Site C-2: Frederick, Maryland Feasibility Analysis
University of Maryland, Real Estate Development Program
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According to the Frederick Comprehensive Plan, new developments should, “...allow for land uses that enhance the Central Business District (CBD) as a tourism, arts, and business center.” Hotel 162 and Artist Studios will serve as a destination along Carroll Creek Park, attracting tourists and residents alike. We have crafted a leasing, financing and design plan that implements clever adaptive reuse and design to convert the existing undeveloped land and adjacent properties into an art-centric boutique hotel, with public amenities to support the Carroll Creek Park Amphitheater and the surrounding neighborhood. The development will include a 120 key hotel with an adjoining restaurant, a local food market and rentable art studio spaces.

The City of Frederick has nurtured a vibrant art scene for decades. Public art is an integral part of the Carroll Creek Park. Public art such as Carroll Creek’s Community Bridge, iron trees, water features and mosaics not only attract visitors to the City of Frederick, but also enhance the city’s role as a cultural and recreational resource.¹ To support the Carroll Creek Park Amphitheater and the Delaplaine Visual Arts Education Center, the development will incorporate artist and dance studios, as well as gallery space that will draw visitors to the site and further down the Park.

**Architectural Character**

Because the site is located in the historic district, much of the exterior will be refurbished original brickwork or new brick to match. In some locations, glass will be introduced to juxtapose modern construction with the historic intent of the region and to create interest in the façade design.

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SITE PLAN

CREDIT: MERCEDES AFSHAR
LOCATION MAPS

WASHINGTON METROPOLITAN AREA

CREDIT: GOOGLE MAPS

CITY OF FREDERICK

CREDIT: GOOGLE MAPS
SITE ANALYSIS

LOCATION AND EXISTING CONDITIONS

The site of Hotel 162 at the Creek and Artist Studios is in the central business district of Frederick, Maryland. As the second largest incorporated city in Maryland, located approximately 50 miles from the District of Columbia and Baltimore, Frederick is an important crossroad in the Washington metropolitan area. The site is located between the south side of Carroll Creek Park and E. All Saints Street. In 2009, the City of Frederick created an RFP to develop the site. The lack of response has created an opportunity to recommend uses for the site that have not been previously discussed. The original premises under analysis is a 0.39 acre undeveloped infill parcel. The City currently uses the site to stage performances at the Carroll Creek Park Amphitheater. Our development plan proposes the acquisition of adjacent parcels, with and without existing historic structures, to create the critical mass necessary for a destination along the Park.

At a little over a mile long, Carroll Creek Park operates as a mixed-use urban park that connects the creek’s shores with Frederick’s downtown. The park serves the dual purpose of containing flood waters that have historically devastated the downtown area while encouraging adjacent economic and cultural development; over $150 million dollars in office, retail and residential development is currently underway adjacent to the park.²

The first phase of the park improvements, totaling nearly $11M¹ in construction, runs from Court Street to just past Carroll Street, which is directly east of the proposed project site. This phase introduces new elements to the park, including shared-use pedestrian paths, water features, planters with shade trees and plantings, pedestrian bridges and a 350-seat amphitheater for outdoor performances. Phase two, which began in 2014, focuses on making similar improvements to the area from the Delaplaine Visual Arts Education Center on Carroll Street to East Patrick Street.²

With its proximity to downtown and recreational assets, Carroll Creek Park plays an important role in Frederick’s economic development. The multi-million dollar private investment planned along the park is integral to its success as a destination in Frederick. Currently, more than 400,000 square feet of office space, 150,000 square feet of commercial/retail space, nearly 300 residential units and more than 2,000 parking spaces are planned or under construction.³

The following four new construction projects have been developed along Carroll Creek Park. These mixed-use projects represent more than $30 million in investment and will provide 78 new housing units, 73,000 square feet of Class-A office space, 37,000 square feet of retail space and 225 new parking spaces. More than 300 new jobs are anticipated from the additions.

<table>
<thead>
<tr>
<th>Site</th>
<th>Project Name</th>
<th>Capital Investment (millions)*</th>
<th>Office SF</th>
<th>Commercial &amp; Retail SF</th>
<th>Housing Units</th>
<th>Parking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Site A1</td>
<td>Creekside Plaza</td>
<td>$12.0</td>
<td>45,000</td>
<td>15,000</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>Site A2</td>
<td>La Paz</td>
<td>$2.0</td>
<td></td>
<td>8,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Site B</td>
<td>South Market Center</td>
<td>$7.0</td>
<td>28,000</td>
<td>14,000</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Site C1</td>
<td>Maxwell Place</td>
<td>$12.0</td>
<td></td>
<td>37,000</td>
<td>78 du</td>
<td>225</td>
</tr>
<tr>
<td>Totals</td>
<td></td>
<td>$33.0</td>
<td>73,000 sf</td>
<td>37,000sf</td>
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<td></td>
</tr>
</tbody>
</table>

*Estimates by Developer

Excerpt from: Carroll Creek Park Overview.
https://www.cityoffrederick.com/DocumentCenter/Home/View/1100

The site, as it exists today, is a conglomerate of parcels that we intend to combine into one cohesive development plan. A few of the existing buildings are considered historic and will be strategically utilized to maintain the original character in the final design plan. Currently, there are small businesses and offices located in the buildings on the site.

¹ RFP 09-J Disposition of Site C-2 Property_Final.pdf
² Carroll Creek Park: https://www.cityoffrederick.com/index.aspx?NID=169
The final development will be a combination of parcels C-2, 41, 45, 47, 43-45, 49, 53, 55-57 and 59. Parcels 41, 45 and 47 were originally used as a wholesale confectionery and bottling works factory. The buildings were renovated in recent years to accommodate small office tenants. The remainder of the buildings is either used as storage space or is vacant.
TRANSPORTATION AND TRAFFIC

Frederick’s location at the convergence of several major highways (I-70, I-270, US 15, US 40, and US 340) creates significant congestion problems, but also allows easy access from major cities in the Metropolitan DC and Baltimore areas. The grid of streets makes downtown Frederick easy to navigate and allows for a constant flow of traffic.

According to the 2010 City of Frederick Comprehensive Plan Update, the city’s mass transit options - which include MARC and TransIT - have seen an uptick in ridership in recent years. Boardings from the county’s four MARC stations saw a 25 percent increase between 2002 and 2007. The Maryland Transit Authority (MTA) operates three eastbound morning MARC trains and three westbound afternoon MARC trains to and from Washington, D.C. The MARC station is located one block from the Hotel 162 site.

In addition to mass transit, bicycling and walking are also popular, car-free alternatives in Frederick. The City hopes to support and promote pedestrian traffic through its Planned Shared Use Path, which consists of a network of 25 miles of paved pathways throughout the city. The Shared Use Path will allow residents to traverse the city without a car, provide a source of recreation and add to tourism. Of the 25 miles planned, eight have been completed, with more under construction or in planning phases.

The City also issued a call for “Complete Streets,” in its 2010 Comprehensive Plan Update, urging the transition to streets that encourage pedestrian mobility and promote safety. The City’s Comprehensive Plan calls for “streets that are not only used by motorists, but also bicyclists, pedestrians and transit riders, to the extent appropriate to the function and context of each street”.

In the development plan of Hotel 162, we plan to improve the street-to-creek connectivity by adding street trees and better sidewalks to East All Saints Street, making it more of a “complete street.” The plan will also connect the pedestrian bridge northwest of the site to East All Saints Street through thoughtful design and landscaping.

Lastly, the Frederick Municipal Airport plays an important role in mitigating air traffic in the Baltimore-Washington region, offering general aviation pilots with an alternative to the use of scheduled service airports. This airport brings in many tourists and business travelers to the city.

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4 Transportation Choice. City of Frederick 2010 Comprehensive Plan Update
5 Transportation Choice. City of Frederick 2010 Comprehensive Plan Update
6 Transportation Choice. City of Frederick 2010 Comprehensive Plan Update
7 Transportation Choice. City of Frederick 2010 Comprehensive Plan Update
ZONING/REGULATORY PROCESS

The site is zoned Downtown Commercial/Residential (DB) which The City of Frederick Land Management Code designates to “...encourage the development of the Center City’s commercial areas. It allows most office and retail activities as well as high-density residential uses. To encourage the implementation of the objective, certain parking requirements are relaxed for development or redevelopment in this district.” Since the development will be by-right, the review process is anticipated to be relatively straightforward.

We anticipate that the approval process will take approximately a year to complete. Approval from various agencies will be required to move forward with the project, which will include many meetings and submissions to each.

The Planning Commission, consisting of seven members, has final authority in approving site plans, subdivision plats, modifications to the subdivision regulations and determination for Adequate Public Facilities (APFO). The Commission also has an advisory and recommendation role to the Board of County Commissioners on items such as text amendments, rezoning and comprehensive plans.

Because of the complexity of the site, the plans will require review by several other divisions in the city as well. Buildings on the site that are considered of historic importance will be of particular interest to the Historic Preservation Commission. Food services provided in the new development will trigger a review by the Frederick County Health Department.

OVERLAY ZONES

The site’s location is unique in that it is within the Frederick Town Historic District as well as the Carroll Creek Overlay District (CCO). The Historic Preservation Overlay (HPO) zoning is applied to buildings in this district allowing the City to regulate and review the exterior treatment and demolition of new development more rigidly. The design and timeline of the new development will have to consider this added approval process.

Because the project is located within the Frederick Town Historic District, the Historic Preservation Commission (HPC) will also review the project plans. No application for a certificate of approval shall be approved by the HPC unless it finds that the applicant conforms to the standards established in the Frederick Town Historic District Design Guidelines.

Modifications

Should we require modifications to the height, placement, orientation, massing, landscaping,
property access, parking and loading, parkland, skywalks and architectural standards, we will require permission from the Reviewing Authority. We will have to provide a justification statement on how the proposal addresses the provisions of this subsection. Any request for a modification shall require the Reviewing Authority to hold two public hearings on the request.

In addition, the design will have to be considerate of the standards outlined in the Carroll Creek Overlay. This district was established to ensure that new development is in line with the Carroll Creek Park Design Standards. The requirements in the CCO district are more stringent than the DB zoning regulations and will therefore be the basis of design for redevelopment. Within the CCO, the Planning Commission will generally review site plans. The Planning Commission within the CCO will not approve plans unless it finds that the applicant conforms to the standards established in the Carroll Creek Park Design Standards as well as all other applicable City standards.

**Architectural Non-Conformity of Existing Structures**

Within the Carroll Creek Overlay, existing structures that do not comply with the provisions of subsection (j), Architectural Standards, may continue to be used in their current condition as legal non-conformities. All other non-conformities are subject to the provisions set forth in Article Nine (9) of the Land Management Code. However, any exterior alterations not considered part of normal maintenance and upkeep of a non-conforming property must be reviewed by the Reviewing Authority. If the building is demolished or vacant for more than one year, any and all new construction on the site must conform to these regulations.

According to the Downtown Frederick Partnership, the site is also within the Arts and Entertainment District. This is a program administered by the Maryland Department of Business and Economic Development (DBED) and overseen by the Maryland Comptroller’s Office. The designation provides a great opportunity to emphasize the many attractions that make downtown Frederick an arts destination. In addition to the marketing benefits, the designation also offers a tax deduction for eligible artists, an exemption from state admission and amusement tax for certified arts activities and a property tax credit for buildings renovated or constructed for an arts-related use. As mentioned previously, public art has been incorporated at various locations along Carroll Creek Park. The programming in the Hotel 162 development will support this objective.

**AVAILABLE TAX ADVANTAGES**

Frederick County participates in the Maryland Historic District Tax Credit Program for locally designated properties. This program provides property tax relief for increases in assessments of properties in the historic districts of The City of Frederick, the Town of New Market, or for properties listed in the Frederick County Register of Historic Places, provided the historic
preservation commissions in those jurisdictions have reviewed and approved the work, which results in the increased assessment. There are multiple “contributing” historic buildings on the site and may be considered in financing the development.

Both The City of Frederick and Frederick County have enacted property tax credits for the renovation or construction of arts-related spaces within the Downtown Frederick Arts & Entertainment District boundaries. The Hotel 162 development plan includes various artist and dance studio spaces that will make these credits available to the project.

Only the increase in assessed valuation of the portion of the property, renovated or constructed for a certified arts use, is eligible for the property tax credit. The property tax credit is available for seven years, making the addition of an art-related space attractive to investment. The addition of rentable artist studios to downtown Frederick will support the flourishing art culture in the historic district.

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COMMUNITY INVOLVEMENT

The community in downtown Frederick wants to see the areas surrounding Carroll Creek Park add to the history and character of the city. Our development plan is in line with these interests and addresses the goals of the community for the future of Frederick. We intend to proactively engage with the community throughout the duration of the project to ensure a mutually beneficial environment that facilitates the transformation of downtown Frederick.
DEVELOPMENT PLAN AND DESIGN

TRAFFIC AND CIRCULATION

Overview

Our proposed development for Hotel 162 at the Creek will increase density in downtown Frederick and help to stimulate the local economy. Many of the amenities and retailers in Frederick are located north of Carroll Creek Park, along the intersection of Market Street and Patrick Street (Figure 01). Because the access points to the site are on South Carroll Street and East All Saints Street, the addition of this project on the south side of the Creek will draw visitors and residents across the pedestrian and vehicular bridges. This will spur future development along the southern side of the Creek and strengthen the economy of downtown Frederick.

FIGURE 01, CREDIT: GOOGLE MAPS

The site is strategically located in a pedestrian-friendly and walkable area of Frederick. Many daily amenities are within a 15-minute walk from the location as well as over 40 restaurants. Because of the close proximity to public transportation, such as bus stops and the MARC Brunswick – Washington Amtrak train station, the county requires fewer parking spaces for the development plan. This allows for a more efficient design and effective use of square footage for programs that are more profitable than a parking structure. There is also a city parking garage directly to the east of the site, at the corner of South Carroll Street and East All Saints Street, should visitors choose to drive.

http://www.walkscore.com/score/162-e-all-saints-st-frederick-md-21701
Seventy parking spaces will be included in a parking structure directly connected and architecturally integrated into the hotel. By code, the development should include one parking space per hotel room, one parking space per 800 sf of restaurant space and one per 300 sf of grocery market space. Under this formula, the total spaces required would have been 164. Because we are able to use a shared parking ratio for multiple uses on the site, the required number is decreased to 140 spaces. Additionally, the Carroll Creek Overlay Code stipulates that sites within the overlay district are permitted to reduce the required parking by 50 percent to promote multimodal transportation. Subsequently, we are only required to include 70 spaces on the site to support the proposed functions.

**Access to Carroll Creek Park**

There is currently a pedestrian bridge to the west of the project site. In our development plan, the path will be extended to connect this bridge with East All Saints Street. This will strengthen the access to Carroll Creek Park from the south and encourage pedestrian movement to our project and other areas further south.
ARCHITECTURE AND LANDSCAPE

Most of the project site is reserved for the new hotel; however, a majority of the mass is hidden behind the existing buildings on East All Saints Street. By doing so, the project is able to accommodate a large structure without compromising the historic downtown character. Only a small portion of the hotel will actually front East All Saints Street, allowing the project to maintain a rhythm of building mass that is not overwhelming to the human scale.

The hotel and main access point to the development is from East All Saints Street. A structured parking garage has been integrated into the hotel design to provide a seamless façade composition while maintaining easy access for vehicular traffic. Because the site is located in the historic district, the design of the new buildings compliment and pay homage to the existing structures. Materiality of most of the structures is brick, however glass and other modern materials may be introduced at the lobby entrance to the hotel to make it more distinguished. On the Carroll Creek side, the hotel is stepped back at each level to provide balconies in the guest rooms. Connected to the hotel is the restaurant with access from South Carroll Street. The existing exterior walls will be incorporated into the design of the restaurant, as it is a “contributing” historic structure. The restaurant will feature a two story open dining space as well as a second level with seating to provide views of Carroll Creek to diners.

North of the restaurant, along South Carroll Street is the grocery market. This program incorporates both historic structure and new construction. The 10,000 square foot market will focus on local sourcing from the Frederick region, supporting farmers and small food businesses. It will be mainly brick construction with the opportunity to have an open-air portion in the summer months. Farmers markets will be coordinated with the Amphitheater at Carroll Creek to draw visitors when the weather is favorable.
The remaining three buildings on the site provide almost 20,000 square feet of studio and gallery space for artists to rent and exhibit their work. Fenestration on the studio spaces will be increased where allowable by Historic Preservation to accommodate the artists’ needs for more natural light into the studios. The exterior existing brickwork and paintings will be refinished. The interior spaces will be modest, as the uses in the space require generally concrete floors and blank drywall partitions.

The landscape on the site is generally flat and barren, as the undeveloped space has been covered with gravel and used by the City to store large items and props from the amphitheater. Open space along the new connection from Carroll Creek Park to East All Saints Street will receive landscaping. The area between the studio buildings will be designed to allow the artists and hotel guests to use the space to work, relax and connect.
Sustainability

In 2010, The City of Frederick implemented a Sustainable Action Plan to address in-County operations and planning. One of the action areas is the implementation of green building practices, which includes prioritizing energy and water efficiency and recycling construction waste for future construction projects. In addition to “green” construction practices, various design strategies, uses and goals for the Hotel 162 site are estimated to certify the new construction with LEED Silver rating, or better. The project will include various sustainable practices such as rainwater recycling for landscaping, local materials, bike storage, preferred and reserved parking for low-emitting and fuel-efficient vehicles, high-efficiency water-saving devices, recycled building materials and eco-friendly cleaning supplies.

DEVELOPMENT SCHEDULE

We expect to begin the acquisition process for Hotel 162 in January 2015 upon finalizing financing. There are many variables and unknowns associated with acquiring the properties, so we have allotted ample time in the schedule to remain on track with a target opening of May 2018. Concurrently, we will work with Frederick County to ensure that the Historic Preservation Review Board and other governing authorities approve of the development plans. An architectural design team will be brought on board to assist with approvals and deliverables to the County.

Once the concepts are approved, we will begin schematic design. The schedule below illustrates a reasonable design and construction schedule that will ensure we meet the expected date to begin generating revenue. Our schedule also anticipates a 36-month stabilization period until occupancy levels rise to a similar rate as other hotel products in the market.

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The proposed Full Service Hotel and Conference Center by Plamondon is expected to open across Carroll Creek Park in early 2017. We have projected that a year gap between openings will be sufficient for both hotels to prosper. May has specifically been targeted as an optimal month to open because the trends in occupancy and daily rates are at their highest at the beginning of the summer. The charts below depict occupancy and ADR for 2012 and are representative of the trends over the past six years of data collection.

![Occupancy By Month (2012)](image1)

![ADR ($) By Month](image2)

Smith Travel Research Report; April 2013

To finance the construction activities, a loan will be secured for $29,875,748 at 5.75 percent. This loan will be interest only, which is typical for this type of development. This will cover necessary site work to prepare the existing structures in addition to base building, interiors and FF&E. A 15 percent contingency fee has been included for any unforeseen costs and escalations during the construction process.

**Marketing and Management**

Once the acquisition process is complete and ownership of the parcels secured, we will begin to publicize the project within the community and market the available spaces. During entitlements, we plan to set up informational sessions about the development and attend neighborhood meetings to engage the local community in approvals.
Before construction begins on the site, we will hire a web development team to build a marketing website for the entire development and utilize social media outlets to remain connected and transparent with the community, potential tenants and visitors throughout the construction process. The website will have links to each of the respective managing and leasing companies’ websites. Uniting with the Downtown Frederick Partnership, we will embrace their Main Street program, which is “...a preservation-based, downtown revitalization project. The goal of the Main Street Program is to strengthen the vitality of traditional main streets and neighborhoods.”

We will work with them to organize tables at community events to distribute brochures and other informational media. The Downtown Frederick Partnership works closely with local artists. We intend to utilize these existing relationships to foster communication with the artist community. Once the construction fence is placed on the site, we will work with our in-house marketing team to place a large sign on the outside of the development to display what the new uses will be.

The process has already begun for bringing a hotel operator onto the team. We will draft a request for proposal (RFP) to gauge interest in running the hotel portion of the development site. We will be looking for a team that is a leader in the industry and shares a passionate pursuit for excellence, efficiency and added value. We will look to this team to provide and manage a sophisticated and technologically integrated website for the hotel so that the guests’ experiences are seamless and enjoyable. The hotel operator will also manage the restaurant, as it will be a part of the hotel offerings. Upon substantial completion of the construction, we will work with the hotel operator to build out a space within the hotel envelope for an office. The hotel will require approximately 10-15 employees depending on the season and demand.

For the grocery market, we will utilize a commercial real estate broker to sign the appropriate grocery tenant to fit the site’s vision. We would expect the broker to use print ads, networking organizations and the Frederick Economic Development Office as leasing tools. We will hire a property management company to manage the day-to-day needs of the space.

We intend to follow the successful model of the Bromo Seltzer Arts Tower in downtown Baltimore for marketing and leasing the artist studios. The Baltimore Office of Promotion and the Arts (BOPA) is a non-profit organization that produces events and art programs, as well as manages several facilities, including the Bromo Seltzer Arts Tower. BOPA is launching a new arm of its organization to support markets such as Frederick. We will work with them to ensure the success of the artist studios, looking to their experience to lease and manage the artist spaces. For the 15 studio spaces at Bromo Seltzer Arts Tower, BOPA has four staff members. As our development will have 30 spaces, we expect that the staff requirement will be doubled to eight members.

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1 About Us: Downtown Frederick Partnership. http://www.downtownfrederick.org/about-us
MARKET ANALYSIS

NATIONAL ECONOMY

According to Kiplinger, economic growth improved in 2014, averaging 2.3 percent for the year. Lower gas prices and increased consumer spending will aide continued economic growth into 2015. The third quarter of 2014 saw a 14-year-high in job openings, which is expected to increase, along with an increase in residential construction and the prediction of only modest interest rate hikes in 2015.

LOCAL ECONOMY

According to the ESRI 2010 Census Report, The City of Frederick had a population of 62,539. This is expected to increase at a rate of 0.81 percent, which is higher than the state projection of 0.68 percent and the national projection of 0.71 percent. By 2018, the population is projected to increase to 69,029. The City of Frederick experienced the largest percentage of decennial population growth in the following periods: 1850-1860 (35 percent), 1920-1930 (30 percent), 1980-1990 (43 percent) and 1990-2000 (31 percent). The City of Frederick only had one period of decline, between 1880 and 1890, when the City’s population dropped by five percent.

Forty-seven percent of the City’s population growth occurred after 1980. This unprecedented growth is related to the addition of Fort Detrick as a U.S. Army Medical Command installation as well as the increasing price of real estate. Beginning in the 1990s, due to the rising cost of housing in the Washington DC and Baltimore metropolitan areas, The City of Frederick became a viable option for commuting distance to these two large employment areas. The City of Frederick remains under growth pressure due to its location, and the City’s population growth trend is expected to continue. Typically, the City’s population has represented about twenty-five percent of Frederick County’s population, which is expected to continue. The ratios of the City’s population to County population for the 10-year periods between 1980 and 2030 are shown in Table-1.

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Households

Between 2000 and 2010, the City of Frederick increased in households from 21,659 to 25,352 (a 1.59 percent increase). A majority of these (69.3 percent) are households with two or more people and generally husband-wife families. The average household size of 2.5 is expected to remain stagnant through 2018. Approximately 50 percent of householders are between the ages of 15 and 44.\(^5\)

Unemployment

The unemployment rate in Frederick County has been consistently lower than both state and national levels since 2000. While the county’s unemployment rate has some similarities with state and national trends, the annual fluctuations have been much less pronounced. The county’s unemployment rate remained at or below 3.5 percent from 2000 to 2008, reaching a low point of 2.7 percent in 2000. From 2008 to 2009, the county saw a vast increase in unemployment rate, 3.6 percent to 6.6 percent. Frederick County’s labor force increased in 2011 compared to a national increase and a state decrease, yet the county’s rate of unemployment decreased and remained below both. Through 2013, the unemployment rate in Frederick County decreased to 5.6 percent and remained below state (6.7 percent) and national (6.0 percent) levels.\(^6\)

\(^5\) US Census Bureau, 2007-2011 American Community Survey
\(^6\) Maryland Dept. of Labor Licensing and Regulation 2013
Fort Detrick is the largest employer in Frederick with 11,000 employees. The increase in jobs and people in the Frederick market has had a positive impact on the tourism and business travel industry.

**MARKET**

**OFFICE MARKET**

**National Office Trends**
With a stabilizing economy and increasingly better jobs reports in recent months, the U.S. office market continues to improve. Overall employment only improved 1.4 percent but office-using employment grew at 2.6 percent in 2013. Dallas/Ft. Worth, Chicago and Los Angeles were among the fastest growing markets in the U.S. and primarily driven by the technology sector. Vacancy rates dropped 50 basis points in 2013 to lowest their lowest level since 2009, with positive net absorption of 15 million square feet. Office development continued to rise, with 18.6 million square feet of new in 2013, nearly double 2012’s tally of 9.9 million square feet. Asking rates increased nearly 5% over the year.

**Frederick Office Trends**
Leasing continued to decline in the third quarter of 2014 as activity dropped by 37.8 percent
from 12 months ago. A major relocation took place within the county as American Association for Laboratory Accreditation moved 17,930 square feet from 5301 Buckeystown Pike to 5202 Presidents Court. In addition, year-to-date net absorption remained negative with a total of 12,197 square feet.

In the second quarter of 2014, as in the past, discrepancy continued to be apparent between different classes of space. Class B rental rates reached a rate of $18.75 per square foot; however, Class A rates were averaging $27.27. Vacancy rates also displayed a similar contrast between Class A and Class B space. Direct vacancy in the Frederick County Class A sector was 9.1 percent, compared to the Class B rate of 29.6 percent – more than three times higher. The combined overall office vacancy is near 17 percent.

The county has not added new supply to the office market since the second quarter of 2010. The single project under construction in the county is the 119,530-square-foot Social Security Administration (SSA) building on Bennett Creek Avenue. The property will be fully occupied by the SSA and the building is expected to deliver in the first quarter of 2015.

The environment of federal uncertainty has put a hindrance on overall growth. While there have been a few signs of strengthening, Frederick’s appeal will likely be limited to all but the largest or most cost-conscious users for the rest of 2014.

The lack of new GSA leasing activity or large-block corporate demand to serve as a catalyst suggests that market fundamentals in Frederick County could lag over the short term, compared to other local submarkets. Given the lack of positive catalysts, the market should remain tenant-favorable throughout the rest of 2014 for users looking to take advantage of low rents in an outside-the-Beltway market.\(^7\) The Property Clock to the right depicts where various areas are in terms of tenant and landlord leverage. Frederick County is shown to be a “falling market” which is reinforced by the high vacancy rates.

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\(^7\) JLL Americas Research. Frederick County Office Outlook Q2 2014
The chart below shows trends for the Frederick County market over the past few years. Net new supply has not been added to the market since 2010, when approximately 120,000 additional square feet became available. While there was a significant decrease in vacancy from 2011 to 2012, it has slowly begun to rise again. The market will become favorable again once the supply is absorbed.

CREDIT: JLL Americas Research. Frederick County Office Outlook Q2 2014

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RETAIL MARKET

National Retail Trends
The retail market is finally emerging from the depths of recession. Improving retail fundamentals are the result of an economic uptick and still historically low new retail development. According to data from NCREIF\(^8\) in 111 U.S. metropolitan areas, just 6.5 million square feet of new retail construction occurred in 2013 and 8 million square feet is expected for 2014. REIS recently reported the national vacancy rate for neighborhood and community shopping centers at 10.4 percent, a subtle 30 basis point drop from last year. Effective rents grew 1.4 percent in 2013, triple the rate of growth in 2012.

Meanwhile, countless retailers remain susceptible to the increasing popularity of online retail, which has already claimed numerous victims. Brick and mortar retailers are slowly adapting to the new reality by learning how to relate to customers in a dynamic consumer landscape.

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\(^8\) NCREIF. [https://www.ncreif.org/data.aspx](https://www.ncreif.org/data.aspx)
In today’s market, it is crucial that landlords understand and adapt to the new reality by creating an appealing customer destination to facilitate their tenant’s success. Ultimately, this will yield strong tenant sales which landlord’s will capitalize on by way of tenant retention and consistent rent growth. According to REIS, high-end retail destinations are thriving with vacancy rates reported well below 5 percent.¹⁹

**Frederick Retail Trends**

Retailers in downtown Frederick have taken advantage of the attractions at Carroll Creek Linear Park and therefore are situated in close proximity. As discussed previously, many shops and businesses are located on the “main streets” of Patrick Street and Market Street.

Douglas Development is currently working on adding retail space to Carroll Creek Park with a $20 million in capital investment/rehabilitation of historic Union Knitting Mills building, which is located near our site. The development will include 41,500 square feet of office space, 25,000 square feet of retail space and 104 parking spaces. The design is approved and construction is pending.¹⁰

The retail trade industry provides 5,368 jobs in the City of Frederick. There are 15 grocery stores within the city boundaries, but none source their products locally as our proposed development will. Of those fifteen, nine are chain super markets and six are international specialty markets, representing the growing cultural and culinary diversity in Frederick. Food markets also provide 823 jobs for Frederick’s residents. Additionally, there are 140 Restaurants in the City, which add 2,591 jobs to the area.¹¹

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**RESIDENTIAL MARKET**

**National Residential Market**

Home prices in the 20 major metro areas increased 12.4 percent during the 12 months ending March 2014, the most recent data available, according to S&P/Case-Shiller. The housing market performed well in 2013 but is still off pre-recession highs in most areas of the country. Rapidly growing metro areas continue to outpace the national growth rate of 10.3 percent. For major metropolitan areas, average home price growth has exceeded 10 percent on an annual basis for a year now. The number of U.S. home sales rose to 4.65 million (on an annualized basis) in April 2014 from 4.59 million one month earlier. The 4.65 million-unit pace is 6.8% below the 4.99 million-unit pace from the same period a year ago. Sales are slowly climbing after falling sharply during the harsh winter. However, a shallow inventory continues to lift prices across most of the nation. The average existing home sales price was $250,600 in April 2014 according to the National Association of Realtors, its highest level since 2007. Listed inventories did increase 6.5%

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¹⁹ REIS. https://www.reis.com/
¹⁰ Douglas Development. www.douglasdevelopment.com
¹¹ Business and Employment Data Analysis, 2006 Frederick MD
from April 2013 to April 2014, but not enough to stall an increase in home sale prices. If the inventory remains fairly tight, prices could appreciate further.  

**Washington Metro Area and Frederick Residential Market**

The Washington metro area housing market continues to lose the momentum it has gained over the past year. Although sales typically peak in the spring, units sold declined 6.6 percent year-over-year. Average price increased over 2014 (3.2 percent), but the rate of increase has been decelerating. A gradual increase in the available inventory and the average days on market demonstrates that the regional housing market recovery is beginning to plateau.

The national economy is regaining traction and will continue to sustain the broader housing market in the period ahead. However, weak employment growth trends, slow-moving household formation, and more stringent lending standards will keep the region’s housing market performance modest through the balance of 2014.  

The current housing stock in Frederick is 27,559 units. Of the total occupied units (92 percent), 57.6 percent—or 14,611—are owner occupied. Vacancy is fairly tight in the Frederick market at eight percent, 3.3 percent of which is for rent. While it would appear that the market could use more supply, the multifamily rental and for-sale market has not bounced back from the market crash in 2008 and is still generally soft. One block to the east of the project site is a large parcel that was planned to be a mixed use development with ground floor retail and 130 luxury condominium units. The project was slated to begin construction in the fall of 2010, but the site remains untouched. Instead, it was considered as a contender for the new full service hotel and conferencing center in downtown Frederick.

**HOTEL MARKET**

There are currently 10 hotels in the Frederick market area, totaling 679,616 square feet. Many provide limited services and are not within walking distance of the historic central business district and “main street” attractions. The City is currently looking to add a full-service hotel and conference center in the downtown area, which will cater to a business centric clientele and provide meeting space for conferences.
COMPETITIVE ANALYSIS

Competitive analysis is based on full- and limited-service hospitality products located within four miles of the proposed project site. All of the products have between 100 and 160 keys and average 500 gross square feet per room.

OCCUPANCY & REVPAR TRENDS

According to a report completed by Smith Travel Research in April 2013, the average combined occupancy rate for a sample of hotels in Frederick was 69.4 percent. From 2007 to 2012, rates have steadily increased from 63.5 percent to 75.5 percent. The only decline was in the second half of 2010, down six percent from the previous year. Demand, defined as the number of rooms sold, also saw an increase from 2007 to 2012. 2010 was the only year that saw a decrease in demand, down six percent from the previous year. However, because ADR (average daily rate) increased 2.4 percent for the year, RevPAR (revenue per available room) only declined 3.7 percent for that year. In general, Tuesdays and Wednesdays have seen the highest occupancy rates from April 2012 to March 2013, at 84 percent. Respectively, ADR was also highest on these days of the week averaging $115.17, compared to the Saturday average ADR of $108.89. We concluded from this information that a majority of the options available cater to business travel. The location and features of Hotel 162 will provide more leisure options for weekend travel.

Supply has not increased since 2008 when approximately 48 rooms were added to the market; however, demand continues to increase at a steady rate of 4.8 percent each year. Revenue has also seen a similar positive trend since 2008. In 2012, the combined revenue for Frederick hotels was $29,066,428, or 7.1 percent more than 2011. On average, revenue has increased 5.7 percent each year in Frederick. In 2010, revenue did see a decline of 3.7 percent, but this was regained with an 11.6 percent increase in 2011.
As Fort Detrick expands and Frederick’s economy grows stronger, the demand for leisure and business travel will continue to see positive trends and will provide an opportunity to add to Frederick’s hotel supply.

**REGIONAL SUPPLY TRENDS**

The regional supply consists of properties located in the District of Columbia, Maryland and Virginia area. Over the past 10 years, occupancy in the region has remained steady with an average of 67.7 percent. The year-to-date through August 2014 was 70.6 percent, according to Smith Travel Research. Seen in the table below, Average Daily Rates (ADR) jumped drastically in the region in the early 2000’s. Rates have leveled off in the past few years with an average of $138.74. Because the regional data pulls from a large metropolitan area, the ADR averages shown in the chart below are generally higher than rates in Frederick. This was taken into account when pricing the rooms in our project. Industry standard for a successful project is maintaining a stabilized occupancy between 65 and 70 percent. The Washington, D.C. region is showing healthy trends for new hotel development.
There has not been much sales activity over the past 10 years in the Frederick market. In 2012, Best Western Historic Frederick, at 118 keys, was offered for an asking price of $7 million, at a capitalization rate of 11 percent and a Gross Room Revenue Multiplier of 4.34. The product was built in 1984 and completed a major renovation in 2007. Occupancy from 2008 to 2012 was much lower than the competitive set in Frederick, averaging 55 percent and 65 percent, respectively. The hotel is located 1.5 miles from the central business district, on a vehicular-centric street. This might be an indication of why the occupancy is much lower than the competitive set. A report by MTEL Consultants indicates that, “In spite of the property...
performance, the property provides a solid cash flow and a well above return on investment. The property offers a significant upside potential to an investor.”\textsuperscript{15}

This information suggests that a new product with a well-positioned ADR that considers multi-modal transportation options will perform well in the Frederick market.

\begin{center}
\textbf{DEVELOPMENT PIPELINE}
\end{center}

Looking to the future, the only new construction expected in Downtown Frederick is a 200 key full-service hotel and conference center with over 15,000 square feet of meeting space. The hotel is projected to begin construction in 2016 and deliver in 2017. There were two proposed sites for the new hotel as shown in the image below. The City used an extensive selection process to compare the two proposals, unanimously choosing Team Plamondon with the Marriott flagship.

Developing this hotel is a key priority of Frederick’s Economic Development Partners and Major Employers (Downtown Frederick Partnership, The City of Frederick Department of Economic Development, East Frederick Rising, The Frederick County Business Development and Retention, The Frederick County Chamber of Commerce and the Tourism Council of Frederick County). Two separate feasibility studies have shown a strong demand for this new hotel product in the Frederick market and have inferred a demand for additional hotel rooms at other hotel locations.

The site of this hotel is across the Carroll Creek from the proposed Hotel 162 development; however, through strategic marketing efforts, it will target a different market than our 120 key boutique hotel. We will work with the Plamondon team to ensure that both hotel products are successful and drive Frederick’s economy in a positive direction. Oversupply to the market is a concern that has been studied in our development plan and was taken into consideration in the schedule of delivery.

\begin{flushright}
\textsuperscript{15} Best Western Historic Frederick. Executive Summary. http://mtelconsultants.com/images/property/docs/2013061811113458_Best\%20Western\%20Executive\%20Summary.pdf
\end{flushright}
INTRODUCTION

Hotel 162 is a financially viable development project with strong cash flow potential. Throughout our financial calculations, we took a more conservative approach in our assumptions to demonstrate the performance strength of the project, should conditions be more favorable than anticipated.

Below are some of the assumptions used in calculating the following financials. We are pursuing a bank loan with 70-percent loan-to-value (LTV), equaling $29.5 million. This will be at a 5.75 percent interest rate for a 25-year term. We will demonstrate the proceeds from selling the project in year five with an exit cap of 8.5 percent. This is a conservative valuation given the strength of the market and the proposed product.
Below is a snapshot of the total development costs. The total development costs (“TDC”) for Hotel 162 are $42.6 million with 16 percent toward acquisition, 68 percent towards hard costs, developers fees accounting at three percent, and soft costs and permanent financing rounding out the last 13 percent. While the project is demonstrating higher than average acquisition costs, they are directly related to our strategy, given the complexity of current ownership.

<table>
<thead>
<tr>
<th>Debt Coverage Ratio</th>
<th>1.40</th>
</tr>
</thead>
<tbody>
<tr>
<td>LTV Ratio</td>
<td>70%</td>
</tr>
<tr>
<td>Term</td>
<td>25</td>
</tr>
<tr>
<td>Interest Rate</td>
<td>5.75%</td>
</tr>
<tr>
<td>Income Escalation</td>
<td>3.00%</td>
</tr>
<tr>
<td>Expense Escalation</td>
<td>3.00%</td>
</tr>
<tr>
<td>Occupancy Rate (Stabilized)</td>
<td>75.00%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>15.00%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction Contingency</td>
<td>4.00%</td>
</tr>
<tr>
<td>Developer Fee</td>
<td></td>
</tr>
<tr>
<td>Holding Period</td>
<td>5 years</td>
</tr>
<tr>
<td>CAP Rate at Sale</td>
<td>8.50%</td>
</tr>
</tbody>
</table>

Below is a snapshot of the total development costs. The total development costs (“TDC”) for Hotel 162 are $42.6 million with 16 percent toward acquisition, 68 percent towards hard costs, developers fees accounting at three percent, and soft costs and permanent financing rounding out the last 13 percent. While the project is demonstrating higher than average acquisition costs, they are directly related to our strategy, given the complexity of current ownership.

<table>
<thead>
<tr>
<th>DEVELOPMENT COSTS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition</td>
<td>$6,752,704</td>
</tr>
<tr>
<td>Hard Costs</td>
<td>$28,889,074</td>
</tr>
<tr>
<td>Soft Costs</td>
<td>$3,852,810</td>
</tr>
<tr>
<td>Permanent Financing</td>
<td>$1,865,376</td>
</tr>
<tr>
<td>Development Fees</td>
<td>$1,309,675</td>
</tr>
<tr>
<td>TOTAL DEVELOPMENT COSTS</td>
<td>$42,679,639</td>
</tr>
<tr>
<td>TDC/Square Foot</td>
<td>$264.91</td>
</tr>
<tr>
<td>TDC/Key</td>
<td>$355,664</td>
</tr>
</tbody>
</table>

Several parties currently own the parcels that will make up the proposed development site. We have taken the risks associated with dealing with multiple owners into consideration in our acquisition assumptions. Shown in the chart below, there are several instances where we are prepared to offer the landowner more than the parcel is valued. These assumptions were carefully decided based on when the landowner acquired the parcel. Final sale proceeds will be determined during the acquisition process. One of the things our acquisitions team will do to mitigate this risk is to negotiate strategically and early with the owners so they do not render the development plan unfeasible.

As shown in the chart below, we are anticipating almost $6.7 million in acquisition costs, not including closing costs. Compared to the assessed values of the properties, this is $2 million more than what the properties are considered to be worth. Site C-2 is currently owned by the City of Frederick. Assuming that the City will transfer ownership of this site to the development team at no cost, we anticipate that the final sale prices will be well below our conservative numbers.
Our development group has offered to put $800,000 back into the project. The remainder of the equity for the project will be obtained through an investor partner and creative financing. The development project qualifies for almost two million dollars in state and federal historic tax credits. Crowd sourcing funds raised through Fundrise will provide $1,000,000 towards the rehabilitation of the artist studios. This investment solution will be an opportunity to engage the community and allow them to contribute to the success of the project and the enhancement of downtown Frederick.

<table>
<thead>
<tr>
<th>ACQUISITIONS ASSUMPTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition of Parcels</td>
</tr>
<tr>
<td>C-2</td>
</tr>
<tr>
<td>41</td>
</tr>
<tr>
<td>45</td>
</tr>
<tr>
<td>47</td>
</tr>
<tr>
<td>43-45</td>
</tr>
<tr>
<td>49</td>
</tr>
<tr>
<td>53</td>
</tr>
<tr>
<td>55-57</td>
</tr>
<tr>
<td>59</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>delta</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>SOURCES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
</tr>
<tr>
<td>Equity - Developer</td>
</tr>
<tr>
<td>Equity - Fundrise for Art Spaces</td>
</tr>
<tr>
<td>Historic Tax Credits</td>
</tr>
<tr>
<td>Debt</td>
</tr>
<tr>
<td>Conventional Mortgage</td>
</tr>
<tr>
<td>Financing</td>
</tr>
<tr>
<td>Gap (Equity Investor Request)</td>
</tr>
<tr>
<td>Total Financing</td>
</tr>
</tbody>
</table>

Although a small percentage, 8.35 percent, of the development will be historic renovation, the costs to rehabilitate the existing structures will total $5.5 million. The chart below summarizes our assumption that the syndication of the credits will be valued at $0.95 and $0.70 for federal and state taxes, respectively. The total equity we anticipate from historic tax credits is $1.8 million.
INCOME ANALYSIS

The total project will be approximately 138,000 square feet of development. Of this, 102,000 square feet will be new construction and the remaining 36,000 square feet will be historic renovation. A majority of the new construction will be the 120-key hotel (96,000 gross square feet).
The following assumptions were used in calculating the operations of the project. We expect the hotel to operate at a healthy 75 percent occupancy once stabilized in the market. Income and expense escalations are both expected to be three percent each year.

**Assumptions**

<table>
<thead>
<tr>
<th>Escalation</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>3%</td>
</tr>
<tr>
<td>Operating Expense</td>
<td>3%</td>
</tr>
<tr>
<td>Hotel Opening Occupancy</td>
<td>60%</td>
</tr>
<tr>
<td>Hotel Stabilized Occupancy</td>
<td>75%</td>
</tr>
<tr>
<td>Studio Occupancy</td>
<td>95%</td>
</tr>
</tbody>
</table>

### Income

<table>
<thead>
<tr>
<th>Product</th>
<th>Total Area</th>
<th>Leasable SF</th>
<th>$</th>
<th>Basis</th>
<th>Year 1 Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotel</td>
<td>96,000</td>
<td>91,200</td>
<td>115.00</td>
<td>ADR</td>
<td>$3,777,750.00</td>
</tr>
<tr>
<td>Retail</td>
<td>18,000</td>
<td>17,100</td>
<td>30.00</td>
<td>$/SF</td>
<td>$513,000.00</td>
</tr>
<tr>
<td>Artist Studios</td>
<td>24,358</td>
<td>23,358</td>
<td>9.50</td>
<td>$/SF</td>
<td>$584,704.10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>138,358</strong></td>
<td><strong>131,658</strong></td>
<td></td>
<td></td>
<td><strong>$4,975,454.10</strong></td>
</tr>
</tbody>
</table>

### Expenses

<table>
<thead>
<tr>
<th>Product</th>
<th>Total Area</th>
<th>Leasable SF</th>
<th>$</th>
<th>Basis</th>
<th>Year 1 Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotel</td>
<td>96,000</td>
<td>91,200</td>
<td>16.43</td>
<td>$/SF</td>
<td>$1,498,096.35</td>
</tr>
<tr>
<td>Retail</td>
<td>18,000</td>
<td>17,100</td>
<td>4.55</td>
<td>$/SF</td>
<td>$77,865.00</td>
</tr>
<tr>
<td>Artist Studios</td>
<td>24,358</td>
<td>23,358</td>
<td>6.53</td>
<td>$/SF</td>
<td>$152,517.06</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>138,358</strong></td>
<td><strong>131,658</strong></td>
<td></td>
<td></td>
<td><strong>$1,728,418.41</strong></td>
</tr>
</tbody>
</table>

Demonstrated in the above calculations, the hotel will generate a majority of the rental income, at nearly $3.8 million in the first year of operation. Similarly, the hotel will incur the most expenses for the project at almost $1.5 million in the first year. Overall, the project will generate a strong net operating income (NOI) of $3.1 million in the first year and is projected to increase to $4.7 million by year ten.

**EXIT STRATEGY**

Generally the initial owner holds hotel developments for three to five years. We have calculated a sale at year five, given the financially viable nature of this project. At a capitalization rate of eight and a half percent, the project will be valued at $48 million. The net proceeds we anticipate from the sale will be approximately $5.3 million. In terms of the equity investor, the project should yield an annualized cash-on-cash return of 22 percent for $12.3 million.
RISK ASSESSMENT (SWOT ANALYSIS)

INTERNAL FACTORS

**Strengths**
We are creating enough critical mass for successful development with multiple complementary uses. This site is one of the last undeveloped and underutilized along the Carroll Creek revitalization project. Our development plan capitalizes on the opportunity created by structures already on site. We are able to use historic tax credits, since we are maintaining and rehabilitating the existing contributing historic structures.

**Weaknesses**
Existing structures propose a design limitation and are not placed ideally on the site. The development plan is not as efficient as it would be if the site were razed.

Artist studios do not bring in as much revenue as other product types. In order to justify adding them, we will have to use historic tax credits and locate them in the existing structures where renovation will not be as expensive as new construction.

EXTERNAL FACTORS

**Opportunities**
If the full service hotel and conferencing center delivers as planned, we will be able to combine marketing efforts. We also have an opportunity to team up with the local Frederick farms to provide products for our proposed grocery market.
**Threats**

Several private landowners own the parcels adjacent to site C-2, which is owned by The City of Frederick. There is a possibility that the landowners will hold out for more money than anticipated in our acquisition assumptions or will not want to sell. In the event that the acquisition plan becomes infeasible, we will reevaluate the design to accommodate. Since the hotel portion is located on a city-owned parcel, that portion of the development would still be viable.

Since the market is still recovering from a recession, it is difficult to predict the future trends. If expected occupancy levels are not met, we would have to reevaluate the viability of the plan. Because our development is not expected to deliver for three years, the market could change unfavorably.