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Real damage from Norfolk Southern's departure may be to Hampton Roads' image

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A rendering of the \$575 million office complex that's expected to be Norfolk Southern's new headquarters in Midtown Atlanta.

Norfolk Southern's move to Atlanta, made official Wednesday, will create only a modest hole in the Hampton Roads economy.

The hit to the region's image from losing the massive railroad company's headquarters, though, figures to be substantial.

"Look, it's always a black eye to lose a Fortune 500 company," said John Boyd, a Princeton, N.J.-based expert on business site selection. "These are really, you know, trophies on the mantel, if you will."

And Norfolk Southern, based in Norfolk since 1982, was one of only three such "trophies" in Hampton Roads, joining Newport News-based Huntington-Ingalls and Chesapeake's Dollar Tree.

Vinod Agarwal, an economist at Old Dominion University, downplayed the actual economic effect the corporate departure will have on the region, even as he acknowledged the damage to its reputation.

The numbers involved in the relocation of Norfolk Southern to Atlanta are not that big, he said, even though the number of affected employees is in the 500 to 600 range, all of whom make pretty decent salaries. Hampton Roads' gross domestic product in 2017 was about \$100 billion, he said.

"In terms of economic impact, it's going to be marginal, very small," he added. "But the psychic impacts are much more serious."

Norfolk Southern also is a generous contributor to the arts and cultural community, Agarwal said. "That is a big hole to fill."

Agarwal also underscored that the impact would be felt well beyond Norfolk because the company's employees live all over Hampton Roads. Cities such as Virginia Beach, Chesapeake, Suffolk and the like won't be shielded from the loss.

Norfolk Mayor Kenny Alexander who was eager, early on, to try to keep Norfolk Southern in his city but soon realized the move to Atlanta was too far down the tracks, was optimistic that the company would remain active locally.

"They will still have a substantial footprint in our city and will continue its role in connecting goods to our ports," he said in an emailed statement. "Also, Norfolk Southern has a record of maintaining relationships with charities and other nonprofit organizations even when it has reduced employee presence in the localities that are served by those organizations."

Norfolk Southern Chairman, President and CEO Jim Squires also emphasized that the company isn't leaving entirely. The first 100 executives will relocate by next summer and the remaining 400 or so leave the downtown tower by the summer of 2021, but operations at the Port of Virginia, particularly it's Lambert's Point terminal, will remain.

"And we move freight in and out of Norfolk International Terminal as well as other terminals that make up the Port of Virginia here. So all of that will continue, as will our presence in Virginia, generally," he said.

The company will have about 2,500 workers statewide after the move. "So Virginia will continue to be a vital state for us."

Leaders in Georgia, meanwhile, cheered the company's move at a Wednesday afternoon news conference. Atlanta Mayor Keisha Lance Bottoms, likened the process that involved complex land deals and tax incentives to seeing the sausage get made. "But hey, it sure does taste good," she added.

Pat Wilson, commissioner of Georgia Department of Economic Development, called it sausage making "at its best."

Squires said the move would be a stepping stone, "to an even stronger company."

Georgia Gov. Nathan Deal lauded his state's labor force.

"That is a major part of the magnet that attracts companies to come to Georgia," he said. As for the process to attract Norfolk Southern, "It was somewhat of a complicated path that it took. But that's OK."

The projected economic impact of Norfolk Southern's relocation is expected to be about \$6.1 million, according to a late-November city of Norfolk estimate. That figure includes office-worker spending at restaurants, along with money spent on other goods and services and philanthropic donations through the Norfolk Southern Foundation and employee matches.

The railroad and its headquarters workers contribute more than \$3 million in tax revenue to the city each year, according to the estimate.

"A significant portion of this revenue will continue as long as the firm maintains rail operations in the city and the tower remains economically viable," the city's memo states. "Much of this revenue is based on real estate taxes and will not change if they relocate out of Norfolk."

The official news of the company's departure was a long time coming. For months, Norfolk Southern had been teetering on a decision that hinged on approvals for a massive publicly-funded redevelopment project that cleared the way for it to sell land it owns in Atlanta. It reportedly sold 16 acres for \$115 million, according to Alan Wexler, CEO and president of Atlanta real estate tracking firm Databank Inc. The transaction price was first reported by the Atlanta Business Chronicle. The money generated would be used to move to a new \$575 million headquarters, financed with public bonds, in the city's Midtown district.

"This has to be the worst-kept secret in the history of economic development," joked Wilson, the Georgia economic development official.

"I'm glad to be able to announce the decision and give our employees and community members some certainty," Squires told The Pilot. "This has been kind of a long, drawn-out process, and

there's been a lot of uncertainty along the way, so, I'm glad we've reached a decision and can let people know what we'll be doing."

The first official word of the move to Georgia was delivered Wednesday by Squires to a roomful of railroad employees gathered in a closed-door meeting room at the Norfolk Sheraton Waterside.

"We will be a better team when we are together as a team," Squires told the crowd.

"It just makes sense for us to move to Atlanta," he told The Pilot after the employee meeting. "It really is a simple matter of bringing the team together so that we can understand each other's work, we can pull together as a team and be a more effective group of managers."

Virginia and Norfolk, fearing an exodus three years ago when the company announced it would close its Roanoke office, had negotiated a deal in 2016 worth \$4 million to the railroad company to keep affected employees from being moved to Atlanta and its headquarters in Norfolk until at least 2026. Squires indicated Wednesday that the company would likely pay back what it may owe.

"Of course, we will honor the terms of the agreements we made with the state and the city of Norfolk when we relocated employees from Roanoke to here a few years ago."

When Roanoke-based Norfolk & Western and Washington, D.C.-based Southern Railway merged in 1982, they created one of the largest railroads in the nation. A United Press International story written at the time stated that the decision to base the railroad in Norfolk was a surprise.

Its departure from the city 36 years later is anything but. The consolidation process in Atlanta has been an ongoing effort.

Boyd, the site-selection expert, noted that the railroad has expanded a number of times over the years in Atlanta. The company has said about 500 people work in the railroad's downtown Norfolk headquarters while 1,900 work at its David R. Goode office in Atlanta.

Besides the economic incentives available in Atlanta, the workforce also played a factor, he said. Just as Norfolk Southern is in a highly competitive battle for market share against Jacksonville-based CSX, "they're also in a battle for talent, to hire engineers and IT workers," Boyd said. "As you know, the freight industry is increasingly automated and relies on IT skills sets. And few markets can compete with Atlanta in that regard, because of the sheer size of its labor market and recent investments in institutions like the Georgia Institute of Technology (Georgia Tech)."

Bryan Stephens, president and CEO of the Hampton Roads Chamber, said Norfolk Southern's relocation decision was a move strictly made on business need.

"We in the business community understand that, you know, sometimes you have to make some tough calls for the greater good of your shareholders," he said. "I'm sure it was a financial decision."

Boyd suggested a silver lining in Norfolk's loss of the headquarters: "We've never seen more headquarters relocations (nationally) than we're seeing right now," he said. "And we're going to see a lot more over the next 24 months."

As it happens, Boyd added, the idea of building up communities is beginning to gain traction in the Fortune 500 world.

"Publicly traded companies are increasingly paying attention to this idea of social impact and their ability to enter a market that is distressed because of high poverty or diversity or perhaps a recent downturn in the economy related to a departure of a significant company, like a Norfolk Southern," he said.

Norfolk might want to borrow a page from a city like Newark, N.J., which was short-listed in the recent Amazon headquarters competition, Boyd said.

"This is an opportunity, on the heels of losing Norfolk Southern, to really talk about social impact, to encourage other publicly traded companies to take another look at Norfolk," he said.

He said more institutional investors are weighing social impact when deciding what companies to invest in.

"That's a major reason why Amazon included Newark on the short list for their new headquarters. And I mention that, because, you know, Norfolk could be talking about these things just the way Newark is talking about these things."

Bill Schafer, who lives in Virginia Beach, retired from Norfolk Southern in 2011— exactly four decades after he began his railroad career in 1971 with Southern Railway, one of Norfolk Southern's predecessors. After the 1982 merger, he was transferred to Norfolk and except for a nine-year hiatus from 1998 to 2007, has been in Hampton Roads ever since.

Schafer said Norfolk Southern's decision to relocate its headquarters to Atlanta makes sense on many levels.

"They have an enormous operation," he said. "If you look at a map, you'll see all kinds of (rail) lines joining down there. ... My sense is that the labor pool is better. And it's just easier to get around. Atlanta is a hub. Any chamber of commerce could probably tell you that."