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Cat's HQ move points in the wrong direction for Chicago

Sun Belt cities that have been wooing manufacturing plants with lower taxes, wages and workers' compensation costs are now coming for the headquarters.

John Pletz – June 15, 2022



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With its move to Texas, Caterpillar is joining a growing conga line of companies transplanting their headquarters to the Sun Belt.

Cat, which shifted its executive suite to Deerfield from its longtime home in Peoria just five years ago, has never been a fan of the political climate in Illinois, particularly its tax policies. Texas has no income tax, an added benefit for the company and its employees. The company didn't say

much about its move to the Dallas suburb of Irving on Tuesday, but what it did say raises a concern that Chicago is slipping.

“We believe being in the Dallas Fort-Worth market will give us the ability to attract new talent and provide additional career opportunities for our current employees to aid in retention,” the company said in a statement to various news outlets.

Chicago has long been a headquarters town, but it’s lost two Fortune 500 HQs in little more than a month. As the nation’s third-largest city, Chicago always has had a deep pool of educated talent. But it’s not growing.

The Dallas-Fort Worth metro area had the fastest growth in the nation last year, adding 97,290 residents, according to the Census Bureau. The Chicago area lost 91,761, feeling the pain of other big cities, including New York, Los Angeles, Boston and San Francisco. Maybe the population declines are pandemic-induced anomalies. Maybe not.

“I don’t think you leave Chicago because of taxes,” says Harry Kraemer, former CEO of Baxter who teaches at Northwestern University’s Kellogg School of Management. “Talent is becoming more mobile. If you’ve got to hire 1,000 young people over the next five years, where do you want to be? What cities do you want to be in or not be in? A lot of people are moving to Texas, to Florida, to Atlanta, to Nashville. They’re moving places people perceive as upwardly mobile, safer.”

Sun Belt cities that have been wooing manufacturing plants with lower taxes, wages and workers’ compensation costs are now coming for the headquarters. Texas has landed Oracle, Hewlett-Packard Enterprise and Tesla.

“Texas has been playing a winning hand for years,” says John Boyd, a principal at Boyd Co., a site-selection consultancy in Boca Raton, Fla. “A string of governors there have been proactive on economic development, meeting with companies.”

Texas is now home to 54 Fortune 500 headquarters, up from 49 in 2019. Irving has been particularly successful, with 10. In addition to Cat, it’s home to McKesson, a pharmaceutical distributor that left San Francisco in 2019.

Like Cat, Irving landed a lower-level McKesson expansion years earlier. Cat moved the headquarters of its Electric Power division to Irving last year. “We have strategically targeted HQ operations to come here,” says Beth Bowman, CEO of the Irving-Las Colinas Chamber of Commerce.

Cat’s new home is in Las Colinas, an upscale master-planned community on 12,000 acres in Irving. “It has emerged as a status symbol address,” Boyd says. “Celebrities and executives have migrated to that part of the metroplex. There are a lot of executive-friendly gated communities. It’s one of the fastest-growing Zip codes in North America.

“There are significant operating cost and tax advantages,” he adds. “Think about all the additional friends in Congress they pick up by moving to Texas. It underscores that traditional site selection criteria still matter.”

Cat’s move comes as Texas, already a conservative state, has shifted hard to the right on abortion, immigration and transgender rights. Even before rumors that the U.S. Supreme Court would overturn *Roe v. Wade*, the city of Chicago and state of Illinois were touting the state’s abortion-rights guarantees in an effort to recruit residents and companies from Texas after lawmakers there moved to severely limit abortions.

“The argument around social policy was always more about attracting talent than attracting businesses directly. I do think we’ve seen with Texas and Florida that social policy is not a particularly big influence on talent or corporate location decisions, however,” says Aaron Renn, a writer and consultant on urban policy. “The Cat move is happening despite recently passed abortion laws in Texas, for example.”