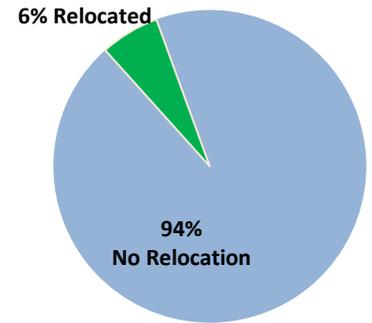


Wendover-InsightPRM Business Growth Report - Q3 2016

KANSAS CITY LEADS IN BUSINESS GROWTH

This quarter, Kansas City ranked number one in a nationwide survey of businesses. We surveyed over 600,000 businesses across the country last quarter, and this is just one of the interesting findings. We ranked the top five cities, and looked at the industries with the fastest growing companies. See the full results of the survey below.

Companies Planning Expansion or Relocation



Concept & Background

We survey businesses to identify companies that are expanding or relocating to understand business growth. Why do relocations matter, you ask? The most tangible pending event in the business lifecycle to trigger capital expenditure is company relocation. Over 93% of companies in our survey reported no relocation or expansion plans, but, the companies making a move are an elite group. Whilst many companies are struggling, and GDP is less than 3%, the companies that are growing are moving ahead fast. Approximately 6.5% of surveyed companies reported they were relocating or expanding.

Our latest research shows this small group of businesses in the process of a relocation or expansion average a staggering growth rate of 34%. Even more surprising, this average includes the negative growth rates of 7% of companies relocating for the purposes of downsizing. Some companies reported they already know they will outgrow the space they are currently moving into long before the lease expires. This exclusive group of companies shared with us their special needs and challenges managing growth in this report. We then analyzed company growth in the context of geography and industry to understand this key missing demographic.

Markets Surveyed

Methodology

Wendover surveys over 650,000 US, Canadian, and UK businesses each quarter (2.6 million a year). We look for the key indicators of growth: relocation, expansion into more space, or opening new locations. For the purposes of this report, expansion refers to any of these 3 events. Company expansion is a key indicator of growth because a growing company will ultimately hire more employees and need to expand into larger offices, take over more space at their location, or open new branches. You can't fit 200 employees into the 10-person office of a start-up. If you look at a high growth company like Google, Facebook, or any local business that has grown from a few employees in a garage to more than 1000 employees, you will see multiple instances of relocation. The simple fact is significant growth cannot occur without this key event.

Completing a relocation requires significant future Cap X spending. We survey companies about their expansion plans up to 2 years in the future, which means the results represent upcoming capital expenditure. Since business leaders vote with their pocket book, this gives us insight into their confidence about the future of their company.

However, not all companies move due to growth – clearly some are downsizing, or relocating for other reasons. For this report, we conducted a deep dive survey with a random sample of 100 companies that have relocated since our original planned growth survey. We wanted to understand their reasons for relocating.

SURVEY RESULTS

Planned Relocation Survey

In the trailing twelve months from October 2016, 6.48% of the 674,000 companies surveyed reported a relocation. The results from our deep dive sample indicate 79% of the companies that relocated did so due to growth. This is down slightly from similar past surveys we've conducted, which indicated 80% of companies relocated due to growth. Our newest survey also shows downsizing accounted for 7% of company relocations. This is significant because business relocation is expensive. Even when downsizing, movers, cabling, transfer of computer systems, fit out, and up to 20 other services must be employed to complete the move. Often these costs severely outweigh savings from moving into a smaller or cheaper location, so there must be extensive negative economics to relocate due to downsizing. In fact, companies that reported a relocation due to downsizing indicated, on average, a 20% decrease.

“Why move when there is no growth? The number one reason is to improve location by moving closer to either customers or employees.”

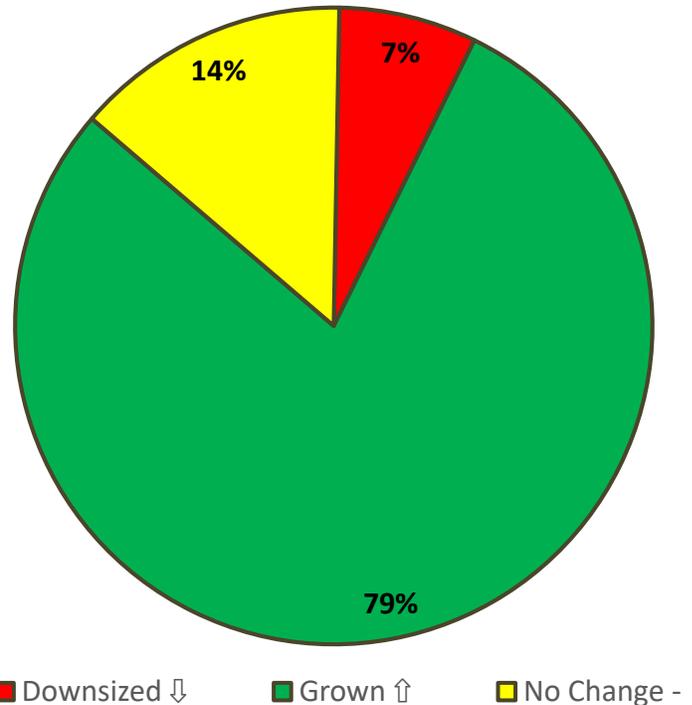
The remaining 14% of relocating companies indicated they were neither growing nor downsizing. Why move when there is no growth? The number one reason is to improve location by moving closer to either customers or employees. Other reported reasons include improving their environment, gaining a little more space, and dissatisfaction with the previous landlord. Including all companies that relocated, regardless of reason, the average reported growth rate was 34%. Compared to GDP which averaged 1.61%ⁱ in this period, the growth rate of a relocating company is more than 20 times greater. In fact, 35% of relocating companies reported rapid growth of more than 50%.

The trajectory of one Massachusetts security company in our survey exemplifies the high growth – relocation pairing. The company began in the CEO's apartment before moving into their first office with just 15 employees in 2012. They started 2014 with 65 employees – and have nearly quadrupled since then. Their most recent move took them into downtown Boston, where their headquarters now exceeds 20,000sqft and 250 employees.

Top Reasons Companies Relocate

1. MORE SPACE
2. EXPAND TERRITORY WITH NEW LOCATIONS
3. UPGRADE SPACE
4. BETTER LOCATION
5. UNHAPPY WITH PREVIOUS LANDLORD

Categorical Growth for Relocated Companies



There were many similar high-growth scenarios from our survey. The Nashville branch of one real estate company grew from 200 to 400 employees between January and October of this year, creating a need for more space. A medical non-profit based in Chicago reported opening multiple new locations in an effort to expand throughout the country, while another medical group based in Los Angeles reported doubling in size led them to consolidate their locations into a single larger central office. Further examples include an internet company building and relocating to a new headquarters designed to serve more than 1000 employees, and an Oakland specialized manufacturing company building a space more than 3 times the size of their previous space for their relocation.

All relocations were identified up to two years before the actual event. Please note the research identifies companies with definite plans to relocate in the future, often in the early planning stages.

Fast growing companies are faced with the challenge of managing growth and the relocation process not only near-term, but long-term. Many companies in the high-growth range reported they know they will outgrow the space they are moving into in a short time. For example, an Austin IT company reported their latest relocation is the biggest sign of their growth, and they are starting to fill up the new office and will need more space in just a few years.

“They had outgrown their law firm, accounting firm, and IT service provider”

While the growth of relocating companies is striking, the majority of companies are not currently planning a relocation – and we estimate fewer than 2.5% of all companies are experiencing high growth.

The average company spends \$5000 per employee on a relocation, exclusive of the lease. Relocation services, office furniture, new phone systems, fit out, copiers, printers, updating and re-printing all material with the old address, and dozens of other services need to be purchased to complete the relocation. A new network must also be engineered and constructed. An interesting recent development shows companies often purchase all new hardware prior to relocating so the network is fully installed and tested weeks beforehand, and work continuity is preserved. We estimate a total 1.9 million private and government offices will relocate this year. This represents 14 million employees, and \$71 billion spent on relocations – exclusive of leases or building purchases. An estimated 2.1 billion square feet in real estate lease and building purchase transactions are expected to take place to complete these moves.

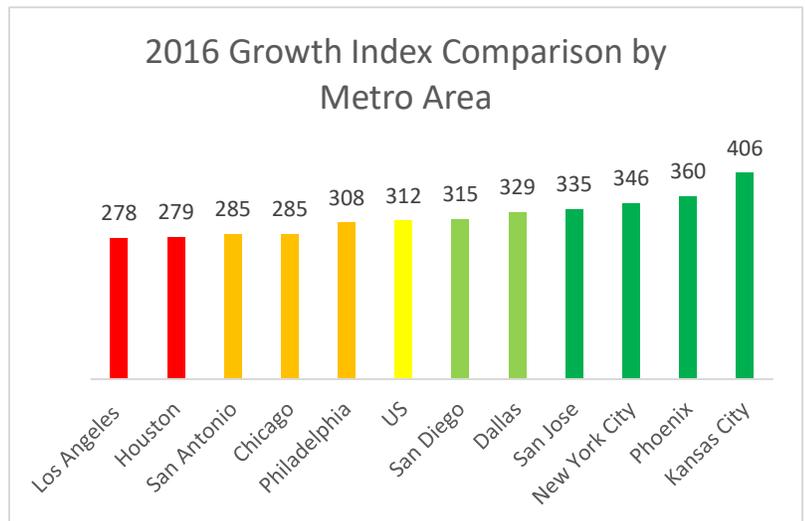
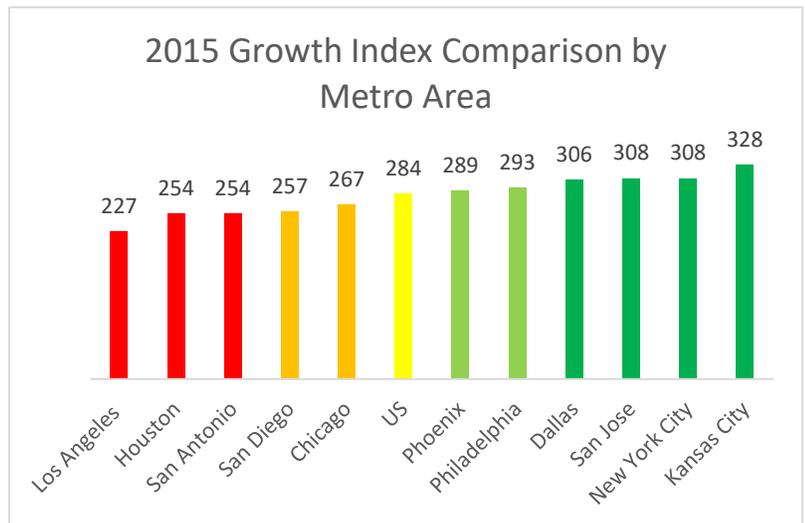
Financing growth is a key issue reported at the C-level of these high-growth companies. Questions include “Do I need a new banking relationship? What are my avenues to raise capital? Do we have adequate insurance to manage our risk as we grow?”

Growing companies reported other growth-related issues were also keeping them up at night. They had often outgrown their law firm, accounting firm, and IT service provider. Key issues also included staffing and managing employee benefits for an expanding workforce. As these companies grow, the need for not only secure networks, but also physical security grows. In short, the complexity of growth in today’s highly technical world is an ever-present challenge before, during, and after the relocation.

Major Metro Comparison

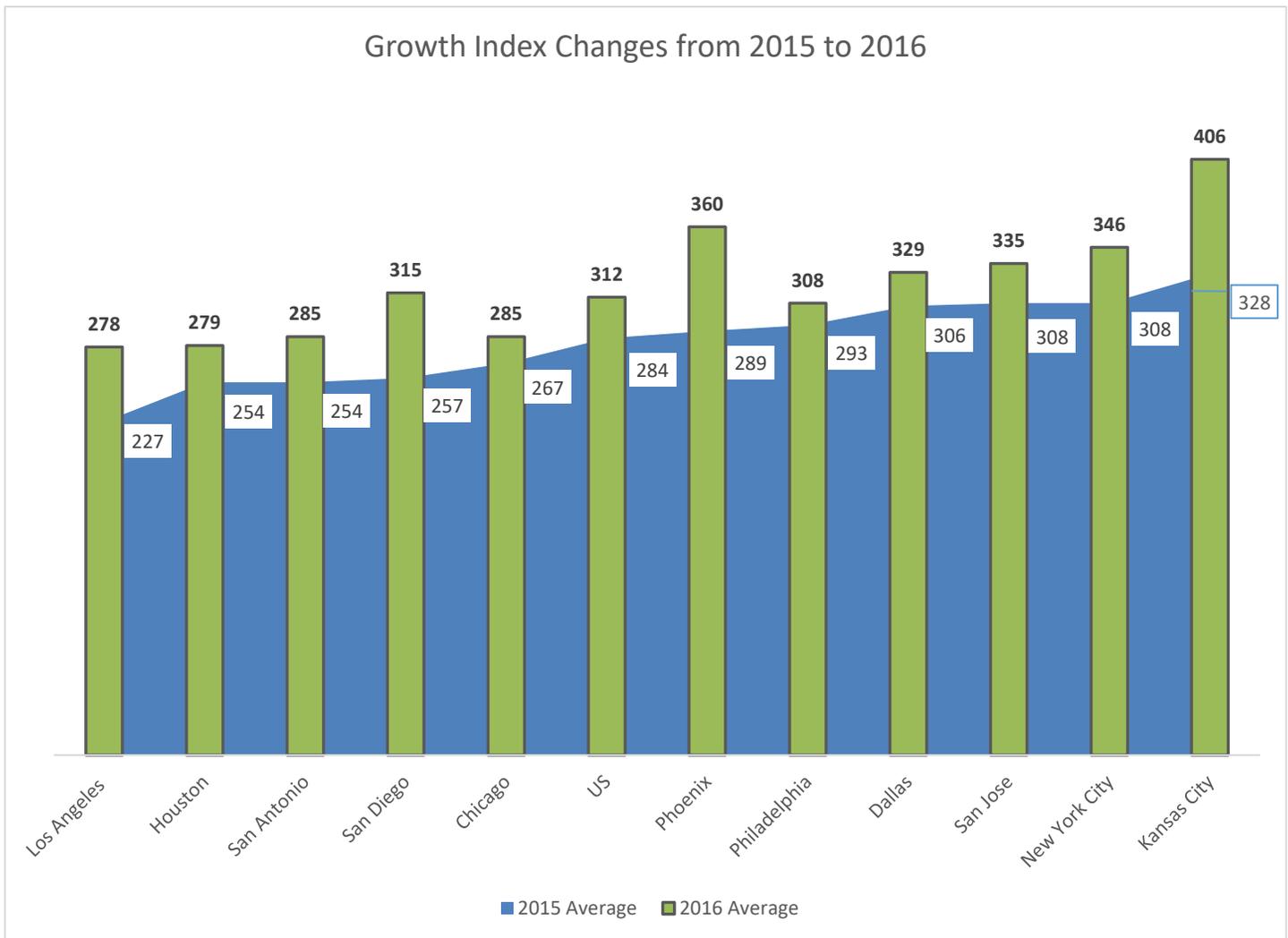
Business Growth Index

Utilizing company relocation data collected over the past 10 years, we created a business growth index to compare relative rates of growth. Each individual company we identify with plans to relocate receives a score on the index between 1 and 1000, based on the number of times they have relocated in a fixed period. A higher number of relocations in the same time indicates greater and continued growth. For example, a company that relocates one time in a 10-year period indicates some growth, but a company that relocates three times in the same 10-year period will receive a much higher index score. By averaging the individual index scores of all companies in a region, we can compare the business growth rates in different areas.



In 2016, there were a few notable changes in the relative business growth rate rankings. Phoenix rose from sixth to second, pushing New York City to third place. San Diego also rose, overtaking the slower-growing Chicago and Philadelphia.

Growth Index Changes from 2015 to 2016



The US average business growth index rose approximately 10% from the 2015 average through Q3 2016. This trend is reflected with increased business growth index averages across 55 US metro areas investigated for this report. Kansas City and Phoenix had the largest increases in relative business growth rates, 24% higher than their 2015 scores. San Diego was close behind with a 23% increase in their relative business growth rate. Chicago and Philadelphia both lagged behind the national average gains in growth rates, with only 7% and 5% increases respectively.

Industry Breakdown

Growth Activity Index

We also developed a growth activity index based on relocation reports for 13 key industry sectors. We set a base index level of 100 for 2015, and the following are the results for 12 trailing months as of September 2016.

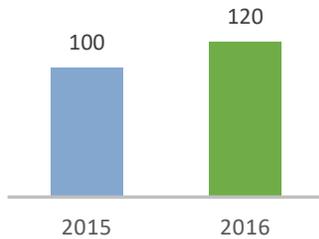
Highest Growth Cities

1. KANSAS CITY
2. PHOENIX
3. NEW YORK CITY
4. SAN JOSE
5. DALLAS

Greatest Increases in Growth

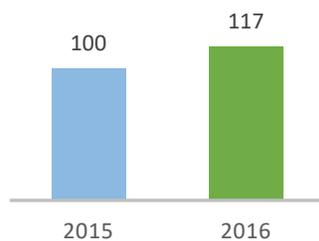
1. PHOENIX (24.6%)
2. KANSAS CITY (23.8%)
3. SAN DIEGO (22.6%)
4. LOS ANGELES (22.5%)
5. NEW YORK CITY (12.3%)

Manufacturing



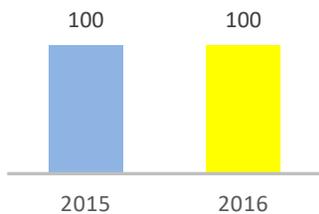
We saw a 20% increase in reported growth activity for manufacturing over the past year. The Index level jumped to 120 year-to-date over our base of 100. This was the largest increase as a percentage over all other sectors. The 2016 Global Manufacturing Competitiveness Index released by Deloitte and the Council on Competitiveness shows manufacturing executives rate US policies as more favorable for manufacturing compared to the survey results from 2013.ⁱⁱ Industrial vacancies are also at the lowest level since 2000 at just 8.5%.ⁱⁱⁱ

Transportation



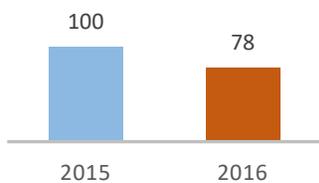
The transportation sector saw the second highest increase from 2015 to 2016. The sector has seen continuous YoY growth the past five years, and the trend continues in 2016. Per Pricewaterhouse Cooper's 2016 Commercial Transportation Trends, the double-digit growth of e-commerce is driving growth and increasing innovation in the transportation sector.^{iv} The US Department of Transportation also predicts national freight tonnage will increase 40% in the next three decades^v.

Construction



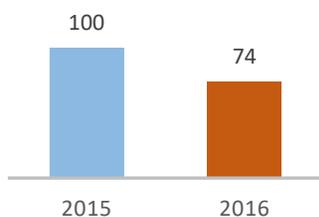
The construction sector has been stable, with no change since 2015. In their US Construction Trends and Outlook for Q1 2016, JLL concluded that general economic growth nationwide has slowed, and the construction industry will be no different.^{vi}

Public Administration



PWC reports fiscal austerity has bitten hard in the public administration sector, with an average decline around 3% per annum between 2010 and 2015, with a focus on cost cutting and reducing headcount.^{vii} This is reflected in a 22% decrease in the industry as shown by our growth activity index from 2015 to 2016.

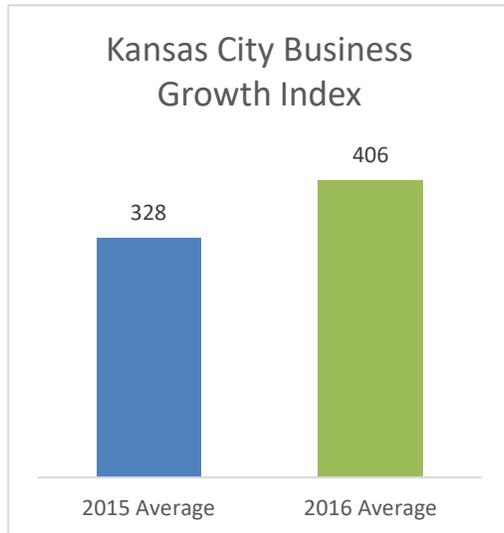
Retail Trade



Retail took the biggest hit with a 26% drop to a 74 index, down from 100 in our 2015 base year. This was the worst performing industry sector. According to Tex-X Quantitative Strategist Chris Muoio, the primary beneficiary of consumer spending is the industrial sector because spending habits continue to shift away from physical retail towards e-commerce.^{viii} The shift from brick and mortar locations may explain the steep drop in reported retail relocations.

Kansas Leads in Business Growth

Kansas City ranked first in the country with the highest Business Growth Index for 2016¹. Kansas City beat out cities such as New York City, Los Angeles, Chicago, Dallas, and Phoenix for the number one spot in both 2015 and 2016. The index is based on more than 2.6 million yearly business surveys conducted in the top 55 US metro areas each year.



Not only did Kansas City maintain its number one position from 2015, it also increased its growth index score 23.8%. Across the US, the average business growth index increased only 10%. With more than double the national rate of growth, Kansas City has the second fastest growing index in the country. Only Phoenix experienced a greater increase, exceeding Kansas City's growth by less than one percent. Despite Phoenix's impressive increases, Kansas City doubled the margin by which it holds first place compared to 2015.

Kansas City's growth index score increase shows it is not just home to high-growth companies. The companies in the region have continued to increase their rates of growth, and more fast-growing companies have also been attracted to the city. We surveyed more than 9,500 companies quarterly in the Kansas City metro area, and found some industries which appear to be doing particularly well in the region.

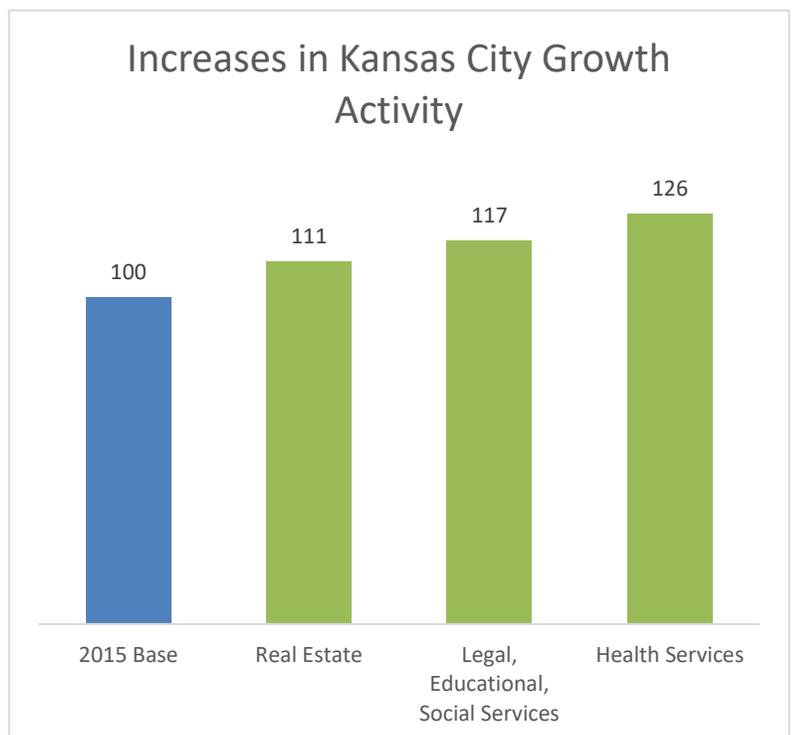
By looking at the number of relocations in an industry year-over-year, we can roughly understand whether the industry is growing or contracting.

For this analysis, we normalized all industries for a 2015 base year at a level of 100. We found Kansas City exceeds national industry trends for relocation activity in the areas of health, legal, educational, and social services, and real estate which have seen little change nationally.

We identified the largest industry increase in Kansas City relocation activity this year in health services, where we see a 26% increase over the previous base year. Large scale medical projects such as the \$93 million expansion of three HCA Midwest Health Centers and the new \$100 million University of Kansas Hospital building are part of the effort to keep up with a growing population in the Kansas City area. At the national level, activity in the health industry decreased by 2%. Kansas City's Business Growth Index has been bolstered by growth in their health sector.

Legal, Educational, and Social Service relocation activity has also seen a 17% increase compared to the previous year, compared to minimal 1% increase at the national level. Legal recruiting firm The Lion Group says the trend of large law firms moving back office service centers from high cost of living and real estate environments to more competitive cities in the US is no surprise considering the effects of the Great Recession and desire to reduce fixed costs^{ix}. Several high-profile law firms have successfully set up administrative hubs in the city, including Littler Mendelson and Sedgwick, with this trend continuing in 2016.

While the real estate industry saw a modest 2% gain nationally, the industry in Kansas City experienced an 11% boost over the past 12 months. The Emerging Trends in Real Estate 2016 report also named 18-hour cities like Kansas City as the most favorable for investment and development in 2016, citing the better opportunities and potential for larger yield compared to traditional gateway cities like New York.^x The real estate industry in Kansas City is likely bolstered by the high growth of companies in the region. As businesses grow, they seek new office spaces to accommodate their expanded workforce. New employees attracted to the region also require housing. Kansas City's real estate industry has naturally benefited from this increased demand, and has also been able to grow in the Kansas City region.



1 Calculated as of Q3

Text Endnotes

- ⁱ “National Income and Product Accounts Gross Domestic Product: Third Quarter 2016 (Advance Estimate),” Bureau of Economic Analysis, U.S. Department of Commerce press release, Oct. 28, 2016, from the Bureau of Economic Analysis website, www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm accessed on November 15, 2016.
- ⁱⁱ Deloitte and the Council on Competitiveness, 2016 Global Manufacturing Competitiveness Index, Mar. 24, 2016, p. 1, from the Deloitte website, <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Manufacturing/gx-global-mfg-competitiveness-index-2016.pdf>, accessed on November 7, 2016.
- ⁱⁱⁱ Chris Muoio, “Chart of the Weekend: A Stronger Consumer is Helping Industrial Segment More than Retail,” Ten-X Research, Feb. 26, 2016, <https://www.auction.com/blog/chart-of-the-weekend-a-stronger-consumer-is-helping-industrial-segment-more-than-retail/>, accessed on November 8, 2016.
- ^{iv} PWC, 2016 Commercial Transportation Trends, Feb. 10, 2016, p. 5, from the Strategy& PWC website, <http://www.strategyand.pwc.com/media/file/2016-Commercial-Transportation-Trends.pdf>, accessed on November 8, 2016.
- ^v “DOT Releases 30-Year Freight Projections,” Bureau of Transportation Statistics press release, Mar. 3, 2016, from the United States Department of Transportation website, http://www.rita.dot.gov/bts/press_releases/bts013_16, accessed on November 8, 2016.
- ^{vi} JLL, U.S. Construction Trends and Outlook (Q1 2016) [SlideShare], May 17, 2016, p. 37, from the JLL website, <http://www.us.jll.com/united-states/en-us/research/us-construction-perspective>, accessed on November 8, 2016.
- ^{vii} John Hawksworth and Nick C Jones, “The future for public service jobs: where will the growth be?,” PWC, Mar. 14, 2016, <http://pwc.blogs.com/publicsectormatters/2016/03/the-future-for-public-service-jobs-where-will-the-growth-be.html>, accessed on November 8, 2016.
- ^{viii} Chris Muoio, “Chart of the Weekend: A Stronger Consumer is Helping Industrial Segment More than Retail,” Ten-X Research, Feb. 26, 2016, <https://www.auction.com/blog/chart-of-the-weekend-a-stronger-consumer-is-helping-industrial-segment-more-than-retail/>, accessed on November 8, 2016.
- ^{ix} The Lion Group, “Back Office Operations: Law Firms and Remaining Competitive,” Mar. 31, 2016, <http://liongrouprecruiting.com/back-office-service-center-operations-law-firms-remain-competitive/>, accessed on November 11, 2016.
- ^x PWC, Emerging Trends in Real Estate United States and Canada 2016, October 5, 2015, p. 5-6, from the PWC website, <https://www.pwc.com/us/en/asset-management/real-estate/assets/pwc-emerging-trends-in-real-estate-2016.pdf>, accessed on November 11, 2016.

Authors

Larry Dillon, CEO of Wendover Corporation
Alex McIntyre, Director of Communications

Summary of Key Facts

- Only 6.5% of companies are planning relocations
- 79% of relocating companies report growth
- Relocating companies report on average, 34% growth
- Relocation requires significant Cap X Spending and the engagement of many services
- High-growth companies face recurring challenges with relocation and outgrowing business service relationships in banking, legal firms, insurance, employee benefits, and more
- On average, the rate at which businesses in growth mode are growing has increased by 10% from 2015 to Q3 2016
- Phoenix and San Diego rose in the rankings of highest growth city by Business Growth Index
- Kansas City has the highest Business Growth Index in the country
- The Manufacturing and Transportation industries had the largest national increase in relocation activity from 2015 to Q3 2016
- Retail Trade shows the biggest national drop in relocation activity from 2015 to 2016, likely due to a shift away from physical retail towards e-commerce

About Wendover Corporation

The Wendover Corporation was founded by Larry Dillon over 25 years ago as the first lead generation company for the office relocation industry. It has since evolved into a powerful sales consulting, market research, and technology firm. Based just outside Philadelphia, Wendover consults some of the biggest international organizations on business growth, prospecting, lead nurturing, CRM, and more – with clients ranging in size from small businesses to Fortune 500 companies.

Meet the Founder and CEO, Larry Dillon

In 1998, Mr. Dillon's Technology Marketing Reports (TMR) was the first company to provide real-time sales leads. In 2000, he was first to market with his proprietary IT spending index based on 130,000 monthly surveys of key IT decision-makers. Mr. Dillon then partnered with Global Insight to launch the Wendover-Global Insight IT Spending Index. His most recent innovation is the Business Growth Index, a more powerful and far-reaching successor to the IT Spending Index with relevance independent of any economic bubbles that may develop. Mr. Dillon also created InsightPRM, a cloud-based CRM specifically designed to help companies with the age-old problem of consistent lead generation and conversion. He also launched Movemybiz.com, an engagement marketing platform for the B2B community. Mr. Dillon is often a keynote speaker on the topic of data, lead generation, and the sales process. His research results and articles have been published in the New York Times, Investor's Business Daily, and VAR Business. He was the winner of the InfoCommerce Model of Excellence Award, and also appeared on CNBC's Power Lunch with Bill Griffith.

