WASHINGTON BUSINESS JOURNAL

Old Gray Lady overlooks Washington's true strength

By: Daniel J. Sernovitz – January 11th, 2013

Sure, this town owes no small measure of its economic well-being to Uncle Sam, and when the federal government goes on a diet, so does Washington, D.C.
You can get some idea of that from a front-page story I wrote in today's WBJ about the region's office market. Tenants shed more than 3 million square feet of space over the past year, the largest drop in more than three decades as private companies rethought how they used their space and the Pentagon shifted dozens of agencies across the region from leased space to federally owned properties.

It would be naive to say that this town didn't escape the worst of the recession because of its reliance on the federal government. It would be equally ignorant to suggest that the District isn't one of the most sought-after real estate markets in the world, capturing investment dollars from New York, Qatar and Tokyo because it's the seat of U.S. political power.

All that said, I couldn't help but be struck by the Old Gray Lady's take on the secret to Washington's success. New York Times reporter Annie Lowrey, in an article titled "Washington's Economic Boom, Financed by You," suggests Washington has prospered to the detriment of the American taxpayer. Citing Washington experts including developer Jim Abdo, economist Stephen Fuller and Cato Institute Executive Vice President David Boaz, Lowrey argues "there may be a broad sense that peak Washington is already past."

The notion overlooks just how much talent and innovation there is in the Washington region while also overlooking the fact that the same Wall Street investors that have built New York's towering skyscrapers have also poured billions of dollars into the District's shorter, squatter mid-rise offices.

A quick look at the publicly traded companies that call the Washington region their home illustrates this. Sure, federal mega-contractors like General Dynamics Corp. and Lockheed Martin Corp. are based here. But so are hotelier Marriott International Inc., home builder NVR Inc., media giant Gannett Co. Inc., and global asset management behemoth The Carlyle Group LP.

Lowrey paraphrases Abdo as having "admitted that he, too, expected that the city's extraordinary growth would slow down, but he suggested that the change would be a soft landing rather than a crash. The city had been so revitalized that the new workers and consumers would keep drawing in businesses that would keep drawing in new workers, he theorized, in a virtuous development cycle that might allow the region to stop leaning so heavily on federal money."

That's certainly been the goal in places like Arlington, which is mapping out a new future after the Pentagon's 2005 Base Realignment and Closure plan prompted so much of last year's new office vacancies. Arlington knows well how too much dependence on the federal government can be a bad thing. Washingtonians will recall how deep a hit the area suffered when the federal Patent and Trademark Office relocated from Crystal City, and how other tenants backfilled that space.

Crystal City and Arlington are again trying to recover from BRAC, but not without the help of developers like New York's Vornado Realty Trust. Vornado, which owns nearly all of Crystal City's office market, is planning to spend millions of dollars remaking its buildings to land new tenants, and the company expects to be able to recover from nearly all of its losses there in a few years. Would a New York firm that felt Washington was past its prime take that kind of risk?