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Corporations Increase Focus on Major and Secondary Markets

Due to an increasing focus on operational efficiency and attracting top millennial talent, corporations are placing an increased emphasis on determining the right location for their office headquarters, regional office facilities, and industrial distribution and manufacturing facilities. Companies are analyzing several factors when making real estate location decisions, including: access to a skilled workforce, overall labor cost, a company's proximity to regional markets and accessibility to highways, and corporate tax incentives. Contrary to popular belief, these factors are driving a significant push from corporations to locate in major and secondary markets rather than pricey gateway markets. Furthermore, as these major and secondary cities continue to grow, they are offering deep and competitive labor pools, attractive economic and regulatory climates, and attractive development incentives, all of which are providing substantial benefit to corporations.

Access to Skilled Workforce

Many would argue that having access to skilled labor is the most important factor to consider when making corporate real estate location decisions. While a company's business model may change over time, all companies will need access to skilled workers who can complete tasks efficiently and effectively in order to drive increased corporate productivity. With that said, the supply of skilled labor is actually shrinking as a result of underlying socioeconomic factors, an increased focus from corporations on higher skill and education requirements, and the retirement of the baby boomer generation. In order to combat the shrinkage of the skilled labor pool, corporations are looking to locate their operations near clusters of highly educated populations where they have direct access to skilled labor. It is a common misconception that such clusters are located in primary or gateway markets. As shown below, of the top ten most educated cities in the U.S. according to Forbes, eight are considered to be secondary or tertiary markets. To highlight this point, between the years of 2014 – 2016, companies have added almost half a million jobs in the STEM (science, technology, engineering and mathematics) sectors within the U.S. On a more granular level, of the 490,000 STEM positions created during the time period, 345,000 of the positions were filled by employees located in smaller markets such as Pittsburgh, Salt Lake City, and San Diego. As skilled labor becomes more readily available in areas other than gateway markets it is reasonable to assume that corporations will benefit by moving new operations or relocating existing operations to those markets.

Top 10 Most Educated Cities (United States)			
Rank	City	Population*	Market Type
1	Ann Arbor, MI	364,709	Tertiary
2	Raleigh, NC	1,302,946	Secondary
3	Durham, NC	559,535	Tertiary
4	Provo, UT	603,309	Tertiary
5	Manchester, NH	407,761	Tertiary
6	Seattle, WA	3,798,902	Primary
7	San Jose, CA	1,978,816	Secondary
8	Colorado Springs, CA	712,327	Tertiary
9	Baltimore, MD	2,798,886	Secondary
10	Boston, MA	4,794,447	Primary

**Provided by United States Census Bureau*

Competitive Labor Environments

In addition to selecting markets with clusters of skilled labor, one of the most critical considerations for corporations looking to establish or relocate an existing business, is understanding the competitiveness of the underlying labor environment, which drives changes in the supply and cost of skilled labor. According to Area Development, a leading corporate site selection and facility planning resource, the most important characteristics of a competitive workforce include cluster specific skills, wage rates, the level of pay vs. local cost of living, and whether the quality of life in the market is strong enough to maintain an adequate workforce. Markets that feature competitive labor environments provide corporations with several benefits. For example, according to Area Development, North Carolina has a manufacturing workforce in excess of 450,000 employees. For companies looking to locate new manufacturing operations or relocate existing manufacturing operations, North Carolina represents an attractive option as those companies can be confident that the underlying labor force will continue to support the businesses' operations over the long-term. Additionally, companies can benefit by moving operations into states such as Texas, Georgia, Alabama, Tennessee, Mississippi, and Idaho, all of which rank in the top fourteen in cost of living for 2016 according to the Missouri Economic Research and Information Center (see table on the next page). States with a lower cost of living allow corporations to save on labor costs and ultimately increase the overall profitability of the business.

Given the considerations listed above, the most competitive labor environments in 2016 according to Area Development are provided below.

- Texas
- North Carolina
- Alabama
- Florida
- Idaho
- Georgia
- South Carolina
- Tennessee
- Mississippi
- Utah

Similar to the list of states with the best business incentive programs as discussed in more detail below, the cities located in the states with the most competitive labor environments are also considered to be major and secondary real estate markets. This is not a coincidence. In order to attract corporate investment that results in a growing economy, these states are executing pro-business initiatives that allow them to compete with gateway markets located in states such as New York, California and Illinois.

Corporations Increase Focus on Secondary Markets

Cost of Living Index (2016)

State	Rank	Index	Grocery	Housing	Utilities	Transportation	Health	Misc.
Mississippi	1	86	94.1	68.4	89.6	93.1	89.9	93.2
Indiana	2	87.9	92.4	75.8	91.1	91.6	94.9	92.9
Michigan	3	88.2	89.6	77.1	95.5	97.6	93.3	91
Arkansas	4	88.5	92.7	77.7	97.1	89.1	87.8	92.8
Oklahoma	5	88.6	93	76.7	94.9	88.1	93.6	94.1
Idaho	6	89.6	85.4	77.8	89	106.1	101.9	94.8
Tennessee	7	89.8	92.7	77.5	91.8	89.9	90	97.5
Kansas	8	90.4	93.6	77.4	97.3	92.5	97.1	96.1
Texas	9	90.7	89.5	84.5	95.4	93.7	95.2	93.4
Kentucky	10	90.8	88.9	80.5	93.4	97.4	88.7	97.3
Missouri	11	90.8	96.7	75.4	103.4	93.4	97.4	95.5
Alabama	12	91.2	97.7	74	106.1	92.9	87.5	98
Nebraska	13	91.3	96.2	85.3	87	93.8	97.8	93.7
Georgia	14	91.4	99.1	75.8	96.1	93.3	98.1	98
Iowa	15	91.7	95.3	81.4	95.4	96.7	97.8	95.2

Proximity to Customers, Ports, and Regional Markets

Companies also intensely analyze how their real estate locations impact their underlying business operations. Some companies focus on locating in close proximity to their end customers. For example, many automotive suppliers, such as Harman Becker, Magna, Autoliv, Yanfeng, and Tenneco, place corporate headquarters and office and R&D facilities in Southeastern Michigan given its close proximity to the hotbed of automobile manufacturing in Detroit. This allows for efficiencies across operations as suppliers can work directly with their end customers to manufacture specialized products that meet the manufacturers' needs. While many real estate investors do not view Southeastern Michigan as a major market, it is ElmTree's belief that the corporations themselves view these locations as mission critical given the benefits associated with being in close proximity of the end customers.

Although some corporations focus on locating close to their customer base, others focus on locating to areas that are in close proximity to ports in order to drive efficiencies across supply chains. For example, in 2014, Under Armour announced that it would construct a new 1.3 million square foot distribution center scheduled to open in 2018 that would serve as the company's national hub to fulfill consumers' online orders. The facility will employ approximately 1,000 employees. Under Armour's Vice President of Corporate Real Estate, Neil Jurgens, said, "Labor force and logistics were very strong and we had a very strong desire to maintain the jobs here in Maryland." Additionally, Eric Gilbert of Tradepoint Atlantic, the developer, said that Under Armour chose this site for its strong labor force, and proximity to rail, highways, and deep-water ports.

Similarly, in March 2017, Walmart announced plans to construct a 2.6 million square foot import hub in Mobile, Alabama that would draw more than 600 truckloads of goods a day from the Port of Mobile, serve approximately 800 stores and employ approximately 550 employees. Phillip Keene, Communications Director for Walmart said, "…Mobile is the ideal site for us because of the workforce and a strong port…" This will be Walmart's sixth major import distribution center, joining existing industrial facilities near the ports of Chicago, Los Angeles, Houston, Savannah, and Virginia.

While many companies look to relocate near port cities to drive operational efficiencies, others may look to migrate towards more centrally located cities. By doing so, these corporations can reduce the cost of shipping, cut down on travel time, and improve the supply chain processes utilized to deliver their products. The trucking industry is becoming more regulated under the new leadership in both the U.S. Department of Transportation (DOT) and the Federal Motor Carrier Safety Administration (FMCSA). Changes include, but are not limited to, an electronic logging device and a limit on the number of hours an individual can drive.

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Trip Type by Range

Trip Type	Survey Respondent Percent of Trips
Local pick-ups and deliveries (less than 100 miles)	22%
Regional pick-ups and deliveries (100-500 miles)	33%
Inter-regional pick-ups and deliveries (500-1,000 miles)	24%
National (over 1,000 miles)	21%

Such regulations, along with the already present cost of shipping, place an added emphasis on the need to be located closer to regional customer markets. The above table summarizes a study conducted by the American Transportation Research Institute. 55% of pick-ups and deliveries were conducted on a local and regional basis (less than 100-500 miles), which underscores the fact that companies continue to prioritize the reduction of trucking and shipping costs and supply chain efficiency by locating operations in smaller regional markets as opposed to larger gateway markets.

The above examples highlight how Corporate America's real estate decisions impact the local economics in non-gateway cities. Relocation to major and secondary markets, whether to be located in close proximity to customers, ports or regional highway arteries, plays a large part in driving the resurgence of economic activity and trade in those markets. Furthermore, it projects for future growth in these major and secondary markets as more corporations follow the examples of Under Armour and Walmart to take advantage of strong labor, reduced shipping costs and increased supply chain efficiencies predicated on the location of the real estate.

Economic Development Incentives

Economic development incentives are used to attract private enterprises and their business operations to specific locations to drive growth. These incentives come in various forms and each state, town and municipality administers them in various ways. Incentives can be provided via cash grants, property tax abatements, sales tax exemptions, utility rate reductions, infrastructure grants, port tax credits, building reuse / redevelopment grants, and fee waivers. Although each state, town and municipality offers incentives, there are certain states, towns and municipalities that offer more comprehensive and beneficial incentive packages to corporations.

According to Area Development, the states below offered the best business incentive programs in 2016.

- South Carolina
- Georgia
- Texas
- New Jersey
- Florida
- Louisiana
- Tennessee
- Alabama
- Mississippi
- Indiana

It is telling that most of the cities located in the states listed above would be considered major or secondary real estate markets. However, by providing strong business incentive programs, these states are becoming more attractive to Corporate America as viable locations for business operations. As such, increased corporate investment in these states, particularly through the relocation or new development of real estate assets, will drive economic activity and trade and promote population growth and the creation of economic clusters. It is a self-fulfilling phenomenon in that as the economies in major and secondary markets continue to benefit from corporate investment, the corporations that initially drove the growth will make long-term commitments to those underlying markets. To that point, it is reasonable to project that these major and secondary markets will become primary markets from the perspective of Corporate America.

Summary

As corporations continue to operate in a highly competitive global environment, it becomes all the more important for businesses to consider how the location of new operations or the relocation of existing operations provides a competitive advantage. Companies are well served to consider several factors when evaluating operational locations including access to skilled labor, the availability of a competitive labor force, proximity to customers, ports, and regional markets and the availability of comprehensive and beneficial business incentive programs. Whereas corporations used to be focused on gateway markets, it is becoming more evident that moving into major and secondary locations can result in several advantages including increased operational efficiencies and competitive cost structures, leading to improved business performance. Furthermore, Trepp, LLC research indicates this trend is already positively impacting major and secondary real estate markets, as these markets are displaying higher private-label CMBS issuance growth compared to gateway markets.

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