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Unlocking the Amazon HQ2 Mystery: Here's What You Need to Know

More than 200 cities have applied. Here's are some facts and figures to consider while the world waits for the e-commerce giant to make a decision.



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Last month Amazon announced it will be building a second company headquarters--dubbed "Amazon HQ2"--somewhere in North America, inviting city and state leaders to submit proposals which were due October 19. It's a huge opportunity considering this second headquarters is expected to bring with it as many as 50,000 jobs and tens of billions of dollars' worth of investment in whatever community the online ecommerce behemoth chooses.

Here's everything you probably are wondering about the project, according to John Boyd, Jr., principal of the site selection firm The Boyd Company, Inc., in Princeton, New Jersey, which boasts clients including Boeing, Chevron, Pratt & Whitney, PepsiCo, Visa International and more.



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Why does Amazon want a second headquarters?

Amazon is one of the fastest-growing companies in the U.S., expanding beyond its booming e-commerce business and getting into additional sectors like media, fashion, food and beverages, publishing, IT, and soon the pharma and medical devices fields. It is bursting at the seams at its current headquarters in Seattle. Amazon's HQ2 will offer the company a new center of gravity to attract and recruit a workforce rich in skill sets in these industries.

What criteria does Amazon have for the city it picks?

Amazon wants to be in a large metropolitan area of at least a million people with a highly educated and diverse workforce. The company also prioritizes public transit and being near a major airport with nonstop flights to major U.S. and global markets. It also wants to feel that the city it chooses is prepared to be a "partner" in this trophy project--the largest in the history of economic development--and invest in things like infrastructure and job training programs.

What cities most closely align with Amazon's criteria?

I expect the leading contenders to be: Newark, Chicago, Dallas, Boston, Atlanta, Philadelphia, and the Washington, D.C., metro area, including Virginia's Fairfax County and Maryland's Montgomery County. These are all high-growth markets with excellent air service, strong incentive programs and workforces rich in IT and C-suite management skill sets.

Are there any wildcards Amazon might be looking at?

An interesting candidate would be South Florida, given the Sunshine State's business climate, the lack of a personal income tax, strong in-migration trends and lifestyle amenities that transferees would likely find appealing. Rick Scott, one of the most successful U.S. governors in terms of business attraction, has made landing Amazon a major focus during his last months in office. In South Florida, Amazon would be able to tap into a multi-lingual workforce--a radically different center of gravity versus Seattle--and that may be a powerful draw considering the company's focus on Latin American and European growth. South Florida also has the Brightline transit system linking Orlando to Miami. This exponentially expands the labor market with skilled and multi-lingual workers and will link employers to research institutions, technical schools and diverse real estate options for a growing company such as Amazon.

Toronto also may be on Amazon's radar. It's a magnet for global talent, offers a booming IT sector, a world-class airport in Pearson International and a highly developed public transit system. The most populous city in Canada also provides Amazon CEO Jeff Bezos a platform to discuss immigration and free trade (major lobbying priorities of his in Washington, D.C.). Canada has a much more liberal and progressive immigration policy compared to the U.S. and is more in-line with Bezos' progressive world view. Toronto's nationalized health care is

another consideration. There is no free lunch in Canada and taxes there are higher. However, the corporate health care cost burden under the Canadian one-payer system is significantly lower--roughly 20 percent lower, in fact, than in the U.S. This would translate into hundreds of millions of dollars of savings for Amazon given the enormous size of the HQ2 workforce.

Pittsburgh is another. Just as Amazon is leveraging the site selection process to help transition its brand away from traditional e-commerce and towards innovation, Pittsburgh in recent years has transitioned its brand away from old line manufacturing and towards IT. The city's tech sector today is red-hot and home to Google, Uber, Microsoft, and Apple. Amazon itself currently has a large presence in the region in nearby Crafton. The region's labor market produces over 40,000 degrees a year, distinguished by Carnegie Mellon's world class reputation and the University of Pittsburgh, the third largest university in Pennsylvania. And while transit has never been a strong suit of Pittsburgh, it's worth noting that Pittsburgh International Airport (ranked as a Top 10 airport this year by Conde Nast) is undergoing a \$1 billion renovation this year. Pittsburgh also enjoys a lower cost profile versus Philadelphia and has many potential sites for Amazon to consider. It may not hurt Pittsburgh's chances that Jeff Wilke, CEO of the e-commerce giant's consumer business, is a Pittsburgh native and has deep ties to the community.

When will Amazon announce which city it chooses?

The applications were due October 18. Amazon expects to make its decision sometime in 2018.

What will be happening in the meantime?

Just as Amazon is leveraging the high-profile site search for a myriad of benefits (the PR, the marshalling of incentives, influencing state and federal legislation, and kick-starting infrastructure projects in markets that they currently operate their 200 fulfillment centers), the cities applying to Amazon have a platform to make their case to a national site-seeking audience. Economic development success is about the steak and the sizzle--the PR lasts forever and savvy economic development leaders understand this.

In Missouri for example, Governor Greitens is talking about the HyperLoop that will connect St. Louis to Kansas City to make the case that the Show Me State is futuristic and IT-focused. In South Florida, economic development professionals in high-growth Miami, Ft. Lauderdale and Palm Beach County have a platform to talk about the new Brightline Transit system linking Orlando to Miami and the benefits of being a pro-business state with a diverse and multilingual labor pool.

In addition to the PR benefits of being in the discussion for Amazon's HQ2, the application process allows cities to forge relationships with Amazon officials that could lead to Amazon projects in the future or even lead to Amazon encouraging its suppliers or vendors to locate a facility in that market. This is especially true for large states with sizable congressional delegations like California, Florida, New York, Texas, Illinois and Pennsylvania. Amazon is a

company with a long list of lobbying priorities and as a company expanding into a number of highly regulated industries like healthcare and media, it wants as many friends on Capitol Hill as possible.

What are the downsides to being chosen?

There will clearly be some inflationary cost pressures in the housing market given the huge employee base required by Amazon - some 50,000 workers - and the fact that the winning city will be absorbing a large in-migration of new workers and their families. That said, that negative will be far outweighed by the economic stimulus that the new HQ will generate.

Amazon is the 5th largest company in the U.S. and Jeff Bezos is the second richest man in America, worth over \$80 billion. How are tax incentives appropriate?

It's important to remember that much of the incentive money goes beyond traditional tax credits, but also to new infrastructure development and workforce training programs. These are investments in a region's ability to attract new industry and compete in the highly competitive world of economic development. Amazon wants to select a city for HQ2 prepared to be a "partner" and willing to invest in these areas.

Economic development in 2017 is super competitive. We call it "The Second War Between the States" and we believe incentives are a necessary evil, especially in high-cost markets like New Jersey, Boston, the D.C. metro area and Chicago. Until lawmakers first do the heavy lifting and make government less costly (by doing things like pension reform, consolidating services and cutting red tape and taxes) then business incentives are necessary for high-cost states to compete in today's highly competitive economic development arena.

Regardless of what tax breaks Amazon will be awarded by the winning city, Amazon and its highly paid employees will contribute millions into the tax coffers in the form of income, sales and property taxes. It will represent a huge economic stimulus to the winning metro area. The retail sector will get a much-needed boost as well as the hotel and convention sector, not to mention a major infusion to the philanthropic community and local charities. The new HQ will also be the catalyst for major new home construction across the board from suburban tracts, to condos to apartments to re-purposed homes in inner city redevelopment projects. This range of new housing stock will mirror the wide range of jobs at the Amazon head office - from clerical and secretarial support to techies right up to the executive suite.

How many cities have applied?

Amazon says 238 cities have applied to be chosen for its HQ2.

How will HQ1 be affected?

While I expect Amazon to maintain a large presence in Seattle, the city needs to come to grips and recognize its challenges to a growing Amazon. We would not be surprised to see future HQ growth to its new location rather than in the more difficult Seattle market. Seattle has one of the most anti-business, ultra-progressive city governments in the country. It is pushing for a millionaires tax even though Washington's state constitution prohibits a personal income tax. It has been a leader in anti-business social legislation in areas like minimum wage and paid leave. Also, Seattle presents challenges for Amazon from a national recruiting standpoint. It is a city that transferees either love or hate--there is no middle ground. The cost of living and housing costs have skyrocketed in recent years fueled by the phenomenal growth of its high tech and go-go sector firms like Amazon, Microsoft, Expedia and Starbucks. One area for lawmakers in Seattle to focus on is creating new incentives to promote re-purposing of vacant industrial, office and retail space for affordable housing.

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