

## Bethesda Row

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Bethesda, Maryland

Project Type:  
Mixed-Use/Multi-Use

Case No:  
C030009

Year:  
2000



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### SUMMARY

A multiphase, mixed-use redevelopment project in the heart of Bethesda's central business district. Bethesda, a first-ring suburb immediately northwest of Washington, D.C., has one of the highest median household incomes in the country. The first three phases of Bethesda Row have been completed, the fourth phase currently is under construction, and future phases are in the planning stages. Together, the first three phases feature 110,000 square feet of office space, 190,000 square feet of retail space, and 40,000 square feet of restaurants. Bethesda Row also includes parking facilities and extensive streetscape improvements. Future phases of the project will include art movie theaters and possibly a residential component. The project, being developed by Federal Realty Investment Trust, has helped to turn this formerly neglected part of Bethesda's downtown into an attractive and vital addition to the community. The project has been so successful that Federal Realty is now employing the same concept in other projects elsewhere in the country.

### FEATURES

- Infill development
  - Redevelopment
  - Renovation
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### SPECIAL FEATURES

- Infill development
- Redevelopment
- Renovation

### DEVELOPER

Federal Realty Investment Trust  
1626 East Jefferson Street  
Rockville, Maryland 20852  
301-998-8100

### ARCHITECT

Cooper Carry  
112 South Alfred Street  
Suite 100  
Alexandria, Virginia 22314  
703-519-6152

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## GENERAL DESCRIPTION

Bethesda Row is a multiphase, mixed-use redevelopment project in the heart of Bethesda, Maryland. The first three phases have been completed, the fourth phase is currently under construction, and future phases are in the planning stages. Together, the first three phases feature 110,000 square feet of office space, 190,000 square feet of retail space, and 40,000 square feet of restaurants. Bethesda Row also includes parking facilities and extensive streetscape improvements. Future phases will include art movie theaters and possibly a residential component. The project has helped to turn this formerly neglected part of Bethesda's downtown into an attractive and vital addition to the community. Bethesda Row has been so successful that Federal Realty is now employing the same development concept in other projects elsewhere in the country.

Bethesda Row was developed by Federal Realty Investment Trust, a REIT founded in 1962 that specializes in the acquisition, development, redevelopment, and management of prime retail and mixed-use properties.

## THE SITE

Bethesda Row is located in the heart of Bethesda's central business district, just off of Wisconsin Avenue, one of the main arteries through the city. Bethesda is an inner-ring suburb located immediately northwest of Washington, D.C., and it has one of the highest median household incomes in the country. To the north and west of Bethesda Row are the high-rise office buildings of downtown Bethesda, as well as the Metro (subway) station. To the east and south are lower-density residential areas.

As a whole, the site for Bethesda Row covers seven contiguous city blocks. Previous uses on the site included warehouses, a cement plant, low-rise office buildings, and small-scale retailers. Surprisingly, almost all of the land was in the hands of a single owner, whose family had long held on to the site. By negotiating with this individual, Federal Realty was able to gain control of the site at an acceptable cost. Federal Realty negotiated long-term ground leases for Phases I, II, and III and bought the land for Phase IV.

## DESIGN AND DEVELOPMENT

Federal Realty took different approaches to planning and design for the various stages of the project. In Phases I and II the development team renovated existing structures, and in Phase I, it also built a new structure to house the bookseller Barnes & Noble. Phase I—which involved structural renovations and facade improvements to the existing two-story building and streetscape improvements, including a new fountain and plaza, on the corner of the site—was completed in June 1997. Phase II was completed in October 1998, and like Phase I, it involved the renovation and retenanting of the existing low-rise building on the site. In contrast, both Phase III and Phase IV involved exclusively new construction. Phase III, which features two stories of offices above ground-floor retail stores, was completed in October 1999; Phase IV is scheduled for completion in Spring 2001.

Bethesda Row is a large-scale project, the first in which Federal Realty pursued this new design and development concept. The development of the project in phases and on multiple blocks was a key element in the strategic plan. By phasing development over a number of years, Federal Realty was able to mitigate some development risk and create sufficient cash flow to cover subsequent development costs. With its other retail properties, Federal Realty had found that the benefits of its improvements and renovations were accruing to nearby property owners; by building a bigger project, Federal hoped to be able to capture for itself more of the benefits of its hard work. Federal Realty also hoped that the Bethesda Row's large scale would contribute to its own success by providing a critical mass of specialty retailers, offices, and other attractions.

From very early in the development process, Federal Realty had the goal of developing a unique project with an urban character. The development team traveled to other successful main street projects around the country to try to identify the characteristics and qualities that made them a success, concluding that it was a mix of variety, vitality, and visual interest that made them what they were. A central goal in the design of Bethesda Row therefore was to create such a mix, with an unusual level of attention to the details of urban design and streetscaping.

In order to achieve the look that they were aiming for, Federal Realty hired three local architectural firms to collaborate with Cooper Carry on designs for the different phases of the project. The multiple ideas generated successfully hid the fact that the rather large buildings at Bethesda Row all were redeveloped at the same time. The individual retail tenants also were encouraged to design unique facades for their stores. For example, a skateboard shop has a stainless steel facade with bold lettering and lighting while a nearby upscale market has a storefront featuring an expanse of windows and soft-colored tiles. More than mere artifice, the attention to design has worked to create a successful urban environment.

Financing for all phases of Bethesda Row came from REIT financing, and a parking district created by Montgomery County served as a critical subsidy for the project. In particular, the 1,000-space garage built by the county at the center of the development site was essential to the financial feasibility of the project. If Federal Realty had been responsible for providing that amount of parking by itself, the project never would have been built.

The importance of this parking district to the project cannot be understated. Nearly all of the parking for the

development is provided in a county-owned garage and county-owned surface lots, along with metered street parking: there are a total of 3,376 parking spaces within 500 feet of Bethesda Row. The county established a parking lot district for the Bethesda central business district years ago, building parking facilities that users would pay for on an hourly or daily basis. The facilities also are supported by a surtax on property tax assessments for properties that do not provide their own parking, allowing owners of smaller buildings to avoid having to provide their own on-site parking and ensuring that all of the parking in the area is operated and managed in an efficient manner. More important, these parking spaces ensure that customers can drive to Bethesda Row, park their cars, and then spend their time walking around the shops and restaurants.

## APPROVALS

Montgomery County's master plan for downtown Bethesda established the framework within which Bethesda Row was developed. While this plan generally encourages mixed-use developments with an urban character, it also created some barriers that had to be overcome, chiefly in regard to transportation and to Federal Realty's proposed streetscape improvements. The county's traffic model indicated that there was insufficient road capacity to support the proposed development, although the model itself conflicted with the county's land use goals, which called for just the kind of development that Bethesda Row represented. As a result, Federal Realty had to spend considerable time working with the county to change its traffic standards and to address its concerns.

The county also had very specific guidelines for streetscape concepts for the downtown area that regulated everything from paving materials to trash containers. Federal Realty had to convince the county that its development concept would create an attractive streetscape that would be acceptable to the regulators and in line with market demand. Numerous details were negotiated with the county, such as the appropriate height of street trees and the percentage of the sidewalks that could be paved with brick, and Federal Realty was able to gain approval from the forward-thinking county administration for some rather interesting design features. The most notable of these was the placement of the outdoor café seating for the various restaurants. Rather than the normal configuration, whereby seating is placed immediately next to the restaurant, at Bethesda Row the outdoor tables are placed next to the roadway (and the on-street parking spaces), keeping the pedestrians where the retailers want them—right next to their store windows.

Today, Bethesda Row is very popular with local residents, providing them an enjoyable environment for shopping, dining, or simply visiting. They also appreciate the fact that Bethesda Row is a major improvement on what previously existed on the site. However, when it was first proposed, many residents were concerned about the impact that Bethesda Row would have on the community. In particular, they were worried that the project would drive local retailers out of business, replacing them with the same national retailers that could be found at any mall. Federal Realty addressed these concerns by meeting with local residents to discuss their ideas for the development and by demonstrating through its leasing strategy that their fears were unfounded. Indeed, Federal Realty has managed to attract an interesting mix of local, regional, and national retailers that together generate considerable customer traffic while still providing a unique shopping experience. Retailers include home furnishing stores, clothing boutiques, and other specialty stores and services. Bethesda Row also was fortunate to have the political support of several leaders in the community, who were eager to see an innovative addition like Bethesda Row to their downtown area.

## OPERATIONS AND MANAGEMENT

Bethesda as a whole and Bethesda Row in particular are well known for their restaurants. In developing the later phases of Bethesda Row, Federal Realty has placed increasing emphasis on providing restaurant space. The mix of uses at Bethesda Row supports these restaurants, since they draw office workers at lunch time and neighborhood residents during the evening. The customer traffic generated by the restaurants helps to support the retailers at Bethesda Row and animates the entire area. Customer traffic should be further enhanced by the opening of Phase IV, particularly the movie theaters, which will add another dimension to the customer base.

Bethesda Row even has become something of a community gathering place. Besides the attractions of the project itself, it is located next to the downtown Metro stop, making it highly accessible to Washington residents arriving by public transit. Moreover, the Capital Crescent Trail, a bike path along a former rail line, runs immediately beside Bethesda Row, and on weekends Bethesda Row serves as an ideal stopping point. On pleasant summer days the outdoor tables and the seats in the plaza around the outdoor fountain are full of people.

In many ways Bethesda Row has served as an incubator for innovative and sometimes risky ideas about how to develop a successful main street retail environment. Prior to the development of Bethesda Row, Federal Realty had little experience with this concept. However, apart from having the benefit of a top-notch location and local market, Federal Realty developed the project with a strong vision, a solid phasing plan, and an outstanding urban design, making Bethesda Row the success that it is today. Federal Realty has been so pleased with the results that it has taken the concept on the road. The company has many mixed-use projects throughout the country that capitalize on this experience and include large residential and retail components.

## EXPERIENCE GAINED

- Despite their risks and potentially higher costs, large-scale, mixed-use infill developments with a strong pedestrian orientation can be very successful, even in selected suburban locations. The different uses in the project should be mutually supportive, as with offices and restaurants.

- Both tenants and customers appreciate attention to detail. Careful planning and execution of the architectural concept and the tenancing plan can add greatly to the success of a project.
- A supportive regulatory framework is essential to the viability of developments like Bethesda Row. Particularly for multiphase projects, developers need to work closely with local jurisdictions to ensure that the development regulations are appropriate and sufficiently flexible for the project.
- In order to ensure support for the project, developers need to pay attention to the concerns of local governments and community residents. This requires more than just listening—developers also must demonstrate their willingness to compromise and adjust the features of the project to accommodate those concerns. Similarly, the feasibility of the project is greatly enhanced if the local government is willing to make a contribution. In the case of Bethesda Row, the county parking garage has been vital to the success of the development.

**PROJECT DATA****LAND USE INFORMATION**

Site area: 12 acres

**Gross leasable area (GLA)**

Use	Existing square footage	Planned square footage	Total
Office	110,000	80,000	190,000
Retail	190,000	110,000	300,000
Restaurant <sup>1</sup>	40,000	20,000	60,000
Residential	–	100,000	100,000
<b>Total</b>	<b>340,000</b>	<b>310,000</b>	<b>650,000</b>

Parking	450 spaces	290 spaces	740 spaces
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Note: Parking totals exclude additional public parking available in the vicinity in garages and on the street.

**OFFICE DATA**

Occupancy rate: 99 percent

Number of tenants: 24

Average tenant size: 4,308 square feet

Annual rents: \$20 to \$35 per square foot

Average length of lease: 5 to 7 years

**RETAIL DATA**

Tenant classification	Number of stores	Total GLA (square feet)
General merchandise	1	25,000
Food service	15	50,000
Clothing/accessories	8	15,000
Shoes	1	2,000
Home furnishings	3	5,000
Hobby/special interest	4	50,000
Gift/specialty	3	10,000
Jewelry	1	1,000
Drugs	2	25,000
Personal services	5	5,000
Recreation	2	10,000
Financial/real estate	1	5,000
Automotive	2	10,000
Business services	5	15,000
<b>Total</b>	<b>53</b>	<b>228,000</b>

Percent GLA occupied: 97 percent

Annual rents: \$30 to \$60 per square foot

Average annual sales: Approximately \$400 per square foot

Average length of lease: 5 to 7 years

**PHASE III DEVELOPMENT COST INFORMATION**

Predevelopment costs: \$100,000

Site improvement costs: 1,110.00

Construction costs: \$5,150,000

Soft costs: \$2,240,000

Total: \$8,600,000

Total development cost for all phases including projected costs for Phase IV: Approximately \$50 million<sup>1</sup>

Note: Phase III is the smallest and the most recent component of the Bethesda Row project.

<sup>1</sup>This figure does not include land costs and ground leases.**DEVELOPMENT SCHEDULE**

Master planning started: Late 1994

Phase I

Construction started: 1996

Phase I completed: June 1997

Phase II

Construction started: March 1998

Phase II completed: October: 1998

Phase III

Construction started: August 1998

Phase III completed: October 1999

Phase IV

Construction started: August 1999

Phase IV projected completion date: January 2001

## DIRECTIONS

*From Ronald Reagan Washington National Airport:* Head north on the George Washington Memorial Parkway in the direction of Washington, D.C. Take the exit for I-495 North (Washington Beltway) and head toward Maryland. Continue on I-495 to the MD-355 North/Wisconsin Avenue exit and head south on Wisconsin Avenue toward Bethesda. Continue for two miles, then turn right onto Elm Street in downtown Bethesda. Bethesda Row will be on the left.

*Driving time:* 35 minutes in non-peak traffic.

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David A Mulvihill, editor, Project Reference File  
Oliver Jerschow, report author  
Eileen Hughes, managing editor  
Joanne Nanez, art/layout  
Clara Meesarapu, editorial assistant

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This Development Case Study is intended as a resource for subscribers in improving the quality of future projects. Data contained herein were made available by the project's development team and constitute a report on, not an endorsement of, the project by ULI-the Urban Land Institute.

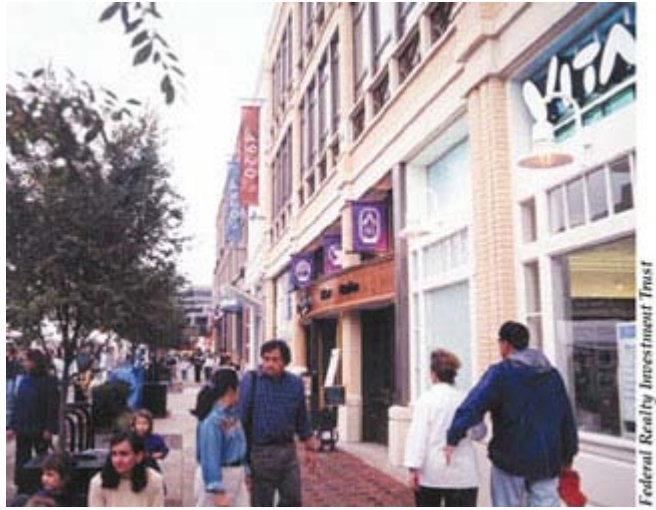
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Federal Realty Investment Trust

Bethesda Row is a multiphase, mixed-use redevelopment project in the heart of Bethesda, Maryland's central business district. This Barnes & Noble store is one of the project's anchors; the plaza in front of the store is a popular gathering place for visitors.





Federal Realty Investment Trust, the developer of the project, encouraged the retail tenants to design unique storefronts. This enhances the attractiveness of the area and gives the impression that Bethesda Row evolved over time instead of having been developed all at once.



Federal Realty entered into an agreement with Montgomery County to allow sidewalk cafe seating next to the roadways at Bethesda Row while retaining the public sidewalks immediately adjacent to the storefronts.



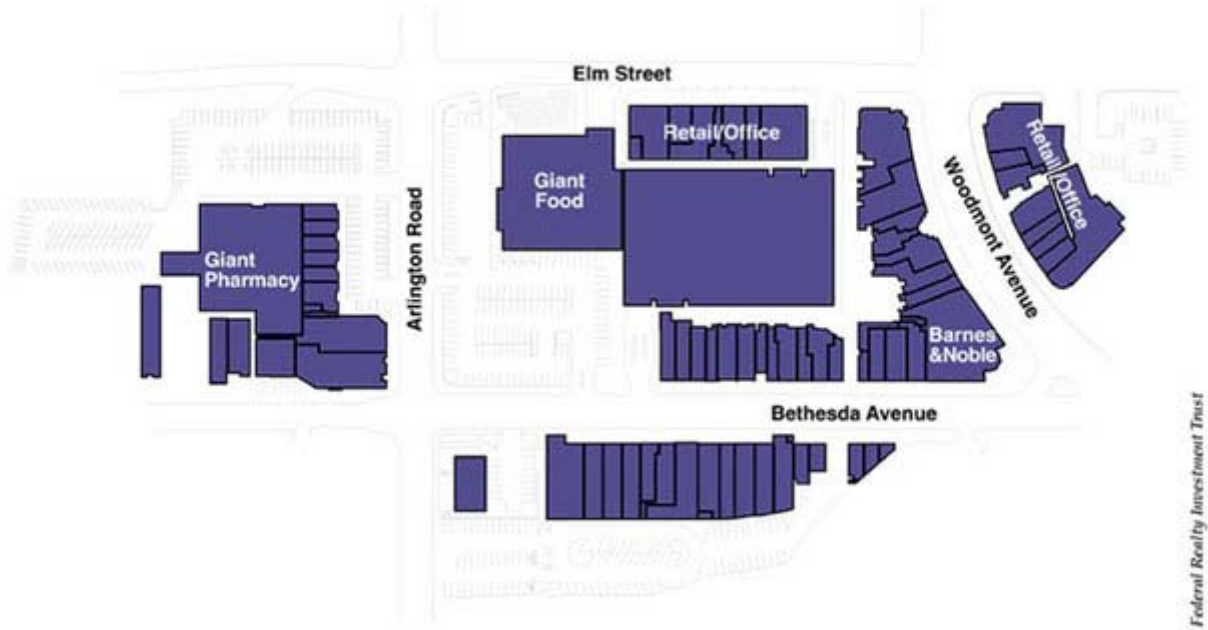
Streetscape improvements including brick sidewalks, trees, and even custom-designed manhole covers were an important part of the plan for Bethesda Row.



The developers made a concerted effort to attract an interesting mix of retail tenants, such as this bakery, which makes snacks and other goodies exclusively for dogs.



Site plan for Bethesda Row showing the phases of the project.



Floorplan for Bethesda Row at ground level and accessory parking. The large unmarked space at the center of the project area is a county-provided public parking garage.