Site Selection: Issue Brief

Overcoming the Barriers to Local Economic Growth

Summary

While countless communities are competing to attract new development, developers are meticulously studying available sites for the best fit. The site selection process is very thorough, but it is ultimately designed as a way for developers to guarantee they choose the community that will best meet their needs. There are several barriers to development, and if a community has any of these, the chances of attracting development significantly dwindles. What developers are looking for in potential sites is simple: shovel-ready land, a welcoming community, and processes that do not put their project behind schedule. If a city implements additional processes or steps to approval, holds opposition to development, or creates uncertainty, developers will simply not select sites in that community. The cities that best meet the needs of developers are those that attract development and reap its many benefits, while communities home to developmental barriers will fall behind.

Background

Counties and cities are in competition to attract development because of the many benefits it can provide. This competition happens every day, as local governments search to utilize their land in the most beneficial manner for their residents. This competition is so prevalent because developers are looking for the site that best suits their needs. When it comes to development, there is a very specific process developers and their consultants follow to determine which location would be best for them. The truth is, there is an endless supply of sites available for developers to consider, so any site that does not meet every checkpoint of a developer's site selection process will be forgotten and never seriously considered for development.

The Site Selection Process:

There are four major stages to the site selection process that developers undergo when determining where to build. The point of this process is to compare communities and sites to guide their evaluation before committing to such a major capital investment. The first stage is the planning stage, where the developer establishes the goals of their investment, the requirements for their facility, and the priorities of their project. The next stage is research, where developers and consultants work together to compare states and communities with available sites focusing on data, infrastructure, workforce, and other operating requirements. The next stage is where the developer compares costs, the financial impact of each location including discounted cash-flow analysis. The final stage involves the developers physically touring sites, evaluating the final few locations to determine whether they meet the company's needs (Burkart).

In this process, communities that offer prepared sites and fast-track permitting usually emerge as finalists. In fact, in one survey of developers, 98% of those surveyed listed site readiness as the most important quality a site could offer. A site's infrastructure, government responsiveness, and permitting process are critical factors in the evaluation of potential sites that could earn the investment. Companies increasingly emphasize the ability to start-up their facilities without unnecessary delays as highly influential in the site selection process. John Boyd, a site selection expert, personally identifies permitting speed and an absence of organized local opposition as crucial considerations in the selection process. Federal or other contracts can create timing pressures, which is what led one surveyed manufacturer to select the final site because it offered fast permitting and community support (Area).

Companies are increasingly seeking and prioritizing communities capable of demonstrating that their sites can actually be developed (Site). Many communities do not realize that site readiness is not the only key to landing a major development, as communities must offer viable land that is available within the required investment schedule of the development (Virginia). When it comes to attracting development, predictability is a competitive advantage. Developers evaluate not only whether a project can legally be approved, but also how quickly, reliably, and at what cost it can become operational.

Barriers to Development:

Each checkpoint in the site selection process aims to surface any barrier that a specific city or site may create for development. One such barrier is community resistance to development, also known as “Not in My BackYard” or NMBYism. In a survey 69% of surveyed site selectors agreed that NMBYism is increasingly presenting as a barrier to economic development. For that reason, community opposition is one of the factors evaluated during the initial search for possible sites, and plays a major role in helping to determine the final selection. During the site selection process, consultants investigate activist activity, and opposition patterns, as well as possible regulatory delays. Businesses often choose to abandon locations before being formally denied if significant controversy is anticipated (Site). If a city has additional requirements or processes that must occur before development is approved, it creates strong uncertainty about the community’s acceptance, which would enter a developer’s risk assessment before that city would ever become a finalist.

In fact, uncertainty has become a major challenge for communities competing to attract development and its associated corporate investment. Communities that have permitting hurdles, policy uncertainty, or community opposition represent a great risk for developers, as the presence of these barriers creates significant delay in corporate investment decisions (Site).

Government overregulation is another factor that presents a significant barrier for developers, acting as an inhibitor to any community trying to attract development. In written survey responses, developers regularly identified government overregulation as a factor that can detrail projects. In that survey, respondents were especially critical of situations where governments advertise their business-friendly conditions but have permitting departments that create significant barriers to business. Any additional hurdle to developmental approval creates the same inconsistency described in the survey responses, as a community who may want to attract new development maintains local processes that makes delivering a project on schedule more difficult (Starner).

Barriers to Development Cont.

Another barrier to development that could deter a developer from choosing a community is the local process for approving development. There are two types of approval processes for development: by-right and discretionary. The discretionary approval process requires the public-body to vote, while the by-right approval process, approves a development upon the project fully complying with all regulations. A study found that permitting for by-right projects was 28% faster than discretionary projects. By-right approvals demonstrated less variation in approval timelines, while discretionary approvals were found to create longer timelines and greater uncertainty. For developers, faster approval improves the feasibility of development projects, reducing a developer's risk of spending more time or money. Adding another voting stage beyond conventional permitting in the approval process greatly inhibits a community's chance of attracting development, especially as more developers are prioritizing a shovel-ready site in the site selection process (Manville).

Another study found that even slightly increasing the expected approval time of a project, significantly decreases a community's chance of attracting that development. A 1% increase in expected approval time was associated with a 0.94% decrease in probability of development. Increasing the expected approval time by one-month in areas primed for development decreased a community's chance of attracting development by 13%, while the same one-month increase in expected approval time for areas not primed for development reduced a community's chances by 8%. Increased regulatory approval time imposes implicit costs on developers, so delays not only affect when projects are built, but more pressingly, where development occurs. When expected approval times are higher, the likelihood of a site being developed significantly decreases (Wrenn).

Any additional decision point can prevent a community from attracting new development. If a site otherwise meets applicable requirements, adding another stage introduces the possibility of an unfavorable outcome and an uncertain approval schedule. It is a risk developers are simply unwilling to take. Additional approval processes decrease the likelihood of development proceeding on an originally considered site, especially when other locations can offer faster approvals.

Cost of Deterring Development:

When a community holds a site that was considered, but ultimately not chosen for development, the loss can be enormous. Communities are constantly competing against other locations developers consider during their site selection process. If another location meets a developer's operational needs with a clearer path to approval, moving elsewhere will always be the most attractive option for development.

Economic opportunity is a major loss when a location cannot meet development requirements. Virginia lost a major development to Georgia when Hyundai Automotive's site selection process ultimately rejected Virginia due to site readiness constraints. That project would have created $5.5 billion in investment and over 8,000 direct jobs. The state lost out again when Intel Semiconductor chose Ohio during its site selection process over Virginia. Had Intel chosen Virginia, the state would have experienced $20 billion in investment and 3,000 direct jobs. In total, since 2016, the state has lost more than 55,000 direct jobs and $124 billion in capital investment (Virgina).

Additionally, cities that attract development have experienced countless other benefits. Communities that attracted new development experienced 12% higher productivity than runner-ups in the site selection process (Greenstone). In addition to the direct jobs, attracting new development also creates additional jobs in other industries, as many as 4.9 additional jobs created for every direct job created by the new development (Moretti). One study found that residents, even those outside of their county that attracted new development, experienced a 3.6% increase in wages, a 3.4% increase in disposable income, and a 28.1% increase in housing values (Moretti).

When it comes to the site selection process, developers are very thorough in determining which available site is the best fit. While many communities and states are competing to attract new development, the ones that win are those that do not add extra hurdles to development, create uncertainty, or hinder developers from delivering their projects on schedule. If a community can welcome development without adding in extra steps, creating uncertainty, or threatening opposition, and offer available land when needed, that community will ultimately be the one that attracts development and its many accompanying benefits.

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