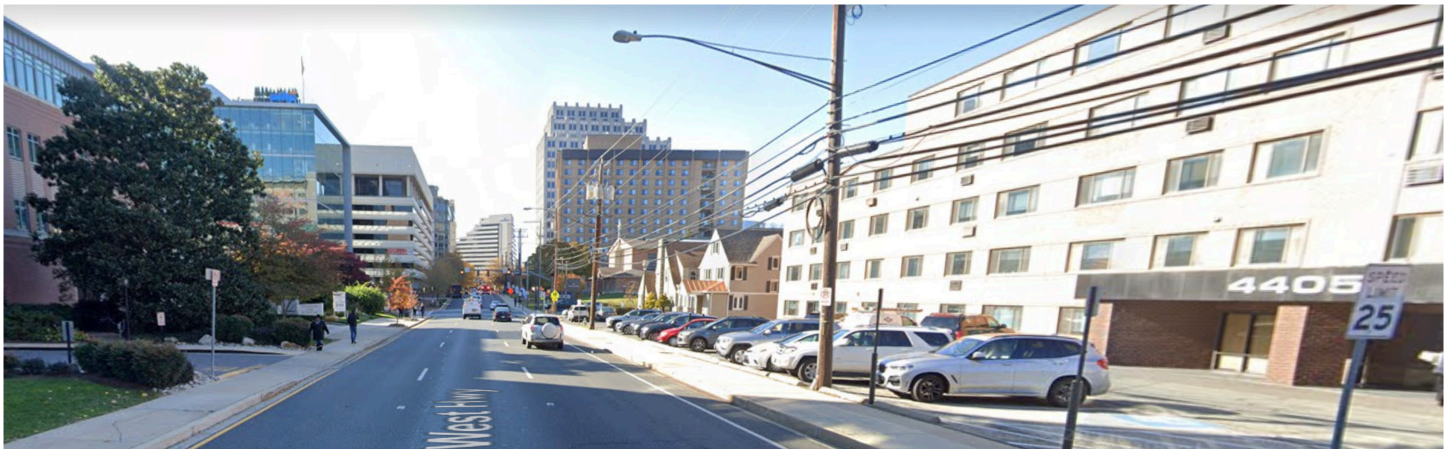
WASHINGTON
BUSINESS JOURNAL

COMMERCIAL REAL ESTATE

Developer plans to transform Bethesda office building into housing



Perseus TDC plans to redevelop a Bethesda office building, at right, into residential-over-retail.

BY DAN BRENDEL
Staff Reporter, Washington Business Journal

A Bethesda office site that recently traded hands now appears to be headed toward a transformation into a residential and retail complex, in line with Montgomery County's vision for the neighborhood.

The property, located on about 1.4 acres at 4405 East West Highway, is currently home to a 65,000-square-foot office building and a surface parking lot in Bethesda's central business district, just a few blocks from the Red Line's Bethesda Metro station. Perseus TDC, which recently acquired the property from Klinedinst Management for $21.5 million, plans to replace the office space with some 320 multifamily units over 8,000 square feet of ground-floor retail, beginning in 2024.

Per Perseus, the building is 88% leased under terms that include a redevelopment clause, allowing for an early termination

The property is subject to Montgomery County's 2017 Bethesda Downtown Plan, which, among other things, caps total development around the Metro station. Under this cap, "many properties will be unable to develop to the full amount that may be allowed by their height," according to the adopted plan document.

Neither Perseus nor its brokerage firm, CPG Realty LLC, indicated that they believed the cap would inhibit the property's plans. Perseus would work "closely with the city and staff throughout the entitlement and design process to ensure what we create will have the best outcome for all of the key stakeholders," Nihar Shah, its vice president of development, told the Washington Business Journal in response to that question.

Under the Bethesda Downtown Plan, Perseus must set aside at least 15% of redeveloped units as moderately priced dwelling units, or MPDUs. Rents on such units are contractually capped, for a period, in order to remain affordable to households at a certain income – in this case, around 65% of the area median income, or about $70,000 per year for a family of four, according to the plan.

Though, Mychael Cohn, CEO of CPG Realty, said in an interview that, generally speaking, he hopes the county council would consider reducing the area's density restrictions, "because it blocks their own vision" for affordable housing, particularly around transit. That is to say, if developers could build taller buildings with more units, that 15% minimum set-aside would translate to even more rent-capped affordable units.

If this project provides more than 17.5% affordable housing, it can build a taller building than what is otherwise permitted in order to accommodate the additional MPDUs, according to a land use memo prepared by Lerch, Early & Brewer, a law firm.

Perseus may also effectively buy extra density from the county, either by contributing to a public parkland fund, at the rate of $11.41 per added square foot. Or it could acquire unused density from some nearby site under a program called density averaging, though developers have pointed to that latter route as a cumbersome one.

Shah said that Perseus currently intends to make an unspecified contribution to the public parks fund.