

## Microclimates And Groundhog Day

by [Steve Brown](#)

This time of year most cities hold their traditional Ground Hog Day celebrations. It's a favorite holiday of ours because everything hinges on a furry critter, but we wonder if Phil would reschedule for April if he lived in Gunnison, CO instead of Punxsatawney, PA. When we think about the coldest places to live, usually MN and the Northeast come to mind. While it is true these are cold areas, there are a number of places in the U.S. where mountain topography can cause extremely low temperatures in the valleys that surround them (freezing air slides down the mountains to create a temperature inversion). These microclimates on valley floors can keep temperatures near 30 below zero for days at a time and CO tops the list for cold microclimates in towns like Gunnison, Alamosa and Silverton.

It strikes us that economic growth in the U.S. is experiencing similar microclimates of activity. There are some areas where business is hot and others where it may be ice cold. This means overall national averages look good and show little volatility, while localities may experience bright economic skies or economic thunderstorms from time to time. Looking at the most recent Fed report from all the district banks, the average shows most reported improvement in overall activity. That is good and a welcome trend for banks, but underneath all that there are usually microclimates of activity worth exploring. Bankers should check out this report from time to time to see what may be happening in their own region of the country.

Another place to stay on top of industry and economic microclimates as a proxy for loan demand is in real estate. Many community banks make quite a living in real estate and while vacancies are not a perfect measure of economic activity, they do help us understand trends. Looking at business real estate vacancies, especially in the case of retail and office, we see the lowest levels and the highest prices are in some of the fastest growing regions of the country.

Looking even closer at recent data from Reis, Inc., we find retail vacancies in Q4 nationwide averaged 10.4%, but in San Francisco (with the lowest vacancy in the nation), the rate was only 3.4%. Numbers were also strong in New York City and environs, and also in Los Angeles. However, if you live in Dayton, Tulsa or Chattanooga, retail vacancies are closer to 16%. Office vacancies are another data point and are also higher in general. According to Reis, the national average is 16.9%, with San Francisco once again the lowest at 12.9%, while in Detroit and Dayton are over 25%.

In response to the decline of vacancies and perceived opportunity, bankers are expanding into high growth areas like San Francisco and other regions. New loan production branches and private banking offices of existing institutions are also springing up in areas of economic activity. Further, there have been almost no new bank charters in the last few years, so many see opportunity to capture new customers. Even malls and retail spaces are repositioning to meet demand in high growth areas.

For most community banks, geographic location is one the least flexible aspects of the business model. However, if your bank can position itself to take advantage of a nearby microclimate of high growth, there could be real opportunity. Whether there is a target demographic driving the boom or other reason for the growth, position product offerings to meet their needs and you are off to the races.

Like Phil the ground hog, popping your head up now and again to check for opportunity may deliver future results no matter the weather in the industry around you. Opportunity abounds, so there is no reason to worry about a shadow.

## BANK NEWS

### **Bank Closed**

Regulators closed Syringa Bank (\$153mm, ID) and sold it to Sunwest Bank (\$673mm, CA) under a purchase & assumption agreement. Sunwest gets 6 branches, all deposits (excluding brokered) for a 0.75% premium and essentially all of the assets.

### **M&A**

Bank of the Ozarks (\$4.7B, AR) will buy Summit Bank (\$1.2B, AR) for about \$216mm.

### **M&A**

AltaPacific Bank (\$238mm, CA) will acquire Mission Oaks National Bank (\$100mm, CA) for about \$3.5mm in cash.

### **M&A**

Kearny FSB (\$3.2B, NJ) will acquire Atlas Bank (\$110mm, NY) for an undisclosed sum.

### **M&A**

CenterState Bank of Florida (\$2.3B, FL) will acquire First Southern Bank (\$1.0B, FL) for \$189.5mm.

### **M&A**

CapStar Bank (\$1.1B, TN) will acquire the mortgage lending company Farmington Financial Group for an undisclosed sum. Farmington has about 30 employees.

### **M&A**

Brokerage and investment banking firm Stifel Financial (MO) will acquire public finance investment banking firm De La Rosa & Co. (CA) for an undisclosed sum. De La Rosa has about 35 employees.

### **Branch Purchase**

Union Bank & Trust (\$229mm, NC) will acquire a branch (plus certain loans and deposits) from Southern Bank and Trust (\$2.3B, NC) for an undisclosed sum.

### **Branch Purchase**

Salisbury Bank and Trust (\$585mm, CT) will acquire a branch from Union Savings Bank (\$2.4B, CT) for a 2.32% deposit premium.

### **Bigger Fine**

The DOJ said it has doubled the penalty it originally sought against Bank of America (Countrywide) to \$2.1B, after a jury found the company liable in a recent mortgage fraud case.

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