

Trends in Development Panel Discussion
Meeting Summary
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Panelists

- James Carbine, Carbine Development Company
- Bob Parks, Bob Parks Realty
- Lisa Culp Taylor, REALTOR®
- Danny Hester, Regions Bank

National Market

- Supply and demand is out of sync.
- The residential development industry is suffering from the rapid increases experienced between 2004 and 2007.
- Between 2005-2008, 1.3 million more homes were built than sold in the U.S.
- There are currently 1.5 million unoccupied homes on the market, with new-home construction making up roughly 33%.
- Residential building permits decreased by 65% last year.

Middle Tennessee Market

- The Middle Tennessee market has suffered but not to the extent of most other major markets. The region continues to be one of the strongest markets in the U.S.
- Middle Tennessee was one of the last regions to be affected by the downturn, and should be one of the first to rebound.
- The region experienced an estimated 5% reduction in housing values, compared to reductions of 20% or more in many other areas.
- Great geographic location- located within a day's drive of 75% of the U.S. population.
- The housing markets in Williamson and Wilson County are faring much better than surrounding counties primarily due to quicker inventory absorption.
- Large numbers of undeveloped lots are ready for construction, but no building permits are being pulled.

Development Loans

- “Bad Bankers Making Bad Loans”
- Loans financing development projects are among the riskiest for lenders.
- Bank balance sheets have an overabundance of “stale” loans, with borrowers paying interest on non-earning assets. This situation draws increased scrutiny from federal regulators.
- A de facto moratorium currently exists on new loans for development projects. Banks will continue to carry their current debt load, with financing only available to developers transitioning between phases.

- Curtailment- term used by the banking industry to evaluate the progress of a specific development. After obtaining a loan, a project must achieve a certain level of progress within a specific time frame. If it fails to reach the assigned benchmark, the bank increases its level of scrutiny and could institute a stricter repayment schedule.
- The banking industry has/will experience a significant increase in regulations, disclosure requirements, and guidelines.
- The TARP program created a Catch 22 regarding development loans. One side says “we gave you the money, now lend it” while regulators respond by saying “this project doesn’t qualify for financing.”
- Self-regulation of the banking industry is as equally important as mandated regulation.

Construction Loans

- Increased scrutiny of construction loans, sometimes to the point of evaluating whether a specific subdivision can withstand or needs another spec house.
- In 2007, estimates showed only 25% of builders would agree to sell a home for only the loan value. That number increased to 75% in 2008.
- Banks are currently receiving an increased number of offers to build-out their foreclosed/undeveloped lots.
- Banks accept the risk of assuming control of raw land/undeveloped lots as a result of foreclosure.

Mortgage Lending

- Adjustable-rate mortgages/teaser rates contributed to the current market condition.
- For many years, buyers had a limited number of financing options. Over the past several years, up to 60 financing options have been available to qualified buyers.
- The elimination of 100% financing had a negative impact on the rate of inventory absorption.
- Closer scrutiny is being placed on an applicant’s credit score and debt ratio. The mortgage industry now considers a credit score of 740 as a breaking point.

Foreclosures/Short Sales

- Nashville is at the bottom end of the national foreclosure problem, but the problem does exist.
- Sales of distressed properties currently account for large percentages of total sales, negatively impacting the number of housing starts and decreasing home values.
- Banks don’t want to assume ownership of homes through foreclosure; results in the creation of new divisions and increased staffing needs.
- Depending on the specific market, banks may be forced to hold a foreclosed home for 2-3 years.

- Short sales are increasing in popularity, but many banks have been unwilling to approve in an attempt to recover 100% of the loan value.
- Banks generally incur a 10-15% loss on a short sale, far better than the 40-50% return on a foreclosed property.
- Short sales can be extremely complicated and time consuming. REALTORS® should possess a firm grasp of the short sale process and fully educate and inform their clients in the beginning to achieve success.
- REALTORS® should advise clients to be realistic when making offers. Many private owners may be willing to accept a lower offer, but most builders cannot due to smaller profit margins.
- As few as 15-20 sales at discounted rates will effect comps for an entire area.

Market Forecast

- All panelists expressed ‘enthusiasm’ about the future of the housing market in Middle Tennessee, but warned that recovery will take time. Predictions suggested signs of improvement by the latter part of 2009.
- “Our market is nearing bottom; our best hope is the bottom represents a V and not a bathtub.”
- Levels produced in 2001-2003 will be considered a ‘normal’ market for at least the immediate future.
- Drastic changes will continue to change the landscape of the housing market, but will result in overall improvements in the long run.
- All developers and builders will be forced to analyze and re-create their business plan to be successful.
- A national trend has emerged for smaller lots sizes and smaller homes in terms of square footage, requiring developers to ‘cut and adjust’ the size and number of lots. This flexibility largely depends on the specific zoning ordinance regulating a development.
- Agents should advise their clients against waiting for the market to reach the bottom. Immediately after this happens, both interest rates and housing prices will sharply increase.
- Between 2004 and 2007, too many unqualified people entered the home building industry. The next several years will see a large decrease in the number of licensed contractors.
- Expect an increase in fee-based contracts by builders.
- The real estate industry shouldn’t expect much help in the proposed Economic Stimulus Act currently being considered by Congress. Housing legislation passed in 2008 provided a \$7500 tax credit to first-time home buyers, but the money must be repaid over time.

Other

- Mixed-Use Developments
 1. Extremely successful and gaining in popularity.
 2. Offer a variety of housing types, promotes walkable communities.
 3. Local zoning regulations have hindered and even prevented approval of mixed-use developments.
 4. Gradual trend of increasing price points.
- Sustainable/Green Building
 1. Currently a 'buzzword' but the trend is expected to remain
 2. Mandates by state and/or local governments not likely in the near future.
 3. Adds a significant cost to construction but affordability should improve over time.
- Local governments in Middle Tennessee are heavily dependent on impact fees and local-option sales taxes, contributing to current budget shortfalls.
- Middle Tennessee will continue to experience a large number of people migrating to the area, largely due to our climate and low-tax burden.
- On the federal level, several potential ideas to improve the housing market and increase lending are being exchanged:
 1. Adjusting the "Mark to Market" rule
 2. Subsidized interest rate for home mortgages
- Downtown condo market
 1. The timing and pace of construction has had a negative impact on downtown condo sales, with an estimated 7,000 units either on-line or expected to come on-line over the next few years. In comparison, the Raleigh, NC area, with an estimated population of 500,000, is expected to have almost 15,000 units on-line during the same time frame.
 2. The addition of amenities (restaurants, retail) in the downtown area will improve sales over time.
- The home building industry is widely-known as one of the most inefficient industries in the country, largely in part to the increasing cost of complying with local, state, and federal regulations.
- Due to the housing slowdown, many subdivisions are left with a large number of undeveloped lots and amenities. Due to bonding requirements, all infrastructure and homes will eventually be completed. However, since bonds aren't specifically required for amenities, some may be eliminated and/or reduced.
- Efforts have been proposed in Georgia to rollback privilege taxes/impact fees in an effort to spur development.