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Housing Prices, Other Real Estate Factors and the Location Choice of Firms

As real estate prices, and especially housing prices, escalated in California in the 1980s, the increases raised questions as to the effects of high real estate prices on economic competitiveness. Would the state's metropolitan areas lose jobs to less expensive parts of the country? As part of a study to examine the effects of high housing prices on metropolitan economies, the Center for Real Estate and Urban Economics surveyed firms throughout the United States on the factors underlying their location choices. The responses suggest that real estate factors may be significant influences on the location choices of firms, but that the availability and cost of space for the firm may far outweigh housing costs in the location decision.

Three Types of Location Factors

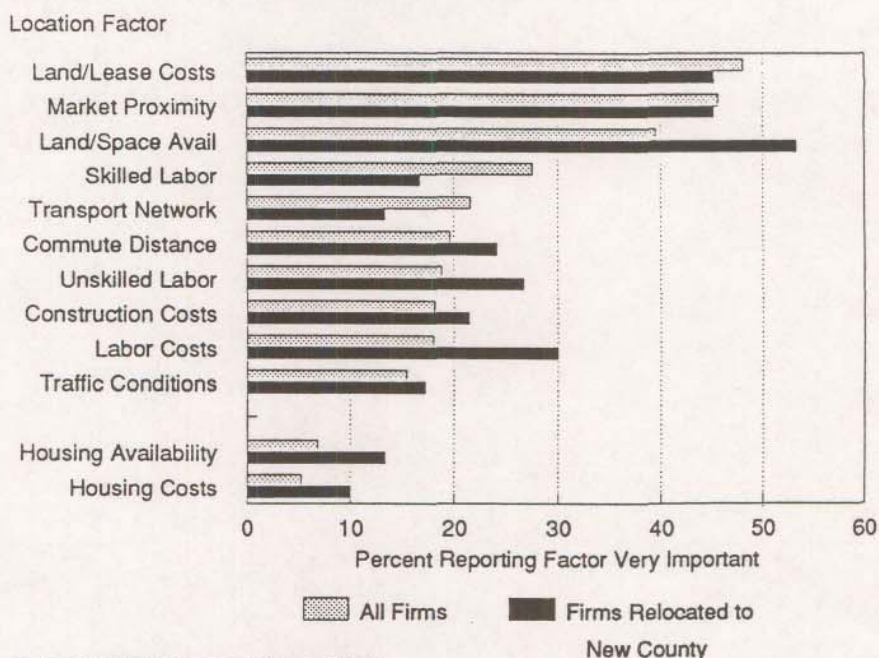
Firms already in business may affect future economic growth in a region by leaving a current site, by moving into a new site in the

region, or by expanding or shrinking the labor force at existing locations. To identify influences on each of these types of growth or expansion, the survey distinguishes between three types of location

factors—*pull* factors, *push* factors and *recruitment* factors. Pull factors are the characteristics of an area that led a firm to select its

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FIGURE 1
Top 10 Pull Factors for All Firms and Firms in New Metropolitan Areas



Source: CREUE survey, Spring 1990.

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current location. Push factors are the problems that led a firm to leave a previous site. Recruitment factors are the qualities of an area

that make it easy or difficult to attract new employees.

Nationwide Sample

Surveys were sent to 2,000 firms in selected U.S. metropolitan areas in March and April 1990. Using a Dun and Bradstreet data base, a random sample was drawn from firms with 50 or more em-

ployees, in specified manufacturing, distributive, financial/insurance, and business support service categories. The sample was drawn from a selection of low-, medium-, and high-priced metropolitan areas in Arizona, California, Georgia, Massachusetts, Minnesota, New Jersey, North Carolina, Oregon, Texas, and Washington. In total, 575, or 29% of surveys were returned and analyzed.

Firm Movements—Frequent but Not Far

Of the firms responding to the survey, over one-third had moved to their current site from a previous location within the past five years. Most of these moves were short distance moves. Of firms that had moved, 85% remained within the same county after the move. Only 5% of all firms in the sample had moved from one county to another over the past five years, and only seven firms (just over 1% of the sample) had relocated to a different state. Thus, the phenomenon of a firm being chased out of an expensive region and lured to an inexpensive reason appears to be quite infrequent.

Of equal concern may be the decisions made on the location of branch plants. One-third of firms responding to the questionnaire were branch facilities. Of these, over 70% were "distant" plants, located in a different state from company headquarters. California metropolitan areas tended to have far fewer branches with headquarters out-of-state than did other parts of the nation.

TABLE 1
Pull Factors—Why Firms are Located at Their Present Site

Location Factor	Rank*	Percent Reporting Factor:			
		Not a Factor	Not Very Important	Somewhat Important	Very Important
Land/Lease Costs	1	10.1	5.5	36.3	48.1
Proximity to Markets	2	21.7	12.4	20.3	45.6
Land/Space Availability	3	12.9	9.2	38.4	39.5
Available Skilled Labor	4	21.5	13.5	37.5	27.5
Transport Network	5	25.5	18.9	34.1	21.6
Commute Distance	6	24.3	10.6	45.5	19.6
Available Unskilled Labor	7	30.5	18.4	32.3	18.8
Construction Costs	8	36.7	16.8	28.4	18.1
Cost of Labor	9	32.0	17.8	32.2	18.0
Traffic Conditions	10	20.8	18.6	45.2	15.4
Community Attitude	11	37.2	23.8	23.8	15.3
Proximity to Suppliers	12	40.1	27.4	19.2	13.2
Image/Prestige of Location	13	34.1	24.0	28.8	13.0
Low Crime Rate	14	31.4	25.1	32.3	11.2
Higher Education Facilities	15	45.4	23.3	20.0	11.2
Local Taxes	16	32.1	27.5	29.7	10.7
Local Government Policies	17	36.2	27.9	25.7	10.2
Environmental Regulations	18	45.2	24.2	20.6	10.0
Quality of Public Schools	19	45.6	24.1	20.6	9.8
Corporate Consolidation	20	66.5	13.6	11.2	8.7
Utility Services	21	30.1	30.8	30.6	8.5
Local Housing Availability	22	49.4	18.3	25.5	6.8
Local Housing Costs	23	51.0	19.4	24.4	5.2
Proximity to Similar Firms	24	59.2	23.1	12.5	5.2
Proximity to Govt Agencies	25	77.4	15.7	4.6	2.2

* Ranked by percent reporting the factor very important.
Source: CREUE survey of firms, Spring 1990.

Pull Factors—Why Firms Selected Their Current Sites

Many firms select or remain at their current site because of land and space availability and the cost of land or space. These were among the factors most frequently mentioned as very important by all firms, as shown in Table 1. Housing costs and housing availability, in contrast, were very important to a much smaller proportion of respondents. Transportation-related factors (the transportation network, commute distance, and traffic conditions) and labor force factors (cost and availability) far outranked housing prices and availability in importance to most respondents. These factors, however, are not independent of housing prices.

For some types of firms, housing cost and availability were more important than the sample averages suggest. Firms that had relocated to a new county were about twice as likely as the average firm to state that housing availability and costs were very important (see Figure 1). Branch plants in distant locations found housing factors somewhat or very important in almost three times the proportion for local branch plants.

Firms in California's more expensive housing locations (the San Francisco Bay Area and coastal Southern California) were more sensitive than other firms to housing costs and availability. Housing cost and availability were very important to 14% of firms with 500 or more employees compared to only 5 - 7% of all

firms. High tech manufacturing firms were also more sensitive to housing factors, as were firms with large proportions of the labor force in executive and professional occupations.

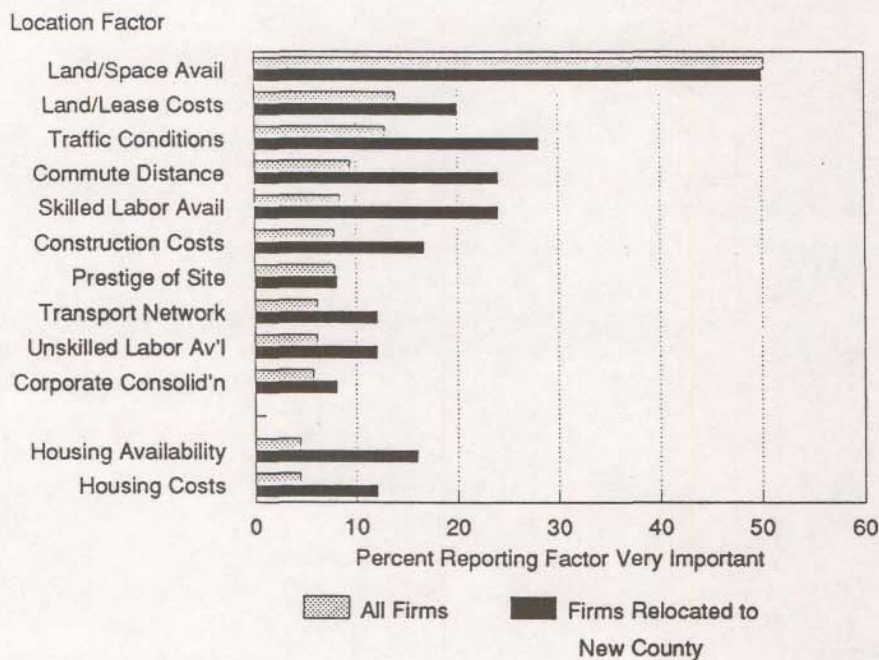
Firms that were concerned about housing factors in their location choice often were seeking factors that are most readily available in high cost areas. Large firms and firms with executive/professional labor forces, for example, also tended to be sensitive to the quality of public schools, to the presence of higher education facilities, and to the image and prestige of the location.

Push Factors—Problems at the Former Site

What problems did firms face at their former site? By far the most frequently mentioned factor was land availability, a "major problem" to half of all relocating firms. No other factor was listed as a major problem by even one-fifth of all firms. Land and lease costs were a major problem to 14% of firms, traffic conditions for 13% of firms, and commute distance for 9.5% of firms. Housing factors were a major problem for very few relocating firms. Only 4.5% of all firms that had relocated from another site had faced major problems in housing cost or availability at the former location.

Housing factors at the former site were of particular importance to firms relocating to a distant site. While the availability of space was of equal importance to

FIGURE 2
Top 10 Push Factors for Firms in New Locations



Source: CREUE survey, Spring 1990.

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firms moving within or among counties, housing prices and availability were a major problem to a greater share of firms making inter-county moves (Figure 2). Of firms moving between counties, 24% reported housing prices as more than a minor problem, compared to only 9% of firms moving within counties. Firms moving to new counties also tended to be far more concerned than other firms with the availability of skilled and unskilled labor and with traffic conditions and commute distances (concerns that often arise in high-housing-cost

areas). In contrast to pull factors, responses did not tend to vary by firm characteristics. Thus, high tech firms and larger firms were no more likely to find housing factors a problem at their old site than were other types of firms.

Geographic Factors in Employee Recruitment

With many firms remaining at the same location for five years or longer, the ability to expand the labor force becomes an important factor in local employment growth. Geographic factors play a role in the firm's ability to attract new employees.

The ranking of factors important in attracting new employees was quite different from those influencing the original location

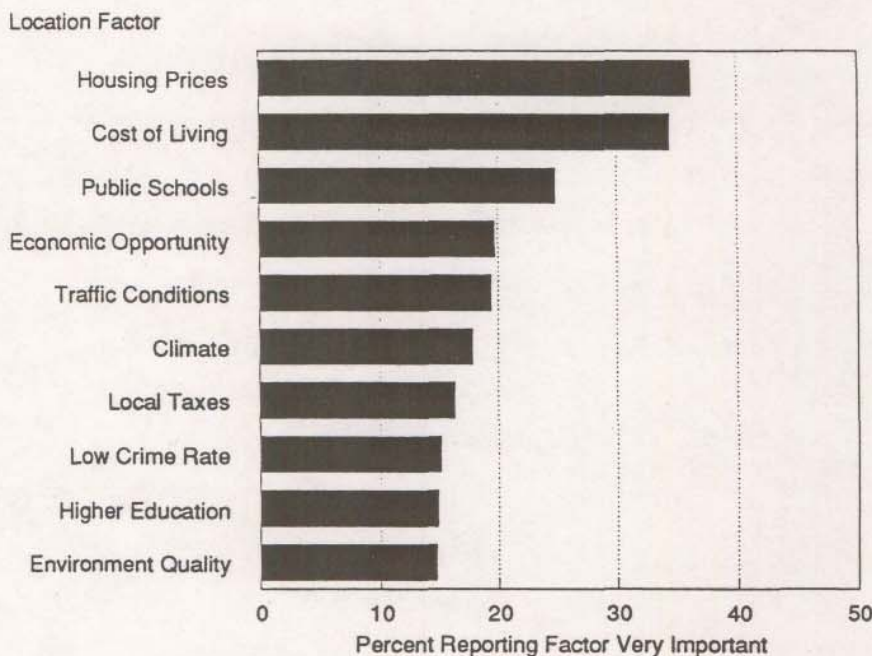
decision. Housing prices were the factor most frequently cited by firms as very important in recruiting new employees (by over one-third of firms, as shown in Figure 3). A close second was the general cost of living, mentioned by just under one-third of firms. The quality of public schools was the third most frequently mentioned factor, listed as very important by almost one-fourth of all firms.

Housing prices and the cost of living were particularly important recruitment factors for high tech firms and for large firms (see Table 2). Almost half of high tech firms and more than half of firms with 250 or more employees stated that housing prices were very important in the recruitment of employees. Cost of living was very important to 41% of high-tech firms and to more than half of the firms with 250 or more employees.

The importance of housing prices in recruitment also varied by geographic area. Housing prices were very important to a particularly large number of California firms—50% of Inland California firms and 47% of Coastal California firms.

As with pull factors, firms concerned with housing prices also mentioned as important other community characteristics that often coincide with high housing prices. For example, the quality of public schools was very important to 61% of firms with 500 or more employees, while 53% of these firms mentioned housing prices as very important.

FIGURE 3
Top 10 Recruitment Factors for All Firms



Source: CREUE survey, Spring 1990.

Real Estate Prices and Firm Location—An Evaluation

Real estate factors play a significant role in firm location decisions, but this does not imply that high real estate prices will cause a major outmigration of firms. In making the decision to move away from one site and to select a new site, most firms appear to look within their own metropolitan area, rather than to other parts

of the state or nation. The availability of facilities for plant operations and the cost of facilities or land appear to be far more important than housing cost and availability when a firm makes the decision to move.

However, firms which are concerned with housing factors appear to make longer distance moves than firms which find housing factors less important. Branch facilities in industries sensitive to

housing prices are more likely to be located in sites distant from the headquarters. In addition, firms that form the core of many of the larger, more expensive metropolitan areas—high tech firms, larger firms, firms with a high share of executive and professional labor—are also the firms that appear to be most sensitive to housing price issues. This may tend to dampen growth prospects in more expensive metropolitan areas.

Finally, housing prices appear to have a significant effect on the recruitment of new employees and thus on the ability of a business to expand at its current location. Nevertheless, housing price and cost of living effects may be compensated for by other advantages of expensive urban areas, allowing some economic expansion to continue.

In conclusion, firm behavior suggests that the high housing prices observed in some healthily expanding economies are not likely to lead to a reversal of that growth trend. They may, however, affect the amount of new growth that occurs. More critical to growth prospects, especially at the local level, is the potential for expanding office and industrial space. At the metropolitan level, however, most firms appear able to find a location that suits their needs. California metropolitan areas, then, can expect firms to seek out the less expensive locations *within* the region before looking to expand beyond the region.

TABLE 2
Variations in Housing Price and Cost of Living Responses by Industry Type, Size, and Location

Firm Characteristic	Housing Prices				General Cost of Living			
	NF	NI	SI	VI	NF	NI	SI	VI
Industry Type	20.5	11.3	32.0	36.2	18.6	10.7	36.4	34.4
Business Services	36.6	12.7	25.4	25.4	34.7	8.3	33.3	23.6
Finance/Insurance/R.E.	11.7	10.0	45.0	33.3	10.0	6.7	45.0	38.3
High Tech Manufacturing	11.5	12.4	28.3	47.8	10.4	14.8	33.9	40.9
Other Manufacturing	15.7	10.2	35.2	38.9	14.8	9.3	41.7	34.3
Retail Trade/Service	23.8	6.3	36.5	33.3	20.3	7.8	34.4	37.5
Transport/Commun/Util	29.3	9.8	24.4	36.6	27.5	5.0	30.0	37.5
Wholesale	24.7	15.3	29.4	30.6	21.2	16.5	34.1	28.2
Number of Employees	20.7	11.0	31.9	36.4	18.7	10.4	36.5	34.3
Less than 50	27.3	11.1	35.4	26.3	25.3	9.1	39.4	26.3
50 to 99	23.8	11.7	33.2	31.3	20.7	12.2	37.6	29.6
100 to 249	20.7	12.4	24.8	42.1	19.0	12.2	32.0	36.7
250 to 499	4.8	7.1	35.7	52.4	6.8	2.3	38.6	52.3
500 or More	2.8	5.6	38.9	52.8	2.8	5.6	38.9	52.8
Geographic Area	20.0	11.4	32.1	36.4	18.0	10.8	36.6	34.6
Coastal California	14.9	11.2	27.0	47.0	11.5	12.4	33.6	42.4
Inland California	14.7	14.7	20.6	50.0	14.7	8.8	41.2	35.3
Midwest	31.8	20.5	36.4	11.4	29.5	15.9	31.8	22.7
North East	28.3	16.7	33.3	21.7	28.3	11.7	38.3	21.7
Pacific Northwest	28.8	3.4	37.3	30.5	27.1	3.4	42.4	27.1
Southeast	20.5	5.1	30.8	43.6	17.9	7.7	30.8	43.6
Southwest	16.7	10.7	44.0	28.6	16.5	10.6	42.4	30.6

NF: Not a Factor NI: Not Important
SI: Somewhat Important VI: Very Important

Source: CREUE survey of firms, Spring 1990.

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The research reported in this article is part of a larger study funded by the Urban Land Institute. The larger study also directly examines changes in competitiveness among high-housing-cost places and other areas and compares the housing choices made by households in high-, mid-, and low-priced areas. Working papers and other publications from this study will be announced in forthcoming *Quarterly Reports* as they become available.

Cynthia A. Kroll
John D. Landis

The Center for Real Estate and Urban Economics, founded in 1950, promotes research in real estate finance and construction, land use, and urban and regional development. It serves as a practical forum for academics, government officials, and business leaders and sponsors creative and thoughtful academic research and executive education programs with the goal of promoting understanding and encouraging innovation in the field of real estate.

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Correction On Contra Costa County

An attentive reader has brought to our attention an error in the office vacancy figure reported for Contra Costa County in our *Quarterly Report* Volume 90:2, Table 4. Total square footage vacant in December 1989, for the Contra Costa County/680 Corridor area was 4.8 million square feet (rather than the 5.8 million reported). Total square footage was 31.3 million square feet, of which 5.3 million is owner-occupied (belonging to Bank of America, Chevron, Pac Bell and AT&T). This transcription error did *not* come from our careful and reliable source, the Coldwell Banker office in Walnut Creek.

Cynthia A. Kroll
Dina Tamura

13th Annual Real Estate and Economics Symposium

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