



COMMERCIAL REAL ESTATE INSIGHT & NEWS

The Bowditch & Dewey Real Estate Blog

Three Lessons from the Unraveling of the NYC Amazon Deal

BY SAMANTHA P. MCDONALD • MAY 31, 2019

In November 2018, Amazon announced it was locating a portion of its “HQ2” development in Long Island City, Queens. NYC had courted Amazon, promising roughly \$3 billion in tax incentives in exchange for Amazon’s estimated 25,000 jobs at its corporate campus. The governor and the mayor — bitter rivals — came together to win the deal.

In February 2019, Amazon announced that it was pulling out of the NYC location. What happened? In short: politics, some old and predictable, others more time- and context-specific that are harder to gauge before investing the time, effort and money it takes to get to the first stage of a development deal. Each location, time and development are unique and hinge on many factors. Knowing yourself and investing the money in people who know the local stage and can guide you are key to picking locations where your development is genuinely welcomed.

Here are three lessons from the unraveling of this deal:

Know thyself. If you have a public anti-union stance, don’t try to locate in a union stronghold. It’s likely the majority of Amazon’s jobs in Long Island City would not have been union jobs. But Amazon’s disinterest in having its employees unionize is known and was an obvious political weapon to use against them in the city that hosted the first Labor Day parade. As a business, know your reputation, and think about what detractors could use against you. Choose agreeable locations — Utah may not be the best choice for a new distillery, for example.

All politics are local. Amazon has had a generally welcoming political climate in Seattle, where its growth was met with little opposition. NYC has Byzantine development politics, navigable only by insiders, and time is needed to get through the many governmental gatekeepers. Reports indicate that Amazon thought the backing of the mayor and governor was enough to propel the process forward swiftly, but city councilors and state representatives, among others, had the ability to create delays and roadblocks. Choose local advisors who know the local politics and processes, and listen to them.

Somebody will always find a downside. Have a plan to counteract it. Gentrification, the shift to owner-occupied residences from rentals as a result of an influx of people with higher-paying jobs into “affordable” areas, is a hot button right now in urban areas. Owners have more incentive than landlords to invest in their properties, which raises real estate values. Rents increase as property values rise, displacing lower-income residents, often from neighborhoods where they’ve lived for a generation or more. Race and socio-economics factor significantly in discussions about gentrification. Long Island City, home to the nation’s largest public housing facility, is affordable, by NYC standards. It appears that Amazon did not anticipate the vocal opposition decrying the incipient gentrification of the area. With the speed and reach of social media today, you cannot be reactive and win. Choose to engage all stakeholders early in your planning and have a plan to control the discussion on sensitive issues.