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Most Companies Aren't Global Enough, IAMC Attendees Told

If you thought the political debate over outsourcing was contentious, listen to what several speakers at the Fall 2004 IAMC Professional Forum in Memphis had to say.

Most American companies aren't global enough, said several speakers, as they challenged listeners to think more about "the big picture" and how they would meet an increasing global demand for products and services.

If there were one common theme for the Memphis Forum, it was that U.S.-based manufacturers have taken only baby steps toward globalization and risk falling behind European competitors in the race to capture world markets.

As I listened to IAMC Forum speakers at The Peabody Hotel in the city made famous by Elvis Presley and the blues, I gleaned the following "Top Ten Lessons." They all relate to Corporate America's need to awaken to a shrinking world:

- While the U.S. will grow by 58 million people by 2025, China will grow by 258 million in that same period. American companies that aren't retooling now to manufacture and distribute products to the world's fastest-growing consumer market are falling further behind every day.
- Even white-collar executives such as tax preparers and radiologists should assume that one day their jobs will be outsourced to lower-cost service providers in China and India. In fact, many of these professionals have already lost their jobs.
- Just one mistake by your company's logistics operation can cost millions of dollars. When Nike's inventory-control system went down, shares of Nike stock tumbled 20 per-

cent in a few hours.

- Speed to market is the most critical factor in site selection. Some 90 percent of all video game sales occur within two weeks of product launch. Without the ability to immediately sell products to capable buyers, a business fails.

- Japan's improving financial picture gives the world a better chance to achieve a synchronized global recovery.

- Foreign-born Asian Americans and Hispanic Americans start new businesses at a faster rate than their native-born counterparts.

- The No. 1 security problem for Americans is identity theft, with 10 million victims in the U.S. in 2003

and 27 million victims in the last five years. The biggest culprit is spyware, much of it from Russia.

- European companies, which outsourced jobs for decades, still hold far too much real estate in their homeland nations. U.K. firms waste about \$32 billion on real estate, while German firms waste about \$500 billion on real estate.

- Inadequate protection of intellectual property rights keeps many U.S. firms out of China.

- An outdated tax code drives many U.S. companies to take critical operations offshore. Singapore, considered a tax haven, has taken advantage of this at the expense of American jobs.

These and many other keen insights were shared by speakers at the IAMC Forum in Memphis. To access in-depth reports on these presentations and to view speakers' PowerPoint documents, go to www.iamc.org.



by **RON STARNIER**
Executive Director
IAMC

Memphis Forum Provides Substance for Dealing With Change

Below are selected reports from just one day of the IAMC Fall 2004 Professional Forum. For more — including full speaker presentations and discussion notes — visit www.iamc.org and read the “IAMC Insider” section of the November 2004 issue of *Site Selection*.

Tuesday, September 28, 2004

Biologistics: Memphis' Key to the Biotechnology Industry

On Tuesday, Sept. 28, four Memphis-area executives testified to the area's strengths as a center for biotechnology in a general session moderated by Greg Long, real estate director at Hallmark Cards and a member of IAMC's Board of Directors. But what makes the region a “biologistics” hub is the presence of



Biologistics was and is a hot topic in Memphis.

Federal Express's package-sorting facility. Craig Simon, Vice President, FedEx Solutions, made the case that Memphis delivers a number of attributes considered essential to the handling and distribution of biotech products by industry executives. These include less handling of products, because the journey begins in Memphis, not at another city only to pass through Memphis en route to the final destination. Multiple flight options also make delivering time-sensitive products and those with other delivery considerations less cumbersome.

“Many biotech products are composed of living cells or tissues whose functional capabilities must be preserved to assure effective treatment,” pointed out Dr. Edward Scott, president and medical director at Lifeblood Biologics, which develops personal cellular therapies — those designed to treat patient-specific diseases and conditions. Such companies must eliminate the opportunity for deviation from manufacturer-defined and FDA-approved storage requirements during transport, which the Fed Ex facility helps accomplish. Another speaker sharing similar experiences of benefiting from a greater Memphis location was Greg Pilant, CEO and director of Greystone Medical Group.



How to Make Your Corporate Real Estate Organization Sarbanes-Oxley Compliant

About half of U.S. publicly held companies have barely begun their preparations to become Sarbanes-Oxley compliant by year-end 2004. That's according to Cliff Fischer, The Fischer Company, who addressed about 200 attendees of the Memphis Professional Forum on the topic in an update of the successful Research Roundtable conducted at IAMC's Tucson Professional Forum in March 2004.

Joining Fischer on the speakers' dais were moderator Jim Gray, a partner of the law firm Freeborn & Peters, and Phil Hammel, director of global real estate for Honeywell.

Hammel recommended corporate real estate executives who have not been prodded yet by their companies to make changes in response to the Sarbanes-Oxley Act initiate the process on their own, if need be. He reasoned that corporate auditors take a dim view of inaction in the face of a threat, but sometimes will work with managers who take steps toward a solution, even if their process requires change to make it fully effective.

The presenters identified the lease process as an area that garners significant attention in a Sarbanes-Oxley audit of corporate real estate. Hammel testified that to satisfy the auditors his department tackled lease contracts booked by companies

his company had acquired. Some, he said, were in foreign languages and used real estate principles not known in the United States.

Auditors, he noted, are not impressed by the difficulty of such challenges.

Ethics: A Business Approach Or a Way of Life

Former stockbroker and financial planner Patrick Kuhse will spend the foreseeable future paying back the people of Oklahoma the millions of dollars he earned illegally while investing state funds. Kuhse's cautionary tale — complete with 32 federal indictments, time on the run in Costa Rica as an international fugitive, time served in a U.S. prison, community service and the loss of his marriage — was a stark reminder of how bad decisions can lead to ruinous results.

Kuhse's personal story, told with utter frankness, shed light on how easily the lapse into unethical behavior can begin and how critical thinking errors drive most such scenarios. These include a sense of entitlement, a sense of invulnerability, an obsession with power or control, mental laziness and others. Ultimately, he noted, unethical behavior is about greed.

Kuhse's message of being on guard against unethical practices in one's personal and professional life comes at a time when executives at corporations after corporations are facing scrutiny, if not indictments, for behavior that costs their employees, shareholders and loved ones dearly.

While IAMC Professional Forum attendees won't find themselves in the position of investing state monies, the point of the session was no less profound: Unethical behavior violates the trust of those closest to you and results in consequences far more enduring than can be realized at the outset.



Patrick Kuhse.



Honeywell's Phil Hammel explained how his team has tackled Sarbanes-Oxley compliance.

Research and Resources

The Real Estate Roundtable has released a study backing its drive to extend the Terrorism Risk Insurance Act of 2002, which is due to expire on the last day of 2005. An informal Roundtable poll of property insurance policyholders conducted approximately one year after the 2001 terrorist attacks found that over \$15.5 billion in real estate transactions in 17 states had been stalled or cancelled as a result of policyholders' inability to obtain **terrorism insurance**, in some cases at any price. The study concluded that expiration of the law "could potentially reduce U.S. gross

domestic product (GDP) by 0.4 percent, or \$53 billion." Collectively, Roundtable members hold portfolios containing over 5 billion sq. ft. (464.5 million sq. m.) of developed property valued at nearly \$700 billion. The entire report is available for download at www.rer.org.

In early October, President George W. Bush signed into law the Working Families Tax Relief Act of 2004, which promises \$13 billion worth of relief for corporations. More than half of that sum is coming from an **18-month extension of the research**

and development tax credit that was due to expire in January 2005. The R&D tax credit program allows companies to receive a credit worth up to 10 percent of R&D expenditures.

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SPONSOR spotlight Strategic Investment Program Helps in N.Y.

Two New York projects that received coverage by IAMC official publication *Site Selection* earlier this year had funding backup from the Strategic Economic Development Program of Niagara Mohawk's Economic Development Department.

Niagara Mohawk

A National Grid Company



County Industrial Development Agency pay half the costs for environmental and building conditions assessments necessary to determine the viability of a former Nestlé facility, the oldest chocolate manufacturing facility in the U.S.

This fall, with a \$25-million investment, New York Chocolate & Confections is launching production of private label chocolate products, and hopes to employ more than 500 people (more than Nestlé) within the first three years of operation.



New York Chocolate & Confections will employ more people than Nestlé did at the latter's former facility in the Oswego County city of Fulton.

One is in the abutting towns of Malta and Stillwater, in Saratoga County, where a contiguous 1,350-acre (546-hectare) site called **Luther Forest Technology Campus** is being designed to attract high-tech manufacturers, and near the very ground where part of the U.S. space program (the Vanguard rocket engine) was launched. Competing against an international field, the park is already receiving close scrutiny from major multinational semiconductor companies. Essential funds from the Niagara Mohawk program grant have helped pay for appraisal of the site, an environmental assessment survey, a timber study, a vibration study, a geotechnical study, aerial photography and mapping.

Joseph Russo, economic development manager for Niagara Mohawk, says that \$500,000 in funding has occurred in two phases, with the current phase now helping Saratoga Economic Development Corp. obtain site control, including rights of way for Niagara Mohawk's own lines.

Another project is just now coming to fruition in the Oswego County city of Fulton, where nearly \$100,000 in Niagara Mohawk funds helped the Oswego

County Industrial Development Agency pay half the costs for environmental and building conditions assessments necessary to determine the viability of a former Nestlé facility, the oldest chocolate manufacturing facility in the U.S. Even more remarkable, says Russo, another recently closed plant in Fulton is also seeing almost immediate re-use: **Spear USA**, a maker of labels for the beverage industry, will be employing more than 60 workers by 2005 in a plant closed by Sonoco Flexible Packaging in early 2004.

Beware of Being Square?

Picking that ideal mix of stability and volatility is always the goal with your stock portfolio. But what if you were seeking the same with your company's operational portfolio?

One potential measuring stick might be a given state's relative small business churn rate, defined as firm births plus firm deaths as a percentage of overall firms. Overt stability is a sought-after quality in these times, but too much might signal too little innovation. On the other hand, high churn may indicate as much failure as creativity.

Below are the most churned and least churned states for small business in 2003, according to data from the Small Business Administration Office of Advocacy that was then analyzed by the Ohio-based State Science and Technology Institute (www.ssti.org). Small businesses are defined as those having 500 or fewer employees. And here is one handy statistic: Only 17,000 of the country's 5.7 million firms have more than 500 employees.

Most Churn 2003

State	Churn Rate	National Rank
Nevada	38.2%	1
Utah	35.9%	2
Washington	34.6%	3
Maryland	31.5%	4
Tennessee	30.8%	5

Least Churn 2003

State	Churn Rate	National Rank
Connecticut	20.4%	46
Wisconsin	20.2%	47
Ohio	19.5%	48
Iowa	18.8%	49
North Dakota	18.6%	50
South Dakota	14.0%	51

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The third Corporate Real Estate Impact Survey of the Asia Pacific by Jones Lang LaSalle found that 57 percent of respondents thought cost reduction was important, but not the ultimate objective in formulating a real estate strategy. The finding jibes with other recent evidence that corporate real estate practitioners are once again eyeing a **growth mandate** after a long hiatus. The survey also found that 90 percent of respondents felt offshoring met or exceeded their savings expectations, with even more being pleased by the market access offshoring brings.

According to an interview with John Byrd III, president of the Association for Manufacturing Technology, published in September 2004 in the *Milwaukee Journal Sentinel*, increased shipping costs, currency exchange fluctuations and raw material demand will stoke a **manufacturing revival** in the U.S. He told the paper that fast-rising shipping costs in and out of China "will cause North American and European companies to begin looking at production locations nearer their end-user markets." His outlook is supported by positive news in the machine tool industry, which saw a 32-percent year-over-year rise in consumption during the first six months of 2004.

A September survey by Illinois-based

DeVry University found that 81 percent of a broad range of employers expect to **increase overall hiring** in the coming year. Even more enlightening was that the same percentage of the 126 employers said they "look for technology skills in a significant percentage of the non-information technology employees they hire."

A World Bank Group survey of regulatory hurdles or lack thereof faced by entrepreneurs in 145 countries found the following rank at the top in **ease of launching a business**:

- | | |
|------------------|-------------------|
| 1. New Zealand | 6. Norway |
| 2. United States | 7. United Kingdom |
| 3. Singapore | 8. Canada |
| 4. Hong Kong | 9. Sweden |
| 5. Australia | 10. Japan |

Making **power in China** may be as lucrative as making products. The China Electricity Council in September reported that the installed capacity of the country's power industry could reach up to 245 billion kilowatts by 2009, requiring an investment of more than US\$121 billion. To help meet the demand for coal, the country is developing 13 bases from which it hopes to extract up to 2.5 billion tons of coal.

The annual Urban Mobility Report from the Texas Transportation Institute (*tti.tamu.edu*) finds **U.S. metro roadways** to be in dire need of a decongestant. Having

studied data from 85 metro areas through 2002, including all of those with populations exceeding 500,000, TTI found that the usual suspects were still topping the congestion, delay and fuel waste rankings. But in the study's categories of very large, large, medium and small metros, the best performers and their annual hours of delay per traveler, respectively, were: Philadelphia (40), Buffalo (10), Rochester, N.Y. (6) and a tie between Anchorage, Alaska, and Brownsville, Texas (5). Runners-up in the same categories were New York (50), Cleveland (11), Springfield, Mass. (9) and Corpus Christi, Texas (6).

A survey of 3,000 companies conducted during the first five months of 2004 by the Kaiser Family Foundation and Health Research and Educational Trust (www.kff.org) found that the **cost of providing health care for employees** has risen 11.2 percent, after increasing by 13.9 percent in 2003. At the same time, the number of uninsured people in the U.S. has also risen, to 45 million in August, according to the Census Bureau.

IAMC NEW MEMBER UPDATE

NEW ACTIVE MEMBERS

David Beardsley, Dallas-based director of acquisitions/senior vice president, finance, for **CRIC Capital, LLC**. Based in Boston, CRIC is a co-venture of Corporate Realty Investment Company LLC with Prudential Real Estate Investors. Prior to joining CRIC Capital in July 2003, Beardsley was a senior vice president with IAMC member firm United Systems Integrators.

NEW ASSOCIATE MEMBERS

William O. Bullock, manager, economic development, **Memphis Light, Gas & Water Division**.

David Cuda, vice president, **Holmes Smith Developments**, Columbia, S.C.

Fred Humes, director, **Economic Development Partnership**, Aiken, S.C.

MEMBER CHANGES

Lee Forsthoffer, executive vice president and eastern regional managing director, is the new representative for **Grubb & Ellis**, Stamford, Conn.

Cary Hutchings, director of economic development, is the new representative for the **Greater Dallas Chamber of Commerce**. Bill Sproull, formerly of the Dallas Chamber, has been selected as the new president and CEO of the Richardson Chamber of Commerce, The Richardson Economic Development Partnership, and the Metroplex Technology Business Council.

Roger Woodworth is the new representative for **Avista Utilities** in Spokane, Wash. Ellie Chambers will be leading the economic development efforts for the City of Puyallup, Wash.



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