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Pittsburgh could be a contender for Amazon's HQ2 — if it will pay the price



Richard Drew/Associated Press

Mark Belko - *Pittsburgh Post-Gazette* - Sep 12, 2017

Pittsburgh has the talent pool. It has the universities. It has strong cultural institutions and a good housing stock. But does it — and the state as its partner — have the stomach to pony up perhaps \$1 billion or more in incentives to land Amazon's prized second headquarters, or HQ2?

James Thomson, a former Amazon executive who now is a partner in Utah-based Buy Box Experts, said it could take significant tax breaks or land offerings to lure the e-commerce giant.

Cities and states, he said, will have to weigh the cost of the incentives against the promise of the new headquarters — one that Amazon says will bring 50,000 high-paying jobs and up to \$5 billion in investment.

“The reality is this is a massive beauty contest where the winning city could have a winner’s curse. It could take a long time to generate back the benefits,” said Mr. Thomson, the former head of Amazon Services.

Amazon is not shy about taking handouts.

According to Good Jobs First, a Washington, D.C.-based nonprofit promoting accountability in economic development, the Seattle company has received more than \$1 billion in incentives nationwide since 2000. The last two years alone, it has gotten at least \$241 million in subsidies from state and local governments to build warehouses.

“This is money laying around on tables and they are grabbing it,” said Greg LeRoy, Good Jobs First executive director.

Pennsylvania provided Amazon with \$22.25 million worth of incentives last year, contingent on the internet retailer investing at least \$150 million and creating at least 5,000 full-time jobs over three years.

Mr. LeRoy does not agree with Mr. Thomson that such subsidies will be the deciding factor — or even a major one — in Amazon’s decision. He said state and local taxes typically make up only about 2 percent of a company’s cost structure. “Incentives are almost never determinative of where companies expand or relocate because they’re too small,” he said.

The key factor, Mr. LeRoy maintained, will be talent — and lots of it.

“If you’re going to hire that many people, you need a really big labor market,” he said, adding that if he were advising a mayor, “The only thing I would focus on is the executive talent pool.”

Mr. Thomson, who now helps brands optimize their strategies for dealing with Amazon, said Pittsburgh could have a better chance than most cities because of the tech and engineering talent churned out by universities like Carnegie Mellon and Pitt, and the burgeoning tech presence in the city as a whole.

Amazon’s biggest problem, he said, is securing talent. Despite the promise of six-figure salaries, the company has had a hard time recruiting top-flight talent to Seattle.

That’s in part because of the high real estate prices that its rapid growth helped to create. The Amazon campus totals 33 buildings and 8.1 million square feet of space.

“Even if you make \$100,000, you can’t afford a house,” he said. “The reality is, there are not enough nice places to live on that salary.”

Amazon might be willing to take less in incentives, Mr. Thomson said, if it knows it will have a steady stream of talent to draw from at local universities and perhaps even others in the state. Pittsburgh also has the cultural scene and the kind of “curb appeal” that the online retail giant is seeking.

“The big question is, what is it worth to the state and the city?” he said.

The state is providing Shell with \$1.6 billion in tax incentives to build its \$6 billion ethane cracker plant in Beaver County, and Allegheny County Executive Rich Fitzgerald said he’s willing to pony up to land Amazon because of the level of economic impact involved.

Pittsburgh will be competing against dozens of other cities, including intrastate rival Philadelphia. Gov. Tom Wolf has directed his economic development team to provide any support needed to “showcase Pennsylvania’s world class cities as potential homes for Amazon’s growth,” spokesman J.J. Abbott said.

John Boyd, principal of the Boyd Company Inc., a corporate site-selection firm whose clients include Pittsburgh-based PNC Bank, sees suburban Washington D.C., Nashville, Tampa Bay and Toronto as possible front runners for Amazon’s second headquarters.

Mr. Boyd called Pittsburgh both an “outlier” and a “legitimate contender,” one that could end up in the top 10 cities considered for a project he described as the “holy grail of economic development.”

Amazon CEO Jeff Bezos is an out-of-the-box thinker who most likely is aware of Pittsburgh’s transformation from a steel town to a hub for education, medicine and technology with firms like Uber and Argo AI developing self-driving vehicles, he said.

“It wouldn’t surprise me if the headquarters is constructed around a former steel mill, a former manufacturing plant, or a former mall that is nothing but spider webs,” he said. “[Mr. Bezos] is all about sustainability and redevelopment.”

And if Mr. Bezos needs to know more about Pittsburgh, he won’t even have to leave the office. Jeff Wilke, CEO of the e-commerce giant’s consumer business, grew up in the Steel City and is a huge Steelers fan.