

Amazon's HQ2 Announcement - The Tenant's Perspective



November 13, 2018

The Announcement is In

After a year-long search for HQ2 – and a last-minute decision to split the requirement – Amazon has selected New York City and the Washington, DC region as the locations for the company's new headquarters. Specifically, Long Island City, and Crystal City in Arlington, Virginia, will be the beneficiaries of a combined 50,000 new jobs and 8 million square feet of office demand. With the split, the Northern Virginia investment will equate to more than 25,000 full-time high-paying jobs; \$2.5 billion in investment; and the occupation of 4 million square feet of office space, with the opportunity to expand to 8 million square feet.

There is much to be excited about with one of the world's most revolutionary companies establishing one of its headquarters in our collective "back yard." The transformation that this decision will bring to Arlington is unmatched and undeniable. But what does it really mean for tenants in the market right now? **From an office leasing perspective – not much.**

A Look at the Market

A variety of factors over the past five years have led the region to a state of unprecedented tenant favorability, categorized by historically-high availability, little change in effective rents, and the prevalence of record-level concessions. Absorption has been negative, or anemic at best, and a continuous addition of supply (more than 7 million square feet of new development in the Washington region in 2018 alone) has kept tenant options abundant.

The Impact on Crystal City

Entering into an exclusive agreement with JBG Smith, Amazon will redevelop Crystal City and parts of Pentagon City and Potomac Yard into "National Landing," an interconnected, walkable and mixed-use neighborhood. Amazon will lease approximately 500,000 square feet of space across three existing JBG Smith Buildings, and will purchase land from JBG Smith to develop the remaining 3.5 million square feet of office space.

Crystal City was one of the submarkets hardest-hit by the effects of BRAC, sequestration, and government and contractor consolidations that plagued the market from 2012 -2015. Availability in the submarket peaked at 27.5% in 2013 and has moderated to 19.2% currently, yet is still more than 4.5 percentage points higher than it was in 2010 (14.7%).

Amazon's projected occupation of 500,000 square feet will reduce available space in the submarket by 24%. Correspondingly, landlords in this pocket of Arlington may seek an increase in rents and provide fewer concessions. This will play out over time as more concrete plans take shape and we see how much other demand transpires from companies that choose to support Amazon.

The Regional Outlook

Regionally, there is 365 million square feet of leasable office space with 68 million square feet (18.6%) available. With 500,000 square feet of the Amazon requirement projected to occupy existing supply, the impact on overall regional availability is immaterial (500,000 square feet is less than 1% of the supply).

Amazon's decision will undoubtedly cement the region as a "tech hub," which should attract additional organizations from outside of the market to help chip away at the abundant available space. However, based on current market conditions and Amazon's immediate plans, we do not foresee Amazon's HQ2 shifting market temperature for the foreseeable future.

With dozens of transit-served, amenity-rich markets across the region, a continuous stream of new development for tenants who want the latest in office environments, and absorption failing to outpace supply, we expect the Washington Metro area will continue to be firmly in a tenants market with a wide range of leasing options at, or similar to, the rental rates and concessions we see today.