REGIONAL SPOTLIGHT

Mid-Atlantic

BY MIKE SHERIDAN

In Washington, D.C., the Lenkin Company and the Tower Companies are completing a boutique trophy office building in an emerging part of the city. A few hundred miles away, a section of Atlantic City, New Jersey, is being transformed through projects such as the Walk, the Cordish Company's multiphased development of restaurants, retail, and entertainment venues. Further north, New York City–based Jonathan Rose Companies (JRCo) is building two affordable multifamily developments in Harlem.

The nation's Mid-Atlantic region is experiencing real estate development, albeit at a slower pace than in years past. The region, particularly the D.C. area, is feeling more positive now, says Robert Pinkard, chairman of D.C.-based real estate firm Cassidy & Pinkard Colliers.

Certified LEED Gold, the new building at 1050 K Street, N.W., in Washington, D.C., will include a museum-quality photography exhibit.

HICKOK COLE ARCHITECTS

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Hickok Cole Architects designed the 1050 K Street building in Washington, D.C.'s East End, an 11-story, 136,000-square-foot (12,600-sq-m) boutique trophy office building for the Lenkin Company and Tower Companies.

"After some tough months, people are feeling more optimistic, particularly when we look at the stimulus bill and we start to see the first vestiges of activity coming through," says Pinkard. "We see tremendous job growth in the D.C. area as a result of the stimulus bill. Vacancy rates are going up in northern Virginia, downtown D.C., and Maryland, but we're not dramatically oversupplied. That will change because the government is expanding—particularly the regulatory agencies. Vacancy rates will begin to fall by the end of 2010 as the regulatory agencies such as the Securities & Exchange Commission, Commodity Futures Trading Commission, and others will grow and need more space. It will be a shot in the arm for the real estate industry."

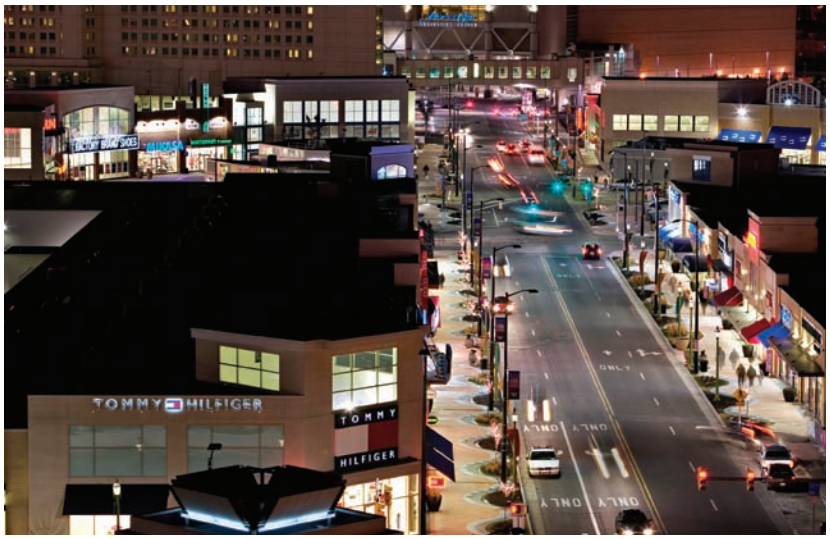
A lack of capital and decreased consumer confidence have definitely affected development, but that is expected to change. "Right now, there is not much financing out there, either equity or debt," says Bryant Foulger, principal of the Foulger-Pratt Companies, a real estate development and building firm based in Rockville, Maryland. "There is a lot of money on the sidelines on the equity side, waiting for the repricing of real estate risk. On the debt side, banks are more concerned with the current problems of their balance sheets rather than trying to grow their business."

The result, says Foulger and others, is a development sector that has become more cautious. While the real estate capital markets are pretty much shut down, programs are being undertaken to get funds flowing again, explains Chris Kelly, head of real estate with the structured finance business group at Chevy Chase, Maryland–based portfolio lender CapitalSource. "It's a huge challenge for the industry and I think that the sector has been successful in getting the attention of federal government," he explains. "That success appears to be translating to certain government programs, including the Private-Public Investment Program [PPIP], under which the government and private investors would enter into a 50/50 partnership to purchase assets from qualified financial institutions, with government financing, and the Term Asset-Backed Securities Loan Facility [TALF], which offers favorable debt financing to buyers of a wide variety of existing bonds, including commercial mortgage–backed securities [CMBS]."

Development—and redevelopment—continue to occur in the Mid-Atlantic region, with the nation's capital the epicenter of development activity. "There is no market I'd rather be in than D.C.," says Foulger. "D.C. is the political capital of world and now it's the financial capital. If you want any stimulus money, you have to have a presence in D.C. That helps this real estate market."

The D.C. area is also benefiting from the increase in federal and state funding thanks to educational facility projects, base realignment and closure (BRAC) initiative-related projects, research and development (R&D) projects, and infrastructure improvements, adds Faith Nevins, one of the principals at Baltimore-based Marks, Thomas Architects. The firm is involved with Miller's Court, a historic factory building that is being converted into housing for teachers new to Baltimore, such as those participating in Teach for America, and office space for nonprofit organizations supporting children and education. "The project was funded through several tax credit programs including historic preservation tax credits. It is anticipated that the project will receive LEED-NC Gold Certification," says Nevins. "[This] mixed-use urban project . . . is sustainable, which [will] make the occupancy costs affordable."

While renovation and redevelopment continue, some new development is occurring in the District, says Yolanda Cole, principal at the D.C.-based Hickok Cole Architects, which specializes in commercial office and interiors, multifamily housing, and mixed-use projects. "We are just completing an 11-story, 136,000-square-foot [12,600-sq-m] boutique trophy office building for the Lenkin Company and Tower Companies at 1050 K Street, N.W., in Washington's East End, an emerging



THE CORDISH COMPANY

The first two phases of the Walk are credited with helping to transform a neighborhood in Atlantic City, New Jersey. The project was developed in partnership with the state and the city.

part of the city," says Cole. "It has been certified LEED Gold. The building features a museum-quality rotating exhibit showcasing vintage black-and-white photographs by famed architectural photographer Ezra Stoller. The owners see this as a little 'extra' that gives the building a higher level of cachet in a highly competitive market."

In addition, the General Services Administration (GSA)—the government's primary real estate leasing agency—has earmarked some $1.2 billion to refurbish federal buildings in the District, which will stimulate the real estate sector, points out Whayne Quin, partner in the D.C. office of the law firm Holland & Knight. "We're blessed in D.C. and parts of Virginia and Maryland with governments that want to take specific action to improve the real estate economy," continues Quin. "In D.C., for example, our agencies are speeding up the process, extending prior approvals, and making some stimulus money available for the real estate sector."

While the District is recession resistant, says Quin, there is a definite slowdown in nonessential construction and private development as well as a decrease in construction starts. "The general feeling is that it's caused by three things: a lack of confidence in the system, a lack of liquidity in the market, and rising unemployment," he adds. "However, recently there seems to be a stronger belief in a leveling out and [an] upturn in the fall—but certainly not euphoria."

Still, the Washington/Baltimore metropolitan area continues to fare better than most other regions of the country, says John V. Cogbill III, managing partner in the Richmond, Virginia, office of law firm McGuireWoods LLP. "The federal presence, including the new Department of Homeland Security [DHS] headquarters [on the campus of] St. Elizabeths Hospital in Anacostia and the impact of BRAC in northern Virginia and Montgomery County, Maryland, continues to spur new construction," says Cogbill. "Defense contractors seem to be doing well in this new environment. New office leases have slowed, therefore tenants with strong balance sheets and some flexibility can drive good bargains in the marketplace."

McGuireWoods is involved with the extension of MetroRail through Tysons

Corner to Reston, Virginia, he adds, noting that new land use classifications are necessary to increase density and parking at future Metro stops. "The Washington/Baltimore metropolitan area should continue to move ahead, in large measure, before most other regions in the country," says Cogbill. "In addition to BRAC, the GSA is increasing its leasing and development activities in the market. The region seems more resilient than many others despite the increased home foreclosure problem in some surrounding suburban counties."

The District and neighboring northern Virginia and Maryland, however, haven't suffered overall job losses, points out Bob Harris, land use partner in Holland & Knight's Bethesda, Maryland, office. "While we've lost jobs in some areas, we've gained in others," he says. Harris sees selective development projects proceeding, particularly those around transit stations. For example, he says, Chevy Chase–based JBG Companies' Twinbrook Station development is transforming 26 acres (10.5 ha) of commuter parking at the Twinbrook Metro Station in Rockville, Maryland, into a mixed-use, pedestrian-friendly community, with the first phase—279 luxury apartments and 15,000 square feet (1,400 sq m) of retail space—currently under construction and future phases to follow.

The expansion of the MetroRail system through Tysons Corner and beyond Dulles International Airport is aiding the northern Virginia real estate market, says Stuart Mendelsohn, partner in the land use group in Holland & Knight's northern Virginia office. Plans to redevelop 1,700 acres (688 ha) of Tysons Corner into an urban down-

CURTIS + GINSBURG ARCHITECTS

The Fortune Academy Complex, a green, 11-story residential building featuring both affordable and supportive housing units, is under construction in Harlem, New York. Developed by Jonathan Rose Companies and the Fortune Society, it is expected to be completed in 2010.

THE CORDISH COMPANY

In partnership with Comcast-Spectacor, Baltimore-based Cordish Company is developing Philly Live!, a destination district with retail, dining, and entertainment adjacent to Wachovia Center in south Philadelphia.

town are also spurring activity, with developers filing rezoning and building applications so they can be first to begin construction and complete buildings when the rail project is completed in 2013. "Clearly, the area is in better shape thanks to the Tysons redevelopment," he adds. "In addition, A&R Development's Huntington transit-oriented project near the Huntington Metro in Alexandria, Virginia, is slated to start construction in the next year. It combines 293 residential units and 7,000 square feet [650 sq m] of retail amenities."

Virginia and Maryland are faring better than other sections of the country, particularly areas where military and governmental installations exist, says Burrell F. Saunders, founding principal of CMSS Architects, PC, of Virginia Beach, Virginia. "With the growth of Fort Belvoir and Quantico in northern Virginia, and Fort Lee in Petersburg [south of Richmond], we are seeing regional opportunities for development," Saunders continues. "The same holds true for Hampton Roads [Virginia] with the expansion of Fort Eustis, Little Creek Amphibious Base, and other bases. Furthermore, we have seen growth in industries throughout the Hampton Roads region, particularly in Newport News with the expansion of high-tech business."

CMSS Architects is part of the development team creating a minor league ballpark surrounded by new hotels, offices, retail, restaurants, and cultural and entertainment venues in Richmond's Shockoe Bottom neighborhood.

HOLLAND & KNIGHT AND JBG COMPANIES

"The ballpark will become a revitalization anchor that blends into the historic areas to the east and the commercial, governmental areas to the west, while becoming [a] component of the downtown district and sharing existing parking facilities," says Saunders. "This trend is being seen throughout the country where entertainment anchors, sports anchors, and others are being used in conjunction with mixed uses of living and commercial business centers as shared components."

The Baltimore-based Cordish Company, an international developer of large-scale urban revitalization and entertainment districts, is involved with a number of projects in the Mid-Atlantic region including Philly Live!, a destination retail, dining, and entertainment district being developed in partnership with Comcast-Spectacor adjacent to Wachovia Center in south Philadelphia. In New Jersey, the first two phases of the Walk—totaling 350,000 square feet (32,500 sq m) and covering seven city blocks of restaurants, retail, and entertainment—are credited with playing a critical role in the transformation of an Atlantic City neighborhood. The third phase of the Walk—developed in partnership with the state of New Jersey and municipality of Atlantic City—is now taking shape.

Other major developments in the Garden State could follow. CEO Caren Franzini of the Trenton-based New Jersey Economic Development Authority (NJEDA)—a state financing and development agency that provides financing resources to stimulate business growth and job creation—is working on a number of ways to encourage real estate development in the state, including the Urban Transit Hub Tax Credit program to spur private capital investment, business development, and employment in designated transit hubs within a half mile of New Jersey Transit, the Port Authority Trans-Hudson Corporation (PATH), and the Port Authority Transit Corporation (PATCO) stations in nine urban municipalities. "The program provides tax credits equal to 80 percent to 100 percent of qualified capital investments made in a project

The Twinbrook Station development is transforming 26 acres (10.5 ha) of commuter parking at a Metro station in Rockville, Maryland, into a mixed-use, pedestrian-friendly community. The first phase—279 luxury apartments and 15,000 square feet (1,400 sq m) of retail space—is currently under construction.

within an eight-year period," says Franzini. Two applications have been approved to date in Newark and Hoboken. Last year, the NJEDA introduced Urban Plus, which offers up to $3 million in financing for projects in the state's nine targeted urban centers. "Urban Plus loans can be made for as long as ten years with up to a 25-year amortization and be used for fixed assets like buildings and equipment," she continues. "The loans can cover up to 50 percent of total project costs."

In Pennsylvania, says Tim Haahs, president of Blue Bell, Pennsylvania–based Timothy Haahs & Associates, Inc., an engineering and architecture firm specializing in revitalization and master planning of town centers with parking in mind, the trend toward revitalizing urban areas continues, albeit at a slower pace than over the past few years because of economic conditions.

"In Pittsburgh, there is a lot of redevelopment of brownfields [in] a major effort to revitalize [previously] nonusable areas in the inner city," says Haahs. "In Philadelphia, developers have become involved in planning town centers for the suburbs to minimize traffic and provide residents with convenient place to work, live, and play. In many of these towns and boroughs, Main Streets have been stagnant with no new development in the last 30 or 40 years. Now there is a desire to revitalize these areas, and one of the prime challenges is providing adequate, secured parking."

Further north, Jonathan Rose Companies, a mission-based, multidisciplinary real estate development, planning, consulting, and investment firm, has two residential projects under construction and is ready to break ground on three others. "We were fortunate to have two developments, both of which involve strong public/private partnerships, keyed up and ready to close in 2008," says Paul Freitag, a regional director of development for the firm. "Tapestry, a 12-story, 185-unit green, mixed-income residential building in Harlem that is a joint venture with Lettire Construction Corporation, closed in November of last year. Also located in Harlem is [the] Fortune Academy

ARCXCHANGE

Tapestry, a 12-story, 185-unit green, mixed-income residential building in Harlem that is a joint venture of Jonathan Rose Companies and Lettire Construction Corporation, began construction in late 2008. The development is expected to be completed in 2011.

Complex, a green, 11-story residential building featuring both affordable and supportive housing units. We codeveloped the building with [the] Fortune Society and it closed in December. The fact that they were all ready to go allowed us to close on them even with the current economic turmoil."

JRCo has three more projects expected to be finalized this year—all 100 percent affordable projects with the majority of financing lined up last summer. "While we're having to address the drop in tax credit pricing, we're confident all three developments will begin construction," Freitag continues. "We're also continuing to build on the strength of our experience in public/private partnerships to add new projects to our pipeline that would move into construction in two or three years. Hopefully, the market will have worked itself out of the current situation by then to further facilitate these deals."

CapitalSource's Kelly expects real estate activity in the Mid-Atlantic region to improve once developers and lenders understand the current situation. "The industry has to accept that values have come down and lower expectations [as to] where real estate values are. [W]ith more liquidity from government, the real estate lending engine will get up and running," Kelly continues. "We'll then be able to transact, and trades will start to occur. But it's probably a six- to 12-month process."

Of greater importance, says Foulger, developers are awaiting improved client confidence. "Tenants are not sure what their own internal growth will be, so they are waiting to see what [the] market is going to allow them to do," Foulger continues. "They are affected by consumer confidence. Companies are waiting for the public to come back into the market. We're all waiting for consumers to regain confidence."

Once that happens, the pace of Mid-Atlantic development is expected to increase.

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