Headquarters Relocation

Although the pandemic brought about significant changes for many office workers, including major players in the tech sector announcing plans to allow long-term remote work, there are a multitude of reasons why companies will maintain physical office locations. This is particularly true for headquarters operations. The question of where the headquarters should be located is something that continues to be examined by corporate executives. Despite the fact that office work was conducted differently over the past year, the key drivers for headquarters relocation projects largely remain the same. This article will highlight five motives behind the moves: cost savings, desire to change company culture, transportation infrastructure, access to talent, and regulatory climate. One factor might be the catalyst that spurs the discussion of relocation, but often times the decision is driven by a combination of these factors.

**COST SAVINGS**

A common reason that companies explore a potential headquarters relocation is the desire for cost savings. Over time, cost savings from a headquarters relocation can be realized and can be substantial. Taxes, payroll, and real estate costs are some of the key areas with the potential for cost savings. However, while moving to a less expensive market can yield ongoing operating cost savings, companies must be prepared for the initial expenses associated with the move and understand the payback period. Although some locations do have incentive programs in place to entice headquarters relocation decisions, typically incentives only offset a small portion of the overall project cost.

From the standpoint of human resources costs, there are a multitude of factors beyond payroll that need to be considered. There are costs associated with both the employees that will be relocating to the new market as well as those that will not be remaining with the company. The financial assistance that a company provides to relocating employees (such as home sales or purchase assistance, home-finding trips, shipping of household goods, and temporary living space in the new location) can be a substantial component of the overall cost of a headquarters relocation. For the employees that are not asked to make the move or opt not to relocate, severance costs become part of the headquarters relocation expenditures. An additional human resources cost associated with relocation is the duplication in positions that may be needed in order to smoothly transition operations. For employees that will not be making the move, there can be value in offering stay-on bonuses until the position can be filled in the new market. So while a location with lower salaries and cost of living, as well as lower payroll taxes, can bring about significant savings in time, the upfront human resources costs should be considered during the decision-making process.

Similarly, from the corporate facility standpoint, there are costs associated with both preparing a new facility as well as vacating the current facility. A new office location must be identified and then built (either new greenfield construction, interior buildout of shell space, or interior renovation of existing space) to a standard that reflects the desired office environment. For leased facilities, both the tenant improvement allowance and the cost of interior construction varies significantly between markets. The costs for finishes and amenities often incorporated into headquarters space can far exceed the tenant improvement allowance, therefore becoming an upfront investment cost for the move. Additionally, calculations for facilities costs in a headquarters move should take into consideration property holding costs, property disposition costs, and whether a temporary facility will be needed in the new location. Other costs associated with a move include IT costs and new furniture, fixtures, and office equipment. The corporate relocation decision should be made with the understanding that the real estate savings in a lower cost market can be substantial but the payback period might be several years.
COMPANY CULTURE

When a headquarters relocation is undertaken with desire to change company culture, the driving force behind the change could be new leadership and/or a merger or acquisition. Sometimes the desire for cultural change is focused on the internal aspects of company culture, other times it is about reinvigorating a brand and reintroducing it to the marketplace.

A move aimed at achieving a cultural change might entail a company moving from a smaller and less-expensive market into a larger metropolitan area that has higher costs but will better position the brand for growth. The synergies that result from locating in close proximity to professional service providers and within an industry cluster, especially when combined with other key assets such as better air service and a broader talent base, can create substantial benefits that outweigh the increased costs.

In the case of a merger or acquisition, a company may be in a position where they now have two headquarters facilities that have duplicative functions, and starkly different cultures, located in distinctly different geographies. In order to be successful, decisions must be made regarding how to integrate the operations. Sometimes the best option is to consolidate into one of the existing locations, but in other cases there are advantages to selecting a new location to start fresh and position for the future.

A cultural move can also mean relocating from an expensive coastal location to a less-costly region in the middle of the country, for instance. While decades ago a company may have opted to develop their manufacturing facilities in more rural locations and keep the headquarters in a larger urban environment, leadership may now re-evaluate their facilities plan and see that the once-rural locations have evolved into communities with the talent and amenities to locate the headquarters. This trend provides an opportunity for mid-size and smaller metro areas to become the home to corporations with an existing presence within their region.

TRANSPORTATION INFRASTRUCTURE

Access to better transportation infrastructure is a driving force behind some headquarters projects. Relocations in which a company moves from a smaller metropolitan area to a larger city can result from a strong desire for access to better air service. Companies that do business globally may seek a location that provides better international air service for access to customers and company facilities. Even companies that have only domestic operations can benefit from increased accessibility to their facilities, suppliers, and clients. For these reasons, an evaluation of air service is always a component of headquarters relocation analysis. Commercial air service is the common denominator among headquarters analysis, but some companies also have corporate planes and seek locations with convenient airport alternatives to utilize for private travel.

While air service is an important consideration for headquarters projects, the role that transportation infrastructure plays in relocation decisions often includes other modes of transportation. When considering larger metro areas, access to public transportation can be key. Both the decision between metropolitan areas in the United States and the decision between submarkets within a metro area can be influenced by the presence and utilization rate of public transportation. The importance of mass transit can be a decision factor due to human resources considerations (access to a broader talent base) as well as environmental considerations (desire to reduce the carbon footprint of individuals commuting via personal vehicles). While office space within walking distance of transit stops may have higher rent rates, there is less need to pay for parking spaces.
The ability to recruit and retain talent is key to the success of every company. Access to talent varies significantly by geographic location. The total size of the labor force is a consideration, but a variety of factors including population and employment growth trends, unemployment rates, proximity to educational institutions, and commuting patterns all impact access to talent.

Talent is mobile, perhaps more now than ever. The events of the past year have in some cases accelerated demographic trends that were already underway. As cost of living and quality of life are increasingly impacting individual location decisions, geographies that rate well in those categories are flourishing. However, some of the locations that have become increasingly popular in recent years are experiencing some growing pains. Communities in which job creation has accelerated at a rate faster than population growth, resulting in pre-pandemic unemployment rates below three percent, have employers struggling to fill positions. Locations that have experienced tremendous growth in both population and jobs have challenges associated with available housing stock, expansion of infrastructure, and upward cost pressure. Identifying areas that proactively prepared for growth and are successfully navigating an influx of employers and population provides tremendous opportunity for ongoing success.

States vary significantly in terms of corporate regulations. Aspects of employment regulations and environmental policies can be more rigorous than federal rules on a state-by-state basis, and tax laws also differ significantly from state to state. While the desire to relocate to a state with less stringent corporate regulations is not a new motive for a headquarters project, the weight placed on this factor has increased significantly recently. Among the myriad of business climate factors that come into play, state regulations around board diversity is the latest differentiator that is causing some companies to consider a corporate move. As these new regulations begin to be implemented, this trend is likely to continue.
ADDITIONAL CONSIDERATIONS

Site selection for corporate headquarters relocation is similar to site selection for industrial projects in that both types of projects entail a myriad of factors that should be prioritized and thoroughly analyzed. A few key differences in corporate headquarters relocation projects and industrial projects include the likelihood of a project moving forward from an initial idea to implementation, the level of internal confidentiality, and the timing of project operations commencing in the new location.

For an industrial project, the decision to move forward is typically centered on the need for additional capacity and/or the need to be located within a new market in order to serve that geography. As demand for a product increases, there will be a point in time when the company's existing facility(ies) will no longer be able to supply the volume necessary and a new facility is added. For a headquarters relocation project, the go/no-go decision is not based around supply and demand but instead a combination of factors discussed above. Often times when a headquarters relocation is being considered, the first step in the site location consulting process is a feasibility analysis. Based on modeling of the costs and benefits of a move, an internal decision is made on whether to conduct additional location analysis and further pursue the project.

Most site selection projects are conducted confidentially, but headquarters relocation projects are unique in the level of extreme confidentiality both internally and externally. When a company is considering adding additional manufacturing capacity, the project team tends to be comprised of members from a variety of functional areas (operations, finance, human resources, logistics, etc.) that are called upon to provide information from the onset of project consideration. For a headquarters relocation project, often times only a few executives are aware that a move is being considered. Until the headquarters project moves from feasibility to location selection and the decision to proceed with relocation, the risk of internal disruption is exceptionally high. Once a decision is made to relocate, how and when the message is communicated to headquarters employees is critically important.

A third key difference between headquarters relocation projects and industrial projects is the timing of project operations commencing in the new location. Although facility design and permitting activities normally begin immediately following an announcement for both types of projects, industrial facility size and specializations tend to require a significantly longer timeframe for buildout. Corporate headquarters projects may opt to lease temporary space while the permanent office is being built out so that they can quickly begin to form their presence in the new market and accelerate the transition for key employees that will be making the move.

While the risks associated with a corporate headquarters relocation can be high, the rewards can be significantly higher. A location change can be key in positioning a company for long-term growth and success.

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