FEATURED ARTICLE



In November 2018—at the end of its highly publicized and much anticipated 14-month search—Amazon announced its decision to split its secondary headquarters between Crystal City in Virginia and Long Island City in the New York City borough of Queens, across the East River from Manhattan.

or these selections, Amazon chose similar locations: not in a big city downtown, not in the suburbs, but in an in-between, pedestrian-friendly, urbanish environment with existing commuter rail lines. Each location also boasted a large amount of existing office space with a high, or soon-to-be high, vacancy rate, meaning a substantial number of Amazon employees could transfer in almost immediately.

In New York, the company had planned to occupy 1 million square feet in the former Citigroup Tower in Long Island City, which seemed very gratifying since Citgroup, the main tenant in the building, was planning on moving most of its workers out of the structure by the year 2020. However, in March 2019, Amazon released a notification that it had canceled its plans for the New York location, citing state and local officials who criticized the deal's tax incentives as the reason. This leaves Crystal City as the sole location for HQ2 (although Amazon still has workers in New York that it will retain).

Crystal City

he Crystal City Business Improvement District (BID) was formed in 2006 as a public-private organization to promote Arlington, Va., a region just outside of Washington, D.C. Along with neighboring Pentagon City and Potomac Yard, Crystal City is an urban-like area with 18.6 million square feet of mixed-use space just a short metro ride from D.C. In 2018, Amazon chose the location—branded as "National Landing"—for its new headquarter location.

"We are energized by the positive impact this will have on Crystal City," said Tracy Gabriel, president and executive director of Crystal City BID.

"Energized" is a pretty good word to use, as Crystal City and its environs never quite recovered from the 2005 departure of the U.S. Patent and Trademark Office (USPTO), which left behind 2 million square feet of space.

"Crystal City was the headquarters of the USPTO, which then moved out," explains Matthew Levin, SIOR, a tenant representation specialist and principal of West, Lane & Schlager Realty Advisors, in Washington, D.C. "The National Landing submarket has about a 15 percent vacancy with 2 million square feet of available office space today. Rent conditions have been very soft there for a long time, but once Amazon starts moving in, the vacancy rate is anticipated to drop to 7 percent. Plus, other groups that work for Amazon will want to be near [it]."

In January, Virginia's House Committee on Appropriations voted to approve the incentive deal and the Senate was expected to do the same. The state's incentive package could be worth up to \$750 million, according to press reports, which is considered a negligible price to pay for all of the high-income jobs Amazon promises and the tax revenue to come. The city of Arlington is also adding an incentive package, while a new campus for Virginia Tech is to be built as well.

Already the Amazon effect is in play as an updated plan to expand Amtrak and commuter rail service across the Potomac River should have positive impacts for the region—expansion that may be necessary considering the additional influx of commuters traveling to the area. Additional plans may include a pedestrian bridge connecting National Landing to Reagan National Airport.

Richmond, the capital city of Virginia, sits about 90 miles south of Arlington. It, too, had tossed its hat into the Amazon search, but was too small to swallow what was initially thought to be one move by Amazon. Capital One, which is based about 10 miles from National Landing in McLean, Va, has its operations headquarters in Richmond and currently employs over 12,000 people. This number played a factor in the consideration of Richmond for HQ2, especially since—even before the decision to split between two locations—the original Amazon search would have needed 10 million square feet of space, which is equivalent to the total Class A office market of downtown Richmond.

Nevertheless, Austin Newman, SIOR, senior vice president with Harrison & Bates, Richmond, reports, "The bedroom aspect of Richmond and surrounding communities will benefit from the Amazon effect because of the D.C. area housing market, as well as the availability of rail transportation between the two cities. People in the research group at Amazon may not make enough money to buy anything in D.C., but in Richmond they would end up with disposable income—as was the case when CoStar Group Inc. moved its research unit here."

While 90 miles might seem like a long commute, the busiest corridor for Amtrak is between D.C. and Richmond. Newman believes a renewed focus to fund rail improvements between the two cities could be one positive effect Amazon will provide. "Amazon could fast-forward the evolution of high-speed rail between D.C. and the Richmond metro area," he says.

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Long Island City

ack Britvan, SIOR, owns Commercial Realty Services of Long Island and his office sits about 15 miles east from Long Island City. To outsiders, it's a bit confusing. Long Island City is part of Queens, a borough of New York City. The boroughs of Queens and Brooklyn are located on the geographic feature known as Long Island, but when New Yorkers refer to "Long Island" they mean the two suburban counties of Nassau and Suffolk on central and eastern Long Island.

According to the press, Amazon was expected to receive more than \$3 billion of incentives for its investment in Long Island City. This was all balanced against the 25,000 jobs Amazon planned to create with average wages over \$150,000. Amazon also touted that New York City would get a \$2.4 billion investment from the company; a take-up of a minimum 4 million square feet; and tax payments of over \$10 billion over 20 years. By one accounting, the state of New York would benefit to the tune of \$27 billion over decades.

In New York, a controversy quickly arose regarding the \$3 billion of incentives used to attract Amazon. When the criticisms got louder and wider, Amazon bailed.

Britvan was admittedly dismissive of the whole process. "Amateur-land," he sums up. "No one ever really discussed the \$3 billion and where it was actually coming from. Was it a payment going from New York State to New York City to the tenant? Was it a tax abatement? Was it a pilot? Was it a discount in buying equipment through a bond? When did it have to get paid? None of that stuff was ever discussed in public."

Secondly, Britvan says, the deal was handled by politicians instead of professional real estate people. "The politicians up and down had no clue about how to conduct business," Britvan says. "Politicians should stick to whatever they are doing and bring in experts that know how to make a deal, communicate, and get a job done."

There's a wider view of what happened to Amazon in New York. The zeitgeist, according to Gabriel Silverstein, SIOR, managing director of SVN/Angelic and chair SVN Institutional Capital Markets, New York, is all about social media perception.

New York had a Democratic governor and mayor heavily supporting incentives to bring Amazon to Long Island City, but they were outflanked by a more liberal faction of the party who were vocally against the deal and killed it through a populist uprising via social media.

"Despite 56 percent of the people in New York supporting this deal, the vocal minority put Amazon in a position of negative perception," Silverstein explains. "Amazon said, 'I don't care if I win this vote, I don't want to be the company that 34 percent of citizens are against.' Amazon—in a political move—withdrew from the firing line. Big companies might win the incentives battle, but could lose the war of publicity. Amazon didn't want to be in that war."

Who lost when Amazon pulled out of the state? "The deal would have helped fill the residential high-rises in Queens and Brooklyn that are all hurting for tenants," says Britvan. "It would have built up a lot of commercial space in Queens. You would have had people moving out to Long Island. House values in a 20 to 30 mile area would have gone up in value. Nearly 25,000 people coming in with an average salary of \$150,000 certainly would have helped the area a lot."

Moving a Mammoth

n all the hype about the selection of sites for HQ2, a major corporate relocation has been overlooked. Honeywell

Big companies might win the incentives battle, but could lose the war of publicity. Amazon didn't want to be in that war."

International Inc. announced at the end of November 2018 that it was moving its corporate headquarters from New Jersey to Charlotte, N.C.

Three subtle—but important—things happen when a Fortune 500 company makes a move like this, says John Culbertson, SIOR, founder and managing partner of Cardinal Partners in Charlotte, N.C. First, there are the obvious bragging rights. All cities want to be known as the hometown of a Fortune 500 company. Charlotte now is home to eight.

Second, and most importantly, a headquarters brings the best, highest paying corporate jobs. "They say the average salary with Honeywell is \$85,000 but coming to Charlotte are the C-suite jobs, so people are making handsome, executive salaries," says Culbertson. "These are the kinds of jobs that any community likes."

Finally, most people don't realize that corporate headquarters are the most stable of tenants. A headquarters does not move very easily, or very often. Unlike a factory job that could disappear overnight, a corporate headquarters will still be around five, 10 years from now.

As with the Amazon selections, there were many financial incentives employed to attract Honeywell, and this is the big lesson for commercial real estate brokers, says Culbertson.

"The amount of money given out through incentives is going to be a game changer for every company considering a relocation," Culbertson says. "Any CEO who isn't asking for incentives—even for small job creations—is going to be accused of not doing his or her job. So, brokers are really going to have to learn the incentive game and be knowledgeable about incentives being offered."

Culbertson stresses: "When sitting in front of a company deciding which brokers to use, those brokers need to have a grasp of the incentives available and the processes for getting those approved. Now, you can no longer say, 'I don't know anything about it, but I'll introduce you to an expert that does." ♥

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