

POWER, PEOPLE, POLICY: THE NEW DRIVERS OF INDUSTRIAL SITE SELECTION

Commercial real estate is at a critical juncture, shaped by shifting market conditions, evolving global trade policies, and tighter financing constraints. In this challenging environment, strategic incentives such as tax abatements, infrastructure support, workforce development grants, and targeted federal programs have become indispensable tools for companies evaluating expansion, relocation, or facility development.

Across North America, tenant growth remains cautious, driven largely by tariff uncertainties and persistently high interest rates. Lee & Associates' Q3 Industrial Market Research underscores these dynamics, noting tempered tenant demand despite pockets of strength in technology-intensive sectors. This context elevates the role of financial incentives, transforming them from simple financial benefits to critical factors in major capital decisions. Once a supporting detail in large-site decisions, incentives are now the architecture that makes many industrial projects possible.

The industrial landscape has also evolved significantly, marked by growth in data centers, reshored semiconductor plants, and advanced energy infrastructure projects. These developments have sparked intense competition among states and localities, making comprehensive incentive packages essential to attracting complex, capital-intensive investments.

A LAYERED CAPITAL ECOSYSTEM DRIVING MAJOR PROJECTS

Today's incentives landscape is nuanced and dynamic, characterized by state and local responsiveness coupled with targeted federal initiatives. The CHIPS Act, designed to stimulate domestic semiconductor manufacturing, demonstrates federal incentives at their most effective: strategically structured and successfully executed, attracting major manufacturers such as NVIDIA and TSMC, along with their supply networks, back to the U.S. The Inflation Reduction Act has similarly unleashed substantial incentives for clean energy, battery production, hydrogen, grid modernization, and advanced manufacturing, triggering billions in new domestic investment across energy-intensive and technology-driven sectors. Federal initiatives like the One Big Beautiful Bill Act (OBBBA) further amplify existing incentive mechanisms. By permanently funding the New Markets Tax Credit and enhancing Opportunity Zone (OZ) benefits, OBBBA expands critical tax advantages in rural and economically underserved regions. At the state level, governments proactively enhance incentives through rapid site readiness, infrastructure upgrades, and workforce training programs designed to meet employer needs.

Landlords have adapted by offering strategic concessions such as free rent periods, paralleling public incentives, particularly vital in markets facing rising vacancies and higher tenant expectations for reduced occupancy costs.

Together, federal, state, and private-sector initiatives recalibrate the competitive forces shaping industrial expansion and accelerate the pace at which companies evaluate and select new locations.

SITE SELECTION BEGINS WITH INCENTIVE STRATEGY

Incentives represent foundational elements in site selection, with power availability, tax incentives, and workforce considerations at the forefront. Mega data centers requiring massive, uninterrupted power supplies (often 400-500 megawatts or more) prioritize reliable power and infrastructure, often outweighing cost considerations. States capable of delivering ample, scalable power have a decisive competitive advantage. Arizona and Texas notably excel in supporting such projects with comprehensive incentive packages.

Sales tax exemptions and property tax abatements are increasingly critical. Large data center projects can in some cases realize immediate savings of \$100 to \$200 million from targeted sales tax exemptions on equipment purchases. Coupled with property tax abatements, these incentives significantly enhance project viability.

Labor availability is equally vital. Companies require highly skilled and semi-skilled labor, with wage benchmarks now

POWER, PEOPLE, POLICY: THE NEW DRIVERS OF INDUSTRIAL SITE SELECTION

between \$20 and \$25 per hour, driven by major employers like Amazon and Walmart. States with customized workforce development programs and proximity to educational institutions have an advantage. Georgia and Tennessee have effectively utilized workforce programs to secure major investments, fostering comprehensive economic zones around anchor tenants like Hyundai and Samsung.

STATES ARE REWRITING THEIR PLAYBOOKS TO COMPETE

Recent geographic shifts highlight intensified competition among regions, particularly on the East Coast, Midwest, and Southern states. Pennsylvania's Site Readiness Fund proactively prepares industrial parcels ahead of corporate timelines, accelerating development and enhancing competitiveness. Neighboring states like Delaware, Maryland, and New York have also upgraded their incentives, recognizing the decisive influence of infrastructure preparedness on corporate location decisions.

In the Midwest, states such as Ohio, Iowa, and Wisconsin have intensified efforts to streamline regulations and accelerate site readiness programs. Indiana, having initially scaled back incentives, is now reassessing its approach to regain competitiveness in high-value sectors. These efforts have proven successful: SEMCORP Manufacturing USA, for example, selected Sidney, Ohio, for a \$916-million lithium-ion manufacturing plant, creating nearly 1,200 jobs. Ohio successfully secured this investment by negotiating approximately \$186 million in incentives, including cash grants, refundable tax credits, infrastructure remediation, and property and sales tax reductions.

Southern states leverage finely tuned incentive strategies built on decades of infrastructure development, robust workforce training, and innovative public-private partnerships. Their "plug-and-play" model, with pre-approved sites, guaranteed utilities, and expedited permitting, remains instrumental in securing significant corporate investments. States like Texas, Georgia, and Tennessee continue to set the standard, even as other regions increase their incentive offerings to compete.

WHAT WINNING INCENTIVE STRATEGIES LOOK LIKE

Effective incentive strategies are defined by their alignment with specific project needs and proactive execution.

Arkansas showcased this approach with the Trex project, swiftly addressing costly site-elevation challenges by providing approximately 200 acres of prepared, no-cost land. This decisive action, combined with streamlined approvals and strong governmental collaboration, delivered approximately \$20 million in value and set a benchmark for responsive economic development. The broader package, ultimately totaling roughly \$69 million, demonstrated how incentives that directly reduce capital expenditures and operating costs can unlock transformative industrial investments.

Similarly, Oklahoma secured Emirates Global Aluminium's (EGA) \$4-billion investment for the first new primary aluminum smelter in the U.S. in roughly 45 years. Facing competition from Mississippi and Texas, Oklahoma unified local governments, economic development agencies, and utilities, and advanced project-specific legislation. This cohesive effort enabled rapid approvals, securing approximately \$700 million in incentives, including cash grants, tax credits, property tax abatements, and tax increment financing.

In Ohio, SEMCORP's decision to build a \$916-million lithium-ion manufacturing plant in Sidney underscores how workforce analysis, wage benchmarking, and comprehensive incentive negotiation—ultimately amounting to \$186 million—can anchor supply-chain investments in competitive Midwestern markets.

In contrast, New Jersey offers a cautionary example. Governor Chris Christie's aggressive incentives successfully revitalized several urban areas. However, Governor Murphy's subsequent reforms were more restrictive, significantly

POWER, PEOPLE, POLICY: THE NEW DRIVERS OF INDUSTRIAL SITE SELECTION

stalling investment and economic momentum. While investigations highlighted design and oversight issues in earlier programs, the abrupt tightening of incentives sharply curtailed new deals and cooled investor interest.

In contrast, New Jersey offers a cautionary example. Governor Chris Christie's aggressive incentives revitalized several urban areas, while Governor Murphy's subsequent restrictive reforms stalled investment, illustrating the critical need for balanced incentive policies.

Each example reinforces a common theme: projects are no longer won on land price or logistics alone. Incentives—financial, infrastructural, and workforce-driven—are shaping nearly every manufacturing and distribution investment of scale.

AVOIDING MISSTEPS IN A HIGH-STAKES ENVIRONMENT

Successfully navigating incentives requires avoiding critical errors. Prematurely announcing projects before incentive agreements are finalized can compromise negotiating leverage. For example, an investor call prematurely disclosing details of a New York City innovation lab nearly jeopardized a multimillion-dollar incentive package, highlighting the importance of absolute confidentiality until agreements are secure.

Timing the involvement of incentive consultants is equally critical. Early engagement, ideally during initial strategic planning, enables advisors to conduct preliminary “desktop analyses” to evaluate incentive scenarios rapidly across multiple locations. For example, Ollie's Bargain Outlet chose Princeton, Illinois, for its regional distribution center, securing approximately \$18.5 million in incentives that directly reduced operating costs and capital expenditures.

Advisors must emphasize proactive collaboration, transparency, and consistent communication among stakeholders, preventing costly surprises and fully leveraging incentive opportunities.

METRICS THAT WILL SHAPE THE NEXT CYCLE

As companies plan expansions through 2026 and beyond, carefully tracking key economic and market indicators is essential to effectively leverage incentives and capitalize on emerging opportunities. Economic resilience indicators such as unemployment levels, consumer confidence, productivity, and market stability offer important signals about broader economic adaptability. Companies must also monitor labor market dynamics, focusing on the availability of skilled workers, wage growth, and the strength of local training ecosystems.

Understanding tariff and trade policy developments remains crucial, as federal policy shifts can significantly impact supply chains and cost structures. Monitoring infrastructure and power availability, particularly for energy-intensive industries like data centers and advanced manufacturing, has become essential, given the increasing importance of reliable energy capacity in site selection. These metrics shape current competitiveness and future incentive landscapes. New opportunities emerge around energy innovation like nuclear, hydrogen, fusion, and advanced solar technologies. Companies like Kairos Power demonstrate advancements in modular nuclear reactor technology. Thermonuclear fusion's potential commercial viability and solar technology's efficiency gains promise transformative industrial applications.

Federal defense manufacturing and reshoring initiatives create opportunities for companies positioned within these supply chains. As federal and state incentives increasingly align, companies strategically matching their capabilities with these national priorities stand to benefit the most. These metrics matter not only for current competitiveness but for anticipating where the next decade of incentives is heading.

POWER, PEOPLE, POLICY: THE NEW DRIVERS OF INDUSTRIAL SITE SELECTION

THE LEE LENS: POSITIONING FOR WHAT COMES NEXT

Strategic incentives have become foundational in industrial real estate decision-making, reshaping expansion decisions and financing structures. Those who engage early, communicate transparently, and build long-term regional partnerships are positioned to capture value. As federal and state policies evolve, successful brokers and advisors anticipate shifts, navigate complexity precisely, and align client strategies with emerging economic priorities redefining American industrial growth.

Incentives have become a strategic compass, and those who learn to embrace, interpret, and utilize them will steer the next chapter of U.S. industrial growth.

This article is part of Lee & Associates' ongoing thought leadership series, offering market intelligence and expert perspectives from across the platform. The insights shared here reflect contributions from the following Lee professionals:

*Mike Mikulski
North American Director of Incentive & Credits
Lee & Associates, LP*

The information and details contained herein have been obtained from third-party sources believed to be reliable, however, Lee & Associates has not independently verified its accuracy. Lee & Associates makes no representations, guarantees, or express or implied warranties of any kind regarding the accuracy or completeness of the information and details provided herein, including but not limited to, the implied warranty of suitability and fitness for a particular purpose. Interested parties should perform their own due diligence regarding the accuracy of the information. The information provided herein, including any sale or lease terms, is being provided subject to errors, omissions, changes of price or conditions, prior sale or lease, and withdrawal without notice. Third-party data sources: The sources listed above, CoStar Group, Inc., and Lee & Associates proprietary data. © Copyright 2025 Lee & Associates all rights reserved.