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Today in Finance for April 5, 2010

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Location, Location, Location

A new study ranks large U.S. cities by cost of doing business.

[Kate O'Sullivan](#) - CFO.com | US
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CFOs contemplating an office move may want to head south, and not just for the sunshine and golf, according to a new study by KPMG that ranks 22 large U.S. cities on a variety of business operating costs. Tampa leads the pack as the most cost-competitive large city for business, followed by Atlanta and Miami. The bottom of the list doesn't bring many surprises: San Francisco, New York, and Los Angeles are the priciest spots.

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While many companies are still struggling to emerge from the recession and are not in expansion mode, others are carefully evaluating their existing locations, says Hartley Powell, national leader for KPMG's Global Location and Expansion Services practice. "They're looking at their total footprint and trying to consolidate it," he says. "Some companies have a lot of redundancy between locations, and they're looking at whether they can become a little leaner."

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To guide finance chiefs in that decision, or in scouting for a new site, KPMG's location index ranks 22 U.S. cities and locations with populations of greater than 2 million according to their scores on 26 different cost components, such as labor, taxes, real estate, and utilities (see chart below). The study attempts to account for the up-front cost of establishing a new location as well as the ongoing costs for different kinds of operations, including manufacturing sites, corporate and IT-services locations, and research-and-development hubs.

"Some cost factors mean more to some industries than others," says Powell. "For example, if you're running a data

center, labor cost is not a big factor."

For most businesses, labor availability and the quality of the workforce remain the two key drivers of a site-selection decision, says Powell. But "more than ever, today cost makes a huge difference," he adds. State and local governments are continuing to offer companies expansion and relocation incentives, even as their own budgets remain on shaky ground. A common incentive, offered by some 26 states, is to provide a refund of employee withholding taxes for a period of time, usually with the requirement that the business meet job-creation targets, says Powell.

In some situations, however, Powell acknowledges that other factors override cost, even now. "New York is New York," he says. "There are what we call 'absolute drivers.' New York might have a quality about it that you can't get anywhere else, and cost might not even come into play because of other overriding factors. There are certain types of investments that you would only make in a New York, or in a San Francisco."

Glenn Mair, director of MMK Consulting, a site-selection firm that conducted the study together with KPMG, says less-expensive cities such as Atlanta and Dallas are increasingly challenging the supremacy of New York and San Francisco in the competition for corporate headquarters. But the decision where to locate depends on the individual business' circumstances, he adds. "If you have executives flying in from Asia on a periodic basis, you wouldn't even look beyond Los Angeles or San Francisco," he says. "In that case, it becomes an issue of trying to maximize the value you can get within [a given city's] cost structure."

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TAMPA IS CHEAPEST

U.S. cities/locations with populations of more than 2 million ranked by cost of doing business, from low to high

Rank	City	Cost Index
1	Tampa	96.0
2	Atlanta	96.3
3	Miami	97.0
4	Baltimore	97.1
5	Dallas-Fort Worth	97.7
6	St. Louis	97.8
7	Houston	97.9
8	Phoenix	98.1
9	Philadelphia	98.3
10	Detroit	98.5
11	Chicago	98.8
12	Portland, OR	98.9
13	Minneapolis	99.0
14	North Virginia (metro DC)	99.0
15	Riverside-San Bernardino, CA	99.5
16	Denver	99.6
17	Seattle	100.1
18	Boston	100.8
19	San Diego	100.9
20	Los Angeles	101.4
21	New York	102.0
22	San Francisco	104.1

U.S. national benchmark cost index = 100.0
Source: KPMG

With commercial real estate prices far below their peak, even expensive cities should offer better values than in the past, Powell observes. "You'll get a better deal in New York than you would have earlier," he says. "Just don't try to compare it to Atlanta."

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