

Survey of Real Estate Trends

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

RESULTS OF THE OCTOBER 1997 SURVEY

Highlights

- In October, the national composite index of real estate activity was 71—down from 74 in July and up from 67 in October of 1996. Every region showed a decrease in the index between July and October except the Midwest, which was unchanged. The composite index summarizes the responses of 311 senior examiners and asset managers at federal banking and thrift agencies.
- Respondents continue to be positive about commercial real estate markets, with 54 percent of those surveyed reporting that market conditions were better in October than they had been three months earlier. Of those surveyed, 57 percent cited increasing commercial real estate prices, up from 39 percent a year earlier.
- Forty-two percent of survey participants reported that residential real estate markets were better in October than they had been three months earlier, down from 51 percent in July. More participants noticed an increase in excess housing supply.
- Regionally, the West posted the highest composite index, at 79. California respondents were particularly positive about commercial markets, with 81 percent noting better conditions—up from 7 percent in just over two years.

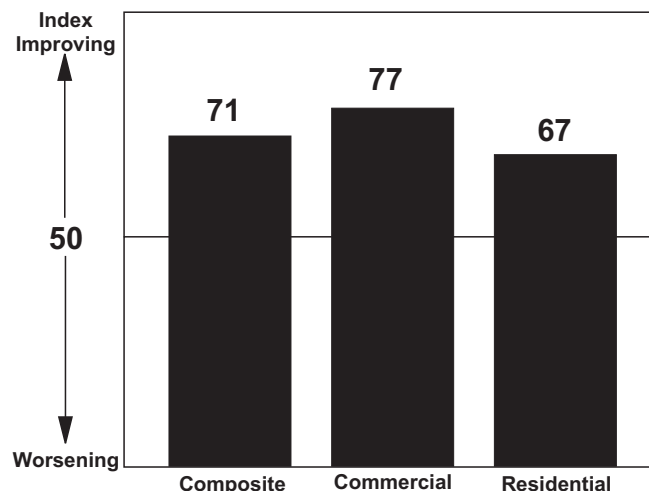
Introduction

In its quarterly real estate survey, the FDIC polls senior examiners and asset managers from all federal banking and thrift regulatory agencies about developments in their local real estate markets during the previous three months. According to the October Survey of Real Estate Trends, the performance of local commercial real estate markets continues to be viewed positively. Assessments of trends in local residential real estate markets were also generally positive.

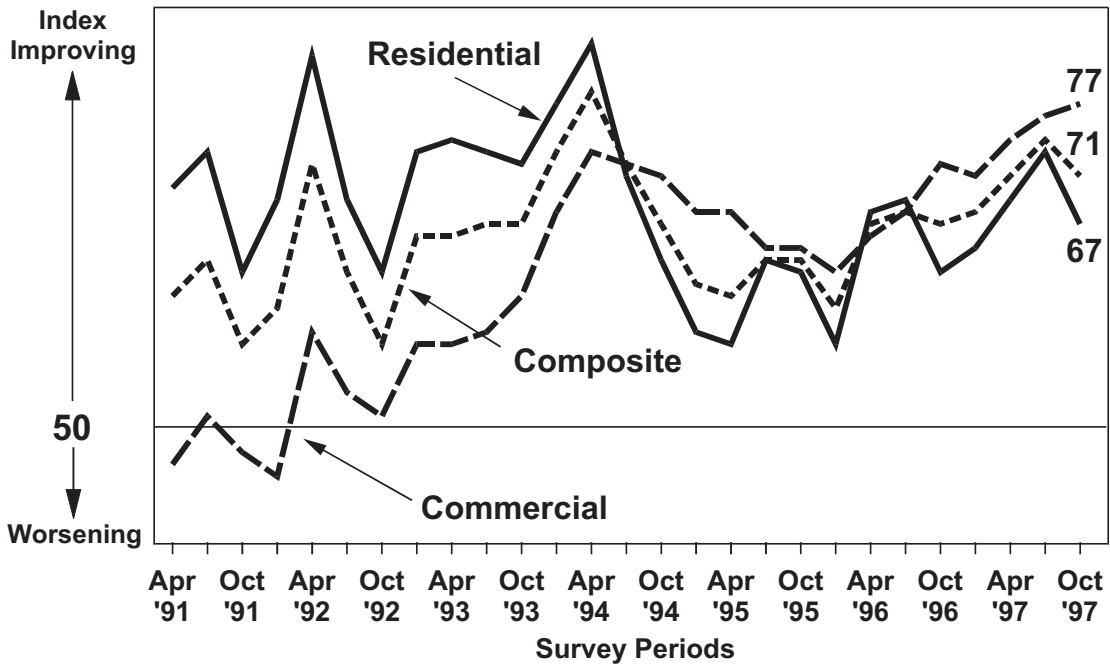
Three index figures are used—commercial, residential, and a composite of both—to summarize responses to the

REAL ESTATE MARKET CHANGES OVER THE THREE MONTHS ENDING IN OCTOBER 1997

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



question of whether real estate markets have improved, deteriorated, or remained the same during the previous three months. Values above 50 indicate that more examiners and asset managers at federal banking and thrift regulatory agencies believe that conditions are improving rather than 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.

National Summary

The national composite index of survey results was 71 in October, down from 74 in July. In October 1996, the reading was 67. With the exception of the index for the Midwest, which was unchanged, the composite index for each region also showed a decrease from the July survey.

The national index for commercial markets was 77 in October (essentially unchanged

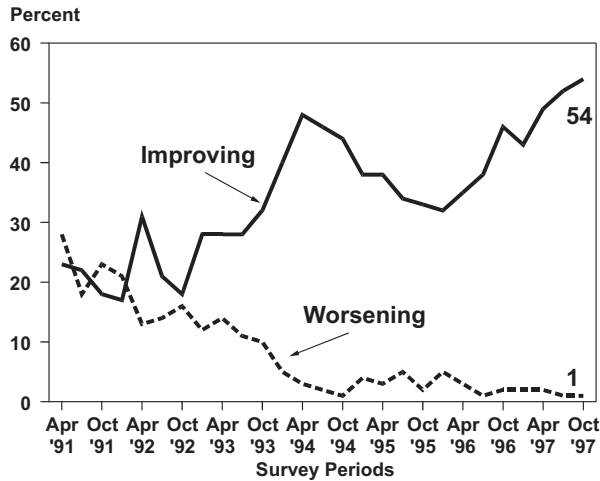
from the July reading), and the national residential index was 67 (down from 73 in July). With the exception of the South, the commercial index for each region was higher in October than in July, with the index for the Midwest showing the biggest change (up 6 points). In contrast, the residential index fell in all four regions, with a drop of 9 points in the West and 8 points in the South.

Commercial Real Estate Markets

Fifty-four percent of respondents to the October survey noted that the general direction of commercial markets was better than it had been three months earlier. The corresponding figure for October of 1996 was 46 percent. Only 1 percent of respondents described conditions in commercial markets as worsening, a proportion that has been steady for over a year.

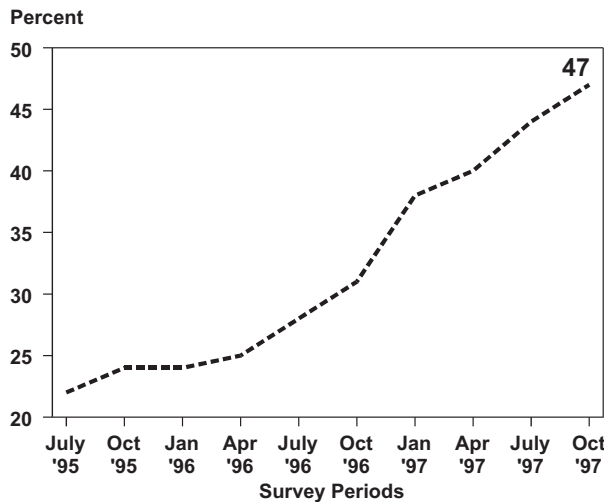
In response to more detailed questions, respondents noted a number of other trends in commercial market activity during the three

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



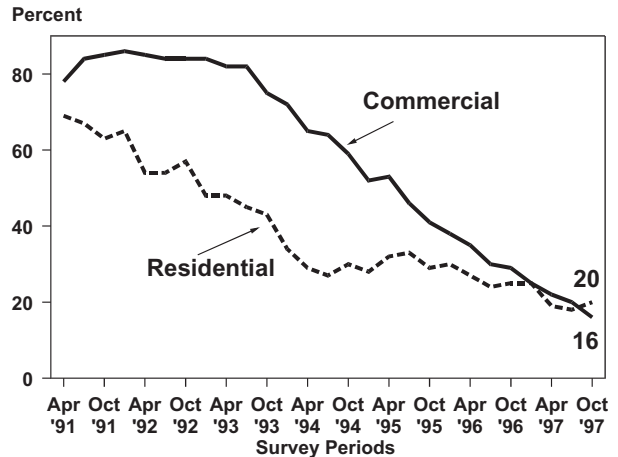
months prior to the October survey. Just over one-third noted above-average sales of commercial properties. In addition, 57 percent reported increasing prices for commercial properties, compared with 54 percent in July and 39 percent in October of the previous year. Data from the Koll/National Real Estate Index confirm that prices for commercial properties have been on the upswing since 1993.

PERCENT OF RESPONDENTS REPORTING INCREASES IN DEMAND FOR OFFICE SPACE



The proportion of survey participants noting increasing demand for office space continued to rise, reaching 47 percent in October. This supports respondents' observations of diminishing excess supply: only 16 percent of respondents cited excess commercial space, compared with 29 percent in October of 1996. In fact, 19 percent of respondents described their local commercial real estate market as suffering from tight supply. Such assessments correspond to other published indicators of commercial market activity. In mid-1997, CB Commercial/Torto Wheaton Research reported steadily declining office vacancy rates. Moreover, the current supply of new office space, while on the increase, is much reduced from supply levels recorded in the 1980s and early 1990s, when excess capacity far outstripped demand.

PERCENT OF RESPONDENTS REPORTING EXCESS SUPPLY IN REAL ESTATE MARKETS



Residential Real Estate Markets

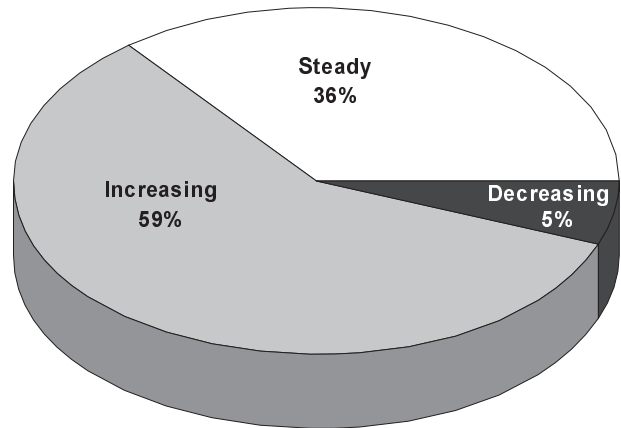
Forty-two percent of respondents described the general direction of their local residential real estate market as being better in October than it had been three months earlier; this figure is down from 51 percent in July

but shows an increase over the October 1996 figure, which was 35 percent. (The July reading may have resulted in part from a seasonal spike, reflecting the traditionally more active spring housing market.) At the same time, 9 percent of those surveyed in October noted that conditions had worsened since July. Although two-thirds of the survey participants noted that supply and demand in their local housing markets were “in balance,” 20 percent cited excess housing supply in their areas.

Just over 90 percent of those surveyed in October reported that homebuilding activity was at or above average levels. Rental apartment construction activity was strong: 74 percent of survey participants noted average or above-average levels of apartment construction. This figure represents continuing multifamily construction activity. A high volume of activity was also reflected in reports from the Commerce Department that multifamily building in the third quarter of 1997 was 8 percent higher than it had been at the same time the previous year. Given these figures, there may be a potential for overbuilding in the rental sector of some markets. According to the Bureau of the Census, overall vacancy rates for multifamily housing have been rising, from 7.7 percent at the end of 1996 to 7.9 percent in the third quarter of 1997.

Forty-four percent of those surveyed reported above-average home sales, down from 49 percent in July; in October of 1996, the figure was 37 percent. Again, while the higher July reading may reflect the more active spring housing market, data from the National Association of Realtors (NAR) confirm that sales of existing homes have been on the rise, largely because of a stable economy and low mortgage-interest rates. According to the NAR, third quarter sales were up 7.5 percent over those recorded the

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

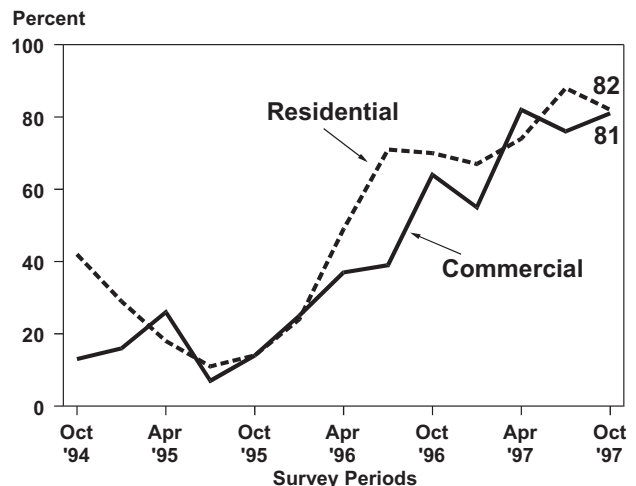


previous year. Eight percent of survey respondents characterized the volume of sales as below average; in October of 1996, that figure was 12 percent. In addition, prices for existing homes increased in 59 percent of the markets. In the West, 69 percent of respondents reported rising resale prices in October, up from 63 percent in July and 42 percent the previous year.

Regional Trends

In general, assessments of real estate trends were fairly positive in the Northeast and the Midwest, particularly with respect to

PERCENT OF RESPONDENTS REPORTING BETTER CONDITIONS IN CALIFORNIA REAL ESTATE MARKETS



commercial markets. Sixty-two percent of survey participants in the Northeast and 43 percent in the Midwest considered conditions in commercial markets to be better in October than they had been three months earlier. The corresponding figures for October of 1996 were 39 percent and 33 percent, respectively.

The West's index value of 79, the most favorable assessment of real estate market conditions of any region, reflects the ongoing recovery of commercial markets in that region. Indeed, 70 percent of respondents said commercial conditions were better than they had been in July. With respect to housing market conditions, 8 percent of respondents reported that conditions had worsened since July. Similarly, reports of excess supply increased from 14 percent in July to 23 percent in October.

In the West, most of the uptick in favorable reports of commercial markets came from observers in California, where 81 percent of October respondents noted that commercial markets were better than they had been in the previous three months, up from 76 percent of July respondents. Moreover, respondents were particularly positive about other commercial indicators, citing increases in commercial prices and sales as well as below-average vacancy rates.

Assessments of conditions in California's housing markets continue to be positive. More than three-quarters of respondents (82 percent) observed better residential conditions. Reports of above-average levels of home construction rose to 38 percent, up from 32 percent in July. However, the proportion of October respondents reporting decreases in homebuilding activity more than doubled, to 21 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 an aggregation of the regional results.

The survey respondents included 311 senior examiners and asset managers experienced in evaluating real estate loan portfolios or in marketing real estate assets. The FDIC respondents included senior experts from the Division of Supervision and the Division of Resolutions and Receiverships. Senior real estate examiners from the Office of the Comptroller of the Currency, the Federal Reserve System, and the Office of Thrift Supervision also participated.

The number of participants in the survey is down considerably, from more than 500 when the survey began in 1991 to just over 300. This decline reflects two changes: first, early surveys included a large number of asset managers from the Resolution Trust Corporation, which closed at the end of 1995; second, agency downsizing has occurred, in part because of declining inventories of real estate assets in receivership from failed banks.

The survey was designed and analyzed by the Division of Research and Statistics at the FDIC. Questions may be directed to Cynthia Angell (202-898-8548) or Daniel Bean (202-898-3931). Geri Bonebrake, Donna Schull, and Erin Robbins provided production support. Market Facts, Inc., conducted the survey.

SUMMARY INDICES OF REAL ESTATE TRENDS

	Composite	Commercial	Residential
U.S.	71	77	67
Northeast	78	79	76
South	69	75	64
Midwest	65	72	59
West	79	85	75

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 (53), South (106), Midwest (91) and West (61). 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	6%	48%	45%	1%	—	0%	77
Northeast	6%	56%	33%	4%	—	—	79
South	4%	46%	49%	1%	—	—	75
Midwest	2%	41%	55%	—	—	1%	72
West	13%	57%	30%	—	—	—	85

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	6%	36%	49%	9%	—	—	67
Northeast	4%	55%	35%	6%	—	—	76
South	3%	31%	59%	7%	—	—	64
Midwest	6%	26%	55%	14%	—	—	59
West	15%	44%	33%	8%	—	—	75

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	19%	65%	16%	0
Northeast	19%	50%	31%	—
South	15%	67%	17%	1
Midwest	18%	75%	7%	—
West	27%	57%	16%	—

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	13%	66%	20%	1
Northeast	6%	67%	28%	—
South	11%	71%	17%	2
Midwest	11%	71%	18%	—
West	25%	53%	23%	—

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	4%	40%	47%	8%	0%	1%
Northeast	2%	18%	67%	10%	—	4%
South	3%	40%	50%	6%	—	2%
Midwest	2%	49%	40%	8%	1%	—
West	8%	46%	34%	12%	—	—

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

	Increasing Rapidly	Increasing Moderately	Holding Steady	Decreasing Moderately	Decreasing Rapidly	Not Sure
All	2%	57%	36%	5%	—	—
Northeast	2%	39%	53%	6%	—	—
South	2%	53%	40%	5%	—	—
Midwest	1%	65%	27%	7%	—	—
West	3%	66%	30%	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	8%	42%	41%	7%	—	2%
Northeast	2%	31%	51%	14%	—	2%
South	10%	51%	35%	2%	—	2%
Midwest	10%	40%	44%	6%	—	—
West	8%	39%	36%	13%	—	3%

“How would you characterize the current volume of rental apartment construction?”

	Much Higher Than Average	Somewhat Above Average	About Average	Somewhat Below Average	Much Below Average	Not Sure
All	7%	27%	40%	20%	3%	4%
Northeast	2%	6%	37%	35%	10%	10%
South	13%	39%	33%	9%	2%	4%
Midwest	6%	18%	48%	26%	—	2%
West	2%	36%	43%	18%	2%	—

NOTE: Percentages are calculated by dividing the number of responses in each category within each region by that region's total number of respondents. Numbers may not sum to 100 due to rounding error.

KEY MARKET INDICATORS

COMMERCIAL

“How would you characterize vacancy rates in commercial real estate?”

	Much Higher Than Average	Somewhat Above Average	About Average	Somewhat Below Average	Much Below Average	Not Sure
All	1%	15%	51%	28%	5%	1%
Northeast	2%	23%	46%	21%	6%	2%
South	1%	14%	55%	28%	2%	—
Midwest	—	9%	61%	22%	6%	1%
West	—	20%	30%	43%	7%	—

“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	5%	30%	54%	7%	—	4%
Northeast	4%	27%	44%	21%	—	4%
South	7%	29%	59%	1%	—	4%
Midwest	1%	25%	61%	6%	—	7%
West	5%	43%	45%	7%	—	—

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

	Increasing Rapidly	Increasing Moderately	Holding Steady	Decreasing Moderately	Decreasing Rapidly	Not Sure
All	1%	56%	42%	0%	—	1%
Northeast	—	56%	42%	2%	—	—
South	1%	53%	44%	—	—	2%
Midwest	2%	52%	45%	—	—	1%
West	2%	66%	32%	—	—	—

“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	—	3%	58%	26%	6%	8%
Northeast	—	2%	60%	21%	6%	10%
South	—	5%	59%	24%	4%	8%
Midwest	—	2%	62%	21%	5%	9%
West	—	—	48%	39%	9%	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%	45%	49%	4%	—	0%
Northeast	2%	50%	42%	6%	—	—
South	3%	41%	52%	4%	—	—
Midwest	1%	38%	58%	2%	—	1%
West	2%	61%	36%	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.