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## THE STATE OF CRE AND INTELLIGENCE

by [Steve Brown](#)

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Shortly after we ran an article on Monday discussing how state geographies have one of the greatest predictive values on ROE, we came across a ranking of states based on intelligence. We couldn't help but notice that 3 of the worst performing states on bank performance (AZ, NV and CA) also occupy the lowest rungs on the State Intelligence rankings. Is there a correlation?

For starters, we question the whole state intelligence ranking as our state, California, ranked 47th. This is plain wrong. We live here. CA is a state where body piercings are considered "art," basketball playoffs are interrupted for low speed car chases, dÃ¢Â©jÃ¢Â©vu is spelled incorrectly and a great parking space can make you find religion. We should be closer to 50th.

Speaking of rankings, this week we will be announcing the release of BIG's CRE Index. This Index, started back in the middle of 2007, will reflect the relative strength (or weakness) of four commercial real estate sectors - multifamily, office, retail and industrial - and will cover the 50 largest metropolitan areas. Each quarter, the percentage change in the BIG CRE Index will take into account both macro economic factors affecting real estate, as well as specific probabilities of default in each category. These factors include (but are not limited to) employment, income, rents, vacancy, absorption rates and future supply. BIG's CRE Index incorporates both historical averages (short and long term), as well as forward projections.

What this means for bankers is a quantifiable and forward looking measure of the CRE sector and geographical performance. Now this is some of the same information that is already incorporated into our Loan Pricing Model and given away free in our Monthly ALM Package, but now it is in index form so bankers can quantify performance using a relatively small set of numbers.

For example, while retail properties have received all the negative press as of late, by quickly looking at the index, bankers should be able to tell that industrial properties are now deteriorating the fastest and deserve higher loan pricing than retail, multifamily or office lending. Multifamily is the other sector that has been recently battered in the press, but it is still relatively stable despite some recent deterioration. Down only 1.35% from last quarter, multifamily is complicated, as net absorption is up (due to the inflow of renters that can no longer afford housing, but offset by lower disposable income and new building supply). In some areas, such as Houston, San Francisco and Seattle, lending is safer than it was in 2007. In areas like Tampa, Detroit and Phoenix, the sector is weaker.

More details will be out shortly as the information will be available to all those that have access to our website [www.bancinvestment.com](http://www.bancinvestment.com) . If you don't have access and you are interested in viewing the information, please contact us at [info@bancinvestment.com](mailto:info@bancinvestment.com) and we will get you set up. In addition, look for us to publish more information on CRE performance in order to help with credit, risk and return decisions at banks throughout the country.

Until then, we will see what we can do to keep ourselves and our fellow Californians from doing anything too stupid.

### BANK NEWS

**M&A**

First Savings Financial (\$229.5mm, IN) has agreed to purchase Community First bank (\$256.6mm, IN) for an estimated \$20.5mm or 1.14x book value.

### **Chrysler**

After negotiations collapsed this morning, the Company will file for bankruptcy that is expected to last 2 months.

### **BofA**

Ken Lewis was removed as Chairman, but will maintain his CEO and President title. Problems over the Merrill Lynch acquisitions and the need for a better division of power prompted the move.

### **FRB NY**

Chairman of the Board, Stephen Friedman, announced he will leave his post by the end of 2009, as Fed rules bar bank-holding company directors and shareholders from taking public post of a regional Fed Bank. Friedman remains a director of Goldman Sachs, which became a bank holding company last September.

### **Credit Card Bill**

The House Financial Services Committee has passed the proposed credit card bill, which will now proceed to the House for voting. The bill would ban double-cycle billing, restrict fees and in the House, additional modifications by the administration are expected to be incorporated.

### **US IOUs**

The 3 largest total outstanding consumer debt types in the US are residential mortgages at \$14.6T, revolving consumer credit at \$953.1B and HELOCs at \$577.8B.

### **Swine Flu**

The World Health Organization moved its 6-tiered alert to 5, the 2nd highest alert level due to the potential of a pandemic of Swine Flu. The organization looks to make a determination shortly on if it is a formal pandemic.

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