

Back Office Site Selection Trends

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What is a Back Office?

Back office is a handy term for the longer, more descriptive name of "central administrative office," that is to say, a free-standing office away from the company's headquarters facility performing any one of a number of functions aimed at serving the overall corporate structure. These back office functions are varied and can include: accounting, finance, HR, IT, customer service, training, sales, collections in the banking field, cyber security and others.

Over the years, back office site selection has been one of our firm's most active sectors, carrying out searches for Boyd clients Progressive Insurance, JP Morgan Chase, PNC Bank, Dell, PepsiCo, BNP Paribas, to name a few. Choosing the right back office location is an exacting process, with multiple due diligence stages that can last from a few months up to a year.

Certain elements in the back office site selection process like labor market analysis, operating cost projections, inspection of available real estate meeting our client's construction or lease requirements, telecommunications infrastructure assessments, state tax and regulatory climate reviews, transportation reviews and assessments of qualitative lifestyle considerations for transferees have remained fundamental over the years.

However, the current pandemic has brought to the fore other site selection considerations that are helping to shape our current back office searches. Some of these considerations are discussed below for Expansion Solutions readers.

Remote Working Trend

Remote working was already a trend, especially with our tech clients, long before COVID-19. We fully expect it accelerate in the months and years ahead and have a significant impact on future Boyd back office site selection engagements. The major impact here: smaller back office footprints. Today, many back offices in the U.S. average less than 150 square feet per worker. That number is down dramatically from figures as high as 350 square feet per worker when our site selection firm began in 1975 and 200 square feet a decade ago.

While every project is different and every client has different needs and approaches, we definitely see smaller back office projects on the horizon as companies take into account a larger percentage of their employees working from home – and only coming into the office periodically for staff meetings, training sessions and other collaborative purposes. The impact of social distancing – requiring more space – will be only short term and be dwarfed by the large scale adoption of remote working over the longer term.

Savings in real estate costs – whether for new construction, leasing, utilities, property taxes and other occupancy-related expenses will be enormous over time for our clients. Back office site selection is highly cost-sensitive and increasingly so, as I will explain later.

IBM recently conducted a survey about how American's views on working are changing due to the Covid-19 pandemic. According to the IBM survey, 54 percent of Americans want to keep remote working as their primary mode of work, and 70 percent say they'd like it to at least be an option.

Columbus, Ohio-based Nationwide Insurance said it plans to permanently transition to a hybrid operating model that comprises primarily working-from-office in four main corporate campuses and working-from-home in most other locations around the country. Nationwide said it will exit most buildings outside of four main campuses by the end of 2020 and move associates in these locations to permanent remote-working status.

Barclays CEO Jes Staley, who has roundly embraced the remote working model for his global banking organization, also indicated that retail branches could be used for investment banking and other back office functions.

Costs Carry the Day

The difficult economy resulting from COVID-19 is placing a laser focus on comparative operating cost structures in back office site selection searches. The process will tend to favor communities with attractive operating cost profiles. Improving the bottom line on the cost side of the ledger, rather than the revenue side, will be far easier for site-seeking companies for the foreseeable future due to the pandemic.

Along with a watchful eye on operating costs for labor, real estate, construction, office lease rates and utilities, our back office site searches are now highly sensitive to the unprecedented budget deficits of those cities and states hardest hit by COVID-19 and their need for new revenues through tax hikes. California voters in the fall will decide on a tax measure that is likely to raise property taxes on the state's business community by some \$12 billion. That measure would exclude commercial and industrial property from the protections of landmark Proposition 13 (officially named the People's Initiative to Limit Property Taxation) passed in 1978. Also, several Bay Area cities are proposing new head taxes, stock compensation levies and taxes on excessive compensation for top corporate executives.

Today, all of our site selection investigations are increasingly watchful of state fiscal conditions and the propensity for new taxes to offset pandemic-related expenses and revenue shortfalls. We continue to monitor closely the impact on corporate tax structures due to unfunded public sector pension obligations, what we have termed "ticking time bombs" for some states like California, Illinois, Connecticut and others.

Suburbia's Comeback

We are predicting a resurgence of back office projects to more suburban and rural-like markets as major urban centers have become epicenters for COVID-19 and the economic and social unease it has caused in some major cities. While the coveted millennial workforce is not necessarily interested in golf courses and gated communities, they do like jogging trails, parks and open spaces.

A major driver of the suburban back office trend is the growing popularity of mixed-use developments providing an urban feel along with attractive housing, retail, eateries and modern, Class-A office space. Here are some of the mixed-use development communities around the country that are increasingly on Boyd's radar screen for new back office projects. (*See Figure 1*)

**Figure 1
Operations**

Top Mixed-Use Developments for New Back Office

Northeast	Southeast	Florida
Riverton (New York Metro Area)	Covington Town Center (Atlanta Metro Area)	LIVE! RESORTS POMPANO (Miami Metro Area)
Village at Valley Forge (Philadelphia Metro Area)	River District (Charlotte Metro Area)	Dania Pointe (Miami Metro Area)
Merriweather District (Baltimore Metro Area)	Midtown Exchange (Raleigh Metro Area)	Aventura Park Square (Miami Metro Area)
Northland Newton Development (Boston Metro Area)	Lake District (Memphis Metro Area)	Westshore Marina District (Tampa Metro Area)
New Quincy Center (Boston Metro Area)	McEwen Northside (Nashville Metro Area)	Space Coast Town Center (Melbourne Metro Area)
Rock Row (Portland Metro Area)	The Battery/Truist Park (Atlanta Metro Area)	Grand Boulevard at Sandestin (Ft. Walton Metro Area)
Robbinsville Town Center (Central NJ)		Sodo Orlando (Orlando Metro Area)
Midwest	Texas	Western US
Bayshore Town Center (Milwaukee Metro Area)	The Strand (Dallas Metro Area)	Summerlin (Las Vegas Metro Area)
Midtown Carmel (Indianapolis Metro Area)	Frisco Station (Dallas Metro Area)	The District (Salt Lake City Metro Area)
Southfield Town Center (Detroit Metro Area)	Legacy Project (Dallas Metro Area)	Cavasson (Phoenix Metro Area)
The Grove (Kansas City Metro Area)	Woodlands (Houston Metro Area)	Grammercy (Las Vegas Metro Area)
Ovation (Cincinnati Metro Area)	Generation Park (Houston Metro Area)	Waterfront Vancouver (Portland Metro Area)
Bridge Street District (Columbus Metro Area)	Leander District 2243 (Austin Metro Area)	Riverpark in Redmond (Seattle Metro Area)
Norton Crossing (Columbus Metro Area)		The Spring District in Bellevue (Seattle Metro Area)
		Rio Del Oro (Sacramento Metro Area)

Back Office Retail Conversions

While the re-purposing of retail space to commercial office space is not a new concept – indeed, it was dominant trend back in the heyday of our call center site selection work back in the 1980’s and 90’s in the U.S. and Canada – it will now be taking place on an unprecedented scale in the months ahead due to the many millions of square feet of retail space that will not be coming back after COVID-19 and the continued onslaught on brick and mortar retail by ecommerce giants like Amazon. Commercial real estate developers, seeking new back office tenants are already at work repurposing major retail sites around the country, including failing regional malls, due to advantages like cost, open architecture, parking, signage, visibility and highway access.

Social Impact and ESG Drivers

Beaverton, Oregon-based and socially active Nike tells us to “Just Do It”. The Just Capital Foundation in New York is telling corporations to do it “Justly” when it comes to selecting a location for new corporate investment and jobs. For years, our firm has been saying that corporate site selection is both a science and an art. The “science” deals with the numbers, the quantitative analysis of operating costs, taxes, regulations, incentives and other geographically-variable factors that we can attach a dollar sign to.



The “art” of site selection relates to those more social, qualitative factors that vary from city to city. These include factors like housing, education and cultural and recreational amenities that impact a company’s ability to retain key people in the initial move and to be in a strong recruiting position to attract the best and brightest talent in the months and years ahead.

That said, here in 2020, we are experiencing the emergence of a new site selection variable on the qualitative side of the equation that relates to the social impact of a corporate site selection decision and how that decision affects a company’s brand or “social standing”.

Our site selection firm is increasingly being asked by clients to identify attractive relocation options which also include opportunities to promote their diversity and ESG mission statement goals. ESG stands for Environmental, Social and Governance. Moreover, there is growing evidence that high ESG rankings tend to enhance a company’s standing on Wall Street. According to a Responsible Investment Association Trend Report, 75 percent of professional investors consider a company’s position on social and governance issues before deciding whether to invest.

That all said, site-seeking companies have never been more conscious of social impact and ESG given the whirlwind of momentous social issues being faced in 2020 America like income disparity, diversity, sustainability, gender equality and movements like MeToo and Black Lives Matter.

Furthermore, incentive packages for our clients can become easier sells to wary lawmakers and the public when a company's project is viewed as having a positive social impact. We have seen this play out in July with Tesla's successful incentive negotiation with Travis County, Texas, when it pledged to establish a working relationship with Huston–Tillotson University, an historically black institution of higher learning, during its dealings to locate its new assembly plant near Austin. Newark, New Jersey, also successfully leveraged social impact with its attraction of major offices of Panasonic, Mars Wrigley and Audible and its finalist ranking in the epic Amazon HQ2 search.

Back Office Growth Sectors: Pharma and Med Tech

The Covid-19 pandemic has done much to expose the vulnerabilities in our nation's overly extended and risky supply chains both in and out of the pharma and med tech fields. As this reshoring trend back to the U.S. from China plays out – prompted by the pandemic and now being encouraged by new bipartisan carrot and stick legislation being crafted in Washington, DC – the commercial real estate industry is preparing for a new wave of modern, state of the art supply chain facilities. Many of these new facilities will be well-positioned to house back office operations, especially within the booming pharma and medical devices sector. These include operations like medical records processing, data security, billing, clinical trial support, compliance, customer care, government affairs and others.

A new 2020 Boyd Report identifies 25 top locations for these types of back office operations and compares annual costs which range from a high of \$27.5 million in Staten Island, New York, to a low of \$18.1 million in Rocky Mount, North Carolina. The cost differential between the New York location (a state with a corporate income tax rate of 6.5 percent) and North Carolina (a state with the nation's lowest corporate income tax rate at 2.5 percent) is \$9.4 million, a significant differential of 34.2 percent. (*See Figure 2*)

Figure 2

TOTAL ANNUAL OPERATING COST RANKING	
Back Office Site	Total Annual Operating Costs
Staten Island, New York	\$27,507,051
Farmingdale, New York	\$26,711,291
Stoughton, Massachusetts	\$25,725,995
Worcester, Massachusetts	\$25,688,851
Edison, New Jersey	\$24,913,354
Cranbury, New Jersey	\$24,174,656
King of Prussia, Pennsylvania	\$24,092,580
Windsor, Connecticut	\$23,885,092
Nashua, New Hampshire	\$23,634,121
Florence Twp., New Jersey	\$23,453,662
Newburgh, New York	\$22,859,580
York, Pennsylvania	\$22,700,084
Canonsburg, Pennsylvania	\$22,195,427
Lehigh Valley, Pennsylvania	\$22,162,826
New Castle, Delaware	\$22,068,482
Alpharetta, Georgia	\$21,651,901
Towson, Maryland	\$21,539,675
Lakeland, Florida	\$21,206,645
Doral, Florida	\$21,198,697
Lithia Springs, Georgia	\$20,983,023
Indiantown, Florida	\$20,898,324
Ruskin, Florida	\$20,325,004
Chesterfield, Virginia	\$19,811,571
Mebane, North Carolina	\$19,451,226
Rocky Mount, North Carolina	\$18,155,234

Boyd's cost analysis includes all major geographically-variable factors critical to the site selection process such as labor, real estate, construction, taxes, utilities and others. Growing pressures for price controls on prescription drugs along with tax, trade and regulatory uncertainties associated with the 2020 presidential election are all causing a heightened focus on operating cost structures and efficiencies within the entire pharma, med tech and healthcare industries.

About the Author:



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John H. ("Jack") Boyd

A thought leader and well-known pioneer of the modern era of corporate site selection, Jack has done much to advance the profession setting best practice standards of independence, objectivity, integrity and confidentiality.

An economist by training, Jack's corporate site selection focus traces back to his academic research in Puerto Rico studying the Island's commonwealth political status, unique tax structure and why U.S. corporations were locating there. As a Bevier Fellow in economics at the Rutgers Graduate School, Jack expanded his research in the field of corporate relocation and Latin American

economic development.

Following work as a site selection analyst with Dun & Bradstreet's Management Consulting Division based New York City, Jack established the Boyd firm in Princeton, New Jersey's famed Twenty Nassau Building overlooking the Princeton University campus in 1975. Boyd serves a broad spectrum of Fortune 500 and up-and-coming companies. Some Boyd clients include: UPS, Boeing, Pratt & Whitney, Philips, Moldex-Metric, Discover Card, Gwynnie Bee, to name a few.

Today, as head of one the nation's oldest consultancies specializing in corporate mobility, Jack remains dedicated to positioning Boyd clients ahead of prevailing economic and business climate trends.