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Site selection, corporate relocations sure to change with Covid-19. Could Charlotte stand to benefit?



Site selectors say the pandemic may just speed up trends and changes that had been taking place over the past decade or more — relocation out of dense, expensive cities like New York and San Francisco as well as more remote work.

By Ashley Fahey – Real Estate Editor, Charlotte Business Journal - Apr 22, 2020

The Covid-19 pandemic is expected to prompt companies to take a serious look at how — and where — they conduct business, which could have long-term economic development implications.

Site selectors say the pandemic may just speed up trends and changes that had been taking place over the past decade or more — relocation out of dense, expensive cities like New York and San Francisco as well as more remote work, for example.

"Many companies have tremendous incentive now to reduce operating costs," said John Boyd of The Boyd Co., a site selection company based in Princeton, New Jersey. "This really put a spotlight on how uniquely vulnerable major cities like New York and Chicago and San Francisco are for pandemics."

Cities like Charlotte could be beneficiaries for all the reasons the Queen City was attractive before the economic effects of Covid-19 were felt, including the area's quality of life and a competitive cost of living and doing business.

Boyd and others cautioned against making too many broad assumptions about what could play out after the pandemic's initial fallout. For example, Boyd said, many commercial real estate brokers in New York said after 9/11 that Lower Manhattan would never be able to recover but the area has undergone a significant renaissance in the nearly two decades since.

Companies that were exploring relocations and expansions have put that activity firmly on hold. Post-pandemic, some may go back to the drawing board and reevaluate short-listed cities and their needs based on what's changed, Boyd said.

Mac Holladay, founder and CEO of Atlanta economic development firm Market Street Services, said there are too many unknowns for companies to make major decisions right now. His company had been developing a strategy with Nashville, Tennessee, before the pandemic hit and has since advised nothing be finalized until there's more data and information about the virus.

"In the short term, you're going to see everybody just saying, 'Hold on a minute, we've got to figure out what the hell is going on,'" Holladay said.

Janet LaBar, president and CEO of the Charlotte Regional Business Alliance, said during a virtual CoreNet Carolinas panel on Wednesday that site selectors have said how governments across the country manage through the current crisis could inform where corporate investments are made in the future.

And, Holladay said, local and state governments must be diligent in developing a strategy to recoup lost revenue during the pandemic. He said Georgia and North Carolina, in particular, are heavily dependent on sales and personal income tax, which have been dramatically impacted from Covid-19.

It will take "courageous leadership" for companies and especially governments to navigate through the pandemic, Holladay said.

"It's a health crisis first — if we can't figure that out, everything else is secondary," he said. "The amount of uncertainty is like nothing I've ever seen before."

Office needs will change

Density of a workspace as well as a headquarters city may be more seriously looked at in the wake of the pandemic.

Already, some office users are challenging architects and office designers to map out workspaces to include social distancing and extra health and sanitation measures.

Seth Martindale, senior managing director of the location incentives group at CBRE, said during the CoreNet panel that companies with large, high-dense office operations concentrated in one city may look to either add a second headquarters elsewhere or have a more significant percentage of its employees move to remote work.

"Everybody's gotten a crash course in working from home all of a sudden," Martindale said. "I think the question is, how much are people going to adopt that?"



Image: Pixabay/inkflo

The pandemic might result in more companies opting to work remotely.

Boyd said work from home has been on the rise with the advancement of technology but there have been conflicting studies on just how much the trend would take hold long term. With the pandemic forcing most office users to adapt overnight to an exclusively remote work environment, some companies will revert to that in a more meaningful way, he said.

Offices will also become smaller and, yes, less dense, Boyd said. In the past decade, office space averaged 200 square feet per worker a decade ago to about 150 square feet per worker prior to Covid-19. His firm is predicting that number will shrink further, to perhaps 110 square feet per worker, within five years.

But will most move to a work-from-home model and have little to no need for offices? Those in the industry said they didn't think that was realistic.

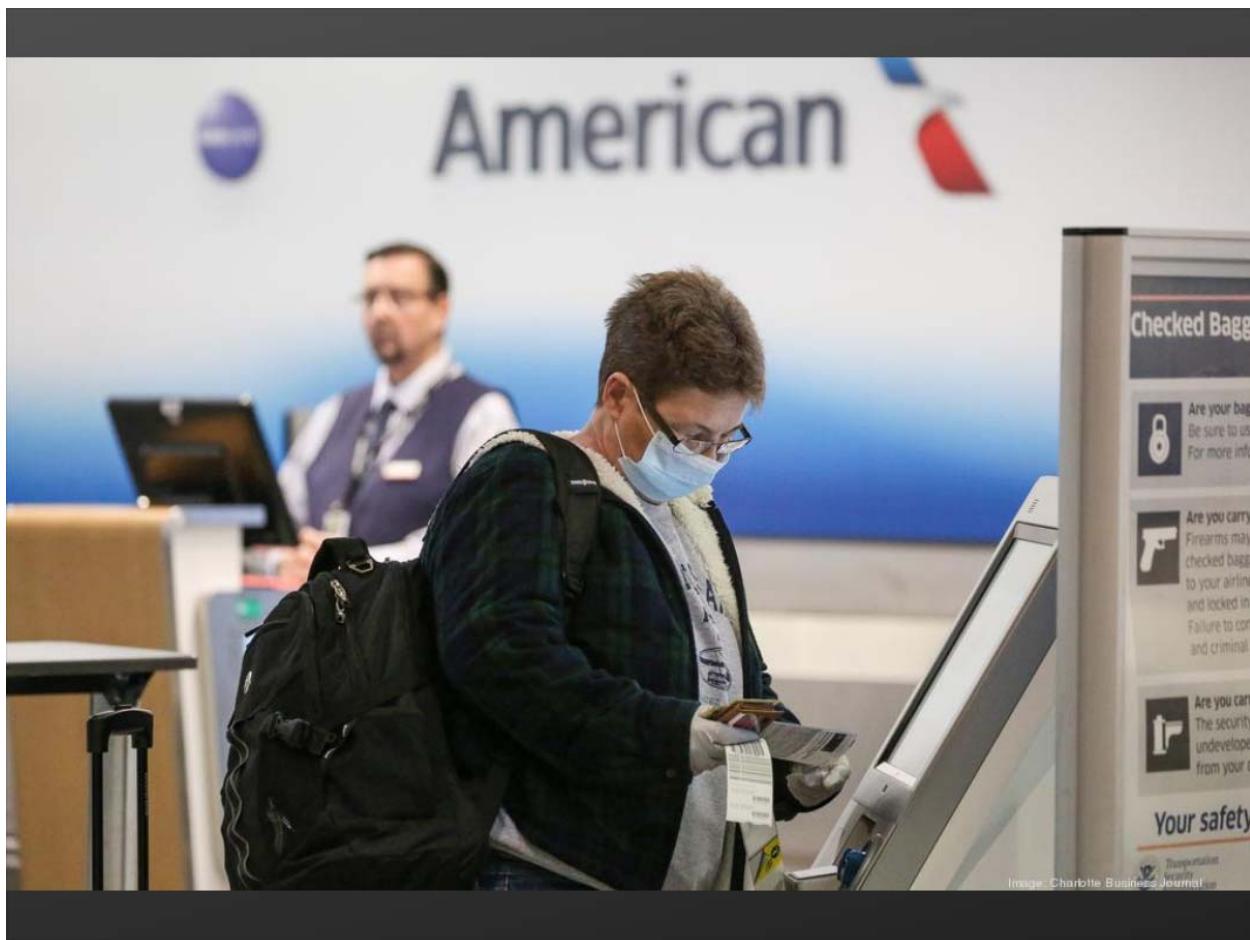
"You'll see some changes but I personally think it's not going to be these massive shifts you see in the news," Martindale said.

Site selection for corporate users is expected to come back eventually, even if that activity has stopped right now.

Even with a move to more remote workers, companies will typically want employees to be within 60 miles of a headquarters for in-person meetings and events, Boyd said. Plus, companies have increasingly put a premium on being close to universities, so having an operation near those institutions will continue to be important, Boyd said.

Access to an international airport has become a bigger priority for companies in the past several years, Martindale said. In fact, a significant factor in luring business to the Charlotte region has been the presence of Charlotte Douglas International Airport, a hub for American Airlines and one of the busiest airports in the country.

In a survey of site selectors and companies conducted by the Alliance, "ease of airport transportation" came out as the Charlotte region's top strength.



Customers at Charlotte Douglas International Airport wear face masks and gloves during the coronavirus outbreak.

The airline industry has been battered during the pandemic with air travel down some 90% since stay-at-home and shelter-in-place orders were issued across the country. Like most other sectors,

it's uncertain when travel could start up again, and when people will feel comfortable boarding a plane.

In the near term, corporate air travel will certainly be impacted, Boyd said. But because the economy has become so global, that sector will eventually rebound and companies will prioritize markets with a strong airport in site selection.

Martindale said many companies have been looking for the next Austin, Texas — cities that are still low cost but are primed to become hot markets for tech and other business. Austin has catapulted into one of the biggest tech centers in the United States but, because of its rapid growth, costs have skyrocketed and infrastructure hasn't kept pace.

Because of the pandemic, cities with less density could become more attractive for some companies. Martindale said markets like Kansas City; Omaha, Nebraska; and Pittsburgh are ones to watch.

Industrial site selection could also become a bigger piece of site selection coming out of the pandemic. Those in the industry say that because so much manufacturing is done overseas today, the pandemic has exposed supply chain issues.

Holladay said a number of manufacturers have shifted their business to deal with the crisis, such as producing masks or ventilators, but it remains to be seen whether those types of moves will be permanent.

Having so many essential materials manufactured abroad, particularly in Asia, could be seen as risky long term, Martindale said. That will likely propel more manufacturing to be done domestically.

"People will be willing to pay that extra dollar to have that made in USA supply chain security," he continued.

Boyd, who works with a lot of medical and pharmaceutical companies, said he thinks there will be a wave of life sciences growth in the United States post-pandemic, which will propel both manufacturing and office demand. He said North Carolina should be a beneficiary of that growth, especially the Interstate 40 corridor, because of its universities and existing companies already in that space.

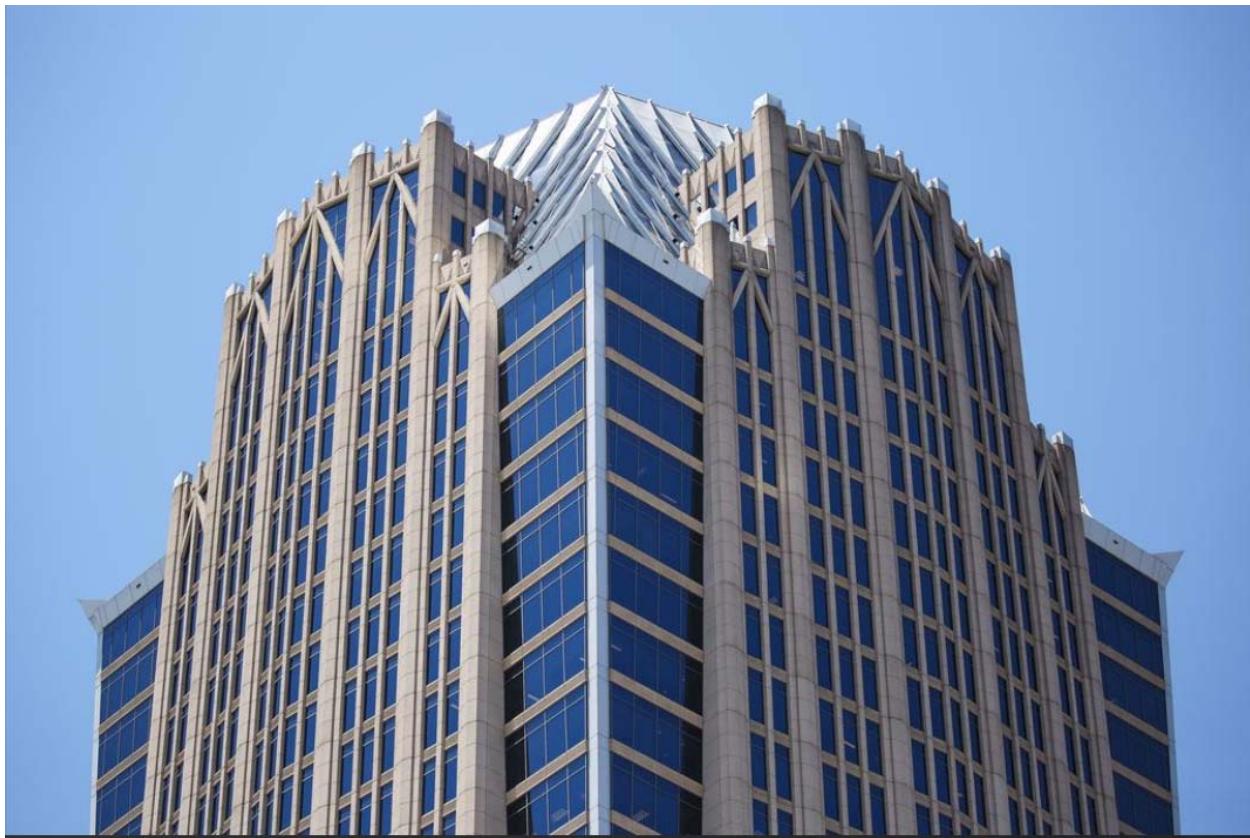
How does Charlotte stack up?

Before Covid-19, Charlotte was riding a wave of growth and success, including several prominent corporate expansions and relocations.

Two of the most high-profile in the last year or so were Fortune 100 company Honeywell's decision to move its headquarters from New Jersey to Charlotte and Truist Financial Corp. — the merged entity of BB&T and SunTrust — planting its headquarters in uptown.

For Truist, which didn't seek any incentives in its relocation, being in a neutral spot between former hometowns of BB&T and SunTrust — Winston-Salem and Atlanta, respectively — was important, said Heath Campbell, Metrolina market president at Truist, at CoreNet's panel.

"Clearly, the workforce was here and (so was) the commercial real estate," Campbell said. "It was very fortunate that we had access to what we now call the Truist Center, right in the center of the financial district in Charlotte."



What was formerly known as Hearst Tower has been renamed Truist Center after Truist Financial Corp. purchased it on March 31.

The business and political environment also played important roles for Truist in its consideration of where to be based, he added.

But how does Charlotte stack up compared to its competitors?

LaBar said in her group's survey of site selectors and companies, the Charlotte region ranked No. 4 overall in a list of economic development factors compared to competitors. Dallas ranked No. 1, while Atlanta and Nashville took the next spots. Columbus, Ohio, was ranked No. 5.

Charlotte ranked No. 2 on "strategic value" — factors that go beyond the three food groups of economic development, such as quality of life or cost to do business — but lower on incentives (No. 6), talent (No. 5) and real estate (No. 4). Atlanta took the top spot for strategic value and real estate while Columbus was No. 1 in incentives and Dallas ranked highest for talent.

On a national level, Charlotte tends to fare well, Martindale said. Ten or 15 years ago, companies cited cost of labor as a primary consideration — now, access to labor is paramount. Quality of life has also become increasingly more important. Having both of those traits has helped made Charlotte more competitive, most economic developers agree.

Charlotte also remains more affordable than hot spots like Austin and Nashville, which have undergone arguably more growth in a shorter period of time.

In general, site selection has become more complex and robust than it has been historically. Martindale said CBRE's model typically considers 75 criteria when evaluating a market's potential for economic expansion or relocation.

"Things like restaurants per capita or golf courses or parks per capita are not things we used to look at ... now those are standard," Martindale said.

Companies are now willing to look geographically farther out, too, he continued.

But a lot of decisions are made with boots on the ground. Some executives in New York or West Coast cities who have never been to Charlotte or Atlanta perceive them as small cities and are "really surprised" when they visit, Martindale said.

LaBar said her group's findings suggested ease of doing business as well as friendliness — such as when a governor picks up the phone to call a CEO — make a difference for companies.