

CHARLOTTE BUSINESS JOURNAL

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Charlotte's top stories of 2009

Charlotte Business Journal

Perhaps it's a mark of the start of the turnaround. Or maybe just a sign of how badly 2008 turned out. But while the top business stories of the past year carry plenty of negative news, in most cases it's *less* negative. Yes, the banks — especially one in particular — faced a tidal wave of ups and downs. Yet in the end, Bank of America is still standing, has a new leader and appears moving in the right direction. The housing market? OK, boom times are long gone. But the numbers are starting to reflect a bottom. Even the hulking shell of the unfinished Park condo tower got a new owner this year.

Unemployment hits historic high

North Carolina has long prided itself on enjoying a stronger economy than the nation as a whole, at least as measured by the unemployment rate.

But with the sudden and sharp recession, the state has found itself worse off. For October, for example, the statewide unemployment rate was 11%. For the United States, the rate was 10.2%. That gap had persisted throughout the year.

Mecklenburg County posted unemployment of 11.1% in October, the latest month for which county figures are available. In counties with heavier reliance on manufacturing, the rates are far higher. In Catawba County, for example, troubles in textiles, furniture and fiber optics combined to push joblessness to 14.2%. In Cleveland County, the rate was 15.1%.

Manufacturing has been hit especially hard, with statewide job losses in that sector topping 64,000 for the year ended in October. More than 44,000 construction jobs were lost in the year.

Looking at the Charlotte region across all employment categories, the recession's impact can be measured by the loss of 48,800 jobs. The Charlotte-Gastonia-Concord area lost almost 6% of its total employment; by October, the regional jobless rate stood at 12%.

If there's any good news, it's the trend line is flattening. The N.C. Employment Security Commission says the rate has largely bounced between 10.7% in February and 11% in October. The high point was May's 11.1%.

During the year, the state borrowed \$1.3 billion from the U.S. Treasury to pay unemployment benefits.

Big challenges for Charlotte's biggest bank

For **Bank of America Corp.**, 2009 was a nightmare without end.

As a new year dawns for the nation's largest bank, prospects are a lot brighter.

But what a year.

It started with the bank being \$45 billion in hock to Uncle Sam under the bailout program. BofA took on \$25 billion in debt last fall to shore up its finances, while its year-ago acquisition of a troubled **Merrill Lynch & Co.** required a \$20 billion infusion.

That double serving meant quarterly payments of almost \$900 million, which the bank ended last month by repaying its debt. Among the indignities the bank had suffered by then was oversight of executive compensation. Chief Executive Ken Lewis, for example, got stiffed by the federal pay czar.

The makeup of BofA's board and executive team saw significant change in an effort to mollify regulators. Gone from the board are the generals and others with little experience in banking. A smaller board is led by Walter Massey, who was named chairman of the bank at the spring annual meeting. Shareholders stripped that title from Lewis. Some senior lieutenants had departed as well, including chief risk officer Amy Brinkley, chief of consumer banking Liam McGee and general counsel Tim Mayopoulos.

Meanwhile, some warts were exposed during a high-profile congressional investigation. There were questions about whether BofA knew and should have disclosed Merrill's financial condition before closing the deal. That an investment bank could need a bailout while doling out \$3.6 billion in year-end bonuses enraged the public and its representatives.

BofA struggled throughout the fall to find a successor to Lewis, attracting widespread criticism for lack of a succession plan. Brian Moynihan, who joined BofA as a result of its 2004 purchase of FleetBoston Financial Corp., is taking the helm.

Many questions remain about the future of the bank. It posted a net loss of \$2.2 billion for the third quarter, although Merrill Lynch contributed significant profits. Weakness in its loan book will linger into 2010.

Unfortunately, 2009 may be the gift that keeps on giving — the Merrill deal remains under investigation by New York regulators, and

investors have filed suit over stock losses.

From condo boom to condo bust

The housing market's struggles played out across uptown Charlotte in 2009 as one project after another encountered a sharp drop in demand and a sudden end to funding for their developers.

The boom that had once promised to reshape the skyline has been put on hold.

The numbers tell the story. Uptown has about 550 condo units that are under construction or sit vacant. Absorption has averaged about 200 units per year since 1995, according to **Charlotte Center City Partners**.

More product is in the offing. The Vue, the highest-profile residential tower uptown, experienced a work stoppage because of a dispute with its lenders that was resolved in October. But about half of the 403 units in the 50-story tower have yet to find an owner.

The imbalance would be worse if everything that was proposed had been built. One of the largest projects to stumble was 210 Trade, a 48-story condo tower that was being built above the EpiCentre entertainment complex a block from The Square. In October, its developer, **Flaherty & Collins Properties**, filed for liquidation for its local subsidiary after partially completing work on the complex. Its contractor had already stopped working on the project in 2008.

Work had halted at The Park in 2007, which was nearing buildout when its developer ran into money problems. The neglected building has since served as a visual reminder of the end of the housing bubble. But a Florida development company intends to change that. It bought the building in October. Plans call for completing it as for-sale condos, although work has not restarted.

Meanwhile, other projects will live on, but in different form. The 27-story Catalyst, for instance, is being converted to apartments due to sluggish sales of its 462 condos. Its owner announced that decision in October after earlier proposing an even mix of rental and for-sale units.

High-tech opportunity down on the (server) farm

The economy of Catawba County has suffered from the decline of traditional industries such as furniture and textiles. But it now can brag about profiting from the arrival of the information age. Last summer, **Apple Inc.** announced it would build a \$1 billion data center in Maiden.

Initial plans call for a 500,000-square-foot data center that could double in size and a total investment of \$2 billion. It will support Apple's online music store and phone applications business, serving as its East Coast data center.

Apple joins **Google Inc.** in coming to the foothills region. Google operates a \$600 million server farm in nearby Lenoir.

Catawba and regional officials foresee more data centers coming to the area. It boasts strong and redundant electric power, ample water and a fiber-optic infrastructure. Catawba, Caldwell, Burke, Alexander and Iredell counties are marketing themselves as the N.C. Data Center Corridor and hope to attract enough such facilities to rival Northern Virginia and the Quincy, Wash., region.

Another resource is public funding. The incentives offered to Apple include \$7.3 million in city and county tax breaks, and \$46 million in relief from the state.

Google had the advantage of coming first and in better times. Its 2007 decision to go to Lenoir was shaped by about \$260 million in tax breaks over 30 years.

Apple won't bring a large number of jobs — about 50 Apple employees and a couple of hundred contractors. But local officials say the impact could eventually be 3,000 jobs in related industries.

Finding energy for the region's economy

For nearly 20 years, Charlotte has been a major financial-services hub. Jim Rogers thinks it can now be an energy hub.

With an energy summit here last spring, the **Duke Energy Corp.** chief executive launched an initiative to make this region the "New Energy Capitol." And that effort, now led by the **Charlotte Regional Partnership**, has already made inroads.

Toshiba America Nuclear Energy announced in April a project-management and engineering center in Charlotte that will create 194 jobs over five years.

Siemens is expanding its local plant, which builds turbines and generators for power plants.

In December, **Babcock & Wilcox** announced the relocation of its headquarters to Charlotte from Virginia; the company serves the nuclear market.

In some respects, an energy hub has been developing here for years. Duke's long experience with nuclear power created demand for engineers and other technical talent, much of it in Charlotte. Many of those engineers have migrated to other employers but remain here. **Shaw Power Group** is based here, employing a large engineering team that's working on nuclear plants around the globe. In late 2008, the U.S. subsidiary of the French reactor manufacturer Areva announced plans to double its local 545-employee work force over three years.

But Rogers and others promoting the energy hub see additional possibilities, especially as global-warming and new carbon regulations

come to the forefront.

Solar power moved into the local spotlight during the past year. Charlotte-based **Sencera** ramped up its solar-panel business as it sought new sources of funding for a plant expansion. **SBM Solar Inc.**, another solar startup, is gearing up for expansion in Concord. Duke Energy, meanwhile, is teaming with commercial property owners to install rooftop systems in a program valued at \$50 million.

Housing market sees only modest gains

Builders, Realtors and homeowners are hoping the residential market has reached a bottom.

Fortunately, there were some encouraging signs as an otherwise brutal year came to an end.

November saw a 1% gain in the average sales price in the Charlotte market from the year before, the first such increase in two years. The number of sales jumped 31% from November 2008, following October's gain, which was the first in two years.

To measure the market against its dismal performance in 2008 might overstate its health. Construction is nowhere close to pre-bust levels. Through November, builders had pulled 1,564 single-family permits this year versus 2,652 for all of 2008.

In 2005, Mecklenburg County issued almost 8,000 single-family permits.

Employment in residential construction is also suffering. The sector counted 3,171 workers in the second quarter; employment totaled 5,900 in the second quarter of 2005.

Foreclosure activity, meanwhile, is running at high levels. The number of foreclosures in North Carolina rose 17% in November from a year ago. RealtyTrac Inc. reports foreclosures across the nation fell 8% in November from October, the fourth consecutive monthly decline. But housing analysts warn of a great overhang of distressed properties that lenders have not yet put into foreclosure.

Analysts also warn that recent activity in housing sales may wilt once the large federal tax credit for first-time buyers expires. Historically low interest rates may come to an end once economic activity accelerates, boosting the cost of borrowing.

Amid economic uncertainty, corporate relocations return

The past year has been one of angst over Charlotte's loss of corporate clout. As 2009 began, **Wells Fargo & Co.** swallowed up **Wachovia Corp.** As the year progressed, so did fears that Bank of America Corp.'s headquarters would be lost as well.

That's why Electrolux has suddenly become Charlotte boosters' favorite brand of household appliance.

Sweden-based **Electrolux AB** said Dec. 16 it will move its North American headquarters here, bringing at least 738 jobs over the next five years.

Never mind that the news was overshadowed within hours, when BofA announced its selection of Brian Moynihan as its new — and Charlotte-based — chief executive. The Electrolux project is Charlotte's biggest corporate-relocation coup since insurer Royal & SunAlliance USA's arrival 25 years ago.

The appliance maker's administrative offices will occupy the former **First Charter Corp.** headquarters building in the University area, taking a 225,000-square-foot facility that has been on the market since 2006.

And Electrolux's decision to consolidate in Charlotte was followed six days later by **Zenta Mortgage Services'** announcement that it will hire 1,000 workers here, including 250 in the next 12 months. Zenta also is making Charlotte its center of operations in North America.

Those end-of-the-year surprises came after a couple of other key corporate moves to this market.

Health-care alliance **Premier Inc.** made Charlotte its official home in October, shifting from its longtime headquarters in San Diego. Premier's three main divisions and 750 employees — including CEO Susan DeVore — were already based here. The company plans to add 300 employees in Charlotte over the five years. It will move to Ballantyne Corporate Center, taking all 10 stories of the 262,500-square-foot Boyle building, in February 2011.

And **GMAC Financial Services** is in the middle of a 200-job expansion here. That includes moving its back-office operation in Ballantyne to a 15-story tower at 440 S. Church St. When the relocation is completed early next year, GMAC will have about 400 workers uptown.

Banking-center image loses its luster

The city that found itself a national banking center didn't get to enjoy it long.

Bank of America Corp.'s rocky finances last year prompted widespread speculation of an eventual relocation of its headquarters to New York, while Wachovia Corp.'s stumble led to its acquisition in late 2008 by Wells Fargo & Co.

The financial sector is reeling amid the near-collapse of the banking sector. The mortgage boom is over, gutting demand for brokers and lenders. Fewer loans means less need for workers to keep up with payments. Ditto for credit cards, commercial loans, insurance policies and just about any other financial product.

Financial-sector employment reflects the downdraft of demand. In the second quarter, the sector accounted for 47,750 jobs in Mecklenburg County, a loss of 6,500 jobs in two years.

And Not just any jobs, either. With an average weekly salary of more than \$1,500, the industry's struggles mean a decline of \$548 million in direct annual wages from two years ago.

There was a good bit of fear about how Wachovia's change of ownership would affect its local operations. With good reason — shortly before the agreement with Well Fargo was reached, Wachovia said it was cutting more than 10,000 jobs.

Under Wells, however, the cuts have not been dramatic. Wells has total employment of 265,100, down 4,800 from the second quarter. Wells has been hiring in some areas, and Charlotte is serving as its East Coast base.

One visible sign of a declining presence in Charlotte is the tower Wachovia commissioned on South Tryon Street. That structure, originally to be the bank's new headquarters, will now be the home of Duke Energy Corp.

Nonprofits struggle as demand for services grows

Circumstances could not be much worse for Charlotte-area nonprofit organizations.

After the compensation arrangement for the chief of the local United Way was revealed in 2008, the public's outrage led to a sudden and pronounced drop in contributions. Gone are the days of record-breaking campaigns to benefit **United Way of Central Carolinas Inc.**, which funnels financial support to 90-plus agencies. The fall 2008 campaign raised \$31 million; down \$14 million from 2007. This past fall's goal was \$22.7 million, a figure that also reflects the worst economic climate since the Great Depression.

A study by The Bridgespan Group estimated revenue for the area's largest nonprofits could fall by as much as \$180 million in the fiscal year that began in July. The 769 organizations in its study had revenue last year of more than \$1 billion. Cuts in corporate, private and government funding, as well as declines in investment returns, fuel the decline.

The nonprofit world is responding by attacking the expense side. Besides paring staff and nonessential expenses, nonprofits are looking for ways to reduce administrative costs by sharing functions with other agencies. In some cases, agencies that address the same social cause have merged.

Meanwhile, **Foundation For The Carolinas** is leading an effort dubbed the Community Catalyst Program to create efficiencies and foster innovation among nonprofits. **The Leon Levine Foundation** has seeded the effort with a \$1 million challenge grant. Founders Leon and Sandra Levine, whose fortunes were made at Family Dollar Stores Inc., have also been making a steady stream of contributions to nonprofits.

The United Way is betting on Jane McIntyre to get the agency on better footing. She took the reins in August, replacing Gloria Pace King, who was terminated in September 2008. McIntyre has been busy meeting with the 90-plus agencies affiliated with United Way and reshaping the organization after hearing from employees, donors, affiliates and volunteers.

McIntyre had been chief executive of the YWCA of the Carolinas Inc.

Recession hits uptown office market

Not long ago, Charlotte boasted the lowest downtown office-vacancy rate for any major city in the country. That was seen as the market's endorsement of the center city as a national business hub.

Developers, of course, saw it as a sign that more product was needed. Center city boosters saw limited available space as an impediment to growth.

That product is indeed coming, but its arrival will be met by a significantly weaker market. Major office uptown projects slated for completion include the 1.35 million-square-foot Duke Energy Center and the 750,000-square-foot 1 Bank of America Center.

Those projects follow recent completion of the 390,000-square-foot NASCAR Plaza building and the 360,342-square-foot 440 South Church building.

At the end of third quarter, uptown reported a 7.6% vacancy rate. In June 2008, that rate was 2.1%. But with the flood of new space, uptown's vacancy rate soon could exceed 10%.

While inventory levels may be a concern for uptown landlords, they can at least derive some comfort from not owning suburban properties. The third-quarter vacancy rate for suburban offices was 20%, the highest level in four years.

And uptown landlords can point to amenities to attract tenants. Wachovia Corp.'s development efforts for a cultural campus on South Tryon Street are paying off. The Bechtler Museum of Modern Art opens this weekend; the Harvey B. Gantt Center for African-American Arts & Culture and Knight Theater opened in the fall. The new Mint Museum is slated to open in October.