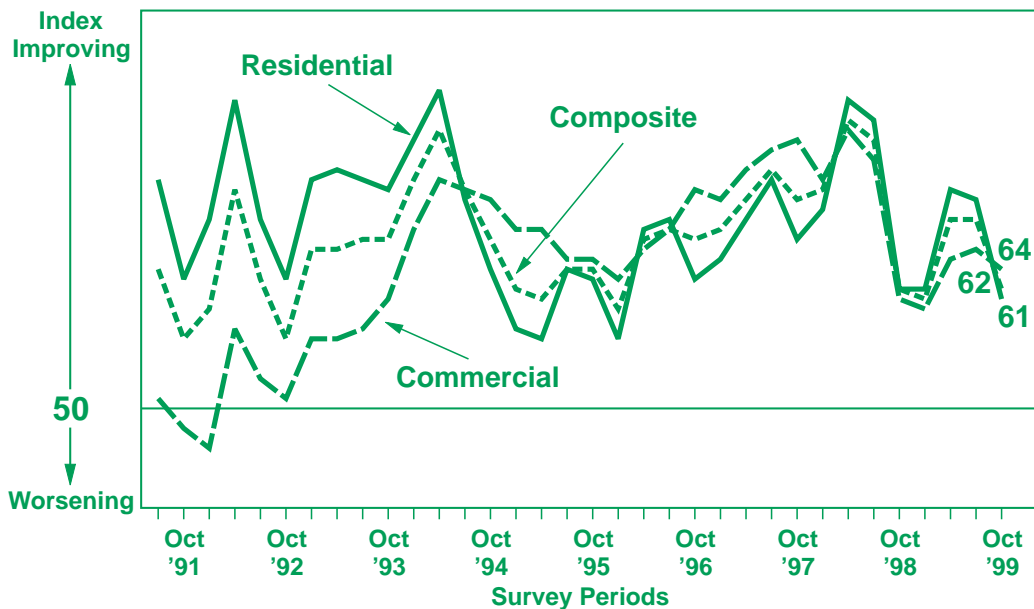
### REAL ESTATE MARKET CHANGES OVER THE THREE MONTHS ENDING IN OCTOBER 1999

Summary Indices of Opinions of Senior Examiners and Asset Managers



conditions continued to outweigh reports of worsening by a wide margin.

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



**Revised Survey**

Beginning in 2000, a substantially revised and expanded survey will be conducted semiannually, covering the periods January to June and July to December.<sup>1</sup> As a result, the next published results are expected to be available in August 2000.

**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 respon-

dents 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 overall trend in local market conditions, as reflected in the national composite index, was not as positive as in the previous two surveys. The national composite index of survey results was 62 in October, down from April's and July's figure of 69 but on par with the 62 of a year ago. Underlying the change was an increase in reports of "no change" as well as in reports of deterioration. Nonetheless, the October reading was still favorable, indicating that more respondents reported gains than declines in their local markets.

The decline in October was attributable primarily to assessments of weaker market conditions in the residential sector. The national residential index was 61 (the lowest in almost three years), down 10 points from the July figure. The national commercial index also declined, but by only 2 points, to 64. Whereas the regional residential index

<sup>1</sup> A copy of the new survey is available upon request by contacting the FDIC's Public Information Center at 800-276-6003 or 202-416-6940, or at publicinfo@fdic.gov.

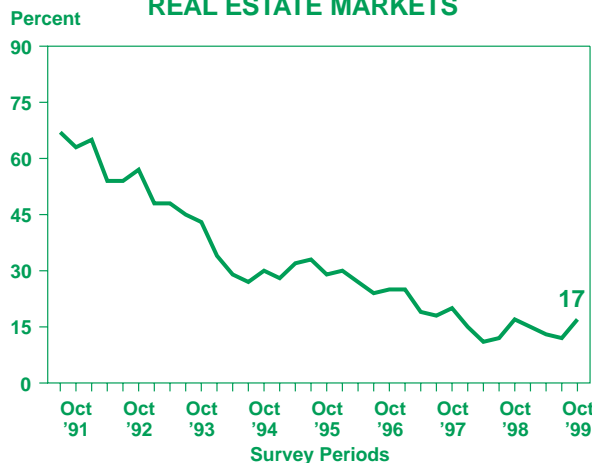
was down in all four regions, regional commercial indices declined only in the Midwest and the West.

### Residential Real Estate Markets

Respondents were somewhat less positive in October about the strength of housing activity than they had been in recent surveys. Approximately one-third of the respondents (31 percent) reported improved conditions over the past three months, down from 45 percent in July. At the same time, reports of weaker conditions increased to 10 percent from 3 percent. As a result, the overall index value for residential markets fell to 61 from 71. Nonetheless, reports of improvement outweighed those of decline by a three-to-one margin.

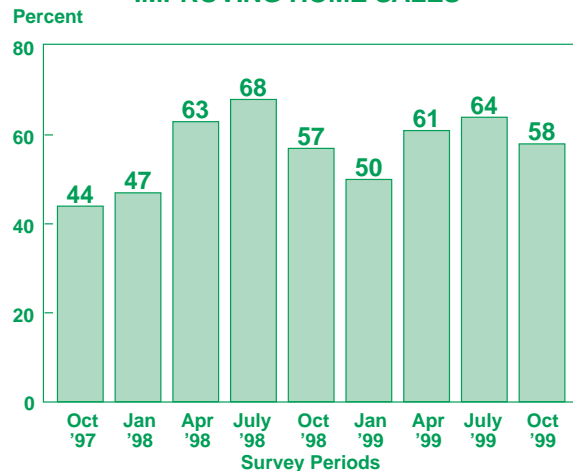
Although 55 percent of survey participants noted that supply and demand in their local housing markets were “in balance,” 17 percent cited excess housing supply in their areas, up from 12 percent in July. Reports of excess supply almost doubled in the Northeast (20 percent, from 11 percent in July) and the Midwest (17 percent, from 9 percent) but, again, a majority of respondents in those regions continued to characterize local housing markets as in balance.

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



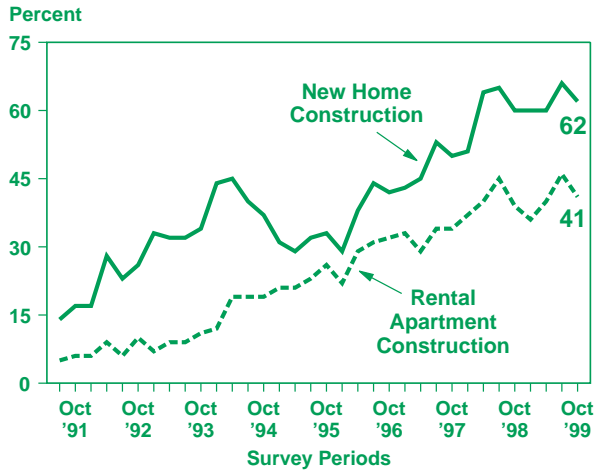
Assessments of home sales and existing home prices were somewhat less upbeat in October. This may reflect a seasonal downturn from the more active spring housing market as well as the effects of rising mortgage interest rates. Fifty-eight percent of the respondents cited improving home sales; in the July survey, the comparable proportion was 64 percent. Likewise, fewer respondents in October noted higher sale prices for existing homes in their local markets (66 percent, down from 72 percent). The exception was an increase in reports of price gains in the South (69 percent, from 63 percent). Although reports of below-average home sales were up in every region, in both the Midwest and the West the increases in such reports were significant.

### PERCENT OF RESPONDENTS REPORTING IMPROVING HOME SALES



The overall trend in residential construction activity remained high in October, though somewhat less so than observed in July. Sixty-two percent of respondents noted above-average levels of new home building during the past three months (down from 66 percent in July), and 41 percent reported above-average levels of apartment construction (down from 46 percent). There were very few reports of below-average levels of residential building except in the West, where 21 percent of those surveyed observed lackluster rental apartment construction.

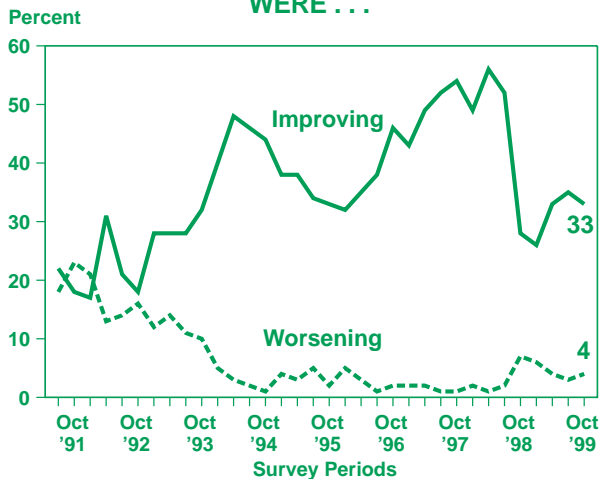
**PERCENT OF RESPONDENTS REPORTING AN ABOVE-AVERAGE VOLUME OF RESIDENTIAL CONSTRUCTION**



**Commercial Real Estate Markets**

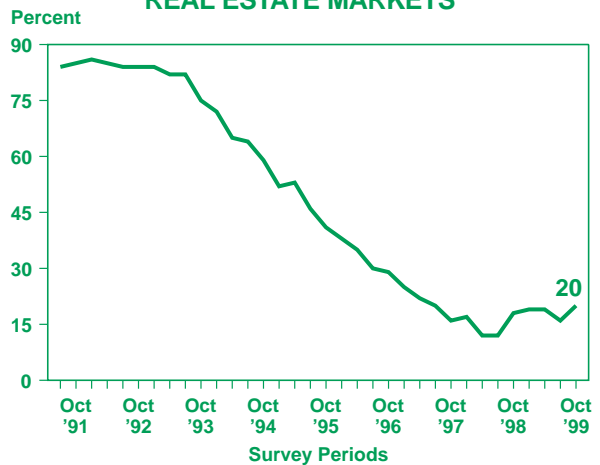
The October reading of commercial market trends was somewhat less favorable than the July reading, with 33 percent of respondents noting better conditions in local markets, down from 35 percent. However, evaluations of deterioration were rare, with only 4 percent noting that conditions in local commercial markets were worsening, and most participants continued to detect no change.

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



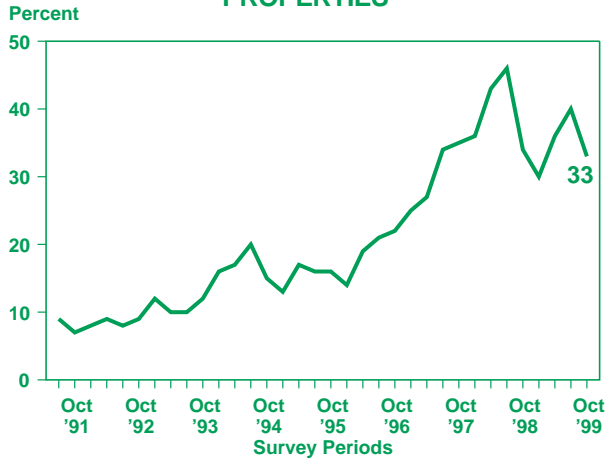
Assessments of excess supply of commercial real estate rose to 20 percent from July's 16 percent. At the same time, however, the percentage of respondents who characterized supply and demand as "in balance" remained high. The Northeast registered a notable increase in reports of excess supply, up to 29 percent from 16 percent. In contrast, 35 percent of respondents in the West continued to observe tighter supply conditions in local markets, up from 33 percent in July.

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



Nationally, 33 percent of respondents cited above-average volumes of commercial property sales, down from 40 percent in July but on par with last year's 34 percent. Although slightly more respondents (6 percent, up from 3 percent) said sales were below average, those who noted average sales increased their majority (57 percent, up from 53 percent). Similarly, assessments of increasing sale prices for commercial properties fell slightly, to 57 percent from 59 percent in July, but remained on par with the figure of a year ago. Reports of weakening commercial sale prices remained very low, at 1 percent. Only the Midwest registered an increase in reports of higher sale prices.

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



**Regional Trends**

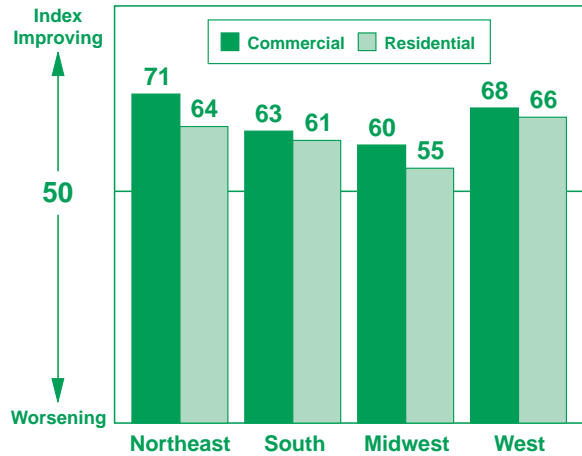
Reports of further improvement in real estate markets fell back in all regions, although assessments continued to be positive. October's results showed a slowing of gains in residential markets across the country, and of commercial markets in the Midwest and West.

In the Northeast, the residential index moved down in October to 64 from 73 in July, while the commercial index edged up to 71 from 70. Underlying these index figures was the fact that 35 percent of respondents noted better conditions in local housing markets, while reports of worsening conditions increased to 8 percent (the highest in almost four years); reports of better commercial markets increased to 45 percent, up from 41 percent in July.

Readings in the South moved similarly, with the residential index falling to 61 from 67 in July and the commercial index edging up to 63 from 62. Thirty-one percent of the respondents witnessed strengthening residential real estate conditions (the lowest in almost five years), while an increased pro-

portion (8 percent) noted deterioration. Reports of better commercial markets moved up to 29 percent, and only 3 percent observed declines.

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



Assessments of markets in the Midwest changed substantially, with a residential index of 55 (down from 69) and a commercial index of 60 (down from 67). Twenty percent of respondents witnessed improving housing markets and 10 percent observed declines (a big increase from 1 percent in July). Twenty-four percent cited better commercial conditions; the 4 percent reporting weaker activity levels was on par with overall recent trends.

In the West as well, the regional index figures dropped. On the residential side, the index of 66 (down from 77) reflected reports of housing market gains by 47 percent, down from 62 percent, while 14 percent cited deterioration, up from 8 percent. The commercial index was 68, down slightly from 70, as assessments of improving commercial markets fell to 44 percent from 47 percent; 8 percent noted declines, up slightly from 6 percent.

### **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 297 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 Federal Reserve System, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision.

At 297, 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. Geri Bonebrake and Cora Gibson 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:**

FDIC  
Public Information Center  
801 17th Street, NW  
Washington, DC 20434-001  
800-276-6003 or 202-416-6940  
Email: [publicinfo@fdic.gov](mailto:publicinfo@fdic.gov)

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## APPENDIX



## SUMMARY INDICES OF REAL ESTATE TRENDS

	Composite	Commercial	Residential
U.S.	62	64	61
Northeast	67	71	64
South	62	63	61
Midwest	58	60	55
West	67	68	66

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 (50), South (105), Midwest (89) and West (53). 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%	—	—	64
Northeast	7%	38%	52%	2%	—	—	71
South	5%	24%	68%	3%	—	—	63
Midwest	4%	20%	73%	4%	—	—	60
West	4%	40%	48%	8%	—	—	68

#### 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	3%	28%	59%	10%	—	0%	61
Northeast	—	35%	55%	8%	—	2%	64
South	3%	28%	61%	8%	—	—	61
Midwest	2%	18%	70%	10%	—	—	55
West	10%	37%	40%	14%	—	—	66

### 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	16%	64%	20%	1
Northeast	21%	50%	29%	—
South	7%	69%	23%	1
Midwest	11%	70%	16%	3
West	35%	54%	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	29%	55%	17%	—
Northeast	29%	51%	20%	—
South	22%	63%	15%	—
Midwest	23%	61%	17%	—
West	52%	33%	15%	—

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	9%	49%	37%	5%	0%	0%
Northeast	8%	47%	39%	4%	2%	—
South	6%	54%	38%	2%	—	1%
Midwest	6%	48%	39%	7%	—	—
West	19%	40%	31%	10%	—	—

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

	Increasing Rapidly	Increasing Moderately	Holding Steady	Decreasing Moderately	Decreasing Rapidly	Not Sure
All	5%	61%	32%	2%	—	0%
Northeast	4%	53%	39%	2%	—	2%
South	3%	66%	29%	2%	—	—
Midwest	1%	62%	35%	2%	—	—
West	17%	54%	25%	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%	49%	34%	4%	0%	0%
Northeast	2%	49%	41%	6%	—	2%
South	15%	52%	33%	1%	—	—
Midwest	12%	47%	37%	3%	—	—
West	19%	48%	23%	8%	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%	32%	38%	16%	1%	4%
Northeast	—	12%	39%	35%	2%	12%
South	13%	41%	40%	5%	—	2%
Midwest	9%	32%	43%	16%	—	1%
West	12%	37%	27%	17%	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.

## 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%	28%	6%	0%
Northeast	—	19%	55%	17%	10%	—
South	1%	14%	52%	31%	1%	1%
Midwest	—	10%	61%	25%	4%	—
West	2%	13%	33%	38%	15%	—

#### “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%	30%	57%	6%	—	4%
Northeast	2%	24%	55%	10%	—	10%
South	—	35%	58%	5%	—	2%
Midwest	4%	21%	66%	5%	—	4%
West	6%	42%	44%	4%	—	4%

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

	Increasing Rapidly	Increasing Moderately	Holding Steady	Decreasing Moderately	Decreasing Rapidly	Not Sure
All	2%	55%	40%	1%	0%	1%
Northeast	—	48%	50%	2%	—	—
South	—	55%	43%	—	1%	1%
Midwest	3%	60%	35%	1%	—	1%
West	8%	54%	35%	—	—	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%	5%	72%	13%	4%	7%
Northeast	2%	2%	64%	17%	5%	10%
South	—	5%	77%	11%	1%	6%
Midwest	1%	4%	76%	9%	3%	8%
West	—	8%	58%	19%	10%	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	2%	27%	62%	8%	0%	1%
Northeast	5%	29%	60%	7%	—	—
South	—	28%	65%	4%	1%	2%
Midwest	3%	18%	68%	11%	—	1%
West	4%	38%	48%	10%	—	—

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.