

# Tenth District Construction: Smoother Sailing Ahead?

By *Tim R. Smith*

Activity in the Tenth District's construction sector underwent wide swings in the 1980s. During the national recessions of the early 1980s, construction in the district slowed from its torrid pace of the late 1970s. Then, just as building activity began to recover in the mid-1980s, two events shook the district's construction industry. Federal tax reform removed strong incentives for investment in commercial construction. And the collapse of the energy industry ended much of the demand for office space and housing in the district's major cities. As the decade drew to a close, building activity in most parts of the district stood still.

Will the district's construction sector enjoy smoother sailing in the 1990s? This article examines the growth of construction in the 1980s and explores the outlook for district construction in the decade to come. The first section of the article documents the nation's construction cycle in the 1980s and highlights the factors responsible for the cycle. The second section explains how the district's construction cycle varied from that of the nation and how construction activity varied across the district's major real estate markets. The third section concludes that growth in the district's con-

struction sector in the 1990s will be slower than in the 1980s but less erratic.

## *THE NATION'S CONSTRUCTION CYCLE IN THE 1980s*

Understanding the wide turns in the district's construction sector requires a closer look at the nation's construction cycle. In the 1980s, both cycles were driven by a wave of commercial property development—that is, by multifamily residential construction and nonresidential construction, such as office, industrial, and retail structures. The wave in commercial property development was caused by three forces: new tax laws regarding real estate investments, changes in the lending behavior of financial institutions, and the boom and bust of the energy industry.

Other types of construction were less sensitive to these forces. Single-family residential construction responded primarily to other factors such as demographic trends and real mortgage interest rates (Miller; Peach; and Garner).<sup>1</sup> And nonbuilding construction such as roads, bridges, and dams responded to state and local budget outlays for public infrastructure. As a result, these types of construction took a back seat to multifamily residential and nonresidential construction in shaping the construction cycles in the nation and the district during the 1980s. Therefore, this article focuses on construction of commercial property.<sup>2</sup>

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After the nation's construction activity dropped sharply in the early part of the decade, commercial property development fueled a rapid and dramatic recovery in building activity. More favorable tax laws, readily available financing, and the energy boom boosted commercial property development. Construction jobs, a good measure of overall construction activity, fell during the 1980 and 1981-82 recessions, turned around in 1983, and climbed sharply in the middle years of the decade (Chart 1).<sup>3</sup> The nation continued to add construction jobs moderately until 1990, when the number of construction workers peaked at over 5 billion. In 1991, building activity faltered and construction jobs fell again sharply, a key element in the economy's recent sluggishness.

Not all of the forces that shaped the nation's construction cycle in the 1980s had the same impact everywhere. Changes in the tax treatment of real estate investments sharply altered the incentives faced by real estate developers nationwide. And financial institutions stepped up their lending to real estate developers across the country. But the energy boom and bust jolted real estate markets only in the energy-producing regions of the country.

### *Tax treatment of real estate investments*

The U.S. Tax Code was revised numerous times during the 1980s, but two revisions stand out as milestones for the construction industry. First, to shore up an ailing national economy, Congress passed the Economic Recovery Tax Act of 1981 (ERTA). ERTA increased real estate investment mainly by allowing more rapid depreciation for commercial property and lowering effective tax rates on capital gains.<sup>4</sup> The increase, particularly in investment in office buildings, condominiums, and apartment complexes, prompted a surge in construction employment after 1982.<sup>5</sup>

The second important change in national tax law came in 1986 when Congress attempted to improve the efficiency and effectiveness of the tax

system. The 1986 Tax Reform Act eliminated the favorable treatment real estate had enjoyed during the mid-1980s. In addition to taking away the tax advantages from property investors, tax reform also raised effective tax rates on passive income, which includes rents.<sup>6</sup> Some analysts believe the 1986 tax legislation reduced the present value of the future flow of earnings from a property investment up to 20 percent (*The Economist* 1991). The reduced earnings made many prospective building projects infeasible and many existing building projects insolvent. Although stronger regional economies such as New England continued to register gains in construction activity, tax reform slowed the pace nationwide.

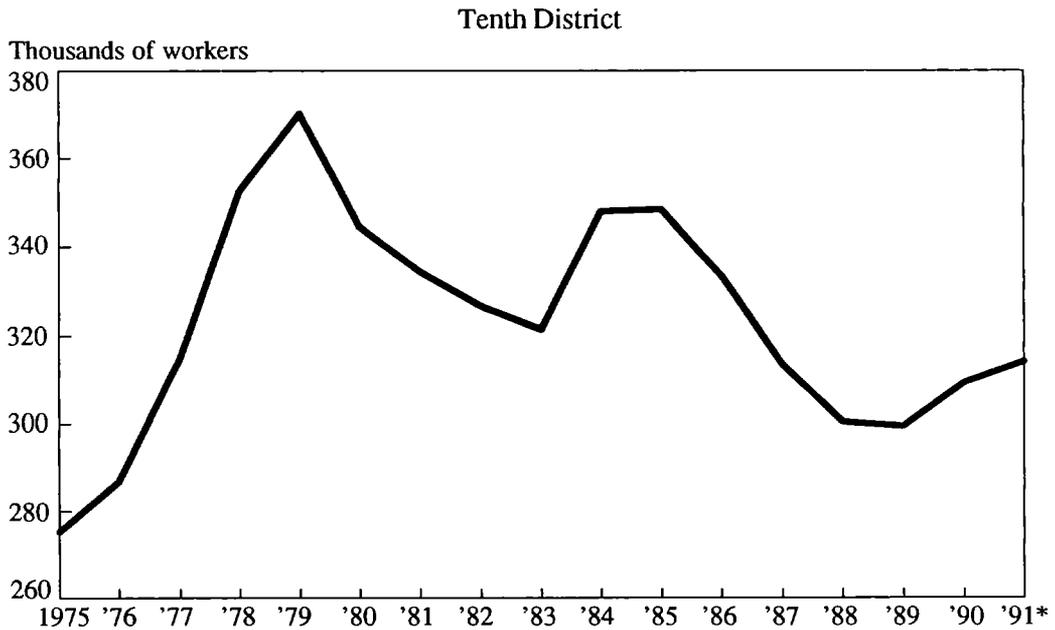
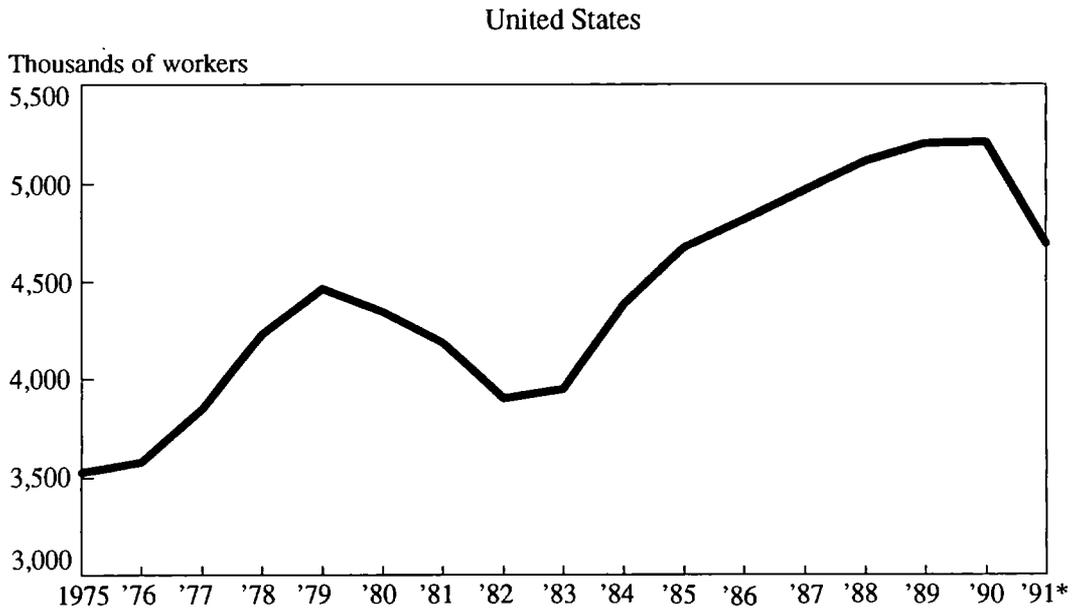
### *A new wave of real estate lending*

As the nation's tax environment became more favorable to real estate in the early 1980s, lenders began to direct more funds to commercial property development. With deposit rate ceilings removed and lending restrictions relaxed, thrifts were free to expand investment in commercial real estate markets.<sup>7</sup> Meanwhile, commercial banks increased their real estate lending to offset revenue losses in other parts of their loan portfolios. The result was a new wave of lending for office buildings, hotels, shopping centers, and multifamily residential structures.

Thrifts increased their real estate lending for two main reasons. First, deregulation of deposit rates allowed thrifts to channel more funds into nonresidential real estate loans (Opsata). As thrifts offered higher paying savings instruments, they invested in more nonresidential real estate loans, which carried higher yields and higher risks than traditional residential mortgages.<sup>8</sup> Second, the Garn-St Germain Depository Institutions Act of 1982 enabled thrifts to double the amount of their nonresidential real estate loans, from 20 to 40 percent of assets.

Commercial banks also stepped up their real estate lending during the 1980s in response to

**Chart 1**  
**Construction Employment**



\*1991 data are for the third quarter of the year.  
Source: U.S. Department of Labor.

deposit rate deregulation and to offset their loss of revenue from other sources. Commercial and industrial borrowers were turning increasingly away from banks to the commercial paper and junk bond markets for credit. Demand from other traditional sources, such as agriculture and foreign governments, also diminished in the first half of the 1980s. To balance these losses, and to generate substantial fee income, banks channeled more funds into real estate (LaWare).

### *The energy boom and bust*

The boom and bust of the energy industry also helped power the nation's real estate cycle in the 1980s. Skyrocketing oil prices during the 1970s and early 1980s launched a boom in energy exploration and related activities in the energy-producing regions of the nation. In energy states, such as Texas, Oklahoma, Colorado, and Louisiana, employment grew rapidly. The new oil-field jobs spurred job growth in supporting industries, such as financial and legal services. In Dallas, Houston, Denver, Oklahoma City, and other energy cities, demand for office space exploded. New nonresidential construction projects mushroomed and worker migration created new demands for housing and retail space.

In 1986, oil prices nosedived, compounding the downward pressure from tax reform on construction. Energy companies downsized their operations in the energy cities, causing office vacancy rates to soar. The weakness of the economies in energy regions slowed the growth of construction activity nationwide in the late 1980s. Still, the booming economies in other regions continued to push construction employment upward (Chart 1).

### **THE DISTRICT'S CONSTRUCTION CYCLE IN THE 1980s**

The forces that shaped the nation's construction cycle in the 1980s also shaped the district's

cycle, but the performance of the energy industry was much more important in the district. As a result, the district's construction cycle diverged significantly from the nation's. For example, while the nation's construction cycle continued upward in the late 1980s, the district's cycle turned down with the collapse of the energy industry. Moreover, the energy industry was the main reason why the construction cycle varied across the major real estate markets within the district.

### *Wide swings in district construction*

The 1980s were tumultuous years for district construction (Chart 1). The decade began just after the energy boom in the Rocky Mountains and the Southwest pushed regional construction to its peak in 1979. Then, the national recessions of the early 1980s buffeted the construction sector. Effectively stalled for about two years, construction activity finally picked up again as the district kept pace with the nation, adding 27,000 construction jobs from 1983 to 1984.

In 1986, construction activity in the district plummeted, while in the nation it continued to climb. Not only did falling oil prices deal a severe blow to many parts of the district economy, but tax reform also took away special incentives to commercial real estate development. The district lost nearly 50,000 construction jobs from 1985 to 1989, in sharp contrast to the continued expansion of the construction sector in the nation. Strong economic growth on the east and west coasts and an overhang of projects started before tax reform continued to propel national building activity through the end of the decade.

Thus, the boom and bust of the energy industry was the key difference between the district's construction cycle and the nation's. The oil boom helped jump-start construction in both the region and the nation. But while the collapse of oil prices only slowed construction in the nation, it crippled construction in the district.

### *Construction cycles in Tenth District cities*

Just as the region's building cycle diverged from the nation's, individual markets within the district diverged from the overall district pattern. The key to this divergence again is the energy industry. The major cities in the district can be divided into two groups: *diversified cities* and *energy cities*. Kansas City, Albuquerque, Omaha, and Wichita have diversified economies, where construction generally mirrors the national pattern (Chart 2). Denver, Oklahoma City, and Tulsa depend more on energy, and thus construction in these cities follows the district pattern (Chart 3).

*Diversified cities.* *Kansas City's* broad-based economy led to a building cycle in the 1980s that resembled the nation's. Construction in Kansas City fell during the recessions in the early 1980s, then rebounded in step with the national recovery (Chart 2). In 1987, tax reform and a sluggish local economy led to another decline in construction activity, pushing the downtown office vacancy rate above 25 percent. Still, Kansas City's office vacancies compared favorably with the energy cities. As the decade drew to a close, moderate growth in the service sector was beginning to fill the empty office space.

The construction pattern in *Omaha* paralleled that of Kansas City until the late 1980s (Chart 2). As in Kansas City, construction in Omaha recovered soundly from the 1981-82 recession, then began to backslide in 1986. For three years, construction activity was sluggish, until the fast-growing service sector boosted construction in 1989 and again in 1990. Key elements in the strength of the construction sector at the end of the decade were new office facilities for telecommunications and food-processing firms and a healthy residential market.

Although *Wichita's* economy depends somewhat on the energy industry, its reliance on other industries led to a 1980s building cycle similar to Kansas City and Omaha. After dipping during the recessions of the early 1980s, construction

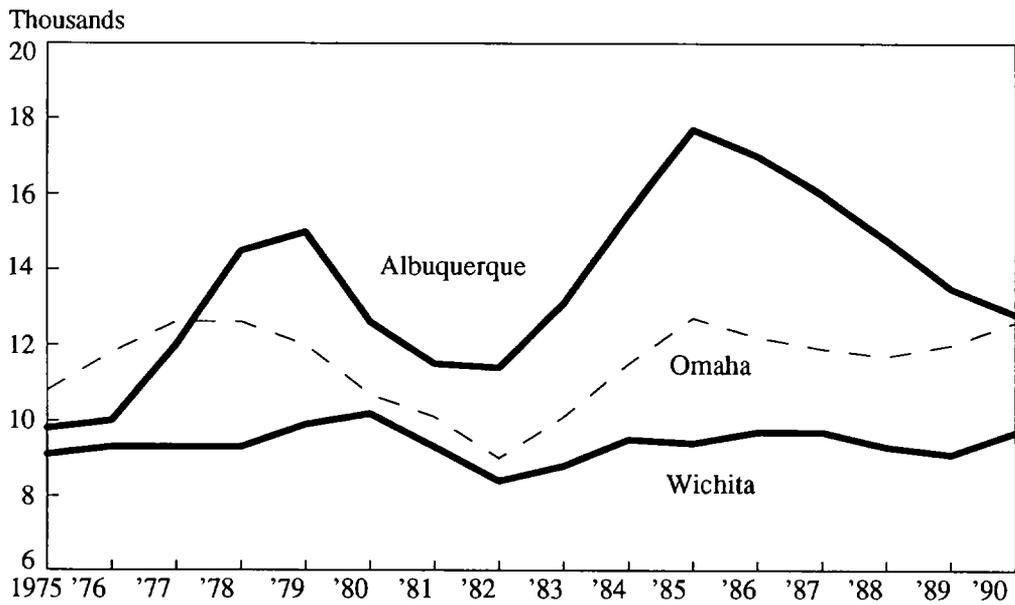
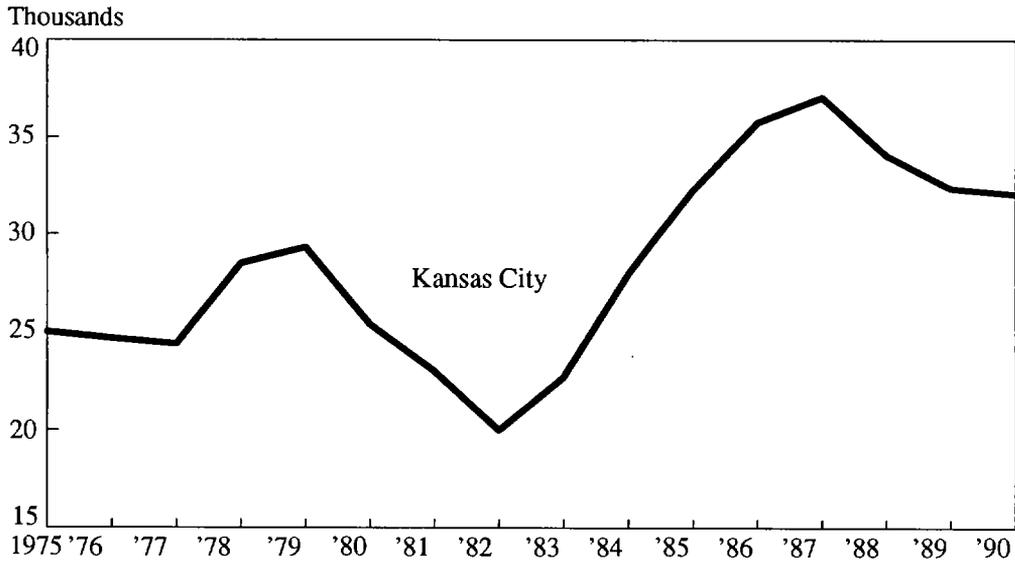
recovered only modestly until late in the decade (Chart 2). The local economy was hampered in the mid-1980s by a struggling general aviation manufacturing industry and a weakening energy sector. As the decade drew to a close, the aircraft industry began to revive, spurring some expansion by manufacturers and their suppliers. Strong service growth in the late 1980s, particularly in health care, also bolstered construction in Wichita.

The building cycle in *Albuquerque* through the mid-1980s resembled other diversified cities (Chart 2). Then, a shakeout in high-technology manufacturing and some adverse effects of the energy bust began to curb the city's growth. Construction began to fall in 1986 and continued to fall through the end of the decade. After 1986, office vacancies increased slightly as the sluggish local economy could not absorb the new office space being built. By the end of the decade, office vacancies jumped significantly and building completions slowed. A slowing in the housing sector in the second half of the decade also helped weaken construction activity. After rising steadily during the first half of the decade, home values in Albuquerque leveled off, signaling a weaker housing market.

*Energy cities.* Energy was the driving force in *Denver's* construction cycle in the 1980s. In the late 1970s and early 1980s, rapidly expanding energy companies developed large appetites for office space and housing, fueling the construction boom (Chart 3). Legal and financial services grew alongside the energy sector, further swelling the demand for office space, housing, and retail space.

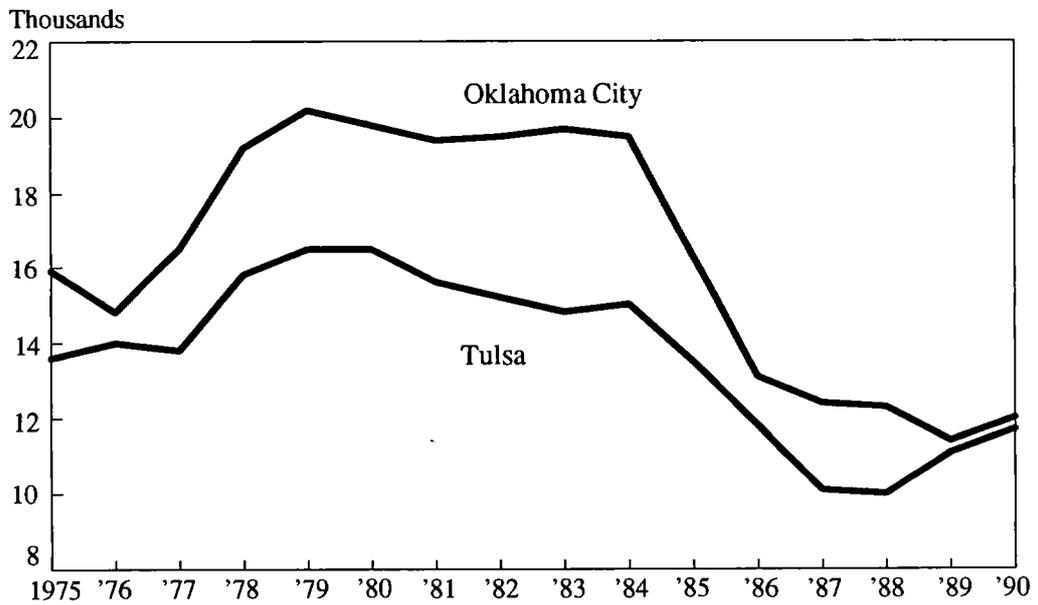
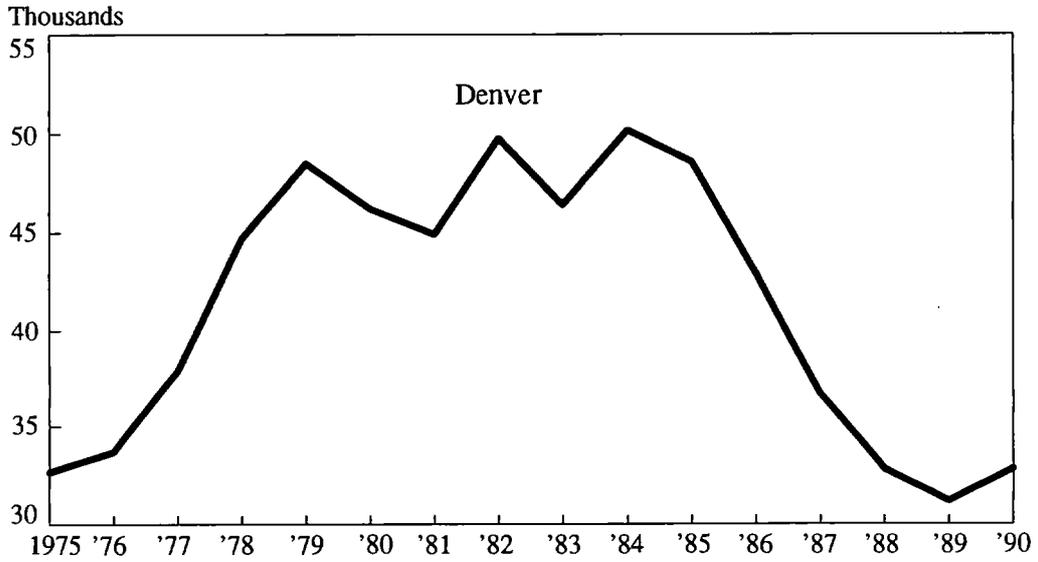
But when oil prices collapsed in 1986, Denver's construction boom ended. Most large energy companies consolidated their operations, closing or downsizing their regional offices. Office vacancies soared and office construction halted. Public works projects, such as a new convention center, took up some of the slack toward the end of the decade, helping to stem the freefall in construction activity. In 1990, construction was bolstered by the new Denver International Airport and some new homebuilding.

*Chart 2*  
**Construction Employment, Diversified Cities**



Source: U.S. Department of Labor.

Chart 3  
**Construction Employment, Energy Cities**



Source: U.S. Department of Labor.

*Oklahoma City's* construction cycle resembled the cycle in Denver. The expanding energy sector sustained construction at peak levels from the late 1970s through the middle of the 1980s (Chart 3). By early 1981, strong growth in office employment had virtually eliminated vacant office space. The strong demand for office space pushed up rents and induced a wave of nonresidential building. The building wave hiked the downtown office vacancy rate to 25 percent even before oil prices collapsed in 1986. After 1986, office vacancies in downtown Oklahoma City surged past 30 percent and were among the highest in the nation. Continued high office vacancies depressed nonresidential construction through the end of the decade.

In *Tulsa*, the dominant force in shaping the building cycle was again the energy industry. After peaking in 1980, construction activity declined slowly until 1984 (Chart 3). Then the decline steepened until 1987 when construction activity finally leveled off. In the last two years of the decade, construction activity in Tulsa turned around and posted modest gains.

### *SMOOTHER SAILING FOR DISTRICT CONSTRUCTION IN THE 1990s*

The forces responsible for wide swings in the district's building cycle in the 1980s will have much less influence in the 1990s. Changes in federal taxes during the next ten years are impossible to predict, but sharp tax code reversals such as those passed in 1981 and 1986 are unlikely.<sup>9</sup> The flood of lending by commercial banks and thrifts for real estate investment is long past. And the downsized energy sector will be a much smaller influence on construction in the district, regardless of the future stability of oil markets. Commercial property development will experience fewer ups and downs, and single-family residential construction will probably play a larger role in the region's construction activity. Therefore, the district's construction sector will probably not undergo another

boom and bust cycle in the 1990s.

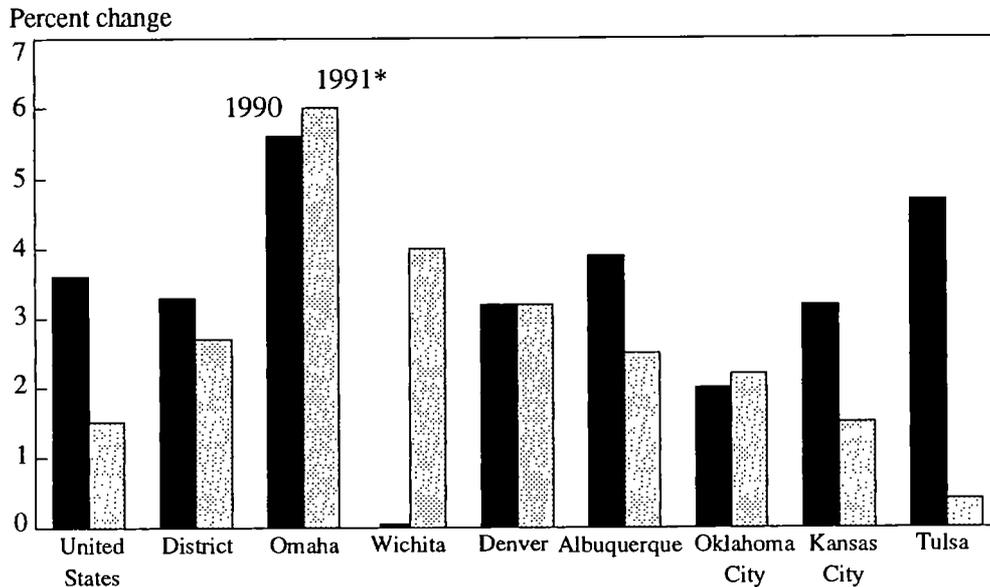
While construction activity in the decade will be smoother, it is likely to achieve only moderate growth at best.<sup>10</sup> Lower mortgage rates will probably stimulate residential construction across the district in the near term. Proposals to lower capital gains taxes or provide tax credits to first-time home buyers, if enacted, might provide some short-term stimulus to the construction industry. And the recently enacted transportation bill will boost highway and bridge construction through 1996. Over the course of the decade, however, a slow-growing regional economy and a tighter lending environment will probably lead to only slow growth in overall building activity.

With the downsizing of the district energy sector in the late 1980s, energy has become less important in shaping the district's construction potential in the 1990s. Therefore, instead of grouping the district's cities according to their reliance on energy, this section groups them according to their overall potential for growth in construction. *Moderate growth cities* have relatively tight real estate markets and solid prospects for economic growth. Construction in these cities will bounce back sooner and achieve moderate growth throughout the decade. *Slow growth cities* have slack local real estate markets and dimmer economic prospects. Construction in these cities could remain sluggish well into the decade before achieving growth that is slow at best.

#### *Moderate growth cities*

*Omaha's* real estate market is currently the strongest in the district.<sup>11</sup> The robust building activity of the late 1980s has continued in the early 1990s. In the first ten months of 1991, construction employment increased over 11 percent. Growth in telecommunications, telemarketing, and food-processing businesses continues to support office construction and homebuilding in Omaha. Office vacancies declined in 1990, and although considerable new space was added, office vacancies

Chart 4  
Office Employment, Service and F.I.R.E. Workers



\*Percent change from first ten months of 1990 through first ten months of 1991.  
Source: U.S. Department of Labor.

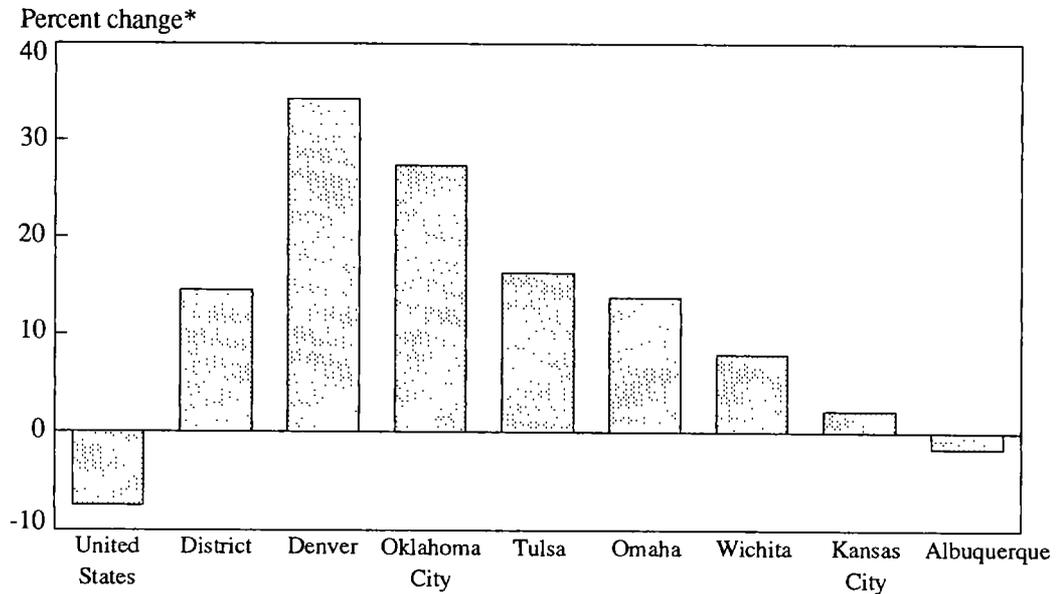
increased only slightly in 1991 due to strong growth in office employment (Chart 4).<sup>12</sup> Housing prices have been rising moderately and single-family building permits jumped sharply in 1991 (Chart 5).

The outlook for construction in Omaha is quite good. Continued strong growth in office employment and stable vacancy rates bode well for office construction. The recent increases in home prices suggest that homebuilding is not outpacing housing demand. Thus, the growing economy should continue to support homebuilding at a moderate pace. While the Omaha economy may not sustain growth at the rapid pace of the past few years, it is likely to continue to outperform other district cities.

Denver's real estate market is improving. The stronger real estate market and a surge in public

works construction have already stimulated building activity in the city. After five straight years of decline, construction employment grew 5.1 percent in 1990 and 7.9 percent in the first ten months of 1991. The improvement in building activity reflects the near absence of office construction since 1987, a rebound in economic growth, and healthy recent growth in office employment (Chart 4). By late in 1991, the downtown office vacancy rate had fallen from a peak of 31 percent at the beginning of 1987 to near 20 percent, still above the national rate of 18 percent. Denver's housing market began to pick up in 1988 after collapsing in 1986 and 1987. Inventories of single-family homes fell and their prices increased in 1989 and 1990. Building permits for both single-family and multifamily housing units surged in 1991 (Chart 5).

Chart 5  
**Growth in Single-Family Building Permits, 1991**



\*Percent change from first ten months of 1990 through first ten months of 1991.  
 Source: U.S. Department of Labor.

The outlook for construction in Denver is good. Moderate economic growth is expected to continue and is likely to absorb more office and residential space. Some modest increase in office construction is expected by mid-decade. Until then, homebuilding and construction of the Denver airport should maintain Denver's upward trend in construction employment.

*Kansas City's* real estate market has been one of the healthiest in the district. Construction employment rebounded modestly in 1991 after falling for three consecutive years. The slowing in construction activity in Kansas City in the late 1980s helped keep office vacancies below the national average. Recently, however, the downtown office vacancy rate in Kansas City jumped above the national rate, and office employment growth slowed considerably (Chart 4). None-

theless, the office market remains relatively healthy. Rising home prices and a mild uptick in building permits reflected the recent improvements in the residential market (Chart 5).

Kansas City's construction activity is likely to improve modestly. Steady absorption of office space is expected to support some increase in office building. But office construction will probably trail its mid-1980s pace until late in the decade. The uptick in building permits in 1991 signals a return to modest homebuilding activity. As in most other markets, single-family building will probably be much stronger than multifamily building.

#### *Slow growth cities*

*Wichita's* real estate market opened the decade as the strongest among the slow growth cities.<sup>13</sup>

Construction employment growth was solid in 1990 and 1991. Absorption of office space was boosted by a surge in office employment in 1991 (Chart 4). As a result, office vacancies edged down, leaving vacancies in downtown and other parts of the city below the national average. Housing prices and single-family permits increased in 1991 (Chart 5).

While the solid growth of the early 1990s may not continue, expansions in manufacturing and services could help stabilize building activity and may lead to some improvement. Nothing in sight suggests an erosion of the traditional stability of Wichita's housing market. A slight upward trend in home prices and homebuilding likely will continue.

*Albuquerque's* real estate market is currently weak. Construction employment fell in 1991 for the sixth year in a row. A downtown office vacancy rate of 27.5 percent in the third quarter of 1991 was nearly ten percentage points above the national average. Office employment growth has been growing moderately (Chart 4), but the high vacancy rate and softening lease rates have slowed office construction to a near standstill. Home prices have leveled off in Albuquerque, signaling a similarly weak residential market. And for the fifth consecutive year, single-family building permits fell in 1991 (Chart 5).

The outlook for construction in Albuquerque is cautiously optimistic. If office employment continues to expand at a healthy pace, office construction is likely to resume within a few years, gaining strength through the end of the decade. Sluggish growth in the Albuquerque economy will probably not soon reverse the downward trend in homebuilding. Lower mortgage rates may help stem the decline, but a strong rebound appears unlikely.

*Oklahoma City's* real estate market has been improving, but considerable slack remains. Construction employment increased 5.3 percent in 1990 after falling for six straight years, but fell again in the first ten months of 1991. And the

downtown office vacancy rate has persistently exceeded 30 percent since the end of 1986, despite a lack of new construction. The weak absorption of office space reflects a generally weak local economy and only moderate growth in office employment (Chart 4). Only recently has a slight upturn in employment growth helped the office vacancy rate edge down from 35.5 percent at the beginning of 1989 to 33.9 percent in the third quarter of 1991. The housing market has also turned around after collapsing from 1986 to 1990. House prices began to increase and single-family building permits increased nearly 30 percent in 1991 (Chart 5).

The outlook for construction in Oklahoma City is lackluster. Due to the big overhang of existing office space, office construction is not expected to pick up until the mid-1990s.<sup>14</sup> And only slow growth is likely until the end of the decade. Recent housing activity and lower mortgage rates suggest that home prices may level off or continue to increase slightly, supporting modest increases in home building.

*Tulsa's* real estate market is also weak.<sup>15</sup> Construction activity, however, has recently been somewhat stronger. After four years of sharp decline, construction employment in Tulsa began to increase in 1989 and continued to increase through the first ten months of 1991. Downtown office vacancies in Tulsa have been shrinking but remain near 25 percent, halting new office construction. In addition, office employment growth nearly halted in 1991 (Chart 4). On the up side, the residential market has recently shown some signs of strength. After several years of steady decline, home prices began to firm up in 1990 and 1991. In 1991, single-family building permits increased 17 percent (Chart 5).

As in Oklahoma City, Tulsa's construction activity is likely to be sluggish. Tulsa's economy is likely to absorb the large stock of office space very slowly, delaying the rebound in office building until the middle of the decade—and the rebound itself will probably be very slow.<sup>16</sup> The

recovery in residential construction will probably continue, but it is unlikely that home prices will reach early 1980s levels any time soon.

### CONCLUSIONS

The 1980s brought wrenching changes to the construction sector in the Tenth District. Tax reform and increased real estate lending by financial institutions influenced the construction cycle in both the region and the nation. But the energy boom and bust led to a construction cycle in the district out of sync with the nation's cycle. While national construction activity continued to grow throughout most of the decade, construction activity in the district peaked in the late 1970s and turned down sharply in the late 1980s.

The ups and downs of the construction sector were not felt evenly in the district's major real

estate markets. The energy boom and bust caused construction in the district's energy cities to behave differently from construction in other more diversified district cities. Energy cities generally followed the district pattern, while the other cities followed the national pattern.

In the decade ahead, construction in the district will probably return to a moderate pace after a few weak years. And construction will be less volatile because the factors that produced the wide swings in construction during the 1980s will play a much smaller role in the 1990s. The outlook, however, differs from market to market across the district. Construction will rebound sooner in cities with relatively tight real estate markets and prospects for solid economic growth. In other cities with slack real estate markets and prospects for modest growth, construction will remain sluggish until the mid-1990s or possibly even later.

### ENDNOTES

<sup>1</sup> While multifamily residential construction responded to specific provisions in the tax law, such as depreciation rules, single-family residential construction responded to broad changes in marginal income tax rates during the 1980s. Reductions in marginal income tax rates in 1981 and 1986 dampened housing demand by increasing the after-tax cost of home ownership (Peach).

<sup>2</sup> There is no single measure of building activity to assess the importance of different types of construction. However, combining construction contract data with building permit data helps to show the importance of commercial property in U.S. construction. The value of construction contracts from F.W. Dodge show that residential construction accounted for 43.6 percent of the value of construction contracts in 1990, non-residential construction accounts for 36.2 percent, and non-building accounts for 20.2 percent. Data on building permits show that about 72 percent of building permits authorized in 1990 were for single-family housing units and 28 percent were for multifamily units. However, the importance of multifamily construction was much greater in the mid-1980s when its share of building permits reached near 46 percent. These data also show a similar relationship between types of construction in the district.

<sup>3</sup> Growth in construction employment closely mirrors growth in the real value of the construction component of Gross State Product which measures the output of the construction sector.

<sup>4</sup> The Economic Recovery Tax Act of 1981 increased the

after-tax return to real estate investment by shortening depreciation schedules for nonresidential properties to 15 years (Garner). Previously, the depreciation period varied from 22 to 40 years depending on the particular method used to calculate the depreciation (Downs). ERTA also extended the favorable 15-year depreciation allowance to newly purchased used property (Kopcke and Aldrich). In addition to stretching depreciation schedules, ERTA reduced the maximum tax rate on net capital gains from 28 percent to 20 percent. Sixty percent of net capital gains remained deductible from gross income, but the top tax rate on gross income was reduced from 70 to 50 percent.

<sup>5</sup> The turnaround in building activity is difficult to attribute to any single factor. As the nation emerged from recession in 1982, building activity increased as part of the cyclical recovery. However, there is little doubt that tax and financial factors bolstered the performance of the construction sector after 1982.

<sup>6</sup> The Tax Reform Act of 1986 (TRA) extended the depreciation schedule for commercial property to 31.5 years and residential property to 27.5 years (McMahan). In addition to stretching depreciation schedules, TRA eliminated favorable capital gains rates for real estate and other investments. The act also disallowed the deduction of operating losses from real estate investments against ordinary income such as wages and salaries. Instead, passive losses could only be deducted against passive income other than interests and dividends, but

could be carried forward and deducted upon sale of the property. By taxing capital gains at the same rates as ordinary income, TRA also eliminated favorable capital gains rates for individuals for real estate and other investments.

<sup>7</sup> In this article the term "thrifts" is used to describe federally chartered savings and loans and mutual savings banks. Both of these types of financial institutions were affected by deposit rate deregulation and relaxation of lending limits on commercial real estate during the 1980s.

<sup>8</sup> In some cases, thrifts increased their commercial real estate lending to offset higher costs of funds. In other cases, thrifts wanted to invest in commercial real estate and bid up deposit rates to attract funds for this purpose. The claim that deregulation of deposit rates led thrifts (or banks) to make riskier loans, such as commercial real estate loans, has been widely debated. However, Keeton gives two compelling reasons to support the risk-taking argument. First, deposit deregulation worsened the moral hazard problem banks and thrifts faced under a fixed-rate deposit insurance system. Second, unregulated deposit rates made it easier for risky banks and thrifts to grow by outbidding safe banks for deposits.

<sup>9</sup> The Bush administration has proposed a number of tax reforms that may boost construction activity: lowering capital gains taxes, a tax credit for first-time home buyers, and allowing passive losses to be deducted from ordinary income. It is uncertain, however, how Congress will respond to these proposals.

<sup>10</sup> Several indicators are used in this section to appraise the current condition and the outlook for major district cities. These office and housing market indicators—downtown office vacancy rates, median home prices, single-family building

permits, and office employment growth—are generally available for all markets discussed in this article. Retail and industrial market indicators are not available for all markets and, where available, are not strictly comparable. The outlooks for office construction in Denver, Kansas City, Oklahoma City, and Albuquerque were partly based on forecasts by CB Commercial/Toro Wheaton Research. Where noted, local sources in other cities were used to supplement these forecasts.

<sup>11</sup> This article's assessment of the Omaha real estate market is based on information contained in Building Owners and Managers Association of Omaha.

<sup>12</sup> Office employment is defined in this article to include employment in services and employment in finance, insurance, and real estate. Information about growth in office employment, used in combination with vacancy rates, helps to assess growth in demand for office space and the tightness of the market for office space.

<sup>13</sup> This article's assessment of the Wichita real estate market is based on J.P. Weigand and Sons, Inc.

<sup>14</sup> A large percentage of office vacancies in Oklahoma City and Tulsa are in older, obsolete properties that may never be occupied. As a result, vacancy rates in these cities may not be reliable indicators of the tightness of office markets. Construction could resume in the mid-1990s without a big decline in office vacancy rates.

<sup>15</sup> This article's assessment of the Tulsa real estate market is partly based on information in National Association of Industrial and Office Parks, Tulsa Chapter.

<sup>16</sup> See footnote 12.

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