

Government Affairs Committee- Minutes
Trends in Development Panel Discussion
February 9, 2010

Attendees- Danny Anderson, Melissa Archer, Karen Baker, Wayne Bennett, Lisa Cahalan, J Edward Campbell, Brenda Tuck Campbell, Phillip Cantrell, Melissa Clough, Andy Clough, Paul Craig, Keith Crowe, Bob Downing, Gary Edick, Will Franks, Toy Fuson, Cindy Garvey, Leigh Gillig, Kevin Green, Scott Harrison, George Hatcher, Craig Johnson, Jerry Kemp, Davis Lamb, Matt Ligon, Boyce Magli, Jim McCann, Jason Murphy, Jim O'Dowd, Debbie Parker, Ryan Rafoth, Paul Ross, Mort Stein, Beth Sturm, Jeff Tucker

- I. Meeting called to order

- II. Introduction of panelists
 - ~ Lee Jones, Regional Vice President, Federal Reserve Bank
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 - ~ Kent Cleaver, Executive Vice President/COO, Avenue Bank
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 - ~ Don Hyde, Senior Vice President, Regions Bank
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 - ~ Philip Jones- Tentara Partners
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 - ~ Thomas McDaniel, Boyle Investment Company
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- III. Panel Discussion- *Trends in Development*

Lee Jones, Federal Reserve Bank

Functions of the Federal Reserve Bank

- o Influence, regulate, and control US monetary policy
- o Stabilize markets, through interest rate adjustments, etc
- o Distribute coin and currency
- o Provide financial services- The Federal Reserve is a bank for banks
 - Check processing- at one time, there were 45 offices within the Federal Reserve System responsible for processing checks. That number decreased to one (1) office since 98% of checks are now converted as an electronic debit

The Federal Reserve System- <http://www.federalreserve.gov>

- o Divided into twelve (12) districts. Click on the link below to view district maps.
 - ~ <http://www.federalreserve.gov/otherfrb.htm>

- Middle and East Tennessee are included in the sixth district, part of the Federal Reserve Bank of Atlanta - <http://www.frbatlanta.org>
- This district includes Florida, Georgia, Alabama, and portions of Louisiana, Mississippi, and Tennessee.

***** Regional Economic Information Network- <http://www.frbatlanta.org/rein> *****

- Weekly survey of business leaders asking opinions about changing business conditions, the factors impacting these conditions, etc. All responses are anonymous.
- All segments of the business community are encouraged to participate in this survey.
- Survey results currently combine Tennessee's data with that of Alabama, Louisiana, and Mississippi. As the number of Tennesseans participating in the survey increase, there is more opportunity to be calculated in a separate category, providing a more detailed analysis of our local and regional economy.
- **Click on the link below to register for the Economic Survey**
~ http://www.frbatlanta.org/forms/business_contacts.cfm

Assessment of the Economy

- The great recession is over, ending in June 2009. According to data, the US economy experienced positive economic growth for the past two consecutive quarters.
- Not a robust recovery

Positive Signs

- Financial and equity markets have stabilized
- Increase in manufacturing output
- Experiencing a slight increase in consumer spending, despite consumers saving more of their income (4-6%). The increase in consumer savings has further slowed the economic recovery.
- Consumer sentiment has increased
- Housing market- mixed signals
 - ~ Generally, home sales and prices have stabilized
 - ~ New construction is better, but still not good

Negative Signs

- Consumers and banks both continue to rebuild their balance sheets
- Availability of credit- mixed signals
 - ~ Consumers report difficulty in obtaining loans
 - ~ Bankers report weak loan demand
- Lack of consumer spending
 - ~ A recent survey of small businesses indicated their #1 problem was lack of revenue/sales, and not lack of available credit
 - ~ Small business owners are skeptical whether credit will be available when they decide to expand.

- Unemployment- #1 problem
 - ~ Experiencing an increase in temporary hiring.
 - ~ Very few companies are hiring new full-time employees, instead waiting to see sustained economic growth in the economy.
 - ~ Worker productivity has increased, partially impacting the number of new hires.
 - ~ Unemployment likely to remain at high levels through 2011.

Southeast US

- Led the way into the recession, but likely won't lead the way out. The Southeast experienced two decades of positive economic growth, but is not expected to continue at pre-recession levels.

Tennessee

- Unemployment to remain above 10% through 2011.
- State economy has bottomed out, but will not fully recover until 2012.

Nashville MSA

- New home construction reached its bottom in July 2008.
- The industry continues to operate at 1/3rd of pre-recession levels.

Kent Cleaver, Avenue Bank

- The FDIC is the primary federal regulator of the banking industry
 - ~ FDIC- <http://www.fdic.gov>
- No significant changes have been made to federal regulations or banking industry standards
- To obtain financing, there must be a buyer in the end. There are currently not enough buyers to feed the system.
- Home prices have stabilized in Middle TN.
- Franklin's Office vacancy rate has increased, largely due to new product coming on the market as the recession began.
- Everyone is anxious to see whether commercial real estate will be the next shoe to drop.
- Job creation is the #1 key to a full economic recovery.
- Middle TN is fortunate to have a diverse economy- health care, tourism, etc.

Don Hyde, Regions Bank

- The lending capacity for banks is based on supply and demand.
- New loan applications have slowed due to excess inventory on the market.
- For new loan applications- What is your capacity to perform? What is your cash-flow capacity?

- New projects face increased emphasis on their contingent debt structure and current ability to perform. In the past, the availability of financing was based largely on the successes of previous projects.
- Financing is still available for active projects and projects transitioning between phases.
- In the late 1990's and early 2000's, some developers moved from phase to phase without obtaining a letter of credit- selling lots was not an issue.
- Extensions of credit for active projects are evaluated on an annual basis.
- The collateral value of existing assets continues to decline, partially caused by an accounting principle (*Mark to Market* rule).
- Commercial real estate- occupancy levels, cap rates, and lease renewals continue to show declines.

Philip Jones, Tentara Partners

The residential development industry has changed dramatically.

- Larger cash investment now required to secure financing, increasing the risk of the developer.
- The lack of available credit has led many developers to secure financing from foreign companies/investors.
- The time needed for build-out of most projects has doubled.
- Anticipate developments to be in smaller phases or sections in the future (50 lots per phase versus 100 or more).
- Developers can no longer require builders to take-down a certain number of lots per quarter. The demand is not there.

Consumers are now the boss! What do consumers want?

- Live, shop, work, and play, all in one location
- Smaller homes on smaller lots; single-story
- Walkability
- Full set of amenities

Developers cannot produce what is currently being demanded by the market due to the regulations and requirements of local government. Local governments should consider allowing:

- Revisions to previously-approved concept/site plans
- Increased density, offering a broad range of housing types/price points
- Installation of amenities later in the build-out process

The development community, banking industry, builders, and local governments must form a partnership, offering everyone an opportunity to reevaluate, reposition, and adjust to current market conditions.

Thomas McDaniel, Boyle Investment Company

- In the current economy, the strong will get stronger.
- Slow and steady wins the race.
- A property's location is even more important in a down market.
- Best deals will be the first deals coming out of the recession.
- No one is selling right now unless they are forced.
- The lack of comparable sales has made it difficult to pinpoint the current market conditions of commercial real estate.
- Large amounts of equity/cash on the sidelines.
- Expect opportunists and entrepreneurs to begin moving back into the market.
- The Office market continues to fare much better than Retail, which suffers from a lack of sales/revenue.
- Grocery-anchored shopping centers are doing well.
- Lifestyle centers and malls are experiencing the most trouble within the Retail market.
- Tenants still have a small window of opportunity to get a good deal.
- Tenants are looking for second-rate/existing buildings, shorter leases, discounted lease rates

Other Comments

- Mark to Market rule- based on general accounting principles, not banks or federal regulators.
- Banks are losing out by allowing foreign investors to finance development projects.
- Jumbo loans- lack of availability
 - ~ Minimum credit score to qualify has dramatically increased.
 - ~ Negative impact on Williamson County, due to higher median home prices.