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## You Want To Know More About Amazon HQ2? Enjoy The Silence

May 21, 2018 Cameron Sperance, Bisnow Boston

Nine months ago, Amazon tucked itself into a cannonball and splashed every city in North America with an unprecedented public challenge: Convince us to build a multibillion-dollar headquarters in your town. There were only a few requirements.

For starters, Amazon would need a metropolitan area of at least 1 million people. An international airport was compulsory, as were inroads to a few major universities. Cities were encouraged to provide financial incentives, and the dollar figures bandied about quickly soared into the billions.

The prize: a \$5B investment for Amazon's second headquarters and 50,000 new jobs. The waves from that initial plunge morphed into what is now known as Amazon HQ2 — a trending hashtag, a topic of endless clickbait headlines and fodder for "Saturday Night Live" skits and constant debates at water coolers in and beyond commercial real estate.

The over-the-top proposals that came from cities around the continent rippled into the mainstream to make #AmazonHQ2 a bona fide pop culture moment.

"In my 25 years in real estate, I've never experienced anything like this," said Eric Sussman, a professor of real estate and accounting at UCLA's Anderson School of Management and a founding partner of real estate investment firm Clear Capital LLC. "I don't think there ever has been anything like it."

But for all of the noise that came out of Seattle in the early, chaotic days of the Amazon HQ2 search, Amazon has remained largely silent as cities and observers trip over themselves to guess what the retail giant will do next. And that is probably exactly what Amazon wants. "From a negotiating standpoint, I think the silence is brilliant," Sussman said. "Let these regions fight it out in a [mixed martial arts] octagon, and we'll see who are the last few standing."



## **Just A Standard 'Race To The Bottom'?**

Most companies conduct site selections behind closed doors with a select number of invited cities, but Amazon disrupted the practice. The very public launch of HQ2 and open invitation to bid made Amazon, before it retreated to a normal corporate practice of tight-lipped silence, an anomaly — and sparked an all-out incentive war among bidders looking to elbow out the competition.

The HQ2 request for proposals indicates Amazon is after a business-friendly environment with a favorable tax structure, and that has pushed states into a corporate incentive battle royale. One of former New Jersey Gov. Chris Christie's final acts in office was to approve a plan to give \$7B in incentives to Amazon if it decided to put HQ2 in Newark. Maryland lawmakers upped the ante and greenlighted up to \$8.5B in incentives to bring Amazon to the Old Line State in Montgomery County. Amazon didn't even have to bother notifying other bidders when one incentive proposal trumped the other, as the press was quick to run with stories of billion-dollar tax benefits.



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The invitation to compete for HQ2 elicited 238 bids from regions across North America. While the company only advanced 20, many of the bids are public, enabling companies beyond Amazon to know just how much a region is willing to offer a company to set up shop within town lines.

“In terms of how this could affect things going forward, Amazon is getting a lot of information here, and other firms are getting a lot of information here in what cities are willing to put on the table,” said Megan Randall, a research analyst at Urban-Brookings Tax Policy Center. “This is what we call the race to the bottom. Cities lose leverage in this and future situations, and the tax base is compromised.”

The race to the bottom is a standard criticism against public funds going to private investment, and Amazon isn’t necessarily unique in remaining silent to garner a better deal. It happens a lot, as Randall points to General Electric’s headquarters search before it ended up in Boston, Foxconn’s \$3B incentive plan to open a manufacturing plant in Wisconsin and Texas’ incentives

to win over the likes of Samsung as all in the same vein as Amazon. “When I see Amazon, I don’t see something that is pursuing some new strategy,” Randall said. “It’s following the template other firms very much have followed, just in a very public manner.”

In going quiet, Amazon is behaving as any business would, albeit on a grander, 8M SF scale. Hult International Business School Associate Dean Matt Johnson focuses on behavioral economics and branding and doesn’t see anything out of the ordinary with the HQ2 bid. Amazon is just using the media to its advantage.

“In a negotiation, information is at a premium in getting the highest bid, and that will happen when you have more information than the other party does,” he said. “Amazon doesn’t really need to release information and show their hand, because there’s a media that will provide this information for free and has cities looking over each other’s back.”

## **Navigating HQ2 Traffic**



HQ2 has dominated the real estate news cycle since getting announced. Stories of Boston being a favored bid city emerged early in the HQ2 process, including a Bloomberg report that Amazon executives were pushing the idea of a New England HQ2.

Amazon eventually issued a statement refuting the report. One account that Amazon has not rebuffed came from ARLnow, an Arlington, Virginia-based web publication.

The news organization noticed in February a December article about Arlington County winning a sustainable building award was generating a lot of traffic months after publication from what appeared to be an internal Amazon site devoted to its HQ2 search.

Northern Virginia is one of three Washington-area regions on the shortlist, leading many interviewed for this story to believe Washington, D.C., is the Amazon HQ2 front-runner. The traffic revelation fueled national coverage predicting Amazon would eventually pick Arlington for HQ2. While ARLnow reports on HQ2 news as it comes in, it isn't letting it dictate its editorial calendar.

"When we have covered it, the readership has been high, especially the story about the internal HQ2 traffic coming to our site," ARLnow founder and CEO Scott Brodbeck said. "But it is hard to cover because you can't get a thing out of Amazon and they've succeeded in scaring local officials from breathing a word — though we have been able to glean some insight from sources on background."

Amazon's silence is the normal part of the equation. But it could be dropping hints to finalists to lure out a final round of incentives from the eventual winner.

"I would go so far as to say their strategy has been along to set arbitrary dates for decisions and drag past those to see if people could come along and offer greater concessions and a sweeter deal," said J. Scott Scheel, CEO of the Commercial Academy, which teaches individuals how to buy real estate.

"I would say that list has been whittled down, but that doesn't mean a governor or mayor isn't going to trot out some last-ditch effort that could ultimately turn the decision."

## Lessons From Disney And 'Donahue'



Disney was in a similar position to Amazon over 50 years ago. Disneyland opened in Anaheim, California, in 1955, and the Disney brand rapidly became a cultural phenomenon. Less than a decade after the West Coast park opened, the company looked for a park with better accessibility than Anaheim and set its eyes on St. Louis.

Plans for a five-story Walt Disney Riverfront Square in downtown St. Louis were drawn up and Walt Disney even met with the Missouri city's mayor in 1963 to discuss the new theme park.

The plans fizzled.

A dispute between prominent St. Louis resident and Anheuser-Busch beer titan August Busch Jr. and Disney over whether the proposed park would sell beer was rumored to be the plan's death sentence.

But a Disney historian claimed in 2013 the beer skirmish had been settled and the Midwest Disney park proposal stalled because the St. Louis redevelopment corporation declined to a deal in

which Disney would pay for the rides and attractions while the city would front the cost for the building.

The company's second theme park went to Orlando and has since had a transformative effect, with other theme park operators opening in the Florida city and even an NBA expansion team, the Magic, added in the late 1980s in reflection of the city's ties to the House of Mouse.

"There's an entire universe that has been created around that, including Universal, which is obviously not aligned, but it was because of the infrastructure and skill set developed by that Disney workforce and gave Universal a slight second mover advantage," Scheel said.

"That's really an excellent example of what happened to a complete game changer in a marketplace." Twenty years later and over 1,000 miles away, the high drama of General Motors Corp.'s 1980s search for a site to open a \$3.5B Saturn assembly plant reached the point where several U.S. governors went on Phil Donahue's popular talk show to appeal to the automaker to pick their state.

Representatives from Chicago and the state of Missouri plastered billboards touting their respective regions in Detroit before Tennessee cinched the win. The state of Illinois issued a comic book with its governor illustrated as a superhero fighting off other states in the pursuit of Saturn.

The Nashville suburb of Spring Hill, Tennessee, was chosen as the winner from 1,000 potential sites in 38 states.

Sen. Lamar Alexander, the Tennessee governor at the time of the GM plant search, didn't even travel to Detroit to visit automaker executives. GM and Tennessee kept the winning bid private, saying it was out of respect for the losing regions.

Although Saturn ceased operations in 2010, the Spring Hill plant has remained a boon for the Volunteer State and still produces other GM cars.

## Wooring Washington, Running The Clock



Amazon has concluded visits to all 20 finalist regions, but hasn't yet whittled the list further or announced a winner. The company's ongoing silence could be part of a larger strategy — a move in a game of legislative chess or a way to secure business or facilities beyond a second headquarters.

During the Amazon HQ2 search, the company announced a Boston expansion that will bring at least 2,000 jobs to the city's Seaport neighborhood. The company maintains the office is unrelated to HQ2, though Boston is on the shortlist. Its Amazon Web Services subsidiary is also planning a 600K SF data center in Northern Virginia, also a contender region for HQ2. Finalist Columbus, Ohio, is getting a 1,500-job distribution center.

"Amazon is very successful in leveraging not just incentives but to influence state and federal policy," corporate site selection firm The Boyd Group principal John Boyd said. "People ask us why they put Los Angeles on the shortlist. California has the largest congressional delegation.

They want to keep a good relationship with those members of Congress and leverage that for beneficial tax policy.”

Amazon’s growth has been due, in part, to favorable tax policy and regulation, and the company certainly does not want to disrupt that, particularly with President Donald Trump routinely lashing out at the company on social media for taking advantage of the United States Postal Service.

Even though many analysts expect HQ2 to wind up on the East Coast, Boyd said ongoing silence from Amazon and the presence of California and Texas cities on the shortlists remains a smart strategy. “In the final phases of making a decision, they don’t want to make any additional enemies or annoy members of the Texas congressional delegation or any other states,” he said.



Amazon announced in June its intention to acquire Austin, Texas-based Whole Foods, and the \$13.7B deal closed in August. The HQ2 process has been more drawn out, but Randall said that isn’t surprising for a company doing its due diligence and looking for the best deal it can get for

such a mammoth project. But the prolonged timeline has made the prospect of HQ2 less appealing for one region.

Colorado Gov. John Hickenlooper said in January he wouldn't cry if Denver lost HQ2 to another city and even said there would be a sense of relief in not having to tackle the planning challenges to accommodate Amazon.

Amazon momentarily halted construction on a 17-story building in Seattle in protest of the city's proposed business tax to fund help for the homeless. The company campaigned against the measure, and the city responded earlier in May by passing a tax half the rate of what was originally proposed.

Amazon Vice President Drew Herdener said his company was still "very apprehensive about the future" in Seattle.

That could have cities on the shortlist concerned.

"I would assume the current fight in Seattle would lead to the opening of eyes and make people consider, 'are we getting in bed with the devil?' and what are the trade-offs," Sussman said.

But the transformative nature of bringing 50,000 high-paying jobs to a region and the ripple effect they would have to any city's economy is outweighing any apprehension about the Seattle homeless tax fight.

If anything, Sussman sees cities going back out of fear and paranoia in the final days of the bidding process to find more funds to pitch to Amazon in a last-ditch effort to land HQ2.

"It's the art of the Bezos deal," he said with a laugh.