

## How North Carolina can lure companies ditching California's high taxes, strict regulations and Covid-19



*North Carolina's friendly business environment and relatively low cost of living make for attractive features for winning business away from places like San Francisco.*



By Lauren Ohnesorge – Senior Staff Writer, Triangle Business Journal – August 5, 2020

As more taxes and regulations are dumped on businesses in California and New York, companies are looking for outs, experts say. And North Carolina, with its low cost of doing business, could be just the ticket.

That's if it plays its cards right, according to site selection experts.

In recent years, a slew of companies have opted for North Carolina as a cheaper option. Trilliant Networks, for example, pledged to add 130 jobs with its decision to move its global headquarters to Cary. And multiple Silicon Valley companies have been expanding in Raleigh, from tech firm Egnyte to CloudBees.

“There are three reasons” for the trend, said Joe Vranich, a site selection consultant with Spectrum Location Solutions. “Taxes, regulation and quality of life.” And he said all three are about to get tougher for businesses in California in particular.

“The California tax burden is stratospheric,” he said. “Not only is it bad now, but it’s going to get worse. There are several pieces of legislation that would increase taxes.”

A big issue on the ballot in California is known as “Prop. 15,” which, if passed, would shake up the taxation process when it comes to commercial property. The measure would tax some commercial property based on its market value instead of its purchase price, essentially repealing long-held property tax protections for commercial landlords with more than \$3 million in holdings.

“Businesses are kind of quaking in their boots,” Vranich said. “I predict there will be an increase in companies seeking to leave California. It’s hard to predict how many and when because the whole Covid-19 thing has thrown a monkey wrench in.”

Vranich said he has clients who have already made plans to move, but have delayed their site selection searches because “they’re afraid to even get on airplanes to visit the communities.”

“The decision-making has slowed down considerably because of the virus,” he said.

Vranich calls the regulatory environment for businesses “pretty much the worst in the country” in California. And said that its school system, crime and affordability are also cited by executives looking for outs.

John Boyd, a site selection consultant with the Boyd Group, also sees the math adding up to increased migration out of California, and a “great economic development opportunity for low tax and pro-business North Carolina.”

Companies might also look at areas like the Triangle as a way to mitigate their risk by adding another location. After 9/11, for example, Credit Suisse opened its RTP hub. At the time, officials said the move was inspired by the tragedy as a way to mitigate corporate risk with a locale outside of Manhattan.

Mike Walden, economist with North Carolina State University, said he wouldn’t be surprised to see firms looking at options outside of states with the biggest Covid-19 case numbers. And anecdotal evidence shows it’s already happening.

Recently, New York bank Grasshopper confirmed plans to open its second office in Durham. And its CEO said the decision was driven by Covid-19, which had management looking for options outside of hard hit New York.

But even as companies look for options outside of California and New York, the competition for Raleigh will be fierce.

A look at states attracting California companies over the has North Carolina in seventh place, according to his research:

1. Texas
2. Nevada
3. Arizona
4. Colorado
5. Oregon
6. Washington
7. North Carolina
8. Florida
9. Georgia

Vranich said for North Carolina to take advantage of the coming migration, it needs to focus on the things that are already driving businesses to put North Carolina on the shortlist, specifically education.

But Raleigh will feel competition even in North Carolina, where Charlotte has become increasingly attractive, Vranich said, pointing to its international airport.

“If you want worldwide airport connectivity, it’s hard to beat the Charlotte airport,” Vranich said.