

Legg Mason subleasing more than a fourth of its new Harbor East space

by Daniel J. Sernovitz, *Baltimore Business Journal*, July 10, 2009

In December 2007, Colliers Pinkard's Wally Pinkard showed off the area that has since become Legg Mason Inc.'s new Harbor East office tower. Legg Mason Inc.'s move to a new headquarters in HarborEast is falling short of the economic windfall Baltimore officials expected.

The Baltimore investment firm is trying to shed about a quarter of the space it initially committed to, and will move 550 fewer employees to the new waterfront office tower.

Legg has leased 373,000 square feet in the new 579,000-square-foot building. Colliers Pinkard, a Baltimore real estate brokerage, is now helping Legg unload 82,000 square feet — at a bargain price of about \$20 a square foot.

Legg's new Harbor East office tower will be about 51 percent occupied, with Legg not taking all the space. The other major tenant, law firm Hogan & Hartson LLP, has signed on for 37,000 square feet. There's about 227,000 square feet still to fill.

That's not what city officials hoped for in September 2007, when they awarded developer H&S Properties Development Corp. \$33 million in tax breaks to build the Fortune 500 company's new waterfront tower.

But city officials counter they were motivated by the fear of losing Legg's corporate headquarters, rather than by the promise of more jobs. Jobs could still come with time as the economy rebounds and Legg's finances improve, they say.

"We're very grateful that Legg Mason has chosen to retain its headquarters in Baltimore; that was the No. 1 goal," said Deputy Mayor Andrew B. Frank, who oversees neighborhood and economic development for the city. "Of course, the world has changed greatly since then, but I think Legg will grow again, and they will grow into the space allotted them."

At the time, Baltimore Development Corp. President M.J. "Jay" Brodie claimed without those tax breaks the office tower wouldn't get built and Legg might flee the city to Owings Mills, where it has an operations center. Brodie said the incentives would keep Legg's 600 downtown employees in the city and lure another 500 from Owings Mills.

Brodie said in an interview July 8 that Legg's 550 employees are better than none. "The developer hasn't changed his mind, and neither have we," he said. "Legg Mason, to us at the BDC, has been one of the prime business retention situations of the last several years."

Legg's decision to downsize adds another significant block of vacant space to the city's downtown office market, where there's already 2.2 million square feet of unoccupied space, according to MacKenzie Commercial Real Estate Services LLC of Lutherville.

Relocations, consolidations and downsizing among downtown businesses in the past year have contributed to a vacancy rate of between 13 percent and 17.4 percent, according to MacKenzie and other area brokerage firms. That's approaching a 10-year high of 18.06 percent set in third-quarter 1997.

Brokers familiar with Baltimore's real estate market expect the new Legg tower will interest potential tenants on the move or nearing the end of their leases because of the quality of the building and the reduced rental rate.

Legg will still have to pay rent — more than \$35 per square foot — through August 2024. But sublease tenants could offset some of the costs by paying between \$20 and \$25 per square foot, said Colliers Pinkard CEO Wally Pinkard.

The sublease rate compares with a range of between \$29.75 and \$31.75 per square foot of space at 100 Light St., the iconic, 35-story headquarters Legg is vacating for its new offices. While Legg's decision to shed space at its new tower is disappointing, Pinkard said it's also encouraging that the firm already has started moving in.

"I think [Legg is] going to do alright; I think that they'll probably get a lot of attention," said T. Courtenay Jenkins III, a broker with Cushman & Wakefield of Maryland in Baltimore. Jenkins said while there is a lot of vacant office space in the city, there are only a few buildings with large blocks of contiguous space. That, and the low sublease rate, could make Legg's offering more attractive to firms shopping in advance of their lease expirations.

Among the companies looking for new digs is Ober Kaler, one of the city's largest law firms. The firm now has 85,000 square feet in the SunTrust building on East Baltimore Street, and its lease expires in 2011. Prime Retail Inc., RSM McGladrey and M&T Bank also are considering moves.

The city's financial incentive package to H&S Properties includes a \$2.9 million grant for infrastructure improvements, a 15-year payment in lieu of taxes, or PILOT, on the building and a 25-year PILOT on a parking garage to be shared by the new office tower and a second tower slated to feature a Four Seasons hotel and condominiums.

The project was expected to bring \$162 million in new taxes to the city once it is fully developed. The condos are on hold until the market recovers, and the hotel's opening is delayed until 2011. That, plus the half-vacant office tower, means the city will have to wait to see those new taxes.

Legg lost \$1.9 billion for the year ended March 31, driven down by the declining value of its investments. The firm cut about \$120 million from its budget by March, including slashing about 575 jobs from its work force, spokeswoman Mary Athridge said.

About 180 of those job cuts were in Baltimore. Legg's Owings Mills workers will stay put. Those reductions mean Legg doesn't need as much space now as it did when it signed its lease, which is why it's trying to sublease the extra space.

Councilman William Cole said he believes the city made the best decision it could at the time, and couldn't have planned for how deeply the economy would suffer. He said he agrees keeping Legg in Baltimore is an important victory for the city, regardless of how large an employer it is here.

"It's impossible to say, looking back, that it wasn't a good deal," Cole said.