



CORPORATE RELOCATIONS TO

Texas on the rise



When it comes to corporate relocations, Texas is hot, and we are not talking about the temperature or humidity. Companies from around the country are taking a hard look at moving to the Lone Star State.

Tesla, Oracle, and Hewlett Packard are just some of the big names that are making major moves into Texas, and it is not just a corporate, bottom-line decision. It has as much to do with lifestyle. Case in point: Elon Musk, the CEO of Tesla, who can live anywhere he wants on the planet (and soon maybe another planet), is reportedly shopping for homes in Austin. Dropbox CEO Drew Houston and Douglas Merritt, the CEO of technology firm Splunk, are also new residents of Texas. During a recent interview, Joe Rogan, a comedian and arguably the most successful podcaster in the country, described his recent move from Los Angeles. He said that he “had to get out of California.” He took his family to visit Austin. They loved it. And the rest is history as his production company is now based in Texas.



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—The International Economic Development Council



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THE FACTS AND STATS TELL THE TALE

The International Economic Development Council regularly surveys corporate executives and for the eighth consecutive time since 1996, Texas was named the number one state for business in America. Executives cited the overall business climate, favorable tax situation, overall pro-business regulatory environment, and access to talent as key drivers. The fundamentals remain solid.

First, let's look at who's already arrived or coming soon. *Hint, there's an exodus from Silicon Valley.*

- ★ **Hewlett Packard**, which already has a substantial presence in Houston, announced that it will move its headquarters from San Jose.
- ★ **Oracle**, a company that is seemingly synonymous with California, announced plans to move its headquarters from Redwood City to Austin. Oracle executives said the move positions the company for growth and provides its personnel with flexibility about where and how they work.
- ★ **Venture capital firm 8VC** is also moving from Silicon Valley as is Firetrail, a records management software company, now formerly based in San Jose.
- ★ **Two years ago, Amazon** chose Houston for one of its prized Tech Hubs. The company occupies 25,000-square-feet of space in Citycenter with a team of more than 150 Amazon Web Services employees. The company said,

“HOUSTON IS A FANTASTIC PLACE TO LIVE AND WORK, AND HAS A STRONG LOCAL ECONOMY THAT WE LOOK FORWARD TO INVESTING IN AND GROWING TOGETHER.”

Amazon has invested \$10 billion into Texas since 2010, and the company said Houston's diversity, universities, and quality of life were attractive to Amazon.

- ★ **Telecommunications equipment firm DZS Inc.** and survey software company QuestionPro have plans to relocate to Texas.

And the list goes on as California's losses are Texas's gains. The migration from California is not new but rather heightened. According to U.S. Census data, more than 687,000 Californians have moved to Texas since 2010. About 13% of new Texas residents have come from California.



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WHAT ARE THE DRIVERS?

According to economic development officials, the state is seeing more corporate relocations and expansions than it has in a long time. Other states, hit hard by COVID-19 government shutdowns, have given CEOs pause. Top executives are seeing opportunity when they look at Texas and witness a healthy economy that was driven by a more methodical, careful, and science-driven approach toward reopening. Metropolitan areas in Texas led the nation in getting people back in their offices. According to security company Kastle, workers returned to office buildings in Austin, Dallas, and Houston at a faster pace than for buildings in cities like New York and San Francisco.

According to economic development executives, they are monitoring nearly 200 active corporate relocations and expansions into the state. Austin appears to be one of the main beneficiaries as the Austin Chamber of Commerce reports that 28 relocating companies created more than 9000 new jobs in 2020. This far outpaced 2019 and set a record for a single year.

Recently, Pabst Brewing relocated from Los Angeles to San Antonio, citing great talent available at a lower cost. An executive said that San Antonio is filled with opportunity and creativity as well as a great talent pool, high quality of life, and is experiencing a cultural boom. Affordability makes it attractive to businesses and employees.

In recent years, Dallas-Fort Worth has benefitted from the fundamentals of affordable home prices, lower costs of living, and low taxes as national brands like Charles Schwab, Deloitte, JP Morgan Chase, Liberty Mutual, McKesson, State Farm, and Toyota have either relocated or significantly expanded their operations.

Returning to the numbers, we see that . . .

★ THE ECONOMIC ENVIRONMENT IN TEXAS MAKES A CONVINCING CASE TO MOVE A COMPANY ACROSS THE COUNTRY.

TAXES. Texas's combined corporate tax rate is 21%, which is among the lowest if not the lowest in the United States. Lower tax rates can lead to increased corporate profits of 5-7%.

AFFORDABILITY. The cost of a single-family home in a major metro market in Texas is less than half of that paid in New York, Los Angeles, or Washington, D.C. Texas is also significantly less expensive than Atlanta, Chicago, or Miami.

LOCATION, LOCATION, LOCATION. Being closer to the center of the country saves time and money. Business travelers will have shorter flights from the state's world-class airports.

CORPORATE RENT. This is a big one. Average asking rent in major metros in Texas is nearly half of what a company would pay in Chicago, Los Angeles, or Washington, D.C. and nearly a third compared to New York City. Corporate rent is also competitive or less expensive than other major metros.



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WHERE WILL ECONOMIC GROWTH COME FROM?

While the **energy** sector remains a prime driver of the Texas economy, several other key industries have begun to take a major foothold, particularly **information technology**. Aside from the companies named earlier, Dell, Texas Instruments, and Rackspace Hosting are all headquartered in Texas, while AT&T and others have significant presences. This activity has enabled Texas to rise above California as the nation's top exporter of technology.

Nowhere is the information technology trend more apparent than Houston which is already developing a national reputation as the "Silicon Bayou." Aside from Amazon, Google has built a presence there, capitalizing on a wealth of innovation and talent in the area. Greentown Labs, a startup incubator for clean technology chose Houston for its second location because of its reputation as the world's energy capital.

Associated high-wage jobs draw high-quality workers who need a place to live, so the **construction** industry is one of the fastest-growing sectors in the state. Housing starts and commercial construction are both on the rise.

With the addition of new residents with more disposable income and tourism comes the need for bars, restaurants, grocery stores, etc. **Leisure and hospitality** have become major drivers and it's expected that the **lodging** industry will follow on an upward trajectory.

Transportation continues as a major driver. Congress recently passed the 2020 Water Resources Development Act that formally authorized the expansion of the Houston Ship Channel.

THE PORT AND ITS PUBLIC AND PRIVATE TERMINALS MOVED NEARLY 285 MILLION TONS OF CARGO IN 2019. THAT WAS ALMOST 47 MILLION TONS MORE THAN ANY OTHER U.S. PORT AND A 6% INCREASE COMPARED TO THE PREVIOUS YEAR.

With more companies discovering the many benefits of moving to Texas, look for corporate relocations to continue to increase through 2021 and to likely skyrocket in coming years. ■





About Hartman

Hartman has extensive experience acquiring, owning, managing, and leasing commercial office, retail, light industrial and warehouse properties located in Texas. Since 1983, Hartman and its affiliated entities (including founder, Allen R. Hartman) have sponsored 24 programs and acquired interests in more than 90 real assets totaling approximately \$815 million as of December 31, 2019.

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