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Federal Deposit Insurance Corporation •

FOR IMMEDIATE RELEASE
March 20, 2002

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LATEST FDIC SURVEY FINDS CONTINUED SLOWING IN REAL ESTATE MARKETS

The latest results of the FDIC's *Survey of Real Estate Trends* indicated continued deterioration in the nation's property markets during the second half of 2001. Reports of somewhat worsening conditions were significantly higher compared to six months ago for all property markets but were most prevalent for the commercial markets. The nationwide poll of bank examiners and other specialists from federal regulatory agencies, which was conducted in January 2002, asked about developments in local commercial and residential real estate markets during the six-month period of July 2001 through December 2001.

Survey respondents were asked if general conditions for U.S. real estate markets (as characterized by vacancy rates, markets prices, or the pace of sales) had changed in the last six months of the year. Few respondents reported improvements and the proportion of those who said conditions were unchanged was less than in the previous survey conducted in July 2001. Respondents continued to shift their previous responses of "better conditions" and "no change in conditions" to reports of worsening conditions, particularly in the commercial markets: office (66 percent reported deterioration), retail (55 percent), and industrial (50 percent). These responses on office, retail, and industrial conditions, however, were widely qualified as "a little worse" rather than "a lot worse." Of the respondents who offered comments, they attributed the deepening weakness in the commercial sectors to the combined effects of the economic recession, continuing layoffs, and reduced travel after the September 11 terrorist attacks.

Forty-one percent of the respondents also reported some deterioration in residential markets, but as with commercial properties, they widely characterized conditions as "a little worse" rather than "a lot worse." However, the largest proportion of respondents continued to observe that conditions were about the same in single-family (49 percent) and multifamily (51 percent) markets. In addition, observations that residential supply and demand were "in balance" outnumbered those of tight supply and excess supply. In fact, reports of balance in single-family markets rose to 51 percent -- the only positive movement noted in this survey, and an improvement from 42 percent in July 2001.

According to respondents, low interest rates on mortgage loans and favorable weather helped to offset the effects of the economic slowdown and kept single-family markets steady during the last half of 2001.

The FDIC's survey focuses on changing conditions for a six-month period in single-family, multifamily, office, retail, and industrial real estate property markets in metropolitan areas across the country. The survey polled FDIC examiners and asset managers as well as bank examiners of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision. The latest report summarizes the opinions of 278 respondents.