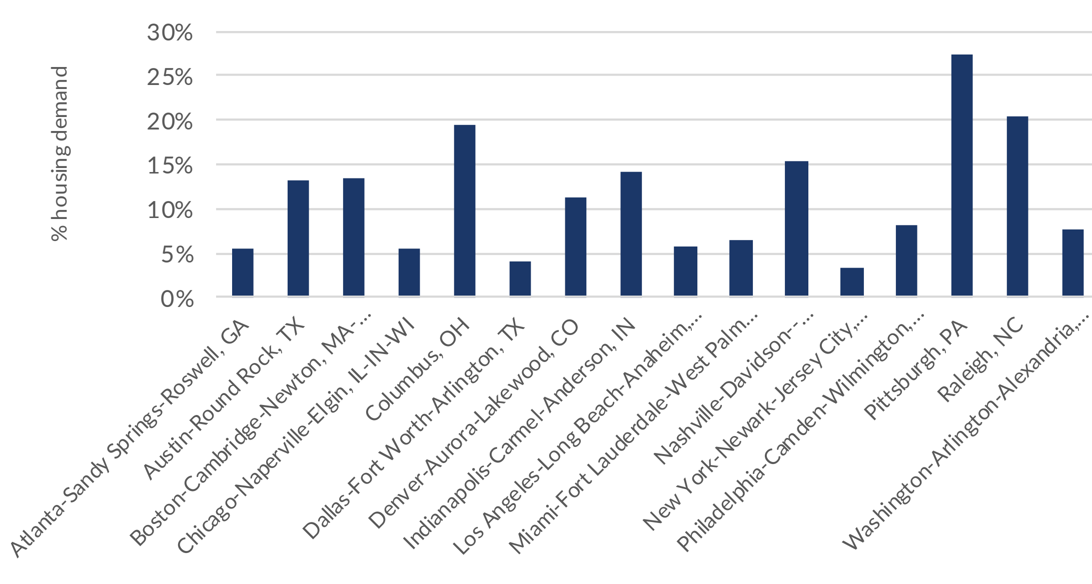
HQ2's Prime Effect on Local Housing Markets

Amazon, Inc. – which is looking to build a second headquarters (HQ2) – announced the 20 finalist markets on January 18, 2018. Amazon's decision carries with it fascinating economic implications, as the company claims its HQ2 will bring 50,000 jobs to the selected area. While the specific effects vary depending on the area in which HQ2 locates, the potential addition of 50,000 jobs will impact government revenue via personal income and corporate taxes, and lead to increased demand on roads and school systems, and increased demand for housing. For example, if HQ2 locates in New York or Los Angeles, the relative effect on the local area will be smaller than if HQ2 ends up in Raleigh, NC or Austin, TX.

In this article, we provide an estimate for the effect on the housing market (specifically, single unit dwellings for sale) for each U.S. metro area relevant to the HQ2 decision. Using a combination of economic, demographic, and local residential real estate metrics, we calculate the approximate expected annual increase in demand for single unit homes for sale. Our projections assume Amazon evenly divides hiring their projected 50,000 employees across five years. As such, Figure 1 shows 1/5 of the expected increase in housing demand from HQ2 relative to 2016 full-year sales for each area.

HQ2 EXPECTED CHANGE IN HOUSING SALES DEMAND



Note: only US metro areas closest to proposed HQ2 locations included.

Sources: BLS, ACS 2016 1-year estimates, CoreLogic County Records, Amherst Capital

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Pittsburgh, Columbus, and Raleigh (respectively) are poised to experience the largest gain in demand relative to their market size for housing units for sale.

The implications for each of these markets are tremendous. The Pittsburgh metro area has more than 2.3 million people, but census data shows that its population has seen a net decline for four consecutive years. If Amazon places HQ2 in the Pittsburgh metro, the move has potential to cause a 27% increase in demand for homes for sale. This decision, along with ancillary moves of competitors, vendors, and other related companies could change the fortune of the metro area.

Columbus – which shares a similar economic history with Pittsburgh – is also a metro area of approximately two million people. Unlike Pittsburgh, however, the population of Columbus is growing. According to census estimates, Columbus is the fastest growing metro in Ohio. Nevertheless, selecting Columbus as the location for HQ2 is likely to give the metro area a nearly 20% annualized increase in demand for single unit home sales.

Raleigh has been one of the fastest growing metro areas in the United States in recent years. Nevertheless, the metro area is set to see another significant influx of households – and housing demand – if HQ2 locates in the area. Amazon could single-handedly make one of the fastest growing metros grow even faster.

On the other hand, New York, Dallas, and Chicago (respectively) are expected to receive the smallest gain in demand relative to their housing market size for single unit dwellings for sale from HQ2. The addition of HQ2 to these very large metro areas would incrementally strengthen the regional economy, but is unlikely to change the fortune of the area.

Amazon's decision to locate HQ2 in one of several areas has the potential for a wide range of outcomes. For areas like New York and Dallas, HQ2 would be another large company located in the metro area bringing incremental strength to the regional economy. For Pittsburgh, HQ2 may be able to change the fortune of the metro area and reverse its population decline. For fast growing areas like Columbus and Raleigh, HQ2 would simply accelerate the growth of an already-high-growth metro area. Whether small or large, the area in which HQ2 eventually locates will be set for a housing market bump.

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