OPPORTUNITIES AND CHALLENGES OF DOING BUSINESS IN ILLINOIS

A Survey of Illinois Commercial and Industrial Real Estate Agents and Brokers

Major Findings: A Summary

Introduction

Illinois is in continuous competition with other states and increasingly with other countries when it comes to attracting industrial and commercial development. Whether it's keeping companies here in our state, convincing them to grow here or attracting new ventures to move here, there is growing concern that Illinois is no longer keeping up with its competition.

The Illinois Chamber of Commerce and its Economic Development Council retained the University of Illinois at Springfield's Survey Research Office to reach out and ask the people in the trenches – industrial and commercial real estate agents throughout the state – why Illinois wins or loses these battles.

There's no better method of finding out how we can do better and where we need to focus our efforts than by talking to the people who are out there every day in every corner of the state trying to convince businesses of all kinds that Illinois is the place to be.

The survey was conducted in the third and fourth quarters of 2008 with 160 commercial and industrial real estate professionals (agents and brokers) in Illinois from 88 different real estate firms. Two-thirds of the respondents completed the survey through a telephone interview while the remaining one-third did so through a web-based survey. The response rate was 35%.

The Respondents Were Geographically Diverse and Experienced

The respondents are diverse in terms of geographic region (30% from the City of Chicago; 44% from the Chicago suburbs; and 26% from downstate). Half of them specialize/have most of their experience in industrial real estate, one-quarter in commercial real estate, and the remaining one-quarter do both about equally.

Nearly three-quarters (74%) have *at least* 10 years of experience working in commercial or industrial real estate in Illinois, while nearly four in ten (39%) have more than 20 years experience. Nearly four in ten (39%) currently do real estate in another state, and nearly three in ten (29%) have worked in other parts of Illinois in the past 5 years. Over four in ten (43%) have either "a lot" or "quite a bit" of experience working with out-of-state firms in the past 5 years, and another third (35%) have "some" experience here.

One in five respondents (20%) are in firms that did more than 5 million square feet of business last year, while more than one-third (37%) are in firms that did 1 to 5 million square feet. Nearly four in ten (39%) are in firms that did less than 1 million square feet.

Finding One: The Most Important Factors in Final Site Selection

Whether it was answering an open-ended question or a close-ended question, respondents were clear on the critical factors that make a difference in site selection. Following are some details on this topic:

Open-ended question. When asked about what they considered to be the most important factors in final site selection decisions, five factors were identified by about 40 percent of the respondents:

Infrastructure (particularly transportation infrastructure, 40%) – 42%
Availability of employees – skills, education – 40%
Location characteristics – 39%
Land/building availability, prices and characteristics – 38%
Costs of doing business (within which 17% mentioned state/local taxes/fees) – 38%

Nearly one-quarter mentioned incentives offered to businesses.

Closed-ended question. When asked to rate the importance of 19 selected factors in final site selection decisions on a 0-to-10 scale (with 0 representing "not important at all" and 10 "extremely important"), four factors were rated as most important:

Transportation infrastructure (mean = 8.82)
State and local taxes (mean = 8.34)
Land and building prices and supply (mean = 8.03)
Availability of employees/skills (mean = 8.00)

The next "tier" (means ranging from 6.75 to 7.39) consists of 9 factors, most of which are related to various aspects of state/local public policy (the state's reputation in how it relates to its businesses; various incentive-related factors; permit and regulatory processes; state/local economic development strategy; union influence).

Regional differences. There are significant differences across the three regions for 7 of the 19 factors. On all but two of these, downstate respondents rated the factor as more important than did respondents in the Chicago area. Of particular note is that downstate respondents ranked the state's reputation/ image in how it deals with business as the second most important factor (7^{th} for Chicago suburban and 12^{th} for City of Chicago respondents). Chicago suburban respondents ranked the factor of land/ building prices and supply as more important than did other respondents, and City of Chicago respondents ranked the factor of availability of employees/skills higher than did other respondents.

Open-Ended, What are Illinois' Strengths?...

Open-ended questions. When asked about what they considered to be **the greatest strengths** of their area, one characteristic was identified by seven of ten respondents and two others were identified by about half of the respondents:

Infrastructure (particularly transportation infrastructure, 69%) – 70%

Availability of employees – skills, education – 52%
Location characteristics – 48%

Next in order were:

Land/building availability, prices & characteristics (25%)
Economic development – programs and activities (14%)
Quality of life (12%)
Costs of doing business (12%)

In each region, infrastructure comments were the most frequently identified area of strength, followed by availability of employees in terms of skills and education and location-related characteristics. For downstate respondents, land/building characteristics are a close fourth.

…What Are Its Greatest Weaknesses?

And, when asked about what they considered to be **the greatest weaknesses** of their area, 70% of the respondents mentioned items relating to the costs of doing business, with 57% mentioning state/local taxes/fees and 21% mentioning items relating to labor costs/unions. This was followed by:

34% who mentioned items relating to economic development or permit/regulatory processes, with 17% mentioning the ease/timeliness of permit and regulatory processes and 13% mentioning incentives
25% who mentioned aspects related to the state or local business/political climate and/or reputation/image
22% who mentioned aspects relating to infrastructure (17% for transportation here)
18% who mentioned aspects relating to land/building availability, prices and characteristics

In each region, comments relating to the anticipated costs of doing business were the most frequently identified area of weakness, with Chicago area respondents more likely than downstate respondents to mention state/local taxes. In each region, comments relating to various aspects of economic development programs and activities were second most frequent.

How Does Illinois Stack Up?

When asked to rate the attractiveness of their area of Illinois to firms looking to relocate/expand on a 0-to-10 scale (with 0 representing "not attractive at all" and 10 "extremely attractive"), the average respondent rating was 6.77 – a rating that is somewhat less than midway between "moderately attractive" (5.00) and "extremely attractive" (10.00). City of Chicago respondents were most positive (7.19) followed by Chicago suburban respondents (6.75) and then downstate respondents (6.33).

Closed-ended, What Are Illinois' Strengths and Weaknesses?...

Respondents were asked to rate their area of Illinois in terms of attractiveness to firms looking to relocate/expand on 19 selected characteristics (the same as the site selection importance factors asked earlier). Respondents used a 0-to-10 rating scale (with 0 representing "not attractive at all" and 10 "extremely attractive"). Four characteristics were rated as most attractive:

Transportation infrastructure (mean = 7.93)
Quality of life in area (mean = 7.39)
Availability of employees/skills (mean = 7.34)
Access/proximity to higher education, research (mean = 7.23)

The next two "tiers" consisted of:

Presence of similar/major companies (mean = 6.60)
Proximity to raw products/materials (mean = 6.57)

Wage and salary levels (mean = 6.38)
Land/building prices/supply (mean = 6.07)

Utility costs came next (5.62).

Then followed a "tier" of nine items with means ranging from a low of 4.66 (for state and local taxes) to 5.22. Virtually all of these perceived weaknesses relate to various aspects of state and local public policy and its implementation (including efforts and strategy of economic development officials, permit/regulatory procedures, incentive-related aspects, the state's reputation/image in dealing with business, and union influence.)

Significant differences across the three regions are found on 12 of the 19 ratings. On 11 of these, downstate respondents gave the most positive ratings (with City of Chicago respondents close on several of these). Chicago area (city and suburb) rated the presence of similar/major companies more positively than did downstate respondents.

Where's the Gap? Where Do We Need to Focus?

The difference between the Attractiveness and Importance ratings can serve as a relative measure of the factors/characteristics where attention is needed, according to these real estate professionals (relative to other characteristics/factors). Negative scores indicate characteristics where the attractiveness ratings are below the importance ratings.

The largest gap between the attractiveness and importance ratings occur for:

<u>State and local taxes</u> (gap = -.3.68; ranked 19th in attractiveness, 2nd for importance)

This is followed by:

<u>State reputation/image regarding business</u> (gap = -.2.61; ranked 16th in attractiveness, 5th for importance)

<u>Availability and amount of incentives</u> (gap = -2.43; ranked 14th in attractiveness, 6th for importance)

<u>Flexibility of incentives to meet needs</u> (gap = -2.31; ranked 15th in attractiveness, 10th for importance)

<u>Ease of process to qualify/receive incentives</u> (gap = -2.31; ranked 18th in attractiveness, 11th for importance)

<u>Ease/timeliness of permit/regulatory procedures</u> (gap = -2.28; ranked 13th in attractiveness, 7th for importance)

Overall, there is a great deal of similarity across the three regions in the gap scores and rankings. However, the largest gap for Chicago area respondents is found for state/local taxes while the largest gap for downstate respondents is the state's reputation/image in dealing with business, with state/local taxes second. Among the top six or seven factors/characteristics identified by this gap analysis as needing attention in every region are the three items relating to incentives. Ease/timeliness of permit and regulatory procedures are also in the top six/seven for Chicago area respondents.

Illinois' Major Competition – What are they doing better?

Just over half (53%) of the respondents identified a neighboring state as their major competition while nearly three in ten (28%) identified another area in Illinois and nearly one in five identified another Midwestern state (18%). About one in ten (9%) identified a location in the South. Only one in twenty (5%) identified another country.

When asked about the attractiveness of these locations, nearly six in ten (59%) mentioned an item relating to the costs of doing business – with 36% mentioning state/local taxes/fees and another 24% mentioning the costs of labor and union influence (17% wages, salaries & insurance; 9% unions). Utility costs were mentioned by 13%.

About one in five mentioned each of the following:

Incentives – amount, availability and qualifications (22%)
Land/building availability, prices and characteristics (21%)
Transportation infrastructure (20%)
Location characteristics (19%).

Experience Loss of Firms to a Location Outside of Illinois

Seven of ten (71%) respondents indicated that, in the past 5 years, they have experienced a firm which inquired about a site and then chose a location outside of Illinois. Over one-quarter (27%) indicated this had happened 1 to 3 times while four in ten (41%) indicated it had happened more than 3 times. The vast majority of these firms already had locations in Illinois (but this was less apparent in downstate than in the Chicago area).

Nearly two-thirds (65%) indicated the reasons these firms chose a site outside of Illinois were due to factors relating to the costs of doing business – with 32% mentioning state/local taxes/fees and nearly as many mentioning labor costs and unions (29%; 21% for wages, salaries and insurance, and 12% for unions). Four in ten (40%) mentioned items relating to incentives, and half as many (20%) mentioned land/building availability, prices and characteristics.

Almost six in ten respondents (58%) said that something (else) could have been done to increase the chance the firms would have selected a site in Illinois, a proportion higher among downstate respondents (79%) than among those in the Chicago area (52%).

Just over half (52%) indicated an item relating to incentives, with:

42% mentioning incentives in general (or miscellaneous)
12% mentioning ease to qualify / flexibility in incentives
9% tax abatements

One in five (20%) mentioned:

Economic development strategy and efforts (14% for access to/efforts of officials; 9% for state/local economic development strategy)
State/local taxes and fees (excluding tax abatements)

When asked where these firms went, two-thirds (66%) of all locations were in a neighboring state while one in five (21%) were in the South.

Recommended Changes

Changes that would have an immediate impact. Almost six in ten (57%) respondents recommended changes having to do with state/local government taxes/fees.

Just over half (52%) recommended changes relating to economic development incentives, obstacles and activities, with three in ten (31%) mentioning changes relating to incentives, one in seven (14%) mentioning changes relating to ease/timeliness of permits/regulations; and one in ten (11%) mentioning economic development strategy and efforts.

More than one in ten recommended changes relating to:

State/local business and political climate and image (16%)
Cost of labor and unions (15%)
Infrastructure (12%)

Changes that would have a longer-term impact. About half (51%) of the respondents recommended changes having to do with state/local government taxes/fees.

Nearly four in ten (39%) recommended changes relating to economic development incentives, obstacles and activities, with most of these relating to incentives (22%) or relating to ease/timeliness of permits/regulations (14%).

About three in ten (29%) recommended infrastructure changes, nearly all relating to transportation infrastructure.

About one in five recommended changes relating to state/local business and political climate and image (19%).

Marketing Efforts

About four in ten respondents (41%) do not know how Illinois state and local marketing efforts compare with their major competitors -- while about the same number (42%) believe these efforts are less than that of their competitors, 17% believe they are about the same, and only 3% believe they are greater. More downstate than Chicago area respondents do not know how these efforts compare.