

# Solid Foundations

## REITs Turn Pentagon City Into Mixed-use Destination by Allen Kenney

In the movies, the Pentagon hosts a multitude of spies, military officials and politicians convening at the mammoth building, named for its shape, to strategize and monitor operations. Populated by seemingly endless banks of expressionless employees at computer terminals staring up at

huge flashing maps, Hollywood apparently wants us to think that the authorized personnel-only Pentagon is a secretive, sterile world of its own.

What movie audiences don't see, though, is that the Department of Defense headquarters is actually located smack in the middle of one of the country's

most dynamic locales—the ever-growing Northern Virginia suburbs of Washington, D.C. Thanks in part to the efforts of three leading U.S. REITs, Pentagon City has been transformed into a premier shopping destination and residential area.

### Pentagon Power

Being so close to a national landmark was only part of **Federal Realty Investment Trust's** (NYSE: FRT) decision to invest in Pentagon Row, a high-profile joint venture with apartment REIT **Post Properties** (NYSE: PPS), according to Federal Vice President of Development John Tschiderer. Yet, real estate companies operating in the area agree that they are reaping rewards from the neighboring military stronghold.

"Obviously, we can take advantage of a wonderful daily population," Tschiderer says.

Suzette Timme is also enthusiastic about the area's heavy government presence and its impact on local business. Timme is the general manager of **Simon Property Group's** (NYSE: SPG) Fashion Centre mall, which has had D.C.-area residents and tourists flocking to Pentagon City since it opened in 1989. She notes the Transportation Security



Simon Property Group's Fashion Centre at Pentagon City draws approximately 14.5 million visitors a year.

Administration, Department of Homeland Security and Drug Enforcement Agency all have office buildings within about a mile of the area.

"It's a tremendous plus being located next to the largest office building in the country," Timme says. "The community shares in the benefits of the people passing through the area. Guests from the Pentagon frequently come to this location to shop, dine and hold meetings."

Fashion Centre draws an estimated 14.5 million visitors annually. Timme points out that the mall has benefited from its location, with a stop along one of the area's metro transit lines. Additionally, the mall is attached to a Ritz-Carlton hotel, a popular spot for business conferences and out-of-town guests.

Today, anchored by department stores Macy's and Nordstrom, the 990,000-square foot facility houses 170 retail stores. They include many of the typical mall fashion merchants: Banana Republic, bebe, Talbots and BCBGMAXAZRIA. Shoppers looking for top-notch electronics can peruse the latest in home entertainment and computer equipment at the mall's Apple store and Sony Style site. Those seeking more luxury-type items like jewelry and designer accessories can choose from posh retailers like MOVADO, Swarovski Crystal and Coach.

Simon also has a 12-floor, 200,000-square foot office property attached to the mall, boasting a 100 percent occupancy rate.

#### **Diverse Tastes**

Part of Pentagon City's appeal is that it holds a little something for everyone, and that extends beyond Fashion Centre. Next



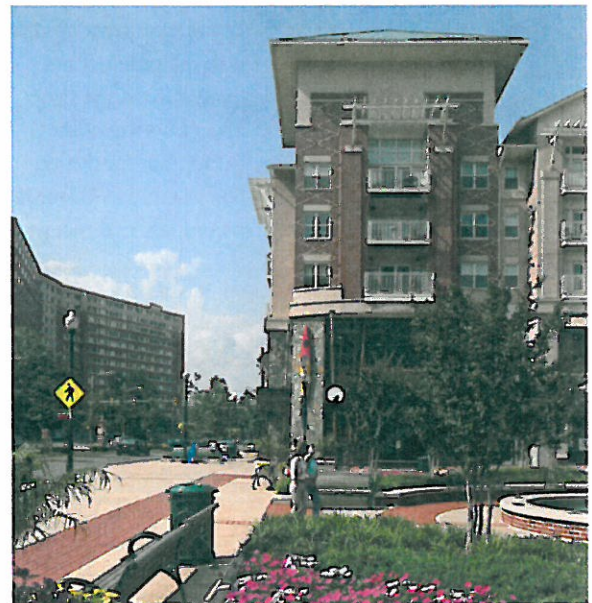
**Federal Realty and Post Properties have 300,000 square feet of mixed-use property in Northern Virginia's Pentagon Row.**

door, Federal Realty and Post Properties have added to the area's ongoing expansion with the 300,000 square foot mixed-use property Pentagon Row.

Simon is not involved with the development and management of Pentagon Row. Still, Tschiderer says, Simon's success with Fashion Centre laid the groundwork for his company's thriving joint venture.

"We saw a unique opportunity to create something in Arlington County," Tschiderer says of Pentagon City's suburban Virginia home. "Significant development had already gone on there, and Fashion Centre mall was already established."

On a typical Saturday, Pentagon Row's parking lot and below-ground garage teeter near capacity throughout the day. Couples, families and young singles from across the neighboring area stream in to shop for food at Harris Teeter, a popular Mid-Atlantic grocery chain. Hikers, mountain bikers and kayakers who visit Pentagon Row might find themselves overwhelmed by the massive selection of gear and outdoor equipment available at the site's Hudson Trail Outfitters. The outdoor enthusiasts aren't hard



to separate from the customers headed to Elizabeth Arden Red Door Salon.

During a fall weekend, it's not uncommon to see gatherings of friends at Champps Restaurant and Bar for a burger, a beer and some Redskins or University of Virginia football. On warm summer evenings, friends congregate in Pentagon Row's outdoor courtyard for dinner and drinks at one of the many other establishments lining the perimeter.

"On the retail side, we've been very happy with the sales performance" at Pentagon Row,

## Solid Foundations

Tschiderer says. "It's got a great mix of tenants, and it's a nice blend of the goods and services that provide for the residential market."

Some of Pentagon Row's most enthusiastic visitors barely even have to stumble out of their front door to get there. Post Properties operates the upscale apartment building attached to the commercial space. Post is no stranger to the D.C.-metro area, operating multiple buildings in the locale.

Tom Wilkes, president of Post apartment development, cites the short commute to the Pentagon and neighboring offices as a key feature that motivated his company to build a 300-unit apartment complex in the neigh-

borhood. "We have provided a wonderful community for military personnel as well as civilian contractors," he comments.

Two major REITs operating in the same space may seem like a turf war waiting to happen. However, Tschiderer claims that not only have Post and Federal Realty been able to avoid stepping on each other's toes, they've developed a mutually beneficial synergy. "We've got two very experienced companies that know how to manage their core properties," Tschiderer says. "Things are going along very well."

Wilkes reports similar experiences with Federal Realty, whom he calls "wonderful partners." Wilkes notes that the

two companies have been able to share responsibilities, such as operating Pentagon Row's shared mechanical systems without a hitch.

"We've been very pleased with how well our interests have been aligned," he remarks.

Even though a highly populated, commercially developed community has sprouted up all around the Pentagon, that won't deter further real estate development in the area, according to Tschiderer. He says that Federal Realty doesn't have any current plans to expand in the area, but the company is "always looking to the market" at Pentagon City. ♦

*Allen Kenney is Portfolio's staff writer.*

## Ad Index

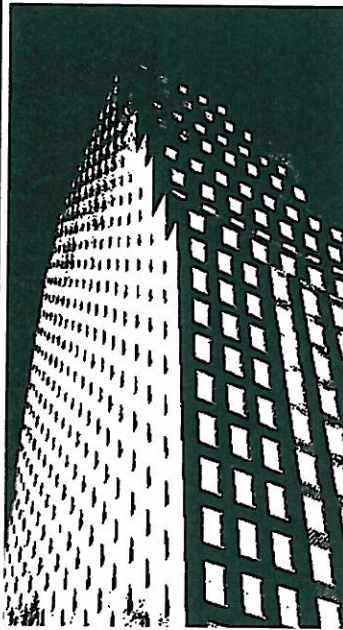
AMB Property Corp. ....	39
Arbor Realty Trust.....	31
Bank of America.....	3
Bass, Berry & Sims PLC.....	61
Building Resource Group.....	69
Capital Lease Funding.....	8
CapitalSource.....	49
Cedar Shopping Centers.....	21
Chicago Deferred Exchange.....	29
Commercial Defeasance LLC.....	65
Deutsche Bank.....	19
Ernst & Young LLP.....	Inside Back Cover
Frank Crystal & Co.....	41
Goodman, Gable Gould.....	48
Goodwin Procter.....	11
Greenberg Traurig.....	15
Harvard Business School.....	23
Inland Real Estate Corporation.....	47
Intralinks, Inc.....	5
JDR Consulting LLC.....	64
Keefe, Bruyette & Woods, Inc.....	1
Kite Realty Group.....	13
M3 Capital Partners.....	Inside Front Cover
PricewaterhouseCoopers.....	37
REIT Capital Solutions.....	27
REIT Funding LLC.....	67
UBS.....	Back Cover
UDR, Inc.....	45
WP Carey.....	7

THE MANAGEMENT  
CONSULTING FIRM  
WITH AN EYE TOWARD  
THE FUTURE.

**JDR**  
CONSULTING LLC

ARE YOU USING  
**YARDI SYSTEMS**  
TO MANAGE  
YOUR PORTFOLIO?

JDR Consulting LLC, with over 15 Asset Managers and REITs applied, is a leader in successfully implementing YARDI INVESTMENT MANAGEMENT MODULE.



NEW YORK CHICAGO ATLANTA LOS ANGELES

888-481-7755

[jdrconsulting.net](http://jdrconsulting.net)