

PCCP Market Commentary

Drafting Behind Amazon’s HQ2 Search to Find Investments

First Quarter 2018

Amazon has set off a frenzy in its search for a location for its second headquarters, as the lucky city selected by the world’s largest online retailer is expected to add up to 50,000 jobs and \$5.0 billion of capital investment. Accordingly, Amazon’s request for proposals has been met with substantial interest, with purportedly more than 238 regions/metropolitan areas submitting formal proposals that include attractive incentive packages to lure the company. While only one of these cities will ultimately land the coveted technology giant, a look into Amazon’s site selection criteria reveals what one of the most innovative and fastest growing companies looks for in a headquarters location. As we reviewed the RFP, we noticed a striking similarity between Amazon’s criteria for identifying a headquarters location and the criteria that we, as real estate investors, use to identify attractive investment markets.

The RFP reveals that, in short, Amazon is seeking an affordable location with a large, well-educated labor force, sufficient regional and national transportation infrastructure and a pro-business environment. These are attributes that we at PCCP seek when forming our investment strategies, which prompted us to take a deeper dive into Amazon’s likely candidates for insights into their real estate prospects.

Amazon’s HQ2 Requirements	
Category	Requirements
Population	more than 1.0 million people
Labor Force	a highly educated labor force and proximity to top universities
Transportation Infrastructure	access to public transportation and an international airport (within 45 minutes)
Affordability / Quality of Life	availability of affordable housing and a high quality of life for the company’s employees
Tax Incentives / Pro-Business Climate	significant tax incentives and a business friendly environment

Amazon HQ2 RFP

Since Amazon initiated its search for HQ2, there has been much speculation in the media as to where the headquarters will land. Everyone from local blogs to the New York Times has formed an opinion. While many of the media outlets expect the company to land in a gateway city such as New York, San Francisco or Boston (as these cities check all of the boxes, with skilled labor forces and regional transportation), three rankings from Moody’s, REIS, and Paddy Power shown below also reveal cities that don’t often top the list for institutional real estate investors, but are true up and comers.

Cities such as Portland, Miami and Salt Lake City are often included as likely candidates to land HQ2. These cities have been, and are currently, target markets for PCCP, as all three have seen strong job and population growth over recent years, and are relatively affordable when compared to the gateway markets.

Top Candidates			
Rank	Moody’s Analytics	Real Estate Research Co. – REIS Inc.	Irish Betting Site – Paddy Power
1	Austin	New York City	Atlanta (2/1)
2	Atlanta	San Francisco	Austin (3/1)
3	Philadelphia	Washington D.C.	Boston (6/1)
4	Rochester	Seattle	Toronto (7/1)
5	Pittsburgh	San Jose	Pittsburgh (7/1)
6	New York / New Jersey	Suburban Virginia	Dallas (16/1)
7	Miami	New Orleans	Washington D.C. (16/1)
8	Portland	Boston	San Jose (18/1)
9	Boston	Rochester	Los Angeles (20/1)
10	Salt Lake City	Austin	Philadelphia (20/1)

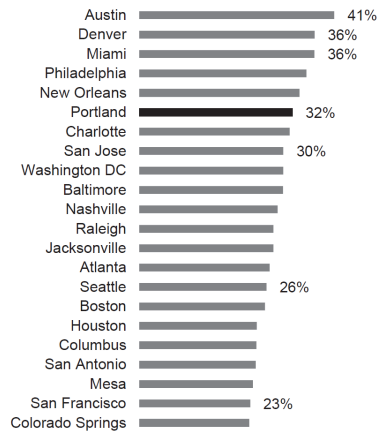
Moody’s Analytics; REIS, Inc.; Paddy Power Website (as of November 3rd, 2017)

- Portland.** Portland is a likely candidate for HQ2 for the same reason we believe it is attractive as a real estate investment market -- a deep and growing pool of skilled workers. Portland has added over 204,000 jobs since 2010, many of which are high paying STEM jobs (Science, Technology, Engineering, and Math). Not only is the work force in Portland growing, but it is also becoming younger and more educated. Since 2010, the number of people between the ages of 18-65 with a four-year college degree has increased by 32%, making Portland the 6th fastest growing MSA in terms of well-educated working age population. Although Portland may not ultimately land HQ2 due to its proximity to Amazon's current HQ in Seattle, we believe Portland continues to be an attractive real estate investment market, and is on the list of PCCP's top target markets.

Change in Working Age Population with a Four Year College Degree (2010-2016)

College Graduate Growth

50 Largest US Cities : 2010 to 2016 : Age 25 to 64



State of Oregon Employment Department

- Salt Lake City.** We were happy to see Salt Lake City in Moody's Top 10 as SLC has been a target market for PCCP for some time. Salt Lake City is an attractive option for Amazon as the MSA has a growing tech industry (8.6% of Utah's workforce), a deep and young labor force and multiple highly-respected universities. SLC also benefits from a low cost of living, a pro-business climate and a structurally high population growth rate, which have contributed to Utah earning the title of the #1 MSA for economic outlook for nine years in a row by the American Legislative Exchange Council (ALEC). PCCP believes these factors make Salt Lake City a viable option for Amazon HQ2, and an attractive market for real estate investment.

Salt Lake City Tech Talent

	Employment 2016	Growth 2011-16	Average Wage	Growth 2011-16
TOTAL TECH OCCUPATIONS	31,750	45.3%	\$82,803	13.2%
Software Developers/Programmers	12,130	59.0%	\$91,508	8.0%
Computer Support, Database & Systems	13,440	29.6%	\$68,594	13.5%
Computer & Infor. Systems Managers	2,810	111.3%	\$108,170	-5.2%
Technology Engineering-Related	3,370	33.7%	\$86,983	26.5%
TOTAL NON-TECH OCCUPATIONS	105,970	18.8%	\$47,138	8.0%
Sales	12,440	20.0%	\$63,018	1.7%
Administrative & Office Support	73,770	17.2%	\$39,671	9.3%
Business Operations & Finance	13,790	20.3%	\$67,906	5.8%
Marketing	5,970	33.9%	\$58,340	11.6%

CBRE Scoring Tech Talent

- Miami.** Miami is an interesting choice for Amazon. Miami is an international gateway and one of the leading distribution cities in the country. On the other hand, Miami is unlikely to offer incentives comparable to those offered by other cities across the country, and has limited development sites that can accommodate Amazon's projected growth of up to 8.0 million square feet over the next two decades. If Amazon ultimately chooses Miami, not only will it be a major boost for the local economy, but it will cement Miami's position as a major international business city.

While the cities detailed above are currently target markets for PCCP, the Amazon lists on the prior page reveal three additional cities which, for a variety of factors, PCCP has not invested in: Rochester, New Orleans, and Pittsburgh. As we actively explore, analyze, and ultimately create investments, we seek to develop local and regional relationships with best in class operating partners. While only one city will ultimately reap the benefits of HQ2, the public process and dialogue initiated by Amazon has not only solidified our belief in our target markets, but also has reminded us that cities change and new markets may evolve to meet our investment criteria and therefore warrant further consideration.

SOURCES: Amazon HQ2 RFP; Amazon.com; Moody's Analytics; REIS Inc.; Paddy Power; Brookings.edu; U.S. Bureau of Labor Statistics; State of Oregon Employment Department – City of Portland Economic Indicators; Utah Governor's Office of Economic Development; ALEC "Rich States, Poor States"; Our thanks to PCCP's Matt Cochran for his help in drafting this quarterly newsletter.

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