

The California Exodus Continues: Strategic Shift in Business Landscape

by **King White**, on Jun 8, 2023 8:06:20 AM

The site selection trend of California-based companies choosing to relocate from California or expand to other states continues to rise as many companies opt to invest outside of California. From headquarters and software engineering operations to manufacturing and distribution centers, companies are simply choosing to expand elsewhere. Once regarded as the epitome of the American Dream and a hub for innovation, California's soaring costs, regulatory burden and changing business climate have prompted businesses to seek new opportunities elsewhere. In this blog, Site Selection Group delves into the reasons behind this mass exodus and examines the implications for both California and the states benefiting from these relocations.

Escalating costs and tax burden

California's high cost of living and business expenses have long been cause for concern. Companies face exorbitant housing costs, expensive office space, pricey and limited natural resources, hefty corporate taxes and increasing regulatory compliance expenses. The state's progressive tax structure, including high personal income tax rates, adds to the financial burden businesses and their employees face. As a result, companies find it appealing to relocate to states with lower taxes and more favorable business climates.

Regulatory challenges and business environment



The complex regulatory environment in California, including stringent environmental regulations, labor laws and zoning restrictions, can pose significant obstacles for businesses. Compliance with these regulations often requires substantial investments, both in terms of time and resources. Companies seeking flexibility and a streamlined regulatory framework find themselves drawn to states that offer a more business-friendly environment, allowing them to operate with greater ease and agility.

Housing affordability and talent availability

California's housing crisis has reached alarming levels, with skyrocketing property prices and a severe shortage of affordable housing. This poses challenges for both businesses and their employees, as the cost of living becomes increasingly unsustainable. Additionally, the competition for talent in California's tech-centric regions has become fierce, leading to spiraling wages and recruitment difficulties. Relocating to states that have a lower cost of living and a talent pool hungry for opportunities allows companies to access affordable housing and tap into a broader talent market.

Quality of life and work-life balance

Population density issues and homeless people in California's major metropolitan areas, coupled with extensive commutes and overcrowding, can take a toll on employees' quality of life. Relocating companies seek to provide their employees with a better work-life balance and improved living conditions. States with lower population densities, abundant natural landscapes and a more relaxed lifestyle offer an appealing alternative where employees can enjoy a higher standard of living and potentially lower stress levels.

Economic impact on California and receiving states

The exodus of companies of all types from California has economic implications for both the state and the receiving states. California loses out on tax revenue, job opportunities and the innovation-driven economy for which it has been known. On the other hand, states benefiting from these relocations experience an influx of investments, job creation and a boost to their local economies. The relocation trend creates a competitive environment among states, as they



vie for businesses by offering economic incentives such as tax abatements, tax credits, training grants, cash grants and other state and local economic incentives.

Recent project announcements illustrate the trend

The following list identifies some of the California-based companies that have expanded in other regions of the U.S. over the last 18 months. Companies, such as these, make location decisions for a variety of reasons, so it is often difficult to know exactly why they might have chosen to expand elsewhere. For example, the company might have needed a new distribution center to service another region so California may not have even been an option. Regardless, these project announcements highlight the scale of some of these projects coming out of California-based companies.

| CA Location | Destination | Company | Industry Se |
|---------------------|-----------------------|-----------------------|---------------|
| Santa Clara | New Albany (OH) | Intel | Electronics |
| Irvine | Unspecified (GA) | Rivian | Automotive |
| West Sacramento | Ascension Parish (LA) | Origin Materials | Renewable Er |
| Hilmar | Dodge City (KS) | Hilmar Cheese Company | Food & Drink |
| San Francisco | Irving (TX) | Wells Fargo | Services |
| Alameda | Moses Lake (WA) | Sila Nanotechnologies | Electronics |
| South San Francisco | Chesterfield (VA) | Plenty Unlimited | Food & Drink |
| Fremont | Shelbyville (KY) | EnerVenue | Electronics |
| Monrovia | Franklin (KY) | Trader Joes | Food & Drink |
| Camarillo | Winterville (GA) | Meissner Corporation | Life Sciences |

CARMATH

WINTERVILLE (GA)

MEISSNER CORPORATION

LIFE SCIENCES

Los Angeles

Albuquerque (NM)

Universal Hydrogen

Aerospace & I

Foothill Ranch

Newburgh (IN)

Kaiser Aluminum Warrick

Industrial Goc

Diamond Bar

Hammond (LA)

Niagara Bottling

Food & Drink

North Hollywood

Greenville (SC)

Health Supply US

Life Sciences

San Jose

Louisville (KY)

Quadrant

Electronics

Commerce

Summerville (SC)

Sagebrook Home

Consumer Go

Fremont

Nevada

NTherma Corporation

Electronics

Pleasanton

Unspecified (NY)

CooperVision

Consumer Go

San Francisco

Erlanger (KY)

Levi Strauss & Company

Consumer Go

Santa Barbara

Bluefield (WV)

Omnis Building Technologies

Basic Materia

San Francisco

Jeffersonville (IN)

Resident Home

Consumer Go

Beverly Hills

Clark County (NV)

Bella + Canvas

Consumer Go

Bakersfield

Clark County (NV)

Kodiak Trucking

Services

San Jose

Washoe County (NV)

Valley Services Electronics

Electronics

Fremont

Brighton (CO)

Amprius Technologies

Basic Materia

San Jose

Covington (GA)

Archer Aviation

Aerospa

| | | | |
|---------------------|------------------|--------------------|---------------|
| South San Francisco | Laramie (WY) | Plenty Unlimited | Food & Drink |
| San Diego | Las Cruces (NM) | Franco Whole Foods | Food & Drink |
| Long Beach | Unspecified (VA) | Rocket Lab USA | Aerospace & I |

Source: Financial Times, Incentives Flow, a service from WAVTEQ Limited

Conclusion

The shifting landscape of company relocations from California underscores the challenges faced by companies in the state and the changing dynamics of the American business environment. Escalating costs, regulatory complexities, housing affordability and talent availability are driving factors behind this trend. While California faces the loss of businesses and economic opportunities, other states seize the chance to attract investments, foster growth and enhance their own business ecosystems. The future of corporate relocations remains uncertain, but it highlights the importance of creating a favorable environment for businesses to thrive and adapt in an increasingly competitive global economy.

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