



Corporate Malfeasance' Not To Consider HQ Move Out Of Bay Area Or NYC

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A wave of major corporate relocations made headlines in 2020 as firms like Starwood Capital Group, CBRE, Hewlett Packard Enterprise and Oracle opted to move their headquarters from traditional seats of corporate power to cheaper, more business-friendly metros.

As the number of corporate relocations grows, the question arises as to whether cities like Los Angeles, San Francisco, New York, Boston or Washington, D.C., have permanently lost their shine. The prospect of a diverse talent pool, lower corporate and personal taxes, a cheaper cost of living and lifestyle benefits in the Sun Belt states is driving more executives to look south.

“It's almost corporate malfeasance for an executive, a C-level executive at a Fortune 500 publicly traded company in San Francisco or New York not to be at least evaluating or considering or studying a potential move,” The Boyd Co. principal John Boyd said.

For years, a handful of coastal cities have dominated the corporate world in the U.S. The San Francisco Bay Area and New York City have traditionally been hubs for corporate HQs. In 2017, San Francisco had 52 HQs, while New York had 80, far outstripping other major cities around the U.S., the Harvard Business Review reported. The next largest is Chicago, with 33. New York City alone has had 16% of the country's HQs from the 1950s to today. The Bay Area comprised more than 10% of U.S. HQs in 2017, the HBR said.

Corporate HQs are typically found in cities with access to a highly educated and skilled talent base. Academic researchers for the Harvard Business Review found that 70% of Fortune 500 HQs are in metros that rank in the top 25% for talent, measured as the share of the population with a bachelor's degree or more. In addition, 90% of those HQs are in metro regions with populations of more than 1.3 million people, and the same share is in metros with international airports.

However, Fortune 500 firms today are in corporate cost-cutting mode and, combined with the added accelerant of the coronavirus pandemic, there has been a big shift back to focusing on traditional business factors, according to Boyd.

“Much of it has to do with the COVID epidemic and the carnage that COVID has put on our nation's economy and corporate profits. But there's been a real shift and focus back to traditional business climate factors: the cost of doing business, tax structures, the legislative and regulatory climate,” Boyd said.

Houston, Austin, Dallas and Phoenix have been major beneficiaries of this trend, as have several cities in Florida, Boyd said. The wider pause on business activity for many firms during 2020 has also provided an opportunity for companies to focus their attention on their bottom line.

“Companies have taken this COVID period almost as a timeout to re-evaluate new benchmarking analysis, to see what the types of operating costs and tax savings would be to relocate out of New York or California,” Boyd said. “They're doing internal HR polls to get a sense of how many of the workers are open to a relocation package to some of these other alternative markets.”

One of the biggest reasons companies seek to move is following talent. Miami-Dade Beacon Council President and CEO Michael Finney said Miami-Dade County has received major interest from technology and financial services firms looking to relocate there. In his decades of experience, the biggest reoccurring concern for those types of firms is whether they have access to a qualified talent pool.

“I honestly cannot remember a single time where the very first question wasn't, can I get the key talent that I need? That is always the question that businesses lead with. And if the answer is no, it's unlikely that you'll be successful in landing that company,” Finney said.

If the answer is yes, then it leads to other questions, like incentives, quality of living and recreation opportunities. Finney pointed to several Florida-based universities that have a steady pipeline of talent entering the job market, including Florida Memorial University, Florida International University, the University of Miami and St. Thomas University.

To keep that talent in Florida, there are discussions underway as to whether students could receive access to internships and fellowships at technology-based firms that move to the Miami region, funded through an incentive program.

“Talent is, in fact, the main currency in economic development. If you have it, you can be successful in attracting companies. If you don't have it, it's a very limited opportunity that you have with tech,” Finney added.

Corporate taxes and the cost of doing business tend to attract a significant amount of attention. Federal corporate income taxes are levied at a 21% rate, but six states — including Texas — have no state corporate income tax. Florida does, requiring a combined corporate income tax of 24.6%, but that still places it among the U.S. states with the lowest taxes.

In comparison, the combined corporate income tax is 28% in California and 26.1% in New York.

Boyd said that for large firms, tax deductions and local incentives are robust enough that corporate taxes don't actually play the biggest role in determining whether a firm settles on moving. However, taxes for individuals, including the C-suite, can offer more motivation.

“For major, large, publicly traded companies, there's so many deductions available that the corporate tax rate tends to be a bit overstated. When we talk about taxes being a driver for site selection, it's more about personal income taxes and property taxes,” Boyd said.

Miami-Dade County and other areas of South Florida have attracted executives from the Northeast for a long time, and many already have second homes in the region. When the pandemic first struck, some fled south to ride out the storm and are now thinking about the possibility of relocating their businesses there permanently.

“In some cases, especially where executives are involved, and C-suite decision-makers are involved, they have the option of actually establishing an operation or a significant operation in Miami,” Finney said. “We're seeing some of the boomerang effect of that, where individuals come and then it becomes an opportunity for the company to look at their total business portfolio and rationalize whether it makes sense to actually have a portion of that portfolio or all of it located in South Florida, in Miami-Dade in particular.”



Unsplash/Antonio Cuellar

Boyd said that word-of-mouth amongst C-level executives is also playing a role in prompting more firms to consider moving away from the West Coast and the Northeast.

“It plays a significant role, when executives see their peers successfully make a move like that. It enhances the comfort level that they can do the same thing,” Boyd said.

Boyd said there has been a recalibration in the corporate world, largely due to all the technologies that have emerged to facilitate remote work. Prior to COVID, about 5% of the workforce was remote. Though it is difficult to find an accurate estimate, Boyd believes that number could be as high as 60% right now.

That may not remain the case long-term, but the prospect of setting up operations outside of the traditional corporate hubs now has more promise. The meteoric rise of online meeting platforms like Zoom and Microsoft Teams has shown that workers are capable of working remotely full time or able to move to a hybrid working model.

Finney said city and state leaders in those regions recognize the problem and are trying to address it, but in the short term, at least, Florida will continue to benefit.

“Is it going to create vast deserts of empty buildings in these major metros? I doubt that, because those communities and states are making adjustments as we speak. And they will likely continue to do so. But it doesn't change the near-term narrative,” Finney said.

Boyd said the pandemic has taken cities like Los Angeles and San Francisco and New York to the edge in terms of loss of corporate and personal tax revenue. In addition to their obvious budget pain, the news cycle of the past year has seeded the idea that business as usual won't work anymore, particularly in regard to taxes.

“Those cities can come back, but it will take real leadership. It'll take much more than clever marketing gimmicks or slogans to bring back the Big Apple as a corporate mecca. It's going to take a change in policy,” Boyd said.

Corporate Relocations In 2020

Cross-metro corporate HQ or major division HQ moves

COMPANY	MOVING FROM (CITY)	STATE	MOVING TO (CITY)	STATE
Revance Therapeutics	Bay Area (Newark)	CA	Nashville	TN
CBRE	Los Angeles	CA	Dallas	TX
Optimal Elite Management	Los Angeles	CA	Grand Prairie	TX
Juul	San Francisco	CA	Washington	DC
Hewlett Packard Enterprise	San Jose	CA	Houston	TX
Palantir	Silicon Valley	CA	Denver	CO
Oracle	Silicon Valley	CA	Austin	TX
Tesla (Elon Musk)	Silicon Valley	CA	Austin	TX
Starwood	Greenwich	CT	Miami Beach	FL
Papa John's	Louisville	KY	Atlanta	GA
Motorsport Network	Charlotte	NC	Miami	FL
Peloton	NYC	NY	Plano	TX
Moelis (Employees)	NYC	NY	Florida	FL
TruCapital Partners	NYC	NY	Fort Lauderdale	FL
Goldman Sachs (Asset Management)	NYC	NY	Fort Lauderdale	FL
Goldman Sachs (Compliance)	NYC	NY	Salt Lake City	UT
Elliott Management	NYC	NY	West Palm Beach	FL
Auntie Anne's	Lancaster	PA	Atlanta	GA
Howard Hughes	Dallas	TX	Houston	TX