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Open for Business

By J. Vann Cunningham

INDUSTRIAL SITE READINESS

Communities considering development of a new industrial or business park typically face a fundamental dilemma. How much investment is required to make a site competitive in the marketplace or to what extent should a site be developed before a prospect is identified? This article examines this issue, how it relates to the “shovel-ready” site concepts and site certification, and offers guidance and recommendations for effective approaches to site readiness and ensuring competitiveness in the marketplace.

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Communities considering development of a new industrial or business park typically face a fundamental dilemma. How much investment is required to make a site competitive in the marketplace or to what extent should a site be developed before a prospect is identified? While this issue is complicated and no hard and fast rules exist, some insight may be gained by examining the industrial site selection context. In other words, how firms make location decisions and what kind of factors influence the outcome?

INDUSTRIAL SITE SELECTION CONTEXT

In contrast to the usual conception, the term “site selection” is to a great extent a misnomer. For the most part, locating a site for a new industrial facility is a process of elimination. Typically, site selection projects consist of a multi-phased, iterative search for “Fatal Flaws.” Site selection, as an affirmative action, usually only occurs when location choices are narrowed to a small number of short-listed candidates (usually five or less) meeting all project site and location criteria. Successful sites are those that demonstrate site and other location

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The degree of emphasis a particular firm may place on one or more of these criteria sets largely depends upon the individual firm’s priorities and business model as well as the general requirements of the firm’s industry group. Firms’ specific criteria and the weight they place on an individual site location factor differ significantly between types of industry and may vary even among firms within the same industry group.

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In order to successfully attract and locate new industrial facilities, communities must develop sites that meet the potential prospect’s needs. As a rule, successful sites must satisfy three major sets of community and site location criteria, the firm’s

1. Operational Requirements,
2. Financial Objectives, and
3. Business Risk Profile.

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INDUSTRIAL SITE READINESS

Communities considering development of a new industrial or business park typically face a fundamental dilemma. How much investment is required to make a site competitive in the marketplace or to what extent should a site be developed before a prospect is identified? This article examines this issue, how it relates to the “shovel-ready” site concepts and site certification, and offers guidance and recommendations for effective approaches to site readiness and ensuring competitiveness in the marketplace.

In the arena of operational requirements, for example, the site location criteria needed to satisfy the operational requirements of a mini-steel mill are quite different from those of a typical food processing operation. A mini-steel mill requires a site located on a strong point in the electrical grid capable of delivering reliable high voltage service in an independent dual feed configuration usually in relative proximity to two major substations or a substation and a generating plant. A food processing plant on the other hand may be capable of taking electrical service at a much lower distribution voltage but, in contrast to the mini-mill, may require large amounts of high quality potable water as well as substantial wastewater treatment capacity.

Similarly, different industry groups and firms have differences in their financial objectives. Common financial business objectives include increasing revenue, increasing profit margins, retrenching in times of hardship, and earning an adequate return on investment. The way in which a firm views its financial objectives affects the weight a firm will place on a particular site location factor. For example, one prospect may see controlling labor costs as the key to success where as another may emphasize locating at a site that enhances access to markets and potential increased sales.

Business risk or uncertainty are important factors communities may often overlook. All firms seek to reduce business risk; however, just as their operational and financial requirements vary so do their business risk profiles. Factors, such as overall local and state business climate, political stability, labor availability and climate, and tax, environmental and other business regulatory policies have differential effects on firms' assessment of the risk of doing business at a particular location. To the extent that a community can reduce the degree of business risk and uncertainty associated with a specific site, they increase the competitiveness and improve the marketability of their location. Of particular concern in the site location process is the firm's assessment of the likelihood that the new facility can be constructed on time and within budget at the candidate site. Again, obviously anything a developer can do to increase the probability that a new facility can be delivered in a cost effective and timely fashion enhances the potential success of the park or site.

If a community does not have an available qualified suitable site, it is not in the site selection game regardless of what other desirable characteristics a location may possess. All too often communities fail to undertake adequate due diligence to assure that a site is under control (the community has the right to offer the property) and available for development under known conditions.



A farmer with a shovel in a cornfield does not equal shovel ready!

ECONOMIC DEVELOPMENT PRODUCT

In the context of industrial site selection, product means available Industrial Land, Buildings & Infrastructure that meet the "Prospect's Needs." In short:

DIRT FIRST – No Site = No Business

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Almost every site selection consultant at one time or another has experienced being picked up in a 15 passenger van filled with local dignitaries, driven out into the country to a beautiful ranch or farm only to learn that the proposed "site" is not under control, land costs are unknown, zoned for agriculture, and no one knows exactly where the nearest utilities are located, and how much it will cost or how long it will take to extend them to the site. Assurances that Farmer Jones is ready to retire and will sell at the right price and "don't worry" we can get the utilities here are not sufficient. More likely, this scenario ends with an immediate drive back to the airport, no Chamber of Commerce visit or dinner with the mayor, and probably no future prospect visits to the community.

RECOGNIZING DEVELOPMENT INVESTMENT RISK

It is understandable that communities considering making a major capital investment in a new industrial site or park would be greatly concerned with making a sound investment decision. A community can easily invest millions of precious public dollars in preparing a site for development, and the consequences of making a poor decision can be devastating for the community and for the decision makers. This is true for developers in both the public and private sectors although the kinds of consequences for public versus private developers tend to be significantly different.

Developers in the private sector usually have a substantially different set of concerns. The private sector typically seeks development properties or sites exhibiting a significant competitive advantage yielding maximum profitability and achieving acceptable levels of return on investment while managing or minimizing business risk. Most private industrial park development projects are highly leveraged.

Public officials and other local leaders in the public sector tend to seek a Political Win. Most often a political win is defined as, first and foremost, creating new jobs and increasing wage and income levels in the community. Stimulating capital investment and increasing tax revenues may also be cited in the definition of a political win but usually only as a distant second. Most local public officials intuitively understand that large public capital investments in a development that fails to meet these objectives in a timely manner not only inflicts damage on the wellbeing of the community but is also likely to have severe adverse effects on the office holder's tenure in the next election.

Developers in the private sector usually have a substantially different set of concerns. The private sector typically seeks development properties or sites exhibiting a significant competitive advantage yielding maximum profitability and achieving acceptable levels of return on investment while managing or minimizing business risk. Most private industrial park development projects are highly leveraged. Thus, they are particularly exposed to economic risks associated with delays in development or with lower demand and slower sales than expected. The carrying costs impacts caused by delays and disruption in the development process or by an economic downturn in the industrial real estate market can easily force a developer into insolvency, bankruptcy or even into outright business failure. This was clearly evident in the recent Great Recession when many private developers and some of the largest industrial REITs (Real Estate Investment Trusts) in the world failed, with truly devastating consequences for the developers and investors alike.

The experience of the Great Recession revealed significant risks in relying solely on the purely private sector site development model for private industrial parks and sites to provide needed jobs and investment in the host communities. Several factors tended to limit the viability of private sector industrial site development in the face of economic pressures of the downturn:

- Ever present demands of creditors and investors to generate positive cash flow quickly,
- The potential opportunity costs associated with competing alternative land uses,

- Real estate's obsession with highest and best use,
- Comparatively high costs of industrial support infrastructure, and
- Potential opposition and permitting challenges (NIMBY) among others.

THE SHOVEL/PAD-READY SITE ENIGMA

Although it is true that an increasing number of companies are seeking relatively "risk free" sites with a higher degree of readiness and are not willing to wait for a community to find an appropriate site and determine its suitability for development, the emphasis on a shovel ready site is often overstated. Some level of investment in industrial site readiness is clearly needed. It is not clear, however, that a high level of upfront capital investment expenditures in infrastructure and site preparation is necessary to ensure that a site or park is competitive in the marketplace. Contrary to assertions by some site location and economic development consultants to the effect that a shovel or pad-ready site is an indispensable necessity for adequately responding to companies looking to make a rapid facility location decision, most companies are simply seeking sites capable of being developed within the parameters of their facility construction schedule and budget.

Furthermore, depending upon the prospect's facility requirements and the existing characteristics of a site, a community may find that a high level of upfront investment may not only be unnecessary overkill but in fact may result in putting in infrastructure that either limits site development flexibility or site suitability for a par-

SHOVEL/PAD READY SITE: THE ENGINEERS' DEFINITIONS

- ⇒ **Civil/Environmental** .. "A (site) that has the subgrade (fill) in place and at finish grade ready to excavate for plumbing and slab beams for slab placement."
- ⇒ **Structural**..... "Hard to define...means different things in different places and different applications...it is what you define by contract."
- ⇒ **Geotechnical**..... "Some reference to bearing capacity and subgrade support for industrial slabs on grade???"
- ⇒ **Civil/Environmental** .. "Sounds more to me like approved plans, ready to go into rough grading"
- ⇒ **Geotechnical**..... "A pad ready site has the fill in place and prepared for fine grading."
- ⇒ **Civil/Environmental** .. "Rural development: Pad-Ready = site untouched but septic testing has been completed and deemed suitable for building. Mass Grading Development: Pad-Ready = fill placed, rough grading completed AND tested! Sewer & water hook-ups in place."



particular type of industry. This is particularly so because no consensus exists regarding an accepted definition of a “shovel” or “pad ready” site or the agreed upon conditions that must be present to certify a site as “shovel ready.” This lack of consensus and a common understanding is clearly demonstrated in the quotes taken from a recent survey of site designers and civil engineers regarding the meaning of the term, shovel ready.

If engineers and other site design professionals have this much difficulty defining a shovel ready site, it is hardly surprising that local economic developers experience some confusion concerning the appropriate course of action. The lack of a clear and consistent definition and the resulting confusion is further illustrated by the site and park photographs here. All these photos were taken from advertisements by state and local economic development organizations for shovel ready or pad ready sites. As the photographs show, site conditions ranged from greenfields to fully graded sites and everything in between.

THE RATIONALE FOR HIGHER LEVELS OF INVESTMENT IN SITE AND PARK READINESS

So, do the weaknesses in the shovel ready concept mean that a community should never make significant speculative investments in an industrial site and park? No, if a community has the available resources; fully understands its markets, target industries and their requirements; and has a track record of success and a tolerance for risk, then it may do well to move forward with a higher level of investment in site preparedness.

This is particularly true if providing industrial access or utility infrastructure to a site requires a long lead time. For example, providing rail access (turnouts, switches, and industrial lead track) often takes 18 to 24 months

from the initial contact. Similar lead times may be required if a facility requires expansion of an existing electrical substation or the construction of a new substation. Preplanning, engineering and design, and prudent upfront capital investment can go a long way toward cutting lead times and reducing the risk of losing a prospect because service cannot be delivered in the prospect’s time-frame.

Experience clearly shows that the presence of an available inventory of prepared sites offers a community a proven competitive advantage in seeking to attract new industry, jobs, and capital investment. If nothing else, available prepared sites are essential for many fast-track projects and offer the advantages of setting the bar for all competitors, demonstrating greater sophistication and readiness, and may serve as the tie-breaker among final candidate communities competing for a new business investment.

PARK AND SITE CERTIFICATION PROGRAMS

Whether a community decides to make major capital investments in site or industrial park preparation or chooses not to do so, site certification can yield significant benefits. In recent years, numerous states, major utilities, railroads, and economic development and site location consultants have established industrial and business park and site certification programs. As in the case for upfront investment discussed previously, certification programs are a response to a growing tendency for companies to shorten decision making time frames, thus favoring sites with a higher level of preparedness and lower levels of development risk and overall uncertainty. Site certification is a useful strategy for addressing companies’ growing reluctance to wait for a community to find an appropriate site and determine its suitability for development.

While programs vary in the degree of independence and rigor and no universally accepted set of site certification criteria exists, most programs at a minimum address issues such as the following:

- Site ownership and control,
- Clear property title,
- Sufficient utilities and other infrastructure,
- Adequate transportation access,
- Appropriate zoning, and
- Environmental clearances for industrial use.

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The intent is to reduce the prospect's risk and uncertainty by ensuring and documenting that the property is ready for development. In making the decision to seek site certification, communities should keep the following points in mind:

- ✓ States, utilities, and railroads offer certification programs often at low or no cost to the community;
- ✓ Several private consulting firms offer site certification services (May be highly costly.);
- ✓ Broad range of application criteria and requirements;
- ✓ As with shovel ready sites, no national standards and no guarantees exist; and
- ✓ Finally, certified sites and parks enhance marketability but are not a substitute for prospect due diligence.

SUMMARY AND CONCLUSION

In conclusion, whether or not a community makes substantial investment in capital infrastructure and site preparation or seeks certification for its sites and parks, the demands of the industrial site marketplace clearly require some investment in prequalifying and readying a site for development. The table summarizes key issues that must be addressed in readying a site for development.

Large investments in site preparation and obtaining site certification are not critical for creating a competitive site. Failure, however, to make sufficient investments in industrial site readiness to satisfy these minimum requirements substantially reduces the likelihood of suc-

⇒ MINIMUM REQUIREMENTS FOR QUALIFIED INDUSTRIAL SITES:

1. Under control, actively on the market, transferable and developable in a timely manner. (Under control – the EDO or other party promoting the site owns, optioned, or has a first right of refusal on the site.)
2. Planned for industrial development...zoning, site design, land use, and environmental issues resolved, etc.
3. As a rule of thumb, minimum 10 Acre Parcels, 80-200 Acre Park Footprint (expandable in logical units). Cleared and Grubbed (excessive vegetation removed).
4. All infrastructure in place to the property boundary or engineered, approved, and readily available.

cessfully establishing a competitive site or park in the industrial marketplace and may well constitute a “fatal flaw” for your site in the site selection process. To the extent that a community can reduce costs, the time required to develop a facility, and the degree of business risk and uncertainty associated with a specific site, they increase the competitiveness and improve the marketability of their location. ☎



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