

COVER STORY

There's Profit in Locating Off The Beaten Path

Statutory and negotiated incentives offered by many noninterstate-served communities might make it worthwhile for a company to go the extra miles.

By Ivan Baker, CEcD, Pollina Corporate Real Estate, Park Ridge, Ill.

FOR YEARS, national surveys of manufacturers have consistently cited "interstate highway access" as a top site selection factor. Conventional wisdom has dictated that interstates connect the urban centers and provide access to concentrations of skilled labor, new economy infrastructure, and educational resources. As a result, for the past 20 years, more than 80 percent of new U.S. manufacturing operations have located in interstate-served communities.

However, aggressive corporate site selectors should expand their scope beyond the interstate highways, where many advantages and incentives could result in tremendous cost savings.

Manufacturing site selection must be based on unique corporate objectives, specific functional requirements, and distinct factors deemed important to a company at a particular time. "Manufacturing firms remain attracted to markets, labor, and transportation," according to Arthur Nelson, professor of city planning at Georgia Institute of Technology.

However, markets, labor, and transportation need to be clearly defined for each project in order to enhance a company's competitive position. After conducting detailed logistical and market analysis, many companies discover that interstate "access" can be defined in broad terms in order to reach transportation goals. Well-maintained two-lane highway interconnectors within 60–100 miles of interstate highways often provide the interstate "access" needed, as long as other critical location factors are achieved.

Leap-Frog Poles

Noninterstate-served communities may be "off the beaten path" but are not always rural. Some are suburban, exurban, or what the Milken Institute classifies as "leap-frog poles" — communities not adjacent to metropolitan areas but wired for the digital revolution. Over the past decade, manufacturing has grown twice as fast in exurban, rural, and leap-frog communities, compared to their urban counterparts.

Off the beaten path, site developers are finding land and buildings at relatively economical prices, a highly educated population, good work ethics, less employee turnover, lower taxes, a sense of community and security, an ever-improving telecommunications infrastructure, and financial incentives. Data from nonmetropolitan areas may be less readily available, but the benefits acquired from extra research can be significant.

Manufacturers are drawn by the high productivity levels of small-town work forces," says David Lyons, former director of Iowa's Department of Economic Development, "as well as by the stability of the environment for employment, lower training costs, and less turnover." According to a Trammell Crow survey, if corporations relocate away from high-cost metropolitan areas, labor costs can be shaved by 50 percent, plus up to 10 percent of training costs can be saved due to minimal employee turnover. Possible increased transportation costs incurred by locating away from an interstate highway can easily be offset by other cost advantages.

State and local governments from Maine to Oregon offer tremendous incentives for business to locate in nonmetropolitan areas. Consider rural development cash grants, enterprise-zone income and sales tax credits, low-interest loans, investment tax credits, and employee training dollars. Thirty states provide special tax incentives to locate in specially designated zones (enterprise zones, economically distressed zones). Tax credits range from \$500 to \$6,000 per new job created, and some special programs like the Michigan Renaissance Zones and Pennsylvania Keystone Zones even provide tax-free sites.

Interestingly, the majority of the zones are located within 60–100 miles of an interstate highway. For example, 70 percent of counties eligible for Kentucky Rural Economic Development Act tax incentives are less than 60 miles from an interstate highway. Only three of 71 New York Empire Zones are more than 50 miles from an interstate.

Tax-free zones are not a cure-all for every company," according to Del Birch of Business Retention Technologies in Erie, Pa. "There are strings attached. A short list that includes a site in a tax-free zone may make the decision elementary with all other factors being equal," Birch concludes.

Statutory incentive programs are numerous and can result in millions of dollars in savings for corporations. While state and local economic development officials promote the advantages of statutory programs, Pollina Corporate Real Estate research has determined that most manufacturers only receive 15 percent of the financial incentives available to them. The cost benefits of locating a few miles from an interstate highway can often make a difference. Additionally, corporations need to review the potential negotiated incentives available in nonmetropolitan areas.

Effectively Negotiating

With little competition from private developers, noninterstate communities will often have publicly controlled industrial parks and speculative buildings. With effective negotiations, companies that meet job-creation and investment goals can receive industrial land and buildings at little or no cost.

Significant cost savings were achieved by Novatron Corp. of Warren, Mich., after locating its largest manufacturing operation in rural Texas. "We received major enterprise-zone tax benefits, a low-cost building, and a work force with a strong work ethic," says Chuck DeBeau, president. The firm distributes electronic assemblies for boats throughout the country, but still found major cost savings by locating miles from an interstate highway.

In many states, the most powerful and senior legislators represent nonmetropolitan districts. Within these districts, that legislative power can often influence the allocation of funds for new industrial roads, water lines, sewer lines, telecommunications improvements, and special incentives. Some states even have special infrastructure improvement funds directed to nonmetropolitan counties. After careful research, one discovers that many of the eligible areas are within a short distance of interstate highways.

Site selectors can expand their search to rural counties that have large established property-tax-paying developments, such as power plants, paper mills, and refineries. For example, 50 percent of the nuclear power plants in the United States are in noninterstate-served cities. Often the taxes received from these entities provide extra revenue for special economic development funding. One rural community in the southeastern region provides up to \$500,000 per new project from an incentive pool funded by taxes from a nearby nuclear plant. This same community is located just 40 miles from an interstate highway and 50 miles from a commercial airport, offers the state's highest job-creation tax credits, and offers low-cost property at its publicly owned industrial park.

Negotiated infrastructure improvements, grants, and property tax abatements can also be secured in communities that have special economic development funds. In Texas, most noninterstate-served counties have local-sales-tax-funded (4A and 4B) economic development agencies, with hundreds of thousands of dollars available as incentives for new manufacturers.

Many noninterstate cities are served by municipal utility companies. With fewer state-enforced pricing regulations, municipal utilities can offer negotiated rates that provide significant cost savings for new employers. A community of 25,000 in the mid-South, located 50 miles from an interstate highway, was able to save a new manufacturer more than 30 percent on electrical rates through their municipal power company.

Overcoming Disadvantages

Certainly, exurban and rural communities may have disadvantages for some manufacturing operations beyond transportation, vis-à-vis soft infrastructure, producer services, educational resources, and health systems. Mike Hollinshead, a futurist author from Edmonton, Alberta, points out that new approaches are reducing the disparities between urban and rural regions. "Distance-learning technologies are improving rapidly and costs will tumble as the productivity of telecommunications continues to double annually," says Hollinshead. Indeed, the perceived lack of broadband infrastructure is rapidly being addressed by state and local governments, and by the increased use of wireless technology.

According to the Economic Research Service of the U.S. Department of Agriculture, rural and exurban manufacturers are surprisingly similar to their urban counterparts in use of technology, management practices, access to markets, worker skill demands, and financing. Some high-tech manufacturers have favored urban locations because they require pools of highly educated workers and advanced producer services.

Still, the savvy site selector can quickly and easily identify advantageous noninterstate-served cities that offer the telecommunications infrastructure, educational resources, producer services, and healthcare systems needed for manufacturers in this new economy. Cities like Jonesboro, Ark.; Dothan, Ala.; San Angelo, Texas; Mexico, Mo.; and Garden City, Kan. demonstrate that noninterstate-served cities can still achieve significant economic development

progress by meeting additional corporate requirements and offering advantageous cost benefits.

Joel Kotkin of the Milken Institute suggests, “ It is too early to say that high-tech, or the nation as a whole, is in the grip of a ‘back to small towns’ movement. However, trends clearly indicate that certain communities are suddenly waking up, plugging in, and becoming important new growth nodes for the ongoing digital revolution.” Importantly, some of those communities are not served by interstate highways.

There are more than 15,000 economic development organizations in the United States vying to attract new manufacturing operations. Evaluating communities through the site selection process can obviously be a daunting task. With a little extra research into noninterstate-served communities, site selectors can discover cost incentives and operating benefits that will mean more profits and improved competitive advantages. For many manufacturers, locating off the beaten path can often lead to more success.

Ivan Baker, CEcD, is a corporate services consultant with Pollina Corporate Real Estate, headquartered in Park Ridge, Ill. PCRE is a full-service consulting and brokerage firm serving national clients since 1981. Baker has more than 22 years experience in economic development and site selection, and has coordinated in excess of \$1 billion in corporate projects in 13 states. He can be reached at ilb@pollina.com.