

ORLANDO BUSINESS JOURNAL

BUSINESS JOURNALS SPECIAL REPORT

THE AMAZON EFFECT

How taxpayers are funding Amazon's disruption of the U.S. economy

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THE AMAZON EFFECT

A \$1 BILLION POWER PLAY

BY CRAIG DOUGLAS

The Business Journals | cdouglas@bizjournals.com

Amazon founder Jeff Bezos has built a net worth of roughly \$85 billion with the sort of discipline and scale refined by corporate titans before him – Rockefeller, Ford and Gates among them – though no one has so efficiently tapped America’s collective impatience and love for a bargain. What Albuquerque’s favorite son is accomplishing, and the ruthless speed at which he is accomplishing it, is unprecedented. He’s had lots of help along the way.

Americans have supported the Bezos surge in two distinct ways: by buying everything from dog food to diamonds on Amazon.com and by kicking in at least \$1.24 billion in taxpayer-funded subsidies and incentives that have fueled the company’s growth across the country. That figure does not include hundreds-of-millions of dollars in additional breaks from deals to phase in state sales taxes, nor does it include dozens of hard-to-quantify tax abatements and land arrangements struck with a mosaic of towns, counties and school districts along the way.

Those subsidies, aggregated in a Business Journals analysis of public records and financial filings from across the United States, have helped support the expansion of Amazon’s sprawling network of more than 257 sorting and distribution centers, a 141 million-square-foot portfolio of facilities that house hundreds-of-thousands of workers in 33 states. The company has millions more square feet in Class A office space as well as a rapidly expanding portfolio of data centers managed by Amazon Web Services Inc., arguably its fastest-growing division and a beneficiary of more than \$229 million in known taxpayer subsidies.

Competition – and a degree of desperation – have been key to Amazon’s well-honed strategy for maximizing

taxpayer support. For example, the company has proven shrewd at pitting states and communities against one another by leveraging the allure of new jobs and the cachet that comes with landing a major technology company.

What Amazon delivers is usually something more mundane.

Cities throughout the country’s wilting industrial hubs have been particularly eager to step up to Amazon’s demands, even though the company’s quick-turn delivery model requires proximity to the one asset they all possess: customers. But the incentives keep coming, totaling around \$100 million in South Carolina, more than \$127 million in Ohio, and millions more in the neighboring Rust Belt and Coal Country states of Pennsylvania, Michigan, Kentucky and Illinois.

Never mind that Amazon’s massive fulfillment centers are accelerating the company’s disruption of retail markets. Or that what it often provides in return for taxpayer subsidies are low-wage warehouse “functions” that, by the company’s own admission, are likely to be replaced by robots someday.

It’s all happening with the full-throated – and in some cases high-fiving – support of local officials.


Interviews by The Business Journals with dozens of public officials and reviews of documents received through

public records requests have turned up little in the form of skepticism or concerns voiced by community leaders when Amazon comes to town. Few have asked whether subsidizing Amazon’s expansion is worth the cost, or how a company with around \$30 billion in cash can possibly have a “need for funding,” as it was phrased in a recent subsidy application in Michigan.

Instead, The Business Journals found examples in which elected officials waived wage requirements to enable Amazon to qualify for a particular subsidy or incentive plan. Their rationale, repeated by local officials interviewed by The Business Journals: Any job is better than no job.

Those dynamics will be on full display in the weeks ahead, as the Seattle-based company seeks bids from U.S. cities to house “HQ2,” a proposed second North American headquarters expected to host up to 50,000 workers. Analysts suggest the winning bid will require billions of dollars in pledges of taxpayer support. Cities are lining up to throw a hat in the ring.

Few would wager that HQ2 represents an end game for the 53-year-old Bezos, or that his charges into e-commerce, rocket ships, groceries, publishing and political lobbying in Washington, D.C., will satisfy what appears to be an insatiable appetite for growth. The Bezos juggernaut has always been something of a work in progress, where the possibilities for new products and customers are endless.

It is a mastery for disruption that has spread to all corners of the U.S. economy and sent a shot across the bow of entire industries and regulators alike. What comes next could very well affirm, or suffocate, the notion of the American Dream. 

A TALE OF TWO COMPANIES

Amazon often is credited for supporting high-paying jobs in some of the most modern — and expensive— real estate spaces in the country. Less heralded is its other tendency, often in nearby locations, to offer low-paying warehouse jobs as it aggressively pursues taxpayer subsidies.



THE SAVIOR

Amazon's expansion throughout the United States has resulted in the creation of hundreds of jobs and the revitalization of dormant industrial spaces and land parcels. It's no wonder that economic development officials in cities from Jacksonville to Santa Cruz have put the company on notice: We're open for business.

ABOUT THIS PROJECT

For the past six months, The Business Journals and its 40 newsrooms have made a concerted effort to document the systematic expansion of Amazon.com Inc., from Class A office spaces in the nation's largest cities to former cornfields and barren industrial spaces long abandoned by industries of old. The company's growth, while massive in scope, has hinged on negotiations with local officials, deals with local real estate developers and tax breaks blessed by local municipalities. In short, it's all local. This project is both near term and forward looking in scope, and sets off to identify where this Seattle-based company's unrelenting expansion might be headed. It's as much about Amazon's end game as a business entity as it is about the long-lasting effect it is likely to have on America for decades to come.

THE ONE THAT GOT AWAY

Expansive logistics hubs. Great infrastructure. Strategic locations. And yet no Amazon. As the company grows, so too does the list of U.S. cities left scratching their heads over a simple question: Why has Amazon forsaken us? The answer, more often than not, has nothing to do with a willingness to play ball.



THE DISRUPTOR

In just over 30 years, Amazon has evolved from an online bookstore into an e-commerce giant capable of shipping everything from car tires to baby diapers. Entire industries — groceries, broadcasting, consumer staples and furniture, to name a few — can attest to the company's strategic disruption, as can many of the nation's once-dominant employers, who now rest in Amazon's wake.

Photo illustrations for The Business Journals by Justin Metz



THE AMAZON EFFECT: IMPACT ON CENTRAL FLORIDA

THE AMAZON ANOMALY

Why the e-commerce giant wants a big presence in Orlando – without incentives

BY **SARAH ASLAM** AND **VERONICA BREZINA**
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All across the United States, Amazon.com Inc. is cranking out massive distribution centers at an astounding rate – 26 just last year – and scooping up economic-development incentives along the way.

Even in other parts of the Sunshine State, Seattle-based Amazon (Nasdaq: AMZN) has collected quite a warehouse of incentives, tax waivers and infrastructure bonds, including in Miami and Tampa Bay.

But not here in Orlando, where Amazon plans to build a \$132 million, 2.3 million-square-foot fulfillment center.

Site work began this summer on 130 acres in Lake Nona, the fast-growing, 17-square-mile community in southeast Orlando that already has gained international acclaim for its 650-acre Medical City life-sciences hub and the 300-acre Sports & Performance District that is home to the U.S. Tennis Association's \$100 million USTA National Campus.

So why did Amazon decide to go ahead and plop a huge warehouse on a cow pasture just south of Orlando International Airport sans incentives? Two reasons: Proximity to the airport – considered one of the area's biggest economic drivers – and the region's potential workforce, thanks to thousands of students graduating annually from the area's universities and colleges, many of whom are looking for opportunities right here at home.

"We wanted to make sure a fulfillment center is placed as close to the customer as possible to ensure we can offer a great Amazon Prime service and fast shipping speeds to customers," Amazon Regional Operations PR Manager Shevaun Brown previously told *Orlando Business Journal*. "We also looked at the workforce and we've found great talent in abundance in Central Florida."

The fulfillment center also means more commerce for Central Florida, a large expensive building being added to the tax rolls and an estimated 1,200 temporary construction jobs.

"It says a lot about our status as a major employment hub in the United States when a global leader in e-commerce chooses to add more than 1,500 new jobs in our community," said Tim Giuliani, president and CEO of the Orlando Economic Partnership, Central Florida's economic development organization.

Read on for closer look at how those two factors worked in Orlando's favor.

Behind the deal

In late 2015, a stealthy Seattle real estate broker-



JIM CARCHIDI

Construction of Orlando's future Amazon distribution center is under way.

age firm working with Amazon on site selection tapped Orlando broker Lee Morris at Colliers International Central Florida to find the right spot for a new warehouse here in town.

That firm, KBC Advisors, doesn't name the internet giant on its website, but boasts of working on real estate projects in "virtually every market" in the U.S. and negotiating millions of square feet of e-commerce space.

Morris declined to comment on the deal. However, the firm scouted Florida sites for Amazon ahead of deals that closed as recently as July, according to John Pottinger of Tavistock Development Co. LLC, developer of Lake Nona and the entity that sold the land where Amazon will build its Orlando fulfillment center. "It's my understanding [Morris] has done other Amazon business in the past," Pottinger told *OBJ*.

Ironically enough, a few months into that due diligence, Amazon passed on Orlando, since it determined Tavistock wouldn't be able to widen Boggy Creek Road from two lanes to four to support the increased truck traffic its distribution center would generate starting in fourth-quarter 2017. Instead, Amazon chose a site in Jacksonville, where a fulfillment center is now under construction.

Back here in Orlando, Tavistock still struggled with that chunk of land. Nothing had been devel-

THE PROPERTY REPORT

Total occupied square footage of retail and industrial properties in Greater Orlando during the past decade.

■ June 2006
■ June 2017

RETAIL

103M

122M

18.4% ▲

INDUSTRIAL

103M

121M

17.5% ▲

THE STATE OF FLORIDA AMAZON FULFILLMENT CENTERS

Florida has been a key location for Amazon's fast-expanding physical presence along the I-95 corridor. The state and local municipalities have combined to provide roughly \$65 million in support to make it happen.

NO. OF JOBS OR TRAINING SLOTS PER LOCATION

No. 1 (Jacksonville, Pecan Park)

1,500

No. 2 (Jacksonville, Boulevard Center)

1,200

No. 3 (Lake Nona)

1,500

No. 4 (Lakeland)

500

No. 5 (Opa-Locka)

N/A

No. 6 (Ruskin)

500

SUBSIDY VALUE PER LOCATION

No. 1 (Jacksonville, Pecan Park)

\$18.3 million

No. 2 (Jacksonville, Boulevard Center)

\$8.29 million

No. 3 (Lake Nona)

N/A

No. 4 (Lakeland)

\$360,000

No. 5 (Opa-Locka)

\$6.5 million

No. 6 (Ruskin)

\$7.35 million

AVERAGE RENTS

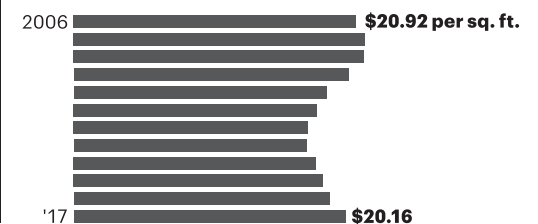
Orlando's average retail rents dropped slightly in recent years, while industrial rates went up in lockstep with Amazon's growth.

CREDIT: COSTAR GROUP

-3.6% ▼

The amount retail rents have fallen since 2006.

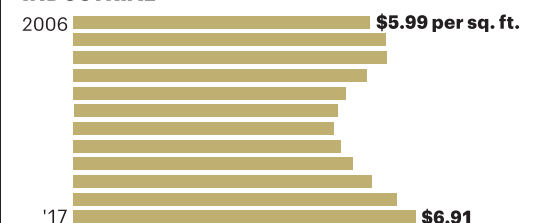
RETAIL

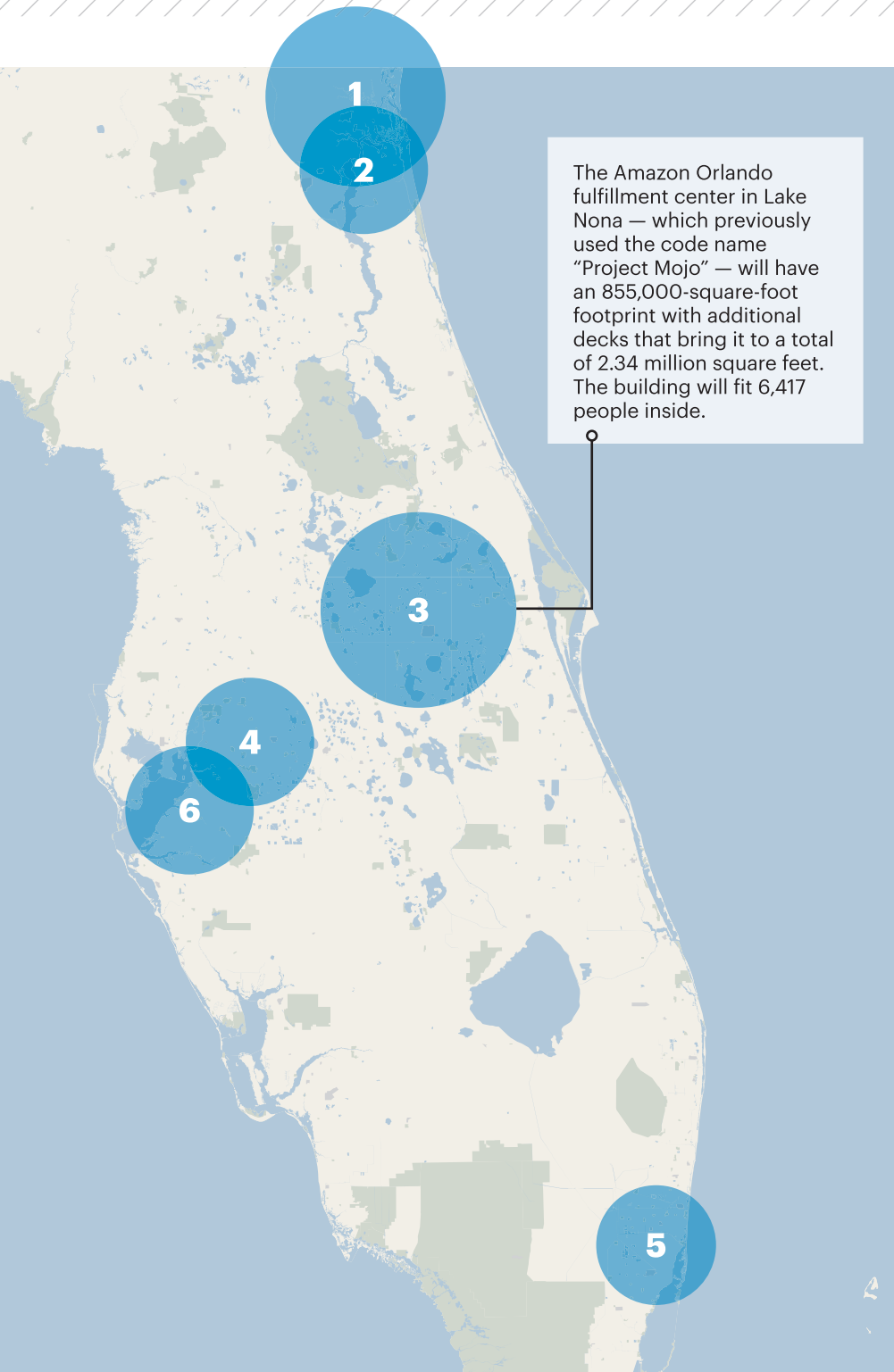


15.4% ▲

The amount industrial rents have risen since 2006.

INDUSTRIAL





- 1 JACKSONVILLE**
12900 Pecan Park Road

 - ▶ **Square footage:** 2 million
 - ▶ **Subsidy:** \$18.3 million
 - ▶ **Opened:** 2017
 - ▶ **Developer:** Seefried Industrial Properties Inc.
- 2 JACKSONVILLE**
Boulevard Center Drive

 - ▶ **Square footage:** 1.016 million
 - ▶ **Subsidy:** \$8.29 million
 - ▶ **Opened:** 2017
 - ▶ **Developer:** The Conlan Co., Hillwood Investment Properties
- 3 LAKE NONA**
Boggy Creek Road & Jeff Fuqua Boulevard

 - ▶ **Square footage:** 2.34 million
 - ▶ **Subsidy:** None
 - ▶ **Opened:** 2018
 - ▶ **Developer:** Seefried Industrial Properties Inc.
- 4 LAKELAND**
1760 County Line Road

 - ▶ **Square footage:** 1.016 million
 - ▶ **Subsidy:** \$360,000
 - ▶ **Opened:** 2014
 - ▶ **Developer:** Tratt Properties
- 5 OPA-LOCKA**
Officer Simmons Arlington Avenue

 - ▶ **Square footage:** 885,000
 - ▶ **Subsidy:** \$6.5 million
 - ▶ **Opened:** 2017
 - ▶ **Developer:** Foundry Commercial and Clarion Partners
- 6 RUSKIN**
3350 Laurel Ridge Avenue

 - ▶ **Square footage:** 1.017 million
 - ▶ **Subsidy:** \$7.35 million
 - ▶ **Opened:** 2014
 - ▶ **Developer:** The Conlan Co.

SOURCE: The Business Journal Research

oped on it to date because it wasn’t an easy site to work with, said Bo Bradford, co-president and principal of Lee & Associates Central Florida, who wasn’t involved in the deal.

“You have to get your chainsaw out to wade through the myriad issues, legal or otherwise,” Bradford told *OBJ*. “That Boggy Creek Road site was on everybody’s radar, but it has such horrible geometry — it has wetlands and it’s not an easy site to develop.”

But Tavistock kept working on making it more presentable — eventually wooing Amazon back to the negotiating table around last year’s third quarter. By then, Tavistock had finalized plans to widen that road in time for a late 2018 Amazon opening.

So, a huge team came together to work on the deal, which included Amazon as the tenant, Atlanta-based Seefried Industrial Properties Inc. as the developer, San Antonio-based USAA Real Estate Co. as equity partner and lender Wells Fargo.

“All four were at the table, and all four had lawyers,” said Pottinger, who referred to the group as a four-headed monster. “Meetings were long.”

A deal finally was inked on July 7, setting the stage for Amazon to bring a first-of-its-kind warehouse to Orlando.

No incentives necessary

The Orlando Economic Partnership has reeled in several global big fish in the last couple of years that are creating thousands of high-wage jobs for the region.

For example, tax audit giant KPMG LLP is building a \$430 million training center in Lake Nona, which is expected to create 80 jobs and more than 250 third-party contract positions. Additionally, other large companies like ADP LLC and Deloitte are bringing thousands more jobs to Maitland and Lake Mary, respectively.

However, the state and local municipalities typically have to set aside millions of dollars to offer financial incentives to companies like these in exchange for the firms creating jobs in the area that would pay annual wages of \$50,000 to \$90,000 — higher than the region’s average wage.

Amazon, on the other hand, didn’t promise any high-wage jobs, so it didn’t seek any financial incentives — something that’s highly unusual for the firm, according to the Orlando Economic Partnership.

But the company does offer other benefits.

The jobs themselves will pay more than \$11 an hour, which Amazon says is up to 30 percent more than traditional retail jobs. Employees also will get a 401(k) with company match, company stock, health care and it may even pay for college tuition.

The Amazon fulfillment center deal surprised economist Hank Fishkind. However, we do have an abundant local workforce to fill those jobs — key to economic growth, he said.

Orange County Mayor Teresa Jacobs agreed.

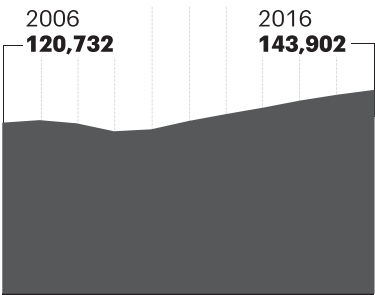
“This is also a great opportunity for people who’ve not been able to pursue a college education due to financial reasons,” Jacobs said in a prepared statement. “With our premier international airport and expanding tech hub, it makes very good sense for Amazon to enter our marketplace.”

Amazon has created more than 4,000 full-time jobs in Florida since building its first fulfillment center in the state in 2013. The new fulfillment center in Lake Nona will bring Amazon’s workforce in the Sunshine State to more than 9,000.

CHANGES IN HEADCOUNT

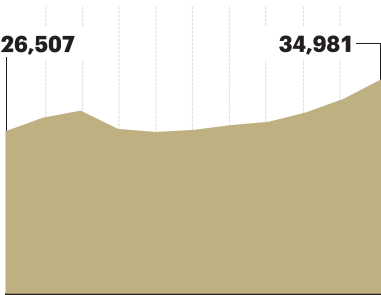
Employment in Orlando’s retail sector has rebounded since the depths of the recent recession, but it still lags the highs reached in 2006 and 2007. Conversely, warehouse jobs have increased by nearly 10,000 positions.

RETAIL JOBS



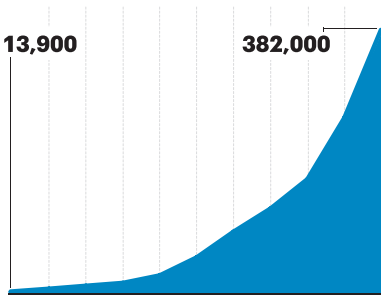
19.2% Change in Orlando since 2006

WAREHOUSE JOBS



32.0% Change in Orlando since 2006

AMAZON TOTAL JOBS



2,748% Amazon change since 2006

11.0% National change since 2006

41.4% National change since 2006

4.2% U.S. workforce change since 2006

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AMAZON DEVELOPERS

RANKED BY SQUARE FEET DEVELOPED; TIES BROKEN ALPHABETICALLY

	<i>Business name</i>	<i>Address Telephone</i>	<i>Square feet developed¹</i>	<i>Estimated number of jobs</i>	<i>Locations developed²</i>	<i>Development partnerships</i>
1	Prologis <i>prologis.com</i>	Pier 1, Bay 1 San Francisco, Calif. 94111 415-394-9000	12.46 million	13,563	Hebron, KY; Tracy, CA; Aurora, CO	947,000 square feet developed with Browning Investments
2	Seefried Industrial Properties <i>seefriedproperties.com</i>	3333 Riverwood Pkwy. Atlanta, Ga. 30339 404-233-0204	10 million	15,645	Jacksonville, FL; Chattanooga, TN; Shakopee, MN	1 million square feet developed with Ryan Cos., 1.7 million square feet developed with USAA Real Estate Co.
3	Clarion Partners <i>clarionpartners.com</i>	230 Park Ave. New York, N.Y. 10169 212-883-2500	9.5 million	9,800	Moreno Valley, CA; San Bernardino; Cranbury Township, NJ	Clarion Partners worked with Foundry Commercial, Hillwood Investment Properties, TIAA-CREF and Trammell Crow Co.
4	Duke Realty Corp. <i>dukerealty.com</i>	600 E. 96th St. Indianapolis, Ind. 46240 317-808-6000	9.27 million	6,424	Goodyear, AZ; Middletown, DE; Easton, PA; DuPont, WA	1 million square feet developed with Browning Investments
5	Trammell Crow Co. <i>trammellcrow.com</i>	2100 McKinney Ave. Dallas, Texas 75201 214-863-4101	8.94 million	7,100	Thornton, CO; Perryville, MD; Fall River, MA	1.74 million square feet developed with Clarion Partners, 1.15 million with Diamond Realty Investments
6	Hillwood <i>hillwood.com</i>	3000 Turtle Creek Blvd. Dallas, Texas 75219 214-303-5535	7.03 million	6,200	San Bernardino, CA; Jacksonville; Coppell, TX	2 million square feet developed with Clarion Partners and 1 million developed with The Conlan Co.
7	KTR Capital Partners <i>ktrcapital.com</i>	21040 84th Ave. S Kent, Wash. 98032 253-478-5000	5.86 million	2,000	Robbinsville, NJ; Kenosha, WI; Carteret, NJ	Did not disclose
8	Renaissance Cos. <i>renaissancecos.com</i>	8925 E. Pima Center Pkwy. Scottsdale, Ariz. 82528 480-967-0880	3.48 million	4,500	Phoenix, AZ	1.2 million square feet developed with Tratt Properties
9	The Conlan Co. <i>conlancompany.com</i>	1800 Pkwy. Pl. Marietta, Ga. 30067 770-423-8000	3.03 million	2,700	Jacksonville; Ruskin; Clear Brook, VA	1 million square feet developed with Hillwood
10	USAA Real Estate Co. <i>usrealco.com</i>	9830 Colonnade Blvd. San Antonio, Texas 78230 800-531-8182	2.97 million	2,350	Schertz, TX; Sacramento, CA; Kansas City, KS	1.7 million square feet developed with subsidiary Seefried Industrial Properties
11	Goodman Group <i>goodman.com</i>	18201 Von Karman Ave. Irvine, Calif. 92612 949-407-0100	2.24 million	481	Eastvale, CA; Carlisle, PA	Did not disclose
12	Tratt Properties <i>trattproperties.com</i>	5050 N. 40th St. Phoenix, Ariz. 85018 602-468-3100	2.22 million	500	Phoenix, AZ; Lakeland, FL	1.2 million square feet developed with Renaissance Cos.
13	Ryan Cos. US Inc. <i>ryancompanies.com</i>	533 S. 3rd St. Minneapolis, Minn. 55415 612-492-4000	2.1 million	1,350	Shakopee, MN; Petersburg, VA	1 million square feet developed with Seefried Industrial Properties
14	Browning Investments <i>browninginvestments.com</i>	6100 W. 96th St. Indianapolis, Ind. 46278 317-344-7300	1.95 million	1,591	Plainfield, IN; Whitestown, IN	1 million square feet developed with Duke Realty and 947,300 square feet developed with Prologis
15	Dermody Properties <i>dermody.com</i>	5500 Equity Ave. Reno, Nev. 89502 800-775-7483	1.86 million	4,000	Fresno, CA; Logan Township, NJ	855,000 square feet developed with Seefried Industrial Properties
16	TPA Group <i>tpa-grp.com</i>	3350 Riverwood Pkwy. Atlanta, Ga. 30339 770-436-3400	1.61 million	1,100	Braselton, GA; Kannapolis, NC	Did not disclose
17	Panattoni Development Co. <i>panattoni.com</i>	20411 SW Birch St. Newport Beach, Calif. 92660 949-474-7830	1.28 million		Romeoville, IL; Hazelwood, MO	750,000 square feet developed with RREEF Amer REIT II
18	Stag Industrial Holdings <i>stagindustrial.com</i>	1 Federal St. Boston, Mass. 02110 617-574-4777	1.25 million	2,000	West Columbia, SC	Did not disclose
19	Cole Corporate Income Trust Inc. <i>colecapiatal.com</i>	2325 E. Camelback Rd. Phoenix, Ariz. 85016 602-778-6000	1.2 million		Chester, VA	Did not disclose
20	Diamond Realty Investments <i>diamondrealtyinvestments.com</i>	5215 N. O'Connor Blvd. Irving, Texas 75039 972-590-4995	1.15 million	700	Perryville, MD	Developed with Trammell Crow Co.
21	Matrix Development Group <i>matrixcompanies.com</i>	3 Centre Dr. Jamesburg, N.J. 08831 732-521-2900	1.1 million	2,250	Staten Island, NY	Did not disclose
22	Capstone Partners LLC <i>capstone-partners.com</i>	1015 NW 11th Ave. Portland, Ore. 97209 206-652-3364	1 million	1,000	Salem, OR	Did not disclose
22	Catamount Constructors <i>catamountinc.com</i>	1527 Cole Blvd. Lakewood, Colo. 80401 303-679-0087	1 million	1,000	Livonia, MI	Did not disclose
22	Tradepoint Atlantic <i>tradepointatlantic.com</i>	1600 Sparrows Point Blvd. Sparrows Point, Md. 21219 410-709-1286	1 million	1,500	Sparrows Point, MD	Did not disclose
25	Seagis Property Group <i>seagisproperty.com</i>	100 Front St. Conshohocken, Pa. 19428 484-530-9133	923,000	2,000	Edison, NJ	Did not disclose

¹ In some cases, the square footage may be higher. The list does not include development of less than 500,000 square feet.
² Largest site locations are included.