Crossroads

Are spec buildings a good use of public funds?



Oconee County's first spec building.

Jessica Nelms/Staff

Most counties say using public money for such purposes can be risky business

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WALHALLA — At $1.8 million, a new spec building in Oconee County is causing some to pause and reevaluate whether this is the best use of taxpayers' money at a time when the local unemployment rate tops 15 percent and the economy continues to struggle.



Jessica Nelms/Staff

Rehabbing old plants is not seen as a viable option by many developers.

Support for what would be the second spec building to go up at the Oconee County Commerce Center on Highway 11 is being promoted by Economic Development Commission (EDC) officials who point to the success of the first building as a good reason to build another.

The first spec building was built in 2004 at a cost of over $1 million and remained on the market for 23 months. According to the EDC, the building sold one year faster than the national average.

Officials also point out that Oconee not only recovered its direct costs in the project (approximately $770,000), but also enjoyed the benefits of generating new taxes and adding 60 new jobs when Lift Technologies invested more than $3.2 million to expand the building.

However, others point out that the first spec building success story took place when the economy was running on all cylinders at the height of a building boom. And even then, they note, it took almost two years for the building to sell.

Critics say times have changed, making speculation on a new building at more than twice the cost to taxpayers a risky gamble.

Although some economists are declaring the recession over, or ending, they say the recovery period could be just as painful with high unemployment and businesses remaining cautious in their spending.

There is almost complete agreement among economic development experts in South Carolina that spec buildings are wonderful tools for attracting companies looking for a location to start or expand their business.

Finding Private Investors

However, the vast majority of counties in the state bring in private investors to fund spec buildings, whereas Oconee proposes to use mostly tax dollars.

Pickens County Administrator Chappell Hurst has seen public funding of spec buildings backfire. Hurst said he saw it happen in Lancaster County, which had a spec building on the market four years before it could be sold at a loss.

Hurst says Pickens County does what about 95 percent of other counties in the state do, which is try to get a private company to put up a spec building with its money.

"I've done it in the past, and it's been successful," Hurst said, citing the fact that developers who invest their money on a spec building have a vested interest in finding a buyer. They also have access to industrial clients, he notes.

"Before they put money down they have knowledge already of who may be needing a building," Hurst said.

Hurst said the county and developer could agree on the price of acreage up front and when the building is sold, recover their money. Or, the land could be donated as enticement, he added.

The use of private money would still bring the intended benefit for the county of creating new jobs and expanding the tax base.

Jerry Howard, president

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and chief executive officer of Greenville Area Development Corp., said public-private partnerships are the ideal way to get a spec building. He said public funds are needed for infrastructure to entice private capital investment.

Howard said the economy is going to pick up, and counties need to have products available to show when that time comes.

Although he admits spec buildings are a gamble, Howard said the potential return is exponentially higher than the initial investment. However, in Greenville's case, as in most other counties, the risk is left up to the private developer. He said Greenville has been fortunate to have investors interested in the speculative market and has always had one or two spec buildings to show clients.

"Anytime you spend taxpayer money for anything you have to be prudent," Howard said.

Marvin Moss, executive director of Laurens County Development Corp., said he understands that companies are going to be in a hurry when the economy turns around, but is wary of footing the upfront costs of a spec building with public funds. To minimize those startup costs, Moss, with the help of the Upstate Alliance, is promoting what is being billed as a virtual spec building.

Moss said Laurens is investing less than $300,000 in grading and other prep work on 20 acres at its Hunter Industrial Park. Warren & Associates Design engineered a 50,000-square-foot building footprint that can be expanded to 100,000 square feet.

"We are preparing a site that can be completely customized to any business' exact specifications," Moss said. "They can get the building customized in 120 days to get somebody in there."

The concept of a virtual spec building and the benefits of attracting private investors are not foreign to EDC officials. Both strategies are offered as viable alternatives in the Economic Development Strategic Plan for Oconee County. However, EDC officials said at a County Council workshop in June that they would prefer for the county to have ownership because it would have greater control of who eventually moves into the spec building.

Those same officials say that empty facilities throughout the county, conceivably available to industrial prospects, are limited, old and some lack the roof height usually needed by industries.

That is also the opinion of South Carolina Dept. of Commerce spokesman Maceo Nance, who recently addressed the Oconee Alliance.

Nance told community leaders that counties must have available building space and suggested that vacant industrial buildings often are not adequate.

"Ideally, when you sell one (spec building) you need to start building the next one," he said.

The difficulty of peddling old industrial stock is evidenced by the fact that a deal for the sale of the former Propex facility in Seneca, which was reported in June, has apparently gone sour. This despite the fact that the facility has 16 truck docks, three drive-in doors and utilities served by Seneca Light & Water and Fort Hill Natural Gas.

Closed in 2006, the plant was built on 148 acres in 1968. A warehouse was added in 1991. Johnson Controls is currently leasing about 30 percent of the square footage.

However, Oconee County Council Chairman Reg Dexter is not completely convinced that taking a closer look at retrofitting empty buildings to bring new business opportunities is without merit.

The spec building issue was pulled from the County Council agenda July 7 and EDC Director Jim Alexander said the matter won't be addressed until after a special election Aug. 25 to fill the vacant District 1 County Council seat.

Republican candidate Paul Corbeil, who is favored to win the seat over Democratic rival Jack Collins, is on record as being in favor of the plan for a new spec building.

Alexander appears to be confident that the proposal will receive council's backing.