

AMAZON'S SEARCH FOR HQ2

Phase 2



Austin, TX

Group 5

University of North Texas | Denton, Texas

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AUSTIN, TX

ABSTRACT

In this report, we will discuss the findings of Phase 2 of Amazon's search for HQ2. We specially focus on Austin, TX. A city in South Central Texas, Austin is one of the fastest-growing metro areas in the country. We take a look at potential sites, discuss their locations and how and why these locations are possible sites for Amazon's HQ2. We briefly mention Corporations that have moved to Austin and discuss their current impact on the community and how they might affect Amazon if they decided on Austin as the home for their HQ2. Lastly, we discuss the cities social, human, and cultral capital. We assess the current city's assets and short comings. Our goal in to inform Invesco of the findings and take into consideration what Austin has to offer an apply these methods to their research.

INTRODUCTION

Over the course of our analysis of Phase 1 Austin, Texas seemed to be the city with the most potential to acquire Amazon's second headquarters. Austin was ranked the lowest in terms of cost of living, top city with high population growth and educational attainment, highest employed population rate and an average income.

In this phase of the project we will cover the possible real estate available, the city's current and future transportation, and an overall community assessment of Austin.

METHODOLOGY

Data for this report is gathered from secondary sources such as United States Census Bureau, local, state and federal government reports. Additionally, we used online articles that had been published to make comparisons of potential locations, professional opinions on why Austin would and would not make an adequate city for Amazon's HQ2. We also used these online articles to get a sense of what locals were feeling and saying about the possibility of Amazon moving in.

Based on Amazon's RFP requirements we analyzed and located possible real estate that met the requirements Amazon had requested. We then went on

to analyze the transportation accessibility to these 5 facilities. Narrowing down to one specific location that best fit Amazon's requirement.

A community assessment of Travis County was conducted. The assessment provides a comprehensive picture of assets in the community. We examine strengths and weakness of Travis County. (Social, Human, Cultural)

The assessment also emphasizes the impact Amazon will have on the current residents and future residents. Lastly, this assessment gives us an idea if Austin in truly capable if sustain a company such as Amazon.

REAL ESTATE

Initially, the facilities requirements Amazon set for space requirements is 500,000 square feet for phase 1 by 2019. Beyond 2019, the size of the facilities will need to be no smaller than 8,000,000 square feet. Though Amazon remains flexible to use established structures or open green field sites with no construction, a mixture of both may be used.

Austin is already a technology hub with major corporations like Dell with 13,000 employees, Apple with 6,000 employees, and IBM with 5,416 employees (www.builtinaustin.com). Even with these three companies' employee numbers combined, 24,416, Amazon HQ2 will double that number when the project is complete. The current talent pool in Austin may suffice the need for professional and technical employees in its current state, however, to fully staff

the entire 50,000 jobs employee relocation will have to take place. Additionally, Amazon will need lots of space!

The good thing about Austin, TX is its commercial real estate market. The Austin Metroplex and surrounding area is not built out like many major metroplexes in the United States. There is plenty of room existing or green pad sites. Additionally, new vertical construction can be a game changer for smaller sites, as Texas has low earthquake potential. Many companies like Motorola and 3M have vacated large office complexes in recent years. The question is which site has the best potential for Amazons massive employee numbers.

Five ideal locations are listed as good potential for Amazon HQ2. These locations are (www.512tech.com):

- *The 66-acre Broadmoor campus (a current IBM location) located next to a current office, retail, and residential area known as the Domain in North Austin*
- *The 100-plus acre Eightfold (a former Motorola campus) in East Austin*
- *A 97-acre proposed development named Project Catalyst in Southeast Austin*
- *The 156-acre former 3M campus located in Northwest Austin*
- *The 6,000-acre Robinson Ranch located in Northwest Austin*

On at least three of the properties (Broadmoor, Eightfold, and Project Catalyst) there are current tenants which translates to a similar situation Amazon faced in Seattle, WA, leases will have to be strategically gained, either bought out or gaining a lease close to or upon expiration from another tenant. Proper timing and execution in the instance of Amazon's HQ1 experience of expansion should fare the corporation well. In 2007, Amazon moved into the 1.7 million square foot campus in Seattle's South Lake Union neighborhood, situated north of downtown (Levy, N). As of 2017, the Amazon's original headquarters has grown to over 8.1 million square feet and is distributed throughout 33 buildings (Levy, N).

TRANSPORTATION

All five locations must meet the distance and time requirements laid out in the Amazon HQ2 Request for Proposal (RFP). Those distances listed in the Amazon RFP are:

- *Proximity to population center within 30 Miles*
- *Proximity to international airport within approximately 45 Minutes*
- *Proximity to major highways and arterial roads of not more than 1-2 Miles*
- *On-site mass transit*

After reviewing the location on each property, two of the five will not be ideal for Austin's current Capital Metro transit system. The former 3M property

and Robinson Ranch are on the outer edges of Austin which limits the volume of bus traffic and wipes out the feasibility of extending light rail to those locations. The remaining three locations are more centrally located in the city. As bus routes can and most likely will be added, the bigger question is which locations have existing rail nearby or future plans to add rail. Using Google Earth to check proximity of existing rail lines, there are no stations, but the track runs within a half mile from Project Catalyst and a quarter mile from the Eightfold Campus. The Broadmoor Campus has light rail adjacent to the property and current plans are in the works to relocate Kramer Rail Station to the Broadmoor Campus, however, no date was mentioned (Neely, C). All three campuses are next to the same rail line, which in addition to the station relocation from Kramer to Broadmoor, the line has plans for adding a second set of tracks to make it a dual rail system (Neely, C).

Worth mentioning is the influx of such huge numbers, Amazon's end goal of 50,000 new employees, and the possibility of all mass transit expansion. If Amazon selects any of these three locations (Eightfold, Project Catalyst, or Broadmoor), or any other for that matter, the wheels of capitalism will find a way to open a new station at the selected Amazon HQ2 site. As in major projects in the Dallas/Fort Worth Area had mixed funding (private and state) in the past, like the 635 Project where the State of Texas could not fund the entire project while private investors funded the majority (www.lbjtexpress.com).

While conducting research on the LBJ Freeway Project, literature on www.lbjtexpress.com makes a brief case without going into detail about risk and exploitation of the taxpayer stating, “There are numerous safeguards built into the partnering agreements that eliminate risk to Texas and ensure that the state, taxpayers and local communities will always be protected as they continue to benefit from the creation of new roadways” (www.lbjtexpress.com) and go on to explain that default “is an extremely remote possibility” through the operations phase with “some financial risk” and further state the project is a “strong, financially-viable project. Furthermore, even if revenues throughout the 52-year project term were 50 percent below forecasts, the debt would still be repaid and there would be no default” (www.lbjtexpress.com).

With the addition of such large numbers of employees Amazon HQ2 will have, how will the roads serve such an influx as well as the current population. As of January 2017, there were a total of eleven major road projects planned or being conducted to update the road systems in Austin (www.communityimpact.com). As was the case with the 635 Project in Dallas/Fort Worth, previously mentioned, a large amount of capital will be needed for further expansion. Again, with the vast potential for monetary gain that Amazon will bring into Texas, Austin in particular, the State of Texas and private investors will no doubt provide the needed moneys to make sure the proper steps are taken to maximize returns for the private side so that the project(s) will happen.

As with any business, connectivity to both inside and outside is a major concern. Two of the three locations previously mentioned are built for connectivity. There is a possibility that a need for more connectivity as the company grows in the number of employees. Cell towers will definitely need to be added to support personal and business needs, but they are relatively easy to set up compared to the installation of fiber optic lines. A city of any size will need to expand communication lines and other connectivity in order to accept the bulk of employee's connectivity requirements from the Amazon HQ2 project. Once again Austin has an advantage over many of the competitor cities, Austin has plenty of space to add lines, as well as the time needed to install new fiber will be drastically reduced by the un-cramped area in the city.

For site selection, the 66-acre Broadmoor campus (a current IBM location) located next to the Domain in North Austin has the most potential to be chosen by Amazon as its second headquarters. The Broadmoor is an existing complex with lots of space, not to mention the site already has established connectivity. Capitol Metro already has plans for mass transit expansion to the site, including a double line light rail system and a station on property at the Broadmoor (Neely, C). Other highlights of the Broadmoor include:

- *Access to nearby residential area*
- *Close proximity to downtown*
- *Close proximity to Austin – Bergstrom International Airport*

- Located near major road systems/highways

The Broadmoor meets Amazon’s RFP requirements and then some. Austin certainly has a lot to offer Amazon and the Broadmoor can encompass all Amazon’s business needs.

Key Facts

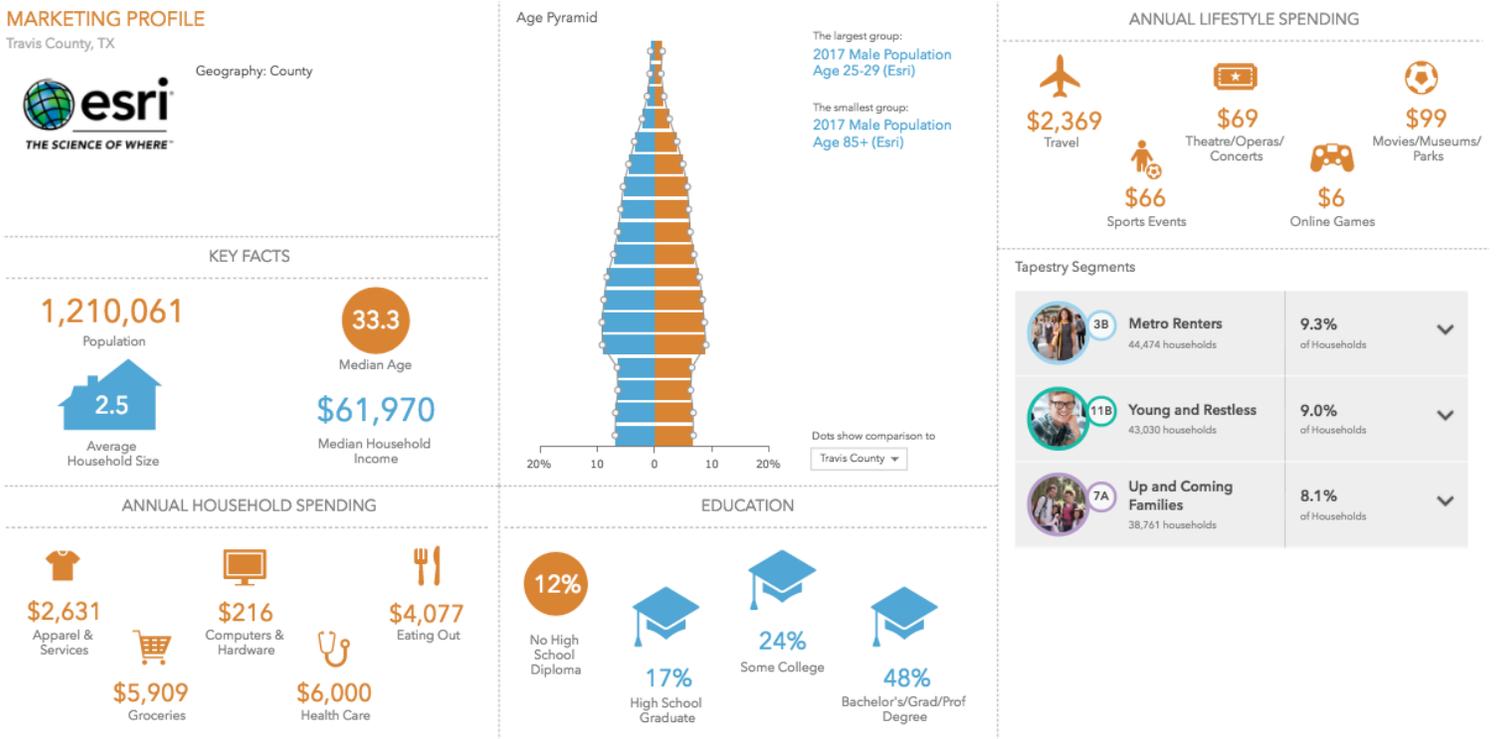


FIG 1

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COMMUNITY ASSESSMENT

Social Capital- forms of networking, local association, institutions

A measure of social capital is the number of non-profits and volunteers are within a community. In *Bowling Alone* by Robert Putnam, Putnam measures social capital by the rate of participation in social institutions. (In this case we focus on charitable organizations). We bring this up because in Amazon's RFP, there is mention of charity work and investment in the communities. The *Austin* metro area is home to 5,5600 non-profits. Travis County alone is home to 3,760 non-profits. If Amazon decides to locate their HQ2 in Austin there is plenty of opportunities to contribute. "Compared to national averages, the Austin metro area has fewer Human Services organizations and more Education and Research nonprofits." Human Services is a sector in non-profits that Amazon has experience with based on their work in Seattle.

Human Capital- educational institutions, knowledge, skills, health, trained workforce

Data shows that Travis County is an educated community with low annual unemployment. As February 2018, the current unemployment rate is 3.0% (www.bls.gov). Below that national average of 4.1%. Statistics show that at

least 48% of the population has a Bachelor's degree. (Part of this data might be skewed do to The University of Texas being located nearby.) Nonetheless, this is a great opportunity for Amazon. With Austin being home to "six colleges and/or universities, one of which earned a place on U.S. News & World Report's Best Colleges rankings." These colleges/ Universities would give access to a large pool of talent for Amazon.

Cultural Capital- local history, beliefs, foods, festivals, forms of entertainment, cultural heritage

Austin is known as Music City if the world. Its known for its vast live music concerts and festivals. It is the State Capitol of Texas and is home to an array of historical monuments. For a city in Texas, a state with mostly conservative view, Austin embraces some very liberal ideals. In an article by *Cultural Map Austin*, Austin is ranked second only to Seattle on the list of American cities fit for liberals. Austin has the presence and support if a diverse population.

CONCLUSION

With the high number of potential sites and overall strength of Austin's community capital we conclude that Austin is best fit for Amazon's HQ2. Austin was ranked the lowest in terms of cost of living, top city with high population growth and educational attainment, highest employment population rate and an above average income. We were able to locate 5 potential sites and concluded that Broadmoor Campus

has the highest potential for being Amazon's HQ2 site. We also assessed Austin's community capital. Not only must Austin be able to sustain such a large corporation such as Amazon, but it Amazon too must fit within the culture of Austin. Group 5 stand behind Austin as a top candidate city.

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