

THE PROPERTY REPORT

Pricey Junction of Retail, Rail



Exterior view of Union Station in Washington, D.C., Aug. 31, 2006, and below, an interior view.

Washington Union Station Ground Lease Is Awarded To New York's Ashkenazy

By RYAN CHITTUM

Washington, D.C.'s historic Union Station has a new conductor.

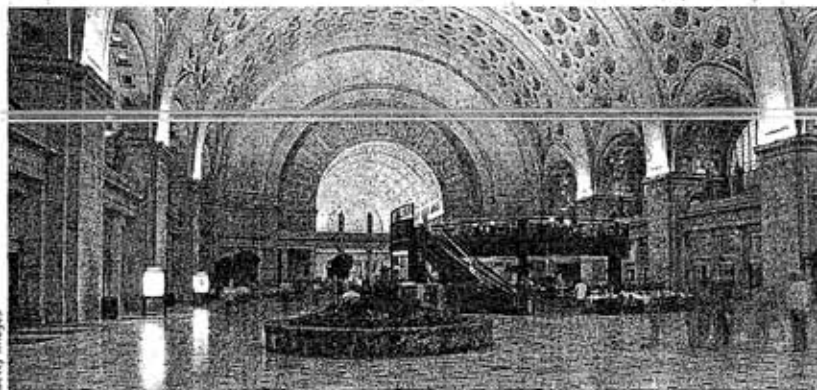
Ashkenazy Acquisition Corp. of New York has purchased the property's 84-year ground lease from Union Station Venture II LLC, a group of institutional and private-equity investors, for \$160 million.

As recently as 20 years ago, Union Station was a symbol of urban decay, declining rail service and bureaucratic infighting. It since has been revitalized into one of the premiere retail centers in the U.S., a national landmark rivaling other capital tourist attractions in the number of visitors.

The Union Station ground lease attracted interest from more than 70 parties, with Ashkenazy edging out bids by Vornado Realty Trust, a New York real-estate investment trust, and Akridge, a local real-estate firm led by John E. Akridge III, according to Gerry Mason, executive managing director for Granite Partners LLC, the New York real-estate investment-banking firm that brokered the deal. Vornado declined to comment. A spokeswoman for Akridge says the company, which owns the air rights to the site and will be building more than three million square feet of commercial space over the train tracks in the next few years, is looking forward to working with Ashkenazy.

"As urban retail centers go, it's a true trophy," Mr. Mason says. The station also has about 100,000 square feet of office space that serves as Amtrak's headquarters.

The deal demonstrates the high prices buyers are willing to pay for retail real estate. The capitalization rate—the return on investment in the first



year—is about 5%, but Ashkenazy plans to upgrade the tenant mix to increase its return, says Ben Ashkenazy, chief executive of closely held Ashkenazy Acquisition.

Union Station is one of the most productive shopping centers in the country, with sales per square foot of \$700 to \$800 a year, more than twice the national average for shopping malls. It has 130 stores and restaurants, including women's-apparel shops Chico's and White House/Black Market, Godiva Chocolatier and a nine-screen movie theater.

The Beaux-Arts station opened in 1907 at a cost of \$125 million and was the major access point to Washington for nearly half a century. It included businesses not seen in today's shopping malls such as Turkish baths, a mortuary and an ice house. After fall-



Commuters, servicemen and other travelers in Union Station on May 20, 1942

ing into disuse with the decline of rail travel in the 1960s and 1970s—and an ill-fated transformation into a National Visitor Center in the 1970s—Union Station almost met the wrecking ball. It was saved by an act of Congress in 1981, the same year it was closed after rain caused a roof to give way. After \$160 million in renovations, it reopened to acclaim in 1988 as a commercial center and train depot.

For Mr. Ashkenazy, the deal fits with his firm's mission of snatching "irreplaceable" retail real estate. Ashkenazy owns 12 million square feet of real estate, including landmarks like the Barneys New York building at 61st Street and Madison Avenue in Manhattan and the Rivercenter Mall, which overlooks San Antonio's River Walk.

The three competing bids were of similar value, but Union Station Redevelopment Corp., a nonprofit organization set up by the government to own and oversee the property, approved Mr. Ashkenazy, 37 years old, because of his emphasis on holding real estate long term, Mr. Mason says. "He wanted to own this for his grandchildren," he says. "USRC was very impressed with that." USRC gets 50% of the profit from Union Station, which it reinvests back into the property.

Amtrak, the Maryland Area Rail Commuter line, the Virginia Railway Express and the Washington subway use Washington's Union Station.