COMMERCIAL REAL ESTATE

Should your company leave California?

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Contributing Columnist

Last week, I framed three trends we are observing in commercial real estate: the use of 3PLs, or third-party logistics providers; an exodus from California; and a rash of mergers and acquisitions not seen since the days of Gordon Gecko in the movie "Wall Street."

Promised was a dissection of each of these weighty trends. As 3PLs were discussed last week, I will spend some time today outlining various considerations for an out-of-state move. M&As are on deck and will be broken down next week.

It seems when a big employer like Toyota heads out of town there is a collective sigh as thousands of high-paying jobs evacuate for the Lone Star State. Yeah, Texas has been the catcher's mitt for the Nolan Ryan fastballs it has received from our mound of companies.

At some level, I understand why a global business would consider cheaper environs — after all, it's about the earnings and shareholder value. What's more troubling to me is the departure of many closely held, multigenerational manufacturing and distribution companies. These folks staked their claim in SoCal, took a risk, made a fine business and raised a family, only to leave for Nevada, Texas, Tennessee or elsewhere.

I've encountered five companies within the past month that have made the move. Five more have a pile of glossy brochures on their desks advertising the benefits of Bossier City, Louisiana, or Kilgore, Texas. These aren't Toyota, mind you. These are your neighbors! These are normal people, not faceless corporations who own and occupy industrial buildings in town and who provide paychecks to a local workforce, not the behemoth plants with gigantic payrolls.

Briefly, the reasons I've heard that motivated the moves or a possible relocation included:

Some small companies in Southern California — including longtime operations with deep family roots — are moving logistics operations to Texas and other states to reduce overhead.

LABOR » Soon, the minimum wage in California will eclipse $12 per hour in its climb to $15. If an operation is dependent upon minimum-wage employees, this increase must come from somewhere — increased business, price bumps to their customers or profit reduction.

BUSINESS-FRIENDLY ENVIRONMENT » Some are simply fed up with a new regulation, inspection, rule, agency or attitude that would suggest, "We don't want you here!" Henderson, Nevada, welcomed — with large fanfare — one of our clients who employees 75 people.

COMPLIANCE » See business-friendly environment.

TAXES » Texas, Washington, Nevada and Florida have no state income tax. Oregon has no sales tax. The highest bracket in California is 13 percent. Our counties levy a 7-8 percent sales tax on purchases. Most pay less than the top bracket and sales tax only occurs when you buy something. However, whatever you pay in state and local taxes becomes a raise if you are making the same salary in a tax-free state.

COMMERCIAL REAL ESTATE » A 50,000-square-foot building in north Orange County will cost you about $10 million — if you can find one! A 50,000-square-foot building in Nashville, Tennessee, is $2 million, plus you get expansion acreage for free!

UTILITIES » Many states heavily subsidize the power expenditures of manufacturers, so their cost to produce is cheaper and the savings are shared. Water is plentiful east of the Rockies, thus less expensive. Ever fill your gas tank in Texas? That jingling you hear is the ample change from your $5 bill. Now, multiply that difference for a fleet of delivery trucks!

COST OF LIVING » One of my dear clients just uprooted his entire family and moved to Nevada. They've lived in Orange County for decades. His reasoning was an encapsulation of all of the reasons above, plus his young family members could afford to buy houses. Hmmm … .

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