NORTHERN VIRGINIA’S BUSINESS AND ECONOMIC TRANSFORMATION

Amazon’s new HQ2 and Virginia Tech’s Innovation Campus have the potential to reinvigorate the entire region. M&T Bank recently assembled a panel of local experts to analyze the possible impacts of these transformational projects.
M&T Bank recently hosted a panel discussion to explore the massive potential business and economic impacts of two major projects in Northern Virginia. In 2018, Amazon announced it will locate its second headquarters (HQ2) in Arlington County, Virginia. Soon after, Virginia Tech said it will build its Innovation Campus in Arlington. HQ2 alone is expected to generate at least 25,000 jobs there. As a result, the entire region is expected to undergo a transformation that will be felt far beyond Arlington.

The panel was moderated by Cecilia Hodges, M&T Bank’s Regional President for Greater Washington and Virginia, and an alumna of Virginia Tech. The event featured four experts from across the region:

- **Doug Firstenberg**, founder and principal of Stonebridge, a mixed-use development firm in the Greater Washington area
- **Victor Hoskins**, director of the Arlington Economic Development agency (AED), which played a pivotal role in winning the bid for HQ2
- **Chris Leinberger**, professor at George Washington University and Chair of the Center for Real Estate and Urban Analysis
- **Brandy Salmon**, managing director for Virginia Tech’s Innovation Campus

### How HQ2 was won

Many cities and regions across the United States competed to land Amazon’s second headquarters, making Northern Virginia’s win all the more impressive. The AED’s Hoskins said the bidding process was different from any other economic development proposal – in large part because Amazon made the process public.

“That is not how economic development is done,” remarked Hoskins, who added the online retailer originally said it planned to open 8 million square feet of space and create up to 50,000 jobs, and simply invited interested parties to apply.

To win the bid, the AED worked with the Virginia Economic Development Partnership to create what was described as a “world-class” proposal. The first order of business was to ensure the infrastructure was in place to host the site. The agencies contacted every developer in the county with major holdings. These development companies, in turn, had to practice unprecedented cooperation in submitting joint proposals.

In addition to the city of Alexandria, other Virginia cities including Richmond and Newport News pitched in to assist. The AED committed $100,000 to the proposal phase alone, optimizing the design drawings and other branding aspects compared to the various competing bidders. In an effort to increase the probability of its bid winning, the Arlington area collectively submitted three bids.

Hoskins said communication with various stakeholders throughout the process helped streamline the process. Any time there was a change to the proposal, the AED would meet with state and local lawmakers and pore over every detail, late into the night, for 14 months.

### Incentives available to Amazon

In the end, Leinberger believes what really carried the day for Virginia was the overall package of incentives offered. “When the company made its request for proposal, it wanted the issues of affordable housing, great transit options and an educated workforce addressed.”

As Hoskins explained, there are two phases for the accepted comprehensive package of incentives:

- Phase one is $550 million paid when 25,000 jobs are created.
Phase two is triggered when total jobs created hits 37,850, at which point Amazon would receive an additional $200 million, for a total of $750 million directly to the company from the Commonwealth of Virginia.

One key factor is all jobs created must have an average wage of $150,000.

In addition to the direct payments, Virginia committed to investing $1 billion in education – kindergarten through doctoral programs at schools across the state – in an effort to double the pipeline of engineers graduating from the university system over the next 10 years.

The AED will pay $23 million directly to Amazon. Hoskins noted these funds will come from the transit occupancy tax, so local taxpayers are not tapped. The agency calculated Amazon’s presence will result in approximately 100,000 additional room-nights during the first phase, and 150,000 additional room-nights in the second phase. According to AED figures, Amazon will see 15 percent of the tax revenue on these additional room-nights, while the agency will keep the remainder.

The various state and local entities will be investing a total of $1 billion in transportation infrastructure. During the first phase, the Commonwealth of Virginia will invest $195 million, while the AED and the City of Alexandria will add $570 million. In the second phase, Virginia will invest up to an additional $200 million.

**A university as resource and partner**

Virginia Tech is located in Blacksburg, approximately 275 miles southwest of Arlington. The school became indirectly involved in the competition to land HQ2 when the Commonwealth of Virginia introduced the Higher Ed Package, an investment of millions of dollars in the state’s higher education institutions. Salmon said Virginia Tech recognized the proposed Amazon site would need not just customer service representatives, but also software engineers and other computer scientists.

The school examined its strengths, Salmon explained, starting with its 35,000 students. “We are the fourth-largest producer of STEM [science, technology, engineering and math students] in the nation,” she said. “We are actively sought by recruiters and have a really diverse portfolio.”

Virginia Tech created the concept of the Innovation Campus with both an academic center for graduate students and an innovation center. Salmon said the innovation center is designed to facilitate partnerships with a number of different industries.

“I think the Innovation Campus and the difference it is going to bring are really amazing,” said Stonebridge’s Firstenberg. “As we look at the world, it’s always been about location, mixed use and mass transit. [But] I think the world is changing now and there is a third leg on that stool — intellectual demand generators or suppliers.”

**Two new local economic catalysts**

Amazon’s HQ2 will be located in a new area known as National Landing, which includes parts of three Virginia cities. Approximately 50 percent of the facility will be in Crystal City, with the remainder divided between Pentagon City and Potomac Yards. When the Department of Defense instituted the Base Realignment and Closure Program (BRAC) following the end of the Cold War, many jobs left this area. In Crystal City, the office vacancy rate hit 20 percent.
According to Leinberger, the new Amazon headquarters will have a “catalytic” effect on the local and regional economy, similar to how Quicken Loans impacted Detroit. One of the current leading theories of urban economics is “agglomeration,” defined as the cost savings realized when several major firms are located near each other. Leinberger also stressed the importance of creating a critical mass of businesses and their jobs, which he said facilitates a “walkable urban center” that includes work space, multi-family housing and retail.

“This starts an upward spiral of value creation that you really can’t stop,” he added.

The 25,000 initial positions Amazon plans to directly create are just the beginning. Economists estimate a ripple effect will lead to a total of 100,000 jobs. The addition of Virginia Tech’s Innovation Campus is expected to extend this virtuous cycle of growth. In fact, Leinberger asserted the school will have a greater long-term effect on economic expansion than Amazon, due to the expected continued demand for highly skilled, educated workers.

“It is the knowledge economy…and by definition it’s going to follow what Tech is in fact providing,” Leinberger said.

Just four years ago, the Arlington area was bleeding jobs. It was then Hoskins said the AED decided to adopt a new strategy.

“I said, it’s not about where you were, it’s about where you should be,” he recalled. The AED dubbed its approach “The Way Forward” and focused on growth sectors such as ed-tech, med-tech, green tech, big data, artificial intelligence (AI) and cybersecurity.

“Four years from now, we will be hands down the most competitive region in the world, and that’s where I want us to be,” said Hoskins. He added that in the first few months following Amazon’s announcement, several companies said they will be moving to the region or expanding existing facilities. Arlington’s vacancy rate on commercial space is still a relatively high 17 percent, but that figure is expected to decline quickly as corporations move in to be near Amazon.

The larger region will benefit as well: only 20 percent of Amazon employees are expected to live in Arlington. Some 33 percent will be housed in Fairfax County, and another 16 percent will be in Washington, D.C.

**Upgrading infrastructure to streamline development**

One of the near-term downsides to the potential for economic expansion in Northern Virginia is the possibility a flood of new workers will exacerbate the area’s existing housing shortage. Leinberger noted part of the problem is only 2 percent of the land is currently zoned for walkable urban space.

“[W]e have a major effort underway to...change the zoning to allow for 1 or 2 percent more of our region to become walkable urban,” Leinberger said. If that happens, the price of housing is projected to decrease as a result.

Firstenberg noted the process of building a 300-unit housing complex — from planning to completion — can take up to five years. “That’s as fast as you can do it. It is a really interesting conundrum because long term we clearly have a housing issue. We don’t have housing where people want it, and we don’t have housing where people can afford it.”

Help may be coming. Hoskins said Arlington and Alexandria plan to invest $150 million in affordable housing over the next decade to address the crunch. Virginia’s state government has committed an additional $75 million to develop housing solutions, while a group in Prince George’s County is working...
on a $100 million investment. "This is a regional solution," Hoskins said.

Transportation, too, is an issue that is "so critical" in the equation of a commercial project with the scope of HQ2, Leinberger said.

Hoskins agreed, recalling the D.C. area has been talking about developing a coordinated transit solution for more than two decades. "I heard about it from the first day I got to this region in 1994," he said. Only recently did D.C., the State of Maryland and the Commonwealth of Virginia come together to create a coordinated transport system.

Housing and transportation must operate in an integrated manner, and Hoskins said the AED is working with officials in Prince George’s County to build housing near transit stations. From there, workers could take a train to Crystal City in 35 minutes. In addition, new Metro stops are planned for Potomac Yard and Crystal City.

Transforming the way residents live and travel is key to shifting the region’s entire economy. Leinberger pointed out that residents who want to own a home in the suburbs and drive to work can spend up to 25 percent of household income on transportation. And nearly all of that money leaves the region – to Detroit carmakers and Texas oil companies. In contrast, walkable urban households spend just 9 percent on transportation, which extrapolated nationally translates to roughly $1 trillion.

"Amazon has caused us to think differently about how to solve the problems that we have," Hoskins assessed. "If we can really grip this moment, I don’t think there’s a region in the country, in the world actually, that will be able to compete against us."

Cecilia Hodges has more than three decades building relationships with and facilitating lending solutions for commercial real estate clients across the greater Washington D.C. area.

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