

Survey of Real Estate Trends

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

RESULTS OF THE OCTOBER 1998 SURVEY

Highlights

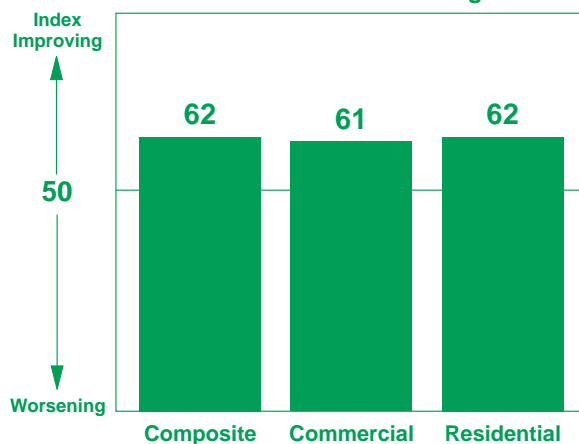
- In October, the national composite index of real estate activity was 62 — down from 77 in July and from 71 in October of 1997. The composite index summarizes the opinions of 295 senior examiners and asset managers at federal bank and thrift agencies on changes in local real estate market conditions during the prior three-month period. An index number above 50 indicates markets are improving.
- Thirty-six percent of respondents thought conditions in local residential real estate markets had improved; in the July survey, the comparable figure was 61 percent. Much of the difference reflects a shift from reports of better conditions in July to reports that conditions had not changed (53 percent). Still, there was a slight increase in reports of worsening conditions.
- The percentage of participants noting better conditions in their local commercial real estate markets dropped to 28 percent in October from 52 percent in July. In a shift similar to that on the residential side, there was a big increase in the proportion of respondents (65 percent, from 47 percent) who viewed conditions as unchanged since the July poll, as well as an uptick in those who noted weakening.
- Index readings for residential and commercial markets were down in every region. In all regions, the lower indexes reflected (1) a drop in reports of better conditions, and (2) an increase in reports of no change in market conditions. Reports of worsening conditions also increased in every region but had little influence on the change. In California, respondents overwhelmingly signaled that residential and commercial conditions were the same.

Introduction

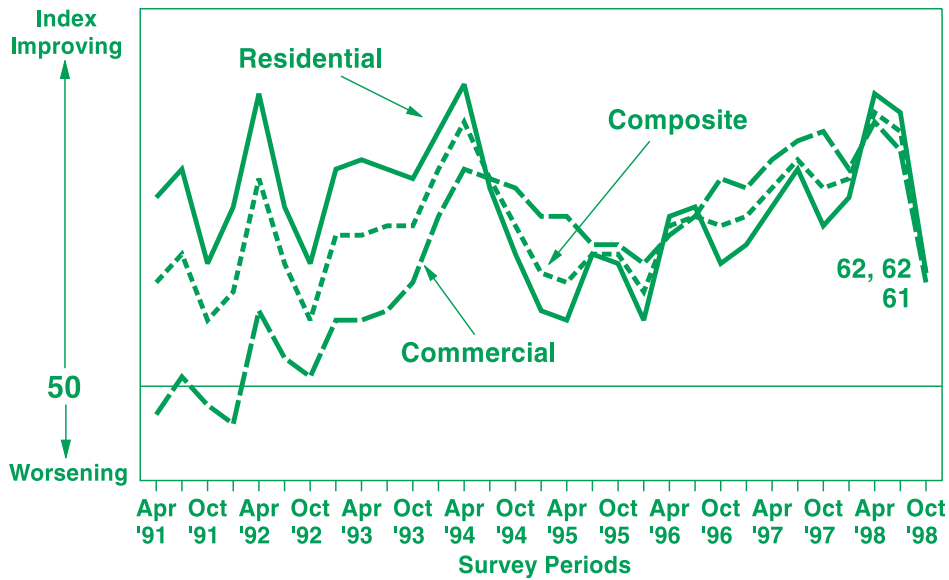
In its quarterly real estate survey, the FDIC polls senior examiners and asset managers from all federal bank and thrift regulatory agencies about developments in their local real estate markets during the previous three months. According to results of the most recent *Survey of Real Estate Trends*, conducted in late October, the ongoing expansion in local residential and commercial real estate markets may have lost some momentum. The latest poll showed far fewer responses of improving market conditions than recent surveys showed. However, this

REAL ESTATE MARKET CHANGES OVER THE THREE MONTHS ENDING IN OCTOBER 1998

Summary Indices of Opinions of Senior Examiners and Asset Managers



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



decline does not signal a downturn in residential or commercial markets, as a majority of respondents shifted their previous reports of “better conditions” to reports of “no change in conditions.” Although there was a slight increase in observations of weakness, the far greater increase in reports of “no change,” after a predominance of reports that conditions were better, indicated a leveling off of favorable expectations rather than the start of deteriorating conditions.

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 62 in October, down from July’s figure of 77 and from 71 a year ago. The national residential index was 62, down 17 points from the near-record residential index calculated in July (79). The national commercial index was 61, declining 14 points from July’s index of 75. These lower residential and commercial indexes reflected a decreasing number of respondents who saw improved market conditions but an increasing number who detected no change in market conditions — in fact, the largest proportion of “no change” reports since January 1997. While still positive readings, the indexes suggest that the scope of the real estate expansion may be moderating.

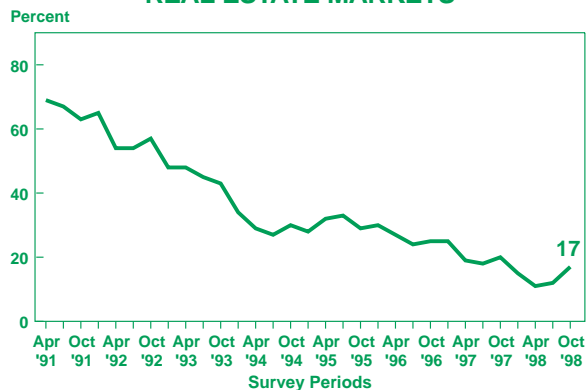
Residential Real Estate Markets

Respondents were somewhat less positive about the strength of housing markets than in

recent surveys. Of those participants who noted a change in residential conditions over the past three months, 36 percent reported improvements, down from 61 percent in July and from 42 percent in October 1997. Reports of weaker conditions rose to 11 percent from 4 percent in July and from 9 percent a year ago. However, the proportion of respondents who reported no gains rose sharply and became a majority (53 percent, up from 35 percent).

Furthermore, 17 percent of the examiners and asset managers reported that their local housing markets were characterized by excess supply in October. This was an increase from the July figure of 12 percent but was below last year's 20 percent. When the survey was first conducted, in the spring of 1991, over two-thirds of the respondents noted that their local markets were overbuilt.

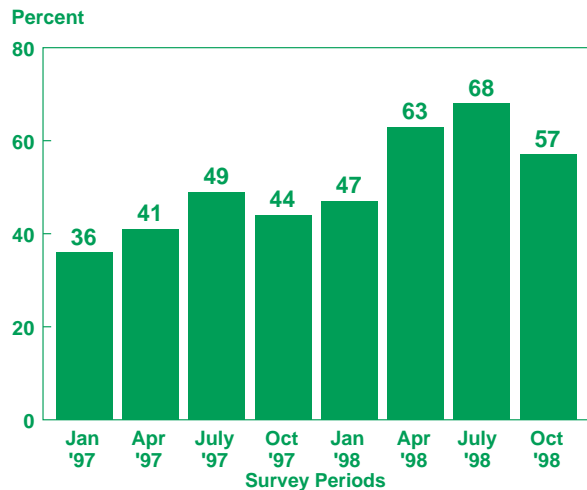
PERCENT OF RESPONDENTS REPORTING EXCESS SUPPLY IN RESIDENTIAL REAL ESTATE MARKETS



Responses to more detailed questions about conditions pointed to some moderation in recent gains in housing market activity. However, assessments remained higher than a year ago. Fifty-seven percent of those surveyed reported above-average home sales, down from 68 percent in July and from 44 percent a year ago. The most recent data from the National Association of Realtors show slippage in September home sales, which was not surprising after the surge in

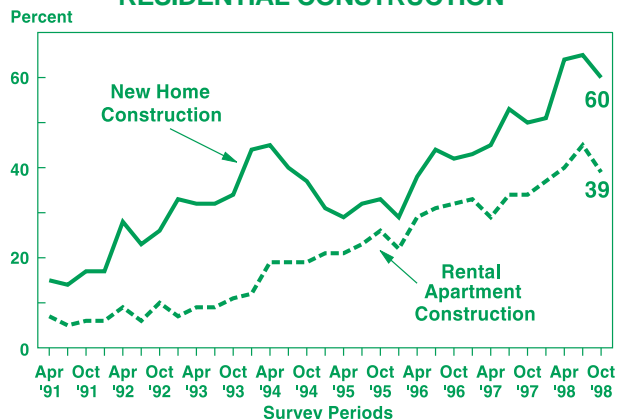
resales earlier in the year; still, the September sales rate was 8.8 percent higher than the rate a year ago. In addition, 62 percent of respondents in October observed increasing prices in their local markets, down from 74 percent in July but higher than the 59 percent reported a year ago.

PERCENT OF RESPONDENTS REPORTING ABOVE-AVERAGE HOME SALES



Residential construction fell back slightly in October according to observers, but remained quite vigorous. Sixty percent of the participants reported new home building at above-average levels, and 39 percent reported a similar level of apartment construction. Both figures, while below July's readings, remained higher than a year ago. According

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

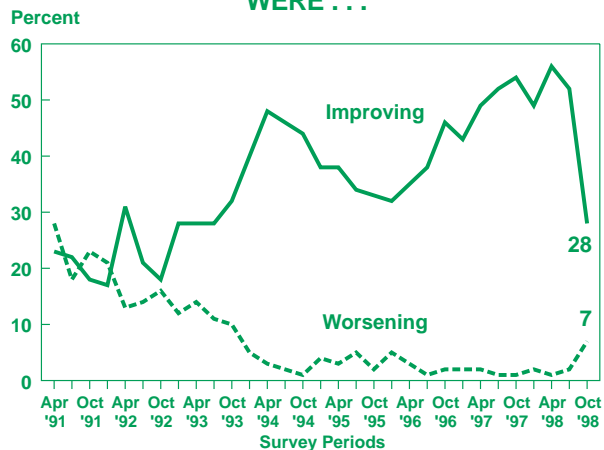


to recent data from the U.S. Bureau of the Census, housing starts declined in the last two months of the third quarter but on an annualized basis represented the highest level of construction activity since the first quarter of 1987.

Commercial Real Estate Markets

Results of the October survey hinted, for the first time, that the gains in commercial real estate markets that had been reported almost continuously since early 1996 appeared to have leveled off. While reports of improving conditions fell to 28 percent in October from 52 percent in July, responses that conditions were unchanged grew by almost the full amount of that decrease. In fact, the proportion of respondents who detected no change rose sharply to 65 percent from 47 percent in July — such a large majority was last recorded three years ago. At the same time, 7 percent reported declining activity, up from the 1 to 2 percent range recorded steadily since early 1996.

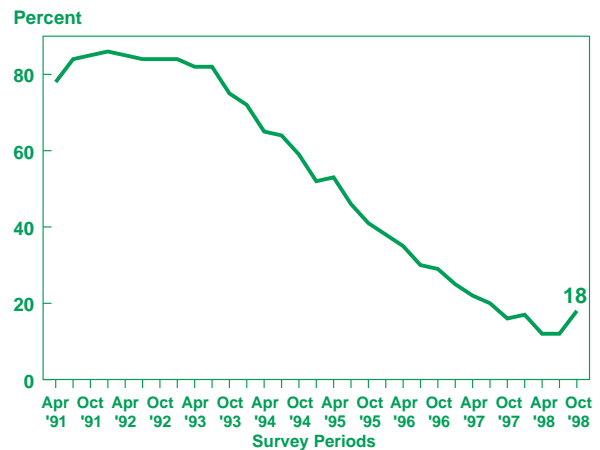
PERCENT OF RESPONDENTS REPORTING COMMERCIAL REAL ESTATE MARKETS WERE . . .



Readings of commercial markets were less positive than in either July 1998 or October 1997, but the results suggested stable activity rather than a downturn. The percentage of respondents noting excess supply of com-

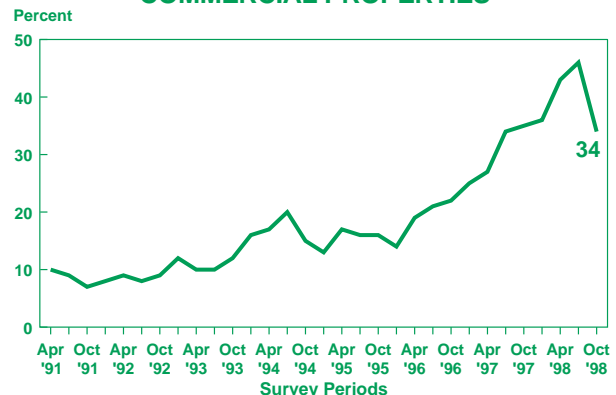
mercial real estate edged up to 18 percent, higher than July's 12 percent and up from 16 percent a year ago. Although this was the first notable increase in reports of excess supply, at the same time the percentage of observers who characterized supply and demand as "in balance" was — at 65 percent — near the survey high of 66 in April 1998.

PERCENT OF RESPONDENTS REPORTING EXCESS SUPPLY IN COMMERCIAL REAL ESTATE MARKETS



Nationally, 34 percent of respondents cited above-average volumes of commercial property sales, down from 46 percent in July but on par with last year's 35 percent. Although slightly more respondents (7 percent, up from 5 percent) said sales were below average, those who noted average sales rose to a

PERCENT OF RESPONDENTS REPORTING ABOVE-AVERAGE SALES OF COMMERCIAL PROPERTIES

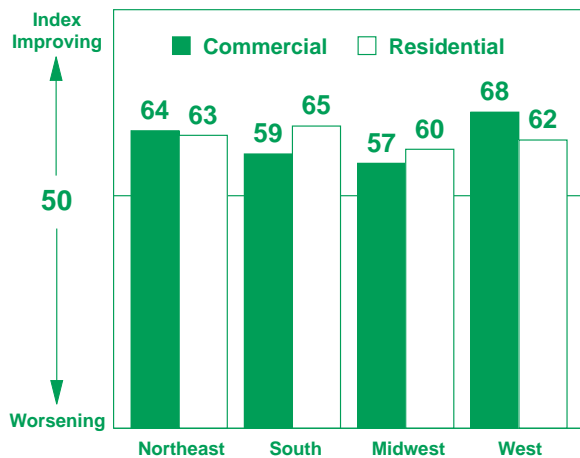


majority (56 percent). Similarly, assessments of rising sales prices for commercial properties fell to 51 percent from 71 percent in July. While reports of weakening commercial sales prices were slightly more frequent, those noting stable prices jumped to 43 percent from 29 percent.

Regional Trends

Index readings for residential and commercial markets were down in every region. In all regions, the lower indexes reflected (1) a drop in the percentage of respondents reporting better conditions, and (2) a higher percentage of respondents reporting no change in market conditions. Reports of worsening conditions also increased in every region but, in most regions, had little influence on the change.

**REAL ESTATE INDICES IN OCTOBER 1998
BY REGION**



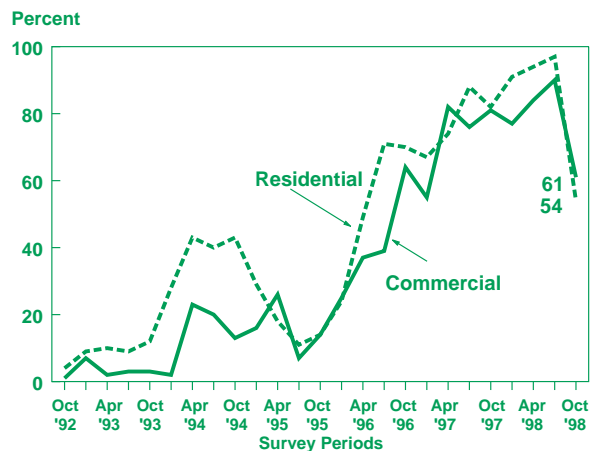
In the Northeast, for example, the residential index was 63 in October, down from 85 in July. This decline reflected a drop in reports of better housing conditions (30 percent in October versus 72 in July). Almost all of the decrease from the better category switched to reports that residential markets were unchanged (67 percent), a sharp jump from the 26 percent recorded in the July poll.

Similarly, the residential index for the West moved to 62 in October from 81 in July. However, the West's residential sector was the only sector across the country in which the proportion of respondents noting unchanged conditions did not constitute a majority. Rather, reports of declining conditions were the highest in the West (16 percent); furthermore, the increase in such reports from the July poll was the greatest of any region.

Regional commercial indexes showed a similar dynamic. In the West, for example, the index dropped to 68 from 84, as more than 80 percent of respondents shifted from reports of better conditions in July to reports of no change. In the South, the commercial index fell to 59 from 73. Although much of this difference reflected the fact that two-thirds of the respondents detected no change, reports of worsening conditions increased by 6 percentage points to 8 percent, the highest in six years.

In California, real estate markets have been on a path of solid recovery since 1995, as indicated by respondents' favorable assessments of commercial and residential condi-

**PERCENT OF RESPONDENTS REPORTING
BETTER CONDITIONS IN CALIFORNIA
REAL ESTATE MARKETS**



tions. The state's strong economy has contributed to its thriving real estate market through the first half of 1998, according to a recent study by the Fisher Center for Real Estate and Urban Economics at the University of California-Berkeley. October's poll of observers in California showed a distinct switch to reports of no change from reports of gains. Fifty-four percent of the respondents reported improved residential markets, down from 97 percent in July; reports of worsening conditions had a slight uptick. Similarly, 61 percent noted better commercial markets compared with 90 percent, and there were no reports of decline. Respondents overwhelmingly signaled that residential and commercial conditions were the same, reflecting continued strength in markets since July.

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 295 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 295, 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

Survey of Real Estate Trends

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

APPENDIX

SUMMARY INDICES OF REAL ESTATE TRENDS

	Composite	Commercial	Residential
U.S.	62	61	62
Northeast	63	64	63
South	62	59	65
Midwest	59	57	60
West	65	68	62

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 (52), South (105), Midwest (88) and West (50). 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	3%	25%	65%	7%	—	—	61
Northeast	—	32%	64%	5%	—	—	64
South	3%	22%	67%	8%	—	—	59
Midwest	1%	19%	74%	6%	—	—	57
West	11%	33%	50%	7%	—	—	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	6%	30%	53%	11%	—	—	62
Northeast	6%	24%	67%	4%	—	—	63
South	5%	34%	52%	10%	—	—	65
Midwest	2%	31%	53%	14%	—	—	60
West	14%	27%	43%	16%	—	—	62

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	15%	65%	18%	2
Northeast	21%	55%	23%	2
South	10%	67%	21%	2
Midwest	11%	78%	10%	1
West	28%	50%	20%	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	22%	61%	17%	0
Northeast	22%	57%	22%	—
South	16%	70%	15%	—
Midwest	18%	62%	18%	1
West	41%	43%	16%	—

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%	49%	35%	7%	0%	1%
Northeast	—	43%	45%	10%	—	2%
South	9%	56%	30%	4%	—	1%
Midwest	7%	47%	37%	8%	1%	—
West	14%	45%	33%	8%	—	—

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

	Increasing Rapidly	Increasing Moderately	Holding Steady	Decreasing Moderately	Decreasing Rapidly	Not Sure
All	5%	57%	34%	4%	—	—
Northeast	2%	37%	57%	4%	—	—
South	2%	58%	37%	3%	—	—
Midwest	6%	68%	24%	2%	—	—
West	14%	55%	20%	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	11%	49%	35%	3%	1%	1%
Northeast	—	43%	49%	4%	2%	2%
South	14%	53%	31%	2%	—	—
Midwest	15%	49%	31%	3%	—	1%
West	10%	47%	33%	6%	2%	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%	33%	43%	13%	2%	3%
Northeast	—	12%	47%	31%	6%	4%
South	9%	47%	39%	5%	—	1%
Midwest	6%	31%	43%	16%	1%	3%
West	4%	31%	49%	8%	2%	6%

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	0%	13%	56%	26%	4%	1%
Northeast	—	11%	64%	23%	2%	—
South	—	16%	58%	24%	1%	1%
Midwest	—	15%	55%	25%	4%	1%
West	2%	7%	46%	35%	11%	—

“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	2%	32%	56%	7%	—	3%
Northeast	—	23%	59%	14%	—	5%
South	3%	33%	57%	4%	—	3%
Midwest	1%	29%	58%	7%	—	5%
West	4%	44%	46%	7%	—	—

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

	Increasing Rapidly	Increasing Moderately	Holding Steady	Decreasing Moderately	Decreasing Rapidly	Not Sure
All	1%	50%	43%	4%	0%	2%
Northeast	—	43%	48%	9%	—	—
South	—	51%	46%	2%	—	2%
Midwest	1%	43%	49%	2%	—	4%
West	2%	67%	24%	4%	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	—	7%	66%	15%	4%	9%
Northeast	—	5%	57%	32%	2%	5%
South	—	8%	73%	7%	2%	10%
Midwest	—	5%	66%	15%	2%	12%
West	—	9%	61%	17%	11%	2%

“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	3%	26%	59%	11%	—	1%
Northeast	2%	25%	59%	9%	—	5%
South	2%	23%	62%	12%	—	1%
Midwest	2%	24%	65%	8%	—	—
West	9%	35%	41%	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.

