Survey of Real Estate Trends

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

JANUARY 2000 TO JUNE 2000

National Highlights

The *Survey of Real Estate Trends* summarizes the opinions of 256 senior examiners and asset managers at federal bank and thrift regulatory agencies on changing conditions in local real estate markets. Beginning with this issue, the *Survey* covers changing conditions over a six-month period for single-family, multifamily, office, retail, and industrial property markets located in metropolitan areas across the nation (see "Purpose and Design of the Report"). Survey results for the first six months of 2000 indicate the following:

- General conditions for U.S. real estate markets were relatively unchanged from conditions six months earlier. The percentage of respondents reporting that general conditions were unchanged was high across all property markets: single-family (58 percent), multifamily (72 percent), office (72 percent), retail (78 percent), and industrial (73 percent).
- Where general market conditions were reported to have changed, improving conditions were observed more often than worsening conditions.
- For the most part, respondents characterized supply and demand in markets as in balance. Where market imbalances were observed, reports of tight supply generally exceeded those of excess supply.
- The most favorable conditions were reported for single-family home markets. Home prices were reported to be higher than six months earlier, according to the majority of respondents, for both existing single-family homes (57.1 percent) and new single-family homes (60.6 percent).

Purpose and Design of the Report

The condition of real estate markets has been, and is likely to remain, an important determinant of credit risk for banks and thrifts. For that reason, since early 1991 the FDIC has conducted a survey of field staff from all of the federal thrift and bank regulatory agencies about changes in the condition of local real estate markets. The purpose of the survey is to provide a timely indicator of changes in residential and commercial real estate market conditions.

The nationwide survey polls FDIC senior examiners and asset managers as well as bank examiners of the Federal Reserve Banks, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision. Participants are asked broad qualitative questions about conditions and trends in specific metropolitan areas in five distinct real estate property markets: single-family, multifamily, office, retail, and industrial. The metropolitan areas covered, and criteria guiding participants' responses, are listed in the notes for the national results table at the end of this report.

The current survey marks a change from a quarterly to a semiannual reporting period and offers more details on real estate markets, covering metropolitan areas and more property markets. Comparisons of survey results across different periods or geographic areas must be interpreted carefully, however, because the pool of respondents can change from survey to survey, and observations about a specific market's activity can also differ from those about another market because of unique historical activity.

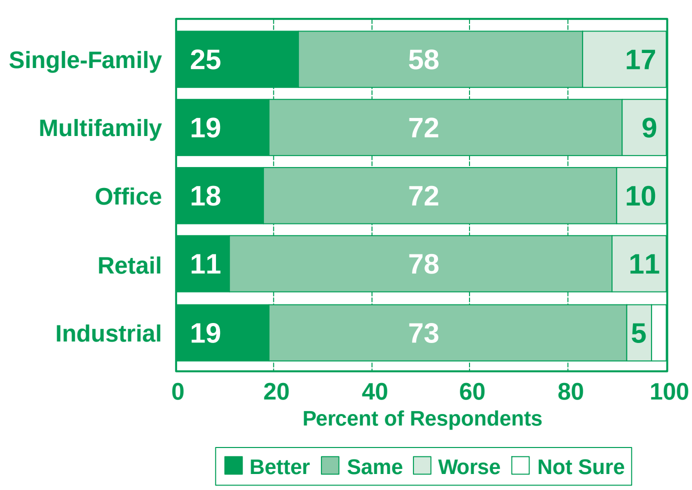
Changes in Real Estate Markets

The majority of respondents viewed general conditions in their local markets as unchanged during the six-month period from January 2000 through June 2000. Almost three-quarters of respondents (72, 72, and 73 percent respectively) characterized the general condition of multifamily, office, and industrial markets as unchanged from the previous six months, and over three-quarters (78 percent) said the same about their local retail markets. A smaller proportion (but, at 58 percent, still a majority of respondents) noted that conditions in single-family markets were about the same as six months earlier.

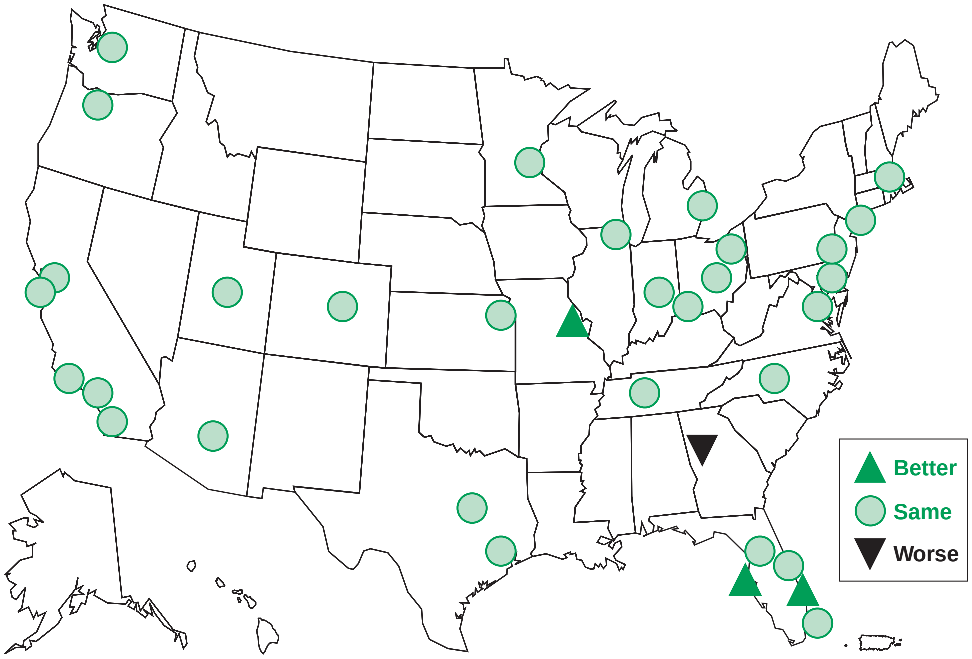
Those respondents who reported changes in general market conditions observed improving conditions more often than worsening conditions in most property markets. Improvements were noted with greater frequency in residential markets than in commercial markets, with 25 percent of respondents seeing better conditions in single-family markets and 19 percent in multifamily markets.

The accompanying map combines respondents' assessments of general conditions for both residential and commercial property markets into an assessment of "overall market" conditions. Overall market conditions were reported to be better than six months earlier in the major metropolitan areas of Fort Lauderdale, St. Louis, and Tampa. On the other hand, worsening overall market conditions were reported in Atlanta. Overall market conditions were also reported to be better in the smaller metropolitan areas (not shown on the map) of Austin, Boise, Buffalo, Fargo, Sacramento, and Westchester, but deteriorating in Memphis, New Orleans, and Wilmington.

CHANGING MARKET CONDITIONS
Compared to Six Months Ago



OVERALL MARKET CONDITIONS IN MAJOR METROPOLITAN AREAS
Changing Conditions Over Past Six Months

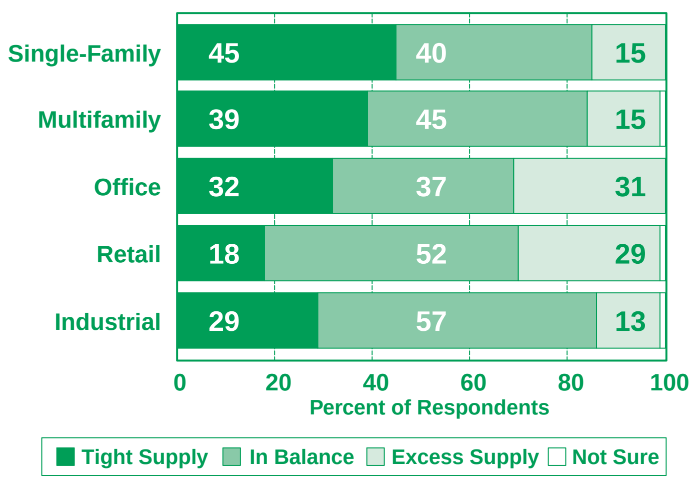


Current Conditions in Real Estate Markets

Reports that local property markets were in balance outnumbered those of tight supply and excess supply; an exception was single-family markets. Where market imbalances were reported, reports of tight supply generally exceeded those of excess supply.

Forty five percent of respondents reported single-family markets as tight, while only 15 percent reported excess supply. Albuquerque, Honolulu, Indianapolis, Memphis, Nashville, New Orleans, and Providence were noted for excess capacity in their single-

CURRENT CONDITION OF MARKETS
Compared to Six Months Ago



family markets. As for multifamily markets, 39 percent of respondents observed supply conditions as tight; 15 percent said markets had too much supply. Respondents cited Boise, Houston, Indianapolis, Memphis, Phoenix, Stamford, and Wilmington as metropolitan areas with soft multifamily property markets.

Of all property markets, local office markets were characterized as in balance by the lowest proportion of respondents (37 percent). Almost a third of respondents (31 percent) viewed office markets as having excess supply, and another third (32 percent) noted tight market conditions. Metropolitan areas where office markets were noted for excess supply included Albuquerque, Billings, Boise, Cleveland, Dallas, Hartford, Honolulu, Indianapolis, Louisville, Nashville, New Orleans, Oklahoma City, Philadelphia, Salt Lake City, and Sioux Falls.

Retail and industrial markets were characterized as in balance by 52 percent and 57 percent of respondents, respectively. Excess supply was observed in 29 percent of retail markets. Respondents noted too much retail supply in the metropolitan areas of Albany, Albuquerque, Bergen-Passaic, Cleveland, Columbus, Houston, Indianapolis, Milwaukee, Nashville, New Orleans, Omaha, Providence, and Tampa. As for industrial markets, 13 percent reported excess supply, citing Albany, Cleveland, Honolulu, Indianapolis and Philadelphia.

CURRENT CONDITIONS: EXCESS SUPPLY REPORTED IN METROPOLITAN AREAS

Metro Area	Single-Family	Multifamily	Office	Retail	Industrial
Albany				X	X
Albuquerque	X		X	X	
Bergen-Passaic, NJ				X	
Billings			X		
Boise		X	X		
Cleveland			X	X	X
Columbus				X	
Dallas			X		
Hartford			X		
Honolulu	X		X		X
Houston		X		X	
Indianapolis	X	X	X	X	X
Louisville			X		
Memphis	X	X			
Milwaukee				X	
Nashville	X		X	X	
New Orleans	X		X	X	
Oklahoma City			X	X	
Omaha				X	
Philadelphia			X		X
Phoenix		X			
Providence	X			X	
Salt Lake City			X		
Sioux Falls			X		
Stamford		X			
Tampa				X	
Wilmington		X			

Single-Family Real Estate Markets

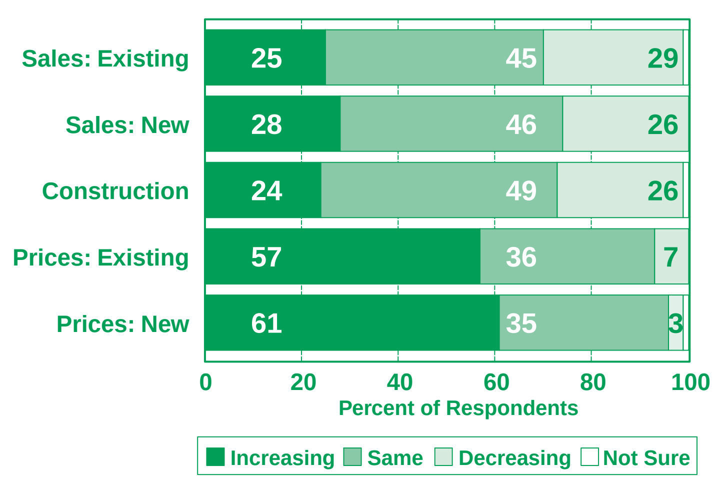
- The pace of home sales, for both existing and new homes, remained fairly steady. However, where respondents noted fluctuation in sales levels of existing homes, the proportion reporting increasing sales (25 percent) was slightly lower than the proportion observing decreasing sales (29 percent). Respondents said existing home sales were increasing in Honolulu, Nashua, Providence, Sacramento, Sioux Falls, and Westchester but were decreasing in Atlanta, Baltimore, Detroit, Las Vegas, Memphis, Milwaukee, Nashville, New Orleans, San Jose, and West Palm Beach.

- For new homes, 27 percent noted an increase in sales while the same proportion observed a decrease in sales. Sales of new homes were reported to be higher than six months earlier in Honolulu, Nashua, New York City, Pittsburgh, Providence, Sacramento, Sioux Falls, and Westchester, but lower in Atlanta, Grand Rapids, Greenville–Spartanburg, Indianapolis, Las Vegas, Little Rock, Memphis, Nashville, New Orleans, Norfolk, and Raleigh.

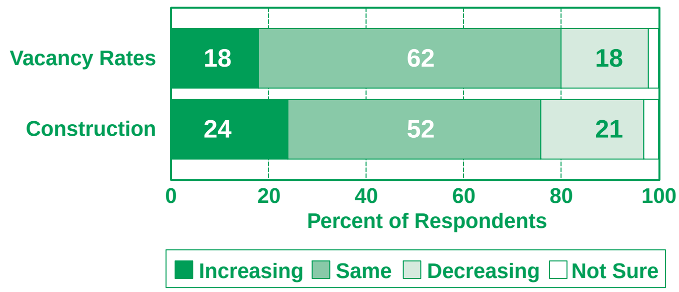
- Forty-nine percent of respondents reported no change in construction of single-family homes. Twenty-four percent viewed an increase in residential construction over the previous six months, citing gains in Boise, Hartford, Oklahoma City, Pittsburgh, Sacramento, Sioux Falls, and Tampa. A slightly higher proportion (26 percent) saw a decrease in homebuilding, noted in Baltimore, Fort Worth, Grand Rapids, Indianapolis, Kansas City, Las Vegas, New Orleans, Norfolk, Phoenix, Providence, and Wilmington.

- Sales prices of homes were on the rise over the previous six months, according to the vast majority of respondents. Fifty-seven percent said sales prices for existing homes had increased. For new homes, higher sales prices were noted by 61 percent. There were few responses of decreasing sales prices for either existing or new homes. Regionally, reports of price gains for both existing and new homes were frequent in the West (Billings, Boise, Denver, Honolulu, Orange County, Sacramento, San Diego, San Francisco, San Jose, and Seattle).

ASSESSMENT OF SINGLE-FAMILY MARKETS



MULTIFAMILY REAL ESTATE MARKETS



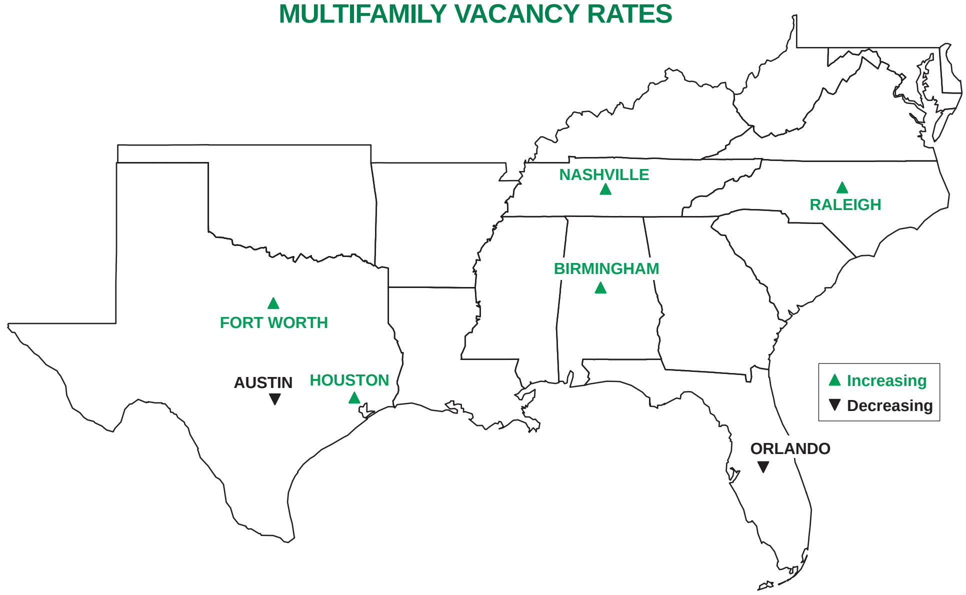
Multifamily Real Estate Markets

- Vacancy rates in multifamily housing were widely reported as stable over the previous six months. However, of the respondents who did see change, 18 percent reported decreasing vacancies and an equal proportion reported that vacancies had increased. Many respondents reporting on metropolitan areas in the South region of the country noted changing multifamily vacancy rates.
- The majority of respondents reported no change in multifamily residential construction. Twenty-four percent noted an increase in multifamily construction over the previous six months, citing Boise, Louisville, Memphis, New York City, Oakland, Omaha, Sacramento, San Jose, Sioux Falls, and Tampa. A slightly lower proportion (21 percent) noted a decrease in apartment building, citing Albuquerque, Fort Worth, Las Vegas, New Orleans, Norfolk, and Salt Lake City.

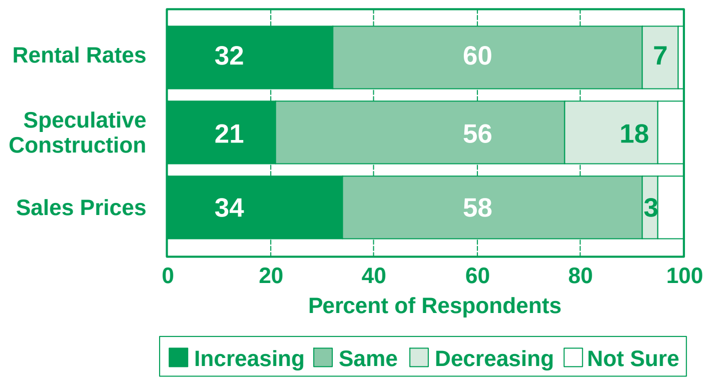
Office Real Estate Markets

- The vast majority (60 percent) of respondents reported no change in office rental rates over the previous six months. In markets where rents fluctuated, 32 percent noted an increase in rents, and 7 percent said rents had decreased since six months earlier. Lower office rents were observed in New Orleans and Providence.

MULTIFAMILY VACANCY RATES



OFFICE REAL ESTATE MARKETS



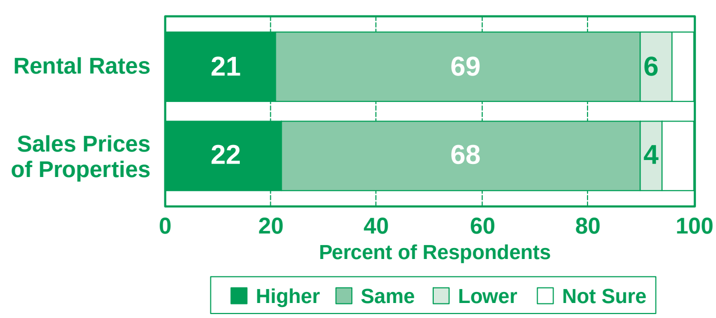
- Twenty-one percent of respondents said that speculative construction of office buildings increased over the previous six months. A slightly lower proportion, 18 percent, cited a decline. Speculative construction was reported to be higher in Atlanta, Louisville, Nashville, Sioux Falls, St. Louis, Stamford, and the Washington DC metropolitan area.

- Increasing sales prices of office properties far outweighed decreasing sales prices. More than half of respondents (58 percent) cited no change in sales prices of office properties. Of those who did report price movement, 34 percent said prices were rising, and only 3 percent reported falling prices. Price gains in office building sales were noted in Austin, Boise, Boston, Cincinnati, Denver, Des Moines, Detroit, Fargo, Miami, Milwaukee, Nashua, Orange County, Sacramento, San Francisco, San Jose, Seattle, and Sioux Falls.

Retail Real Estate Markets

- There were no rent hikes or rent breaks for retail properties, according to more than two-thirds of the respondents (69 percent), who saw stable prices. Of those who reported a change in retail rental rates over the previous six months, a much greater proportion (21 percent) said rents rose than said rents declined (6 percent). Decreases were noted in Albany, Baltimore, Providence, and Tampa.

RETAIL REAL ESTATE MARKETS



- Sales prices of retail properties increased over the previous six months, according to 22 percent of the respondents. Only 4 percent said that sales prices decreased, notably in Albany and Tampa. And according to 68 percent, sales prices of retail properties held steady.

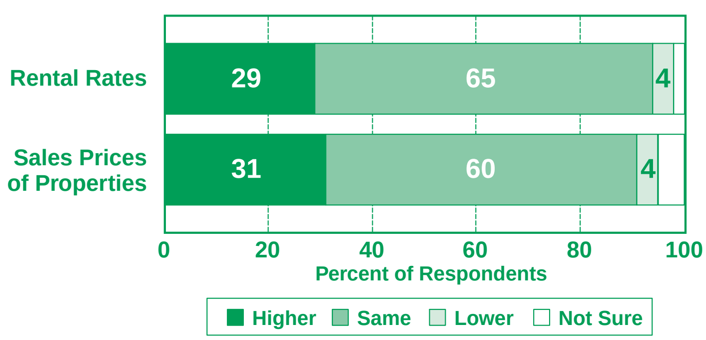
Industrial Real Estate Markets

- Many respondents noted movement in rental rates for industrial properties, with 29 percent observing higher rents over the previous six months. Four percent said that rents had decreased, citing Albany and Honolulu, while almost two-thirds reported no change in rental rates.
- Prices of industrial properties for sale increased, according to almost one-third of the respondents (31 percent). Only 4 percent noted a decline in sales prices over the previous six months, mentioning Albany, Albuquerque, and Honolulu. However, the majority (60 percent) reported that sales prices of industrial properties were unchanged.

Market Dislocation

- The majority of respondents (60 percent) reported that foreclosures of commercial real estate loans continued at about the same pace as six months earlier. Of those reporting a change in the pace of foreclosures, 5 percent noted an increase and 7 percent a decline compared with six months earlier.
- Similarly, the majority of respondents (55 percent) reported no increase in commercial and retail bankruptcies from levels six months earlier. Reports of increases in bankruptcies (12 percent) exceeded reports of decreases (7 percent), however.
- The length of time required to lease a property was also generally reported to be stable over the previous six months, with 51 percent of respondents reporting no increase in lease time.

INDUSTRIAL REAL ESTATE MARKETS



NATIONAL RESULTS FROM THE SURVEY OF REAL ESTATE TRENDS

Percent of Respondents

		Six-Month Period Ending: 06/00
SINGLE-FAMILY		
How would you characterize the current single-family market?	A tight market	15.0
	Some tightness	30.0
	Supply and demand in balance	40.3
	Some excess capacity	13.7
	Excess inventory	0.9
	Not sure	0.0
How would you characterize the current volume of *existing* single-family home sales now compared with 6 months ago?	A lot higher	1.3
	A little higher	23.6
	About the same	44.6
	A little lower	29.6
	A lot lower	0.0
	Not sure	0.9
How would you characterize the current volume of *new* single-family home sales now compared with 6 months ago?	A lot higher	1.3
	A little higher	26.2
	About the same	45.5
	A little lower	26.2
	A lot lower	0.4
	Not sure	0.4
How would you characterize the current volume of single-family new home construction now compared with 6 months ago?	A lot higher	3.0
	A little higher	20.6
	About the same	49.4
	A little lower	24.9
	A lot lower	0.9
	Not sure	1.3
How would you characterize the sales prices of *existing* single-family homes now compared with 6 months ago?	A lot higher	5.6
	A little higher	51.5
	About the same	35.6
	A little lower	6.9
	A lot lower	0.0
	Not sure	0.4
How would you characterize the sales prices of *new* single-family homes now compared with 6 months ago?	A lot higher	5.2
	A little higher	55.4
	About the same	35.2
	A little lower	3.0
	A lot lower	0.4
	Not sure	0.9
What would you say is the general condition of the single-family market now compared with 6 months ago?	A lot better	1.3
	A little better	23.6
	About the same	57.9
	A little worse	16.7
	A lot worse	0.0
	Not sure	0.4
MULTIFAMILY		
How would you characterize the current multifamily market?	A tight market	11.7
	Some tightness	27.8
	Supply and demand in balance	45.0
	Some excess capacity	14.4
	Excess inventory	0.6
	Not sure	0.6
How would you characterize current apartment vacancy rates now compared with 6 months ago?	A lot higher	0.0
	A little higher	17.8
	About the same	62.2
	A little lower	18.3
	A lot lower	0.0
	Not sure	1.7
How would you characterize the current volume of rental apartment construction now compared with 6 months ago?	A lot higher	1.7
	A little higher	22.2
	About the same	51.7
	A little lower	19.4
	A lot lower	1.7
	Not sure	3.3
What would you say is the general condition of the multifamily market now compared with 6 months ago?	A lot better	1.7
	A little better	17.2
	About the same	72.2
	A little worse	8.9
	A lot worse	0.0
	Not sure	0.0

NATIONAL RESULTS FROM THE SURVEY OF REAL ESTATE TRENDS

Percent of Respondents

		Six-Month Period Ending: 06/00
OFFICE		
How would you characterize the current office market?	A tight market	9.9
	Some tightness	21.6
	Supply and demand in balance	37.4
	Some excess capacity	28.1
	Excess inventory	2.9
	Not sure	0.0
How would you characterize rental rates for office space now compared with 6 months ago?	A lot higher	5.3
	A little higher	26.9
	About the same	59.6
	A little lower	7.0
	A lot lower	0.0
	Not sure	1.2
How would you characterize the current volume of speculative office construction (i.e., not presold or preleased) now compared with 6 months ago?	A lot higher	2.3
	A little higher	18.1
	About the same	56.1
	A little lower	15.8
	A lot lower	2.3
	Not sure	5.3
How would you characterize the sales prices of a common class of office properties?	Increasing rapidly	0.6
	Increasing moderately	33.3
	Holding steady	57.9
	Decreasing moderately	2.3
	Decreasing steadily	0.6
	Not sure	5.3
How common are leasing concessions (such as free rent, tenant finish, build out, etc.) for office space now compared with 6 months ago?	A lot more common	0.6
	A little more common	8.2
	About the same	57.9
	A little less common	15.2
	A lot less common	2.9
	No concessions are offered	5.8
	Not sure	9.4
What would you say is the general condition of the office market now compared with 6 months ago?	A lot better	0.0
	A little better	17.5
	About the same	71.9
	A little worse	10.5
	A lot worse	0.0
	Not sure	0.0
RETAIL		
How would you characterize the current retail market?	A tight market	0.7
	Some tightness	17.5
	Supply and demand in balance	51.7
	Some excess capacity	25.9
	Excess inventory	2.8
	Not sure	1.4
How would you characterize rental rates for retail space now compared with 6 months ago?	A lot higher	0.0
	A little higher	21.0
	About the same	69.2
	A little lower	6.3
	A lot lower	0.0
	Not sure	3.5
How would you characterize sales prices of retail properties?	Increasing rapidly	0.0
	Increasing moderately	22.4
	Holding steady	67.8
	Decreasing moderately	4.2
	Decreasing steadily	0.0
	Not sure	5.6
How common are leasing concessions (such as free rent, tenant finish, build out, etc.) for retail space now compared with 6 months ago?	A lot more common	0.0
	A little more common	8.4
	About the same	65.7
	A little less common	7.0
	A lot less common	0.7
	No concessions are offered	5.6
	Not sure	12.6
What would you say is the general condition of the retail market now compared with 6 months ago?	A lot better	0.0
	A little better	10.5
	About the same	78.3
	A little worse	11.2
	A lot worse	0.0
	Not sure	0.0

NATIONAL RESULTS FROM THE SURVEY OF REAL ESTATE TRENDS

Percent of Respondents

		Six-Month Period Ending: 06/00
INDUSTRIAL		
How would you characterize the current industrial market?	A tight market	4.3
	Some tightness	24.7
	Supply and demand in balance	57.0
	Some excess capacity	10.8
	Excess inventory	2.2
	Not sure	1.1
How would you characterize rental rates for industrial space now compared with 6 months ago?	A lot higher	2.2
	A little higher	26.9
	About the same	64.5
	A little lower	3.2
	A lot lower	1.1
	Not sure	2.2
How would you characterize sales prices of industrial properties?	Increasing rapidly	1.1
	Increasing moderately	30.1
	Holding steady	60.2
	Decreasing moderately	4.3
	Decreasing steadily	0.0
	Not sure	4.3
How common are leasing concessions (such as free rent, tenant finish, build out, etc.) for industrial space now compared with 6 months ago?	A lot more common	0.0
	A little more common	3.2
	About the same	67.7
	A little less common	12.9
	A lot less common	0.0
	No concessions are offered	6.5
	Not sure	9.7
What would you say is the general condition of the industrial market now compared with 6 months ago?	A lot better	0.0
	A little better	19.4
	About the same	73.1
	A little worse	5.4
	A lot worse	0.0
	Not sure	2.2
MARKET DISLOCATION		
Assess *foreclosures of commercial real estate loans* as a potential sign of a troubled real estate market and rate your assessment at the present time compared to 6 months ago.	Much more now than 6 months ago	0.0
	Somewhat more now than 6 months ago	4.7
	About the same	59.6
	Somewhat less now than 6 months ago	7.1
	Much less now than 6 months ago	0.8
	Not sure	27.8
Assess *commercial and retail bankruptcies* as a potential sign of a troubled real estate market and rate your assessment at the present time compared to 6 months ago.	Much more now than 6 months ago	0.0
	Somewhat more now than 6 months ago	12.2
	About the same	54.5
	Somewhat less now than 6 months ago	6.7
	Much less now than 6 months ago	0.4
	Not sure	26.3
Assess the *length of time to lease a property* as a potential sign of a troubled real estate market and rate your assessment at the present time compared to 6 months ago.	Much more now than 6 months ago	0.0
	Somewhat more now than 6 months ago	11.4
	About the same	51.0
	Somewhat less now than 6 months ago	8.6
	Much less now than 6 months ago	0.4
	Not sure	28.6

NOTES FOR THE NATIONAL RESULTS

1) These results aggregate responses filed for 74 major and smaller metropolitan areas covering every state except Alaska, Oregon, Vermont, and Wyoming. The number of respondents by property sector was: single-family (233), multifamily (180), office (171), retail (143), and industrial (93).

2) The major metropolitan areas included: Atlanta, Baltimore, Boston, Charlotte, Chicago, Cincinnati, Cleveland, Columbus, Dallas, Denver, Detroit, Ft. Lauderdale, Houston, Indianapolis, Kansas City, Las Vegas, Los Angeles, Miami, Minneapolis, Nashville, New York City, Oakland, Orange County, Orlando, Philadelphia, Phoenix, Salt Lake City, San Diego, San Francisco, San Jose, Seattle, St. Louis, Tampa, Washington, DC, and West Palm Beach. The smaller metropolitan areas included: Albany, Albuquerque, Austin, Bergen-Passaic, Billings, Birmingham, Boise City, Buffalo, Charleston WV, Des Moines, Fargo, Fort Worth, Grand Rapids, Greenville-Spartanburg, Hartford, Honolulu, Jackson, Jacksonville, Little Rock, Louisville, Memphis, Milwaukee, Nashua, New Orleans, Newark, Norfolk, Oklahoma City, Omaha, Pittsburgh, Portland, Providence, Raleigh, Richmond, Sacramento, San Juan, Sioux Falls, Stamford, Westchester, and Wilmington.

3) Survey respondents were asked to assess current real estate market conditions as compared with six months ago in relative terms: **A lot better:** Market conditions have improved considerably. There are strong, visible signs of improvement in terms of vacancy rates, market prices, or the pace of sales. Moreover, there is general agreement among market observers on this improvement. **A little better:** Market conditions have improved slightly. There are some visible signs of improvement in terms of market prices or the pace of sales. However, there need not be general agreement among market observers on this improvement. **About the same:** Market conditions are essentially unchanged from what they were six months ago. **A little worse:** Market conditions have deteriorated slightly. There are some visible signs of deterioration in terms of market prices or the pace of sales. However, there need not be general agreement among market observers on this deterioration. **A lot worse:** Market conditions have deteriorated considerably. There are strong, visible signs of deterioration in terms of vacancy rates, market prices, or the pace of sales. Moreover, there is general agreement among market observers on this deterioration. **Not sure:** Unable to assess the current market conditions due to inadequate information, conflicting information, or for other reasons.