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Empire of the Son and Son-in-Law; Robert **Smith** and Robert Kogod Build on a Real Estate Foundation

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Charles E. **Smith,** who died Dec. 30 at age 94, always considered himself a builder.

He laid the foundation for Washington's greatest real estate fortune. On it, his son and son-in-law erected hundreds of millions of dollars worth of apartment and office buildings.

Now, 50 years after **Smith** founded the company that bears his name, the firm is in the midst of a transformation, one that will take it out of day-to-day family control. There are internal reasons: As at many family companies, younger generations aren't interested in running the firm. And there are external reasons: The nation's real estate industry, rocked by wild boom-and-bust cycles, is becoming more institutional and less entrepreneurial.

Smith family members have begun to hand management over to outsiders. Part of the company, based in Arlington, has gone public; plans are to take the rest public someday, too.

When Charles E. **Smith** retired in 1967 at age 66, he gave control of the firm to his son, **Robert H. Smith,** and his son-in-law, Robert P. Kogod. The pair have guided the company since. They are described by friends, associates and competitors as smart, honest and tough -- very tough.

"They take advantage of their size and their position and their monetary position," said Jeffrey M. Zell, a real estate consultant who has acted as an adviser to limited partners who have been locked in a two-year legal fight with **Smith** over the value of some properties. The two sides are in out-of-court negotiations. "They can usually outlast 90 percent of their opponents."

"They are tough-minded, but I think essentially they're [what we used to say] when I was a kid: They're stand-up guys," said Stephen Joel Trachtenberg, president of George Washington University, which has been both a recipient of the family's gifts and a business partner along with **Smith** in the stalled University Center project in Loudoun County.

Together **Smith** and Kogod built a two-part company that has about 2,600 employees. One half, Charles E. **Smith** Residential Realty Inc., is a public company with stock that trades on the New York Stock Exchange. It owns two shopping centers and 37 apartment properties with 14,000 units, and manages another 20 properties with 6,400 units. Its market capitalization -- outstanding shares and partnership units multiplied by stock price -- is about $ 525 million. At year's end debt on the properties totaled $ 483 million; add that to the market's valuation, and the portfolio is worth about $ 1 billion.

There also is a large private segment of the company. Along with many longtime private investors, it owns interests in 54 office buildings that total more than 14 million square feet and manages 39 other properties totaling 6.5 million square feet.

"Just about every important person in Washington has been a partner in some **Smith** deal," a person familiar with the company said.

Longer term, **Smith** and Kogod said they plan to bring this portion of their real estate empire public too, though they won't say when.

Their office portfolio faces challenges. Two large federal tenants may leave Crystal City, the Arlington centerpiece of the company's holdings. And ambitious plans announced a decade ago to build near Dulles International Airport have been stalled by lack of demand for new office space. Wall Street is wary about office companies, according to stock analysts, and it's also down on the Washington region because of the effect that federal cutbacks could have on growth.

But Bob **Smith** sees those as short-term challenges, and his family's business as a long-term one. What they've accomplished so far would be almost impossible to duplicate today.

"We tried to pick over the last 50 years the best locations," he said. "Those locations are all gone. Anybody starting today cannot find locations of that type. They're all used up.

"It would be difficult to do it as we did it today -- brick by brick. We had the thrill and the excitement and the fun of being able to start with a clean sheet of paper, start something and see it to fruition."

In the years immediately after World War II, demand for housing in Washington and nationally seemed insatiable. That demand meant a second chance at success for Charles E. **Smith,** a Russian immigrant whose New York home-building business was wiped out in the Depression.

"My ambition had always been to become a builder, but my father was opposed to it because he thought the profession was too speculative and risky," he wrote in his 1984 autobiography, "Building My Life."

Smith came to Washington in 1942, built 50 houses in Prince George's County and lost money selling them. He worked for others for a few years before founding Charles E. **Smith** Co. in 1946. This time, the apartment complex he built in Riverdale succeeded. He established a pattern that the company would follow for decades -- invest along with partners, construct the building and then continue to own it as a investment for all the partners. The emphasis was always on long-term profit.

He specialized in apartment buildings until 1960, when he built his first office at 1717 Pennsylvania Ave. NW. "This was the beginning of a new direction for the company," he wrote in his autobiography. "In the years that followed we would build many more office buildings than residential ones. I was proud of all our buildings and felt that they were distinct. . . . They were well located, solidly constructed, and meticulously maintained and managed."

A devout Jew, **Smith** became active in the Washington Jewish community in the 1950s. He turned out to be an extremely successful fund-raiser, capable of raising millions of dollars from friends and business associates for causes such as the Jewish Community Center in Rockville, George Washington University Hospital and the United Way.

In 1967 he decided to devote himself full time to charity work.

"The next day, while I was having lunch with Bob [**Smith**] and Bobby [Kogod], I told them that I was going to retire," he wrote. "They were surprised and questioned my timing, but I told them I had three reasons: First, I didn't want them to walk in my shadow; second, if they were to run the company, they must learn to make their own decisions and their own mistakes; third, because Washington had been so good to me, I felt I owed the city a great debt."

Bob **Smith** remembers the Saturday morning in 1961 when he first saw what would become the cluster of high-rise residential and office buildings known as Crystal City.

"It was a conglomeration of places that sold junk, used tires, a drive-in movie theater, a run-down ice skating rink, second-hand materials -- it was very unattractive."

But it had its good points. "I did see that there was an airport, there was the Pentagon, and that driving to D.C. was a pretty short distance," he said.

Working with the brick company that owned the land, he went on to build two apartment buildings, the first of the Crystal Houses. At first his father opposed the location, **Smith** said, but "I felt strongly that the proximity to the things I just mentioned would be the important things."

Although **Smith** has built 41 buildings in Crystal City, that wasn't the original plan.

"At that time there was no dream of a Crystal City. It wasn't even on the radar scope. It was just two residential buildings," **Smith** said.

Bob **Smith,** now 67, started working for his father when he was in high school, as a bookkeeper and then a night watchman. He went to work for him full time the day after he graduated from the University of Maryland in 1950.

In his autobiography, Charles E. **Smith** gives his son credit for proposing an idea that would help turn the company from a builder into a multifaceted real estate powerhouse. He suggested the company continue to manage buildings after constructing them -- thus bringing in a steady stream of income that would allow the **Smiths** to ride out wild cycles of construction.

Kogod, 64, is a relative latecomer to the family business. He met Arlene **Smith** in 1955, and they married in 1956. He was already a home builder. He turned down his father-in-law's first job offer. The second time, he said yes and joined the **Smiths** in 1959.

Bob **Smith** is "very definite, very focused and very specific. He knows generally what he wants to do, he knows where he thinks he wants to go and he moves in that direction," said lawyer Robert Linowes, a longtime family friend.

"Bobby [Kogod] is somewhat looser and seems to be a little more relaxed -- but that's not true," Linowes said.

The two seem close both personally and professionally. They share a suite of offices at their headquarters in Crystal City. When their families were growing, they lived in two Bethesda homes connected by a shared tennis court, according to several people. Forbes magazine last year estimated the combined family fortune at $ 560 million.

Both are world-renowned art collectors -- **Smith** is president of the National Gallery of Art -- but their tastes vary. **Smith** and his wife, Clarice, collect Dutch, Flemish and Venetian paintings; Kogod and his wife, Arlene, collect modern and contemporary art and art nouveau.

In the public and privates parts of their business, they each have the title of co-chief executive, but say they have separate roles.

Kogod said that in the public portion of the company, "Bob is basically the president and CEO of construction . . . and I've been president and CEO of leasing and management. That's the division of labor we've always had in the company."

Smith, he said, concentrates mostly on strategic aspects such as financing and setting overall company direction. "I tend to do that same thing, but be more involved in the day-to-day operations."

Smith is now older than his father was when he retired, but the partners have no intention of stepping down soon. **Smith** explained that his father worked single-mindedly, with little time to do anything else. The two younger men say they have been able to split their time between the company and their other activities in a way that makes them comfortable with their lives. They've delegated some responsibilities to Ernest A. Gerardi Jr., president of the public company, and chief financial officer Anthony J. LoPinto.

"What you're sort of seeing is Ernie and Tony playing a much larger role in the REIT, on a day-to-day basis . . . in terms of the public company," Kogod said, referring to the real estate investment trust. "At the same time, Bob and I both expect to be around for a lot longer and to play an important role in the company."

The **Smith** company believes that going public is the best way to face the transition from tight family control to a company that can survive and compete in the future. "Over the long term, we believe the public vehicle provides the most efficient means of raising capital for long-term growth," said Gerard, who joined **Smith** in 1985 as an outside consultant. Along with LoPinto, he's the next generation of management.

"The position of this company, in terms of moving it as an institution beyond **Smith** and Kogod, is that there is a minimum of a generation's gap of anyone in the family with an interest in running the business," Gerardi said. While some of **Smith** and Kogod's six children work for the firm, none is in a top management job.

The apartment company, the stock of which trades on the New York Stock Exchange, gets high marks from analysts on a number of fronts, although its stock price has been lackluster. It went public in 1994 at $ 24 and closed Friday at $ 24.25.

Wall Street looks for growth from a real estate investment trust. With little market for new apartment buildings in this area, **Smith** has had to grow mostly by acquiring properties, although it has built one new building.

As LoPinto pointed out, when the company went public, it had a history as a developer, but none as a buyer. He's now confident the company has built a record: When **Smith** went public, it promised to acquire 1,200 new apartment units in the first 12 months. It acquired 1,800.

"The thing that strikes me about **Smith** is that they have done a really good job at becoming a public company," said Trudy Bowen, senior vice president for real estate research at Equity Research Collaborative.

"Their stock price hasn't really done anything, but on the other hand, they've made all their numbers. . . . From a public market standpoint, they've done what they said they were going to do. They've held their stock price. They haven't tanked, like some of the others have. I don't hear excuses, I don't hear 'I don't know.' "

Said Catherine C. Creswell, an analyst at Alex. Brown & Sons in Baltimore, "I think they are very well positioned." The company has met its growth targets and followed a sensible dividend policy, she said.

"The most difficult perception people have to get over with **Smith** is the D.C. area," she said; investors believe that there's little growth potential in this region.

On the private side of the business, where financial results are harder to analyze, the continuing softness of the office market six years after the '80s boom remains a factor for **Smith,** even though the occupancy rate in buildings the company owns is a very tight 98.5 percent.

Over the next few years Crystal City faces the pullout of two stalwart federal government tenants -- the Patent and Trademark Office and the Navy. Another big mixed-use project, University Center in Loudoun County, has been brought almost to a halt by the collapse in commercial real estate demand, which hit even harder in Loudoun than in other parts of the region.

When **Smith** began planning its public offering in 1992, the idea was that the company would go on the market at once. But in 1993, the office properties were taken out of the package because the Navy, a major Crystal City tenant, announced it planned to move, according to a prospectus. **Smith** executives also say they were told by investment bankers that the entire package would be too large and unfocused to attract investors.

Even though prospects for Crystal City chilled the last attempt to bring the office portfolio public, **Smith** executives are upbeat about the neighborhood's future. They say that even if the government and some of the contractors that swarm around it move out, the space will be filled by other tenants eager either to leave the District or move closer in from outside the Capital Beltway.

"It's a place of high demand," said Anton S. Gardner, county manager for Arlington County, where **Smith** is the single largest property holder and taxpayer. "We all were sorry to hear the Navy is going to move, but we have not foreseen it as a disaster in any sense of the word."

In 1986, **Smith** announced an ambitious expansion of its office portfolio, with plans to build 15 million square feet of office space. Most of it would be in two projects near Dulles International Airport, Worldgate and University Center. University Center, the bigger of the two, would be larger than Crystal City.

But the real estate market crash in 1989 and 1990 stalled construction on the 576-acre tract near Leesburg in Loudoun County. Although George Washington University has built a research facility there and residential construction is proceeding, commercial development has been halted for several years because there's no demand. The company has added to its plans for residential use and cut back plans for commercial use in recent years.

"Large mixed-use projects, by their nature, evolve over a long time span," said **Smith** Vice President Scott Sterling. "As a result they frequently require developers to make master plan revisions in response to changes in the marketplace, which is how we have proceeded."

It's unclear whether **Smith** has plans to make major changes in the holdings of its private business because executives won't discuss either buying or selling assets.

For instance, for several weeks local real estate brokers have speculated that the company is negotiating with another real estate firm, RF&P Corp. RF&P controls the large Potomac Yards tract in Alexandria near Crystal City, as well as some land under **Smith's** Crystal City buildings and other land scattered across the state. RF&P's owner, the Virginia Retirement System, announced in August that the company is up for sale.

Recently, the Washington Business Journal reported that **Smith** is a top contender to acquire RF&P. **Smith** executives would not comment, although one person familiar with the company said, "It's safe to say they've talked." Others pointed out that RF&P has talked to a number of firms. An RF&P Corp. executive did not return a telephone call last week seeking comment.

Smith and Kogod say that they, like Charles E. **Smith,** prefer to look at business cycles from a long-term perspective. "One is always thinking about long-term strategy and how to protect yourself" against market ups and downs, **Smith** said.

"It's been okay," Kogod said. "We're here, we're happy, we're healthy and we like what we're doing." *

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GRAPHIC: Photo, charles e. **smith** photos; Photo, tyler mallory for The Washington Post; Chart, The Washington Post; Photo ; Photo ; Illustration, Early 1900s 1901 Charles E. **Smith** born in Lipnick, Russia. Emigrates in 1911. 1928 **Robert H. Smith** born. 1929 Charles **Smith,** a successful New York builder, wiped out by the stock market crash. 1940s & 50s 1943 Begins work on a 50-house subdivision in Riverdale. All houses sold, but at a loss. 1946 Charles E. **Smith** Co. founded in Washington. First project is an apartment complex, also in Riverdale. 1950 **Robert H. Smith** graduates from University of Maryland; joins company. 1959 Robert P. Kogod joins company. 1960s 1961 First office building completed at 1717 Pennsylvania Ave. NW. 1963 First building in Crystal City, Crystal House Apartments I, completed. 1967 Charles E. **Smith,** 66, retires. Robert **Smith** and Kogod assume control. 1970s 1970 Construction begins at Skyline Center on site of former Bailey's Crossroads Airport. 1973 Apartment building at Skyline Center collapses during construction, killing 14 and injuring 34. **Smith** Co. indicted on criminal charges but exonerated. A subcontractor was convicted of criminal charges and fined by the federal government for safety violations. 1980s 1984 Consultants Arthur Andersen & Co. begin study to determine company's long-term strategy. 1985 Ernest A. Gerardi Jr., who led Andersen study, joins **Smith** as executive vice president. 1986 **Smith** announces plans to double its size over 10 years, developing an additional 15 million square feet of retail office space. Two major developments near Dulles International Airport announced, Worldgate and University Center. 1990s 1991 Explores refinancing and market strategies. The decline in the commercial real estate industry stalled **Smith's** ambitious development plans. 1992 Explores taking entire portfolio public as a real estate investment trust. 1993 Drops office properties from planned offering. Begins process of taking