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Apartment Giants To Join Forces; Charles E. **Smith** Makes $3.5 Billion Deal

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Charles E. **Smith** Residential Realty, the apartment half of one of Washington's great real estate fortunes, has agreed to be acquired by rival apartment developer Archstone Communities Trust for about $ 3.5 billion in stock and assumed debt.

The deal announced yesterday would create the second-largest apartment real estate investment trust in the country and would give the combined company a market capitalization of $ 9.3 billion. The new company would be called Archstone-**Smith** Trust and would be headquartered in Englewood, Colo., where Archstone is based.

"This is a tremendous strategic opportunity for both companies," said R. Scott Sellers, Archstone's chairman and chief executive, who will take the same jobs in the combined company.

Under terms of the deal, which was approved by both companies' boards late Thursday night, **Smith** Residential would operate as the high-rise division of the new company.

Robert H. Smith, chairman of the company his father started more than 50 years ago, would become chairman of that division. Denny Minami, chief operating officer and chief financial officer of Charles E. **Smith,** would become president.

"We plan to be here and continue as a Washington-based entity, part of Archstone-**Smith** Trust," **Smith** said yesterday. Keeping the **Smith** name as part of the new company was paramount in negotiations with Archstone, he said.

Shareholders of both companies still have to approve the deal. If it is approved, the sale should close in September.

Smith and his brother-in-law, Robert P. Kogod, have controlled the family business since Charles E. **Smith** retired in 1967. In 1994, Charles E. **Smith** Residential was one of the first real estate companies in the region to go public as a real estate investment trust.

The firm perhaps is best known for building the office and residential towers of Crystal City. The family's influence on the region goes beyond its buildings: Kogod and the two **Smiths** have given away millions of dollars to institutions such as George Washington University Hospital, the United Way and the Jewish Community Center in Rockville. The University of Maryland's business school is named after Robert **Smith;** American University's business school is named for Kogod and his wife, Arlene.

About half of the **Smith**-developed real estate is commercial. The commercial portion of the company remains privately held and the deal with Archstone will not affect it.

Smith and Kogod built Charles E. **Smith** Residential Realty into one of the largest real estate companies in the Washington region, with 2,700 employees and revenue last year of $ 383.2 million. The company owns apartment communities in Northern Virginia, the District, Chicago and Southeast Florida.

Smith said the merger with Archstone will allow Charles E. **Smith** to expand into new markets more quickly. Archstone, which builds predominantly garden-style complexes, owns apartments in San Francisco, Seattle and Los Angeles. It also has a small presence in the Washington area.

The combined company will have 274 apartment communities with 94,508 units. Its largest market will be the Washington region, followed by Southern California.

"It takes a long time and a long effort to be able to have all the teams of people in place to go into new markets," **Smith** said. "This is a jump-start, a case of being able to piggyback on what Archstone has successfully created. This saves you years and years of time."

Archstone will give each **Smith** shareholder 1.975 shares of the combined company for each **Smith** share. It also is assuming $ 1.4 billion in debt.

Archstone's stock price dropped by 5 percent yesterday, closing at $ 23.90. At that price, each **Smith** shareholder would receive the equivalent of $ 47.20. The companies also said the dividend will remain at Archstone's annualized level of $ 1.64 per share.

Shares of **Smith** stock rose slightly yesterday, closing at $ 46 a share, up from $ 45.56.

Rod Petrik, a real estate analyst at Legg Mason Wood Walker Inc., said the timing of the sale was right for Charles E. **Smith.**

The company was in the process of looking for a new president and chief executive after Ernest A. Gerardi Jr. announced earlier this year that he was stepping down for health reasons, Petrik said.

"The company was at a crossroads," he said, also noting **Smith** and Kogod's ages, 72 and 69 respectively.

"Basically it's a 50-year-old family business and they needed to find someone to manage their estate," Petrik said. "It was just inevitable with the age of senior management. . . . You're not just going to turn the business over to middle management."

Analysts said the markets were concerned about how the acquisition would affect earnings.

William J. Wolfe, president and chief executive of Bethesda-based First Washington Realty Trust, which was sold last year to an affiliate of the giant California Public Employees' Retirement System for $ 800 million in cash and assumed debt, said Charles E. **Smith** will still remain a force in Washington real estate, even after the sale.

"It's a very large, very solid public entity, and it has been managed by local people," he said. "I don't think that's going to change."

Robert **Smith** is counting on it.

"We're going to continue to maintain a significant corporate presence in the metro area," he said. "We have very deep roots in this community, which has contributed greatly to our success."

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