

# The Industrial O · U · T · L · O · O · K

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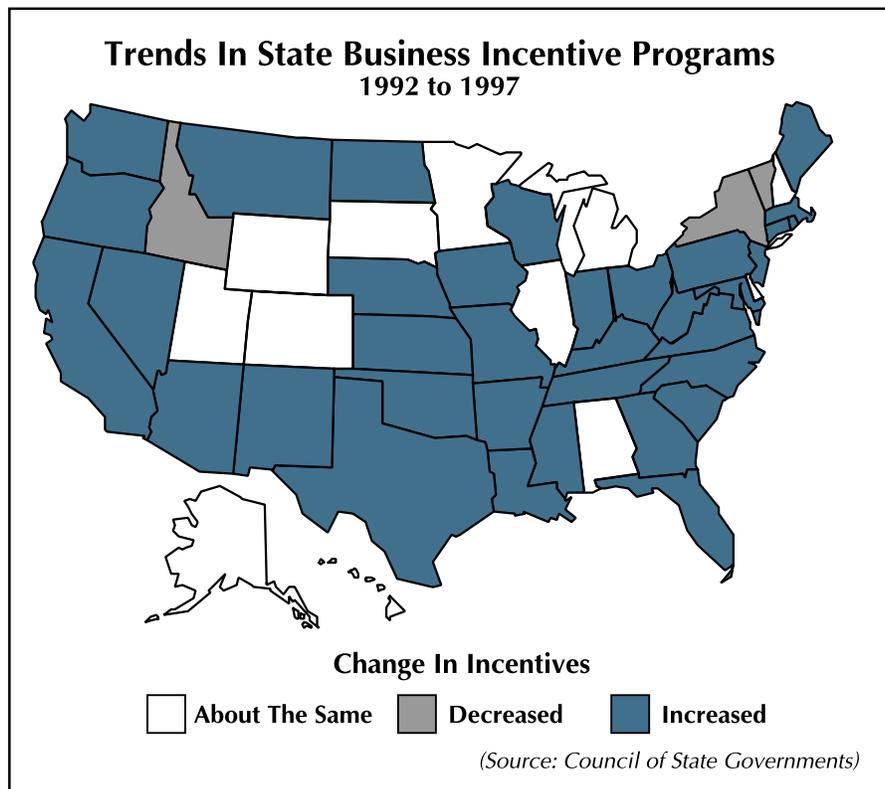
Fall 1998

## Playing the Incentive Game

During the past 2 decades, states have expanded their use of business incentives to attract and retain jobs and investment. Typical incentives include public subsidies such as tax and financial incentives. Tax incentives often include credits or abatements on corporate income tax, real and personal property, sales and inventory taxes. Financial incentives refer to direct loans, grants, infrastructure development and job training assistance.

Because the number of states offering incentives and the magnitude of these inducements has increased significantly over the last decade, the effectiveness of incentives has become an increasingly debated topic in many states. Supporters of incentives believe they influence business location decisions, and are a necessity to create new jobs and expand the tax base over the long term. Opponents feel tax and financial incentives are

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## Not All Taxes are Created Equal

According to the National Conference of State Legislatures (NCSL), public opinion polls show that taxpayers, when forced to choose their poison, prefer sales taxes over property and other taxes. Among local option taxes, the sales tax is the most significant, providing 10.3% of all local government tax revenues.

The local option sales tax is gaining momentum throughout the country, as 32 states are authorized to levy the tax. Six states (Illinois, Missouri,

Louisiana, Colorado, Utah and California) allow multi-jurisdictions (county, city and other) to levy the tax. States with the least empowered jurisdictions appear to be congregated in New England. With the exception of Vermont, none of the New England states have a local option for sales tax. On the other extreme, all states in the Plains (Iowa, Kansas, Minnesota, Missouri, Nebraska, North and South Dakota) have opted for the sales tax.

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## Third Lock's A Charm

International trade volume is outgrowing the Panama Canal — literally. During the 70's and 80's, shipyards began building “post-Panamax” vessels, those with dimensions too large to fit through the Panama Canal. Panamax vessels continue to increase in size and number, however, the growth in trade volumes is the driving force for expanding the canal's capacity.

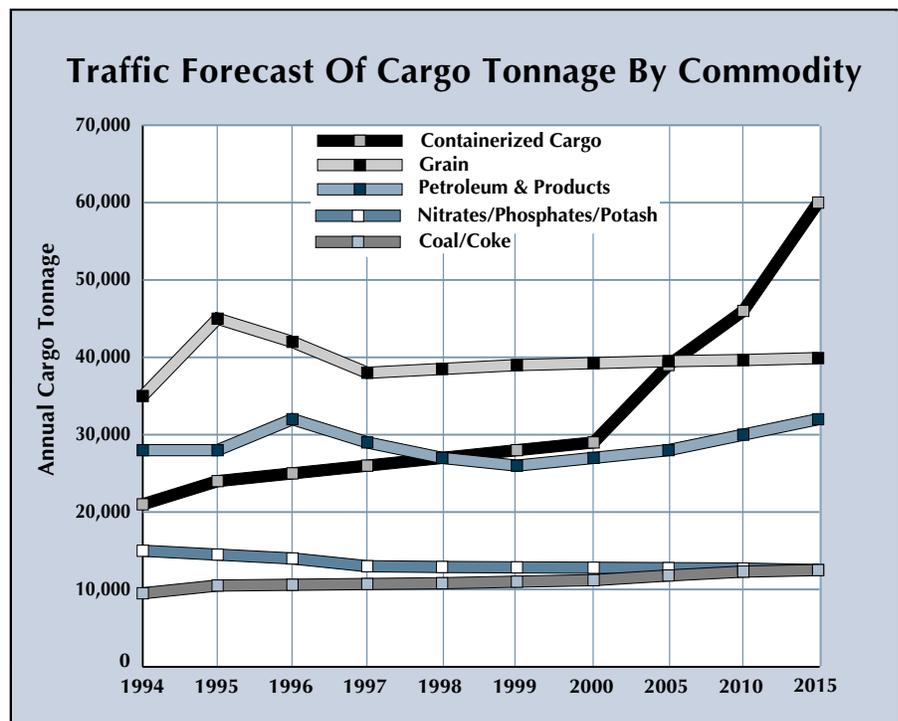
While the increase in global trade has opened many new trade routes, the U.S. East Coast-to-Asia route still represents 41% (81 million tons) of all canal cargo traffic. These volumes are expected to double within the next 40 years. Volumes on the U.S. East Coast-to-West Coast of South America trades, representing 10% (20 million tons) of cargo traffic transiting the canal, is expected to grow steadily as are the volumes between Europe-to-U.S. and Canada West Coast. According to a study conducted by the Panama Canal Commission, containerized cargo is projected to have the most growth in volume, from 28,000 tons per year in 1998 to 60,000 tons per year by 2015. With the expected growth in traffic, the operating capacity of the canal is expected to peak around the year 2010.

Studies conclude a third set of locks will solve the canal's capacity problem, however, there are economic and environmental concerns. The canal commission is hesitant to raise tolls since a previous toll increase received much criticism. The question of who will pay for the new locks remains to be answered. Environmental issues are also a concern for the canal commission. It is not certain that Gatun Lake, the reservoir from which the

canal receives its water supply, will be able to store enough water to support a third set of locks. These issues must be studied further.

In the meantime, the canal is being modernized in order to keep up with existing traffic demand. The most significant improvement is the widening of an 8 mile stretch of waterway

known as the Galliard Cut. When completed, this stretch will be wide enough to accommodate two-way passage by Panamax vessels. Upon completion in 2005, the improvements to the canal will expand capacity by 20%, as well as redefine the term “Panamax vessel.” □



## The Heat Is On

Among the many problems resulting from El Niño this year is a high electricity demand for the summer. Throughout the country, the relentless heat has taxed the electricity system to its limit, placing a demand which will test the transmission reliability of many providers. According to *Retail Wheeling News*, the North American Electric Reliability Council (NERC) projects that the Midwest and New England in particular could have the most difficulty maintaining transmission reliability, due to nuclear generation outages. A num-

ber of measures have been taken in these areas and throughout the country in order to ensure a reliable electricity supply for the summer. Preventive maintenance on power plants, inspection and maintenance of transmission lines and educating customers about the benefits of energy conservation are but a few. Regardless of all the planning and preventive measures taken, however, the bottom line is there is no control over Mother Nature — and electricity officials keep their sights set on Fall. □

## Shorter Day, Greater Pay

It has long been the belief that teachers are overworked and underpaid. Most would agree that teaching professionals face a huge challenge in today's educational environment — declining educational violence in the classroom, lack of support from student's parents, etc. A new study, however, has put to rest the claim that teachers are compensated unfairly.

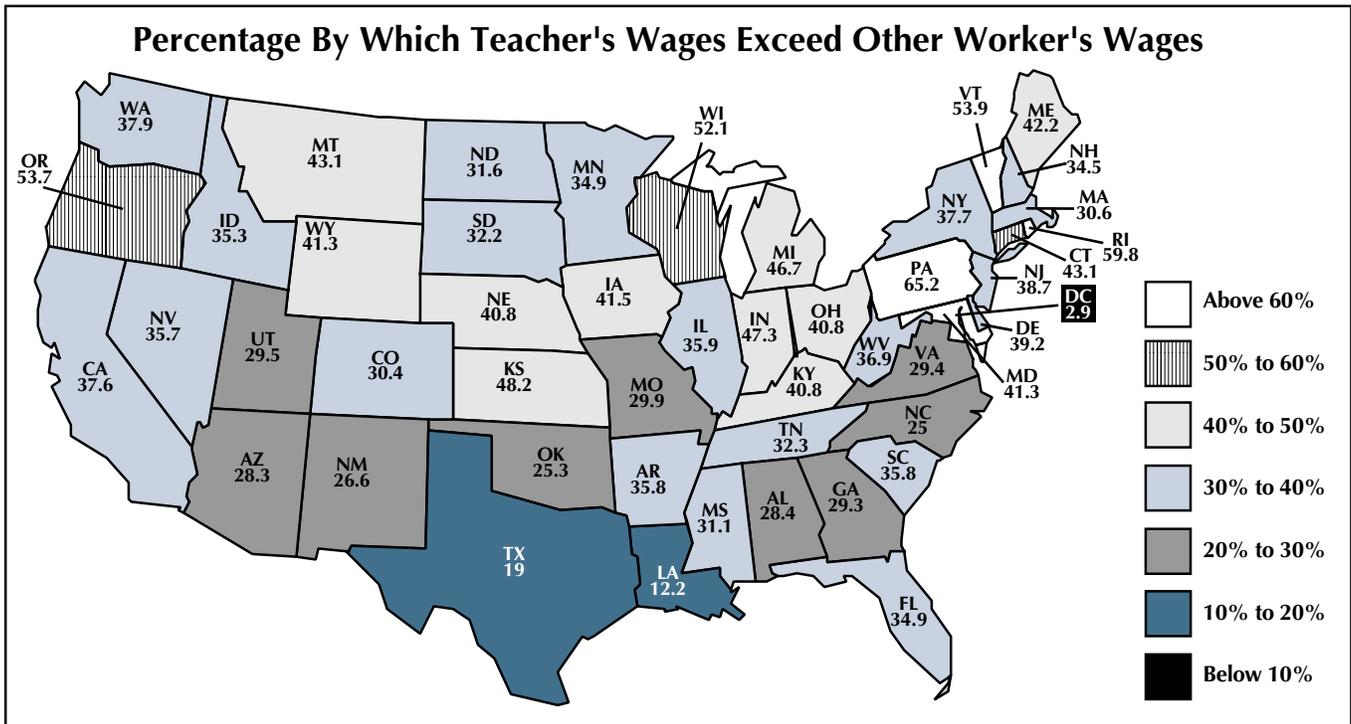
In the past, studies which have concentrated on teacher salaries failed to factor in cost of living and average wage differentials between states, thus skewing the numbers and making a state-by-state comparison of wages impossible. Examining only the raw data, studies tend to give the impression that teaching professionals are simply martyrs for the cause, earning less than the average worker. A new however conducted by

Michael Antonucci, director of the Education Intelligence Agency, suggests that the average worker, not the teacher, has cause for heartburn. The study compares National Education Association figures on teacher salaries with average wages in each state. The results are surprising — the average worker earns less than the teaching professional everywhere in the U.S., and works more days out of the year (235 vs. 185 total working days).

The map compares the percentage by which teachers' wages exceed other workers' wages. The largest income gap exists in Pennsylvania, where teachers earn 65.2% more than the average worker. The smallest gap is found in the District of Columbia, with only a 2.9% gap in income. Although D.C. has the highest actual teacher salaries in the U.S., the gap between teacher salaries and average wages remains low due to the fact that government salaries are extremely high.

Teachers fare well in the Southeast, where they enjoy salaries which are 20% to 50% higher than the average worker's. Louisiana is the exception with only a 12.2% income gap. The largest income gaps tend to be in states which are heavily unionized. These states, concentrated in the Northeast and Midwest, as well as California, Oregon, Washington and Montana, compensate teachers 30% or greater than the average worker. Due to union representation in these non-right-to-work states, workers in general enjoy a higher average wage. The same holds true for the teaching profession, resulting in a large gap in income.

Teachers are still overworked. But in the battle over what's responsible for declining educational standards, this study may eliminate one common culprit — low teachers' pay. □



## North Carolina is Still No. 1

*Sorry Dean, we're not talking basketball)*

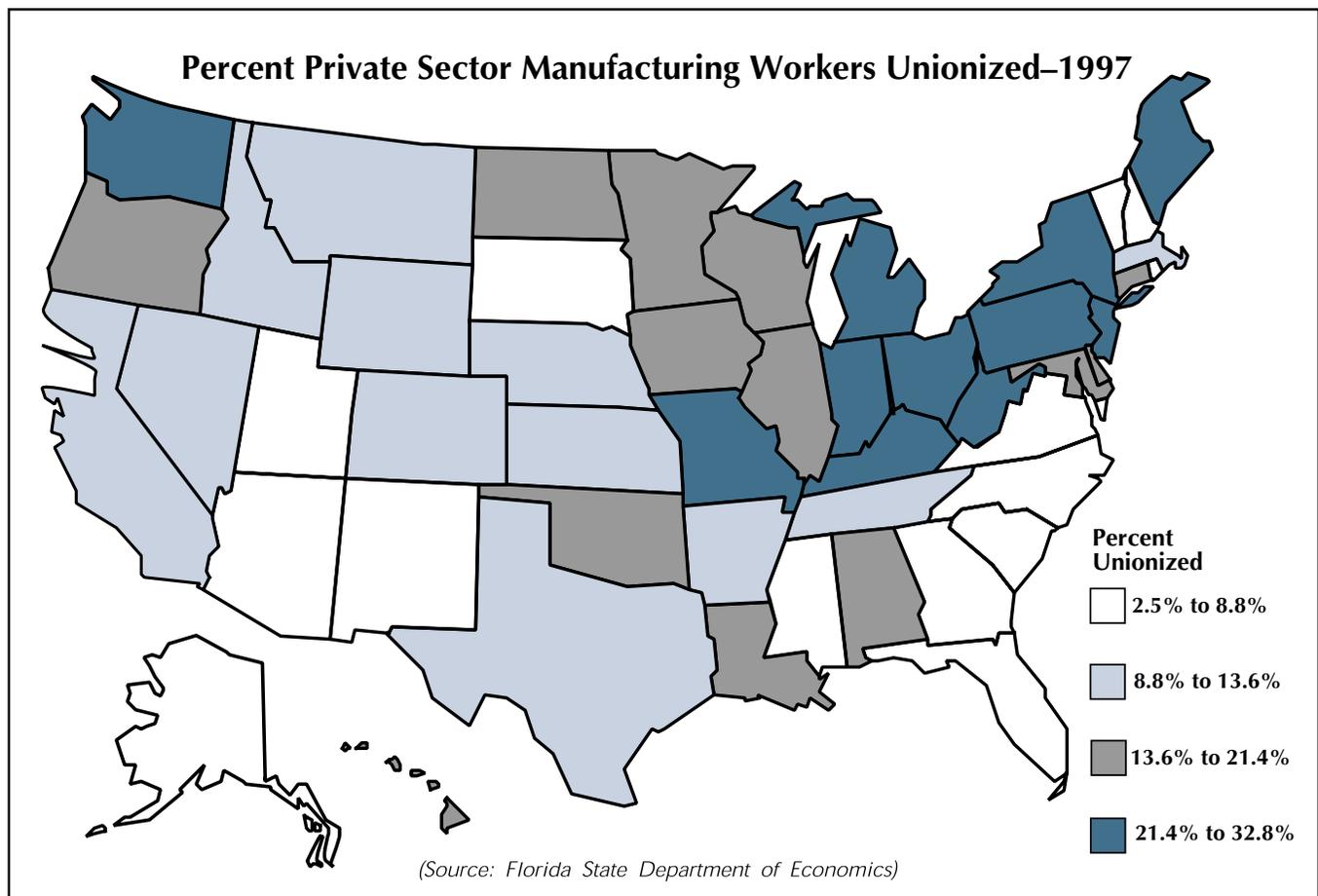
Overall union membership among private sector manufacturers in the U.S. has been on the decline in recent years, but the presence of unions and changes in membership levels vary drastically between states. For example, the percent of union membership among private sector manufacturers is only 2.5% in North Carolina, but surges to 32.8% in Michigan. Other states with a modest union presence include Florida (4.5%), Arizona (4.9%), Alaska (5.3%) and South Carolina (5.6%). On the other end of the spectrum, high levels of unionization are present in Ohio

(28.5%), Washington (26.1%), Indiana (24.8%) and Missouri (24.7%).

During the time period 1993 — 1997 states experiencing a decline in union membership among private sector manufacturers outnumbered states which exhibited a rise in union membership by a 3 to 1 margin. Utah and Nevada experienced no change in the relative percent of union labor during this time period. The most significant percentage reductions in union membership for the time period studied occurred in Alaska (-63.4%), North Carolina (-51.9%), Hawaii (-51.3%), Montana (-45.4%), Missis-

sippi (-42.7%), Virginia (-42%), West Virginia (-38.3%), Tennessee (-37.7%), Rhode Island (-36.8%) and Oregon (-36.4%).

While the overall unionization level among manufacturers in Colorado is modest (12%), this state encountered the most significant rise in union membership among private sector manufacturers (118.2%) between 1993 and 1997. Other states experiencing significant union growth in this time period were Wyoming (+43.5%), North Dakota (+27.9%), Arizona (+22.5%), Maine (+21.3%) and Missouri (+18.8%). □

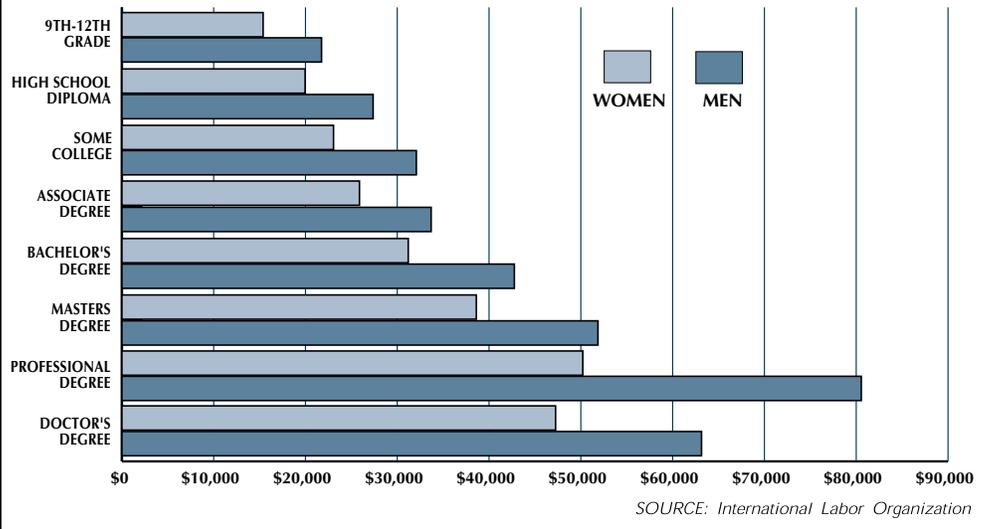


## The Glass Ceiling

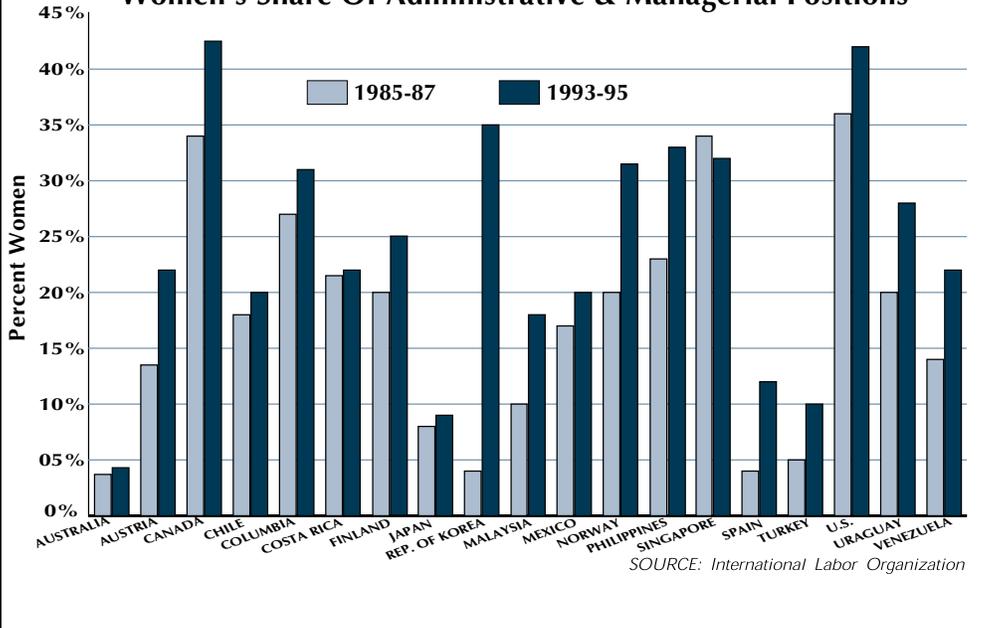
While women in the U.S. often complain about a gender bias or glass ceiling, the percent of women managers in the U.S. has steadily increased from a mere 4.4% in 1900 to 41.5% in 1992. Despite the progress women have achieved, however, men still garner significantly higher wages for like jobs. In fact, a study conducted by the AFL-CIO Department for Professional Employees, found that women of all educational levels earn significantly less than their male counterparts. For example, a male high school graduate earned an annual salary approximately \$7,407 higher than a female high school graduate. Similarly, males holding bachelors, masters and doctorate degrees receive wage premiums equal to \$11,560, \$13,255, and \$15,899, respectively.

Although U.S. women likely have a good case to claim gender bias, data compiled in an International Labor Organization study suggests employment opportunities available for women in most countries are significantly less appealing than those in the United States. A review of the data suggests that women living in the U.S., Canada and Korea enjoy the greatest access to administrative and managerial positions. In contrast, few opportunities exist in these fields for females in Japan or Australia.

Median Annual Income By Years Of School Completed By Gender



Women's Share Of Administrative & Managerial Positions



Over the two time segments examined by the ILO (1985-1987 and 1993-1995), the female share of administrative and managerial work increased in all countries except Singapore. The most significant rise occurred in the Republic of Korea

(1985-1987 — 4% to 1993-1995 — 34%). Other countries exhibiting significant improvements include Norway (20%-32%), Austria (13%-22%), The Philippines (23%-33%) and Spain (4%-12%). □

## The Southeastern Real Estate Market

David J. Sink

The Walker Companies — Atlanta

The following table is a summary from the Walker Property Survey system of the Southeastern industrial real estate market. The market is defined as available and functional manufacturing and distribution facilities (over 40,000 square feet) typically located in non-metropolitan/secondary markets. The market currently consists of 803 available buildings throughout 8 Southeastern states, totaling 119,059,772 square feet.

### Available Industrial Buildings • As of June 1, 1998

| <u>State</u>                | <u>Total</u> | <u>Available SF</u> | <u>% of Market</u> | <u>Average Sq. Ft.</u> | <u>#Buildings</u> |
|-----------------------------|--------------|---------------------|--------------------|------------------------|-------------------|
| Alabama                     |              | 7,866,566           | 7                  | 135,630                | 58                |
| Georgia (excluding Atlanta) |              | 21,298,214          | 18                 | 124,551                | 171               |
| Kentucky                    |              | 8,117,127           | 7                  | 130,921                | 62                |
| Mississippi                 |              | 12,203,187          | 10                 | 164,908                | 74                |
| North Carolina              |              | 29,170,218          | 25                 | 164,804                | 177               |
| South Carolina              |              | 13,754,555          | 12                 | 149,506                | 92                |
| Tennessee                   |              | 15,743,768          | 12                 | 145,776                | 108               |
| Virginia                    |              | 10,906,137          | 9                  | 178,789                | 61                |
| <b>TOTAL</b>                |              | <b>119,059,772</b>  | <b>100</b>         | <b>148,268</b>         | <b>803</b>        |
| <i>Atlanta*</i>             |              | 25,883,461          | N/A                | 165,920                | 156               |

*\*includes buildings in Atlanta (Cobb, DeKalb, Fulton, and Gwinnett Counties) 100,000 square feet and larger*

### Industrial Buildings Sold in the Southeast • 1993 – Present\*\*

According to the Walker Property Survey System, 526\*\*\*industrial buildings have been sold throughout eight Southeastern states over the past five years. The following table gives a breakdown of buildings sold, including average specifications of the buildings, and average price per square foot.

#### Summary

|                           |            |
|---------------------------|------------|
| Buildings Sold            | 526        |
| Total Sq. Ft.             | 78,727,685 |
| Average Year Built        | 1975       |
| Average Price Per Sq. Ft. | \$10.84    |

#### Building Size

|                      | <u># of Buildings</u> | <u>% of Total</u> |
|----------------------|-----------------------|-------------------|
| 40—100,000 Sq. Ft.   | 242                   | 46%               |
| 100—200,000 Sq. Ft.  | 163                   | 31%               |
| Over 200,000 Sq. Ft. | 121                   | 23%               |

#### Ceiling Heights

|           | <u># of Buildings</u> | <u>% of Total</u> |
|-----------|-----------------------|-------------------|
| Below 18' | 86                    | 16%               |
| 18'—24'   | 208                   | 40%               |
| 24'—30'   | 166                   | 32%               |
| Over 30'  | 66                    | 13%               |

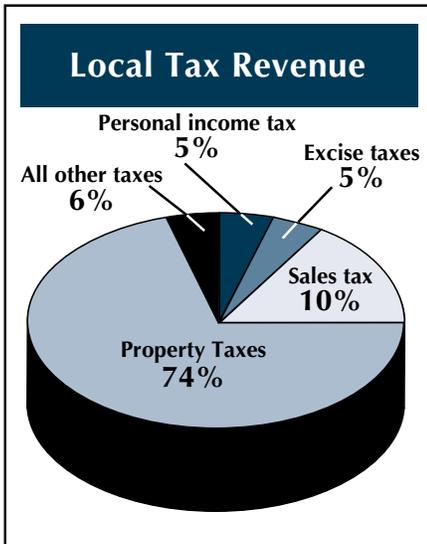
\*\*January 1, 1993 to June 1, 1998

\*\*\*includes functional manufacturing and distribution facilities (over 40,000 square feet) typically located in non-metropolitan/secondary markets. These figures do not include buildings leased, investment sales, transactions with incomplete information or transactions not deemed "arms length" sales.

# The Industrial O·U·T·L·O·O·K

Taxes – continued from pg. 1

How does the sales tax benefit localities? Proponents claim the tax allows localities to diversify their revenue base. Furthermore, in localities which depend on travel and



tourism for revenue, the sales tax is believed to shift some of the tax burden to nonresidents. Opponents, however, claim the sales tax is a regressive form of taxation, placing a disproportionate share of the tax burden upon the poor.

Whether in favor or against the local option sales tax, it's become a reality to most localities. So far, however, 17 states are holding off. □

| Local Option Sales Tax Authority , 1998 |                |                 |      |       |
|---|----------------|-----------------|------|-------|
|   | STATE          | COUNTY          | CITY | OTHER |
| <b>New England</b>                      | Connecticut    | No Local Option |      |       |
|   | Maine          | No Local Option |      |       |
|   | Massachusetts  | No Local Option |      |       |
|   | New Hampshire  | No Sales Tax    |      |       |
|   | Rhode Island   | No Local Option |      |       |
|   | Vermont        |                 |      | ✓     |
| <b>Middle Atlantic</b>                  | Delaware       | No Sales Tax    |      |       |
|   | Maryland       | No Local Option |      |       |
|   | New Jersey     | No Local Option |      |       |
|   | New York       | ✓               | ✓    |       |
|   | Pennsylvania   | ✓               | ✓    |       |
| <b>Great Lakes</b>                      | Illinois       | ✓               | ✓    | ✓     |
|   | Indiana        | No Local Option |      |       |
|   | Michigan       | No Local Option |      |       |
|   | Ohio           | ✓               |      |       |
|   | Wisconsin      | ✓               | ✓    |       |
| <b>Plains</b>                           | Iowa           | ✓               |      |       |
|   | Kansas         | ✓               | ✓    |       |
|   | Minnesota      | ✓               | ✓    |       |
|   | Missouri       | ✓               | ✓    | ✓     |
|   | Nebraska       | ✓               | ✓    |       |
|   | North Dakota   | ✓               | ✓    |       |
|   | South Dakota   |                 |      | ✓     |
| <b>Southeast</b>                        | Alabama        | ✓               | ✓    |       |
|   | Arkansas       | ✓               | ✓    |       |
|   | Florida        | ✓               |      | ✓     |
|   | Georgia        | ✓               |      | ✓     |
|   | Kentucky       | No Local Option |      |       |
|   | Louisiana      | ✓               | ✓    | ✓     |
|   | Mississippi    | No Local Option |      |       |
|   | North Carolina | ✓               |      |       |
|   | Puerto Rico    | No Local Option |      |       |
|   | South Carolina | ✓               |      |       |
|   | Tennessee      | ✓               | ✓    |       |
|   | Virginia       | ✓               | ✓    |       |
|   | West Virginia  | No Local Option |      |       |
| <b>Southwest</b>                        | Arizona        | ✓               | ✓    |       |
|   | New Mexico     | ✓               | ✓    |       |
|   | Oklahoma       | ✓               | ✓    |       |
|   | Texas          | ✓               | ✓    | ✓     |
| <b>Rocky Mountain</b>                   | Colorado       | ✓               | ✓    | ✓     |
|   | Idaho          | ✓               | ✓    |       |
|   | Montana        | No Sales Tax    |      |       |
|   | Utah           | ✓               | ✓    | ✓     |
|   | Wyoming        | ✓               |      |       |
| <b>Far West</b>                         | Alaska         | ✓               | ✓    |       |
|   | California     | ✓               | ✓    | ✓     |
|   | Hawaii         | No Local Option |      |       |
|   | Nevada         | ✓               |      |       |
|   | Oregon         | No Sales Tax    |      |       |
|   | Washington     | ✓               |      |       |

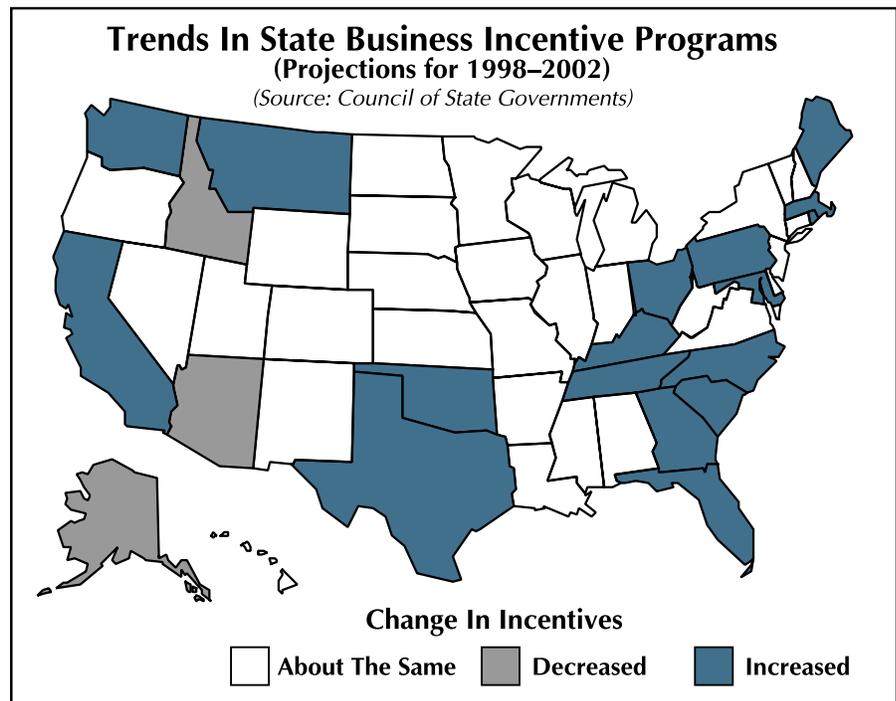
# The Industrial O · U · T · L · O · O · K

## Incentive Game – continued from pg. 1

not a key factor driving corporate site selection decisions and merely serve to cause a drain on state and local resources and alienate long standing corporate citizens.

According to findings from a 1996 Council of State Governments study, the value and use of incentives are expected to level off over the next five years. Over the period 1991-1996, the level of incentives increased in 35 states and remained about the same in 12. Interestingly, Idaho, New York and Vermont actually reduced their incentive offerings during this time period. Over the next 5 years, only 15 states project an increase in their incentive packages while 29 expect to remain status quo. Idaho, Arizona and Alaska plan a reduction in their respective offerings.

While incentives are certainly here to stay, the findings of the CSG Study suggest that incentives may become less significant in the future. Instead of focusing solely on recruiting new industry, states are enacting laws to allow existing industries to participate in the benefits of incentives as a means



of retaining existing jobs and investment. In addition, an increasing number of states are focusing on modifying existing business regulations on permitting, environmental protection and workers' compensation. □

THE WALKER COMPANIES provide location consulting, brokerage, and facility development services for industrial corporations throughout the United States. For additional information on our services, or to comment on *The Industrial Outlook*, please contact:

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