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COVER STORY: TOP U.S. BUSINESS CLIMATES

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A Better Moustrap

If the path being beaten to Texas' front door is any indication, there's a better way to do things in the Lone Star State. Giving businesses some certainty with which to risk investment capital and expand their enterprises has been central to the state's economic success.



Illustration by Bob Gravlee

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By most measures, including Site Selection's own Governor's Cup and Business Climate Rankings, Texas is the place to be for business and industry. Companies are flocking to the Lone Star State — Atlas Van Lines' annual study of corporate relocations in 2010 logged more than 7,200 relocations inbound to Texas, the sixth highest, and 5,300 outbound relocations. Overall, Texas claimed 58 percent of the inbound relocations. More to the point, 40 percent of the new U.S. jobs created since June 2009 were created in Texas, giving Gov. Rick Perry an enviable credential with which to make a run for the Republican presidential nomination.

Texas is no longer a runner-up to North Carolina in Site Selection's Top Business Climate contest. That was the case in nine recent such rankings. But Texas has claimed the top slot for 2011, based on a strong finish in both the objective, data-driven component of the index used to determine the top business climates, and the subjective input supplied by respondents to our annual executive survey of site selectors, indicating which states they consider to be the most business-friendly (see the chart on page 909 for the top 10).

Each of these categories is weighted 50 percent; the data side is comprised of five sub-categories: the state's ranking in the Governor's Cup tally of total new and expanded facilities the previous calendar year according to Site



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Selection's New Plant Database, published each March; total projects per million population; the state's placement in our annual Competitiveness Ranking, published each May; qualified New Plant projects year to date; and a new criterion this year — the states' 2011 business tax climate as measured by the Tax Foundation.

On the subjective side, survey respondents offered these comments regarding their selection of Texas as the state to beat in 2011:

- "a pro-business, entrepreneurial, right-to-work state"
- "no state income tax, ease of pulling permits, available work force"
- "the government makes it easy to do business"
- "Texas is progressive, fewer regulations"
- "willingness to work with business"
- "the tax climate, regulatory environment, incentive programs and work-force development efforts"
- "the state fights OSHA, EPA and other negative, useless regulations; no state income tax"
- "work-force availability, existing facilities and good economics for labor and facilities"
- "cooperation and flexibility of state and local officials; proactive in growing the economy."

Intended Consequences

It's too soon to gauge the business-climate benefits of the passage of House Bill 274, which enacts several lawsuit reforms, including a loser pays provision designed to discourage frivolous lawsuits. But the fruits of tort reform measures passed in 2003 are easier to quantify.

"Tort reform and protection from frivolous lawsuits is a story that does not get its due, but the Dallas Fed chairman said earlier this year that one of the most important things that has happened in Texas is tort reform, meaning the measures passed in 2003," Gov. Perry told Site Selection in an interview on October 18 — the same day he appeared in Las Vegas at a Republican presidential debate. "One of the great things about the 10th Amendment, the concept the Founding Fathers had that these units of government within the United States would compete against each other, was that you can't just live on what you did last year or yesterday. You have to continuously improve your game, to be looking at your tax structure, your regulatory climate and your legal system. That's why we passed loser pays, which took effect the first of September."

As for the 2003 reforms, Perry says he can cite concrete evidence that they produced the desired results: "There are 23,000 more physicians practicing medicine in Texas, [Corpus Christi-based] CHRISTUS Spohn Health System saving almost \$100 million in legal defense costs that they can put back into their system for more doctors and technology. Premiums have gone down for doctors, and more importantly, 30 counties have emergency room physicians today that did not have them in 2003."

Tort reform and reducing the regulatory burden on businesses are the keys to giving capital investors the confidence they need to start and expand businesses, he asserts. "I travel around the country and talk about we've done, and when I mention the loser pay reform, it's an applause line. People instinctively understand that if you get sued frivolously the other side picks up your court costs and legal fees. That is a huge win for the business environment. It's about confidence that you can risk your capital and know that you'll have a chance to have a return on that investment. I can't tell you how important that is to the job creators in this country. Groups like the Texas Association of Manufacturers know that a fair and efficient legal system is a very important consideration when manufacturers look for locations in which to invest. We lead the nation in the value of manufactured goods, and we added more net new manufacturing jobs — 19,000 — than any state in the nation between July 2010 and July 2011."

Where the Jobs Are

By several recent measures, Texas' job-creation record is impressive. Site Selection's Texas Spotlight, in the September 2011 issue, drew attention to a recent ranking of the Best Cities for Jobs from Forbes. The point was to show how many Texas metros ranked in the top 10 for each of the three metro sizes ranked. A similar ranking is available from NewGeography.com, a joint venture of Joel Kotkin and Praxis Strategy Group, that makes a very similar point. Their Best Cities for Job Growth 2011 Rankings also look at employment data over time across three

Site Selection's 2011 Top State Business Climate Rankings

Overall Ranking	Executive Survey Rank	2010 New Plant Rank	New Plant Rank per Million Pop.	Competitiveness Rank	2011 New Plant Rank (Jan. - Aug.)	Tax Climate Rank	Final Total Points	
1	Texas	1	1	17	3	8	13	463
2	Georgia	3	5	7	7	4	25	446.5
3	North Carolina	2	6	11	4	1	41	437
4	Virginia	5	10	10	2	16	12	432
5	South Carolina	7	11	2	5	4	24	428.5
6	Indiana	9	9	5	8	7	10	426
7	Louisiana	11	3	1	1	3	36	408.5
8	Tennessee	5	14	13	11	19	27	398.5
9	Ohio	8	2	4	10	13	46	395
10	Florida	4	18	43	34	11	5	379
11	Pennsylvania	14	4	6	9	23	26	363.5
12	Alabama	10	17	18	20	18	28	359
13	Oklahoma	13	24	21	17	14	30	339
14	Utah	14	29	23	13	27	9	330.5
15	Michigan	21	7	12	16	20	17	325.5
16	Kansas	20	19	9	6	21	35	319.5
17	Mississippi	18	27	22	18	21	21	308
18	Colorado	14	31	36	25	23	15	301.5
19	Kentucky	31	13	3	12	6	19	299.5
20	California	11	15	47	37	9	49	295.5
21	Illinois	25	8	19	27	2	23	293.5
22	New York	18	12	32	28	10	50	285.5
23	Iowa	14	28	25	29	27	45	277.5
24	Maryland	21	20	27	22	26	44	258.5
25	Nevada	21	35	35	41	31	4	251.5

Source: Conway Data New Plant Database

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population tiers — large has a current non-farm employment base of least 450,000, midsized is 150,000 to 450,000, and small is up to 150,000. Another category combines the tiers into one ranking.

Three Texas metros appear in the top five in the small metros category, with Killeen-Temple-Fort Hood in first place. College Station-Bryan and Midland are in third and fourth place respectively. Similarly, three Texas metros appear in the midsized tier — El Paso in first place, Corpus Christi in second and McAllen-Edinburg-Mission in fourth. And four of the top five large metros are in Texas: Austin-Round Rock-San Marcos (1st place), Houston-Sugar Land-Baytown (3rd), San Antonio-New Braunfels (4th) and Dallas-Plano-Irving (5th).

Killeen-Temple-Fort Hood is first in the overall ranking, and that's the metro in which you'll find Belton, Texas, where **CGI Group Inc.** plans to invest \$7 million in a new IT Center of Excellence that will create 350 new jobs. The state is investing \$1.8 million through the Texas Enterprise Fund (TEF), the state's deal-closing fund that is credited with helping to attract more than 59,000 new jobs and nearly \$15 billion in new capital investment since its inception in 2003. CGI provides IT and business processing outsourcing services to corporations and public-sector clients. The company focuses on recruiting veterans and military family members, who are in good supply in Belton with the Fort Hood army base nearby.

In late September, **CCS Medical** announced the relocation of its headquarters from Clearwater, Fla., to Farmers Branch, Texas, in the Dallas-Fort Worth Metroplex. The company is a leading provider of mail-order medical supplies, including diabetes test strips, insulin pumps and others, for patients with chronic conditions.

"Selecting Texas for our corporate relocation was an easy choice," said CCS Medical CEO Dirk Allison at the time. "The State of Texas has a superior business climate and a strong work force."

In April, **Cisco** opened its new data center in Allen, also in the Metroplex, a day after Gov. Perry hosted a group of business leaders and elected officials from California — including Lt. Gov. Gavin Newsom — seeking insights into Texas' business-attraction appeal. The same month saw a 1,000-job expansion announcement from **eBay** in Austin and a **3M** expansion in Angleton, south of Houston.

The Office Space Indicator

Demand for office space is a fitting indicator of the Texas economy, because so many recent expansions in such sectors as back-office services, IT and energy require it.

"Unlike the bulk of U.S. markets right now, Texas is not flirting with a double-dip recession story," says Kevin Thorpe, chief economist at Cassidy Turley, a national real estate services firm that recently released its Office Trends Report for the third quarter. "It's a robust economic story. In terms of job creation, Houston and Dallas are numbers one and two in the country in job creation thus far in 2011 with strong numbers that are close to pre-recession levels, which were robust. And you have Fort Worth, Austin and San Antonio in the top 20.

"Many of the jobs being created are generating demand for office space. Sectors in the Texas economy — energy, drilling technology, IT, semiconductor production — those require back-end office work, which is why we're seeing steady growth in accounting, legal services, financial advisory and other functions." Houston, Austin and Dallas finished in the top 10 markets nationally in demand for office space, according to the Cassidy Turley analysis, and those three markets alone accounted for nearly 20 percent of all net demand in the third quarter. "Other markets in Texas are also positive," says Thorpe. "The U.S. is a mixed-bag story, with many negative markets and many positive markets. In Texas, it's positive across the board."

Demand for office space is a lagging economic indicator in most cases, says Thorpe. "It mostly confirms when an economy is healthy, and it confirms it when an economy is on a downtrend. These statistics for Texas corroborate the story that has been going on in Texas for a long time. It's a population-growth story, a technology-growth story. Texas is very much plugged into the mobile technology boom because of the semiconductor industry. And it's an energy story. The office-space indicator confirms that there is a significant number of real jobs requiring large volumes of office space, and those tend to be middle to higher-paying jobs."

Jones Lang LaSalle research concurs.

"Texas' office market is a very good indicator for the overall friendly and expanding business climate for the state," says John Sikaitis, senior vice president and director of office research. "The office market, after all, is based on jobs and job growth; and, Texas is leading all states with respect to both overall job creation, as well as office-using jobs. In fact, in the 12 months ending in August 2011, Texas ranked number one among the 50 states with the creation of 253,200 jobs, far outpacing the second state, California, which created 171,300 jobs.



Source: Site Selection survey of corporate real estate executives, October 2011

"Currently," he elaborates, "as companies expand, they add jobs and in turn they need more office space. Due to a limited construction pipeline (not just in Texas, but also across the country), vacancy is starting to settle down and decline quite gradually, limiting options for tenants and providing landlords and owners with the ability to push rents and decrease concessions, in turn improving their bottom line. Furthermore, thanks to the attractive business climate, which creates jobs and thus demand for office space and rental growth, commercial real estate investors increasingly view markets like Houston and Dallas as ideal markets to allocate capital and purchase assets."

Following are four excerpts from city-specific commentary submitted to Site Selection by local Jones Lang LaSalle office market experts:

Austin: Driven largely by the tech wave that has swept over the country, Austin remains one of the leading office markets nationally near the end of 2011. With year-to-date net absorption at almost 750,000 sq. ft. and a number of pending occupancies, Austin will most likely end the year with over 1 million sq. ft. of positive net absorption. This would be the first time since 2006 that Austin will have recorded net absorption square feet of over 1 million. With consistent leasing activity and net absorption and occupancy on the rise, this begs the question: when will the next office building be constructed? While developers are reluctant to move forward with speculative product, they are beginning to dust off the plans in preparation of being shovel-ready for that big tenant to kick off the project.

— Zack Jamail,
Austin Research Analyst

Dallas: Corporate relocations and expansions to the market remain a positive catalyst for Dallas with several companies announcing plans to move headquarters and other significant office operations to the market due to a combination of lower costs, business-friendly environment and strong, diversified work force. Most announced relocations are from California (but other relocations are from not-surprising states). This trend is expected to continue for the foreseeable future. All current economic indicators (positive job growth, strong population growth, healthy corporate profits) point to a much more robust Dallas office market in late 2011 and beyond, especially compared to the national landscape.

— Steve Triolet,
Dallas Research Manager

Houston: The Houston office market is showing impressive growth signs with sustained to increased activity backed by a diversified, stable economy. Houston is one of the top-performing office markets in the country, if not now leading the country (at least from a pure corporate expansion standpoint), mainly as a result of the economic livelihood and energy focus of the area. Houston's economy is thriving, and the city's employment figures are increasing, especially for high-paying industries. Growth is occurring from existing energy-related firms, such as BP and Plains All American. Firms such as Nexen Petroleum U.S.A. are also opting to relocate to Houston due to the energy epicenter that exists within the region. Tenants remain active and continue to canvass the Houston market for high quality spaces. Until new buildings are delivered, and as quality availabilities diminish, concessions will continue to dry up and effective rates will increase in Houston's strongest submarkets.

— Omar Nasser,
Houston Research Manager

San Antonio: Smaller concentrations of tech and energy than in other Texas metropolitan areas has positioned the San Antonio market as more aligned with the U.S.'s national recovery than the recoveries experienced in other parts of the state. San Antonio experienced its third consecutive quarter of increased leasing activity, yet the city's occupancy, absorption and rental rates remained virtually unchanged from the previous quarter. Similar to the other market fundamentals, landlord concessions did not change significantly in the third quarter of 2011. San Antonio is witnessing a slight uptick in construction, with nearly all new projects either pre-leased or build-to-suit opportunities for corporate users (new corporate campuses for NuStar and Nationwide). Meanwhile, sublease space still constitutes less than 5 percent of all available space in the San Antonio market, with 170,930 square feet currently available, demonstrating minimal shadow space throughout the market. So when job growth kicks in at greater rates, we can expect companies in San Antonio to begin to expand more aggressively.

— Deborah Allen,
San Antonio Research Analyst



Meanwhile, Austin and another state capital — Columbus, Ohio — are competing with Sears' home state of Illinois to be the location of its new headquarters, and the 6,200 jobs that will come with that decision.

"There is a leveraging game going on, which I agree with," says Gov. Perry. "I've told Sears' CEO, 'Look, I get it. We may not get [this project]. You may get the Illinois Legislature to understand that raising the personal income tax by 66 percent and continuing to put that state's economic future in jeopardy because no one has the courage to cut spending isn't a good idea. If we can play a part in that, then I will consider that to be a great success for this country.'"

"Tax policy, regulatory climate and the legal system are the three things that when made more competitive will grow this country," he says.

It's working in Texas.

E-mail your comments or inquiries directly to mark.arend@conway.com

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