

IMPACT OF PRODUCT DEVELOPMENT

CPM 2020 – February 3, 2020

Jennifer R. Druce, SCCED
SOUTH CAROLINA DEPARTMENT OF COMMERCE

IMPACT OF PRODUCT DEVELOPMENT

CPM 2020

TABLE OF CONTENTS

Background	Page 2
LocateSC Fund	Page 5
Problem Statement	Page 6
Data Collection	Page 7
Data Analysis	Page 8
Implementation	Page 9
Evaluation Method	Page 13
Summary and Recommendations	Page 15

|| BACKGROUND

According to the International Economic Development Council (“IEDC”), the main goal of economic development is improving the economic well-being of a community through efforts that entail job creation, job retention, tax base enhancements and quality of life. As the economic development agency for the state, the South Carolina Department of Commerce (“Commerce”), works diligently to promote these activities for all of our citizens and support these efforts in each of our communities. Since 2011, the agency has participated in over 1,000 projects that have created more than 115,000 jobs and nearly \$26 billion in capital investment. Additionally, during that same time, the agency has announced a new or expanding project in each of the state’s 46 counties. These numbers represent companies that choose to invest in South Carolina because the state and its citizens provided them with the best chance to succeed.

Understanding the entire picture of economic development goes far beyond numbers. A lot of work must be done to be certain that a community is in a position to successfully recruit a new company, as well as, ensure the company is successful once it has located. These activities vary significantly and can range from existing business support such as: export assistance, supplier outreach, recycling market development and emergency management; to assisting with community development activities, such as workforce development and product development.

“Product development” refers to the real estate component of economic development.

Essentially, if a community wants to have any chance at successfully recruiting a new industry to the county, a location must exist for the business to operate. This is not a new concept.

Consultants in economic development and site selection have been encouraging communities to be more active in product development efforts for years. Terms like certified, shovel-ready, spec building and readiness appear in every industry publication; and these words are spoken repeatedly at nearly all economic development conferences and trainings. And while much more is involved in winning a project, if a community does not have a location for the business to locate, it is not even in consideration. In many ways, product development is the most important marketing effort a community can undertake.

Product development is not as straightforward as it might seem. Due to its public nature, there are a number of components that influence the activity:

- **Motivated by economic development goals, not profit.** This is a significant difference from traditional real estate development. Unlike the private-sector, product development efforts are motivated by the creation and retention of jobs, enhancements to the tax base and the improvement of each County's quality of life. Therefore, many properties targeted for product development are in areas a real estate firm might otherwise overlook. This could be for a number of reasons, such as: the rural location of a property, the lack of existing infrastructure, or high development costs that would scare away investors.
- **Retain property.** Another significant difference from traditional real estate companies, is that product development properties are reserved for economic development projects. The property will not likely be sold to just any company moving across town, questionable business, or investor looking to enter the market. These properties are preserved for businesses looking to create a new location and new jobs or expand an existing operation.

- **Diverse local, regional and state portfolio.** A goal of the program is to ensure that South Carolina is as competitive as possible. Every prospective business inquiry received has different requirements. As the business climate changes, targeted locations and property types must adjust, as well. In an effort to respond to inquiries with a competitive property, a diverse portfolio is necessary.
- **Long-term vision.** This component exists for a number of reasons, but has significant influence on illustrating the impact of product development. Since many factors can influence a business' decision to locate, having even a "perfect" property, will not guarantee success. Additionally, product development efforts typically include a number of smaller projects aimed to chip away at a property's development plan. Properties have taken 10-15 years or more to develop and still have limited activity or success.
- **Team Sport.** Creating a marketable property to attract a new company is an expensive endeavor. Commerce is cautious to ensure that tax payer dollars are well invested and expended in a responsible manner, assuring that there is a demonstrated public benefit. Therefore, specific criteria are placed on all product development requests and each application is graded with these criteria in mind. One of these criteria, which exists for a number of reasons, is the involvement of additional funding partners in the project. However, since Commerce is then not the only partner in a particular project, the ability to engage in it depends on the interest and capability of others to participate.

|| LOCATESC FUND

Ten years ago, as the country came out of the great recession, and activity started to rebound, marketable properties were quickly absorbed. However, because of continued market uncertainty and a risk adverse financial sector, real estate development activity was slow to rebound and local communities found it difficult to backfill empty portfolios with suitable properties. Even the State's larger markets, like Charleston, Greenville/Spartanburg and Columbia were slow to see new construction increase in the industrial sector. This left South Carolina in a difficult position of trying to recruit industry, with a very limited portfolio of suitable options for businesses to locate. As a result, in 2014 the General Assembly established the LocateSC fund. This new fund was created specifically to proactively prepare property for economic development projects and ensure the state remained competitive.

|| PROBLEM STATEMENT

After the LocateSC fund was created, Commerce worked to establish competitive initiatives that the fund would be used to support. Requirements were developed and programs were established that provided counties and regional alliances opportunities to request funding support for local projects. To date, the fund has invested in nearly every county in the state and projects include a range of activities, such as: due diligence studies, acquisition, spec building construction, utility extension and property upfit. The interest and activity related to the fund points to the value it adds and the opportunities it provides. However, currently there exists no metric to illustrate the actual impact made. The goal of this project is to define successful product development and determine the appropriate performance measures, as well as, the process to capture the data, in order to illustrate the LocateSC fund's ability to aid in it.

|| DATA COLLECTION

The primary source of information gathered was collected from interviews of economic development and site selection professionals with an extensive background in product development. Many of the professionals represented either have product development initiatives/funds they manage, have participated in a variety of product development initiatives, represent the consumer of these properties, or had a significant role in the development of the LocateSC fund. This collection method was used because:

1. There were no known entities currently measuring the impact of product development or investments made in it; and,
2. There existed a need to build consensus among stakeholders, as to what defined product development success.

The types of participants include:

- **Commerce Executives**
- **Regional Alliances**
- **County Economic Developers**
- **Site Selection Firms**
- **Utility Allies**

|| DATA ANALYSIS

The interview process provided much needed clarity. Overall a consensus was established that product development success is ensuring a diverse portfolio of viable options to offer perspective businesses, so that the State remains competitive.

Below is SWOT analysis of the other key findings:

Strengths	Opportunities
<ul style="list-style-type: none"> ▪ Fund provides Commerce the means to support local efforts. ▪ Improvement of property can be monitored (each project has a defined start & finish) ▪ Incremental progress is possible ▪ Tangible results exist ▪ Other partners exist and having funding to participate 	<ul style="list-style-type: none"> ▪ Increasing the marketability of a property makes the State more competitive ▪ Ability to have attractive property to respond to prospects inquiries significantly increases our likelihood of success. ▪ May be less difficult than other ED initiatives to draw connections between inputs and outputs (example – workforce development, quality of life, etc.) ▪ May be less difficult than other ED initiatives to control.
Weaknesses	Threats
<ul style="list-style-type: none"> ▪ Activities can be expensive ▪ There is no “right way” to participate – prioritizing projects can be subjective. ▪ At times projects can be retroactively deemed unnecessary based on the final recruited company. ▪ Cannot undertake projects alone, so other partners must be willing to participate. ▪ Partners are not always motivated by the same factors (i.e. – electric loads, rail activity, etc.). ▪ Restricted from investing in any feasible property. Commerce requires that the property be publicly owned or controlled (for good reason). However, projects are limited to sites that qualify. 	<ul style="list-style-type: none"> ▪ While projects may have a defined start and finish, a development plan is a long-term strategy – outside pressure may not be as patient ▪ Unfair expectations may be imposed. Unlike other proactive activities there seems to be a strong expectation for a quick turnaround of the desired result (new business). ▪ Success is not uniquely reliant on this particular activity. This is still only one piece of the puzzle. So, even if it’s all done correctly, it doesn’t guarantee success. ▪ Using the wrong metric to measure could adversely impact overall goals. If decisions on the types of projects to invest in are made based off of the highest or fastest return/success, rural areas will suffer.

IMPLEMENTATION

Action Steps to Complete the Goal

After reviewing the data and brainstorming with participants, it became apparent that in order to isolate the impact of the LocateSC fund and relate it to the increased competitiveness of the State's portfolio, it was necessary to create two new processes:

- 1) Designation given to properties eligible to receive funds. For purposes of this project, the recommendation is [South Carolina Economic Development property \("SCED Property"\)](#).

In addition to providing funding support for product development projects, Commerce also offers other programs that support product development. One of these programs is an online MLS system for economic development properties, known also as LocateSC. On this database, any industrial building, office building, or industrial site may be listed as available. These properties can be privately owned, owned by a real estate firm, or be a public property. The recommended first implementation step would be to review the LocateSC database listings with each of the respective local county developers and determine which properties qualify as a SCED Property. This process is anticipated to take three months to complete.

- 2) A rating system must be developed that measures a property's level of competitiveness. This system will help identify areas to focus product development efforts and will also illustrate how funds contributed to improving a property. The system will be called the ["Readiness Scale."](#)

Once SCED Properties have been identified, each property would need to be evaluated. A copy of the proposed Readiness Scale is on Page 12. Because decreased risk is associated with increased marketability, activities are focused on reducing development risk, timeline and cost for potential companies. There is a wide range of activities, but this scale allows them all to be measured on a simple 1-100 scoring basis; receiving points for decreasing risk, no matter the order in which activities are completed. To complete this scoring on each of the SCED properties will be time consuming. The recommendation is that an intern be hired to help collect and score properties. With additional help, the process is estimated to take six to nine months.

Tracking System

Since the LocateSC database was developed by Commerce and is able to be modified, it is recommended that SCED designations and Readiness levels be tracked on the backend of the database. It only makes sense to track the information where the property data is already stored. Therefore, time will be associated with making these changes. Initially, adding two data fields, for the two pieces of information, should be sufficient; however, eventually incorporating the entire scale will allow for additional reporting and should be the goal. This process should be able to be completed while the other information is being collected, so the time it takes to modify the database should not affect the overall project timeline.

Integration into Standard Operating Procedure

While a lot of work is to be done for properties already in the portfolio, additional steps need to be taken to integrate the process going forward. On-going conversations with individual counties to discuss current and future SCED properties is essential and should occur at

minimum of an annual basis. These conversations should include an analysis on how many SCED properties are within the County, the readiness score of them, the types and sizes of the properties, and potential project opportunities to improve scores. Additionally, incorporating the readiness scale into the grant applications and evaluation process will emphasize the overall goal of product development and ensure decisions take it into account.

DRAFT Readiness Scale

Property Name
 Total Acreage
 Multi/Single User
 County
 County Tier
 Property Control
 Due Diligence Studies
 Phase I ESA
 Cultural Resource Identification Survey
 Threatened & Endangered Species
 Geotech
 Wetlands Delineation
 Jurisdictional Determination Letter

Component	Score	Possible
Availability		10
Property Control		7 0 = Unknown/None/Private Landowner, 4 = Real Estate Entity, 6 = Public Control/FPRA, 7 = Public Ownership
# of Land Owners		3 0 = Multiple & Not Related, 2 = Multiple & Related (Family Owned), 3 = 1 Owner
Utilities		40
Water		
Location		5 0 = Unknown, 1 = Identified, 3 = Engineered, 5 = Constructed to Property Line
Excess Capacity		5 0 = Unknown, 1 = Identified (+2 if 150K GPD in Line, +2 if 150K GPD in System)
Wastewater		
Location		5 0 = Unknown, 1 = Identified, 3 = Engineered, 5 = Constructed to Property Line
Excess Capacity		5 0 = Unknown, 1 = Identified (+2 if 150K GPD in Line, +2 if 150K GPD in System)
Natural Gas		
Location		5 0 = Unknown, 1 = Identified, 3 = Engineered, 5 = Constructed to Property Line
Electric		
Location		5 0 = Unknown, 1 = Identified, 3 = Engineered, 5 = Constructed to Property Line
Capacity		5 0 = Unknown, 1 = Identified (+2 if Adequate* in Line, +2 if Adequate* in System)
Telecom		
Capacity		5 Broadband Speed: Unknown = 0, Identified= 1. (Add: Speed Less than 10:1 = 0, 10:1 = 2, 25:3 or More = 4) Add 1pt for each: Examples: Competitive Rate Available, Incentive Rider, Excessive Capacity, Dual Feed, Deduct 1pt for each: Cost Estimate over \$1M, ROW Necessary, Timeline > 12 Months
Utility Bonus		
Utility Deductions		
Site Developability		10
Percent Developable		2 0 = Less than 50%, 1= 50% -80%, 2 = More than 80%
Surrounding Land Use		2 0 = Significant Housing Developments/Schools, 2 = Compatible
Site Topography (developable area)		2 0 = Significant Slope (more than 20%), 2 = Generally Flat (less than 5%)
Site Configuration		2 0 = Significantly Limiting, 2 = Ideal for Development
Zoning		2 0= Requires Change, 1= No Zoning, 2= Appropriate In-place
Due Diligence		20
Phase I ESA		3 0 = Not Completed, 2 = Compelted. Add 1: if Clean
CRIS		3 0 = Not Completed, 2 = Compelted. Add 1: if Clean
Threatened & Endangered		3 0 = Not Completed, 2 = Compelted. Add 1: if Clean
Geotech		3 0 = Not Completed, 2 = Compelted. Add 1: if at least 1 boring for every 50 acres
Wetlands		5 0 = Not Completed, 2 = Completed. Add 3: if JD Active
3rd Party Evaluation		3 0 = Not Completed, 1= Completed. Add 2: if completed in last 5 years
Developability Deductions		Deduct 1pt for each significant concern
Access		10
On-Site Access		5 0 = Upgrades required to access site, 5 = No upgrades required
Off-Site Access		4 Distance to Interstate: 0= > 5m, 2 = 2 -5m, 4= Less than 2m (Half score for distance to 4-lane, in absense of interstate)
Rail Access		1 Rail Confirmed by Provider
Access Deductions		Deduct 1pt for each significant concern
Site Improvements		10
Cleared		2 A site within park, or a significant portion of a single user site
Grubbed & Graded		2 A site within park, or a significant portion of a single user site
Spec Building		4 0 = Not Constructed, 1 = Designed, 4 = Constructed
Engineering on-site access		1 0 = Not Completed, 1 = Completed
Engineering on-site utility extensions		1 0 = Not Completed, 1 = Completed
Park Aesthetics		Bonus/Deductions based on condition
Landscaping/Irrigation		
Lighting		
Signage		
Curb/Gutter		
Covenants In-Place & Recorded		
TOTAL SCORE		100

|| EVALUATION METHOD

Once the new Readiness Scale is implemented and the LocateSC database is modified to capture the information, a number of metrics will be available. These will allow Commerce to monitor portfolio diversity and competitiveness. Data will be available on demand and be able to be monitored on a historical basis, captured monthly. Some of these include:

- # of SCED Properties
- % of Counties with at least 1 SCED Property (and by each Tier)
- % of SCED Properties with Due Diligence completed (and active JD)
- Average Readiness Score of SCED Property
- Average Readiness Score of SCED Property with Due Diligence completed
- Total investment in LocateSC fund Projects (illustrate our funds leverage)
- Average % LocateSC funds to total project
- Average Readiness Score increase by LocateSC Funds
- # SCED Properties by Property Size and Type (by County and Region)

However, as it relates to the fund, the goal is to be able to illustrate:

- Correlation between LocateSC funds invested and increased competitiveness (Readiness Score).
 - When the property first became of economic development interest, it scored a XXX, then Commerce invested XXX that leveraged over XXX in partnership funds. It now scores a XXX.
- # of SCED Properties that LocateSC Fund assisted in adding

At some point, it may be beneficial to relate the data to project activity to monitor trends. However, it's important that if this metric becomes available that it does not become the primary focus. While valuable information may be revealed, placing too much emphasis could negatively impact rural areas of the state. Therefore, comparative analysis should be limited to activity within the same location before and after product development projects occur; and even then, special awareness should be given to the business climate. As stated previously, there are too many factors that influence a projects decision to locate and evaluating product development efforts based on these decisions could provide inaccurate analysis.

|| SUMMARY AND RECOMMENDATIONS

The process of researching this project has provided clarity on a number of product development related goals. Initially, stakeholders were quick to tie the success of product development, and the LocateSC fund, to jobs and investment won by a county; however, after much discussion and research, a consensus was established. To truly understand the impact of product development and the LocateSC fund, product development efforts must be isolated and factors unrelated need to be eliminated. This reality made it necessary to remove product development efforts from project activity. Instead, the variety of the portfolio and the level of increased competitiveness needs to be the primary focus.

If approved, the LocateSC database will need to be modified, followed by individual meetings with each County, then each SCED property evaluated. Although the process will be a significant undertaking, the ability to illustrate the impact of tax payer dollars on South Carolina's competitiveness is essential.