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Fitch Ratings: Amazon HQ2 Split Has Muted Upside for New York & Virginia

Fitch Ratings-New York-07 November 2018: A prospective Amazon headquarter split between Long Island City in New York and Crystal City in Northern Virginia would have at most a muted impact on the economies and credit quality of Arlington County and New York City, according to Fitch Ratings. The final announcement is expected by year end, although it may come as early as later this week.

The total impact of HQ2 is expected to include 50,000 new employees with an average salary of over $100,000 within 15 years and more than $5 billion in investment over up to 17 years. The additional economic activity could positively affect two of the four local government key rating drivers Fitch assigns, revenue framework and long-term liability burden, over the long term. However, given the large size of the locations remaining in contention, any impact would be modest, particularly if HQ2 is split.

We do not expect much change in home prices in either location as healthy economic dynamics are already pushing up prices and supply should be sufficient to absorb the needs. The Washington, D.C. area is more likely to benefit than New York City as it has slower growth in rents and home prices.

Similarly, an Amazon HQ2 split would not have much effect on employment. An analysis conducted by Fitch earlier this year indicates that even the full impact of HQ2 would represent a modest 1.5% of the labor force in the Washington, D.C. Metropolitan Statistical Area (MSA) and only 0.5% in the vast New York City MSA. Both MSAs have low unemployment rates. The impact could be more significant if the new facilities attract substantial numbers of related jobs.

The direct impact on local government revenues from Amazon will be reduced not only by splitting HQ2 but also by anticipated state and local incentives. The winners and their surrounding MSAs will see some indirect benefit from increased tax revenues generated by employees and related businesses.

Fitch rates Arlington County 'AAA'/Stable and New York City 'AA'/Stable. Both already have 'aaa' assessments on their revenue frameworks. New York City has a weaker long-term liability assessment at 'a', but the incremental growth in the resource base from one of the HQ2's would be insufficient to improve the assessment. Arlington County's long-term liability assessment is already strong at 'aaa'.

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The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.