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Amazon HQ2 Change Leaves Cities in a Bind

Cities may have pitched Amazon differently had officials known the plan was for half the number of workers

By Shayndi Raice

Amazon.com Inc.'s AMZN -2.42% change of plans for its massive second headquarters leaves cities in a bind in the final hours.

Local officials prepared bids for months to woo what they thought was a \$5 billion investment and 50,000 employees—and now the retailer plans to split its second headquarters investment evenly between two locations.

It is unlikely cities would significantly change their bids in the final hours. Financial incentives often are proposed as “pay as you grow,” meaning a company receives payment only after meeting certain investment and hiring targets over a number of years.

Economic development experts speculated that cities in the HQ2 contest probably won't end up paying more to Amazon than they would have if they had known the plan was for half the investment. Most cities, however, haven't made their incentive proposals public.

Amazon is in late-stage negotiations with at least three locations: Crystal City in Northern Virginia, New York City and Dallas, The Wall Street Journal has reported. A final announcement could come as early as this week.

States proposed billions of dollars in economic incentives to lure Amazon to the table. Some, like Maryland, passed special legislation that would allow them to offer above and beyond what their normal financial incentive programs allow.

In addition to financial incentives, cities proposed infrastructure upgrades, transit improvements and real-estate sites that could accommodate 50,000 employees.

The change in plans was frustrating, one city official said, because it might have pitched Amazon differently had officials know the plan was for half the number of workers.

That said, a \$2.5 billion investment and 25,000 jobs, especially at current low unemployment levels, are still huge investments and rank among the biggest deals for any city.

Bob Buchanan, chairman of the Montgomery County Economic Development Corporation who was involved in Maryland's proposal, said even if Amazon had said from the get-go that it was looking for space for only 25,000 employees, “We all would have been wowed.”

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If Amazon were to choose New York City, “it would still result in enormous economic activity that the leadership in New York City and New York state should be thrilled with,” said Seth Pinsky, former president of the New York City Economic Development Corporation and an executive vice president at RXR Realty.

Other cities think the reduced requirements could make them better contenders.

“Accommodating half the people makes it exponentially easier,” said Nitin Motwani, the developer of the Miami World Center, a 10-block mixed-use site north of Miami’s business district that was proposed as a possible HQ2 location. Mr. Motwani thinks the decision to split the Amazon project gives Miami a better shot “given we don’t have industry and infrastructure on the scale they are talking about, but we have an incredible place to live.”

Miami is one of the 20 finalists. Mayor Carlos Jimenez said Monday the city continues to have discussions with Amazon about HQ2.

Site selection experts say it isn’t unusual for companies to change their relocation or headquarters projects midplan. What was unusual for Amazon was that it made the process so public.

“Typically, in doing these kinds of things, much of this is done behind the scenes so you don’t raise those expectations,” said Gene DePrez, managing partner at the site selection firm Global Innovation Partners. A public process can “create real problems for the communities because they look like they haven’t won, and that’s difficult to explain locally.”

For the winners, “I think any disappointment of not getting the whole pie is going to be quickly replaced with the over-jubilation of the win over 200-plus cities,” said Don Hartman, who does marketing at the Association of Information Technology Professionals in Dallas-Fort Worth.