

# HOUSTON BUSINESS JOURNAL



By Chris Mathews – Reporter, Houston Business Journal – February 12, 2021

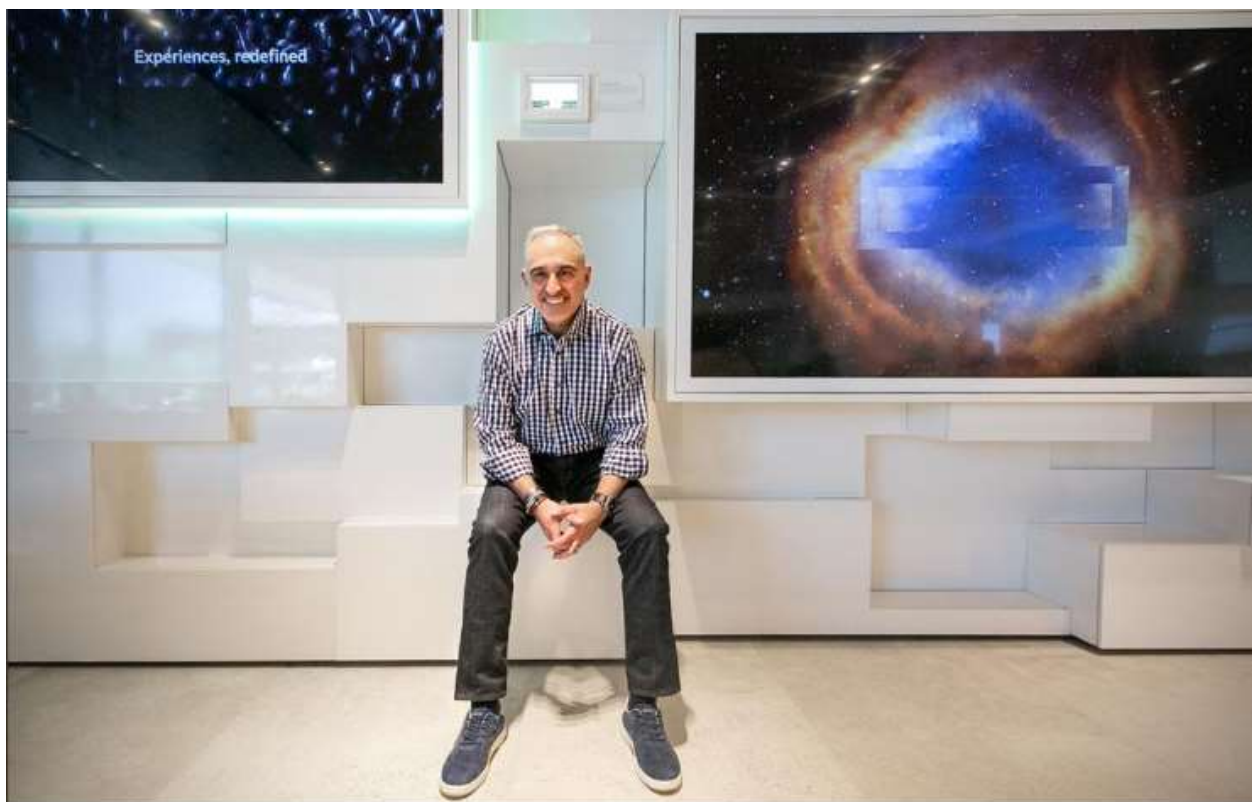
Relocating its headquarters from San Jose, California to the Houston region is a bit of a homecoming for Hewlett Packard Enterprise (NYSE: HPE) and its CEO, Antonio Neri.

After all, HPE has deep roots in the Bayou City. The company's current Houston site at State Highway 249 and Louetta Road previously served as the corporate headquarters for Compaq, at one point the world's largest PC maker. Hewlett-Packard Co. acquired Compaq in a \$33.6 billion deal in 2001. Hewlett-Packard split into HPE and HP Inc. (NYSE: HPQ), the company's PC arm, in 2015. Neri spent years as a Hewlett Packard executive based in Houston prior to the company's split.

Among the area's biggest wins in 2020 was the announcement that HPE would relocate its corporate headquarters from San Jose, California, to the company's new campus in Springwoods Village north of Houston. With \$29.1 billion in 2019 revenue, the tech firm would have ranked No. 8 on the Houston Business Journal's 2020 Largest Houston-Based Public Companies List.

Several reasons led to HPE moving its corporate headquarters to Texas, from cost of living and quality of life to infrastructure and a diverse talent pool, Neri said. Meanwhile, HPE will maintain its presence in Silicon Valley as the company's innovation hub. HPE's San Jose site will serve as headquarters for its Aruba Intelligent Edge business.

"Taking advantage of that strategy, that consolidation of our major hubs around the United States, we end up with the best of both worlds," Neri said.



*Antonio Neri, HPE's chief executive officer, inside HPE's San Jose headquarters*

HPE's executive team and a number of employees will relocate from California to the Houston region in anticipation of the new campus' opening in early 2022.

But HPE isn't alone in its move to Texas. Hastened by the coronavirus pandemic, a historic wave of corporate relocations is paying dividends to the Lone Star State and the Houston metro region alike.

More people are moving to Texas than any other state in the nation. Texas gained an estimated 373,965 people between July 1, 2019, and July 1, 2020, according to recent population estimates from the U.S. Census Bureau. States like New York and Illinois shed residents at high clips, and California estimated loss of 69,532 residents is the state's first population decline in over a century.

The greater Houston region has certainly benefited from the exodus, and so too has the city's effort to build a stronger technology sector.

After Houston didn't make the short list as possible destinations for Amazon's second U.S. headquarters, Houston's tech community, the city, corporate and academic stakeholders have worked to develop the Bayou City into an attractive market for startups and technology firms. New entrepreneurial campuses, like The Cannon, The Ion and the East End Maker Hub, have started to spring up. Numerous out-of-town accelerators have opened up shop in Houston in just the past few years. Money is being spent to attract new venture capital players into the region.

While the city's mission to develop into a tech hub is far from over, Houston has other attractive features for corporations considering relocation.

"I think Houston has a lot to offer today already, from the quality of education to the business-friendly environment," Neri said. "infrastructure is very, very strong. Housing is very accessible. From all the, what I call, basic ingredients from the business-climate perspective, they are all there."

### **An era of cost-cutting**

Businesses generally save 20% on overall costs by making the move from California to Texas, John Boyd Jr., principal at New Jersey-based site selection consulting firm The Boyd Co., told the Austin Business Journal, a sister publication.

Taxes are obviously a big factor in this, but Boyd also pointed to the savings from operating costs such as leasing commercial real estate and payroll. For both states, the types of taxes and rates vary based on the business, which makes the complete tax picture a bit complex.

When it comes to income, combined federal and state corporate taxes total roughly 28% in California and 21% in Texas, thanks to the limited taxes in the Lone Star State, according to a report from The Tax Foundation. That's not to say businesses don't pay taxes in Texas — there's a franchise tax, plus taxes for specific industries. California also has a franchise tax and an alternative minimum tax.

However, site selectors said the lack of personal income tax is huge for both businesses and their employees in Texas. It is important to note that property taxes are higher in cities across Texas — 1.81% statewide, according to WalletHub — to help make up for the lack of income tax to fund

government services. Other booming markets, like Tennessee or Arizona, have average property tax rates lower than 1%.

The differences in cost of living between Texas and California are significant. Housing costs are 308% higher in San Francisco — one of the nation’s most expensive housing markets — than they are in Houston, according to data from personal finance startup NerdWallet. The median price for a three-bedroom, two-bathroom home in Houston is around \$295,000. In San Francisco, the median price for the same home is more than \$1.26 million. The median rent for a two-bedroom apartment in Houston is about \$1,270, compared to \$4,128 in San Francisco.

## Houston's work continues

While the region has seen some major corporate wins recently, work to set Houston apart as a great place to live and do business is far from over, said Susan Davenport, senior vice president and chief economic development officer for the Greater Houston Partnership. She and her team of 16 are chasing down leads and fielding inquiries from businesses around the world interested in what Houston has to offer.

“We have a portfolio that we have cultivated over the past year that has 150 to 160 different projects we’re actively working every day,” Davenport said.



*The Greater Houston Partnership named Susan Davenport as its new chief economic development officer, beginning in September.*

Texas has benefitted from increased interest from people living on the coasts in search of cheaper cost of living and a friendlier business climate. It’s a nice backdrop and a powerful story for what Davenport and the economic development team aims to do, she said. But in order to land new companies over strong competition like Dallas and Austin, we’ve got to sell the Houston story, Davenport said.

Houston is home to the Texas Medical Center, one of the largest medical cities on the planet. Through exposure to the TMC and its member institutions, Houston has developed into a hub of life sciences innovation. Nearly 40% of all venture capital funding in the Houston metro region from 2015 through 2019 has gone into the health care sector, according to a GHP analysis of PitchBook data.

Houston remains the energy capital of the world and is home to some of the largest oil and gas companies in the United States. For that reason, the Houston metro region has a massive engineering base, Davenport said. The Bayou City is also setting itself apart in the field of clean energy. Somerville, Massachusetts-based Greentown Labs, touted as North America’s largest climatech incubator, will expand into the Houston market this year as the company’s first location outside of Massachusetts.

The Bayou City region is home to more than 235,000 tech workers, and Houston's tech sector generates around \$28 billion to the region's gross domestic product, Davenport said. And as the home of NASA's Johnson Space Center, the Houston metro region has an opportunity to become an aerospace hub, too, Davenport said.

Cost of doing business is another factor for companies relocating to Texas. Many companies see a decline in payroll costs by relocating from the coasts, and there's no state income tax in Texas. It's also significantly cheaper to buy a home in the Lone Star State than in California or New York. And while much of Houston's housing market centers around the suburbs and exurbs, the city is focused on developing more walkable, urban spaces for younger professionals.

"We're building that 4-mile innovation corridor through the middle of town with density and activity, but we also have beautiful regional parts of our area where people may want to live," Davenport said. "And it will likely be even easier to access work as some parts of work change and we've learned how to work virtually."

Given traveling constraints during the Covid-19 pandemic, the GHP has had to get creative in pitching Houston to companies located outside the region. The GHP and other city stakeholders led a virtual trade mission to Silicon Valley in October 2020, when Houston Mayor Sylvester Turner, Rice President David Leebron and Bob Harvey, president and CEO of the GHP, met with HPE and Neri. A Houston delegation made a virtual mission to Japan at the end of the year, Davenport said.

The GHP is planning for more virtual trade missions in 2021 until it can travel again safely.

"We're marketing in key places that we know we have advantages: talent advantages, industry sector advantages, cost advantages," Davenport said. "We are targeting, no surprise, East and West Coast on many of those things, from the immediacy of what we're seeing and what they need to find for their businesses."

## **New faces in Houston**

Other companies are relocating to Houston to take advantage of the Gulf Coast's immense oil and gas, petrochemical and industrial industry. Great Lakes Dredge & Dock Corp. (Nasdaq: GLDD), the nation's largest provider of dredging services, announced in October 2020 it would move to Houston after more than a century in the Chicago region.

"What we have decided is that after a very long time in Chicago, our future business is on the coast," Lasse Petterson, CEO of GLDD, told the HBJ. "We should, as the largest dredging contractor in the United States, be close to that market."



*Lasse Petterson, CEO of Great Lakes Dredge & Dock Corp. (Nasdaq: GLDD)*

Around 80% of the company's business is for the U.S. Army Corps of Engineers. GLDD has been contracted for deepening projects at ports and harbors including the Port of Corpus Christi, the Port of Miami, Port Tampa Bay and other federal waterways. The company landed a \$70 million contract to dredge and restore a portion of the San Jacinto River after Hurricane Harvey.

While public projects will remain a massive part of GLDD's business, Petterson said the company also plans to grow its business with private clients with the move to the Bayou City. He sees opportunity in dredging services for oil and gas and liquified natural gas interests along the Gulf Coast. Since GLDD announced its intention to relocate, it announced a new agreement with Houston-based LNG firm NextDecade Corp. (Nasdaq: NEXT) to perform essential improvements in the Brownsville Ship Channel. GLDD is developing a new inclined fallpipe vessel for subsea rock installation in order to serve the U.S. offshore wind industry on the East Coast, the

company announced in December.

Maddox Defense, a San Diego-based manufacturer of personal protective equipment products, announced its intention to relocate to Houston in early January. In addition to the company's headquarters in northwest Houston, Maddox Defense has local manufacturing facilities at 6023 Navigation Blvd. in the East End and at 22936 Kuykendahl Road in Spring. The firm employs thousands of workers and had been expanding its operations in the Houston area since March 2020, founder Jason Maddox said.

"This move allows us to be more competitive in our manufacturing as the economics allow us to get more space and more workers, which in turn allows us to keep up with the demand to supply America's frontline with PPE products," Maddox said. "Houston also allows us to be more strategic with logistics in delivering across the nation."