



## REGIONAL REPORT

# The Southwest

Tech migration is bringing jobs and economic growth to southwestern states.

By Craig Guillot

**RAPID ADVANCES IN IT HAVE PROPELLED THE GROWTH** of almost every industry from manufacturing to agriculture. Yet technology itself has also allowed companies to easily tap the talent of knowledge-based workers virtually anywhere in the world. Firms that rely on software engineers and data scientists are no longer confined to places like Silicon Valley, San Francisco or even Boston. Tech companies of all sizes are quickly moving to lower-cost parts of the country, a migration that is changing the economy in many states by bringing opportunity, diversification and innovation in new industries.

In the agricultural state of Arkansas, educational initiatives and the presence of Walmart's growing global headquarters have given birth to a robust IT industry. Piggybacking off the talent, IT firms from as far away as Massachusetts and California are moving operations to the state. In Oklahoma, billions of dollars worth of urban quality-of-life investments have attracted millennials, who are catapulting the state's capital into a prime place for opportunity.

Next door in New Mexico, Facebook's decision to construct a world-class data center in Albuquerque is putting the state on the map of tech development. In Arizona, a robust talent pool is helping to grow one of the country's largest hubs for the financial services industry. And in Texas, the country's fastest-growing metropolitan areas continue to boom despite a fallout in oil prices.

### NO.1 TEXAS

#### **AUSTIN AND SAN ANTONIO ARE MERGING TO BECOME THE COUNTRY'S FASTEST-GROWING METROPOLIS**

While the Lone Star state's growth has been cooling under the collapse of oil prices, Texas still boasts one of the fastest-growing regions in the country. Joel Kotkin, presidential fellow in urban futures at Chapman University in Orange, California, and executive director of the Center for Opportunity Urbanism in Houston, Texas, recently said in an article on Forbes.com that the region between San Antonio and Austin will become "America's Next Great Metropolis."

According to data from the U.S. Bureau of Economic Analysis, Austin-Round Rock and San Antonio-New Braunfels each had the highest GDP growth of any metropolitan area in the nation last year, 5 percent and 5.9 percent respectively. That's more than double the 2.5 percent average of U.S. metropolitan areas. With only 80 miles between the two cities, the booming economies are seamlessly blending to encompass the smaller cities between them. Places like New Braunfels and San Marcos are now seeing historic economic and population growth.

While Austin has had a thriving tech scene for years, San Antonio has been following a similar path in tech and manufacturing. Jenna Saucedo-Herrera, president and CEO at the San Antonio Economic Development Foundation, says the Alamo City is forecast to grow by 1 million residents by the year 2040. She says growth in many sectors has been fueled by private investment. Graham Weston, founder of Rackspace, also recently helped spark the development of a tech district in the city center since launching Geekdom in 2011. The co-working technology center has created a thriving technology industry that has attracted more than \$50 million in venture capital. Saucedo-Herrera says





Caption

San Antonio also has a rapidly growing cybersecurity industry that has the second largest concentration of assets outside of Washington, D.C.

Other companies that have recently made investments or expansions in San Antonio include GM Financial, Rev-Ignition, MCCI Medical Group, EControls, Dialpad, Liquid Web, Dizzion and Jungle Disk. Some companies are even moving from Austin to San Antonio. Dragonflyware and EasyExpunctions.com both recently announced that they are relocating to San Antonio. “We’ve seen a number of companies moving from Austin to San Antonio. Austin had a big burst of development but that also brings traffic, congestion and the inability to find talent,” says Saucedo-Herrera.

Cities between the two are growing even faster. Adriana Cruz, president of the Greater San Marcos Partnership, says the city was ranked fastest-growing for year-over-year growth. Cruz

says the city has been serving as a “connector” between the manufacturing hub of San Antonio and the tech hub of Austin. It is also home to Texas State University, which opened an advanced materials incubator in 2012 that will eventually be built out to a 68-acre park. “We’ve had major developments in the past year by brining northern San Antonio and southern Austin closer together. The communities along this corridor are seeing rapid growth,” says Cruz.

Timothy Burbey, CEO of Blueshift International Materials, moved the base of the company’s operations from San Diego to San Marcos in 2015. Burbey says San Marcos offered an impressive selection of engineers and chemists from Texas State through its application-driven Ph.D. programs. He also says the fact that the city is within equal commuting distance of both San Antonio and Austin offered a prime location. “It’s part of a diversified economic system. You have a lot of different

things going on between the two cities. Amazon just put a facility here. Looking out my window, I see new buildings going up,” says Burbey.

yet again with Democratic legislators, with no resolution imminent. ■

**NO.6 ARIZONA**

**A GROWING HUB OF FINANCIAL SERVICES**

While Arizona has historically been known for manufacturing, mining and trade with Mexico, its capital city is quickly, and quietly, becoming a major hub for financial services. A recent study by real estate services firm CBRE found that Phoenix is the second-largest market for the advanced business services in the financial sector. Nearly 174,000 residents (8.7 percent of the population) work in financial activities, an increase of 22 percent since 2010.

Chris Camacho, president & CEO of the Greater Phoenix Economic Council, says as of late-October, roughly a quarter of the 280 companies evaluating a location near Phoenix were in the finan-

cial services or IT sector. Camacho says companies are using Phoenix as a way to scale into West Coast markets with cost-efficient operational hubs. Farmers Insurance, USAA, Northern Trust of Chicago, Schwab and Vanguard have all expanded to the area in recent years. State Farm opened a new regional headquarters in Tempe, Arizona, in 2015 with 1,000 employees and plans to eventually base 8,000 employees there.

“We’ve seen extraordinary growth in the financial services industry driven by the ability to access talent quickly, scale up, grow revenue and minimize costs of business,” says Camacho.

James Lundy, III, CEO of Alliance Bank of Arizona, says the growth in financial services has been fueled primarily by a strong talent pool. The area’s three major universities are also putting a strong emphasis on MBA programs, while more than a dozen two-year institutions are also offering programs in financial services. Lundy says the city’s aerospace and defense sector has also attracted workers that can easily transition to the financial services sector. “We have a good talent pool, especially for mid-level financial services jobs. Obviously the companies have been able to find the talent to staff the expansions,” says Lundy.

Financial service companies are also moving their data centers to the area. Arizona passed a law in 2013 that offered enhancements for data center owners and operators by expanding the class of facilities that can qualify as sustainable redevelopment projects. The process for meeting capital-investment threshold was also made easier by adding the cost of improvements and of leased equipment to meet the threshold. The state is now home to more than 50 centers, including ones that serve Charles Schwab and PayPal. In 2015, Apple announced it would construct

a \$2 billion global command center in Mesa, Arizona, one of the largest single investments it has ever made.

Lundy calls Arizona “one of the best kept secrets in the country” and says the growing talent, proximity to California, and “dynamic” downtown is offering a compelling location for new companies. “We’ve recently had some growth in various tech startups and some expansions of companies successfully launched in the Bay Area that seek a more affordable area in which to grow,” says Lundy.

**NO.18 OKLAHOMA**  
**METROPOLITAN INVESTMENTS CREATE A MILLENNIAL MECCA**

As the main economic driver in the state, Oklahoma City has continually elevated its presence on the national stage through investment in itself as a growing home for millennials. Roy Williams, president and CEO of the Greater Oklahoma City Chamber, says over the past 20 years, the city has invested billions in revitalization, transportation and quality of life improvements through Metropolitan Area Projects (MAPS). The projects started in the ‘90s and have

included public works and infrastructure improvements and the renovation of nearly all the city’s schools. MAPS 3, a \$777 million program that includes a new convention center, streetcar system and quality-of-life enhancements in the city center, will be completed in 2018.

Williams says that projects were primarily aimed at improving quality of life for residents, and companies around the country have quickly taken notice. The Greater Oklahoma City Economic Forecast found that by 2014, the investments had generated a \$5 billion economic impact for the city. “We made a conscientious effort to build a better community; and, when you do that, companies will take interest,” said Williams.

More CEOs have been looking to Oklahoma. In 2012, Devon Energy completed construction of a 50-story, \$750 million company headquarters in downtown Oklahoma City. Devon Energy recently announced it would construct a 50-story, \$750 million company headquarters in downtown Oklahoma City. Boeing has also relocated a number of divisions to the area, moving



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almost 3,000 jobs from Long Beach, California, Wichita, Kansas, and Seattle, Washington. In October, GE opened its global oil and gas research center, the first of its kind. Paycom Software is also expanding its headquarters and adding another 423 jobs over the next couple of years.

While oil and gas is a critical part of the state's economy, Oklahoma has also been trying to diversify. Urban revitalizations around the state have been attracting millennials and new sector growth. According to data by Realtor.com, Oklahoma City is the nation's sixth-top city for millennials. WalletHub also declared it the seventh-best city to start a career, factoring in such things as availability of entry level jobs, economic mobility and median starting salary.

One such company the city has given birth to in recent years is WeGo-Look. The company uses an Uber-style business model with 30,000 field agents to perform inspections of products or assets virtually anywhere in the country. CEO and co-founder Robin Smith credits tech development in the region to a high quality of life, low cost of living and a supportive community. She says seemingly unrelated things like the river walk, bike paths and activities are making Oklahoma City "the place" to

be. "There's a great support system in the innovation district and the quality of life is really attracting millennials. You tie in the incentives that are bringing in companies and there's a lot going on," says Smith.

Other initiatives have also driven more interest in the state. Fred Morgan, president and CEO of the Oklahoma State Chamber of Commerce, says workforce compensation reform has helped reduce what were previously some of the highest workers comp premiums in the nation. "It's no longer the number one issue for businesses in our state, which used to make us less competitive," says Morgan.

**NO.23 ARKANSAS**

**MOVING BEYOND BIG AGRICULTURE TO BIG INNOVATION**

As a small, rural state known for its agriculture industry, Arkansas is rapidly broadening its economy to one of technology and innovation. The state has seen a number of high profile corporate headquarters relocations and investments in recent years as companies continue to leave high-cost places like San Francisco, Boston and Silicon Valley.

Walmart, which is headquartered in Bentonville, Arkansas, has also been expanding its presence. Mike Preston,

executive director of the Arkansas Economic Development Commission, says the area has seen rapid population growth in recent years. While 14,000 people are employed at Walmart's headquarters, there are tens of thousands more in the region working for suppliers and vendors like Kraft, Tyson, Nestle and Procter & Gamble. Over the past decade, the activity has also given birth to a robust IT sector fueled by such companies as Tata Consultancy, Cognizant and UST Global.

Preston says strong educational initiatives and a growing tech workforce have also attracted other companies like Metova, Big Cloud Analytics and Eyenalyze. In 2015, Gov. Asa Hutchinson introduced initiatives to build awareness about the STEM fields, and signed a bill mandating that every public high school in the state offer computer science classes. "We've started seeing more interest from data and software-related companies by educating for a new generation of jobs," says Preston.

Boston-headquartered software engineering services provider Elyxor, which serves global clients in healthcare, fintech and e-commerce, recently added 45 software engineering specialists to its growing office in Little Rock. Elyxor Chief Strategy Officer Rob



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Lentz says the company was located in Arkansas to capitalize on the talent pool. He says while they explored multiple locations in the Midwest and South, the incentives, the skilled labor force combined with low cost of living gives the state a strong value proposition. "In a market like Boston, you're competing with everyone. We can come [to Little Rock] and be the best. We can have a bigger influence and get the best talent in town," says Lentz.

Preston says the state is also starting to see some "significant investment" from China. Suzhou Tianyuan Garments Company recently announced a \$20 million investment in a manufacturing facility in Little Rock with 400 jobs. Shandong Sun Paper Company is also investing \$1.3 billion in a paper goods manufacturing plant. Preston says one of the biggest assets attracting CEOs to the state is that it's "small and flexible." He says the state government can work and negotiate quickly to make larger projects feasible with greater incentives, flexibility and concessions. "If you run into an issue or regulation you're having a problem with, you're going to get a call back and we'll move mountains to make sure a company is happy doing business here," said Preston.

**NO.32 NEW MEXICO**

**FACEBOOK'S INVESTMENT A CATALYST FOR DATA CENTERS AND TECH**

The announcement by Facebook in September 2016 that it would build a massive data center in Los Lunas has sparked a wave of excitement in the state. The social media company said in a statement that the facility will be one of the most advanced energy-efficient centers of its kind in the world. Economic development leaders and CEOs from around the state are hailing it as a "big deal" that significantly raises New Mexico's prominence on the radar of tech development. Greater Kudu, the company originally launched to build the data center, said in its industrial revenue bond application that large data centers often have a "follow the leader" effect.

"When Facebook looks at dozens of potential locations and says New Mexico is the best for their investment, I think that speaks clearly to CEOs," says Gary Tonjues, president of Albuquerque Economic Development.

The deal required substantial investment from the state and Los Lunas including industrial revenue bonds, a \$10 million Local Economic Development Act measure and the promise to grant the company a monthly reimbursement of the town's share of gross tax revenues. The state also offered up

to \$3 million in Job Training Incentive Program funding.

What worked in the Facebook deal could be a model for future investments. Terri Cole, president & CEO of the Albuquerque Chamber of Commerce, says the Facebook deal has set the region "on fire" and offers the potential to create what she says could soon be "another Silicon Valley."

Technology solutions provider PCM of Segundo, California, announced in June that it would locate a 220-employee sales center in Rio Rancho to serve the West Coast. PCM CEO Frank Khulusi had met with the governor and a development team in California and ultimately said the state's improved business environment and growing workforce was a "game-changer" in expanding operations there. Fidelity Investments, which opened a 216,000-square-foot regional office in 2008, recently expanded its workforce to 1,125 employees.

Atlanta-based Rural Sourcing announced in 2015 it would expand operations to Albuquerque with 125 jobs in software development and support operations. CEO Monty Hamilton says that after evaluating a dozen cities in eight states, they found Albuquerque had a fair amount of "underleveraged and underutilized" talent with a low cost of living that offered competitive advantages for their clients. Rural Sourcing, which outsources IT jobs domestically, works for such clients as Coca-Cola, J.Crew, Georgia-Pacific and Pfizer. Hamilton says the new presence of Facebook in the region is already "putting it on the map" with national companies and chief executives. "There's a growing immersion in technology that is going to be super cool in the next five or 10 years. I think it could be creating another Austin out of it," says Hamilton.

**RECENT DEVELOPMENT DEALS IN THE SOUTHWEST**

**TEXAS**

855,000-square-foot ecommerce fulfillment center in San Marcos (Amazon); relocation of tech firm headquarters to San Antonio (Easyexpunctions.com); development of new financial services center in San Antonio (GM Financial).

**NEW MEXICO**

: \$250 million state-of-the-art data center in Los Lunas (Facebook); 29,000-square-foot, 220-employee sales

center in Rio Rancho (PCM); 45 new high-tech jobs in communications technology in Las Cruces (X2nSat).

**ARIZONA**

271,000-square-foot regional office expansion with 2,220 additional jobs over the next five years (McKesson Corporation); relocation of \$3.5 billion manufacturer headquarters to Phoenix (Carlisle Companies); expansion of financial services operation center with 1,000 employees (Northern Trust).

**OKLAHOMA**

\$80 million, 300,000-square-foot manufacturing facility (Boeing); 125,000-square-foot oil and gas global research facility (GE); software company headquarters with additional 423 jobs in two years (Paycom Software).

**ARKANSAS**

\$20 million manufacturing facility (Suzhou Tianyuan Garments Company); \$230 million steel mill (Nucor); \$1.3 billion paper goods manufacturing plant (Shandong Sun Paper Company).