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Rising costs may make companies leave California

By Dean Calbreath

STAFF WRITER

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The rising cost of doing business in California could soon inspire businesses to move their headquarters out of the state, according to one of the nation's leading corporate relocation specialists.

And even though San Diego ranks as the cheapest headquarters city in the state, it could soon face some movement by companies who believe they are being priced out of the market.

"While San Diego is less expensive than Northern California, the cost of living – particularly housing costs – will be a stumbling block for San Diego to attract or retain major corporate headquarters," said John Boyd, head of The Boyd Co., which provides relocation consulting for such companies as J.P. Morgan, PepsiCo, AOL Time Warner and Hewlett-Packard.

San Diego boosters say Boyd may have a point.

"Beyond costs, there are still compelling reasons for a company to have its headquarters here – especially the intellectual climate," said Julie Meier Wright, head of the San Diego Regional Economic Development Council. "But there are quality-of-life issues that we have to deal with, like housing costs and congestion."

Wright adds that the biggest threat to business will be what steps state government takes to resolve the budget deficit. If taxes are driven too high, she said, "we could see the early 1990s all over again, when there was an exodus from the state."

According to Boyd – who spoke here recently at a meeting of West Coast corporate site executives – it would cost a Fortune 500 company an average of \$37.9 million a year to maintain a 750-worker headquarters in San Diego County, based on the cost of labor, office leases, corporate travel and power.

The good news is that San Diego is the cheapest major market in California, among areas with a concentration of Fortune 500 companies.

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San Jose is 17 percent more expensive, San Francisco 16 percent, Los Angeles 10 percent and Orange County 4 percent. According to Boyd's calculations, San Jose is the most expensive headquarters site in the nation, followed closely by San Francisco, with New York third.

The bad news is that nearly 20 major corporate headquarters locations outside the state are less expensive. Richmond, Va., and San Antonio, Texas, are about 12 percent cheaper, while Greensboro, N.C. is 15 percent lower.

"I'm sure we'll soon be seeing movement from places like San Francisco and San Jose to smaller, less costly cities like Greensboro," Boyd said. "And San Diego-based businesses are at a national disadvantage because of the almost confiscatory housing prices here."

Kelly Cunningham, economist at the San Diego Regional Chamber of Commerce, said the high costs are offset by the steady flow of tech workers coming out of local universities.

But he added that if housing, energy and employment costs continue to rise, "we could be in a position where we could start to see some of our companies leaving. It's important for high-tech companies to have a well-educated labor force, which gives us some advantages with our universities. But when even high-tech workers are having a hard time affording a \$400,000 home, those advantages could disappear."

Until recently, Boyd said, it was relatively rare for corporations to move their headquarters. But a weak economy and a declining stock market have forced companies to look at as many options as possible for corporate belt-tightening – including the headquarters location.

Boyd said Boeing Co.'s recent move from Seattle could be the shape of things to come.

In recent years, San Diego managed to attract one Fortune 500 company: Gateway, which moved here from South Dakota in 1997 because founder Ted Waitt thought it would be easier to attract talented executives to Southern California than Sioux City.

"During the boom period, that kind of move made sense," Boyd says. "The company could afford it and, at that time, San Diego was a major destination for the best and brightest in the tech fields."

Beset by recurrent losses, however, even Gateway felt the need to move out of San Diego to reduce costs. In 2001, it moved its headquarters from the University City area to Poway, saying the move would save \$140 million over the next 10 years.

"Today, costs rule the site selection process," Boyd says. "For our clients – whether it's Hewlett-Packard or Time Warner or Pratt & Whitney – the only way to affect the bottom line is to reduce their costs."

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