East Tennessee

Regional
Active Project Report

2007-2008

EAST TENNESSEE ECONOMIC DEVELOPMENT AGENCY

TENNESSEE DEPARTMENT OF ECONOMIC & COMMUNITY DEVELOPMENT

TVA

www.eteda.org

Introduction

The co-located partnership of ETEDA, ECD and TVA works throughout the year with a number of companies that have expressed an interest in locating in our region. Those companies that have a definite plan to move or expand and have requested specific information about our 15-county region or assistance in their relocation process are defined as active projects.

The Regional Active Projects Report summarizes pertinent information about the source of the projects, the types of industries considering the 15-county region, as well as their building needs. The report addresses only those companies that were considering relocating to the region. Expansions of businesses in the region are not included. Overall, new businesses generate approximately 20% of an area's business growth while expansion of existing businesses accounts for 80%.

We are pleased that, even in a challenging economy, the region was able to maintain the same number of projects in 2008 as we had in 2007. The level of activity in the 4th quarter 2008 was very encouraging.

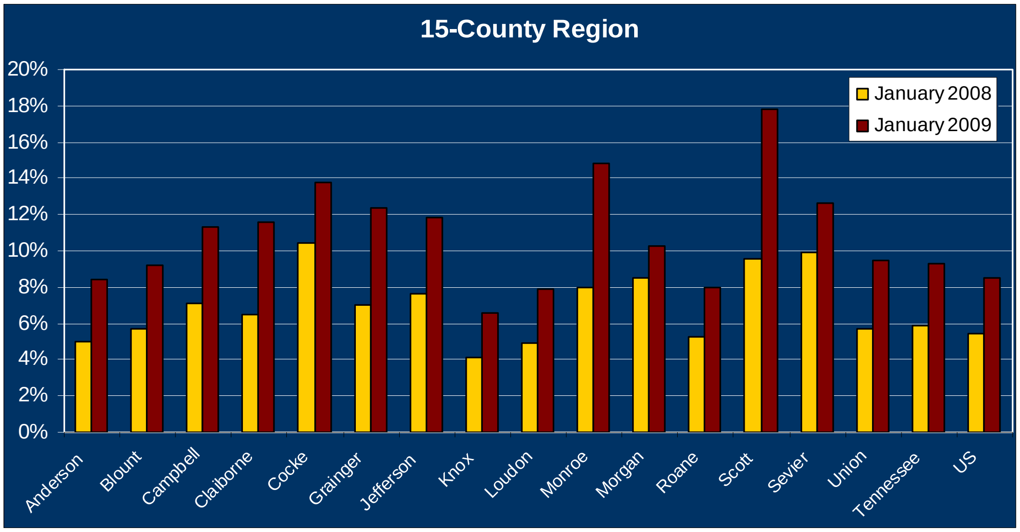
While each of the counties in our region are seeing an increase in their unemployment rates, progress was made in the creation of new jobs and capital investment throughout the region from 2007 to 2008.

	2007	2008
Jobs	**460**	**1029**
Capital Investment	**$49,947,600**	**$98,500,000**

Source: State of Tennessee Economic and Community Development

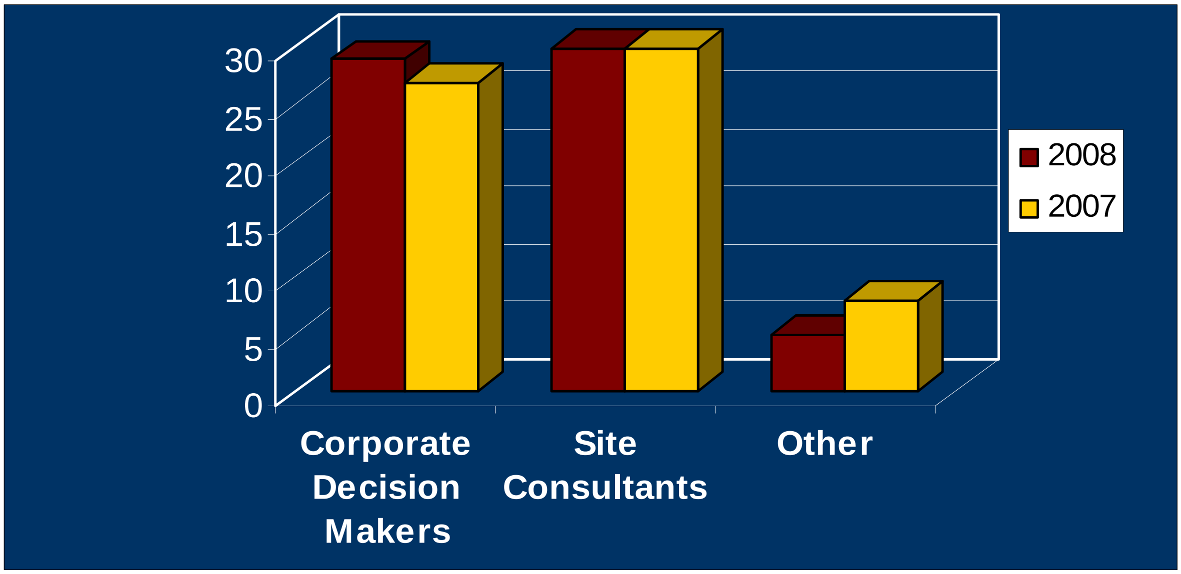
- Four projects announced in 2007, two of which had a combined capital investment of $47 million
- Several projects worked in 2007 announced in 2008
- Seven projects announced in 2008
- One 2008 project resulted in $55,000,000 in capital investment

Unemployment Rate Comparison



Source: TN Dept. of Labor and Workforce Dev.; Division of Employment Security R&S; ETEDA

Active Projects: Source



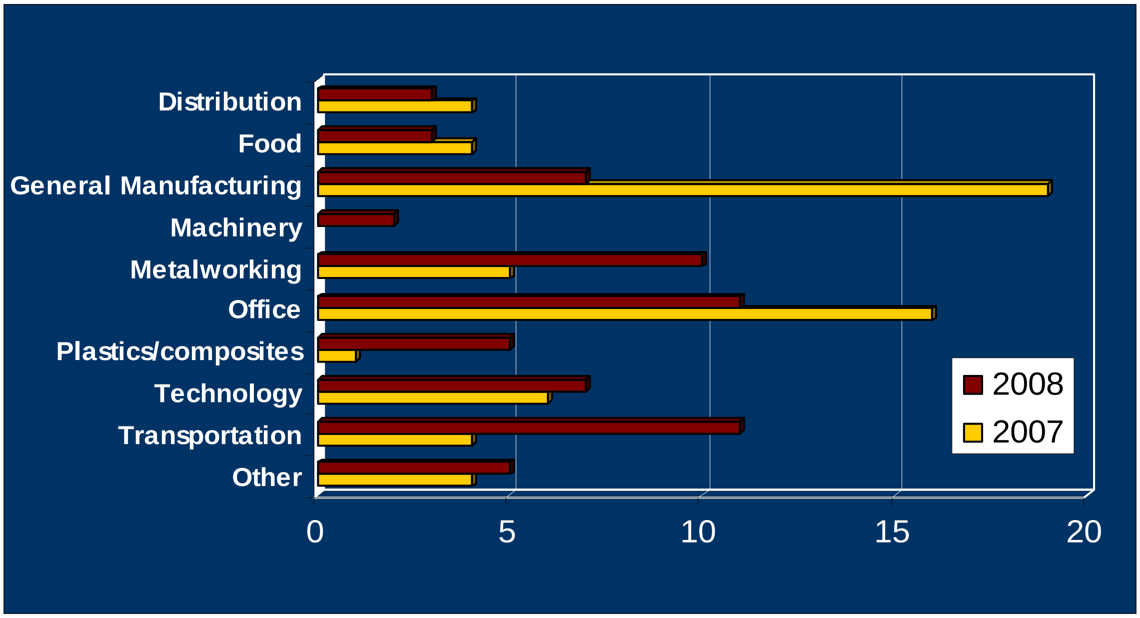
Source: ETEDA

	2007	2008
Projects from Site Consultants/Real Estate Brokers	**30**	**30**
Projects from Corporate Decision Makers	**27**	**29**
Projects from other sources	**8**	**5**
Total Active Projects	**65**	**64**

Source Analysis:

- Percentage of projects from site consultants/real estate brokers remained at 47% in 2008
  - 100% of office projects came from consultants
  - 34% of manufacturing projects were from consultants
- A 4% increase in the number of projects from corporate decision makers from 41% to 45% of total active projects in 2008
  - 66 % of manufacturing projects came from corporate decision makers

Active Projects: Industry

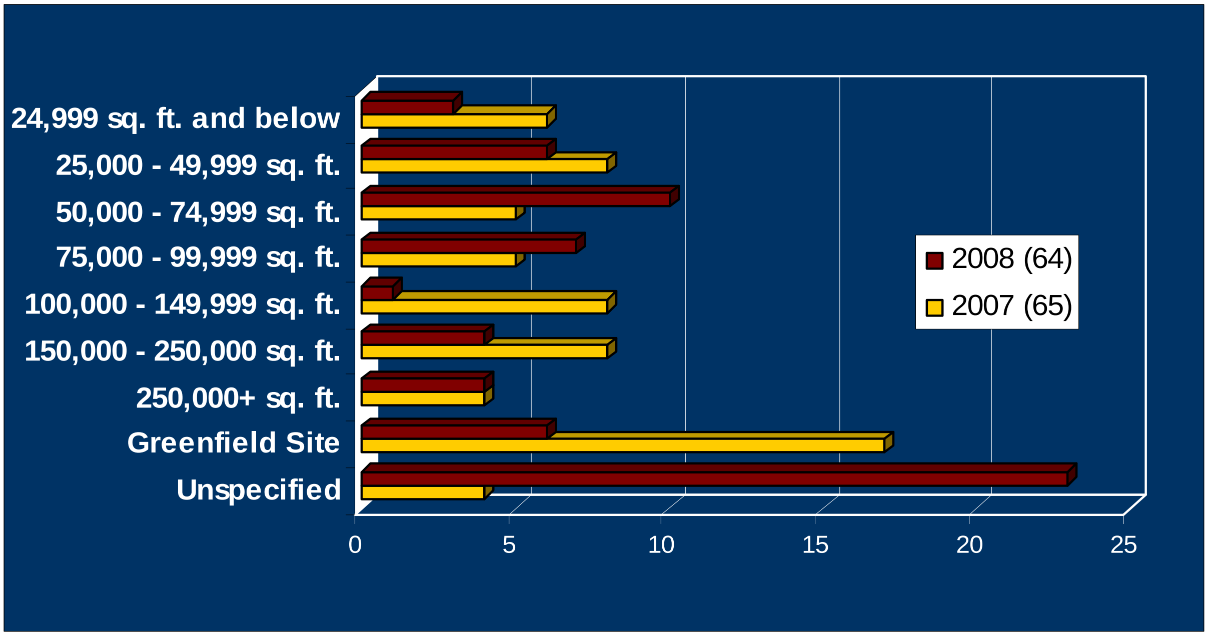


Source: ETEDA

Industry Analysis:

- 59% of projects were in the manufacturing sector, which includes general manufacturing, machinery, metalworking, plastics, food and transportation, an increase of 8% from 2007
  - 55% of total manufacturing projects were in transportation industries (automotive parts, aero industries, etc.) and metal working, a significant increase from 27% in 2007
  - Continued interest from the transportation sector is attributable to the Volkswagen plant locating in Chattanooga
- 17% of projects were in the office sector (customer service, corporate/back office) in 2008, compared to 25% in 2007
- 11% of projects were in technology-related industries (bio fuels, solar), compared to 9% in 2007

Active Projects: Building Requests



Source: ETEDA

Available Building Analysis:

- 55% of companies requested existing buildings, compared to 74% in 2007
- 48% of requests were for buildings with 50,000 – 100,000 sq. ft.
- 26% of requests were for buildings of less than 50,000 sq. ft., up from 32% in 2007
- 9% requested greenfield sites and/or build-to-suit opportunities, down from 26% in 2007
- 8% required a rail siding at the proposed location, compared to 5% in 2007
- 24 feet was the median clear ceiling height request for industrial/warehouse space
- 11% vacancy rate in manufacturing and bulk warehousing space in the Knoxville regional market *Source: NAI Global, Jan. 2009 Global Market Report*
- Class A office space vacancy rate: downtown 49%, suburban 12%, new construction 25% *Source: NAI Global, Jan. 2009 Global Market Report*

Economic Downturn Affects Tennessee and Region

Dr. Matthew Murray
Associate Director
Center of Business and Economic Research
University of Tennessee

The recession that has gripped the national and state economies since December of 2007 deepened as 2008 came to a close and there are few signs of relief on the immediate horizon. The increased pace of job losses and the sharp spikes in unemployment rates in recent months together suggest that the economy will get worse before there is a turnaround. The economy is expected to bottom out in the third quarter of the year and then see modest expansion through 2010.

Lower interest rates, the fiscal stimulus package and an improved residential housing market will be the source of renewed growth. Unfortunately, unemployment rates are expected to be sustained at high levels for the next several years. Tennessee's unemployment rate will reach at least 9.8 percent by the first quarter of next year, compared to a national unemployment rate of 9.2 percent in the same quarter.

Tennessee's residential housing market has lost all momentum and is now contracting at a significant pace. Census data for November of 2008 indicate that residential permits were down 71.9 percent on a year-over-year basis in Tennessee, much worse than the 53.3 percent contraction for the national economy. All of the metropolitan areas in East Tennessee have seen sharp downturns in residential permitting, including the 62.4 percent plunge for Knoxville.

All of Tennessee's 95 counties experienced unemployment rate increases in December. The statewide unemployment rate jumped to 8.6 percent in January while the U.S. unemployment rate moved to 7.6 percent. Figures for the ETEDA region are grim. The Knoxville metropolitan area had a 6.4 percent unemployment rate in December, up from 4.0 percent in December of 2007. Knox County enjoys the lowest rate in the region—5.7 percent. Unfortunately, 11 ETEDA counties have unemployment rates that match or exceed the statewide rate.

Most broad sectors of the economy contracted in 2008, with additional setbacks expected this year and in 2010. Wholesale trade, education and health services, and government were the only areas to see growth in 2008. Even these sectors saw growth weaken as the year unfolded. Statewide job losses will tally at least 2.2 percent in 2009. Manufacturing continues to be battered, with jobs falling 3.2 percent in 2008. The recession will push manufacturing job losses to at least 6.0 percent in 2009. Every broad industrial sector will contract this year and next year. The woes in the auto sector will push jobs losses in transportation equipment to 10.0 percent this year.

Despite the overall weaknesses in the local economy, businesses continue to look for sites and plan for expansion. The time is certainly ripe for planning, and low building costs should help promote stronger growth before year's end. Volkswagen's location in Chattanooga will help lift an otherwise sinking transportation sector, though job creation will not take place for some time.

Wholesaling will continue to be a regional strength, complementing the area's manufacturing sector and location. Solar and alternative energy looked especially promising through the first part of last year, but lower energy prices have taken the steam out of many of these initiatives. But energy prices will climb when the recession ends and alternative energy will once again look promising.

Growth Opportunities for Region

Regional Advantages

Workforce

- Workforce of over 550,000
- Manufacturing workforce of 56,000
- 75,000 college & university students
- 6,000 PhDs
- 45,000 technical workers

Costs

- Manufacturing labor costs 8% below national average
- Cost of living 9% below national average
- Housing costs 20% below national average
- Electric rates 26% below US industrial average
- Building costs 21% below national average

Accessibility

- Day's drive of 70% of US population
- Regional airport with over 120 flights daily
- Barge service
- 2 Rail Service companies

Technology

- Oak Ridge National Laboratory with 16 user facilities
- University of Tennessee, a research university

March 2009

While the current economy has been a challenge for our region, as it has for the entire country, it has also been a time of opportunity. As business changes and the focus shifts significantly to those sectors that will thrive in a changed economy, the economic development community in our 15-county region has refined its target industry sectors accordingly.

Projected areas of growth in the U.S. include healthcare, food products, alternative energy, supply chain (logistics and distribution), aviation and aerospace, and homeland security. Our region, with its unique and diverse assets, is well positioned for several of these sectors, particularly supply chain, food products, alternative energy and homeland security. We have seen an increased interest in our area from several of these sectors over the past few months

The region is seeing continued interest from suppliers in the automotive industry as a result of VW's plans to build a manufacturing plant in Chattanooga. There is also increased interest from the energy sector, specifically bio fuels and solar energy

Project activity in the 4th quarter 2008 was surprisingly strong. The majority of the projects were large scale, with high capital investment and employment potential. These larger companies were primarily in the automotive and solar panel manufacturing industries.

The region saw food processing, veterinarian supplements and customer service projects, among others.

On behalf of our regional partnership, we are looking forward to an upturn in the economy and are aggressively marketing our regional advantages to those business sectors that will have the capability to grow and prosper in our region.

Representing 15-counties

Anderson	Grainger	Morgan
Blount	Jefferson	Roane
Campbell	Knox	Scott
Claiborne	Loudon	Sevier
Cocke	Monroe	Union

East Tennessee Economic Development Agency
10215 Technology Drive, Suite 202
Knoxville, TN 37932
865-777-3833, Fax 865-777-5233

www.eteda.org