

What's the Deal By Daniel Lesser

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Amazon's NYC retreat: The principle of change

(The views and opinions expressed in this blog are strictly those of the author.)

Within the context of real property valuation, the principle of change asserts that markets are not static but rather in a continual state of change. The principle of change recognizes the dynamic nature of real estate markets. The concept impacts individual properties as well as neighborhoods, communities and regions, to differing degrees.

Change is fundamentally the law of cause and effect, and the effects of prospective adjustment are reflected in supply and demand market conditions. Thus, the value of real estate is never constant.

Almost 20 years ago, the Long Island City (LIC) neighborhood of Queens in New York City was rezoned from a predominantly industrial area to an office and residential neighborhood. Coupled with excellent proximity and accessibility to Manhattan, LIC experienced dramatic development and gentrification well before Amazon's November 13, 2018, announcement to develop a US\$2.5 billion HQ2 campus and create 25,000 jobs in the community.

The broadcasted plan sparked a real estate investment frenzy that immediately changed the surrounding area from relative equilibrium to a seller's market. The LIC hotel market, which many had identified as being oversupplied for the short term, was suddenly thought to be underbuilt and ripe for additional development of transient lodging facilities.

Much has been written about the abrupt and astonishing Valentine's Day pronouncement that due to unexpected fierce community backlash, Amazon had withdrawn its plan to locate a substantial corporate and employment presence in LIC. Overnight, the surrounding area changed once again, with asking rents and prices rapidly reverted back to pre-Amazon announcement levels.

9/11 was a graphic example of the principal of change as investor perception on September 12, 2001, was dramatically different compared with 48 hours earlier. February 14, 2019, when Amazon canceled its plans to build an expansive corporate campus in New York City, will most likely be remembered as another dramatic illustration of that principal. That is the immediate bad news.

The good news is that LIC's long-term development boom will continue an upward trajectory. It just will not be as rapid a transformation that Amazon moving into the area would have ushered in.

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