



Commentary by Kirby Fowler RE: Exelon Merger and Office Location

If its deal with Constellation is approved, Exelon is expected to expand its presence in the State of Maryland. While undoubtedly there will be some difficult adjustments during the transition, Exelon has announced that it will increase the number of employees in Baltimore City and move its alternative energy traders to Downtown Baltimore over the next few years. Both announcements are welcome, and, if all goes as planned, the deal would be good news for Downtown Baltimore.

There has been, however, significant debate surrounding the real estate implications of Exelon's move to Baltimore. Indeed, Exelon has generated fevered interest in the development community by exploring the possibility of constructing a new office tower.

Despite the excitement, it is important to step back and answer three critical questions: Would it be better for Downtown's office market for Exelon to stay in Constellation's current offices? If Exelon needs to build a new tower, what is the best location that would generate the greatest benefit for the greatest number of Downtown stakeholders – and the City? How can public policy best be harnessed to ensure the optimal outcome for Downtown, the City, and Exelon?

Governor O'Malley and Mayor Rawlings-Blake have been champions of the City during the merger discussions, ensuring that Exelon remain committed to Constellation's current home in Baltimore. And it's very likely Exelon knows that its future success is tied to a location in the City, especially our vibrant Downtown.

Downtown Baltimore, with 113,000 employees, is the economic engine of the region. Thanks to our employment numbers, we rank 15th in the country for job density, ahead of places like Dallas, San Diego, and Portland. Also, Downtown Baltimore is 8th in the country in the number of residents, and our numbers keep growing.

Because of this attractive environment, Exelon will be able to retain and recruit the best and the brightest employees, drawn by Downtown's superior quality of life. And Exelon can only benefit from the easy exchange of ideas facilitated by the close proximity of its offices in Downtown to other stars in the energy and financial industries.

Despite these high rankings, Downtown is still suffering the aftershocks of the recession, and the office market is working to regain its foothold after several tough years. Because of corporate downsizing and relocations to new buildings within Downtown, there are a number of large, older office towers struggling to compete. If

Exelon wishes to create a net positive impact, it should evaluate its real estate options in the context of today's office market.

Exelon has stated that it does not intend to remain in Constellation's current offices, which occupy a nearly-new 750 East Pratt tower and the adjacent premier Candler Building. While there must be operational challenges to splitting employees in two buildings, we hope that Exelon will not dismiss, out of hand, the value and cost savings of simply staying put. Construction of a new office tower will increase leasing expenses, bringing less value to shareholders. In addition, if sustainability is a goal, studies abound confirming that reuse of an existing building is far greener than building a new one.

Taking a broader view, a decision by Exelon to stay in the current location would boost the prospects for stabilizing Downtown's office market. At this time, Downtown does not need several hundred thousand square feet of additional space on the market. If Exelon were to vacate, it will only be a matter of time before tenants in older office buildings would move to Pratt Street, potentially destabilizing the office buildings located at the confluence of Baltimore, Light, and Charles streets. While we all hope for more businesses to relocate into Downtown – and several have – the commercial office market is a relatively finite construct at this time.

In our communications with its representatives, Exelon has discussed its desire to consolidate its forces in one location and create large trading floors to accommodate future growth. So, if a new building is to be constructed, what would be the best location that would meet the needs of Downtown, the City, and Exelon?

Since a decision to relocate will leave large amounts of office space available in the traditional Central Business District, Exelon should choose a location that reinforces the central core of Downtown. For years, the Partnership has identified the center of Downtown as radiating out from the intersection of Pratt and Light streets, and Exelon is fortunate that there are excellent locations in the immediate vicinity to consider. Relocation outside this core would inflict double damage – vacating from two buildings while moving farther from the center of Downtown. In such a case, it would likely take years for Downtown's office market to recover.

Locations near Pratt and Light are extremely appealing. They are close to restaurants (with new ones on their way), retail (such as the newly opened H&M), hotels, attractions, and other office tenants. They are also near all types of transit (including MARC), in the middle of an extensive road network, and part of the fastest-growing residential neighborhood in Baltimore (Census Tract 401, just north of Pratt Street). Exelon employees would need only to cross a street – a matter of a few yards -- to find a variety of offerings to make their workdays more exciting.

Locations in the core of Downtown are ideal for attracting the best and the brightest. Why else would the center of Downtown be the home of international companies like T. Rowe Price, Transamerica, Stifel, PNC, and PriceWaterhouseCoopers? These firms

know the benefits of being at the center of it all. If Exelon followed suit, its employees could easily network and socialize with other corporate employees because of the close proximity of other office buildings. An isolated building does not afford this type of dynamism and excitement.

It's clearly a smart business decision to identify a location near the intersection of Pratt and Light. Moreover, a location that reinforces the core of Downtown is in the best interests of the City. Like virtually all cities in the country, Downtown Baltimore's office market still needs time to recover from the recession. If Exelon must construct a new building, public policies and incentives should be directed at ensuring the best solution for Downtown. A central location will spin off tremendous benefit to hundreds of property owners, many of whom pay the highest taxes in the City according to a recent article in the Baltimore Sun. In this case, we should follow the advice of the renowned philosopher Jeremy Bentham – policies should be designed to achieve the “greatest good for the greatest number.”

In the end, Downtown is very fortunate to be the future home of Exelon, and we look forward to welcoming them to town. But it's imperative to take some time to make the best real estate decision. At a minimum, we encourage Exelon to get used to Constellation's current offices and take some enjoyable walks around Downtown. Go to Happy Hour at Kona Grill on a Friday evening and witness the extraordinary numbers of people walking up and down Pratt and Light Streets. This vibrant environment is here today, and it's only getting better.

Kirby Fowler
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