

Careful what you wish for — Amazon HQ2 could make Toronto's existing problems worse

The city was elated when it made the short list, but winning the prize risks making unaffordable housing, gridlock and brain drain even worse

Claire Brownell - February 2, 2018



In November, San Francisco's homeless residents living near a pet adoption clinic in the Mission District got some 400-pound, beeping, whirring new neighbours courtesy of the Society for the Prevention of Cruelty to Animals.

Frustrated by repeated break-ins and vandalism, the organization had posted robot security guards outside its building. The SPCA has denied intending to harass the homeless people camping nearby, but harass them the robots did, recording their activities on video and causing some to move their tents because of the noise and surveillance.

The robots quickly became a symbol of San Francisco's inequality problems, which many blame on the growing number of high-paying tech giants in the city. Those companies have brought massive economic growth to the region, but also skyrocketing rents, worsening gridlock and a growing homeless population.

There is good potential to make Amazon actually work in Toronto if the terms are negotiated early on, if it's not a carte blanche

Abdullah Snobar, executive director of the DMZ

Those problems, experts say, may befall Toronto if it ever succeeds in becoming the location for Amazon.com Inc.'s second headquarters, a competition that in January was narrowed down to 20 possible sites, including Canada's most populous city.

Local public officials were elated by the news and no wonder — the prize is 50,000 jobs and US\$5 billion in economic investment, in addition to much-coveted international validation as a “world-class city” — but others wonder whether the negative side effects experienced by fast-growing tech enclaves such as San Francisco will be worth the win.

Those unpleasant consequences are not necessarily inevitable, but experts say avoiding them would take a combination of careful planning and quick action on the part of the city.



The Amazon.com Inc. Spheres, right, during opening day ceremonies at the company's campus in Seattle on Jan. 29. Unlike other U.S. tech centres, Seattle has kept up with the demands of a growing work population by building new housing at a higher rate than other tech hubs such as San Francisco. Mike Kane/Bloomberg

“There is good potential to make Amazon actually work in Toronto if the terms are negotiated early on, if it's not a carte blanche,” said Abdullah Snobar, executive director of the DMZ at

Ryerson University. “You don’t want to get caught up in this carrot they’re going to be waving in front of you that they’re going to be creating jobs.”

To be sure, the home of Amazon’s original headquarters has done a much better job of addressing the challenges posed by rapid tech-fuelled growth than San Francisco has.

San Francisco tends to fight new development proposals to preserve the character of its neighbourhoods, while Seattle’s comparatively growth-friendly policies have helped keep rents and housing prices in check.

An analysis by the San Francisco Business Times in April 2017 found the city has only built one new unit of housing for every 12 jobs added since 2010. Seattle, meanwhile, has added a new housing unit for every three new jobs.

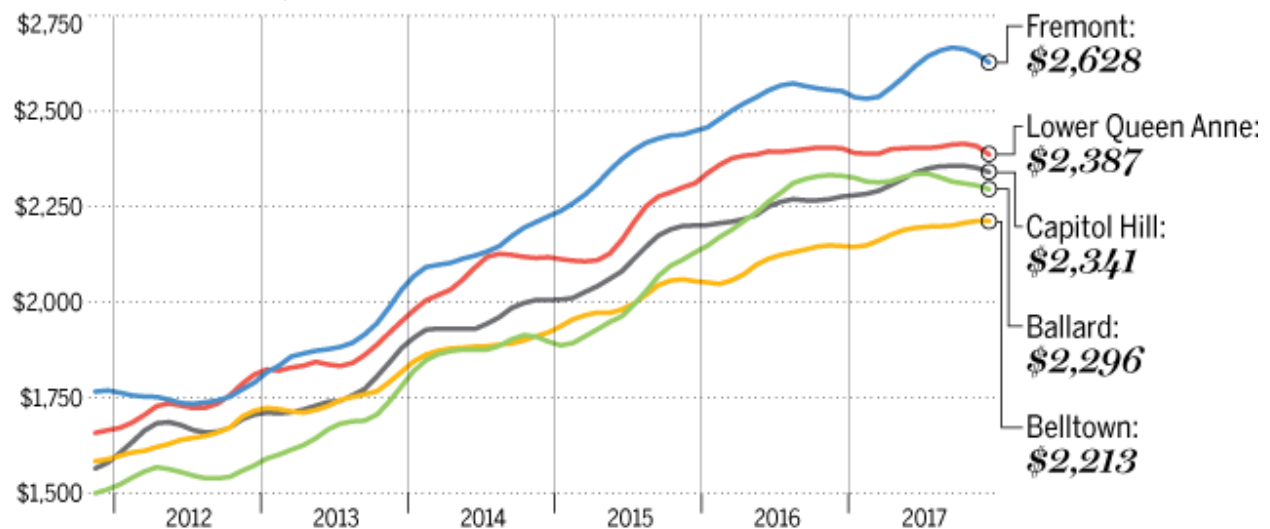
Rapid growth, however, has still put pressure on Seattle.

An analysis by real estate data firm Zillow found the jobs boom in the city’s South Lake Union neighbourhood, home to Amazon’s headquarters, was associated with annual rent increases equivalent to US\$44 monthly on a typical 650-square-foot, one-bedroom apartment from 2011 to 2015.

And, according to a report by TorontoRentals.com, Toronto residents can expect to pay an extra \$137 per year in rent if the city becomes home to Amazon HQ2.

THE AMAZON EFFECT ON HOUSING

MEDIAN RENT IN U.S. DOLLARS, SEATTLE NEIGHBORHOODS THAT ARE POPULAR WITH AMAZON WORKERS, NOV. 2011 — DEC. 2017



SOURCE: ZILLOW.COM

NATIONAL POST

Toronto's experience would also be different because Seattle absorbed the changes as Amazon grew organically. Amazon won't hire all 50,000 employees at HQ2 at once, but Toronto will still have to figure out how to cope with the biggest corporate relocation in history.

Morgan Shook, a senior policy and economic analyst at Seattle-based economic consulting firm ECONorthwest, said the benefits of the jobs boom have generally outweighed the costs in the west-coast city, though long-time residents are more likely to experience such changes as negative.

"If you're an outsider moving to Toronto because Amazon's there, that's obviously a win for you, getting paid wages that are commiserate to what it costs to live there," he said. "Insiders typically perceive the change as being negative, because their relative position with congestion and prices is typically negative."

Aaron Terrazas, Zillow's lead housing economist, said Toronto and Seattle have both done a good job of adding new downtown condo units. But as workers get older and start families, they look for single-family homes, a type of housing that's in short supply in both cities.

Building transit is essential, to give people options of where to live and not force people to live exactly adjacent to the headquarters

Aaron Terrazas, real estate data firm Zillow

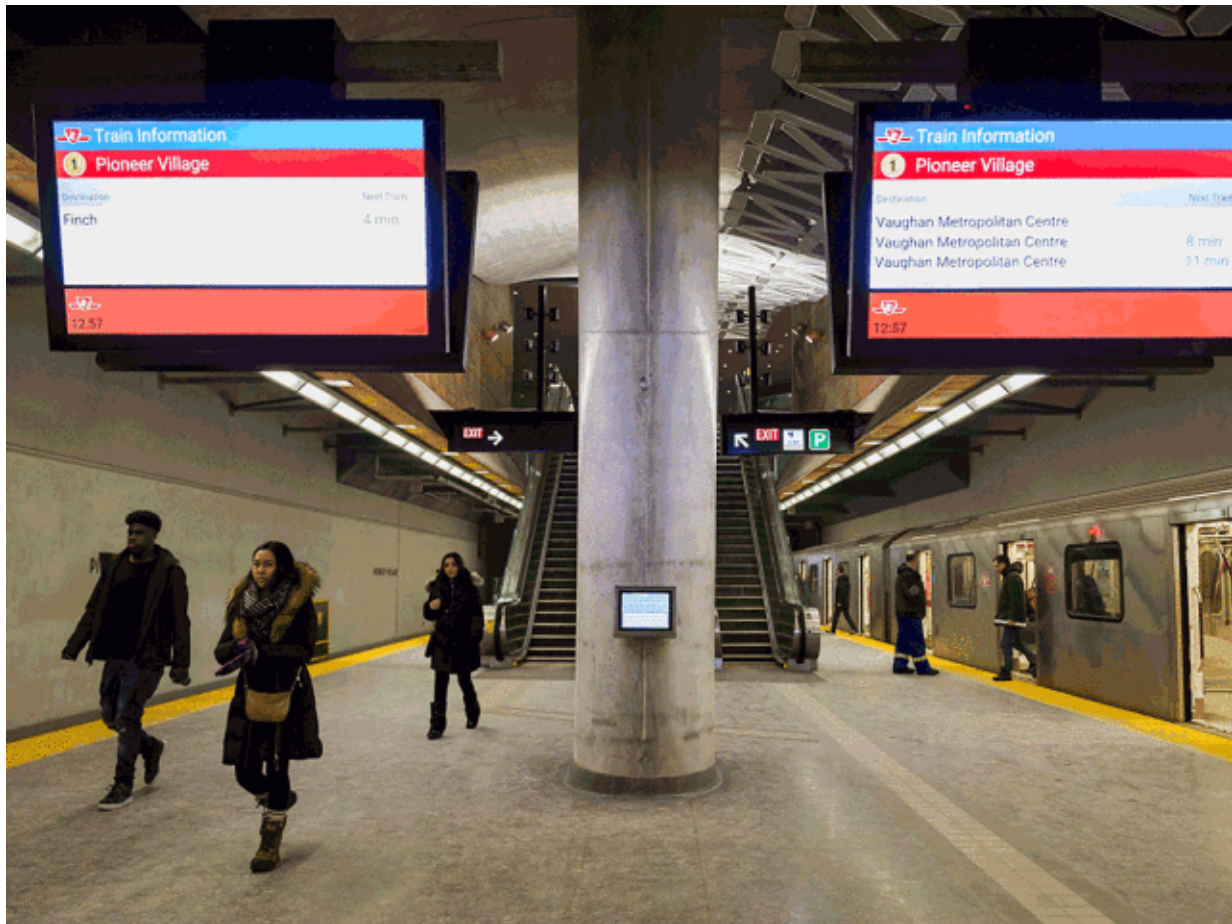
Terrazas said improving transit is an important part of solving that problem. This will be particularly true if Amazon picks a downtown location for HQ2, since it will be impossible to cram housing for 50,000 workers into Toronto's already congested core.

"Building transit is essential, to give people options of where to live and not force people to live exactly adjacent to the headquarters," he said.

But if Toronto commits to ramping up new housing development and drastically improving transit, it would represent a major change from how things have generally gone on both fronts for decades.

Toronto shares San Francisco's NIMBY problem when it comes to new housing proposals, with famed author Margaret Atwood generating headlines in August by joining forces with her well-off neighbours to oppose an eight-storey condo building in the Annex neighbourhood.

The city recently added new subway stops for the first time in 15 years, extending the system further north, but residents still groan with envy when they compare transit maps of other major cities to the Toronto Transit Commission's "U-with-a-line-through-it" design.



Subway riders walk past an interactive art installation at the new Pioneer Village station, in Toronto. The station is among the first new subway stops to be built in the city in 15 years. Development experts warn that if Toronto were to win the Amazon HQ2 competition it would need to quickly ramp up its transit expansion plans to cope with the influx of workers. Christopher Katsarov/The Canadian Press

Torontonians love to complain about unaffordable housing and bad transit, but it's doing very well compared to other major cities, said John Boyd, principal at The Boyd Company Inc., a Princeton, N.J.-based consulting firm that specializes in corporate relocations.

Boyd said it would be a big mistake for the city to reject Amazon because it's worried about the effect on quality of life.

"A rising tide raises all boats. It'll be a shot in the arm for the real estate industry in the winning city," he said. "People will have options of living downtown, or given the good public transit, they can live in some of the suburban options in Toronto. Housing, I think, is a strong suit for Toronto."

But housing prices and congestion aren't the only worries. Some prominent voices in the tech community are raising concerns about the effect of Amazon HQ2 on local startups.

Venture capitalist Anthony Lacavera said it's important to remember the "2" in Amazon HQ2: the company's real headquarters will still be in Seattle and top talent will likely get poached from Toronto startups and eventually migrate to the U.S., he said.

"If you're a rising star in an organization, where are you going to get promoted to? If you're a rock star developer, what's your career path?" Lacavera said. "If you can convince me that Jeff Bezos is going to show up at work every day in Toronto, I would say, 'You know what, wow, that's great for Canada.' But that's not the way it's going to go."



Venture capitalist Anthony Lacavera is worried that an Amazon HQ2 could wind up posing a brain drain to Toronto's tech industry as Amazon moves the city's best and brightest to its headquarters in Seattle.

Lacavera said he wants to know why all three levels of Canadian government are falling over themselves to attract a foreign company when there are local startups that could become the next Amazon with the same support.

Canada isn't offering any direct incentives in its bid for HQ2, but various levels of government have promised indirect benefits, such as increasing education spending to produce more graduates with expertise in artificial intelligence.

“I’m extremely pro-competition, but I’m extremely pro-level playing field,” Lacavera said. “If they’re going to roll out the red carpet for Amazon, I want to see the red carpet rolled out for ... a list of Canadian growth companies.”

If they're going to roll out the red carpet for Amazon, I want to see the red carpet rolled out for ... a list of Canadian growth companies

Anthony Lacavera

Of course, none of these concerns will come to pass if Amazon chooses another city for its second headquarters. Relocation specialist Boyd said Toronto would be a serious contender if it weren't for U.S. President Donald Trump's penchant for punishing companies that move jobs to other countries.

“It comes at a time when the thrust here in the States is America First,” he said. “That’s the mantra coming out of the administration in Washington.”

But just in case Amazon decides picking Toronto is worth the risk of Trump's wrath, the city needs to be prepared, said Snobar, DMZ's executive director. The problems Amazon HQ2 would bring may be problems most cities would love to have, but they're still problems.

“Some people look at it as, if Amazon comes, they're going to be our saviours, they're going to be wearing the capes, they're going to be here solving all the problems,” he said. “That’s not true at all.”