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Summary Report on the Economic Impact of the State Center Project
Baltimore, MD

Prepared for:

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Summary of Key Findings

Phase 1 of State Center redevelopment, with 515,000 square feet of State offices, 15,000 square feet of new private office space, and 55,000 square feet of new retail (including a supermarket) will be completed by 2014, and will generate benefits that include:

- 180 permanent new jobs as a result of the firms that will locate in new State Center buildings and the resulting economic activity they create (the multiplier effect);
- More than 1,800 construction-related jobs, with many going to local residents;
- Permanent new annual fiscal revenues to the City of Baltimore of $2.7 million, with one-time tax revenues of $7.4 million; and
- A net financial advantage to the State of $50 million over the 20-year term of its Phase 1 office leases, due to ground rent payments and State tax revenues arising from the new firms and employees at State Center.

The full redevelopment of State Center in future phases into a mixed-use Transit-Oriented Development, with 2.4 million square feet of commercial space, and nearly 1,356 residences (30 percent affordable), over 15+ years, will result in a broad range of benefits for the local area, the City, and the State:

- More than 10,000 permanent new jobs as a result of the firms that will locate in new State Center buildings and the resulting economic activity they create (the multiplier effect);
- More than 9,400 construction-related jobs;
- The neighborhoods around State Center will benefit from a new supermarket and expanded retail and entertainment choices as well as new services;
- Permanent new annual revenues to the City of Baltimore of $12.8 million from the State Center property being placed back on the tax roles, as well as other sources; and
- One-time revenues to the City of $39.3 million from transfer taxes and recordation fees.

Analysis of available Downtown space indicates that there are not sufficiently large blocks of available space to meet State needs, and that the rent the State will pay is less than the rent being paid by other corporate tenants of newly built Baltimore office buildings.

The Purpose of This Report

This report presents a summary of the economic, fiscal, and other impacts that are projected to result from the redevelopment of the 28-acre State Center office complex into a new urban mixed-use transit-oriented development with sustainable residences, State offices and private offices and commercial spaces, dynamic street-level retail and restaurant and entertainment uses.

The findings in this report include budgetary, economic, fiscal, and other analysis prepared by BAE Urban Economics (BAE), an urban economics and development advisory consulting services firm, under contract to the Maryland Department of Transportation (MDOT). Methodologies for the analysis are described, and reflect BAE's experience with urban revitalization throughout the U.S.

The Vision for State Center Redevelopment

Bounded by Martin Luther King, Jr. Boulevard, Howard Street, Hoffman Street and Madison Avenue, home to the State Center Metro Station, and across from the Cultural Center Light Rail Station and within walking distance of Baltimore's Penn Station, the State Center site offers one of the best locations in Maryland for transit-oriented development. At the same time, the 1950's urban renewal project that created the State Center office campus has fallen into severe disrepair, with functionally obsolete buildings, and a single-use environment that is dead in the evenings and on weekends after work hours. State Center's current design blocks connections between the Bolton Hill and Madison Park neighborhoods and Mount Vernon and Downtown.

MDOT, along with the State's Department of General Services, convened a public charrette process in January 2005 to formulate strategies for a public-private partnership that would redevelop State Center in order to meet the State's needs for new and rehabilitated office space, while furthering State goals for smart growth and TOD. BAE served as the market and financial advisor during the charrette, and has been continuously involved in the subsequent competitive solicitation; selection of State Center, LLC, as the developer; negotiation of development agreements; financial modeling; and other work to implement the public-private partnership.

The core vision that was formulated during the charrette called for a new mixed-use urban development that would reconnect the urban fabric affected by the original urban renewal project, and help benefit and revitalize adjacent neighborhoods. That vision included three key sets of benefits that have shaped the development of the project to the present:

- ***Revitalization of the Immediate Area and Community Benefits***. A mixed-use State Center project will serve as a pioneering anchor project for revitalization of the area around it, and create new jobs, affordable housing, and retail choices for local residents.
- ***New Revenues for the City of Baltimore***. Conversion of currently tax-exempt State owned property to taxable status, with new development that generates significant sources of new tax revenues, will create fiscal benefits for the City.
- ***Lowest Net Cost for Maryland Taxpayers***. The public-private partnership will invest private capital in new construction and renovation, with the State as a tenant in the new project. This keeps the State from having to borrow money it doesn't have to repair State Center, while the partnership arrangement gives the State a share of the long-term profits.

Economic Impacts from State Center Phase 1 Development

The construction period economic impacts from the State Center Phase 1 development, based on BAE's financial analysis and use of the IMPLAN econometric model, include:

State Center Phase 1 Economic Impact – Construction Period Only	
Net New Direct Jobs	998
Indirect and Induced Jobs	840
One-Time Revenues to City of Baltimore	$7.4 million

Sources: IMPLAN; BAE.

The permanent annual economic benefits are calculated in the same manner, and are shown below:

State Center Phase 1 Permanent Economic Impact	
Net New Direct Jobs (Excludes State Workers)	98
Indirect and Induced Jobs	82
New **Annual** Fiscal Revenues to City of Baltimore	$2.7 million
Net 20-Year Financial Advantage to the State	$50 million

Sources: IMPLAN; BAE.

The net financial calculation for the State includes the cost of its lease payments, the new parking garage (less revenues), the ground rent payments it is projected to receive from the developer, and the new State tax revenues that will be generated from the new Phase 1 tenants.

The Strategy for Phase 1 of the Project

The financial crisis of 2008 and the resulting recession made it necessary to revise the first phase of State Center development. Current capital market conditions make it extremely difficult to finance major new private office development. Consequently, the Phase 1 development program for State Center was revised to consist primarily of State offices, a minor amount of new private office space to begin introducing this use, retail uses including the new supermarket sought by the community, and an initial phase of residential with an emphasis on affordable units.

The resulting revised Phase 1 development program is shown below:

State Center Development Program – Phase 1 Only	
Commercial Uses	**Rentable Sq. Ft.**
State Offices – New & Renovated Buildings	515,000
Private Office Space	15,000
Retail, including New Supermarket	55,000
Total	**585,000**
New Residential – 40% Affordable	**100 dwelling units**

Source: State Center, LLC.

In addition, the State will build at its expense a new 928 space parking structure that serves as the foundation for one of the new office buildings and the new retail space. This parking structure will replace 550 surface parking spaces now used for parking State vehicles and by State employees, and is needed to free up future development sites. The remaining 378 spaces will be used for tenant and public parking.

The developer, State Center, LLC, is able to obtain private financing for this project, even with current weak capital market conditions, because the State uses represent 82 percent of the first phase, and the State's excellent credit rating makes it a creditworthy tenant.

Economic Impacts from Full Redevelopment of State Center

Complete redevelopment of State Center is projected to occur over four phases that will span 15 or more years. The ultimate timing of redevelopment will be driven by market conditions and demand for the new office, retail, residential, and other uses in the project. At build-out the new State Center will include:

State Center Development Program at Full Build-Out (Projected)	
Commercial Uses	**Rentable Sq. Ft.**
State Offices	850,000
Private Office Space	1,150,000
Retail, Including New Supermarket	250,000
Civic – Renovated Armory	360,000
Total	**2,610,000**
New Residential – 30% Affordable	**Up to 1,400 dwelling units**

Source: State Center, LLC.

This development will create the following permanent benefits, based on BAE's financial analysis and use of the IMPLAN econometric model to project economic impacts:

State Center Permanent Economic Impact at Full Build-Out	
Net New Direct Jobs (Excludes State Workers)	5,439
Indirect and Induced Jobs	4,863
New **Annual** Fiscal Revenues to City of Baltimore	$12.8 million

Sources: IMPLAN; BAE.

Net new direct jobs are jobs that will be located on-site at State Center, and do not include existing State workers who remain. Indirect and induced jobs are additional jobs stimulated by the new investment and employment at State Center (the "multiplier effect"). New annual fiscal revenues to the City include its share of property, income, and other taxes.

In addition, there are significant one-time economic benefits arising from the construction work:

State Center Economic Impact – Construction Period Only	
Net New Direct Jobs	5,186
Indirect and Induced Jobs	4,217
One-Time Revenues to City of Baltimore	$39.3 million

Sources: IMPLAN; BAE.

The one time revenues to the City include transfer taxes and recordation fees associated with new construction and sale and lease of property.

Impact of State Center on Downtown Baltimore

Phase 1 of State Center redevelopment will add only 15,000 square feet of new private space into the current office market, while its 55,000 square feet of retail space (including the new supermarket) will be targeted at increasing retail choices for the underserved neighborhoods around State Center.

The timing and specific development program for future phases of State Center development will be driven by a combination of the State's need for improved office space, as well as market demand to support the construction of new offices, retail, residential, and other uses. In other words, future phases of State Center development will be just as dependent on market forces as other development project at other sites in or near Downtown or elsewhere in the City.

The following arguments have been advanced that the State Center project will be harmful for the City and State:

- The State should instead lease existing vacant space in Downtown Baltimore;
- State Center is too expensive; and
- The State Center project will have a negative, long-term impact on Downtown Baltimore.

These considerations were evaluated during the lengthy negotiation and approval process for the public-private partnership, prior to its final approval by the State's Board of Public Works. That analysis identified the following findings:

- *Alternative of leasing vacant space versus redevelopment of State Center.* While there is considerable current vacancy in Downtown Baltimore, research by a real estate brokerage firm retained by the State indicates that there is no large enough contiguous block of space that can reasonably meet the State's requirements. Scattering State tenancies across multiple buildings throughout Downtown would create significant inefficiencies for the State, compared to the alternative of redevelopment of State Center, or relocation of State tenants there to a large block of space in a suburban location.

- *Alleged high expense of State Center redevelopment.* Current office market rental rates are below what is needed to pay for the cost of new construction; this is typical in a recessionary environment and is why new office buildings are often not built during downturns. Analysis by a real estate brokerage firm retained by the State indicates that the rental rate the State will pay for its new space will be considerably less than that paid by corporate tenants to cover construction costs in other new Baltimore buildings, such as the Legg Mason tower. As the real estate market recovers and market rents rise, the gap between market rents and the rents needed to cover construction costs will be eliminated. In normal economic conditions, rental rates exceed construction costs.
- *State Center's claimed adverse impact on the Downtown Baltimore office market.* Phase 1 of State Center development, with 15,000 square feet of private office tenants that will come on line by 2014, will clearly have no negative impact on current Downtown Baltimore office market conditions. The timing of future phases, with more private office development, will depend on market demand. These future phases will have no more adverse impact than any other new market-based private development that is proposed in the future for sites in or near Downtown.

  More importantly, this argument ignores two major trends that are driving the revitalization of downtowns in older cities throughout the U.S. The first downtown trend is the expansion of Central Business Districts (CBDs) to include new locations and buildings that help attract and retain firms and increase the competitiveness of the larger Downtown area. This has been true in San Francisco's South of Market Area, South Boston, and elsewhere.

  The second trend is the diversification of CBDs away from primarily single-use corporate and other office users into mixed-use environments that include residential. This can be seen in Lower Manhattan, Downtown Los Angeles, and other cities where older office buildings have been turned into residences, and the newer, more diverse environment has in turn helped attract and retain office tenants who might have otherwise gone elsewhere.

  Downtown Baltimore's current vacancy rate largely resulted from financial services firms downsizing after the 2008 financial crisis. As these firms recover, space will be re-leased. Ultimately, new development in the CBD and nearby areas can help create a more dynamic and competitive larger Downtown Baltimore, with a larger and broader base of demand that supports new development and leads to new uses for older, less competitive buildings.

About BAE Urban Economics

Since 1986, BAE has provided real estate economics and development advisory services to clients throughout the U.S. BAE is headquartered in Emeryville, CA, with offices in Washington, D.C., New York City, Los Angeles, and Sacramento, CA. More on BAE can be found at www.bae1.com.