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PROPERTY REPORT

Amazon Primed to Boost Property Prices in Winning HQ2 Cities

Real-estate firms see surge of interest in Queens, Northern Virginia; 'Show me anything you have'



One Court Square in the Long Island City area of Queens, N.Y., had a potential vacancy of 1 million square feet until Amazon.com agreed to fill the space. PHOTO: DREW ANGERER/GETTY IMAGES

By *Keiko Morris*

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The “Amazon effect” of easy online shopping has been derided for upending bricks-and-mortar businesses everywhere. But in Queens, N.Y., and Northern Virginia, investors say the phrase now heralds a budding real-estate boom.

The giant retailer’s decision to split its second headquarters between Long Island City, across the river from Midtown Manhattan, and Crystal City, Va., could turbocharge property values, some analysts say. Real-estate-services firm Colliers International is predicting the average office-rental rate in both locations could more than double in 10 years.

Everyone wants to know, “How can I get in on this?” said Thomas A. Donovan, a partner at B6 Real Estate Advisors whose team covers Long Island City. He said he was bombarded with emails and text messages saying little more than that, right after reports surfaced two weeks ago about the Queens neighborhood being in the mix for the Amazon.com Inc. headquarters.

The winning locations could use the help. Crystal City, now part of a neighborhood called National Landing, has struggled to attract tenants with aging office stock going back to the 1970s. Long Island City’s commercial revitalization has been decades in the making, with developers converting older industrial buildings into offices. But it still lags behind residential development, while retail is lacking.

“Both these sites aren’t meeting their potential,” said Bob Hess, a lead consultant to New York state’s Amazon bid and vice chairman of Newmark Knight Frank’s Global Corporate Services.

Long Island City’s office vacancy rate in the third quarter rose to 18.4%, up 6.1 percentage points from the same period last year, according to real-estate firm Cushman & Wakefield. Looming in the near future was a potential vacancy of about 1 million square feet of space at One Court Square until Amazon committed to take the space.

Crystal City notched a vacancy rate of 18.3% in the third quarter, according to Colliers.

While brokers say it is too soon for values of office buildings, retail space, hotels and apartment buildings to reflect any Amazon bump, they expect it for the neighborhoods surrounding the

HQ2 locations.

“This Amazon stuff has been very ZIP Code and radius specific,” said Mr. Donovan. “They’re saying, ‘Hey, I want to be in Queens, where they [Amazon] want to be. Let’s go a mile around. Show me anything you have.’”

Less than a week before the Amazon announcement, he took a client to see a commercial building he figured was likely to be near potential Amazon sites. The client immediately put in a bid, deciding he didn’t want to waste any time.

Some real-estate firms aren’t waiting, either. Two days after Amazon formally announced its second-headquarters choices, Compound Asset Management Inc., a real-estate-asset management company, launched an open-ended fund called the NYC HQ2 Fund to invest in different types of real estate in Long Island City and surrounding neighborhoods, including Sunnyside, Woodside, Astoria and Greenpoint.

Long Island City’s real-estate prices could appreciate at a rate similar to other fast-growing New York City submarkets such as Chelsea, where prices have increased at a faster clip than the city as a whole, said Compound’s Chief Executive Janine Yorio.

Beyond the 25,000 jobs that Amazon will bring to each location, the new headquarters are expected to produce thousands of related jobs from lawyers to accountants. Tech firms are also expected to spring up that will service Amazon, or even want to lure away their employees, analysts said.

Those additional workers and residents need to eat and shop. That could be a concern in Long Island City, which lacks the restaurants, supermarkets and other shops that the influx of new workers and residents will demand.

Amazon’s arrival “really pushes forward more typical retail development, such as clothing stores, nail salons. In five, six, seven years, it is going to feel like an extension of Manhattan,” said Scott Barone, chief executive of developer Barone Management, which has a Long Island City project.

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Or, some suggest, more like hipster Brooklyn. “I expect there will be much more opportunity to eat kale on reclaimed wood tables under Edison bulbs,” said Will Silverman, a managing director at Hodges Ward Elliott Inc.

Amazon’s arrival also likely means more hotel stays. Each job created generates 8.4 hotel nights a year, according to national calculations in a report from real-estate-services firm CBRE Group Inc.

JBG Smith Properties, which has agreed to lease about 500,000 square feet of office space to Amazon, is also selling property to the retail giant with a potential density of up to 4.1 million square feet for \$294 million, JBG said. Amazon paid JBG about \$72 a square foot, around the market rate, according to comparable sales.

While “Amazon landing in Crystal City fixes the problem of Crystal City,” said Daniel Ismail, an analyst with property-research firm Green Street, he thinks the knock-on effect in the surrounding neighborhoods will be limited because of high vacancy rates and the low barriers to building new space to absorb increased demand for offices.

Write to Keiko Morris at Keiko.Morris@wsj.com