

Case Study: Amazon HQ2

A Public Process

In early September of 2017, Amazon – the innovative disruptor of bookselling, online retail, in-home technology, and media – ignited a firestorm of economic development planning, dreaming, and angst. It did this by publicly releasing a Request for Proposals (RFP) regarding the siting of a new, second headquarters for the Seattle-based company. Dubbed HQ2, the RFP projected that the company's second headquarters would eventually employ 50,000 workers, making it the largest private sector economic development deal in United States history. To be clear, Canadian cities also competed for the HQ2. The initial projected average wage for these 50,000 jobs was \$100,000 per year. The RFP can be found as an additional PDF document on the website.

Aside from the magnitude of the project, Amazon was taking an unusual tack by publicly releasing the RFP and acknowledging their proposed investment. In most cases, large companies do not directly reveal their intentions for new site locations until very late in the process. Intermediaries (site location consultants) front for the company, local economic development professionals are required to agree to non-disclosure terms, and the projects are given code names worthy of a Cold War-era spy novel.

We expect that the inside story of the Amazon site location process will be written by those directly involved. For our purposes, we offer this brief overview and provide publicly released documents or website links illustrating the proposals offered to Amazon, including the winning bid, and the description of the reasons for selecting the winning region(s). The plural at the end of the last sentence makes for its own case study, or perhaps dissertation for an intrepid student of policy, politics or public relations. First, let's review some basic stats.

The RFP was released on September 7, 2017 and proposers were given about 6 weeks to submit their offers. The RFP laid out basic requirements that show many of the site location factors discussed throughout *Globalization, Planning and Local Economic Development*, such as proximity to large population centers (labor markets), proximity to infrastructure (airports, highways, mass transit, communications bandwidth), availability of existing buildings, and development ready sites to quickly allow for facility expansion. Important twenty-first century site location determinants were also required, such as a diverse population, higher education and cultural amenities, and effective local government that demonstrates a willingness to work with the company on key issues. Finally, community and quality of life requirements featured prominently: "We want to invest in a community where our employees will enjoy living, recreational opportunities, educational opportunities, and an overall high quality of life. Tell us what is unique about your community" (Amazon HQ2 RFP).

Responses

We know of 238 separate proposals with several metropolitan areas offering multiple responses to the RFP, though many came from communities that did not meet the stated requirements of the RFP. In mid-January 2018, Amazon announced a shortlist of twenty (20) finalists. The table below shows the 20 finalists by city/state and provides a link, where available online, to their submitted proposal.

Amazon HQ2 Finalists	
Atlanta, GA	Montgomery County, MD
Austin, TX (not released)	Nashville, TN
Boston, MA	Newark, NJ
Chicago, IL (not released)	New York, NY
Columbus, OH	Northern Virginia, VA (Arlington/ Alexandria)
Dallas, TX	Philadelphia, PA
Denver, CO	Pittsburgh, PA
Indianapolis, IN (not released)	Raleigh, NC
Los Angeles, CA (not released)	Toronto, ON
Miami, FL	Washington, DC

Some selected characteristics among the incentives offered to Amazon are shown below.

Atlanta

The Atlanta proposal included \$2 billion in incentives including: the creation of “Amazon Georgia Academy”, a 24-week training program for potential company employees provided by a state university; free parking for Amazon executives at Hartsfield-Jackson International; adding a dedicated car on the city’s rail transit system trains to support Amazon-based deliveries; and, about \$1.7 billion in state and local tax incentives.

Boston

Recognizing the challenges caused by being one of the most costly housing markets in the nation, the city pledged to support eligible Amazon employees purchase homes in Boston by providing zero-interest loans and down payment assistance. The city also made a \$75 million commitment to stabilize home prices around the proposed site and \$1.3 million in workforce training grants.

Chicago

Chicago offered \$2.25 billion in incentives, with provisions that would allow that number to increase. Half of the value of the proposed incentives would be in the form of tax credits tied to specified job creation goals. The incentive package included \$400 million for infrastructure spending to improve roads, sewers, and other systems for the more undeveloped sites in the area. Additionally, the city hired actor William Shatner (the original Captain James Kirk) to narrate its proposal video in an apparent nod to Amazon CEO Jeff Bezos, who is widely reported to be an avid fan of *Star Trek*.

Columbus, Ohio

Columbus offered about \$500 million in incentives including a 15-year, 100% property tax abatement; a 15-year, 35% income tax refund; and as much as \$75 million reimbursement for site preparation expenses. Stipulations to the incentives included: creating 1,000 new full-time jobs paying at least \$15 an hour for 35 hours weekly, \$45 million in new payroll, and investing \$50 million

in property investments within the city after three years. City officials also vowed to create a task force to address its “unacceptable” murder rate.

Dallas

Dallas offered a \$600 million incentive package focused on tax abatements. The city’s incentive package did not include a separate offer from the state of Texas for up to \$500 million in incentives. Dallas also offered to create a new “Amazon U” university. A portion of the city’s incentive package was tied to hiring locally and it would have required Amazon to commit \$100 million toward addressing local public education and homelessness.

Montgomery County, Maryland

Maryland lawmakers approved \$6.5 billion in tax incentives for Amazon through legislation dubbed “the PRIME Act,” which became the largest economic development offer in the state’s history. In addition to the incentives, the state promised \$2 billion in transportation and other infrastructure enhancements for the White Flint Mall area of the county. The incentive package required a commitment of creating at least 40,000 jobs paying an average of \$100,000 a year. The state also offered a state sales tax exemption on construction materials used for HQ2-related construction projects and a new annual tax credit equal to 5.75% of each new job’s wages.

Newark, New Jersey

During the HQ2 competition, Newark passed an ordinance that would offer up to \$2 billion in tax incentives to any company that would build a headquarters in the city, create 30,000 jobs, and invest \$3 billion over 20 years. Another ordinance allowed companies like Amazon to qualify for a 30-year tax exemption of up to \$1 billion.

Toronto

Toronto offered no special incentives to attract HQ2. According to a CBC story, local officials noted the Toronto region’s ability to attract and retain talent, comparatively low labor costs in selected occupations, and welcoming environment. A local economic development leader observed: “Others may provide large subsidies and tax breaks, but like the Province of Ontario, we in the Toronto Region don’t want to play that game, and frankly we feel we don’t need to play that game.”¹

Washington, DC

The city of Washington, DC offered tax credits comparable to other proposals. A fairly unique feature of DC’s proposed incentives included higher rewards for employing veterans. For example, wage reimbursements of up to \$30,000 were offered for each veteran versus \$10,000 for other new hires, and training credits of up to \$20,000 per veteran. Also unusual was the offer of a permanent reduction in the corporate tax rate from 9% to 6%. Most incentive offerings are temporary, but are often renewed.

¹ Boisvert, N. (October 19, 2017). ‘We are Now and Tomorrow’: Toronto makes it pitch for Amazon’s HQ2. CBC News. Available at: <https://www.cbc.ca/news/canada/toronto/toronto-amazon-bid-1.4362643>

Announcing the Winners

Amazon had yet another surprise for the economic development community. In mid-November 2018, after a year of speculation and Las Vegas odds-making, Amazon changed the game by announcing that it had selected two sites for HQ2 (HQ2a and HQ2b, maybe?), the Borough of Queens in New York City and the Northern Virginia bid representing the City of Alexandria and adjacent Arlington County. Each site would get about 25,000 jobs. In addition, Amazon announced a consolation prize for Nashville, TN in the form of a 5,000 job boost from a combination of new and relocated jobs. Even though the prize was split, elected leaders in New York and Virginia were elated – or at least most of them were elated. In New York City, newly elected representative Alexandria Ocasio-Cortez became the public face of concern that one of the richest corporations in the world (\$800 billion valuation in early 2019), and the world's richest individual (Bezos), was set to receive \$3 billion in taxpayer supported subsidies when there are other pressing local infrastructure and social needs.

What Happened Next

A coalition of progressive activists, liberal politicians, and union leaders engaged in a fierce public relations effort including demonstrations and social media blitzes that was the culmination of decades of frustration with special treatment of corporations while the majority of borough residents experienced cost of living increases, decaying infrastructure, and loss of perceived quality of life. Most politicians assumed that Amazon would navigate through the opposition, but in a surprise announcement on February 14, 2019 the company announced that it was cancelling plans for the New York City location. One can look back at the phrase in the original HQ2 RFP on Cultural Community Fit: “the presence of... elected leaders eager and willing to work with the company” (Amazon Request for Proposals) to understand the company's reaction. While some viewed the cancellation of the New York City location as a victory for neighborhoods and workers, most in the economic development community consider it a Pyrrhic victory at best, and most likely an opportunity for the city's economic development competition – perhaps opening another shot at the missing 25,000 jobs and having plenty of negative shade to throw at New York in other site location competitions. There has been no public discussion of shifting the 25,000 jobs slated for New York to Virginia or another finalist location, though the Virginia incentive structure allows for up to 37,500 future jobs.

Why Northern Virginia?

So far, Amazon officials have largely kept to the language of the RFP in citing a highly educated workforce, mass transit options, cultural amenities, etc., as their selection criteria. A *Washingtonian* magazine article offers a compelling review of the search process and potential reasons Northern Virginia was chosen for HQ2.² While many of the proposals focused on comparative business costs and very generous incentives, the DC region's main advantage is being among a small number of what UC—Berkeley economist Enrico Moretti call “brain hubs.” By most measures, the DC region has the most highly educated workforce in the nation. The *Washingtonian* quotes Moretti, whose influential 2012 book, *The New Geography of Jobs*, posits that economic growth in the twenty-first century is “about attracting the best human capital.” That helps explain why some cities did not make the cut. Importantly, while Virginia's \$550 million tax incentive offer, plus \$195 million in transportation improvements, was notably lower than most proposals, the state committed over \$1

² See Mullins, L. (June 16, 2019). The real story of how Virginia won Amazon's HQ2: State officials and company executives were reading from the same book—literally. *Washingtonian*. Available at: <https://www.washingtonian.com/2019/06/16/the-real-story-of-how-virginia-won-amazon-hq2/>

billion in developing a tech talent pipeline through the public higher education system. The focus on addressing labor market challenges resonated with the Amazon site selection team, according to reporting. Another key advantage called out in the *Washingtonian* article and elsewhere is proximity of the winning site to federal agencies. The chosen location is close to the Pentagon and just across the river from downtown DC and the US departments of Justice, the Federal Communications Commission, and the Federal Trade Commission, which represent both market opportunities and the key regulatory entities for Amazon's expanding business empire. Of some note, Amazon Web Services had more than 10,000 employees in the region before the HQ2 process, though those jobs are actually located closer to a second Northern Virginia proposed location. As is well known, Jeff Bezos lives in the DC region, though the company has said that was not a site location factor.

What's Happening Now?

Northern Virginia emerged as the clear winner in this economic development competition, though the efforts to create an HQ2 are just underway. The Northern Virginia incentive package, attached separately to this case study, has been lauded for focusing on awarding incentives *after* the creation of jobs, focusing on education investments that will benefit the economy at large (Virginia and two of its public universities, George Mason and Virginia Tech, will use about \$1.5 billion in public and private funds to create technology-supporting programs), and supporting public infrastructure that can address city design and transportation challenges. At the time this review is written, HQ2 staff total about six individuals, but hiring is starting and by the end of 2020 the company expects to have about 2,000 workers in temporary quarters. The announcement of the location of HQ2 in Northern Virginia is exciting and challenging. Housing markets nearest the site have seen a spike in pricing due to housing speculators and existing employers are concerned about competing for labor resources. (The current unemployment rate in Northern Virginia is 2.3 percent with notable shortages in available workers across most industries.) That means that the case study of the economic and community benefits of HQ2 is a story that is yet to be written. Stay tuned for more.