New Theory Holds 'Luckiest' Survive
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Our Changing Economy

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By Philip Stoddard Brown

IN 1911, a brochure on the Woodward Building described it as "the largest and most imposing office building in Washington."

"All rooms and corridors are lighted by electricity, the current coming from a private power plant operated by the management... All rooms will be kept thoroughly clean by means of the latest improved vacuum plant . . . Each office is provided with a porcelain lavatory of the latest one-piece type, supplied with hot and cold water.

Brown

"On each floor there are commodious toilet rooms—one for men and one for women . . . A women's toilet on every floor is an unusual and desirable feature in an office building . . . Elevators will be in service night and day."

The Woodward Building, with entrances on 15th and H Streets, had 420 offices, in addition to the ground floor where "for the convenience of tenants" there was "a thoroughly modern barber shop, a cigar and newsstand and a telegraph office." It was indeed an impressive building.

It was built by Samuel Woodward, who with Alvin Lothrop had come to Washington many years before and established an emporium on Pennsylvania Avenue. The land, bought from George Washington University, cost $450,000 and the building itself, $750,000. (An eleven-story addition of 120 rooms in 1929 cost $175,000.)

Last year, this 47-year-old building sold for about $4½ million. This was over 2½ times what had been "put into" the property, including the cost of twice replacing elevators, air-conditioning and making other improvements.

Much of the gain in value is due to appreciation of the land, which is now worth about four times the price paid by Woodward. The building itself is worth maybe twice the cost of construction plus later improvements.

Enormous Capital Gains

My own observations, after reviewing the history of this remarkable building, are as follows:

• The capital gains of equity investors in this and also other downtown buildings have been enormous. For example, those members of the Young and Simon insurance firm who bought the Woodward Building in 1947 for about $3 million and sold it in 1958 for about $4½ million must have tripled their investment. They were only one in a succession of owners.

• Income too has been greater than one might suppose. "Earnings after depreciation" are often a gross understatement of actual income. There may be no depreciation for decades. Hence, what is charged to depreciation reserve is a current gain free of income tax. (It may be taxed at a lower capital gains rate when the building is sold.)

• Moreover, depreciation charges over the life of a building may far exceed actual outlays for construction and modernization. Every time the property is sold, a new amortization schedule is set up based on the then current value which may be double or triple construction and modernization costs up to that time.

• There is an inducement for owners to sell a building, after owning it for 5 or 10 years, if it has appreciated. The new owners can charge off more for depreciation because of (a) the upward revaluation and (b) the shorter expected life. Since more of the operating revenue is free of income tax, the building is worth more to new owners.

• The life of an office building in this era of steel and concrete depends not upon physical survival, but upon environment. This building will live to be 75 years old—maybe 100.

• The present owners, a syndicate of which S. Greenboot Fischer, William Wolf Sr. and Frank J. Luchs are the principals, may never have seen the original brochure stressing the proximity of this building to the United States Treasury and large downtown banks, but location was the prime consideration in their assessment of its value, as it was in the mind of Samuel Woodward. That they were willing to pay about $4½ million for this property (of which land constitutes only half the worth) indicates that they think the building has a profitable life of at least 25 more years.

• But investment in real estate is risky even for the shrewd. Even the "right property," well-managed, has to be bought and sold at the right times to pay off. F. H. Duehay, who bought the Woodward Building from the heirs in 1924 and enlarged it in 1929, was unlucky. In 1931, when tenants didn't pay their rent and he couldn't pay taxes and bond interest, an auctioneer stood in the doorway of the main entrance and sold the building back to the Woodward heirs.

• Duehay didn't foresee the Great Depression. Maybe, those who bought the property in 1931 didn't foresee the great growth of Washington during the New Deal and War years. Maybe too, those who bought the property in 1947 didn't foresee the Great Inflation.

'Survival of the Luckiest'

The bigger import of all this is that the Darwinian theory of natural selection, though still helpful in explaining some evolutionary developments, needs to be supplemented by my own "survival-of-the-luckiest" theory which explains better not only the suicides of the 1930's but the dominance of certain characteristics and individuals today. It is a theory, I think, that best fits the facts of life and death in an age of big business, wars, atomic fallout and DDT.