

From: David Eichenenthal and Dr. William Tharp, Ochs Center
To: Interested Parties
Re: CBER Analysis of May Town Center
Date: June 2, 2009

While we have had less than a day to review the findings of the Center for Business and Economic Research (CBER) on the economic impact of May Town Center, we wanted to briefly highlight what we see as some of the major features and findings of the report.

First, nothing in the CBER report disputes the highly speculative nature of the proposed May Town Center development. The report's findings with respect to economic impact are based on the developer's currently plan for MTC. As the report's authors note:

“We make no claims as to the reasonableness of these plans and caution that the timing and extent of actual development over the twenty years or longer life of the project could differ substantially from these original projections, as the developers themselves acknowledge.” (page 29)

In fact, the report implicitly questions the reasonableness of some of the assumptions related to build out and absorption. The authors limit their estimates of projected employment growth from May Town Center, noting that “the predicted net growth in jobs growth resulting from MTC would represent a substantial share of total Davidson County growth in recent years. This requires MTC to dramatically change the economic prospects for Davidson County over the coming years, and would make us uncomfortable anticipating any greater effect of MTC activity on Davidson County. (page 33)

Both the viability and timing of the project must be considered in assessing the project's estimated relative costs and benefits. For example, as the CBER report notes, “[T]he actual net impact on Davidson County will depend on a variety of factors including the success of the project and the relative pace of the build-out.” (page 51)

Second, the CBER report clearly finds that May Town Center will compete with Downtown and office development throughout Davidson County and assumes that half of all jobs at May Town Center would have otherwise located in Davidson County. As the report notes:

“Some proponents of the development may argue that MTC is unique and will not compete with existing locations in Davidson County, and therefore 100 percent of the tenants attracted to MTC would otherwise have located outside Davidson County. We believe this may be true for some firms but is *an unreasonable assumption overall*... The likelihood is MTC will generate a net positive effect on Nashville are employment because of its unique nature, but that *some MTC employment will*

represent the results of a zero sum competition with existing Nashville office space.” (italics added, page 35):

In fact, the report specifically states that, “[W]ithin Davidson County, MTC will compete with existing office developments in Downtown and Green Hills/Music Row and West End/Bell Meade.” (page 27) Moreover, the report assumes that “one half of the jobs located in MTC would have otherwise located in Davidson County.” (page 35)

Third, the economic impacts identified by the CBER report should be discounted to reflect the absence of a plan for a second bridge. According to the RPM Transportation Consultants report to the Commission, the plan for a single bridge to May Town Center would only support 90% of the so-called development Scenario 1, which would provide for 5 million square feet of office space, 4,000 residential units, 300 hotel rooms and 300,000 square feet of retail space. By comparison, the CBER report assumes a full build out of May Town Center – a combination of development Scenarios 1 and 2.

In the absence of agreement on plans for a second bridge, it would appear that any estimates of economic impact for May Town Center should be discounted to reflect the more modest build out.

Finally, the CBER report finds that any jobs and economic activity that would be generated by May Town Center would come at a significant cost to Metro Nashville. The CBER report rightly notes that any economic benefits that would be created by May Town Center would be offset by significant capital and recurring costs. CBER projects capital costs of \$37.9 million and recurring operating costs of \$29.8 million.

And as the CBER report notes, the degree to which projected revenue resulting from May Town Center will exceed these costs is dependent on a number of factors. The mix of use in May Town Center is one of the most important factors. Commercial and office uses produce more revenue and result in less public sector cost than purely residential uses.

For example, according to the CBER estimate, projected commercial property tax revenue would yield close to three and a half times the amount of revenue as residential property. On the other hand, the cost of schooling – driven solely by residential use – accounts for nearly half of all recurring costs.

Thus, as the development plan changes – as it is likely to do given the bridge capacity issue – the balance between cost and revenue is likely to change as well. It is significant that the developer has already changed the scale of the relative components of the project in a way that reduces revenue and increases cost. As the following chart notes, the developer’s economic impact analysis produced in February 2008 reflects a different mix of uses than what is currently proposed.¹ Projected office space has declined by twenty percent, retail space has been more than cut in half (although this change may be offset

¹ See, William W. Wade, May Town Center: Economic Analysis for Bell’s Landing Partners, February 4, 2008.

by the addition of a hotel) and the proposed number of residential units has increased by 60%.

| | February 2008 Plan | January 2009 Plan |
|----------------------|--------------------|-------------------|
| Office (square feet) | 10,000,000 | 8,000,000 |
| Residential (units) | 5,000 | 8,000 |
| Retail (square feet) | 1,500,000 | 600,000 |
| Hotel (keys) | 0 | 600 |

Conclusion

Overall, we believe that a fair reading of the CBER report supports many of the conclusions of our prior analysis. We will continue to review the report and its findings and provide you with supplemental comments if warranted over the next several days.