For complete Survey results, go to **areadevelopment.com/survey**

AREA DEVELOPMENT
SITE AND FACILITY PLANNING

Although the U.S. economy is strong, there may still be some hesitancy in investment decisions brought about by an uncertain legislative environment.

By **Geraldine Gambale**, Editor

All indications are the U.S. economy is strong — and should remain so through 2018. The Commerce Department reported the GDP grew at a 2.6 percent annual rate in the fourth quarter of 2017,[1] with the industrial sector rising 2.4 percent — its biggest gain since 2010.

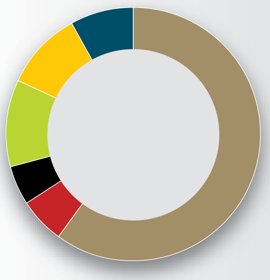
Then, in January 2018, U.S. businesses added approximately 200,000 jobs,[2] and wages grew at the fastest pace in more than eight years. All this "good news" caused investors to worry about the potential for a Fed hike in interest rates in anticipation of inflation. Nonetheless, economic analysts were not too concerned about a long overdue market correction.

RESPONDENTS' PROFILE

Current operations of respondents:	
Manufacturing	37%
Distribution/Logistics/Warehousing	13%
Finance/Insurance/Real Estate	14%
Construction & Trades	11%
Data Processing, Software & Other Computer-Related Services	2%
Energy Industry	1%
Hospitality Industry	1%
Healthcare/Life Sciences	1%
Retail	3%
Other	17%

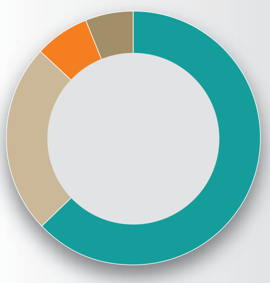
Respondents' titles:

Chairman, President, Partner, CEO, or Owner	60%
CFO, COO, Controller, Financial Officer	6%
V.P., Secretary, or Other Corporate Officer	5%
Real Estate Mgr./Dir.; Facility Mgr./Dir.; Development Mgr./Dir.; V.P. Real Estate	11%
Business Unit Manager or Director	10%
Other	8%



Primary role in company's location decisions:

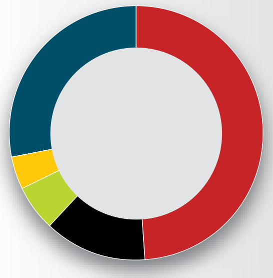
Final decision	63%
Preliminary recommendation	24%
Information gathering	7%
Not involved	6%



Number of facilities currently operating worldwide:

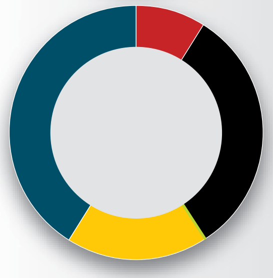
Domestic:

1	49%
2	13%
3	6%
4	4%
5 or more	28%



Foreign*:

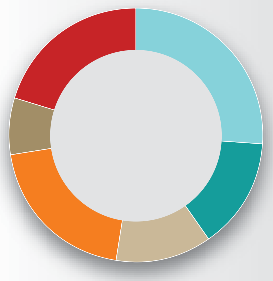
1	9%
2	32%
3	0%
4	18%
5 or more	41%



* *Of the 20% of survey respondents who say they operate foreign facilities*

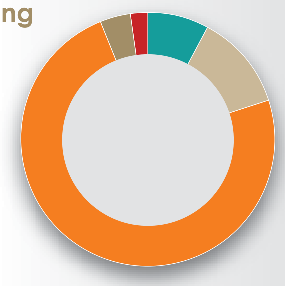
Number of people employed worldwide:

Fewer than 20	26%
20-49	14%
50-99	12%
100-499	20%
500-999	7%
1,000 or more	20%



Change in the number of your company's facilities during the past 12 months:

Increased number of facilities by 4 or more	8%
Increased number of facilities by 3 or fewer	12%
Number of facilities not changed	74%
Decreased number of facilities by 3 or fewer	4%
Decreased number of facilities by 4 or more	2%



What's more important, economists believe, are the positive effects of President Trump's signature Tax Cuts and Jobs Act, which slashed the corporate tax rate down to 21 percent from 35 percent and should help to put U.S. businesses on a level playing field with their global competitors, spurring the U.S. economy to grow even further.

Jay Timmons, president and CEO of the National Association of Manufacturers (NAM), says that as a result of the tax cut, manufacturers will "increase capital spending, expand their businesses, and hire more workers." He further predicts that "nearly half will increase employee wages and benefits."[3]

NEW/EXPANDED FACILITIES PLANS

WILL MOVE FORWARD WITH PLANS FOR NEW OR EXPANDED FACILITIES AS A RESULT OF THE RECENTLY PASSED CUT IN THE CORPORATE TAX RATE:

Yes	34%
No	66%

WILL MOVE FORWARD WITH PLANS FOR NEW OR EXPANDED FACILITIES AS A RESULT OF RECENTLY PASSED OR PROPOSED REGULATORY REFORMS:

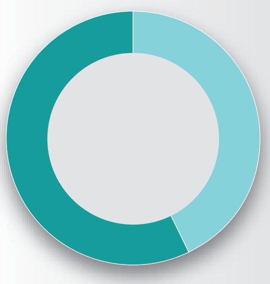
Yes	34%
No	66%

OPTING OUT OF TRADE AGREEMENTS LIKE TPP OR RENEGOTIATION OF NAFTA UNDER THE TRUMP ADMINISTRATION WILL HAVE A POSITIVE OR NEGATIVE EFFECT ON NEW FACILITY/EXPANSION PLANS:

Positive	57%
Negative	43%

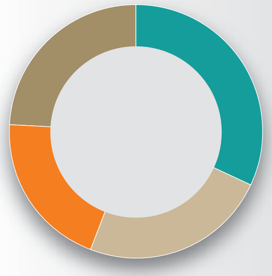
Will open a new facility (not relocate an existing one) **within the next five years:**

Yes	43%
No	57%



Those planning to open new domestic facilities — 38% of total survey respondents — will do so within:

1 year	32%
2 years	24%
3 years	20%
5 years or more	24%

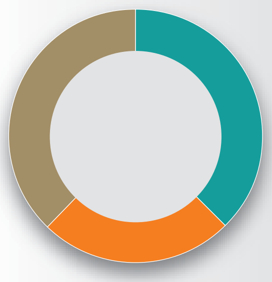


Location of new domestic facilities
(as a percentage of total number to be opened):

New England (CT, MA, ME, NH, RI, VT)	4%
Middle Atlantic (DE, MD, NJ, NY, PA)	11%
South Atlantic (NC, SC, VA, WV)	5%
Mid-South (AR, KY, MO, TN)	11%
South (AL, FL, GA, LA, MS)	23%
Midwest (IL, IN, MI, OH, WI)	9%
Plains (IA, KS, MN, NE, ND, SD)	8%
Mountain (CO, ID, MT, UT, WY)	6%
Southwest (AZ, NM, OK, TX)	9%
West (CA, NV, OR, WA)	14%
Offshore (AK, HI, PR, VI)	1%

Those planning to open new foreign facilities — 7% of total survey respondents — will do so within:

1 year	38%
2 years	25%
3 years	38%



Early in his presidency, Trump signed an Executive Order to cut business regulations — another move applauded by industry. A June 2017 report from the Manhattan Institute delved into how regulations stifle business growth because of their inefficiencies and costs.[4]

Another item on the President's agenda is opting out of (e.g., TPP) — or renegotiating (e.g., NAFTA) — trade agreements that put the United States at a competitive disadvantage. In January 2018, President Trump told the World Economic Forum in Davos, "We support free trade, but it needs to be fair and reciprocal."[5]

ANALYSIS

2018: A Decisive Year for Corporate Investment in the U.S.

The past year has seen a wave of headlines that may impact facility and expansion planning. From the economic policies of the Trump administration — such as reduced corporate tax rates, regulatory reforms, threatened tariffs, and withdrawal from trade agreements — to technology advancements and rising supply chain costs, the U.S. is confronting economic opportunity (and uncertainty!) at levels not seen since the last major tax overhaul in 1986. Businesses across the globe and in all industry segments are currently assessing their geographic portfolios and growth strategies in order to determine whether — and where — to locate workforce and investment in the U.S.

Area Development's Corporate Survey, which solicits corporate executives' input about a myriad of location factors, offers great insight into their strategies to maximize return on investment while optimizing their geographic "footprint." The bottom line — a close analysis of the data indicates that the U.S. will likely see billions of dollars of cumulative investment and tens of thousands of new jobs in 2018, in a multitude of new, expanded, relocated, and consolidated facilities.

These facilities will be geographically diverse, and state and local jurisdictions offering impactful incentives — deemed "somewhat" to "very" important [to a project moving forward in a particular location] by more than two thirds of survey respondents — can favorably differentiate themselves in a competitive location analysis. The use of incentives to address project needs may be decisive in business location decisions, enabling communities to secure projects with long-term economic and fiscal impact providing far greater value than the cost of the incentives, and providing "win/win" results — a viable return on investment for businesses and tax revenue, quality jobs, and a stronger economic base for the locality, region, and state.

Another incentive-related "takeaway" from the survey is the diversity of incentives that executives consider important. From our perspective, this highlights the importance of offering flexible, creative incentive packages that can be tailored to meet specific project needs — offsetting upfront costs; providing sites, buildings, and critical infrastructure; facilitating workforce development; and/or mitigating ongoing tax, research, or operating expenses — enabling the attraction (or retention) of the industry sectors, projects, jobs, and investment deemed important by a particular state or locality.

With a limited supply of quality sites, tight labor pools, and a rapidly shifting tax and economic policy environment, businesses must move quickly and strategically to optimize and maximize the opportunities presented by the last year's headlines. Based on *Area Development*'s survey, we expect that those strategies are being formulated right now, and companies will be moving quickly to begin executing them — making 2018 an exciting and highly consequential year for corporate location decisions.

By Dan Breen, Executive Vice President; and Jubal Smith, Managing Director; JLL Location Economics

Location of new foreign facilities
(as a percentage of total number to be opened):

Canada	11%
Mexico	11%
South America	16%
Western Europe	11%
Eastern Europe	5%
Middle East	11%
Africa	11%
Australia	5%
Asia	21%

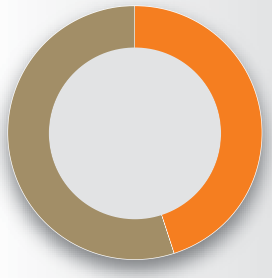
Let's look at the results of *Area Development*'s most recent surveys of our corporate executive readers, as well as the consultants to industry who serve them, in order to determine the effects of tax cuts, regulatory reform, and trade agreements on business executives' upcoming site and facility plans and priorities. The answers from both groups of participants are somewhat surprising.

Survey Respondents React to Administration's Policies

Half of the respondents to our Corporate Survey are with manufacturing (37 percent) or distribution/logistics/warehousing (13 percent) firms. Sixty percent are the owners or top executive of these firms and are responsible for their companies' final location decision. About half are with firms employing fewer than 100 workers, and only 20 percent operate foreign facilities. Keeping that in mind, it's interesting to note their responses when asked about recent tax and legislative reforms under the Trump administration.

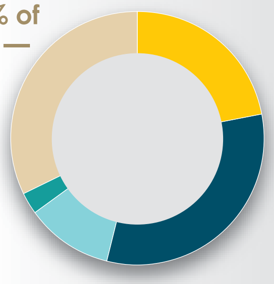
Will expand an existing facility within the next five years:

Yes	45%
No	55%



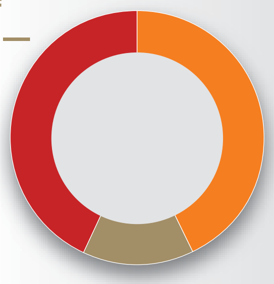
Those planning to expand existing domestic facilities — 33% of total survey respondents — expect to do so within:

1 year	22%
2 years	32%
3 years	11%
4 years	3%
5 years or more	32%



Those planning to expand existing foreign facilities — 6% of total survey respondents — expect to do so within:

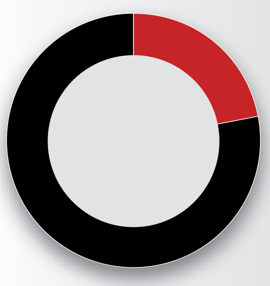
1 year	43%
2 years	14%
5 years	43%



RELOCATION PLANS

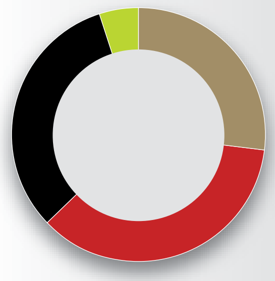
Will relocate an existing facility within the next five years:

Yes	22%
No	78%



Those planning to relocate existing domestic facilities within the U.S. — 19% of total survey respondents — expect to do so within:

1 year	27%
2 years	36%
3 years	32%
5 years or more	5%



PLAN TO RELOCATE A DOMESTIC FACILITY TO OFFSHORE OR NEAR-SHORE:

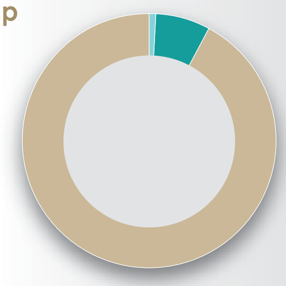
3%

PLAN TO RELOCATE A FOREIGN FACILITY BACK TO THE U.S. (RESHORE):

2%

Financial inducements or penalties under the Trump administration will have an effect on plans to:

Offshore	1%
Reshore	7%
No Effect	92%



ANALYSIS

Investment Decisions: A Complex Evaluation in an Uncertain Environment

The 2017 Corporate Survey provides a first look at how executives involved in the investment decision process dealt with last year's political and economic uncertainty in the U.S., and around the world.

It appears that the recently passed corporate tax rate cut or regulatory reforms have had a limited impact, for now, on the decision to open or expand a facility, with only 34 percent of respondents citing it as a reason for investment. There was clearly more optimism in 2016, when that survey demonstrated at the time that 68 percent of respondents believed that economic conditions under President Trump would be favorable for moving ahead with new facilities or expansion plans. But this really comes as no surprise since international supply chains and global market development are driving forces for many companies. And this uncertainty is also reflected in the number of facilities that remained the same or decreased for 80 percent of respondents (79 percent in 2016). If corporate investors were delaying investment project decision-making in 2016 due to the election year, it appears that the existing state of affairs underlines the same caution from investors.

The Corporate Survey results illustrate a level of uncertainty by investors — a clear indication of how challenging the investment project decision-making process has become. When comparing the combined ratings, the difference between the number-one factor and number-five factor is only 5.4 percent, compared to 10.4 percent the previous year. What this implies is that these top five factors are ultimately playing an even bigger role in the decision-making process today.

Investment decision-making and site selection in general are experiencing greater complexity today as relevant data is so readily available. Evaluating all options has become an even more demanding task for decision-makers, in part because of technology that has given access to so much information that an investor can't possibly evaluate all of the options.

As we reflect back on 2017 from a site selection perspective, it was definitely a year of uncertainty and caution, and the survey results reflect this — many projects put on hold while decision-makers wait to see how political uncertainties will unfold. In the meantime, there's enough data out there to keep them busy evaluating their options.

By Marc Beauchamp, President & CEO, CAI Global Group

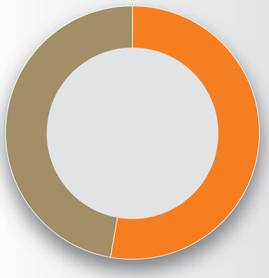
Although nearly half of the respondents to our Corporate Survey say they have plans to open a new facility within the next five years (43 percent) or expand an existing facility within the next five years (45 percent), only a third of the respondents claim a cut in the corporate tax rate will cause them to move forward with plans for new or expanded facilities. Similarly, only a third say they will move forward with new facility or expansion plans as a result of recently passed or proposed regulatory reforms. The respondents are, however, more enthusiastic about opting out of trade agreements like TPP or renegotiating trade agreements like NAFTA: 57 percent say these moves will have a *positive* effect on their plans for new or expanded facilities. Perhaps these respondents agree that current trade agreements have put U.S. businesses at a disadvantage to their foreign competitors — especially for smaller-sized, primarily domestic firms like those represented by these corporate respondents.

The respondents to our Consultants Survey provide a counterpoint to the Corporate Survey responses. About 80 percent of the responding

SITE SELECTION FACTORS/TRENDS

Availability of skilled labor having an effect on new facility/expansion plans or current operations:

Yes	53%
No	47%



If yes, workers are primarily lacking:

Basic skills (e.g., reading comprehension, mathematical competency, etc.)	58%
Advanced skills (e.g., advanced welding, machine tool programming, bioprocessing, etc.)	58%
STEM skills (science, technology, engineering, mathematics)	42%

consultants work with durable goods manufacturers, with 60 percent saying they work with large-sized firms (500 to 1,000-plus employees). Two thirds of the responding consultants believe their clients will move forward with plans for new or expanded facilities as a result of cuts in the corporate tax rate, and 50 percent say recently passed or proposed regulatory reforms will also spur their clients' planned new facility or expansion moves. And, importantly, 67 percent believe opting out of or renegotiating trade agreements will have a *negative* effect on their clients' plans.

The difference between the corporate executives' and consultants' outlooks on tax and legislative changes may be due to the sizes of the consultants' client companies. Larger companies tend to have global operations and would be put at a disadvantage if their foreign-sourced goods or parts were subject to high tariffs. (Consider large automakers' multinational supply chains.)

In fact, nearly a quarter of the respondents to our Consultants Survey say their clients have plans to

Combined Ratings*

CORPORATE SURVEY 2017

Site Selection Factors	2017	2016
Ranking		
1. Highway accessibility	91.3	94.4 (1)**
2. Labor costs	91.1	89.6 (3)
3. Availability of skilled labor	88.8	89.8 (2)
4. Quality of life	87.2	76.4 (10)
5. Tax exemptions	85.9	79.7 (7)
5T. Occupancy or construction costs	85.9	86.0 (4)
7. Proximity to major markets	84.6	78.1 (9)
8. Corporate tax rate	83.2	82.3 (6)
9. State and local incentives	81.3	84.0 (5)
10. Available land	76.9	75.3 (12)
11. Expedited or "fast-track" permitting	76.7	71.7 (13)
12. Proximity to suppliers	76.4	66.0 (20)
13. Energy availability and costs	76.0	78.5 (8)
14. Available buildings	75.9	75.5 (11)
15. Right-to-work state	74.7	70.1 (16)
16. Training programs/technical colleges	72.8	66.7 (18)
17. Inbound/outbound shipping costs	71.8	69.1 (17)
18. Low union profile	71.4	70.8 (14T)
19. Environmental regulations	70.2	70.8 (14)
20. Availability of long-term financing	64.6	66.7 (18T)
21. Accessibility to major airport	56.4	52.4 (22)
22. Raw materials availability	56.0	53.7 (21)
23. Water availability	55.3	46.3 (24)
24. Availability of unskilled labor	52.0	51.9 (23)
25. Proximity to innovation/commercialization R&D centers	44.7	39.2 (26)
26. Availability of advanced ICT services	42.7	40.9 (25)
27. Waterway or oceanport accessibility	31.2	18.1 (28)
28. Railroad service	29.9	33.7 (27)

*All figures are percentages and are the total of the "very important" and "important" ratings of the *Area Development* Corporate Survey and are rounded to the nearest tenth of a percent.

** 2016 ranking

ANALYSIS

Corporate Survey Rankings Weighted Toward Manufacturing Functions

As in the past, we look forward to reviewing the annual survey responses, and are always curious to see if the view of the corporate world is different from that which we have been experiencing on actual projects. Specifically,

- Do this year's results differ from past years' results?
- Do the responses reflect what we, as location advisors, currently are experiencing with our clients on actual recent engagements?
- Do the survey results capture trends being observed by location advisors?

In general, the responses are very consistent with surveys compiled in past years. Recognizing that the respondents are heavily weighted with manufacturing functions (based on the number of respondents from that sector), the top location factors make a great deal of sense. However, if the weighting were to shift toward distribution or office sectors, we believe we would see a slightly different ranking of top location factors.

In recent engagements, we have seen an increased emphasis on "proximity to customers" for both distribution and office projects. Additionally, although not yet included within the formal project specification and requirements for distribution projects, proximity to rail — due to increased reliance on truck delivery and a perceived imbalance of driver supply and demand — is becoming an increasingly important factor. Alternative deepwater ports have entered the conversation due to congestion at West Coast ports and the Panama Canal expansion, which may provide for faster ship unloading and delivery.

Location engagements involving office functions are experiencing increased client request for reliable air access. Although this has always been a strong client requirement for office location work, it has become even stronger on recent projects.

Aside from the factor rankings, the data collected include responses to several questions addressing potential business response to the recent U.S. tax regulation changes. We are surprised to see a fairly neutral response in terms of the impact of this change as it pertains to future investment decisions. Most respondents indicate that the changes (including a lowering of corporate net income tax rates) would not serve as a catalyst for facility or operations expansion. This is not what we have been experiencing with our clients — and have seen renewed client interest in domestic investment as a result of the potential for repatriated funds. In our opinion, as a result of the lower tax rate, companies repatriating funds (currently held in foreign accounts) will look to increasing investment in U.S.-based capital projects. This process clearly has already begun.

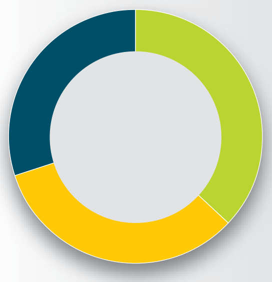
By Les J. Cranmer, Senior Managing Director; and Art Wegfahrt, Corporate Managing Director; Savills Studley, Inc.

Corporate tax reductions will affect plans to hire and train more workers:

Yes	41%
No	59%

Role of apprenticeship programs in your facility:

Already have them in place	37%
Would like to establish an apprenticeship program	33%
Don't think they would work for my firm	30%



ANALYSIS

Managing the EDO Investment Portfolio to Maximize Job Growth

Investment bankers follow a well-established set of general guidelines. They determine client risk tolerance, diversify investments, and take long- and short-term actions to create wealth. The data provided in this year's survey allows EDO professionals to learn from these guidelines to create wealth for their communities. When I look more closely at the numbers, here are the analogies that I see.

Seventy-three percent of the companies making an investment decision employ fewer than 500 people; 85 percent of the investments will be less than $50 million. Therefore, the EDO that spends more than 70 percent of its time on the small to medium-size companies is going to be more successful than the EDO that spends an inordinate amount of time focusing on or looking for larger projects.

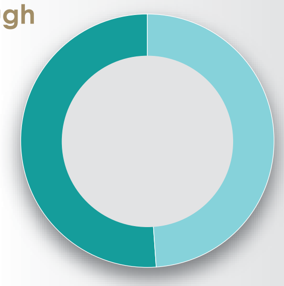
Regarding long-term vs. short-term actions, nearly half of the respondents who are planning to open new domestic facilities say that their ultimate decision will be within two to three years, and 74 percent of the survey respondents say the information-gathering process takes a year or longer. Time is on the side of the EDO to plan, then act.

Looking at the top 20 combined ratings, 16 of the 20 are in the four portfolio categories of financial, workforce, transportation, or available sites and buildings. We know the overall economy is strong, but the survey results show this is driven by factors other than recent economic fiscal policy. The question then becomes, "Which of these four broad categories does the EDO professional have the most ability to influence?" Of the four broad categories, this year, increasing the inventory of available right-sized sites and buildings is where EDOs can make a real impact. The other categories are important, but the investment conversation has to start somewhere, and when companies are seeking new locations, the conversation begins with site inventory.

By Von Hatley, Managing Director, Jones Walker Consulting, LLC

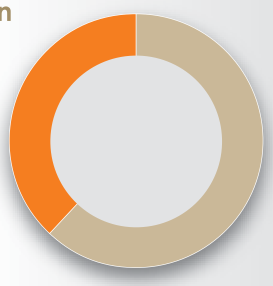
America's drug crisis affecting your ability to find enough qualified workers:

Yes	49%
No	51%



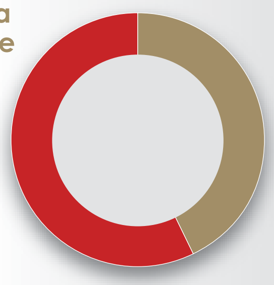
The quality of the workforce will be negatively affected in states that are legalizing marijuana use:

Yes	62%
No	38%



Legalized marijuana laws will affect your decision to locate a facility in states that have enacted such laws:

Yes	43%
No	57%



Changes in minimum wage laws will affect:

Current operations	60%
Plans to add employees	55%
Location of new or expanded facilities	44%

Sustainability efforts are very or somewhat important to your company's:

Operational efficiency	85%
Civic responsibility	77%
Employees	89%
Customer image	87%
Bottom line	85%

offshore a domestic facility within the next five years, and nearly a third say their clients have reshored a facility in the recent past or plan to reshore in the near future. Furthermore, more than a third of the responding consultants say financial inducements to reshore operations or penalties to offshore operations under the Trump administration would affect their clients' plans. Meanwhile, only five percent in total of the Corporate Survey respondents have offshoring or reshoring plans, and nearly all (92 percent) say the administration's inducements or penalties would have no effect on their plans. Fifty percent of the Corporate Survey respondents cite tax concerns, government regulations, labor availability and costs, infrastructure concerns, and energy costs as the reasons behind offshoring. And the corporate respondents cite energy and transportation/supply chain costs, as well as tech transfer/intellectual property protection, as the reasons behind reshoring operations.

Importantly, when examining the results of both the Corporate and Consultants surveys, one should also keep in mind that only 32 percent of

ANALYSIS

Loosening the Reins on Pent-Up Capital

After a decade of the "new normal" where capital investment dollars waited on the sidelines, 2017 leapt out of the starting gate and has continued at a torrid pace thru the first quarter of 2018. In a world awash in global instability, the U.S. remains both a safe haven for foreign dollars and a growth accelerator, as repatriated dollars, corporate tax cuts, and — perhaps to some degree — a fear of presidential tweets have clearly loosened the reins on a decade's worth of pent-up capital.

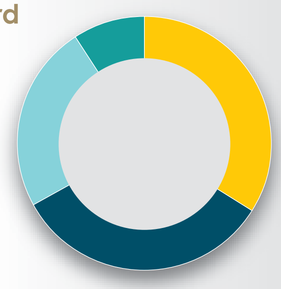
As always, *Area Development*'s Corporate Survey serves as an interesting annual quantification of the tangible experiences my colleagues and I encounter in the field. Some of the more interesting observations that the survey captured are as follows:

- It is no surprise to us that the southeastern states are the overwhelming choice for manufacturing and capital investment. Aggressive and proactive economic develop teams, available land, new infrastructure, strong incentives, growing labor demographics, customized training regimes, and sophisticated business-oriented state governments are just a few of the reasons mega-deals land in this region.
- C-suites still and always will call the shots. Effectively connecting with those C-suite players has a greater impact than anything else on the success or failure of winning a project for both EDOs or consultancies. Even if real estate or tax departments provide easier access, they are the implementers and often behind the timing curve in the corporate location decision process. It's best to spend time and resources courting the top.
- Challenging state and local tax conditions and the new federal tax legislation are going to eventually turn personal decisions — i.e., "Do I leave a high tax state because I can't deduct my home or want to deal with the costs anymore?" — into personnel issues that will likely affect company relocation plans — i.e., "I can't find enough good employees on Long Island or northern California even though I pay a great wage because the location is just too expensive. So we have to relocate." Within the next year or so, when folks start paying the 2018 tax bill, we'll likely see these state and local tax issues rise further to the top of the list.
- 67 percent of respondents say that incentives are very or somewhat important to a project moving forward in a particular location. That's more than ever for the survey, but in reality, that percentage should be 100 percent. Companies may not openly admit it, but all are aggressively shopping locations, and incentives are a factor. Locations are increasingly seen as commodities. They need to continuously show their value proposition in terms of generating a value-added workforce at a reasonable cost. If they can't, they will be out of the hunt.

By Tom Stringer, Managing Director & Practice Leader, Site Selection & Business Incentives, BDO Consulting

Importance of incentives to a project moving forward in a particular location:

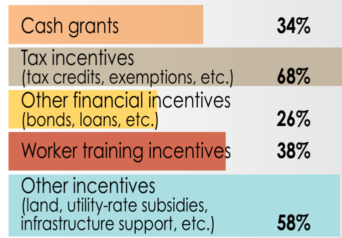
Very important 34%
Somewhat important 33%
Minor consideration 24%
Of no importance 9%



If regulations regarding sustainability are loosened under the Trump administration, company would still engage in sustainability efforts:

Yes 83%
No 17%

Type(s) of incentives considered most important when making a location decision:



ANALYSIS

Labor Is Paramount

The fact that about 90 percent of the Corporate Survey respondents indicate labor costs and skilled labor availability as "very important" or "important" to a location decision must not be understated and offers lessons to both companies wanting to select the optimal site and to communities seeking to grow their economic base and win projects. While incentives, tax structure, high quality of life, and access to customers/markets are always key project drivers, a community that does not have the adequate labor profile is devastating to a project's success in that location, and also limits the economic developer's ability to successfully compete for a project. Additionally, since labor is often the highest operating expense associated with a project, much more than the cost of real estate or taxes, misreading the labor market can further reduce profitability of a location due to high turnover, inability to fill positions, and/or the need to recruit from outside a labor shed area to find and relocate workers.

For the corporate entity seeking to reduce risk, a detailed and comprehensive study of an area's established labor pool and talent pipeline is critical. This would include a demographic analysis of workers in the marketplace by occupation and skill, a deep dive on overall labor market migration (and population migration) trends both historically and looking forward, a thorough analysis of training providers and educational institutions (and the types of graduates/skills they produce), and an in-depth discussion with employers regarding availability of workers and competition for local skilled labor among firms.

For economic developers seeking to win more deals, an equally thorough understanding of their communities' labor force is critical. Where are your skill gaps and what can be done to encourage local universities, community colleges, and trade schools to meet labor market demand? What is your long-term demographic plan to create/attract talent and stay ahead of trends in workplace and industry to position your community to win? How can you effectuate a conversion of the unemployed or underemployed to meet industry demand via on-the-job training and workforce training grants/incentives? How and where can you guarantee that next significant corporate investor/project its future workforce?

As technology continues to grow and markets innovate, the question of available labor and cost will remain at the forefront of the site selection decision. As a company — or community — investing in your economic future, are you thoroughly prepared for success?

By Doug Rasmussen, Director, Site Selection & Incentives Advisory, Duff & Phelps, LLC

CONSULTANTS SURVEY

CLIENTS' OPERATIONS

Respondents working on projects in the following industries:	
Manufacturing — Durable Goods	81%
Manufacturing — Non-Durable Goods	47%
Manufacturing — Other	32%
Distribution/Logistics/ Warehousing	74%
Financial Services/Insurance/ Real Estate	39%
Data Center/Processing/Software/ Other Computer-Related Services	37%
Energy Industry	16%
Hospitality Industry	10%
Healthcare/Life Sciences	39%
Retail	8%
Construction & Trades	5%
Other	8%

In terms of their employment numbers, client companies utilizing consultants' services are generally:	
Small (20-99 employees)	2%
Mid-size (100-499 employees)	38%
Large (500-999 employees)	23%
Very large (1,000 or more employees)	38%

Most of the clients asking the consultants to perform a location search have:	
Not actively initiated the site selection process	42%
Already gathered preliminary data	65%
Already narrowed down the geographic area in which they wish to locate	63%
Already chosen several "finalist" communities	22%
Expect the consultant to narrow or make the location decision for them	30%

CLIENTS' NEW/EXPANDED FACILITIES PLANS

Clients will move forward with plans for new or expanded facilities as a result of the recently passed cut in the corporate tax rate:	
Yes	67%
No	33%

Clients will move forward with plans for new or expanded facilities as a result of recently passed or proposed regulatory reforms:	
Yes	50%
No	50%

Opting out of trade agreements like TPP or renegotiation of NAFTA under the Trump administration will have a positive or negative effect on clients' new facility/expansion plans:	
Positive	33%
Negative	67%

Clients plan to open a new (not relocate an existing) domestic facility within five years:	
Yes	94%
No	6%

Clients that expect to open new domestic facilities plan to do so within:	
1 year	21%
2 years	47%
3 years	29%
4 years	2%
5 years or more	2%

the respondents to the Corporate Survey say they use the services of consultants for their site and facility planning needs. Nonetheless, the corporate and consultant respondents are pretty much in agreement when it comes to sustainability efforts. Even if regulations regarding sustainability are loosened under the Trump administration, 83 percent of the Corporate Survey respondents say their companies would still engage in sustainability efforts, and 97 percent of the Consultants Survey respondents say their client companies would do the same. Both groups consider sustainability efforts important to a company's operational efficiency, employees, civic responsibility, and customer image — and ultimately its bottom line.

Survey Respondents' Workforce Concerns

With the unemployment rate reaching 4.1 percent in January, we would think availability of labor, especially skilled labor, would be our Corporate Survey respondents' primary concern. However, just slightly more than half of the respondents (53 percent) say availability of skilled labor is having an effect on their new facility or expansion plans — or even their current operations. Of those, nearly 60 percent say workers are missing basic (reading, math, etc.) as well as advanced skills (advanced welding, machine tool programming, etc.)

When ranking the site selection factors, the Corporate Survey respondents placed availability of skilled labor in the #3 spot, considered "very important" or "important" by 88.8 percent. In comparison to this, 100 percent of the respondents to our Consultants Survey rated availability of skilled labor as "very important" or "important," ranking this criterion #1 among the site selection factors. Additionally, nearly all (98 percent) of the responding consultants say availability of skilled labor is affecting their clients' facilities plans or current operations, and a lack of advanced skills was cited by 92 percent of the consultants.

The consultants are also more concerned about availability of unskilled labor, giving this factor a combined rating of 71.6 percent, whereas only 52 percent of the Corporate Survey respondents say availability of unskilled labor is "very important" or "important." But it's also interesting to note that more than a third of the Corporate Survey respondents say they already have apprenticeship programs in place, and a third would like to establish apprenticeship programs for their operations. Further, the consultants placed training programs/technical schools among the top 10 site selection factors, with a combined importance rating of more than 90 percent.

The corporate respondents are, however, concerned about raises to the minimum wage: 60 percent say these increases will affect their current operations, and 55 percent say the hikes will also affect plans to add employees. And both the Corporate and Consultants Survey respondents rank labor costs as the #2 site selection factor.

America's opioid drug crisis is another top concern, yet the two groups of survey respondents differ when it comes to the effect of this crisis on the workforce. Only about half of the Corporate Survey respondents say it is having an effect on their ability to find enough qualified workers, whereas nearly two thirds of the Consultants Survey respondents claim the crisis is affecting their clients' ability to do the same.

However, the consultants are much less concerned

Location of clients' new domestic facilities (as a percentage of total number to be opened):

New England (CT, MA, ME, NH, RI, VT)	2%
Middle Atlantic (DE, MD, NJ, NY, PA)	9%
South Atlantic (NC, SC, VA, WV)	16%
Mid-South (AR, KY, MO, TN)	12%
South (AL, FL, GA, LA, MS)	17%
Midwest (IL, IN, MI, OH, WI)	13%
Plains (IA, KS, MN, NE, ND, SD)	4%
Mountain (CO, ID, MT, UT, WY)	6%
Southwest (AZ, NM, OK, TX)	14%
West (CA, NV, OR, WA)	7%

Clients plan to open a new (not relocate an existing) **foreign facility within five years:**

Yes	47%
No	53%

Clients that expect to open new foreign facilities plan to do so within:

1 year	28%
2 years	38%
3 years	28%
4 years	3%
5 years or more	3%

Location of clients' new foreign facilities (as a percentage of total number to be opened):

Canada	20%
Mexico	20%
Caribbean	3%
Central America	1%
South America	6%
Western Europe	11%
Eastern Europe	16%
Middle East	3%
Africa	1%
Australia	4%
Asia	15%

Clients plan to expand an existing domestic facility within five years:	
Yes	90%
No	10%

Those clients planning to expand existing domestic facilities expect to do so within:	
1 year	35%
2 years	48%
3 years	15%
4 years	2%

Clients plan to expand an existing foreign facility within five years:	
Yes	40%
No	60%

Those clients planning to expand existing foreign facilities expect to do so within:	
1 year	35%
2 years	39%
3 years	26%

CLIENTS' RELOCATION PLANS

Clients plan to relocate an existing domestic facility(s) within the U.S. within five years:	
Yes	72%
No	28%

Clients planning to relocate existing domestic facilities within the U.S. expect to do so within:	
1 year	16%
2 years	66%
3 years	18%

Clients plan to relocate an existing domestic facility(s) to a foreign location within five years:	
Yes	23%
No	77%

Clients who expect to relocate domestic facilities to a foreign location plan to do so within:	
1 year	23%
2 years	62%
3 years	15%

Primary reasons for moving these facilities offshore:	
Tax concerns	23%
Government regulations	15%
Labor costs	85%
Labor availability	46%
Infrastructure	8%
Energy costs	8%
New markets/Market proximity	38%
Proximity to research centers/ Industry consortium	15%

Clients relocated a facility back to the U.S. from a foreign location (reshored) in the recent past or are planning to do so in the near future:	
Yes	31%
No	69%

about the effects of legalized marijuana on the workforce. Two thirds of the consultants say it will not negatively affect the quality of the work force, and 71 percent say legalized marijuana laws will not affect their clients' decisions to locate a facility in states that have enacted such laws. More than 60 percent of the Corporate Survey respondents say legalized marijuana will affect the quality of the workforce, and 43 percent say it would affect their decision to locate in a state that has enacted legalization of marijuana.

If so, reasons for reshoring a foreign facility to the U.S.:	
Labor costs	11%
Energy costs	11%
Product quality issues	58%
Transportation/Supply chain costs	42%
Geopolitical/Government policy concerns	58%
Tech transfer/Intellectual property protection	37%
Other	11%

Financial inducements or penalties under the Trump administration will have an effect on clients' plans to:	
Offshore	10%
Reshore	27%
No Effect	66%

SITE SELECTION FACTORS/TRENDS

Availability of skilled labor having an effect on clients' facility plans or current operations:	
Yes	98%
No	2%

If yes, workers are lacking:	
Basic skills (e.g., reading comprehension, mathematical competency, etc.)	51%
Advanced skills (e.g., advanced welding, machine tool programming, bioprocessing, etc.)	92%
STEM skills (science, technology, engineering, mathematics)	63%

Corporate tax reductions will affect clients' plans to hire and train more workers:	
Yes	50%
No	50%

Combined Ratings*

CONSULTANTS SURVEY 2017

Site Selection Factors	2017	2016
Ranking		
1. Availability of skilled labor	100.0	100.0 (1)**
2. Labor costs	98.3	95.8 (3)
2T. Proximity to major markets	98.3	95.8 (3T)
4. State and local incentives	96.6	95.8 (3T)
5. Highway accessibility	95.0	98.7 (2)
5T. Available land	95.0	95.8 (3T)
5T. Available buildings	95.0	88.9 (11)
5T. Accessibility to major airport	95.0	88.8 (12)
9. Tax exemptions	93.3	95.8 (3T)
10. Training programs/technical schools	91.7	91.7 (10)
11. Energy availability and costs	90.0	93.0 (8)
11T. Proximity to suppliers	90.0	93.0 (8T)
13. Expedited or "fast-track" permitting	88.3	87.3 (13)
14. Inbound/outbound shipping costs	88.2	84.6 (15)
15. Occupancy or construction costs	85.0	86.0 (14)
16. Low union profile	80.0	82.0 (16)
17. Right-to-work state	78.3	76.4 (19)
18. Environmental regulations	75.0	80.3 (17)
19. Availability of unskilled labor	71.6	69.0 (22)
20. Quality-of-life	71.2	63.3 (24)
21. Corporate tax rate	70.0	78.9 (18)
22. Availability of advanced ICT services	67.8	69.5 (21)
23. Raw materials availability	66.6	64.8 (23)
24. Water availability	55.0	72.2 (20)
25. Railroad service	53.3	45.1 (26)
26. Proximity to innovation/commercialization/R&D centers	51.8	62.0 (25)
27. Availability of long-term financing	41.7	40.8 (27)
28. Waterway or oceanport accessibility	41.6	29.6 (28)

*All figures are percentages and are the total of the "very important" and "important" ratings of the *Area Development* Consultants Survey and are rounded to the nearest tenth of a percent.

** 2016 ranking

In fact, the Corporate Survey respondents are very concerned with quality of life. They ranked this factor #4, with an 87.2 combined importance rating. On the other hand, the respondents to our Consultants Survey, only placed quality of life in the #20 spot among the site selection factors, with a 71.2 combined importance rating.

America's drug crisis affecting clients' ability to find enough qualified workers:	
Yes	64%
No	36%

The quality of the workforce will be negatively affected in states that are legalizing marijuana use:	
Yes	33%
No	67%

Legalized marijuana laws will affect clients' decisions to locate a facility in states that have enacted such laws:	
Yes	29%
No	71%

Sustainability efforts are very or somewhat important to your clients':	
Operational efficiency	76%
Civic responsibility	83%
Employees	86%
Customer image	90%
Bottom line	69%

If regulations regarding sustainability are loosened under the Trump administration, clients would still engage in sustainability efforts:	
Yes	97%
No	3%

Relative importance of incentives to clients when making location decisions:	
Have always been of great importance	57%
Are more important now than in the past	29%
Are less important now than in the past	14%

Type(s) of incentives clients consider most important when making a location decision:	
Cash grants	86%
Tax incentives (tax credits, exemptions, etc.)	88%
Other financial incentives (bonds, loans, etc.)	20%
Worker training incentives	75%
Other incentives (land, utility-rate subsidies, infrastructure support, etc.)	81%

Other Important Factors

Twelve of the site selection factors actually received a combined "very important" or "important" rating of 90 percent or more from the respondents to the Consultants Survey. Among these are the related factors of highway accessibility and proximity to markets and suppliers, as well as available land and buildings and access to an airport to fly top executives — and their consultants — in and out. For the Corporate Survey respondents, highway accessibility is the #1 factor, considered "very important" or "important" by 91.3 percent. And, interestingly, only 56.4 percent think access to a major airport is critical.

As expected, the responding consultants believe state and local incentives (#4 among the factors with a 96.6 percent importance rating) and tax exemptions (#9 among the factors with a 93.3 percent importance rating) are critical site selection criteria. Although the Corporate Survey respondents don't rate or rank these factors as highly, they are still prominent — tax exemptions placed #5 (85.9 percent) and state and local incentives took the #9 spot with an 81.3 percent combined importance rating. And two thirds of the Corporate Survey respondents say incentives are very or somewhat important to a project moving forward.

When it comes to types of incentives, more than 85 percent of the consultants say their clients believe cash grants as well as tax incentives to be most important. Two thirds of the Corporate Survey respondents consider tax incentives most important, but only a third give cash grants prominence.

Final Take-Aways

Manufacturers' optimism, as reflected in NAM's Q4/2017 Manufacturers' Outlook Survey, is at a 20-year high.[6] NAM CEO Jay Timmons notes this "is a direct result of manufacturers witnessing a sea change in policymaking in Washington, D.C., empowering them to hire more, invest more, and build more — all in America." The respondents to *Area Development*'s Consultants Survey would agree with the scope of these projections and the ratio-

Arkansas
Jeff Moore, Executive Vice President,
Marketing & Communications
Arkansas Economic Development Commission
900 West Capitol Avenue, Suite 400
Little Rock, AR 72201
501-682-7317
www.arkansasedc.com
JMoore@arkansasedc.com

Florida
Tim Vanderhoof
Senior VP, Business Development & Marketing
Enterprise Florida
800 N. Magnolia Ave.
Suite 1100
Orlando, FL 32803
407-956-5600
www.enterpriseflorida.com
tvanderhoof@enterpriseflorida.com

David Coddington, Vice President,
Business Development
Greater Fort Lauderdale Alliance
110 E. Broward Blvd., Ste. 1990
Fort Lauderdale, FL 33301
954-627-0123
Fax: 954-524-3167
www.gflalliance.org
dcoddington@gflalliance.org

Iowa
Debi Durham, Director
Iowa Economic Development Authority
200 East Grand Avenue
Des Moines, Iowa 50309
515-725-3000
info@iowaeda.com
www.iowaeconomicdevelopment.com

Kentucky
John Bevington, Commissioner for Business Development
Kentucky Cabinet for Economic Development
300 West Broadway
Frankfort, KY 40601
(502)564-7670
ThinkKentucky.com
econdev@ky.gov

nale behind them; however, the results of our Corporate Survey of our readers do not reflect a direct correlation between investment and hiring plans and the recent tax and legislative changes.

As previously stated, this divergence of opinion may be a function of the size and/or types of companies responding to the two surveys. However, in Q4/2017, the Institute for Supply Management's (ISM) semi-annual poll also gave less importance to the impact of tax and regulatory changes on businesses' capital spending plans. Factory purchasing managers expect spending to rise 2.7 percent in 2018 (less than the 8.7 percent reported for 2017). When asked what was behind their 2018 investment plans, about two thirds cited the general business outlook, while less than 6 percent attributed their plans to business tax reform.[7]

I began this analysis with a look at the general business outlook, which is positive. Nonetheless, an analysis of our Corporate Survey by Marc Beauchamp, president & CEO of CAI Global Group, claims "the results illustrate a level of uncertainty by investors — a clear indication of how challenging the investment project decision-making process has become."

As we move further into 2018, it's hoped that any hesitancy in 2018 investment decisions resulting from this challenge can be overcome. However, as Willy Shih, a manufacturing expert and professor at Harvard Business School recently told *IndustryWeek*, decisions to build new plants in the U.S. or reshore operations won't materialize overnight.[8]

[1] https://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm
[2] https://www.cnbc.com/2018/02/02/nonfarm-payrolls-jan-2018.html
[3] http://www.nam.org/Newsroom/Press-Releases/2017/12/NAM-on-Tax-Cuts-and-Jobs-Act--Historic-Progress-for-Manufacturers/
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[6] http://www.nam.org/Newsroom/Press-Releases/2017/12/NAM-Survey--Manufacturers--Optimism-Reaches-Record-High-Amid-Progress-on-Tax-Reform/
[7] https://www.bloomberg.com/news/articles/2017-12-11/companies-in-u-s-plan-to-slow-their-investment-hiring-in-2018
[8] http://www.industryweek.com/economy/has-us-manufacturing-been-unleashed