

**Sufficient Industrial Property Supply is the Key
to Industrial Economic Development Success**

University of Tennessee Center for Industrial Services

Tennessee Certified Economic Developer Capstone Project

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Introduction

Economic Development is a noble pursuit and is focused on elevating potential...improving the human condition, enhancing people's wellbeing by lifting people out of poverty and creating prosperity. It is a tall order and economic developers do it by putting infrastructure and programs in place that help people thrive. However, like most noble pursuits, there are barriers.

Imagine playing a game of Jenga – each block in the game has a purpose. Some of the pieces can get moved around and prioritized differently, and there is little consequence. However, there is always one piece that, if removed, the entire structure will crash. That is like economic development. The blocks relate to the different roles in economic development – community development, business retention and expansion, marketing and attraction, finance, workforce development, entrepreneur and small business development, strategic planning, technology commercialization, disaster recovery and resiliency, international opportunities, and real estate/site development.

Different communities might prioritize their economic development plans based on their assets. For example, Chattanooga/Hamilton County has had a tremendous amount of industrial growth over the past 15 years, including Volkswagen and its supporting facilities. Because of that success, they have depleted their industrial property inventory. So, they have focused their efforts on retail and commercial activity, as well as tourism. While that is prosperous, they would still like to recruit more industries.

Benton/Polk County, home of the Ocoee River where the whitewater events for the 1996 Olympics was held, has traditionally focused on tourism. It is a visually stunning and recreation-rich area, with very little industry. With good reason – the county is rural and is two-thirds

owned by the federal government as a protected national forest. One of the cities in the county is Copper Hill, named that for the copper deposits, which were found and mined in the 1800s. The mining devastated the environment, making the basin barren and devoid of vegetation until around 20 years ago. Benton, the county seat, is located about 18 miles from the Interstate, so they have always known that their proximity would make it logistically challenging for an industry to locate there, making industrial recruitment not worth the cost of industrial land development. Recently, however, the state of Georgia added the Appalachian Regional Port – an intermodal which is located less than 10 miles from the Tennessee/Georgia state. This opens the community to more transportation options and with that obstacle overcome, the county officials feel they can begin looking at ways to add more industrial jobs. Because the idea of industrial development is relatively new, they have not developed any industrial property, but they want to. While not all communities depend on manufacturing for successful economic activity, for many the ultimate goal is to land new industry, thus allowing them to announce large capital investments and significant job creation. For those communities, their Jenga tower relies on site development. If that block is removed, the entire structure will tumble. *Communities cannot be successful at economic industrial development if they do not have properties that industries are seeking. Sufficient industrial property supply is critical to the economic development success in communities hoping to recruit industrial activity.*

“No product. No project.” is a phrase that has been trademarked by Jay Garner. Garner is the president and founder of Garner Economics, LLC, an economic development and site location consulting firm headquartered in Atlanta, Ga. He is the co-author of the book “Economic Development is Not for Amateurs.” He has also been the featured speaker at numerous economic development events and podcasts.

“It’s really as simple as that,” he said. “You just can’t sell from an empty wagon.”

According to Garner If community leaders are serious about job creation and capital investment in the form of manufacturing/distribution then there needs to be a “product” that can be marketed and ultimately sold or leased. Without product, a community will be overlooked or passed over by prospective companies for communities that do have the type of product companies’ desire.

Fortunately, Tennessee’s wagon is not completely empty, but supplies are dwindling.

Background

Over the past 12 years, there has been a significant boom to Tennessee’s economic development growth. According to the Center for Economic Research in Tennessee (CERT), since 2011, 1,805 projects have landed in the state, accounting for 264,626 committed jobs and just over \$68 billion in capital investment. The state is divided into nine regions, including the Southeast Region, encompassing 10 counties - Bledsoe, Bradley, Grundy, Hamilton, Marion, McMinn, Meigs, Polk, Rhea and Sequatchie. In the Southeast Region, CERT reports 183 industrial (manufacturing/distribution) projects with 28,764 committed jobs and more than \$7.6 billion in capital investment. Thirty-four of those projects were recruitments, meaning a new industry came from outside the state, purchased land or a building and started making products in Southeast Tennessee.

Manufacturing and distribution companies choose communities in which to locate their businesses based on several variables: Location (proximity to their suppliers and/or distributors, distance to an international airport, closeness to an interstate, etc.), quality of life, availability of a workforce, and incentives are a few. However, the primary deciding factor is whether a

community has a site available that financially makes sense for the company and will allow them to deliver their product with the most efficiency in terms of cost, quality, and overall competitiveness.

East Tennessee is known for its beauty with lush, rolling hills dominating the landscape. While lovely, the land in East Tennessee is difficult (and expensive) to develop for industrial sites. Communities have spent years readying properties to be marketed as industrial sites. However, their commitment to developing those properties has usually reaped rewards: 34 new industrial companies started businesses in those 10 counties. But there is a drawback - progress has depleted the inventory of quality industrial sites, thus making it more difficult to market the region.

When a company is searching for a new location, they (or their consultant) will send out a Request for Information (RFI) or Request for Proposal (RFP). Competition amongst communities to recruit new industries is fierce and that company may receive hundreds of submissions. At that point, how does the site selection team narrow their search? They begin by eliminating communities rather than choosing communities, according to training sessions with the Tennessee Valley Authority Economic Development team. The site selectors will eliminate based on which communities do not meet their needs.

Industrial Recruitment Challenges

Chassen Haynes was the Senior Director of Business Development for the Tennessee Department of Economic and Community Development. Haynes supervised a staff of five business development directors whose primary goal is to recruit industries to the state and create high quality jobs. Oftentimes, one of TNECD's six directors of business development is the first

person a company or consultant encounters at the start of the recruitment process and they will work to help each company find the perfect location for their business in Tennessee.

The directors of business development work directly with site selectors and often hear that Tennessee is eliminated from a search because the state does not have a property that meets the selection criteria.

TVASites.com says that Southeast Tennessee has approximately 35 available industrial properties. However, that number may not be 100 percent accurate as there are often properties being marketed by commercial real estate and private landowners. Additionally, that number may seem deceptively high as the sites are not pad ready, are not equipped with needed infrastructure, could be in an unattractive area for transportation or may not have an available workforce.

Industrial Site Development Solutions

According to Jay Garner, speed to market is an important factor – 85 percent of companies begin their search looking for an existing building. If they do not find that, they move on to a pad ready site that has all the infrastructure in place. Haynes said that if a community submits a property that has not been developed, it could likely move them to the bottom of the list.

Many of the current available properties could take years to develop for industrial use. Since economic development is a constant investment, communities are having to begin the process of developing new properties. The state, through the Department of Economic and Community Development, has come up with ways to assist them.

One of the divisions within TNECD is Community and Rural Development, whose programs use established funding programs and new initiatives to connect communities to funding and technical assistance, to identify and build off their assets, and to advance economic development across the state. Some of the many programs include Tennessee Main Street; ThreeStar; Tennessee Placemakers Entrepreneurship Fund; coordination of the Community Development Block Grant as well as grants from the Appalachian Regional Commission and the Delta Regional Authority; as well as state grants for site development, downtown improvements, broadband expansion, infrastructure, and historic planning.

In short, rural development helps build strong communities in order to drive economic security and prosperity.

Several of the grants mentioned above can help communities once a business or industry has chosen their site as the place where they would like to set up business. However, there are no federal funds available to help communities prepare land to become an industrial site. That is why TNECD added the Site Development division to Rural Development.

Site Development has three major offerings to help communities get land on which to locate a new industry.

The first offering is the Select Tennessee Certified Sites Program. This program was developed as a rigorous process aimed at elevating Tennessee's sites to the level of preparedness necessary for corporate investment. In the site selection process, companies/consultants might face between 75-100 criteria in determining the right site. Labeling a site as "certified" lets site selectors know that a comprehensive amount of information has been gathered and therefore increases the speed to market, reduces development costs and helps mitigate their overall risk. Certified sites are often the first locations visited in the site selection process.

Second, Site Development offers the Property Evaluation Program (PEP). This program assists communities by providing professional advice about the value and the potential for new investment in various industrial properties. The program aims to benefit communities through emphasizing the importance of and assisting with planning for the future. This includes both readying industrial properties for near-term development as well as creating a pipeline of properties for future development.

Last, but not least, Site Development offers Site Development Grants. This grant helps improve many of TNECD's Select Tennessee certified sites and it prepares other sites for future certification and industrial use.

Grant awards can be used for construction activities, the purchase of property and other property-related activities, due diligence, rehabilitation of publicly owned industrial buildings, brownfield remediation, and speculative building construction.

According to TNECD Site Development Director Kirby Lewis-Gill, since 2016, 143 grants have been awarded, leading to 103 improved sites, 20 landed projects, 6,432 jobs created and more than \$3.1 billion in capital expenditures.

Late last year, recognizing that to remain successful, the site development program needed to be evaluated, TNECD business development regional teams were asked to talk with their communities and provide feedback regarding their concerns with the program and ways the site development program could better assist them with industrial recruitment. Lewis-Gill and his team took that information and developed new guidelines for those programs. From that feedback, the program has been re-vamped and has changed its strategy:

Goals of the new strategy:

- To expand SDG program parameters to enhance marketable positioning of sites

- To align Site Development targets with project needs through increased communication and technical assistance

Strategy Step 1 – Program Changes:

- Increased grant maximum from \$1 million to \$5 million
- Reduced the community match amounts for TN Certified Sites
- Funded Spec Buildings

Strategy Step 2 – Form and Operationalize a Site Prioritization Committee (SPC):

- The SPC will identify target sites with the goal of creating more Certified Sites and making existing sites more marketable

While TNECD offers several grant options for communities wishing to develop new properties for industrial use, there are several additional programs on which communities can capitalize.

Additionally, TVA has programs that also help communities with site development: The InvestPrep product development program. According to the TVA 2020 annual report, InvestPrep is an innovative product development program that leverages funds to help communities prepare sites and buildings and ultimately become more marketable for development.

Rehabilitating Brownfield Sites for Economic Development to Increase Site Supply

Another option for communities to have additional land to market is for them to rehabilitate their brownfield sites. The United States Environmental Protection Agency defines Brownfields as real property, the expansion, redevelopment or reuse of which may be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant. Many properties

in Tennessee which were previously used as gas stations, dry cleaners, factories or properties that may have contamination from unknown sources qualify as brownfields.

The concept of rehabilitating brownfield sites is not new to Tennessee. The state began the endeavor in 1996 and estimates that more than 1,700 sites across the state have been put back into use. However, more work needs to be done in this arena and legislation was enacted on July 1, 2023, that:

- Amends brownfield redevelopment laws related to franchise and excise (F&E) tax credits and tax increment financing (TIF).
- Establishes Tennessee's first Brownfield Redevelopment Area Fund.
- Authorizes the Tennessee Department of Environment and Conservation (TDEC) to administer a Brownfield Redevelopment Area Grant Program.

In administering the program, TDEC will award grants to eligible entities for the remediation costs and reasonable administrative expenses related to brownfield redevelopment. The program provides the opportunity for developers to receive direct brownfields funding from the state rather than through the U.S. Environmental and Protection Agency.

Amy MacKown with TDEC's Division of Remediation has been charged with launching and publicizing the Brownfield Redevelopment Area Grant (BRAG) program. According to MacKown, the BRAG program, by nature, will broaden the list of brownfield sites through *identification* grants. That list of newly identified brownfields sites will be publicly available and updated on an on-going basis (likely annually). The more eligible parties that apply for an identification grant will yield a larger list of brownfield sites. Identifying these sites is the first step in the remediation process that ultimately results in opening these lots for redevelopment.

Tennessee Communities Need to Prepare for Fierce Competition

As competition becomes more fierce, communities across the country have become more proactive, aggressive and determined to put forth sites and inventory to be ready for new business.

The Southeast Region, as a whole, has been aggressive, and because of the vision of its leaders has experienced great success over the last decade; however, that success has primarily occurred in communities that invested in industrial parks that were readied with the proper infrastructure. The number of attractive sites in the region has dwindled, but if communities are willing to put forth the effort, there are programs in place that can help them develop new sites. “Developing product takes financial and time resources, a plan, an execution strategy, and the fortitude to fend off naysayers.”

Nine out of the 10 counties in the Southeast Region are considered rural. Only four out of 10 have professional economic developers. Without economic developers, the counties rely on volunteers and/or the Southeast Development District.

To volunteers, the prospect of developing industrial property from farmland can seem daunting. If they have a board and people who are willing to help, the best first step is to participate in the TNECD’s Property Evaluation Program (PEP). In this program, the community can identify up to eight properties as possible industrial sites. The community does not have to own those properties, or even have an option to buy. As long as the community has permission to be on the property and the landowner knows that the property is being gauged, it is eligible to be included. If awarded a PEP grant, Austin Consulting will conduct a field investigation – they will visit each community to evaluate the submitted properties, assess community attributes, and meet with local officials, staff and stakeholders. That investigation will allow them to determine which

of the properties makes the most sense to develop into an industrial site. The community will receive a written report detailing all of Austin Consulting's findings and recommendations.

The value of PEP is that communities do not waste their time and resources developing properties that may not meet all the guidelines for industrial use. Plus, they will be given a recommended plan to help market their community. Additionally, having had Austin Consulting review their property qualifies them to be able to apply for a Site Development Grant or for Select Tennessee Site Certification.

Once a community has established a suitable site, they can apply for other TNECD grants, or for an InvestPrep grant from TVA.

Conclusion

Communities cannot be successful at economic industrial development if they do not have properties that industries are seeking. Sufficient industrial property supply is critical to the economic development success in communities hoping to recruit industrial activity.

Industrial site inventory is currently low in Southeast Tennessee, but it does not have to stay that way. There is no shortage of land to develop and the state and TVA have programs to assist communities turn their acreage into economic prosperity. The key to success, though, lies with the communities – local communities need to invest in product development in order to attract industry. Having a good product can be the conduit to make a community marketable to industries and site selectors.

Resources

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