

Site Selection in Tertiary Markets, Making the Most of Incentives

Incentive packages can really make a difference to a smaller company's profit and loss statement... There is no question that incentives play a role in site selection, even in small-town America.

By **Ken Morris, SIOR** | August 28, 2018

While the Amazons of the world grab headlines for site selection and financial incentive packages to lure them to community 'X' and 'Y,' it's worth remembering when seeking an industrial site or back-office location that tertiary markets in many U.S. markets are working just as aggressively to attract businesses with programs and incentives that appeal to manufacturers, distribution companies and office occupiers.

Of course, the main elements of a site search – location, facilities, access to a qualified and perhaps abundant employment pool, and connectivity to major transportation services such as freeways, rail, cargo-friendly airports and ports, remain the most important aspects of in a site search, yet securing incentives for your clients will add real operating income to their bottom lines.

Our firm was recently involved in the \$4.5 million acquisition of a 280,000-square-foot manufacturing and distribution facility on 19 acres on behalf of The Legacy Companies, a leading food service and consumer appliance organization with multiple household name brands based in Fort Lauderdale, Florida.

After evaluating at least a dozen sites in six southern states, including Tennessee, Arkansas, Mississippi and Alabama, the client selected a Paris, Kentucky property because it checked all the boxes and the commonwealth of Kentucky offered a flexible incentives package. The Kentucky Business Investment (KBI) program allows companies to decide what percentage of their annual incentive allotment they'd like to take in payroll tax and/or corporate income tax. For example, they can do 0% in payroll and 100% on income one year, then change it up and request 36.3% in payroll and 63.7% the following year, or whatever split they choose.

This creates maximum flexibility for recipient companies. A company with few employees and high profit margins may want to take more on corporate income. Those with many employees and lower income may want more back in payroll. It allows individual companies to decide the best fit them.

As well, KBI has three target requirements, which companies must meet annually to be eligible for their incentives:

- A negotiated jobs number
- A negotiated average-hourly wage
- Corporate investment amount

The Legacy Cos. opted for the payroll incentive package worth up to \$600,000 if the firm hits its targeted numbers annually for employment, average hourly wage and investment over a 10-year period. The performance-based incentives are available at the company's discretion on corporate income and/or payroll tax deductions. On payroll tax, the incentive contribution breakdown would be one-half percent from the City of Paris, one-half percent from Bourbon County and 3 percent from Kentucky.

We worked closely with the Gordon Wilson, the Executive Director of the Paris Bourbon County Economic Development Authority and Taylor Sears, a Project Manager with the Kentucky Cabinet for Economic Development, an executive branch of government that reports to the state governor, to negotiate the incentive package.

Our criteria during the site search featured:

1. Maximum drive time from major terminals – UPS, Swift, Conway
2. Distance from the property to nearest interstate, which is important for freight routing
3. Employment data, average hourly employment rates and cost – for manufacturing and warehouse workers
4. Facilities – with right column spacing, ceiling heights, loading capacity
5. Fit within a pricing model that aligned with the client's business plan

Here is why the deal worked for The Legacy Cos. Paris is 18 miles from Lexington, KY, the horse country capital of North America with an MSA population of approximately 400,000. The region has a deep pool of potential assembly and distribution workers, but also mid-level and even senior management personnel, if Legacy decides they want to continue expanding in Paris. The current plan is to employ 60 full-time people at its new facility. Lexington also has culture, The Lexington Opera, the University of Kentucky Center for the Arts, University of Kentucky sports, Churchill Downs Racetrack

in nearby Louisville (home to the Kentucky Derby) and NASCAR racing. Interstate 75 is about 15 minutes from Paris. Paris landed CMWA, or Central Motor Wheel of America, which supplies aluminum and steel wheels to major car makers such as Toyota, which built a plant in nearby Georgetown, KY in the 1980s and has been a draw for automotive components makers ever since.

As logistics go, trucks can depart from Paris and reach two-thirds of the U.S. population with a one-day drive. The Cincinnati/Northern Kentucky International Airport (CVG) is currently ranked #2 in the U.S. for air cargo and with a new, \$1.5 billion Amazon facility there, the airport expects to move into the #1 spot soon. DHL has one of its three worldwide air cargo hubs at CVG. As well, Louisville International Airport (SDF) also has two major UPS operations; Worldport air hub and Centennial ground hub.

Kentucky Governor Matt Bevin is an American businessman and has helped set the tone for Kentucky's economic growth. In January of 2017 Kentucky became a right to work state. Kentucky smashed records for investment growth when it attracted \$9.2 billion in 2017 compared with its previous best year, 2015, which drew \$5.1 billion of investment capital to the state — only including manufacturing, distribution and technology business – not retail or restaurants, according to a spokesman for the Kentucky Cabinet for Economic Development.



Similarly, a SIOR colleague of mine, Tim Echemann, SIOR, CCIM with Industrial Property Brokers in Piqua, Ohio, recently leased half of a new 100,000-square-foot factory building in Defiance, OH to DECKED, the truck bed storage and cargo van storage systems manufacturer. He said the city payroll tax rebate would likely save DECKED \$50,000 a year in city income taxes, or enough to pay for one full-time employee with benefits for a year, and that was a significant reason for the auto parts company to select that property.

Echemann is also listing an industrial building in Tiffin, OH that is within a property tax abatement zone in which the owner/occupier can save about \$30,000 in property taxes a year during a 15-year period, based on the assumption that the new building would be valued at \$2 million.

“The cities in the tertiary markets of Western Ohio and Eastern Indiana that offer incentive packages can really make a difference to a smaller company’s profit and loss

statement. There is no question that incentives play a role in site selection, even in small-town America," Echemann said.

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