



Federal Reserve Bank of Dallas

# Eleventh Federal Reserve District Weathers Financial Storms

Dallas, Texas

August 11, 2010

Webcast



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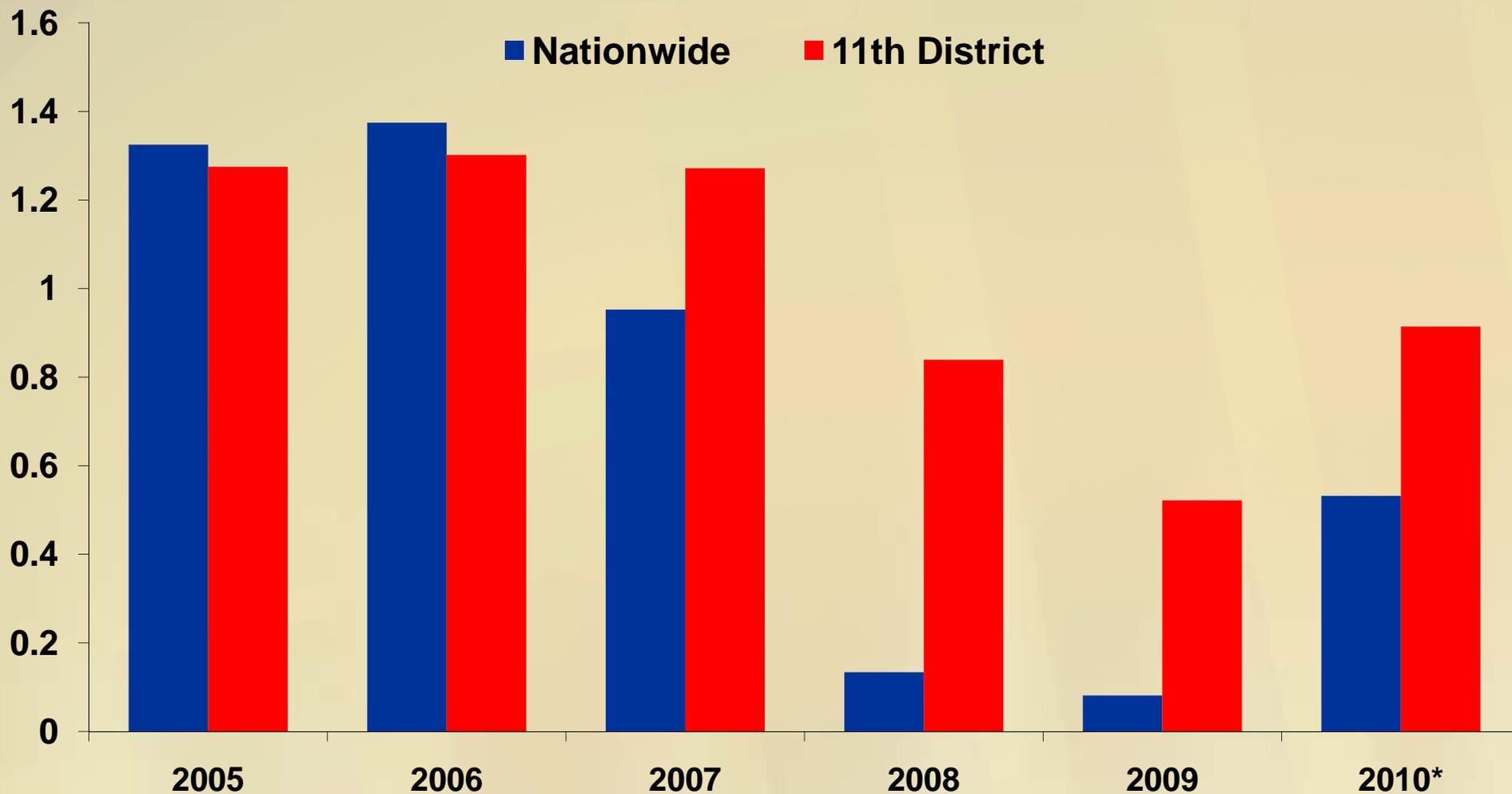
**Ken Robinson\***

Federal Reserve Bank of Dallas  
Financial Industry Studies Department

\*The views expressed in this presentation are strictly those of the authors and do not necessarily reflect the positions of the Federal Reserve Bank of Dallas or of the Federal Reserve System.

# Recent Bank Profitability Stronger In Eleventh District

ROAA, Percent



\*Data are through March 31st, annualized.

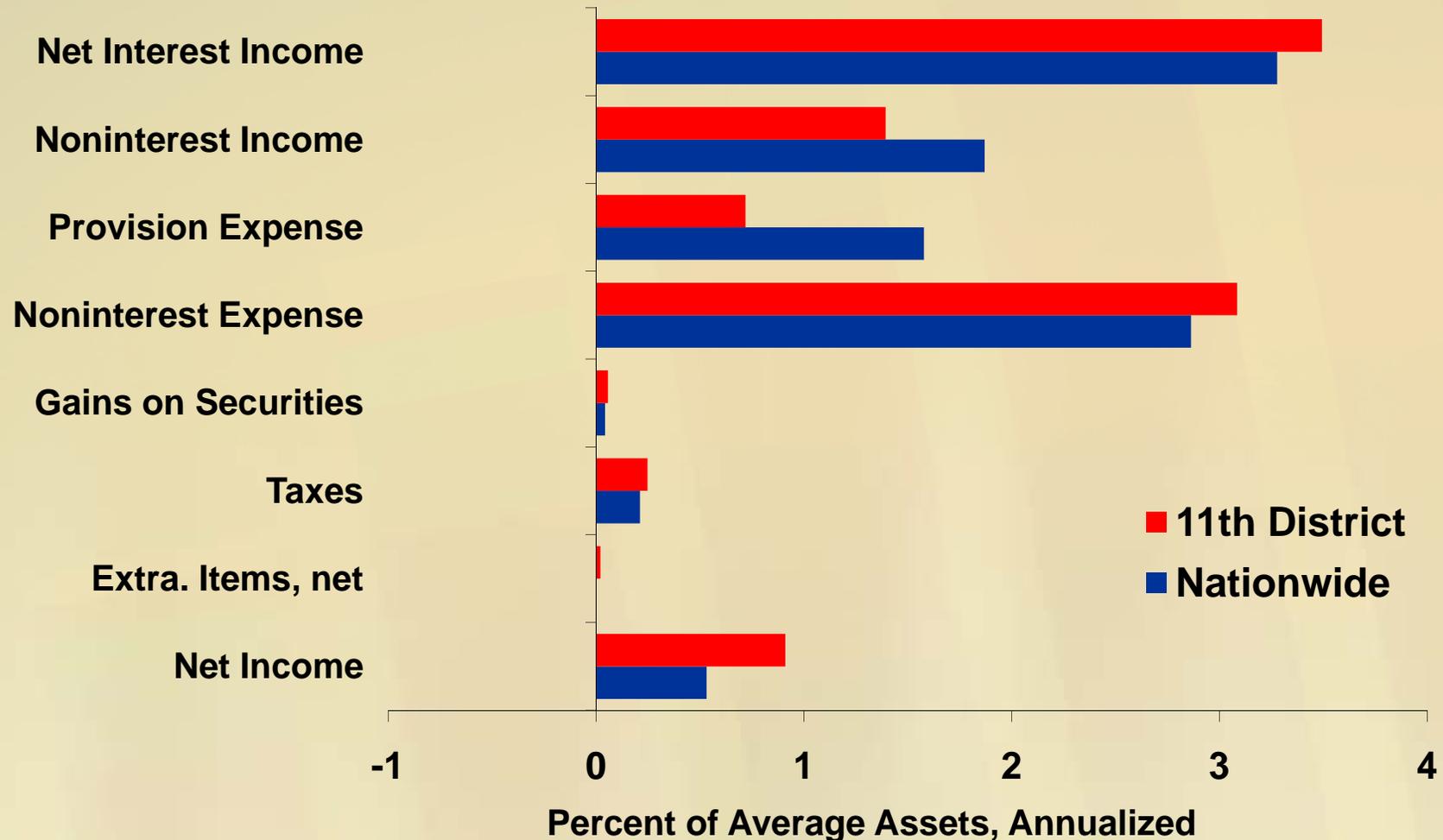
Source: For all charts, Report of Condition and Income from the Federal Financial Institutions Examination Council.



# Major Profitability Components

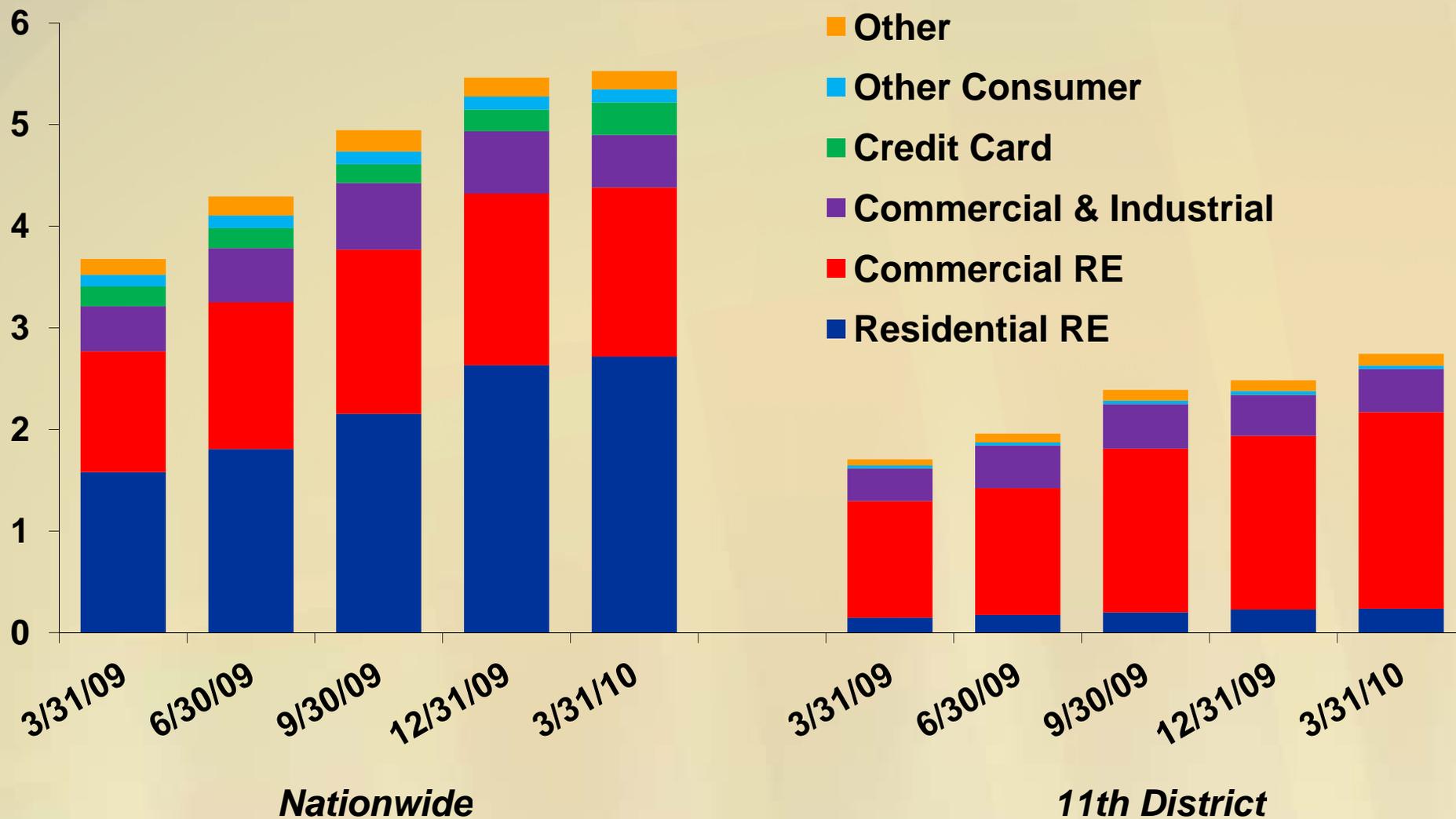
## Insured Commercial Banks

March 31, 2010



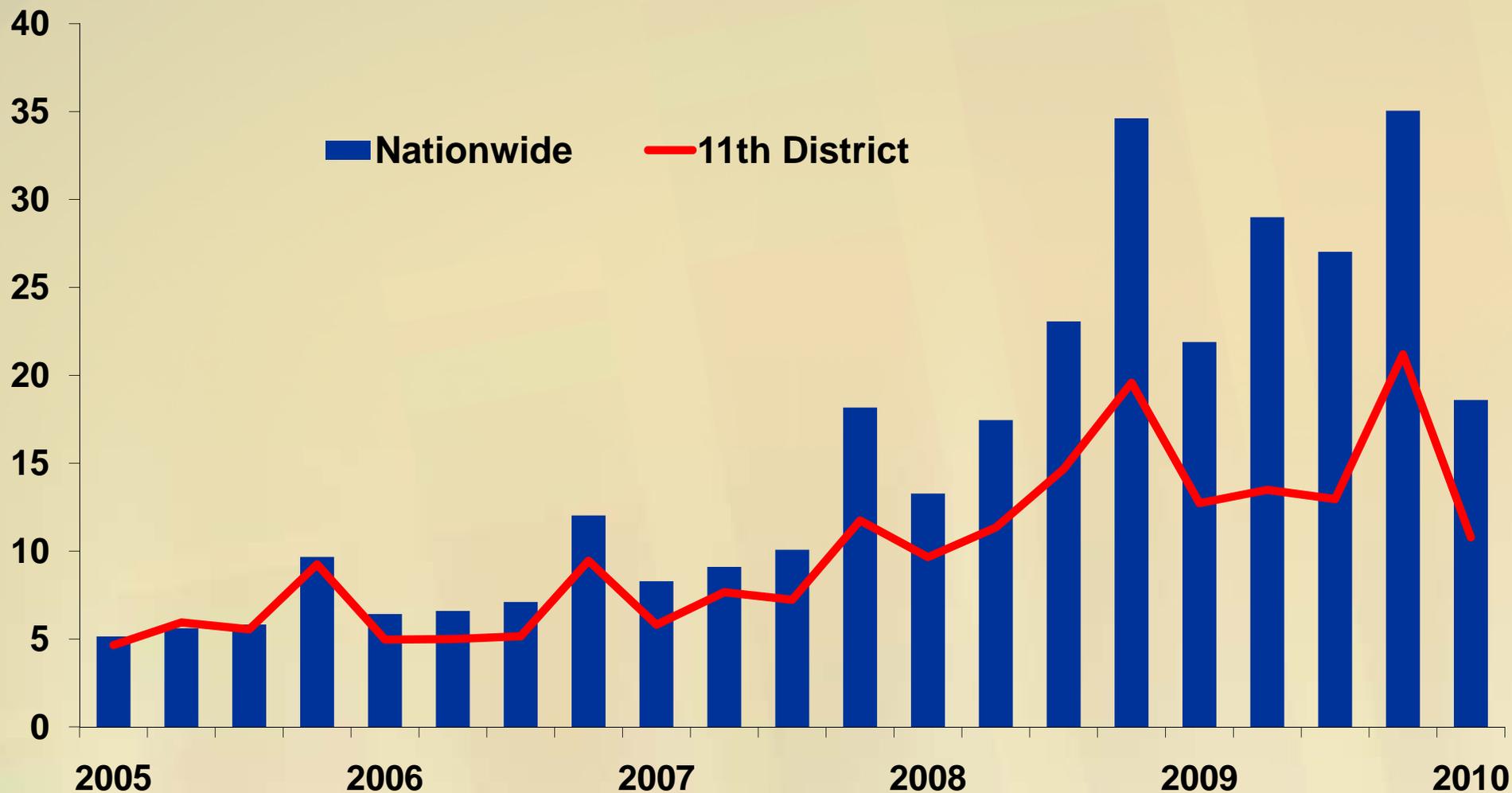
# Noncurrent Loan Rates Higher Nationwide

Percent of Loans



# Unprofitable Banks Higher Nationwide

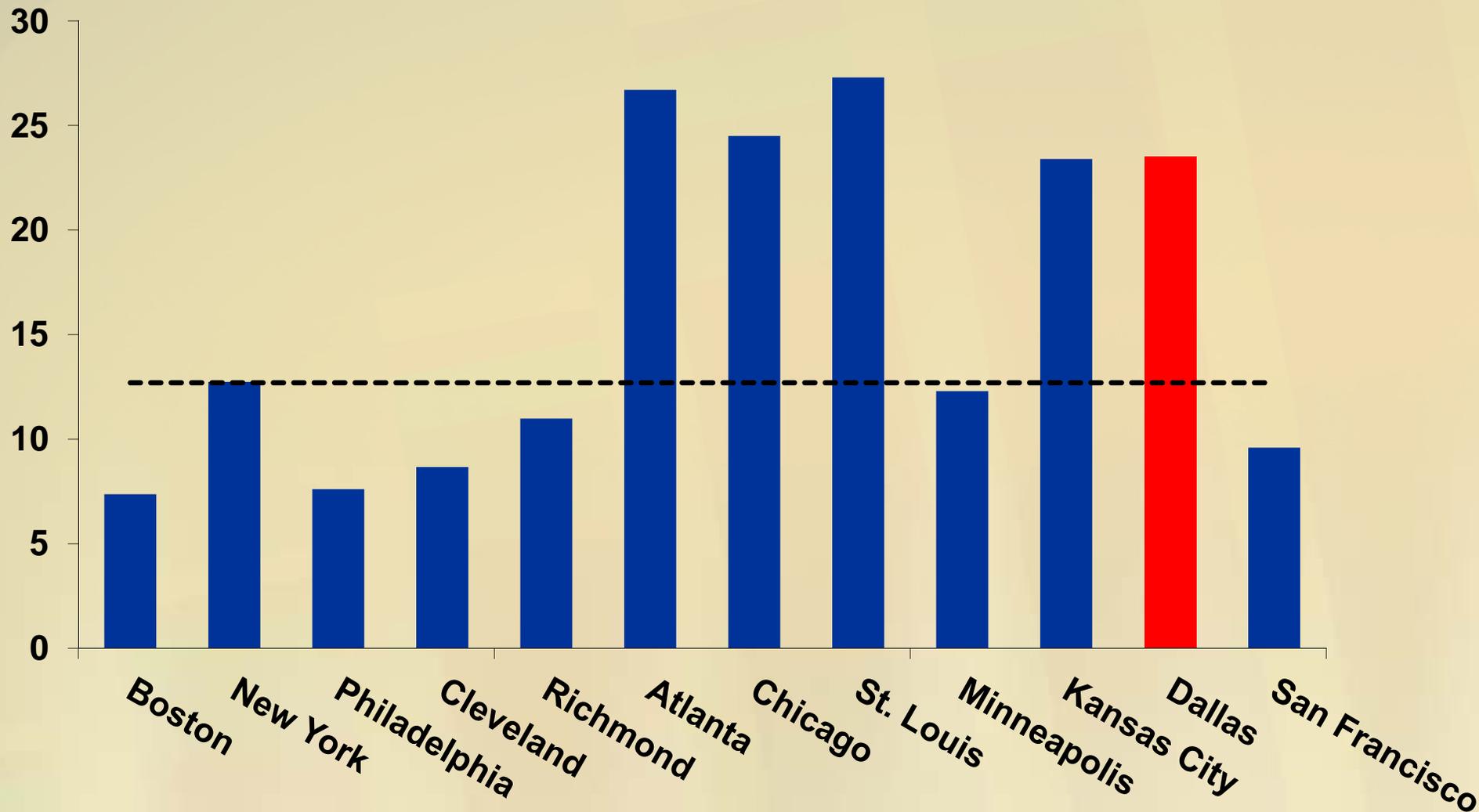
Percent of Banks Reporting  
a Quarterly Net Loss



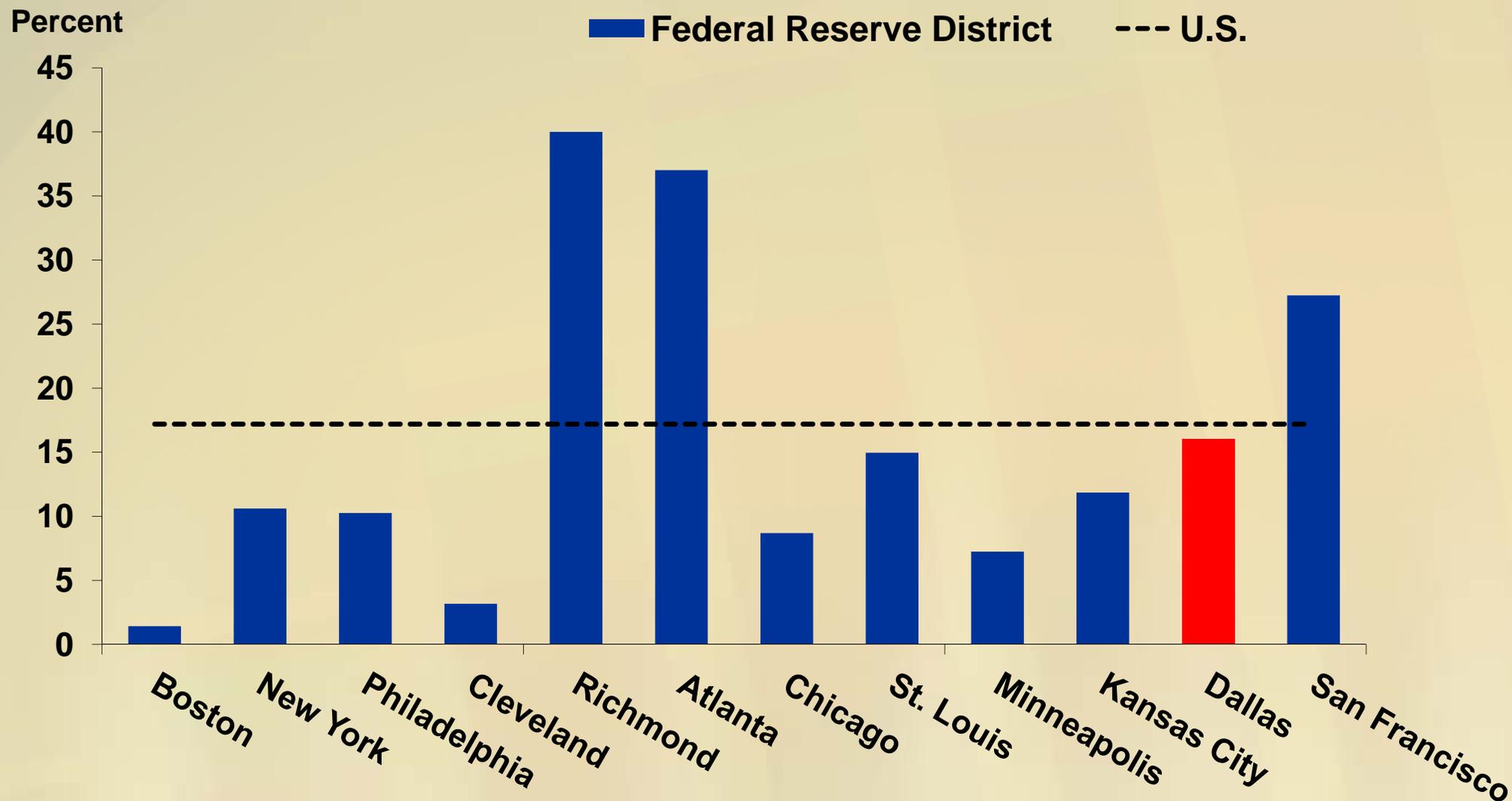
# Banks' CRE Exposure High In Some Districts

Percent of Assets

■ Federal Reserve District --- U.S.



# Bank Performance on Loan Guidance Varies



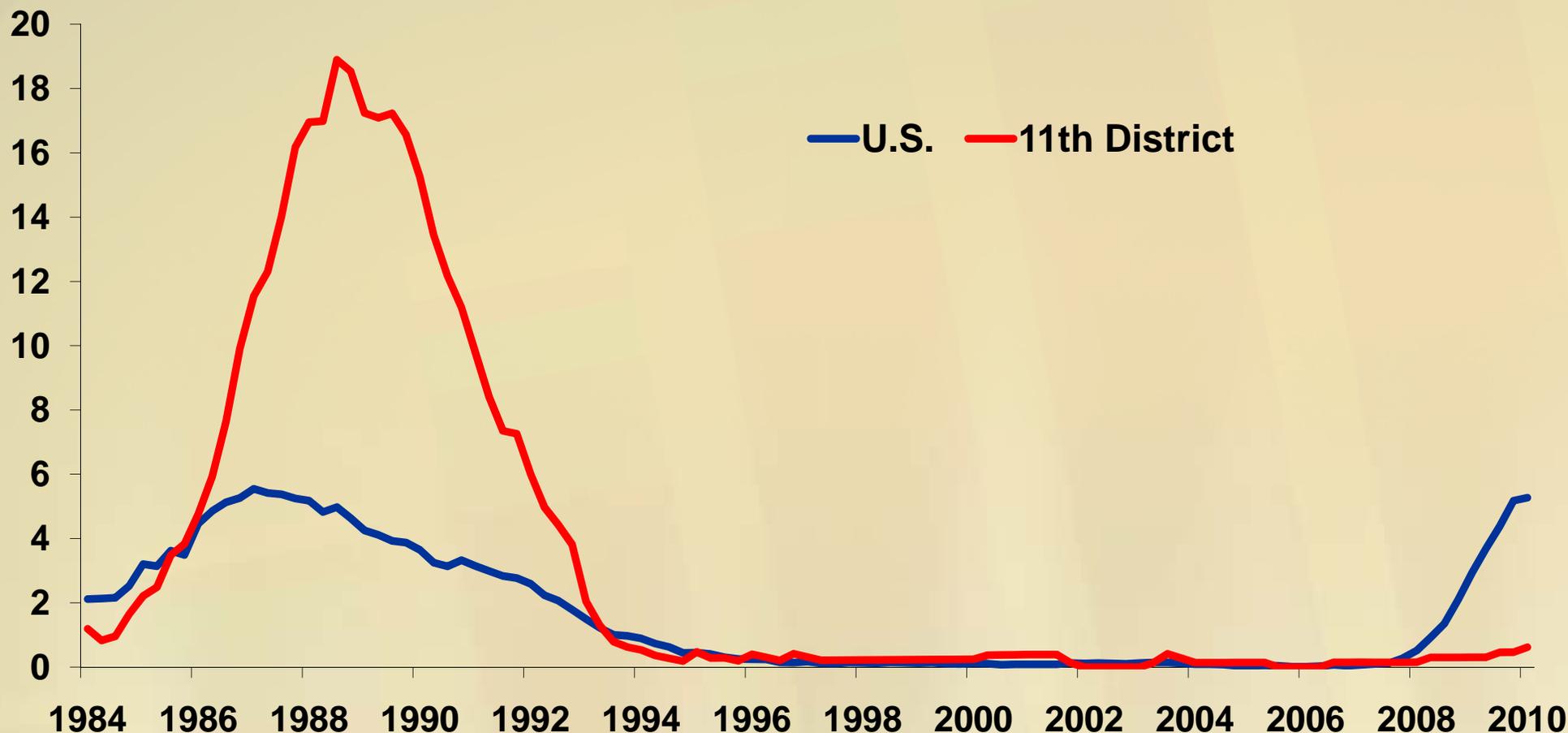
Banks with construction and land development loans greater than total risk-based capital as of March 31, 2010.



# The Texas Ratio Is Not About Texas Anymore

## Percent of Banks with a Texas Ratio\* $\geq 100\%$

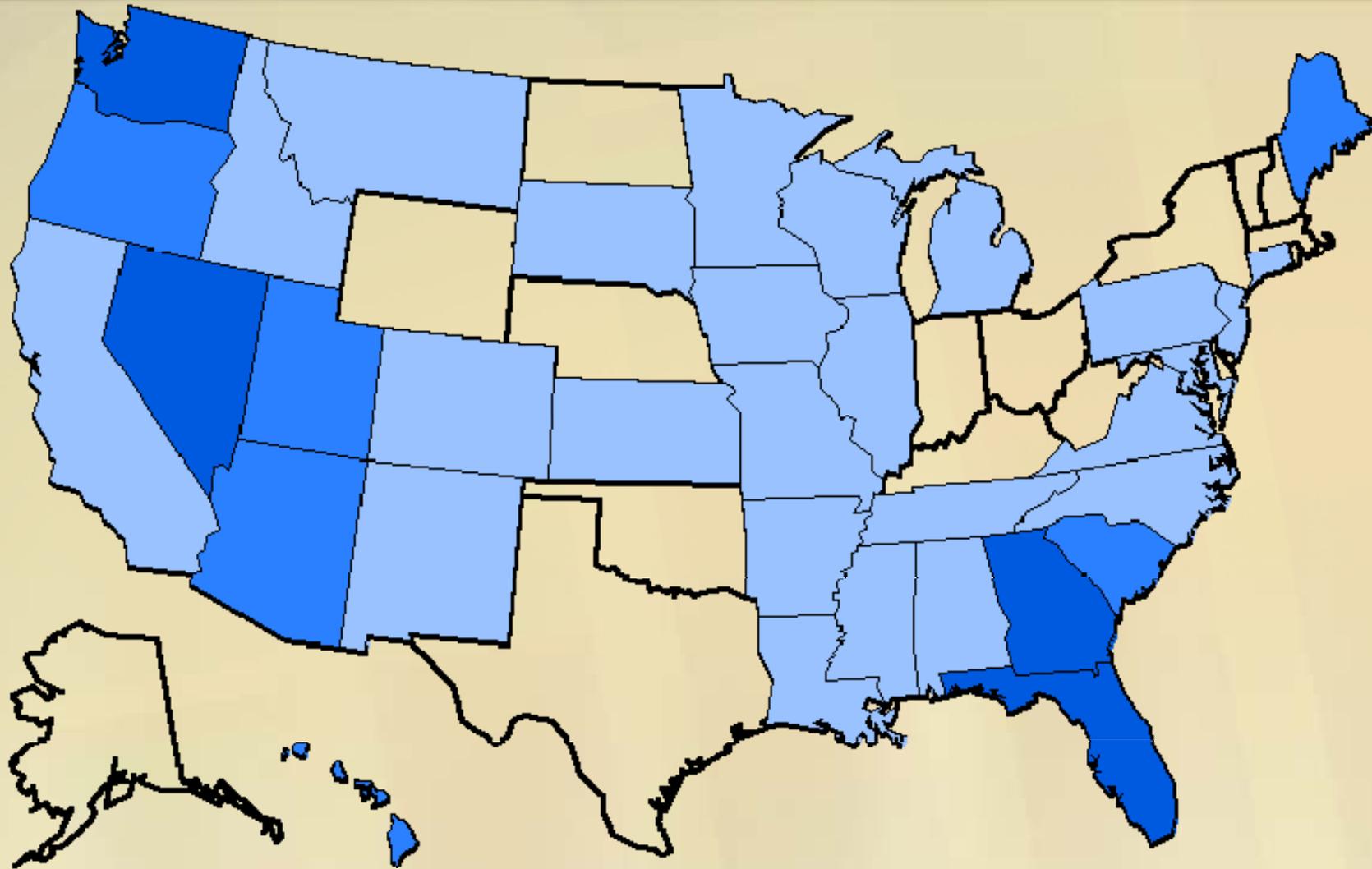
Percent of Banks



Note: The Texas Ratio is defined as noncurrent loans plus OREO as a percent of tangible equity plus loan loss reserves.



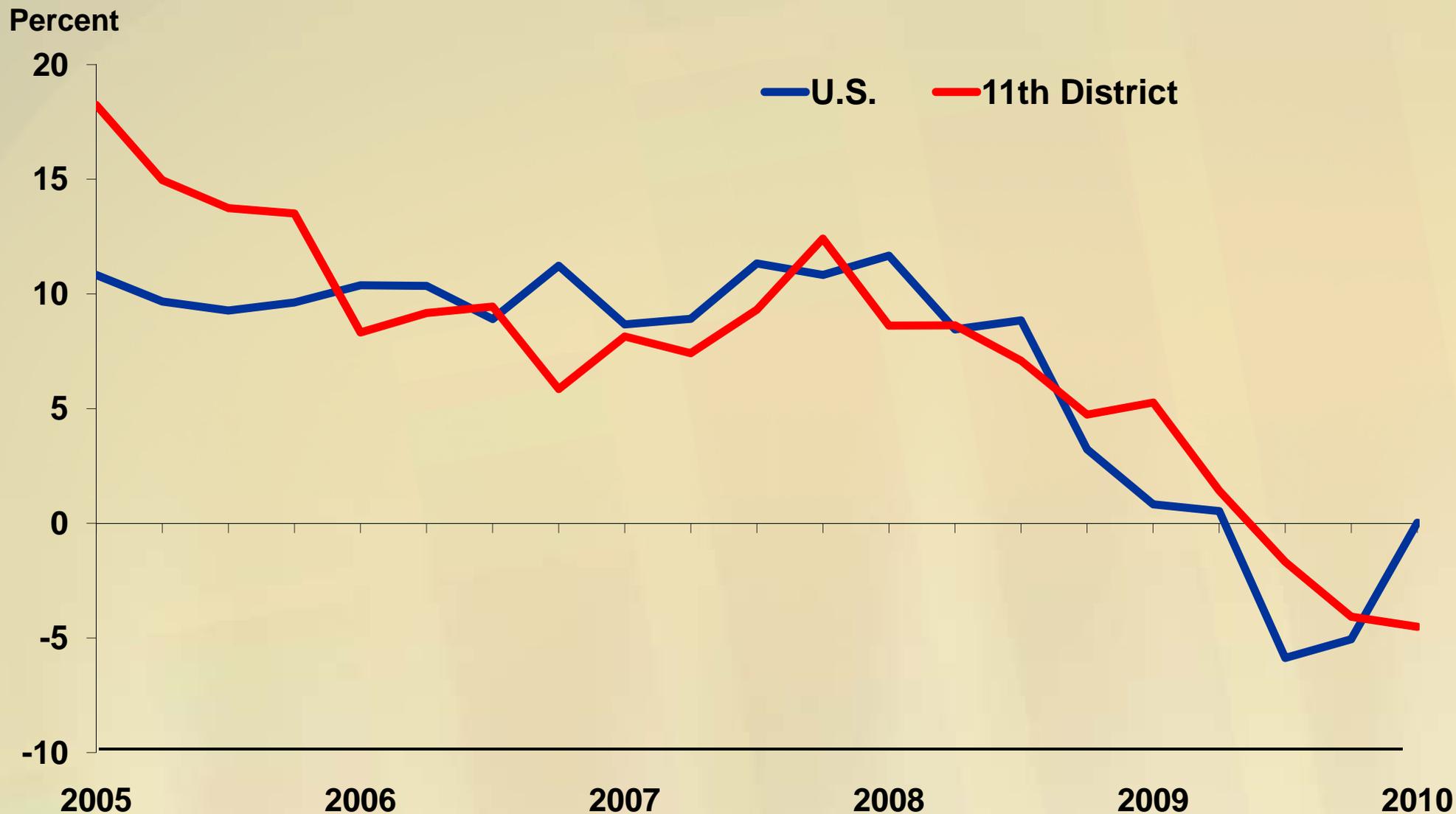
# It Should be the Florida, Georgia, Nevada and Washington Ratio.



 <1% of banks     1-10% of banks     10-20% of banks     > 20% of banks

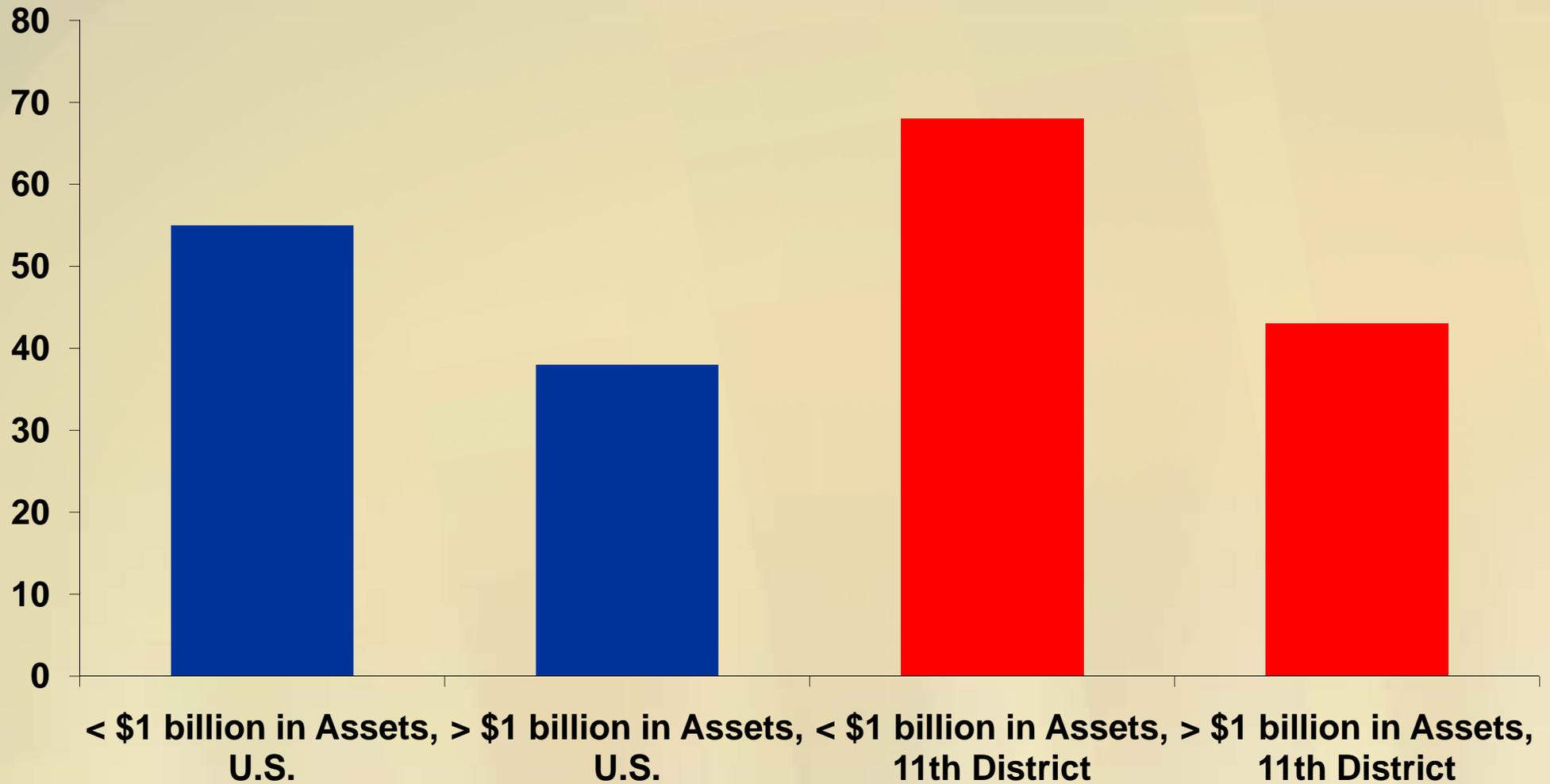


# Lending Declines at Banks In District and Nationwide



# Banks Are Lending

Percent Increasing Lending\*



\*March 31<sup>st</sup> 2009 through March 31<sup>st</sup> 2010.



# Summary

- Banking industry recovering
- Eleventh District outperforming the nation
- Lending
- CRE exposures worrisome





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# Cloud Over Commercial Real Estate Is Slowly Lifting

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# Texas Private Commercial Construction Plunges

Real \$, 5MMA



Note: Shaded areas represent Texas recessions as defined by the Texas Business Cycle Index.

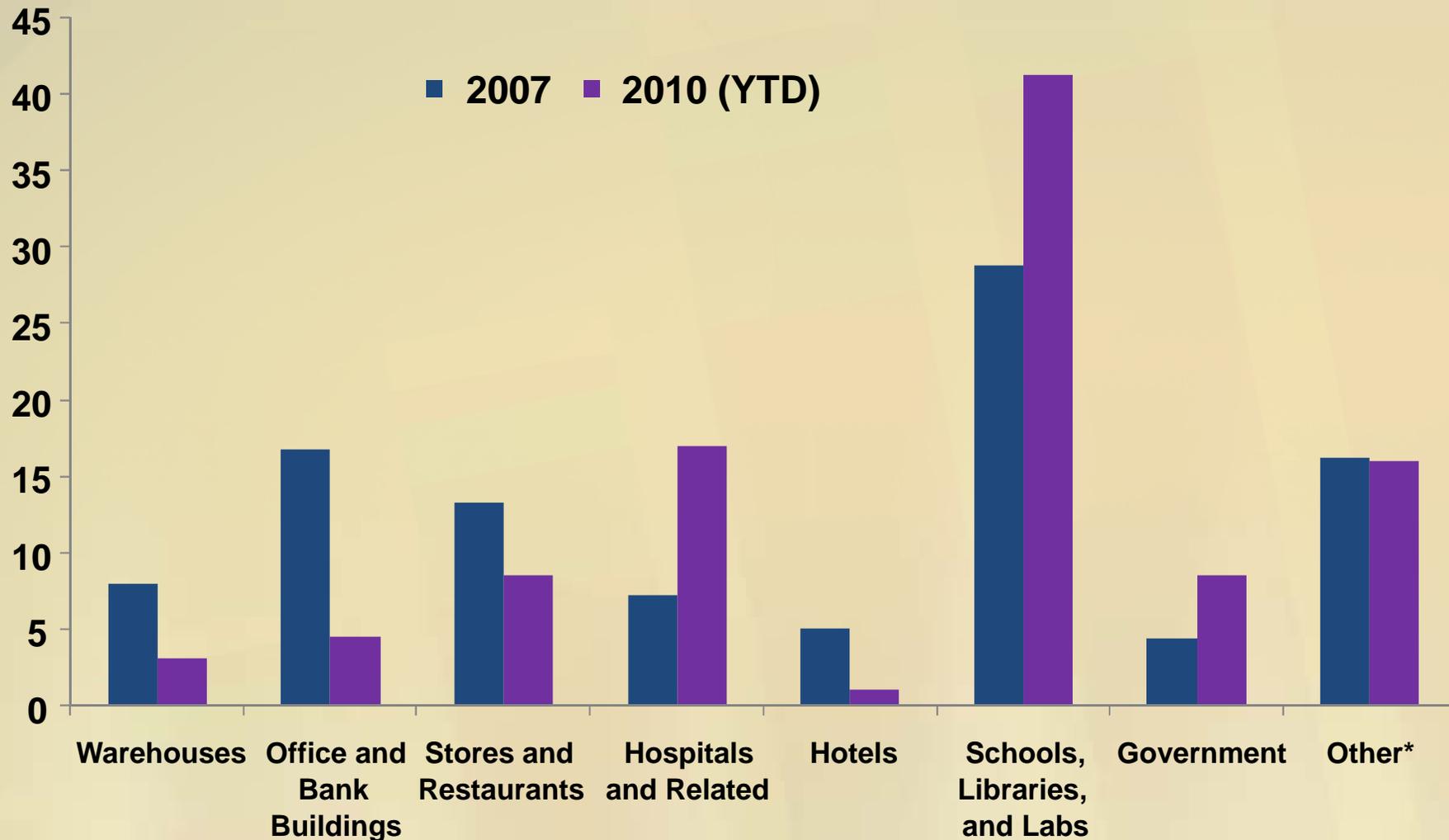
Source: FW Dodge, calculations and adjustments by the Dallas Fed.



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# Public Projects Account for Most Activity

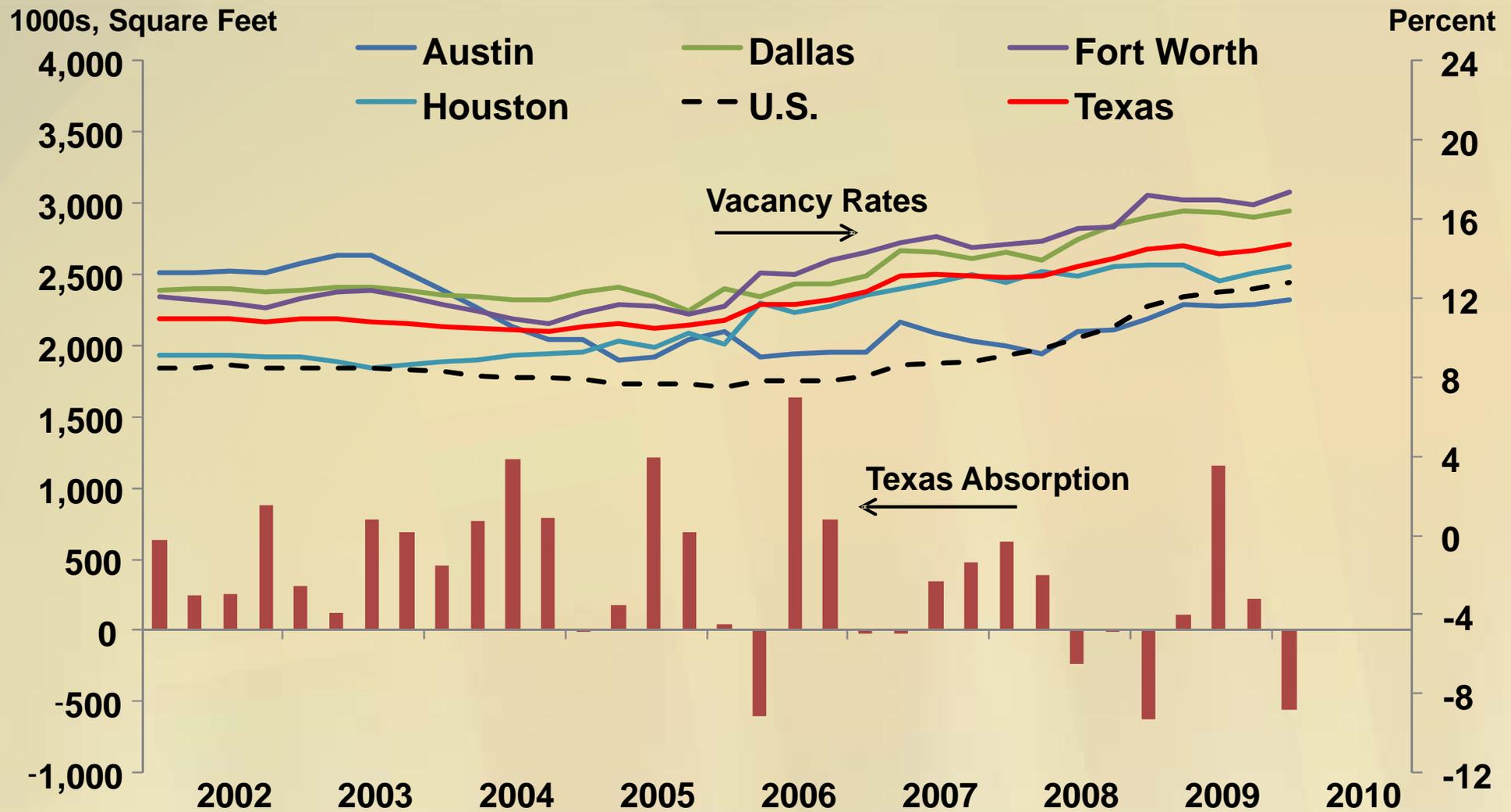
Percent, Real \$



\*Includes churches, dormitories, parking garages, recreational facilities, etc.



# Texas CRE – Retail

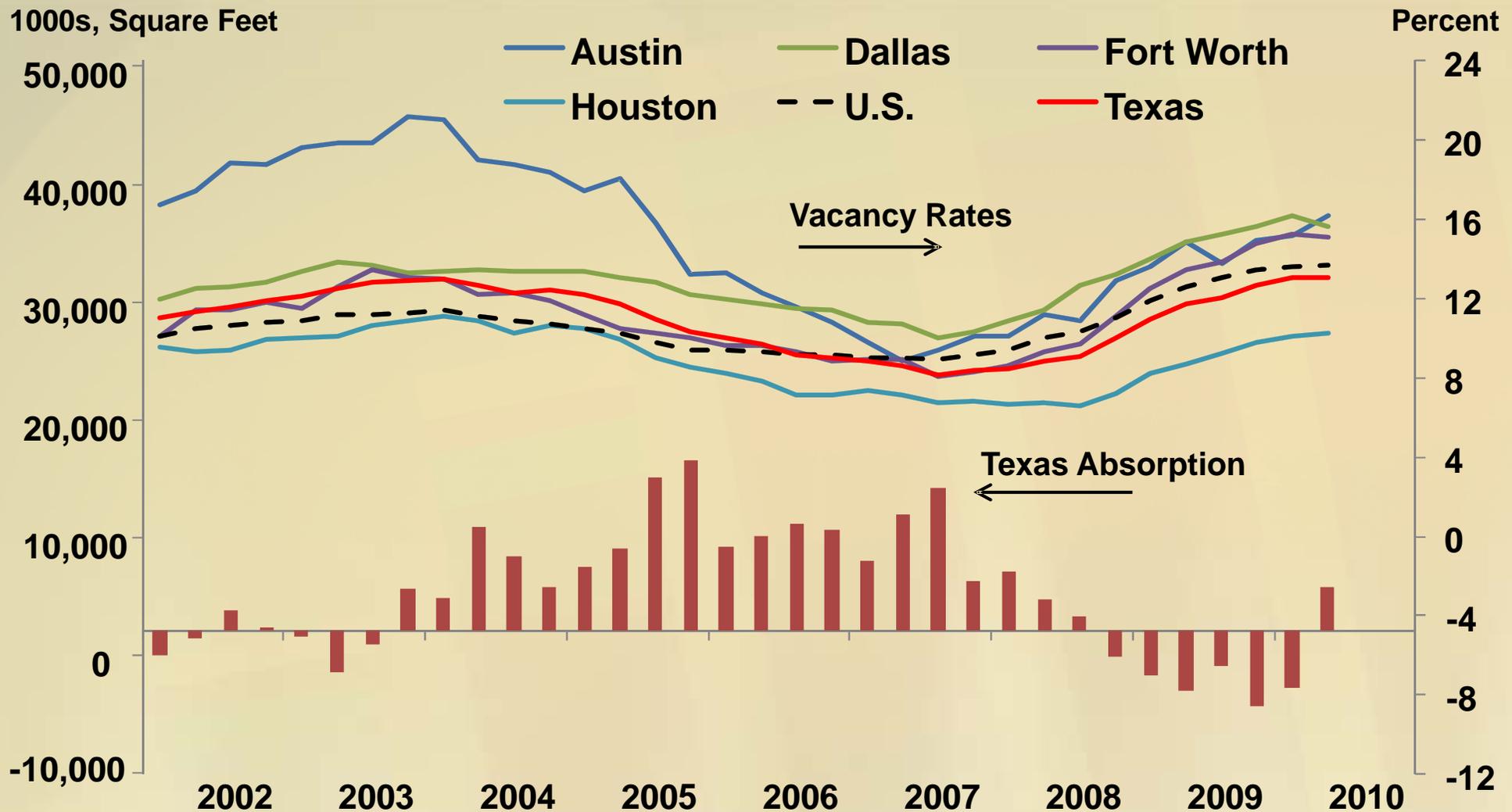


Note: Vacancy rates are for individual metros and the U.S.; net absorption represents the sum of all Texas metros.

Source: CB Richard Ellis, calculations and other adjustments by the Dallas Fed.



# Texas CRE – Industrial

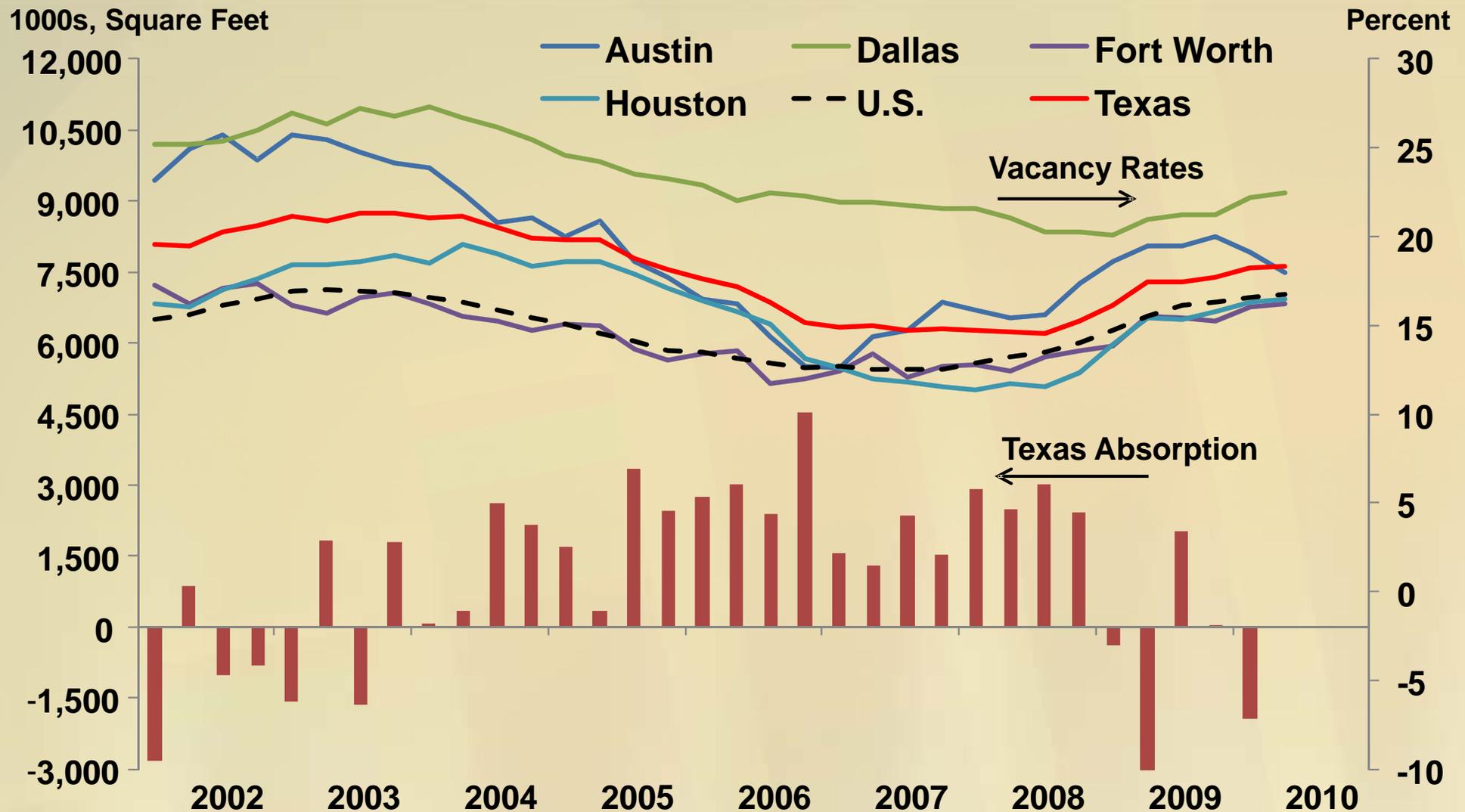


Note: Vacancy rates are for individual metros and the U.S.; net absorption represents the sum of all Texas metros.

Source: CB Richard Ellis, calculations and other adjustments by the Dallas Fed.



# Texas CRE – Office



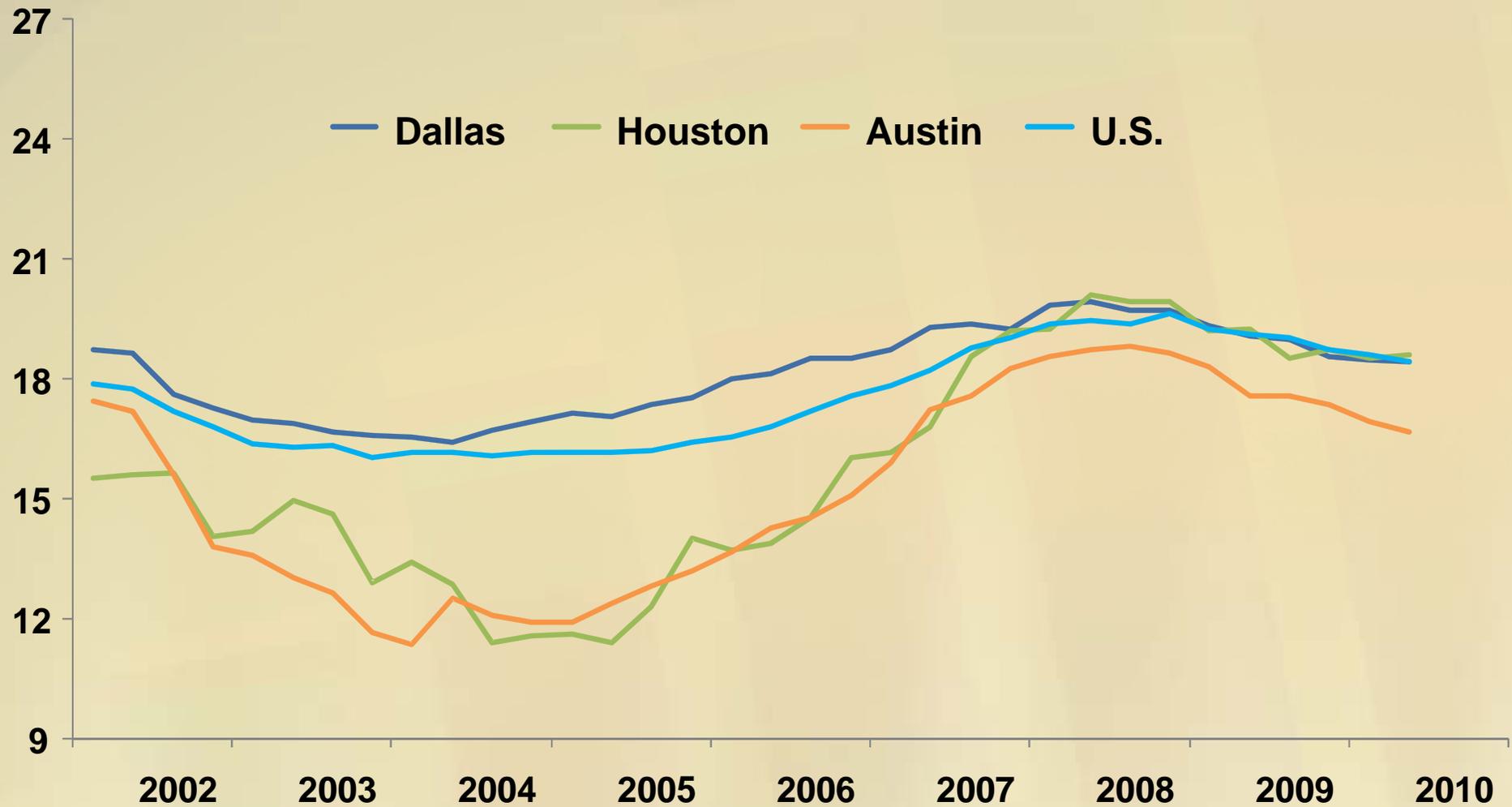
Note: Vacancy rates are for individual metros and the U.S.; net absorption represents the sum of all Texas metros.

Source: CB Richard Ellis, calculations and other adjustments by the Dallas Fed.



# Net Asking Rents Fall for Office Space

\$/SF



Source: CB Richard Ellis, calculations and other adjustments by the Dallas Fed.



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# Drivers of Rental Demand Improve

Index, Jan. 2000=100

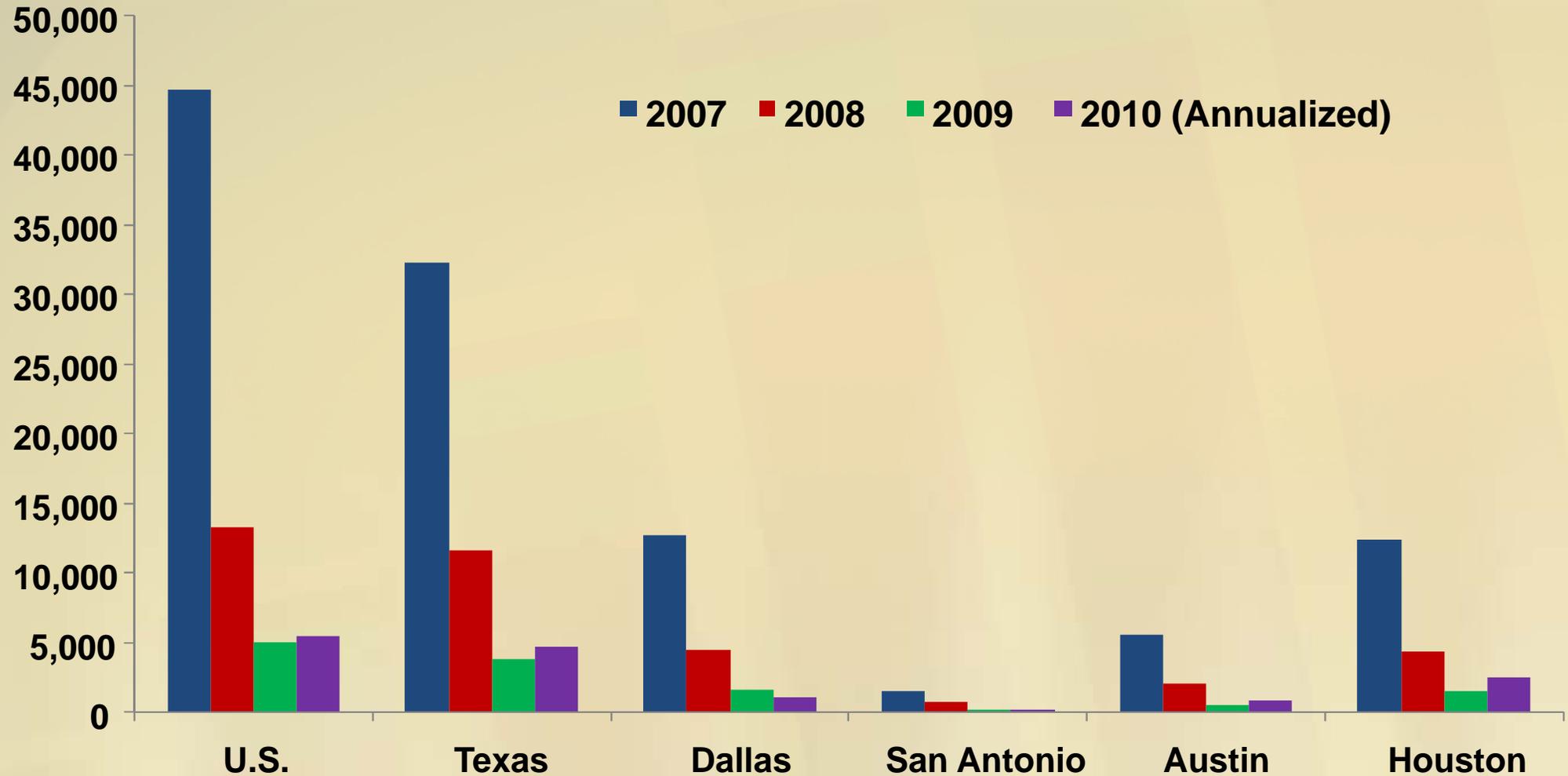


Source: WISER Trade, Bureau of the Census, BLS, Texas Workforce Commission, Federal Reserve Board; calculations and adjustments by the Dallas Fed. Retail sales are estimated by the Dallas Fed and based on quarterly.



# CRE Sales Volumes Inch Up

Millions, Real \$  
(U.S. in tens of millions)

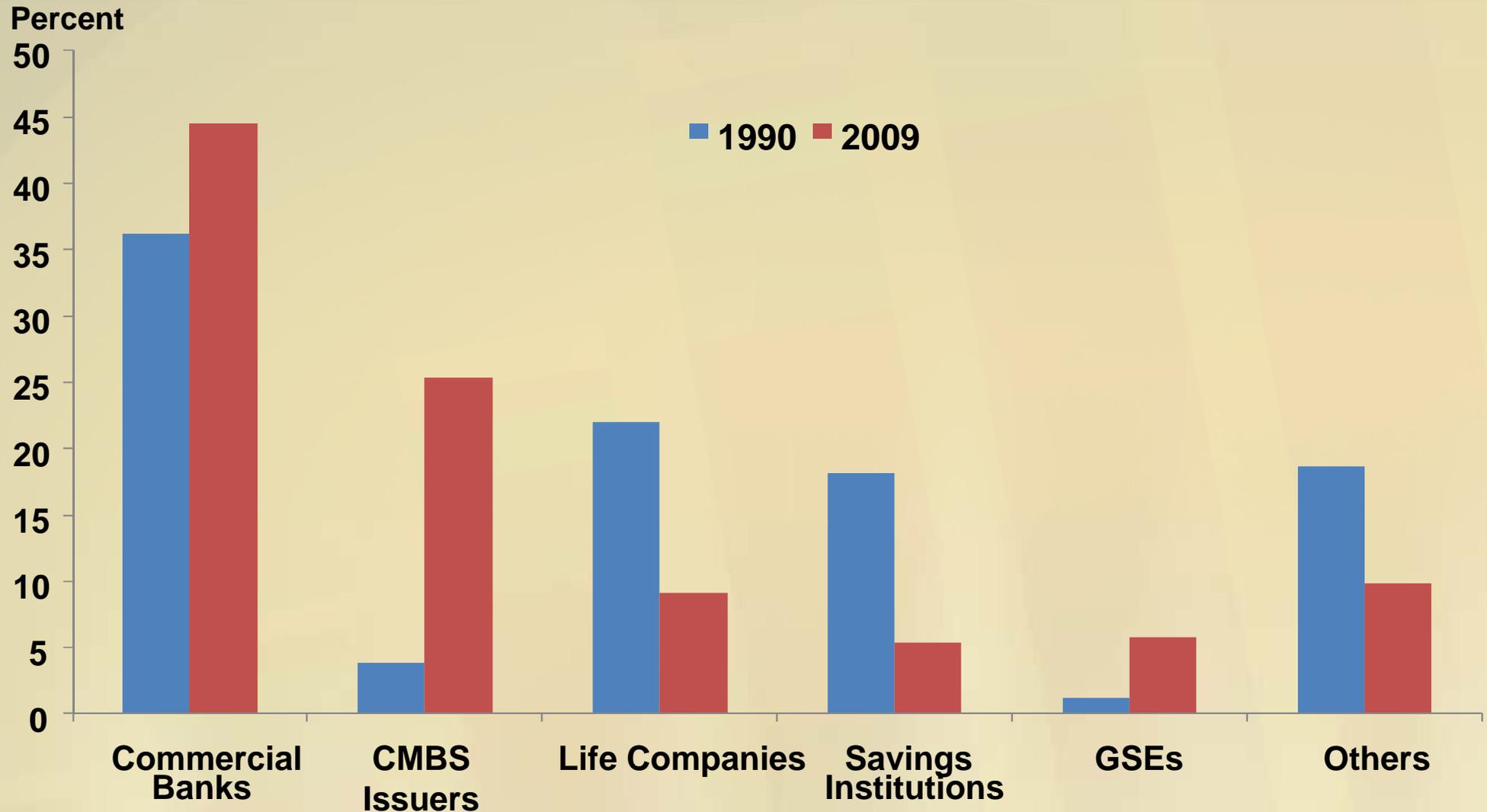


Source: Real Capital Analytics.



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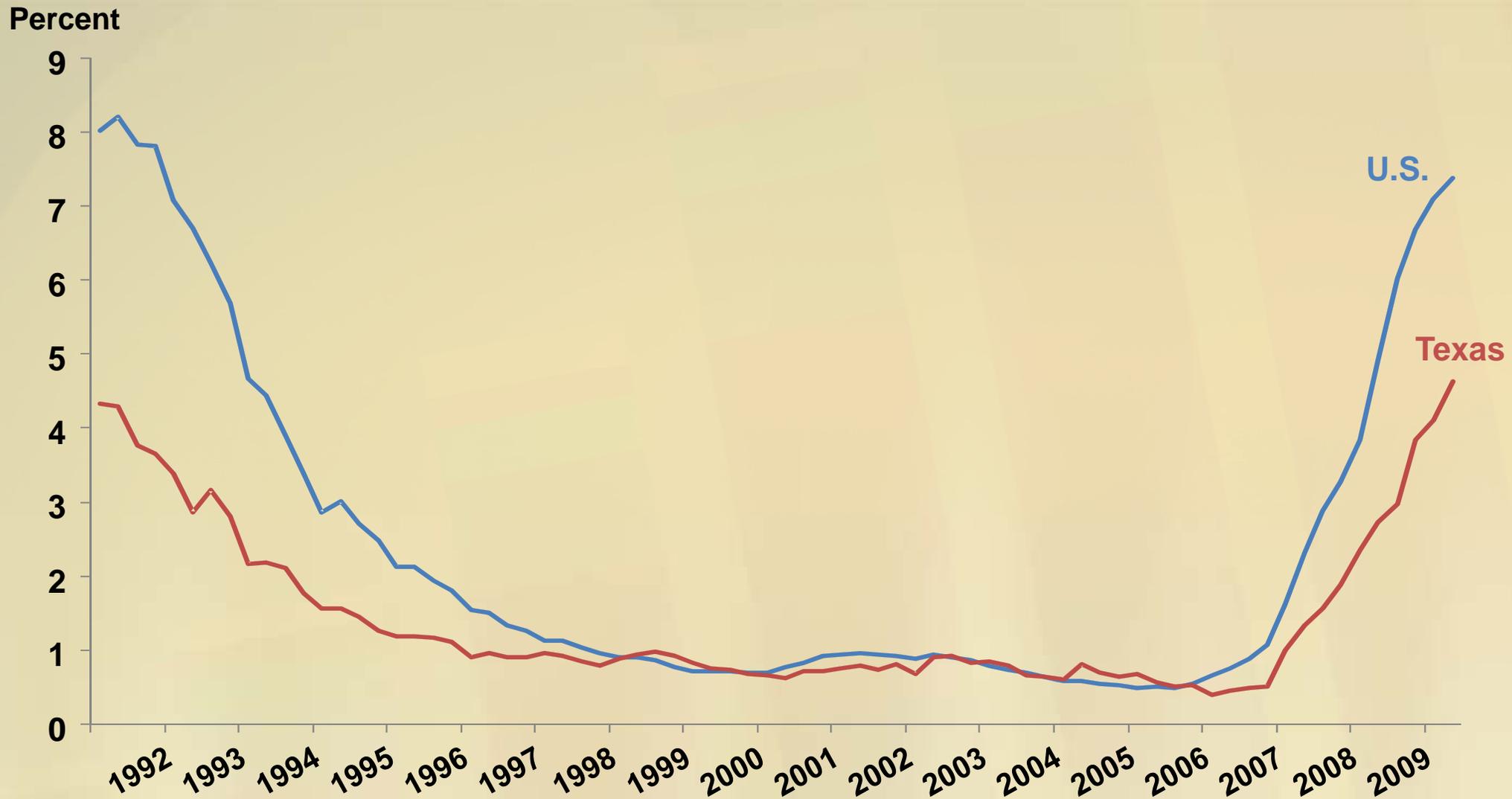
# Banks Largest Holders of CRE Loans



Sources: Federal Reserve Board, Compendium of Statistics, Commercial Mortgage Securities Assoc.



# Texas' Share of Noncurrent CRE Loans Below U.S. Average



Source: Dallas Fed



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# Summary

- Outlook for Texas commercial real estate is guarded, but less gloomy
- Recent stirring in leasing activity and investment sales indicates bottom is near
- Construction levels likely to remain low for some time

