The 28th Annual CORPORATE SURVEY & The 10th Annual CONSULTANTS SURVEY

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The results of our survey show a modest improvement in short-range new facility and expansion plans, as well as a realignment of site selection priorities with the availability of skilled labor being the number-one concern.

The economic tide finally appears to have turned. Real GDP growth increased at an annual rate of 3.2 percent in the fourth quarter of 2013, i.e., from the third to fourth quarter, according to the Bureau of Economic Analysis. And, economists were predicting 2.6 percent to 2.7 percent overall GDP growth in 2014, with the second half of the year seeing stronger growth than the first - even climbing to 3 percent again by year's end, according to an analysis from Kiplinger.

Year-end news on the manufacturing front was also very encouraging. The Institute for Supply Management's PMI (Purchasing Managers Index) registered 57 percent in December 2013, the second highest reading of the year. Of 18 manufacturing industries tracked by the ISM, 13 reported growth in 2013's final month. And December's manufacturing Employment Index of 56.9 was the highest since June 2011.

The Labor Department reported that December 2013 overall job gains of 74,000 were less than previously expected. Commenting on the report, Capital Economics Chief U.S. Economist Paul Ashworth noted that he suspects the weakness was due in part to unseasonably harsh weather in December. However, unemployment reached a five-year low of 6.7 percent.

U.S. consumer confidence also rebounded in December, said The Conference Board, registering 78.1 (1985=100). On the last day of the year, Lynn Franco, director of Economic Indicators at The Conference Board, noted, "Consumers are in better spirits today than when the year began."

In order to find out if the corporate executives who read Area Development magazine also have more confidence in the U.S. economy, we asked them about their location and expansion plans and site selection priorities for the year ahead. Our survey was conducted in the fall of 2013. By the time we went to press on this issue in February 2014, continued severe winter weather was having a dampening effect on the economy. Nevertheless, these are the results of our Corporate Survey as recorded in Q4 2013.

The Corporate Survey Respondents

All told, 240 individuals responded to our 28th annual Corporate Survey. Of those, the majority (39 percent) are with manufacturing companies, and about a fifth represent the financial services/insurance/real estate sector (Figure 1). More than 40 percent are also the owners or chief executives of their firms, and 18 percent manage their companies' real estate assets (Figure 2).

It follows that 45 percent of the respondents make their firms' final location decisions, while 36 percent give a preliminary recommendation (Figure 3). Sixty percent claim that the primary player in their companies' location decisions is executive management, but 18 percent say their companies' real estate departments are significantly involved (Figure 4).
Interestingly, the same percentage say their firms operate just one domestic facility as five or more domestic facilities - 37 percent in each case. When it comes to foreign facilities, 39 percent of the respondents say they operate just one, while 43 percent indicate their companies operate five or more (Figure 5).

Nearly half of the respondents (47 percent) report their companies employ fewer than 100 people, but nearly a third (31 percent) employ 500 or more workers (Figure 6).

The majority (60 percent) experienced no change in the number of their companies' facilities over the 12 month period prior to the survey. However, 31 percent did increase their number of facilities (Figure 7) - up from 29 percent who made that claim when taking the 27th annual Corporate Survey. More than half say this was in response to increased sales/production, and 40 percent say new facilities were added to give their companies better access to new or existing markets (Figure 8). Of the just 8 percent of the respondents who claim to have decreased their number of facilities over the past 12 months, nearly half (46 percent) report they did so in order to lower operating and/or labor costs (Figure 9).

On another positive note, when asked about the effect of the slow economic recovery on their facility plans, 20 percent of the respondents to our 28th annual Corporate Survey say they still plan to open new facilities and 30 percent say they will increase hiring (Figure 10) - up from 20 percent who made that claim in response to the same question in 2012. Only 10 percent say the slow recovery would cause their companies to close or consolidate facilities - down from 15 percent in 2012. In fact, 40 percent of the respondents expect the economy to achieve a more continuous growth track this year (Figure 11). In 2012, 56 percent of the corporate respondents were projecting the economy would not improve for at least one to two years.

Projections for New Facilities/Expansion/ Relocation

When asked specifically about their timeline for opening new facilities, 45 percent of the respondents say they expect to open new facilities within a year or two (Figure 12) - up from 39 percent who had short-range new facility plans in 2012. However, when it comes to the number of new U.S. facilities to be opened, this year's Corporate Survey respondents are proceeding more cautiously: More than half expect to open just one new domestic facility, about a quarter will open two, and another 24 percent will open between three and five or more (Figure 13). In 2012, 39 percent of the respondents expected to open just one domestic facility and 35 percent had plans for three to five or more.

The overall locations slated for new U.S. facilities, however, have not changed significantly. Once again the South (Alabama, Florida, Georgia, Louisiana, Mississippi) is the regional favorite, projected to garner 16 percent of the new domestic facilities, followed by the Midwest (Illinois, Indiana, Michigan, Ohio, Wisconsin) at 14 percent (Figure 14). There is a slight uptick in projects planned for the MidAtlantic region (Delaware, Maryland, New Jersey, New York, Pennsylvania) - 13 percent of the domestic new facility projects will go there, followed by the South Atlantic (North Carolina, South Carolina, Virginia, West Virginia) and the Southwest (Arizona, New Mexico, Oklahoma, Texas), with each region expected to garner 11 percent of the total projects.
Manufacturing and warehouse/distribution facilities represent about a quarter each of the new domestic projects (Figure 15). Nevertheless, two thirds of the Corporate Survey respondents say these facilities will be small in terms of their employment numbers with fewer than 50 workers (Figure 16), and fully 70 percent say they will represent an investment of less than $10 million (Figure 17).

About half of the respondents to the 28th annual Corporate Survey also plan to open just one new foreign facility, while another quarter plan to open two (Figure 18). There has been an interesting change in where the responding corporate executives will place these new foreign facilities. One fifth of the new foreign facilities are slated for South America and 16 percent for Western Europe (Figure 19) - up from 12 percent for each region as planned by 2012's Corporate Survey respondents.

Importantly, plans for Asia have been halved - just 14 percent of the new foreign facilities are currently planned for this region by the survey respondents, down from 28 percent planned for Asia by 2012's respondents to our Corporate Survey. Specifically, China will garner 41 percent of the new facilities planned for Asia (Figure 20) - down from 64 percent projected to go to that nation by 2012's Corporate Survey respondents. This is no surprise considering the fact of China's rising labor costs, which have made other Asian destinations more desirable. Case in point: New facilities planned for Vietnam comprise 14 percent of total Asian facilities planned by this year's survey respondents, up from just 5 percent in 2012. Plans for new facilities in India remain steady at 17 percent of the total.

One third of the planned new foreign facilities will house manufacturing operations and about a fifth will be warehouse/distribution centers (Figure 21). Interestingly, 30 percent of the new foreign facilities will house data center, back office, or shared services operations, as compared with just 19 percent comprising those categories on the domestic side. Also, the Corporate Survey respondents expect to create more jobs at their foreign facilities than at their planned new domestic ones - 35 percent say their new foreign facilities will create more than 100 jobs (Figure 22), while only a fifth of the survey respondents projected that number of new jobs at their planned new U.S. facilities. The Corporate Survey respondents also plan to spend more money on their new foreign facilities than on their domestic ones - 17 percent say they will invest more than $100 million on new foreign facilities (Figure 23); only 8 percent will spend that amount on their planned new U.S. facilities.

What is preventing the respondents' firms from investing more money in U.S. facilities? Nearly two-thirds cite the United States' economic instability, i.e., inability to resolve budgetary issues; more than half are concerned about the impact of new healthcare regulations (Affordable Care Act) on their businesses; and 46 percent blame their lack of spending on excessive government regulation (Figure 30). In fact, these concerns were also cited in the Q4 2013 National Association of Manufacturers (NAM)//ndustry/\Veek Survey of Manufacturers: 77.2 percent of those respondents cited rising healthcare/insurance costs as a current business challenge; and 76.1 percent cited unfavorable business climate, including taxes, regulations, and government uncertainties.
The short-term expansion plans of the respondents to our 28th annual Corporate Survey are more robust than the expansion plans of 2012's survey respondents - 23 percent say they will expand a facility at their present location within one year (Figure 24). In 2012, only 16 percent of the corporate respondents said they had one-year expansion plans. However, expansion plans two to three years out are down from 31 percent in 2012 to just 19 percent for 2013's respondents.

Additionally, 60 percent say their expansions will create fewer than 20 jobs (Figure 25), while only 49 percent made that claim in 2012.

Similar to the 2012 results, 21 percent of the 2013 Corporate Survey respondents have oneto two-year relocation plans for a domestic facility (Figure 26). Of those with relocation plans, 48 percent say high taxes are their reason for relocating, 30 percent are doing so to bring down labor costs, and about a quarter cite excessive government regulations as well as labor availability as their reasons (Figure 27).

Nevertheless, only 7 percent expect to relocate a domestic facility offshore. And, although the news is full of reports of U.S. manufacturers reshoring operations, just 3 percent of this year's Corporate Survey respondents claim they will actually locate a foreign operation back to the United States (Figure 28). An interesting oped piece in The New York Times (1/25/14) speaks to the fact that this re-shoring trend creating a manufacturing "renaissance" represents only a trickle of jobs coming back to the U.S. In response to our survey, the small percentage re-shoring cite rising foreign labor costs, problems finding qualified and/or English-speaking labor, and costs of transporting supplies/products as their primary reasons for doing so (Figure 29).

Factors in the Location Decision

When planning for new facilities, expansion, and/or relocation, those charged with making the decisions take numerous site selection and quality-of-life factors into consideration. As in years past, we asked the Corporate Survey takers to rate these factors as either "very important," "important," "minor consideration," or "of no importance." The ratings in terms of percentages are shown in Figure 31. We then add the "very important" and "important" ratings so that we can rank the factors in order of importance, as shown in Figure 32. The quality-of-life factors are ranked separately from the site selection factors.

Historically, highway accessibility and labor costs have ranked as the top factors in our Corporate Survey respondents' location decisions. However, this year, those factors were outranked by availability of skilled labor, which is considered "very important" or "important" by 95.1 percent of the respondents and is in 1st position. Manufacturers' and other firms' need for skilled labor is becoming increasingly pronounced and has been well documented. An aging worker demographic, along with a lack of interest in manufacturing careers among young people, has put the issue at the top of site selectors' priorities. A new study from ThomasNet.com says this is "a ticking biological clock" for the manufacturing sector.
This is confirmed by the fact that more than 70 percent of the survey respondents say high unemployment rates are not making it easier for them to find the labor they need. More than 70 percent also say the unemployed are primarily lacking advanced skills, e.g., machine tool programming, advanced welding, etc. (figures 33 and 34).

Additionally, half of the Corporate Survey respondents say they are very or somewhat dependent on contract workers, though most (85 percent) say contract labor accounts for less than 25 percent of their workforce (figures 35 and 36).

Of course, highway accessibility and labor costs are still paramount in the location decision; these factors are ranked 2nd and 3rd, respectively, considered "very important" or "important" by 93.5 percent and 90.8 percent of the survey respondents. The nation's aging infrastructure is, in fact, on everyone's mind. Bipartisan legislation was just introduced in Congress by Senator Roy Blunt (R-MO) and Senator Michael Bennet (D-CO) to establish a $50 billion American Infrastructure Fund to promote infrastructure improvements and create jobs as part of the Partnership to Build America Act.

And labor costs are always a primary factor in location decisions. According to PricewaterhouseCoopers, by 2016, U.S. manufacturing hourly wages are forecast to be $35.61. And although labor costs in China are rising faster than those in the United States, for labor-intensive manufacturing industries, the cost differential in absolute terms is not likely to result in reshoring, says Robert McCutcheon, PwC Partner and U.S. Industrial Products Sector Leader. He adds that manufacturers of products that are costly to transport, such as heavy metals and industrial machinery, might consider reshoring to lower their transportation and energy costs and might, in fact, be looking at states where right-to-work laws have kept hourly wages relatively low.

The right-to-work state factor was, in fact, tied for 11th place in the rankings this year, considered "very important" or "important" by 80.6 percent of the Corporate Survey respondents. Two states in the heavily unionized Midwest, Michigan and Indiana, have recently pass right-to-work legislation in an effort to compete for industry investment and jobs.

Among the top-10 site selection factors, one of two showing a five-position jump in the rankings is state and local incentives; this factor went from 13th in 2012 to 8th place in 2013's Corporate Survey rankings, increasing 10.8 percentage points and now considered "very important" or "important" by 81.9 percent of the respondents. When primary considerations of labor and accessibility are satisfied, corporate executives look to incentives to keep costs in check.

In response to a related question about types of incentives, more than 70 percent of the survey respondents say they consider tax incentives most important when making a location decision (Figure 41), and two thirds say incentives are very or somewhat important to a project moving forward in a particular location (Figure 42). However, slightly fewer than half say they have actually received and utilized incentives in the past. Of those that have, about half only received a quarter or less of the incentives initially estimated value (Figure 43).
It should be noted that energy availability and costs dropped from 6th to 10th position in the rankings, although this factor is still considered "very important" or "important" by more than 80 percent of the Corporate Survey respondents. When asked separately about the impact of energy costs on operations or distribution networks, surprisingly, about two thirds of the respondents say these costs are having no effect (Figure 37). The declining cost of U.S. energy appears to be having a noticeable and positive influence. In fact, half of our survey respondents say new unconventional sources of energy, i.e., shale-derived natural gas through fracking, will continue to drive down the cost of energy. However, 80 percent say this will not impact their location decisions (Figure 38) and they are continuing to make energy-saving modifications to existing facilities (Figure 40).

Another site selection factor showing a five-position jump in the rankings, as well as the greatest percentage increase in importance overall, is available land. This factor jumped from 18th to 13th position but, more importantly, it increased an astounding 21.3 percentage points and is now considered "very important" or "important" by 80.3 percent of the Corporate Survey respondents. Although communities do need available land to attract and grow businesses, especially those requiring large plots with room for expansion, this factor is usually contingent on the specific project and generally comes into play only after other site selection priorities have been met.

However, a deeper analysis of the importance of available land may be gleaned from a 2012 study of available land in the Portland, Oregon, metro area conducted by the Value of Jobs Coalition, a partnership of city and regional leaders, along with the Oregon chapter of NAIOP. According to the study results, "A consistent inventory of sites is a key requirement for meeting market demand, either by expanding local employers or attracting new employers." And although not all firms require large sites, according to the study, "Nationally or globally scaled firms that can have a significant impact on regional economic growth...do require large parcels."

In a related question, we asked our Corporate Survey takers about the importance of the existence of a shovel-ready or pre-certified site in the location process. More than 60 percent deem this an important consideration (Figure 48). Consequently, if a community does not have an available site with proper infrastructure and utilities in place, it may be passed over by those looking to build a new facility.

It is interesting to examine some of the other factors that have shown large increases or decreases in their importance ratings. The factor showing the second-largest increase in importance - gaining 12.8 percentage points - is proximity to suppliers. Although this factor maintained its 19th position in the rankings, it is now considered "very important" or "important" by more than two thirds of the Corporate Survey respondents. Keeping shipping costs down and distances short when sourcing materials is increasingly important to a company’s competitiveness. A related factor, raw materials availability jumped three spots in the rankings to 20th position and grew 10.8 percentage points, representing the fourth largest increase, for a combined "very important" or "important" rating of 60.5 percent.
Availability of long-term financing showed the third-highest percentage increase in importance, jumping 11.7 percentage points and considered "very important" or "important" by nearly three quarters of the survey respondents, but just moving up one spot to 16th in the rankings. Businesses considering new facility or expansion projects need access to long-term financing in order to proceed with their projects without tying up their available resources.

Although the railroad service factor is usually ranked near the bottom of the list of site selection factors, this year it shows the largest decrease in the importance ratings - minus 14.2 percentage points and only considered "very important" or "important" by 29.4 percent of the Corporate Survey respondents. Since shipping goods by rail is more fuel-efficient than shipping over the road, the only explanation that can be offered for the decrease in importance of this factor is the makeup of the respondent pool, i.e., 51 percent in the non-manufacturing and nonwarehouse/distribution sectors.

Quality-of-life factors are ranked separately from the other site selection factors. Nevertheless, only one quality-of-life factor would be rated among the top-10 factors overall - low crime rate, with a combined "very important" or "important" rating of 80.9 percent. This is historically the top-ranked quality-of-life factor, despite the fact that the U.S. crime rate has dropped over the last two decades.

Although rankings of the nine quality-of-life factors don't change dramatically from year to year, eight of the nine quality-of-life factors have actually seen their combined importance ratings increase. As the economy improves, there might be more focus on life outside the workplace. Additionally, the highly skilled workers need by today's advanced technology firms are more mobile and look for desirable places to live, as well as work (see article on "quality of place" in this issue). With that in mind, the quality-of-life factor showing the largest percentage increase in importance - up 13.5 percentage points with a combined "very important" or "important" rating of 66.4 percent - is recreational opportunities.

Also increasing nearly 10 percentage points are healthcare facilities and ratings of public schools. The increased importance of these two factors is no surprise considering the aging demographic of the current work force, as well as the pressing need for a qualified up-and-coming labor pool.

Related to quality of life is a location's weather patterns or climate. Recent devastating hurricanes and other weather-related disasters, as well as the bitter cold sweeping the nation this year, brings weather concerns to the forefront. Nearly half of the Corporate Survey respondents say they consider weather-related factors in the location decision, with more than 40 percent saying these factors are very or somewhat Important (Figure 50).

Sources of Information and Project Timelines

More than 80 percent of the Corporate Survey respondents say they utilize site magazines like Area Development for information upon which to base their location decisions. About half also use general business and financial publications as a site selection resource.
While 62 percent of the respondents search the Internet for site and facility planning information, 83 percent claim social media, e.g., Twitter, LinkedIn, etc., is not utilized in this capacity. Three quarters search online for data on specific locations; more than 60 percent are looking for listings of available sites and buildings, such as those found on FastFacility, for example; and more than half search for contact information at economic development organizations, as well as for industry-related news on websites like AreaDevelopment.com.

Forty-two percent of the survey respondents say they start the information-gathering process from three months to a year out, with nearly 60 percent making contact with the locations of interest from a month to three months later. An overwhelming majority (89 percent) put between one and five locations on their "short list," and about half will visit up to five of those finalist locations before making their site selection decision, while a third will just visit one or two. Generally, most location decisions are made within three months to a year of initial contact, say more than 80 percent of the respondents.

Nearly 60 percent of those responding to our 28th annual Corporate Survey say they do not use outside consultants when making a location decision. Of those that do, 60 percent ask the consultants to perform location studies/comparative analyses and/or the real estate transaction. About 40 percent of those utilizing consultants' services do so for incentives negotiations and management as well as in the construction process.

In Sum

The results of the 28th Annual Corporate Survey do show a modest improvement in short-range new facility and expansion plans. With 70 percent of the survey respondents expecting the economy to achieve a more continuous growth track by this year or next, more of them are rolling out plans for new facilities or expansions sooner rather than later, according to the survey results.

There's also been a realignment of site selection priorities, with the need for skilled labor being the most critical concern. A quarter of this year's respondents actually say this shortage is preventing them from spending more of their earnings on investment in U.S. facilities - up from 19 percent who cited that factor in 2012 in response to this question. And, the percentage blaming their reluctance to spend on the new healthcare regulations under the Affordable Care Act jumped from 39 percent to 52 percent now that the ACA went into effect.

The latest Duke University/CFO Magazine Global Business Outlook Survey, concluded in December, reveals that nearly half of U.S. companies are reluctant to hire full-time workers because of the ACA. Companies only plan to increase full-time employment by 1.4 percent in 2014, according to that survey.

"I doubt advocates of this legislation would have foretold the negative impact on employment," said Campbell R. Harvey, a professor of Finance at Duke Fuqua School of Business and a founding director of the survey. "The impact on the real economy is startling. Nearly one third of firms may either terminate employees or hire fewer people in the future as a direct result of ACA."
Despite these concerns, 52 percent of the CFO magazine survey respondents say economic conditions for their firms will be better this year than last, with a projected 7.3 percent increase in capital spending.

After the 18-month long Great Recession, which officially ended in June 2009; economic growth in fits and starts since then; and just modest increases in employment; it's hard to say when we will see more of an upward economic trajectory. Yet, if economic optimists are correct and growth tops 3 percent this year, it would be the first time it has done so for a full calendar year since 2005. If this happens, we can expect to see next year's Corporate Survey takers continue to bump up their investments in new facilities, expansions, and hiring. We can also expect more investment in workforce development - a subject that Area Development will cover in greater detail in a special publication to be produced this spring as we continue to address the needs of our corporate readers.

As in years past, Area Development asked the consultants who work with corporate clients to tell us about their clients' facilities plans and priorities in making a location decision. Fewer than half (43 percent) of those responding to our 2013 Corporate Survey say they use the services of consultants so let's find out which companies the consultants are serving and how the Consultants Survey responses align with the Corporate Survey responses.

The Consultants Survey Respondents

Slightly more than half of those responding to our 10th annual Consultants Survey say they work with durable goods manufacturers as well as distribution/logistics/warehousing firms. Nearly 40 percent also claim to work with nondurable goods manufacturers, and more than 20 percent have also been engaged in location and expansion projects for the financial services/insurance/real estate; data processing, software, and computer-related services; and life sciences and energy industries (Chart A).

About three quarters of the responding consultants say they provide their clients with location studies/comparative analyses as well as help with the site selection decision. Their other primary role is incentives negotiation and management, as per 69 percent of the respondents (Chart B).

The responding consultants' clients are of varying sizes in terms of employment numbers. About a third say they work with companies having fewer than 100 employees, but 40 percent also say they work with firms that employ 1,000 or more people (Chart C).

The majority of respondents to our Consultants Survey (86 percent) say executive management at their client companies is significantly involved in the site selection process. Sixty percent also say their clients' real estate departments are heavily involved, and nearly as many work with other client operations or business unit management (Chart D).

Half of the respondents say that most of the clients who ask them to perform a location search have already gathered preliminary data and narrowed down the geographic area in which they wish to locate. Only 25 percent say their clients expect them to make the location decision on their behalf (Chart E).
When asked about the effects of the slow economic recovery on their clients' facility plans, the respondents to our Consultants Survey are very optimistic - more than half say their clients still plan to open new facilities/expand (Chart F), as compared to just 20 percent of the Corporate Survey respondents who gave that answer. Additionally, the responding consultants are slightly more confident the economy will achieve a more continuous growth track this year than the respondents to our Corporate Survey: 48 percent of the consultants say so (Chart G), whereas just 40 percent of the corporate respondents believe this will happen.

Clients' Projections for New Facilities/ Expansion/Relocation

A quarter of the respondents to our 10th annual Consultants Survey say their clients who plan to open facilities expect to do so within one year, while 60 percent say their clients have twoyear plans (Chart H). The majority (62 percent) say their clients will open just one new domestic facility (Chart I).

Of the total new domestic projects with which the responding consultants are involved, 17 percent are slated for the South (Alabama, Florida, Georgia, Louisiana, Mississippi) and 14 percent for the Midwest (Illinois, Indiana, Michigan, Ohio, Wisconsin) (Chart J). These are about the same percentages cited by our Corporate Survey respondents. However, the consultants are working on greater percentages of projects than those planned by the corporate respondents for the South Atlantic (North Carolina, South Carolina, Virginia, West Virginia) - 14 percent of the consultants vs. 11 percent of the corporate respondents - and for the Southwest (Arizona, New Mexico, Oklahoma, Texas) - 15 percent of the consultants vs. 11 percent of the corporate respondents.

Nearly 30 percent of the new domestic facility projects assisted by the responding consultants represent manufacturing plants, and just less than a quarter are warehouse/distribution facilities (Chart K).

Fully two thirds of the respondents to our Consultants Survey say their clients plan to open just one foreign facility, with only 4 percent saying their clients will open five or more (Chart L). For comparison's sake, half of the Corporate Survey respondents say they plan on opening just one foreign facility, while 12 percent will open five or more.
The greatest percentages of the projects being worked on by the responding consultants are in Mexico (19 percent), Asia (18 percent), and Canada (16 percent) (Chart M). The Corporate Survey respondents are planning fewer of their total foreign facility projects for these regions and more for South America, with 20 percent planned by the Corporate Survey respondents but representing only 11 percent of the projects with which the consultants are involved.

When it comes to Asia, 35 percent of those Asian projects assisted by the consultants will go to China, 18 percent to India, and 15 percent to Malaysia (Chart N), more than twice the percentage the corporate respondents plan for Malaysia.

The responding consultants say about 40 percent of their new foreign facilities will house manufacturing operations and 15 percent will be warehouse/distribution facilities (Chart O).

Nearly 60 percent of those responding to our Consultants Survey claim that their clients who have expansion plans will execute them within two years (Chart P). And about half say their clients who plan to relocate facilities also have plans two years out (Chart Q).

About two thirds of the responding consultants say those clients who are planning to relocate are seeking to lower their labor costs and also need to be in closer proximity to suppliers and/or markets served (Chart R).

About half of the consultants, and a similar percentage of those responding to our Corporate Survey, say relocations are being planned in order to lower a company's tax burden.

Nearly a fifth of the consultants claim to be seeing an increase in the number of companies establishing foreign facilities as opposed to domestic ones (Chart S). And while only 3 percent of the Corporate Survey respondents say they expect to locate a foreign operation back to the U.S., one third of the consultants say their clients have re-shored operations. About half these consultants say this is a result of rising foreign labor costs and costs of transporting supplies/products as well as product quality issues (Chart T).

Why aren't the consultants' clients spending more of their earnings on U.S. facilities? More than 60 percent say it's because of economic instability in the United States; more than half cite high corporate taxes; and about two fifths are concerned about excessive government regulations, including the impact of new healthcare regulations under the Affordable Care Act (Chart U). Our Corporate Survey respondents voice similar concerns.

Factors Influencing Clients' Location Decisions

We also asked those taking our Consultants Survey to rate the site selection and quality-of-life factors that come into play in their clients' location and expansion decisions as either "very important," "important," "minor consideration," or "of no importance." These ratings are shown in Chart V. We then added the "very important" and "important" ratings in order to rank the factors in order of overall importance, as shown in Chart W.
Interestingly, the same two factors are ranked 1st and 2nd by the Corporate Survey and the Consultants Survey respondents - availability of skilled labor and highway accessibility. Availability of skilled labor is ranked as the most important site selection factor by the consultants with a combined 98.3 percent importance rating. This has become the primary concern of the consultants' clients.

And more than three quarters of the responding consultants also say higher unemployment rates are not making it easier for their clients to find the labor they need, with more than two thirds saying the unemployed are primarily lacking advanced skills (Chart X). Additionally, because of this, three quarters of the consultants also say their clients have become very or somewhat dependent on contract workers (Chart Y), although 81 percent claim this contingent labor force comprises less than 25 percent of their clients' work forces at any given time (Chart Z).

The consultants' 2nd ranked factor - highway accessibility - is considered "very important" or "important" by 97.4 percent of the respondents. Again, the respondents to both surveys agree that this factor is a priority when deciding where to site or expand a facility in order to get supplies in, products out, and employees and visitors to the workplace. In fact, 92.9 percent of the respondents to the Consultants Survey consider proximity to major markets as "very important" or "important," placing this factor in a tie for 5th.

The consultants generally rank state and local incentives as more important than do the Corporate Survey respondents, and this year is no exception: 93.8 percent of the respondents to our Consultants Survey rate this factor as "very important" or "important," placing it 3rd in the rankings. This comes as no surprise since about 70 percent of the respondents say they provide incentives negotiation and management services to their clients. A related factor, tax exemptions placed 7th with a 91.9 percent combined importance rating. In a related question about types of incentives, nearly 70 percent of the responding consultants say cash grants and tax incentives, including credits and exemptions, are the two most important types (Chart EE).

The factor showing the largest jump in the consultants' rankings - eight positions to 4th place - is available land, which also has the largest percentage increase in the Corporate Survey. The responding consultants give available land a 93 percent combined importance rating. This appears to be a determining factor when consultants assist with build-to-suit projects - especially those requiring large parcels of land such as new state-of-the art distribution centers to support the growing e-commerce sector. Moreover, 78 percent of those responding to our Consultants Survey say the existence of a shovel-ready or pre-certified site is very or somewhat important in their clients' site searches (Chart JJ).

Although labor costs are bumped down and tied for 5th position in the Consultants Survey rankings, they are still considered "very important" or "important" by 92.9 percent of the respondents. It's believed that labor costs are lower in a right-to-work state so it stands to reason that this factor shows the second-highest jump in the rankings - up from 20th position last year to 13th in this year's Consultants Survey. It also has the greatest overall increase in importance among the site selection factors - up 10.1 percentage points and now considered "very important" or "important" by 86 percent of the responding consultants.
In 2011, Mark Sweeney, Principal of McCallum Sweeney Consulting, provided some insight into the role of a state’s right-to-work status in the site selection process, in testimony to the Missouri State Senate. “Companies believe this gives them greater work force flexibility, thereby allowing them to compete more effectively and in a more timely manner,” Sweeney explained. “Manufacturing clients express an interest in considering [locations] only in right-to-work states,” Sweeney added, although his firm recommends that right-to-work state be just “another scoring criteria” and not a “pass-fail” decision.

The respondents to our Consultants Survey rank energy availability and costs 8th among the site selection factors, with a combined 88.6 percent importance rating. A third of the respondents say energy costs are primarily affecting their clients facility operations and a fifth claim they are primarily affecting their clients' supply/distribution network decisions (Chart AA). Nevertheless, more than 60 percent say they believe new unconventional sources of energy will drive down their clients' energy costs, with more than half also believing this will affect their clients' location decisions (Chart BB).

Three quarters of the respondents to our Consultants Survey also say sustainable development is more important to their clients now than in the past. In response to this, more than 80 percent claim their clients are making energysaving modifications to their facilities (Chart CC). A like percentage of respondents to the Corporate Survey made this claim as well. And half the responding consultants say they are seeing communities offering incentives specifically for "green" initiatives (Chart GG).

And while only half of the respondents to our Corporate Survey claim to consider weather-related factors in their location decisions, three quarters of the respondents to our Consultants Survey say their clients do consider these factors, with more than 60 percent saying weather-related factors are very or somewhat important (Chart LL).

It’s important to note that 18 of the 26 site selection factors are rated higher in importance by the consultants than any of the nine quality-of-life factors. That being said, when ranking the quality-of-life factors, the consultants place colleges and universities in area in 1st place - with an 82.5 percent combined importance rating. With availability of skilled labor being the primary site selection concern, it follows there is a need for the work force to acquire new and advanced skills at institutions of higher learning.

Low crime rate, which is always ranked 1st by our Corporate Survey respondents, is ranked 2nd in the Consultants Survey with 78 percent of the respondents considering this factor "very important" or "important."

The quality-of-life factor showing the largest increase in importance (21.6 percentage points) is housing costs. Housing availability also shows the second-largest increase in its importance rating - up 10.9 percentage points to achieve a 68.4 percent rating. These results may seem surprising considering the precipitous housing price declines and market glut of the recent past. However, the increased importance given to these two quality-of-life factors may be in anticipation of a turnaround in the housing situation, with lower inventories and price increases in many markets.
Just like the Corporate Survey respondents, the majority of Consultants Survey respondents (78 percent) use site magazines like Area Development for information when helping their clients make location and expansion decisions. Three quarters of the consultants also utilize economic data aggregators, while two thirds also depend on financial publications.

More than half of the responding consultants claim to maintain their own site selection database. Nearly all of them (93 percent) have searched the Internet for site and facility planning information (only about 60 percent of those responding to the Corporate Survey claim to do that). When searching online, 90 percent of the consultants are looking for data on specific locations and contact information for economic development agencies. About 70 percent are also looking for listings of available sites and buildings on sites like FastFacility, and for industry related news on websites like AreaDevelopment.com.

More than 70 percent of those responding to our Consultants Survey say their clients put between one and five locations on their "short list" when seeking a new site; however, a quarter of the respondents say their clients have five to 10 locations on that list About 60 percent say their clients visit up to five locations before making the final decision, with around the same percentage claiming a location decision is generally reached about six months to a year after a client engages their services.

Analysis

The 2013 Area Development Corporate Survey results demonstrate the continued importance of labor factors in the site selection process. Human capital will be the key driver for corporate decisionmakers, and the communities/states that focus on this issue will be the economic winners in the future. The importance of labor factors cannot be overstated in today's world.

The cost and availability of real estate, utilities, and infrastructure, along with tax structure, remain very important in the site selection process. Utilities and infrastructure are of vital importance to manufacturing and distribution projects. This trend has held consistent for many years.

Quality-of-life factors can also play a role in the site selection process, particularly for professional and technical-laden companies. However, the importance of these factors has generally declined during the past five years due to economic conditions in the United States and around the world. In this year's survey, the highest ranked quality-of-life factor would only rank tenth if included on the list of site selection factors.

The 2013 survey reflects the continued vital role of executive management in the site selection process. At 60 percent, the percentage of senior executives significantly involved in the process dwarves the participation of real estate (18 percent) and operations/business unit management (15 percent).

It is also interesting to note the continued cautious approach of corporate decision-makers in terms of the economy. Sixty percent of the respondents to this year's Corporate Survey indicate that their number of company facilities has not changed during the past year. In addition, many of the
respondents have put facility projects on hold (21 percent), closed or consolidated facilities (10 percent), and/or reduced employment at facilities (13 percent). Finally, 59 percent of the respondents do not expect the economy to grow at a faster pace until 2015 or 2016. This suggests that company decision-makers will continue to wait as long as they can to invest capital and hire employees, due to economic volatility.

For those companies planning to open new facilities, the South and Midwest appear to be the favored locations. Corporate decisionmakers indicate that 16 percent of new facilities will be opened in the South, while 14 percent will be opened in the Midwest. This trend mirrors what we are seeing from clients and also reflects well on the changes made to improve the business climate in these regions.

By Larry Gigerich, Managing Director, Ginovus

Analysis

This 2013 Corporate Survey reinforces trends we are seeing with our clients: labor and highway access continue to be major site selection drivers as companies see opportunities.

The survey results reflect the sluggish growth seen in many global markets following the recession, but slow improvement is evident. More companies have added facilities rather than reduced them, and 45 percent expect to add facilities within two years. Also positive, more are planning on adding employees than reducing their ranks or postponing hires. However, 60 percent have neither added nor reduced facilities over the past 12 months, and opinions are mixed as to when sustained economic growth might emerge—2014, 2015, or not until 2016.

Two of the top-three site selection factors are labor-related in both the 2012 and 2013 surveys. Of 26 possible site selection factors, availability of skilled labor tops the 2013 list, jumping up from third place in 2012. Labor costs dropped to third place, trading places with availability of skilled labor. This reflects an uptick we've seen in advanced manufacturing as skilled labor and logistics take precedence over labor costs.

Asked about skilled labor, slightly more than 58 percent of survey participants say it is "very important" and nearly 37 say it is "important." In contrast, only 14 percent say that availability of unskilled labor is "very important." For advanced manufacturing concerns, skilled labor is particularly critical - and the regions that are aggressively investing in work force development are winning the competition for these companies. Seventy-one percent of respondents report that advanced skills, such as machine tool programming, are what unemployed workers lack.

Sandwiched in between the labor issues is highway accessibility, which continued to be ranked as the second-most-important site selection factor. Of those surveyed, 60.4 percent say such accessibility is "very important," and 33.1 say it is "important" - and access to highways greatly outscores other modes of transport, including rail, air, and waterways.

By Gary Yates, Director, Site Selection, Jones Lang LaSalle
Analysis

The results of the 2013 Corporate Survey reflect many of the market trends observed over the last 12 months by Site Selection Group. Most importantly, the United States has enjoyed an increase in corporate investment, and most corporate executives are optimistic about the continued economic recovery.

The survey, as well as SSG's experience, suggests that the majority of new projects are driven by an increase in demand for goods and services. Another common trend is that corporate projects, especially in the production and material-moving sectors, continue to become more capital-intensive and less labor-intensive.

These results help clarify a common misconception that new corporate investment in the U.S. by companies with a foreign presence is the "reshoring" of existing foreign operations. It is SSG's experience that the rise in offshore costs is causing companies to choose the U.S. for new investment over foreign locations, but those costs haven't risen to thresholds that have sparked a mass reshoring trend. However, this reshoring trend could become reality if cost structures keep increasing in the current fashion, but it is unclear when that would happen.

Regarding key location drivers, the availability of a qualified, productive, yet cost-effective work force will continue to be the most important factor when locating corporate investment. In addition to labor, most decision-makers will place a high priority on business environment factors that will have the greatest long-term impact on their operation, and will only use economic incentives to draw fine distinctions between short-list communities that can adequately support their business.

By all accounts, most industries will continue to experience positive growth over the next couple of years, and it will be interesting to see the opportunities that arise.

By Josh Bays, Principal, Site Selection Group, LLC

This year, the highway accessibility and labor costs factors were outranked by availability of skilled labor.

Nearly half the Corporate Survey respondents say they consider weather-related factors in the location decision.

ANALYSIS

The survey produced interesting findings - some speaking to urgency and cautioning which corporations are making investment decisions, others speaking to the impact of public and regulatory policy on how and where the U.S. economy will grow.

It's no surprise that labor is the most important factor in site selection. What's interesting is that availability of skilled labor is the top priority. Perhaps that speaks to a more challenging skills gap today. While educational attainment has tripled in the U.S. in the past 30 years, there is concern that skills
for which we've trained don't match the skills industrial clients need.

It's also interesting to look at some detailed parts of the survey. Public policy is clearly influencing decisions. For example, about half of respondents indicated the biggest factors holding back investment decisions are taxes, regulations, and uncertainty over economic policy. At the same time, the majority feel that the need for capacity and ability to access new markets is the top factor in facility expansion. So on one hand, companies are eager for growth and access to markets, but for half of respondents, policy uncertainty is effectively delaying investment decisions.

It also appears clients are concerned about timing and are cautious, but once projects are approved, they're prepared to move forward. Indeed, about 80 percent of respondents expect their site selection process to take less than a year once initial contact is made with the locations of interest. For those experienced in site selection, if a client needs to make a significant decision and wants the process completed that quickly, there's concern about a consultant's or economic developer's ability to make sure that decision is cost and service appropriate.

Finally, there is good news. Regarding clients' expectations for project work, the majority are bottom-line determined to move ahead. While there are concerns over policy, taxes and regulations, and availability of skilled labor, they have determined that decisions must be made and, for most, here in the United States. About half of clients for new manufacturing and distribution facilities will move forward within the next year or two, which bodes well for Industrial real estate.

By John Moms, Leader of Industrial Services for the Americas, Cushman & Wakefield, Inc

ANALYSIS

In today's arena of competing in the global marketplace, cities and localities need to recognize that what used to be a competition between states and regions for new jobs and capital investment has now developed into a highly competitive global competition. If cities don't look to the future and think globally, they risk the chance of being overlooked as a place to do business.

Many quantitative and qualitative decisions are made at the beginning of every expansion project that affect an organization, including the design and construction process, long-term sustainability, and operation in a new global economy. While the initial costs may be a significant driver, all factors need to be taken into consideration when making the most efficient and cost-effective expansion or relocation decision.

It comes as no surprise that the top three site selection factors - availability of skilled labor, highway accessibility, and labor costs - for 2013 remain unchanged from 2012. The economic recovery is still having an impact on businesses that are thinking about expanding. For the expansions that I worked on in 2013, the quality and cost of a professional work force is of paramount importance. I have found that the availability of a highly skilled and cost-effective work force depends on the proximity to universities and technical/trade schools.

When looking at the quality-of-life factors in Area Development's 2013 Corporate Survey, the top four
factors - low crime rate, healthcare facilities, housing costs, and ratings of public schools - come into play when attracting, relocating, or retaining a quality work force.

In addition to a highly skilled and cost-effective work force, companies want a transportation nexus that will allow them easy shipping access to their customers within one day's drive. Manufacturing and distribution companies need to ensure that their products are well positioned for just-in-time delivery with transportation access for shipments across the U.S.

By Dean Uminski, Executive, Site Selection Consulting, Crowe Horwath LLP

Analysis

Like many surveys I have read on topics I am professionally involved in, the Area Development 2013 Survey offered an interesting mix of both familiar and surprising results. This should really be of little surprise as the factors that drive location decisions evolve at a fairly rapid pace based on what is happening in the world around us.

I was not surprised to see availability of skilled labor lead the list of site selection factors, rising two spots and about 6 percent from last year's survey. Identifying locations with a labor force well suited to meet the immediate and long-terms needs of a particular company has become a challenge nationwide, as our economy continues to recover and our work force struggles to support the changing needs of employers, especially in the manufacturing sectors. What I did find surprising was that there was no mention of the HR function among the departments involved in the site selection process. My personal experience is that HR representatives are playing a more significant role in location decisionmaking and getting involved earlier in the process.

In addition to the rising focus on labor, our clients have never been as concerned with the reduction and mitigation of delivery risk, as site location decisionmaking durations continue to compress, as indicated by a 9 percent increase over 2012 in the number of respondents who reached a decision within 3-6 months. Several survey responses reflect this trend, including 61 percent of respondents categorizing shovel-ready/pre-certified site as very or somewhat important. Along similar lines, the existence of available buildings remains critical, with 78 percent of respondents assigning existing building availability into the same top two categories.

By Scott Kupperman, Kupperman Location Solutions

The results of the Corporate Survey do show a modest improvement in short-range new facility and expansion plans.

Analysis

The first two factors in the new rankings for Corporate Survey parallel what we are hearing from our clients. Availability of skilled labor is of high importance to the majority of our manufacturing clients. We are hearing more and more that skilled labor is becoming scarce, and many companies have to be creative in recruiting those individuals whom they can quickly train and grow into key positions.
Highway accessibility, logistics, and transportation costs are also a critical factor. As fuel costs rise, companies are thinking ahead to where their customer base will be located (either consumer or other companies) and how best to position a manufacturing or distribution facility so it will continue to be located central to customers and not outside a logical delivery route.

The movement of the labor costs factor from first to third in the rankings is a reflection of a tight labor market. The immediate concern is finding a skilled work force; the cost of labor can sometimes be replaced by increased automation. As robotics becomes less expensive, we are finding companies looking for additional ways to automate, thus reducing the number of overall employees, but still needing employees with a higher skill level.

We were surprised by the drop in the ranking of energy costs from 6th in 2012 to 10th in 2013. Many manufacturing companies will increasingly demand lower energy costs to compete and reshore production from overseas. We continue to hear that maintaining low-cost energy is paramount for our client's ongoing success.

The available buildings factor did move from a ranking of 8th in 2012 to 6th in the 2013 survey. This is due to a dwindling supply of quality existing facilities. As the real estate market tightens, this factor could rise in the rankings for 2014.

By Don Moss, Vice President; and Grant Miller, Vice President; Colliers International

Nearly half of the Consultants Survey respondents believe the economy will achieve a more continuous growth track this year.

The same two factors are ranked 1st and 2nd by the Corporate and Consultants Survey respondents: availability of skilled labor and highway accessibility.

by Geraldine Gambale, Editor

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