

## **Don't Underestimate the Importance of Amazon's HQ2 Coming to Arlington**

There can be no question that Amazon's HQ2 location in Arlington County will have significant implications for the local and regional economies. The direct and indirect impacts have been widely reported: 25,000 or more jobs with an average salary of \$150,000, an annual payroll of \$3.75 million or more, \$4 billion in new construction outlays, the generation and support of tens of thousands of other jobs throughout the region's economy cutting across all sectors and the generation of significant magnitudes of net fiscal benefits—revenues exceeding public expenses—to the benefit of Arlington County (at least \$26 million annually at build out) and more than \$164 million annually to the Commonwealth of Virginia beyond the costs of state provided new public services.

While these economic benefits are significant and exceed those that can be associated with any other business investment in the region, the Amazon HQ2 investment is actually much more important than these numbers suggest. Arlington County and the Washington region have been experiencing the most significant economic transformation in their histories over the last ten to fifteen years, as these economies shifted away from their previous dependences on federal government spending to drive their growth.

The first stage of this transformation was the decline of the federal government and the region has lost more than 25,000 federal jobs and 100,000 federal contractor jobs since 2010. The consequences were measurable: the region's economic growth slowed from ranking first among the nation's fifteen largest metropolitan areas in 2010 to ranking 15<sup>th</sup> over the 2010-2017 period; average wages decreased between 2010 and 2013 and took four years to recover; and the region's population gains from the strong net domestic in-migration between 2008 and 2011 have been erased by four consecutive years of net domestic out-migration.

This transformation has been more disruptive and prolonged in Arlington County, dating to the early 2000s with the relocations of the U.S. Patent and Trademark Office from Crystal City, several military commands as a consequence of the 2005 Base Closure and Realignment Act and the broader effects of the Budget Control Act of 2011 and Sequestration on federal agencies and contractors. These losses have cost Arlington County an estimated 34,000 jobs with 70 percent of these coming directly from Crystal City and Pentagon City locations. As a result, Arlington County's economy contracted significantly more than the region's during the 2011-2013 period and economic growth has lagged since.

The most visible result of these job losses has been the persistent 20% and higher office vacancy rates that have characterized the Rosslyn-Ballston Corridor and the Crystal City/Pentagon City office markets since 2014. This vacancy is costly for the County's residents: each percentage point of vacancy costs \$3.4 million in tax revenues. Either the tax burden is shifted elsewhere, primarily to residents, or fewer

services are provided by the county relative to what would be provided with a healthy commercial market.

Now that the first stage of the transformation of the economies in Arlington County and the Washington region is complete, the second stage is beginning to take shape. Non-federally dependent businesses are taking the place of the federal government as the source of recent and future economic growth. This transition has been gradual but, in 2017, the region's non-federally dependent economic doubled their previous year's performance and out-performed their national counterparts.

Amazon will continue to bolster this growth and ensure that it continues. Its presence will strengthen the regional brand and will help assure that future job growth spans a broader wage and skills spectrum. The forecast for job growth in the Washington region for the 2018-2030 period is for 378,000 new jobs. Amazon's HQ2 will account for 25,000 of these or just 7 percent of projected job growth to 2030. Clearly, the presence of Amazon's HQ2 in Arlington will attract other high-value added employers to the region and together these jobs will generate consumer spending that will support thousands of other jobs—retail, consumer services, construction, professional—across the region for a diversity of workers with varying skills sets.

Future growth in the Washington region will not be driven by the federal government. The region and Arlington County have endured a decade of below-average growth in order for their economic transformations to succeed, positioning the non-federally dependent business base to drive economic growth going forward. HQ2 proves the proposition, it confirms the direction and the return-on-investment that this transformation has achieved to date and promises for the future. HQ2 is the first of many successes going forward. While HQ2's initial economic impacts are impressive, they are just the beginning.

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