

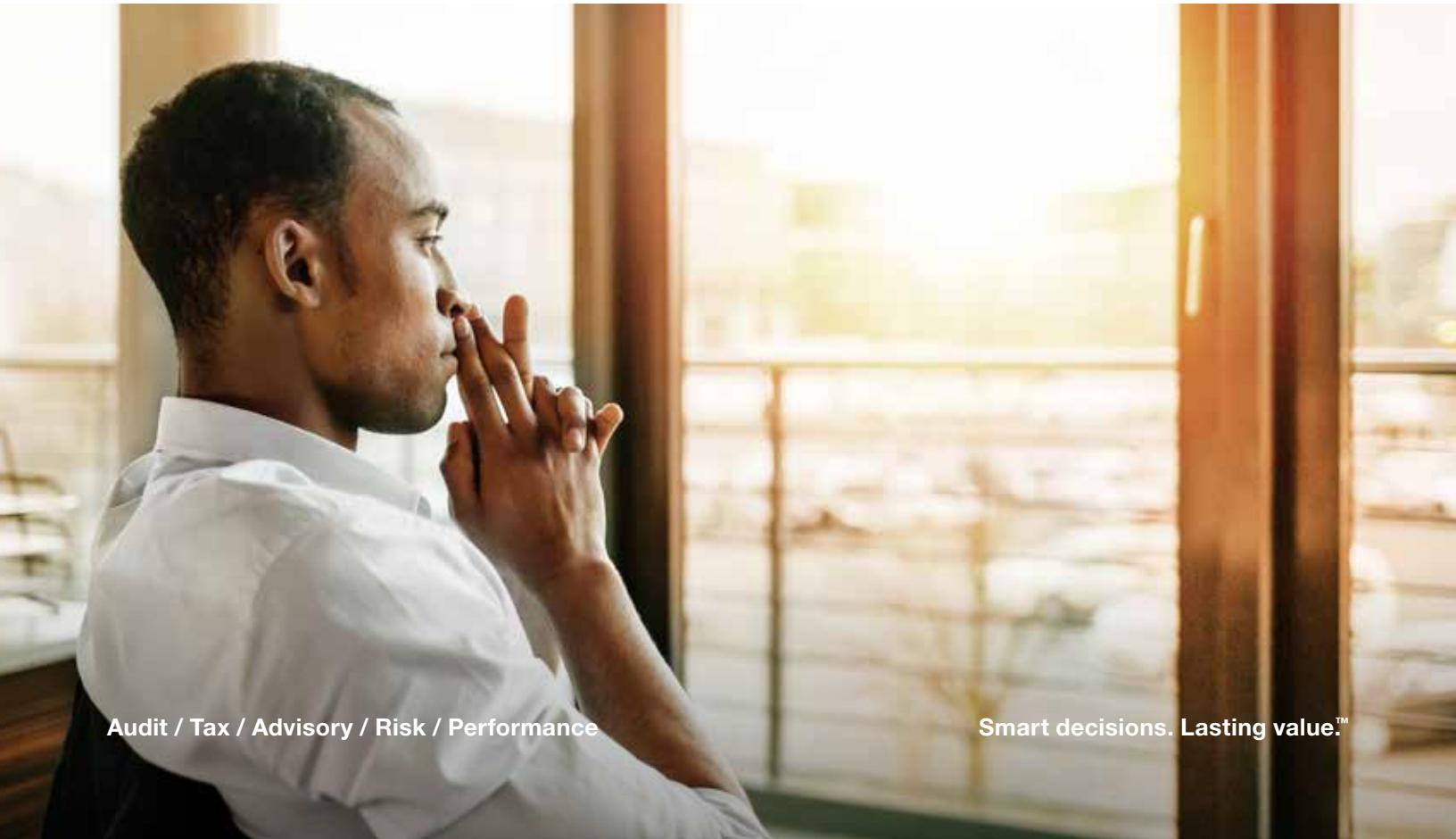


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# It's Your Move

Critical Considerations When Relocating Corporate Headquarters

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The improving economy is making it more financially feasible for companies to relocate their corporate headquarters, but such a move calls for careful consideration of a variety of factors that will determine the ultimate success – or failure – of relocation.

Even with the economy on the upswing, competitive pressures are forcing companies to continue their quests to increase efficiencies and synergies within their operations. Relocating corporate headquarters is one option for doing so, as evidenced by the recent exodus of companies from their previous locations. Those making the decision about where to relocate need to consider several critical factors, whether moving headquarters within the current state or across state lines.

## Companies on the Move

Several well-known corporations completed or announced notable corporate headquarters relocations in 2016, including General Electric, Boeing Company, Marriott International, North American Roofing Services, Beam Suntory, Arctic Cat, and ConAgra Brands.

Many of the companies that have moved their headquarters shifted from sprawling suburban campuses that employees drove to every day to more compact urban spaces near public transportation. The renewed interest in urban environments reflects some of the more important factors that can influence the decision of companies anticipating a relocation.

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## Business Strategy

Relocating headquarters often is driven by strategic reasons. One of the overriding goals generally is to reduce overall costs through, for example, lower taxes and overhead. Relocation also can facilitate an organizational realignment that allows formerly segregated departments or functions to employ common core systems.

A company that has its sales force, research and development (R&D) team, and engineers located in different satellite offices might want to combine them into one central campus. Companies sometimes consolidate locations in this way in the hope of enhancing innovation, communication, and collaboration among employees. The theory behind such a move is that the engineers who build products would be able to more easily work with the R&D folks who design the products.

Relocation also might come up as part of a company's strategy regarding its real estate holdings. A company might want to sell some of its holdings (including its headquarters location) to raise the capital necessary to underwrite new initiatives. It could need larger space to expand its capacity, or it simply might want to optimize its holdings by deploying staff in a more concentrated, less spread-out manner.

Of course, a company must balance the potential cost savings and strategic gains associated with relocation against the costs stemming from relocation. Moving headquarters is no small task, and it is not cheap. The costs related to leasing, acquisition and disposition of property, employee relocation, and technology could outweigh the benefits. Even seemingly minor costs, like reprinting marketing and other materials with a new address, can add up.





## Talent Acquisition

Much of the recent migration of corporate headquarters to urban areas is tied to employee recruitment. Companies believe they are better positioned to uncover and draw top talent – especially millennial talent – when they are based in major cities. In the Chicago area alone, a host of well-known companies are moving their headquarters from long-held suburban properties to the city, including McDonald's, Motorola Solutions, The Kraft Heinz Company, and The Hillshire Brands Company, largely motivated by their bids to attract desirable candidates for a changing workforce.<sup>1</sup>

Retention of existing top performers also merits consideration, though. That means a company must weigh such factors as the potential relocation site's cost of living and quality of life, which can include commute time, school district quality, and crime rates. These matters could deter valued employees from moving with the headquarters.

And the company must take into account the labor costs and availability of labor to fuel or keep up with future growth. Right-to-work laws and the costs of unemployment insurance and workers' compensation coverage also might affect the relocation decision.

## Tax Incentives

The availability of financing incentives from state and local governments can play a substantial role in the relocation decision. Many jurisdictions are willing to extend such breaks for relocating headquarters in recognition of the ripple effect these moves can have on the economy in the surrounding area, as well as the potential benefits of corporate philanthropic efforts.

States offering financing incentives for headquarters relocations include:

**Alabama.** New investment in a new site in the state might qualify for the income tax capital credit of up to 5 percent of the project's capital costs, to be applied to state income tax liability each year for 20 years.

**Arizona.** The qualified facility tax credit is equal to the lesser of 10 percent of the total qualified investment made at the headquarters, \$200,000 per qualified job created, or \$30 million.

**Indiana.** The headquarters relocation tax credit is assessed against the corporation's state tax liability. The credit can be up to 50 percent of the corporation's relocation costs.

**Kentucky.** The Kentucky Business Investment Program offers tax credits up to 100 percent of corporate income tax liability for up to 10 years. Enhanced incentives based on wages are available in certain counties for up to 15 years.

**Louisiana.** The Corporate Headquarters Relocation Program provides a 25 percent rebate over five years on facilities and relocation costs.

**Missouri.** The Missouri Works Program offers eligible corporations state tax credits (which are refundable, transferable, and saleable) or the retention of the state withholding tax on new jobs.

**South Carolina.** The corporate headquarters credit is a 20 percent credit against corporate income tax, based on the cost of the actual portion of the facility dedicated to

the headquarters operation or direct lease costs for the first five years of operation. The credit potentially can eliminate corporate income taxes for 10 years.

**Tennessee.** The super job tax credit of \$5,000 per job is available for companies establishing or expanding a regional, material, or international headquarters in the state with a capital investment of \$10 million or more that creates 100 headquarters jobs paying at least 150 percent of Tennessee's average occupational wage.

**Wisconsin.** The refundable business development credit is based on the wages paid to eligible employees working in headquarters located within the state.

**West Virginia.** Corporations that relocate their headquarters to the state are eligible for tax credits that can offset up to 100 percent of their liability for business and occupation tax.

Corporate headquarters incentives for all states generally require all of the following:

- A minimum capital investment in new or expanded headquarters facilities
- A minimum number of new jobs that meet the state's "headquarters" definition
- Worldwide sales in excess of a specified threshold

Although incentives can have a significant effect on a corporation's bottom line, it's important to remember that incentives alone rarely make a poor location suitable.

## Image Matters

The location a corporation selects for its corporate headquarters can say a lot about its brand image. A long-lived company that is hoping to shake the perception of its being out of touch or past its prime might try to reposition itself by moving to a “hot,” up-and-coming hub that reflects its priorities, such as the West Loop neighborhood in Chicago or the Silicon Beach area in Los Angeles.

When GE announced its move from Fairfield, Connecticut, to Boston, for example, its chair and chief executive officer explained that the company wanted “to be at the center of an ecosystem that shares our aspirations. Greater Boston is home to 55 colleges and universities. Massachusetts spends more on research and development than any other region in the world, and Boston attracts a diverse, technologically fluent workforce focused on solving challenges for the world.”<sup>2</sup>

## Additional Factors

Selecting the most advantageous location for a corporate headquarters also can turn on the following factors.

**Customer base.** For some companies, it’s vital to be near their current clients and future markets. With Boeing’s move of its defense headquarters from St. Louis, to Washington, for example, the company will be in walking distance to the Pentagon.

**Proximity to other facilities.** It makes little sense for a corporation to move its headquarters to a location that is remote from its other facilities. When GE moved its headquarters to Boston, for example, it already had almost 5,000 employees in the state of Massachusetts.

**Community relations.** A corporation might choose to move its headquarters to a location where it already has established a solid working relationship with the nearby community (for example, the location of its manufacturing plant).

Strong working relationships with local government agencies can smooth the way for abatements and incentives like tax increment financing.

**Public infrastructure.** Corporate headquarters are often the focal point of much business travel, with employees, customers, vendors, and others commuting to and from it regularly. Multiple transportation options are essential – hub airports, road and highway systems, and possibly ports. The company also should investigate the reliability and capacity of relevant utilities, including fiber optic wiring.

**Space needs.** When determining space needs, a corporation must look at least 10 years forward. Is future expansion practicable at a site if necessary?

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## Look Before You Leap

Relocating corporate headquarters typically is a massive undertaking, and not one to take lightly. Before settling on a new location, a corporation must take the time to evaluate a wide range of factors based on the company's individual circumstances.



## Learn More

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<sup>1</sup> Samantha Bomkamp, "McDonald's HQ Move Is Boldest Step Yet in Effort to Transform Itself," Chicago Tribune, June 13, 2016, <http://www.chicagotribune.com/business/ct-mcdonalds-chicago-headquarters-0614-biz-20160609-story.html>

<sup>2</sup> "GE Moves Headquarters to Boston," news release, Jan. 13, 2016, <http://www.genewsroom.com/press-releases/ge-moves-headquarters-boston-282587>