

# **Economic, Demographic, and Real Estate Dynamics in Frederick, MD**

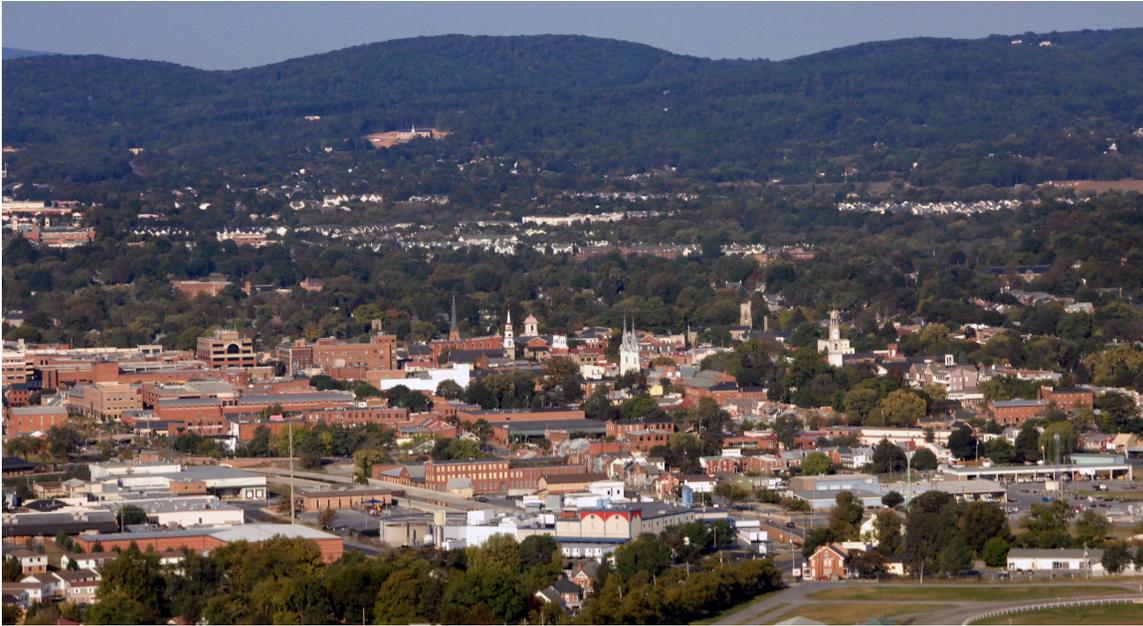


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**Submitted by:  
Sage Policy Group, Inc.**

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**Submitted to:**  
**The City of Frederick**  
**Economic Development Department**  
**October 2014**

# Economic, Demographic, and Real Estate Dynamics in Frederick, MD

*This study represents an update of two studies delivered to the City of Frederick in 2007-2008. The area of study includes the **City of Frederick**, specific areas within the city including **Downtown Frederick**, **the Golden Mile**, and **East Frederick Rising** as well as a broader territory that encompasses the **Frederick Planning Region**. Chapter 1 of this report supplies data regarding economic and demographics in the study area. Chapter 2 reviews data regarding commercial real estate performance and estimates future demand for space of varying types. Chapter 3 supplies an in-depth analysis of the performance of retail real estate and the identification of retail gaps.*

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## **Executive Summary**

In 2007-2008, BBPC Associates completed two separate analyses on behalf of the City of Frederick Department of Economic Development. The first report delivered a retail market analysis. The second provided an analysis of local office, industrial and flex/R&D markets.

This 2014 Sage Policy Group, Inc. analysis updates those findings. During the intervening years, there have been many shifts in the economic environment, including the Great Recession of 2007-2009 and sequestration. These and other changes to the macroeconomic environment have helped to produce significantly different findings from those derived by the 2007-2008 study team.

That report had concluded that between 2007-2020, the City of Frederick would need to massively expand its real estate portfolio, with projections of 2 million square feet of additional office space required, more than 1.2 million square feet of industrial space and in excess of 2.5 million square feet of net new flex space.

Circumstances have changed. Altered federal spending dynamics, smaller allocations of space per worker and competition from proximate communities such as Urbana, the Route 85 corridor just beyond city limits, Northern Virginia and ongoing development in several Montgomery County markets have collectively served to reduce net demand for space in the City of Frederick, at least over the near-term.

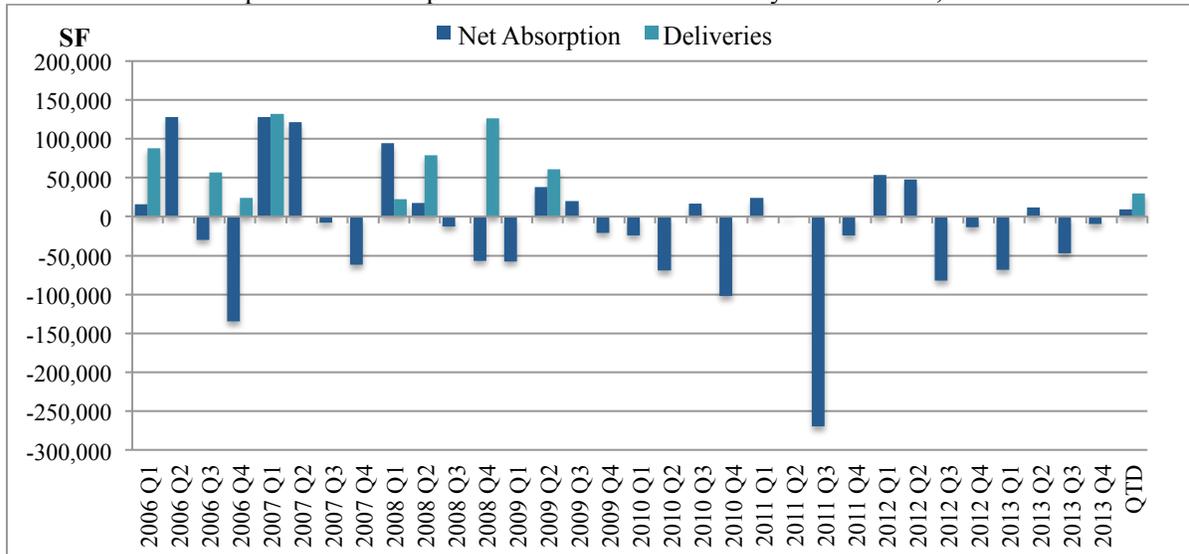
Construction employment in the City of Frederick declined 23.8 percent between 2007 and 2011. Between 2002 and 2011, manufacturing employment dipped 48 percent in the city. Wholesale trade employment fell 5 percent citywide during this period. The previous study team simply could not have imagined the impact of the Great Recession.

The total impact of the Great Recession and other macroeconomic developments has been to render the city more dependent upon institutional (especially government) employment over time. The top four employers, which collectively represented approximately 21,000 jobs in 2013, are all either attached to government or healthcare.

Nearly half of all Downtown Frederick employment (47.6%) was in public administration as of 2011. This is likely at odds with the perceptions of many, particularly visitors who largely associate downtown Frederick with fashionable boutiques and restaurants. Downtown is home to the local board of education, the Frederick Police Department, several agencies of County government and City Hall.

The somewhat unanticipated shifts in economic performance have materially altered real estate performance in Frederick. For instance, virtually no new office space has been delivered in the City of Frederick since the recession ended in June 2009. Net office space absorption has been negative during many recent quarters. Rather than progress briskly during the 2007-2013 period, the city's real estate markets have in general taken a backward step or two. Exhibit E1 below reflects how radically circumstances changed during the period of the Great Recession.

Exhibit E1. Office Space Net Absorption vs. Deliveries in the City of Frederick, 2006-2013



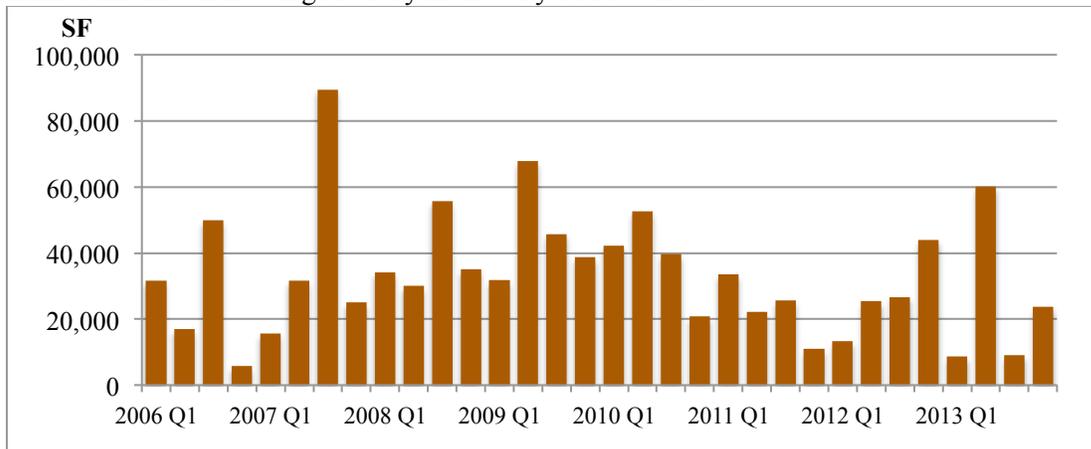
Source: Costar; Notes: 1. Net absorption measured in SF, Deliveries measured in rentable building area.

Sage predicts that the City of Frederick will experience net new demand of roughly 700,000 square feet of office space between 2015-2030, far different from the 2,000,000 square feet of additional space envisioned by the previous study team for the period 2007-2020.

Chapter 3 of this report provides in-depth analysis of retail markets in the city, including data characterizing performance Downtown and along the Golden Mile. After several years of decline, retail rents are now rising. Retail leasing activity has not quite returned to pre-recession levels, but in general the marketplace is moving forward again (Exhibit E2).

One of the study team's key findings is that the Golden Mile's market reach is not as lengthy as one might think. In other words, the Golden Mile largely supplies a very local market. This represents the largest concentration of retail space in Frederick and there is an opportunity to stretch the city's retail market by inducing more upscale offerings.

Exhibit E2. Retail Leasing Activity in the City of Frederick



Source: Costar; Notes: 1. Includes sub-leasable space.

## Recommendations

- **Improve commercial leasing parity between City and County**
  - **Develop small business incentives to encourage tenanting of existing commercial space**—The existing New Jobs Tax Credit and Enhanced New Jobs Tax Credit targets new construction of at least 5,000 square feet and net new employment of at least 25 full-time positions. As 95% of City businesses are small businesses, we suggest the implementation of a new tax credit program targeted at the purchase/lease of 1,500 square feet of new or existing commercial space and the addition of at least 5 net new jobs.
  - **Gradual phase-out of business personal property tax (BPP)**—Frederick County does not assess a business personal property tax. In order to remain competitive and incentivize reinvestment in the City, a gradual sunset of the business personal property tax is recommended. In order to mitigate the impact on City revenue projections in the near-term, a multi-year phase out is recommended until the tax is phased-out in its entirety. Additionally, a business personal property tax rebate should be provided for new investment during the phase out period.
  - **Revise and market existing tax credits to encourage higher investment**—Based on our research, it is our observation that current City tax credit programs are underutilized by the business community. In many cases, businesses are unaware of their eligibility for property tax incentives based on their firm’s capital investment and job creation. The City should consider revisions to the existing New Jobs Tax Credit to include untenanted commercial space and increase awareness of programs via marketing efforts, commercial broker outreach/programming, etc.
- **Highlight and market niches**—The City must highlight and effectively market niche markets that exist in the community, relative to the balance of Frederick County and the Washington region.
  - **HUB Zones**—The City of Frederick features three qualified HUBZone Census tracts: 2 in Downtown and 1 in close proximity to Fort Detrick.
  - **Urban/historic buildings**—Frederick offers numerous unconventional office and retail locations, particularly within the historic Downtown.
  - **Carroll Creek Park/Riverside/Airport/Thomas Johnson Drive**—Key employment districts, including planned development along Phase II of Carroll Creek Park, life sciences and professional services clusters at Riverside Research Park, and the employment district surrounding Frederick Municipal Airport.
  - **New corridors/infrastructure**—The City continues to invest in critical road, water, and other public infrastructure to support continued commercial investment. Current and recently completed projects include Monocacy Boulevard, US-15/Monocacy Boulevard interchange, East Street extension, etc.
- **Support high-technology incubation as means to develop a commercial pipeline**—The City must continue a significant financial and time commitment to the Frederick Innovative Technology Center (FITCI). FITCI is one of 20 incubators within the State of Maryland and provides critical support to aspiring life science and high technology firms. Graduating incubator firms have a significantly higher propensity to remain within their incubator community. This is evidenced in Frederick with an estimated 68,000 square feet of office and lab space currently leased among FITCI graduates.

- **Golden Mile**
  - **Market ethnic dining experience and expand dining options to include fine dining**—Both the 2007 study and the current one found that a significant fraction of sales within the Golden Mile are associated with people traveling less than 3 miles. In other words, the Golden Mile's market reach is limited. While the proposed new Walmart will alter this circumstance to a certain extent, for now, the Golden Mile is more about convenience than market appeal. This could change. The study team's retail gap analysis identified a shortage of fine dining establishments in the area around the Golden Mile, implying an opportunity for the Golden Mile to capture that market. The study team believes that the differentiated nature of shopping experiences Downtown and along the Golden Mile are so distinctive that significant direct competition is unlikely. Rather, the presence of higher quality restaurants along the Golden Mile may induce people who are presently shopping in other retail districts for household items to patronize Golden Mile establishments more frequently. We believe that the complementary effects would be large and positive. Moreover, the Golden Mile is already home to an increasing number of ethnic cuisine restaurants. Increased marketing of the breadth of dining options along the Golden Mile will further drive traffic to the corridor.
  - **Brand the Golden Mile as the “International Mile”**—As a means to differentiate the dining and retail options of the Golden Mile relative to other commercial corridors within the City of Frederick, the Golden Mile should rebrand itself as the International Mile, in coordination with the Golden Mile Alliance. An initial marketing strategy may include banners along utility poles along Route 40.
  - **Support and implement the Golden Mile Small Area Plan with an emphasis on mixed-use and design**—A major focus of the Golden Mile Small Area Plan included a focus on mixed-use design within the corridor. The City should encourage property owners and developers to consider redevelopment of aging shopping centers with a focus on mixed-use residential and commercial structures.
  - **Provide an incentive for projects that implement mixed-use design**—The existing Golden Mile tax credit program focuses on the rehabilitation of existing commercial shopping centers. In order to incentivize redevelopment of shopping centers into mixed-use projects, a similar property tax abatement program should be implemented.
  - **Implement façade improvement program**—The Golden Mile intends to receive a Sustainable Community designation from the Maryland Department of Housing and Community Development. With this designation, the Golden Mile will be eligible for grant funding from the Community Legacy program to support commercial façade improvements. The City and Golden Mile Alliance should partner with the grant application and ultimate facilitation of a façade improvement program on the Golden Mile, mirroring the success of Downtown Frederick’s existing program.

- ***East Frederick Rising***
  - ***Conduct small area plan building on East Frederick Rising Vision document and recent Urban Land Institute (ULI) Technical Assistance Panels***—Following the recent completion of the Urban Land Institute Technical Assistance Panel and the publication of the East Frederick Rising Vision plan, the creation of an East Frederick small area plan to strategically outline future development potential in East Frederick is critical.
  - ***Implement façade improvement program***—East Frederick Rising intends to receive a Sustainable Community designation from the Maryland Department of Housing and Community Development. With this designation, East Frederick Rising will be eligible for grant funding from the Community Legacy program to support commercial façade improvements. The City and East Frederick Rising should partner with the grant application and ultimate facilitation of a façade improvement program within the East Frederick overlay, mirroring the success of Downtown Frederick’s existing program.
  - ***Implement Airport Master Plan improvements***—Improvements to Frederick Municipal Airport, including an ultimate goal to be the preferred general aviation airport in the Washington region will support business attraction and retention and support the long-term financial stability of the municipal airport. The financing and construction of the planned runway extension, investment in additional corporate and t-hangars, and marketing to advertise Frederick Municipal Airport’s competitive advantages relative to similar general aviation airports in surrounding jurisdictions is recommended.
  - ***Support planned development of Renn Farm/Sites J & K***—We remain supportive of the planned development for the Renn Farm and the City-owned Site J & K along East Patrick Street. Development of the Renn Farm will provide new workforce housing options in close proximity to the amenities of Downtown Frederick. Moreover, the redevelopment of Sites J & K will serve as a catalyst for further investment along a historically industrial-use focused portion of the City.
  - ***Support mixed-use development of Brickworks site***—Development of the former 65 acre Frederick Brickworks property represents a key opportunity for the City of Frederick. As outlined in the ULI Technical Assistance Panel, the Brickworks project will serve as an Eastern gateway into the City of Frederick and will complement the historic nature of Downtown Frederick. Mixed-use development should include a variety of residential and commercial uses to include higher education, office, and retail.

- ***Downtown Frederick***

- ***Support Downtown Hotel***—In the report, the study team points out that Frederick is attractive and well located. It is in many ways the envy of other communities because of its lively downtown and growing population of educated professionals. In terms of the functioning of a 200 room full-service hotel, it does not appear that public support would be required. However, in order to build nearly 20,000 square feet of meeting space, public support would be required to finance a portion or all of the meeting space and public infrastructure.

Members of the business community with whom Sage spoke described the proposed hotel as a critical need. Frederick presently has very limited conference, meeting and event facilities. Such a facility would help create more of a daytime economy Downtown, which would better support galleries, specialty retailers and restaurants. This would be associated with less frequent business failure, fewer vacancies, enhanced property valuations and tax base.

By virtue of this logic, the study team recommends that the City actively support an ambitious hotel project that has the potential to extend stays and stimulate visitor spending. Given the large number of institutions in and around Downtown Frederick, including Fort Detrick, local medical centers and colleges/universities, the hotel is likely to meet with favorable market outcomes. A hotel/conference center feasibility study found that there is a strong market for a full-service hotel/conference center, that cash flow projections indicate strong positive net operating income, and that Downtown offers an excellent location offering easy access and high visibility.

- ***Public administration Downtown***—Downtown has become heavily reliant on public administration positions. According to the most recent data available, of the 6,743 jobs in Downtown Frederick, fully 3,212 or 47.6 percent were in public administration.

There has been some level of discussion in policy circles about the relocation of public agencies out of Downtown. While there are conceivably some good reasons behind such thinking, from an economic development perspective, this would appear to negatively impact Downtown occupancy and vibrancy. This perspective was expressed to the study team repeatedly during focus groups and interviews, and the study team agrees.

Office vacancy is high throughout the study area, including among Class B buildings in the City of Frederick and Downtown. The departure of public agency employment would put further pressure on Downtown's daytime economy, on rents and property values. Moreover, as long as vacancy rates remain elevated, the 180,000 additional square feet of office space proposed for Downtown are unlikely to be delivered. That will further hamper job growth and City tax base expansion.

- ***Market and program Carroll Creek Park***—As the City completes Phase II of Carroll Creek Park, increased utilization of the linear park is imperative. The City should promote various programming opportunities for the park with community partners including Celebrate Frederick and the Downtown Frederick Partnership. The City may want to consider waiving fees in exchange for event programming service.
- ***Provide parking incentives for key employers Downtown***—In order to increase non-public administration employment Downtown and induce indirect spending to Downtown merchants and restaurants, an increase in private employment Downtown is key. The cost of parking represents a source of competitive disadvantage Downtown vis-à-vis suburban office parks. As a mechanism to incentivize employers to locate and remain in Downtown Frederick, we suggest the creation of a parking incentive program to rebate a portion of an employer’s monthly parking expense for any business bringing a minimum of 25 jobs to Downtown.
- ***Continue implementation of façade improvement program***—The City should continue its participation in the façade improvement program with the Downtown Frederick Partnership. The grant funding received via the Maryland Department of Housing and Community Development Community Legacy Program incentives business owners to enhance their exterior building facades through a dollar for dollar match. Since the program’s inception in 2004, 70 facades have been improved in Downtown Frederick.
- ***Focus efforts on communities outside of the “core” of Downtown Frederick*** —The City should encourage further investment in communities immediately adjacent to the key Downtown corridors, including North Market (3<sup>rd</sup> – 7<sup>th</sup> Streets) and Patrick streets (West Patrick from Bentz Street and East Patrick from East Street)

# Chapter 1. Economic & Demographic Overview

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## Introduction

Whether or not one likes it, the fact of the matter is that a given study team is likely to approach a project with at least some preconceptions. Of course, the expectation is that once data arrive and analysis begins, these preconceptions, particularly the misconceptions, will be unceremoniously washed away in a tide of objectivity.

In this regard, Sage Policy Group is not ashamed to admit the presence of certain preconceived ideas. Having conducted a substantial number of analyses across the Mid-Atlantic region, Maryland, and in Frederick itself, we had often heard that Frederick represents a source of inspiration. From Hagerstown to Cambridge and beyond, we have heard people indicate a desire to be more like Frederick.

With its historic downtown and ability to capture retail spending, Frederick represents a place to be productively mimicked. So in beginning the analysis, we expected the area's real estate data to reflect a nearly ideal set of circumstances. After all, Frederick is considered a model and the economic recovery is approaching the onset of its 6th year.

But as so often happens, the data did align themselves precisely to these preconceptions. Frederick is certainly healthier than most American communities from the perspective of real estate and economic performance. But there are instances of underperformance and underutilization.

This Sage study provides an objective data - driven analysis. Substantial amounts of data regarding real estate and the broader economy are supplied along with associated analysis. The area of study includes the **City of Frederick**, specific areas within the city including **Downtown Frederick**, **the Golden Mile**, and **East Frederick Rising** as well as a broader territory that encompasses the **Frederick Planning Region**.

The color-coding in the sentence above can be found elsewhere in the report. Accordingly, if one is simply interested in data pertaining to East Frederick Rising, one should search for green text. If one is interested in the broader Frederick Planning Region, one should look for blue text and so on.

## I. Study Area Demographics

### Frederick's Population Continues to Expand

Frederick is known as being one of Maryland's most vibrant, dynamic communities. The study team's tours of the city reveal that perceptions of that dynamism are largely warranted. Evidence exists of significant recent commercial development and many prime developable sites, some of which represent land recently annexed into the city.

Exhibit 1.1 reflects the fact that both the City of Frederick and Frederick County have exhibited higher than average growth in recent decades whether compared to the balance of the state or key proximate municipalities. By 2012, the city's population exceeded 65,000, rendering it Maryland's second largest incorporated municipality, ahead of Rockville (around 61,000), Gaithersburg (around 60,000) and Bowie (around 55,000).

Exhibit 1.1. Population in the City of Frederick and Neighboring Municipalities, Frederick County, and the State, 1990, 2000 and 2012 (5-Year Average)

	Population			% Growth	
	1990	2000	2012	1990 to 2000	2000 to 2012
Total population					
City of Frederick	40,148	52,767	65,171	31.4%	23.5%
Rockville city	44,835	47,388	60,960	5.7%	28.6%
Gaithersburg city	39,542	52,613	60,223	33.1%	14.5%
Hagerstown city	35,445	36,687	40,078	3.5%	9.2%
Bowie city	37,589	50,269	55,059	33.7%	9.5%
Cumberland city	23,706	21,518	20,776	-9.2%	-3.4%
Bethesda CDP	62,936	55,277	59,591	-12.2%	7.8%
Germantown CDP	41,145	55,419	88,039	34.7%	58.9%
Frederick County	150,208	195,277	234,268	30.0%	20.0%
Maryland	4,780,753	5,296,486	5,785,496	10.8%	9.2%

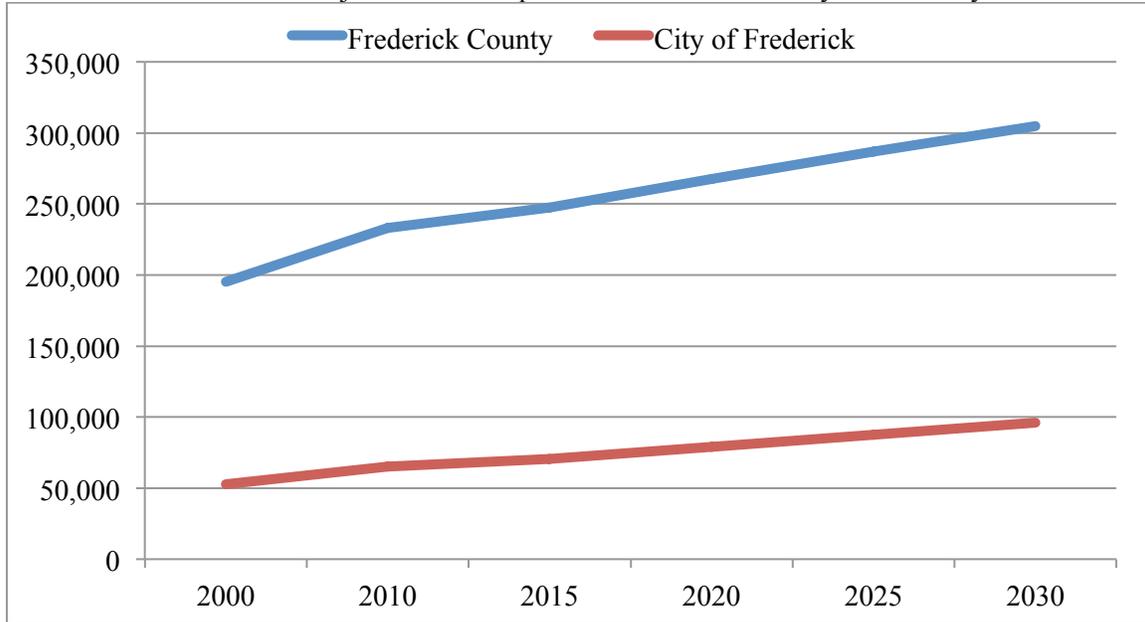
Source: U.S. Census Bureau, 1990 Census of Population and Housing: CP-1; 2000 Census: DP-1; 2008-2012 American Community Survey 5-Year Estimates: DP05.

Projections supplied by the Maryland Department of Planning and the City of Frederick Planning Department indicate that growth remains part of the area's economic story. By the year 2030, the city's population is expected to approach six figures while the county's population, which was in the range of 234,000 in 2012, will surpass 300,000 (Exhibit 1.2).

Some may take growth for granted, but it should not be. Growth requires a number of elements, including 1) real and perceived quality of life; 2) proximate employment opportunities; 3) supportive infrastructure; 4) private investment in real estate and other amenities; 5) prudent infrastructure/capital budgeting; 6) successful and visible economic development; 7) presence of expanding industries; 8) a reasonably competitive tax

environment; 9) thoughtful zoning; and 10) an engaged community. To date, Frederick has been able to be competitive to varying degrees along each of these dimensions.

Exhibit 1.2. Historic and Projected Total Population: Frederick County and the City of Frederick



Source: U.S. Census Bureau; Maryland Department of Planning (Frederick County Projection); City of Frederick Planning Department (City of Frederick Projection).

The City of Frederick is known for many things, including its appeal to younger professionals. Some of this has to do with area schools, some with a historic and elegant downtown filled with eateries and specialty retail establishments, and some with the deep job base associated with the Washington metropolitan area. Exhibit 1.3 reflects the fact that the city’s population is disproportionately oriented toward people between the ages of 25 and 44 relative to the county and the state.

Exhibit 1.3. Population Breakdown by Age Group in the City of Frederick and Neighboring Municipalities, Frederick County, and the State, 2012 (5-Year Average)

	0-14	15-24	25-34	35-44	45-64	65 and over	Age 25-44	Median Age
City of Frederick	20.5%	12.8%	17.3%	15.2%	23.3%	10.8%	32.5%	34.5
Rockville city	17.5%	9.7%	14.6%	15.9%	28.1%	14.2%	30.5%	39.9
Gaithersburg city	20.6%	10.3%	19.4%	14.7%	25.3%	9.6%	34.1%	34.8
Hagerstown city	21.5%	12.2%	16.9%	13.2%	23.5%	12.6%	30.1%	34.3
Bowie city	21.3%	12.4%	11.1%	15.4%	29.5%	10.3%	26.5%	39.2
Cumberland city	18.4%	11.9%	11.7%	12.6%	25.0%	20.4%	24.4%	41.4
Bethesda CDP	19.1%	10.3%	10.7%	13.4%	29.4%	17.2%	24.0%	42.7
Germantown CDP	22.4%	12.2%	17.2%	17.2%	25.8%	5.1%	34.4%	33.9
Frederick County	20.6%	13.0%	11.8%	14.9%	28.4%	11.2%	26.7%	38.5
Maryland	19.2%	13.8%	13.3%	13.8%	27.5%	12.4%	27.1%	37.9

Source: U.S. Census Bureau, 2008-2012 American Community Survey 5-Year Estimates: DP05.

Exhibit 1.4 reflects something very interesting. The city is neither significantly more nor less educated than the balance of the county or the state. While the proportion of bachelor's degree holders is higher in the county than in the city, the City of Frederick's proportion is higher than the state's. Moreover, the proportion of people living in the city with at least some college or an associate's degree is higher than in the balance of Frederick County. However, the proportion of people who lack a high school degree is higher in the city than it is in the balance of the county or the state.

Exhibit 1.4. Breakdown of Adult Population Aged 25+ by Educational Attainment, 2012 (5-Year Average)

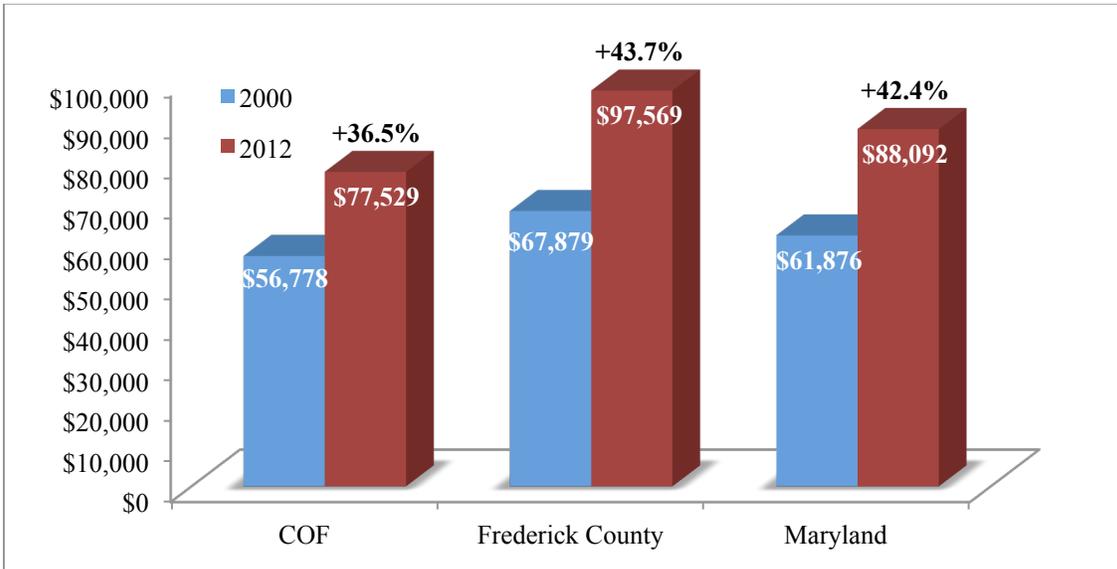
	Less than High School	High School Degree or Equivalent	Associate's Degree or Some College	Bachelor's Degree	Graduate or Professional Degree	% of Adults with Bachelor's Degree or Higher
City of Frederick	11.8%	23.0%	29.5%	21.6%	14.0%	35.60%
Rockville city	6.6%	13.8%	18.2%	25.2%	36.2%	61.4%
Gaithersburg city	10.0%	16.0%	21.7%	28.1%	24.2%	52.3%
Hagerstown city	18.8%	36.5%	29.5%	9.1%	6.1%	15.2%
Bowie city	5.1%	19.5%	29.3%	25.8%	20.4%	46.2%
Cumberland city	12.5%	40.9%	30.8%	9.1%	6.6%	15.8%
Bethesda CDP	1.8%	5.0%	9.5%	29.9%	53.8%	83.7%
Germantown CDP	8.9%	15.2%	29.2%	25.7%	21.1%	46.8%
Frederick County	8.2%	26.1%	28.2%	22.8%	14.7%	37.50%
Maryland	11.5%	26.0%	26.1%	20.0%	16.4%	36.30%

Source: U.S. Census Bureau, 2008-2012 American Community Survey 5-Year Estimates: DP02.

The presence of a somewhat large group of people lacking a high school degree and the concentration of younger (often single) people still approaching their prime earning years helps explain why the city's median family income is below both the county and the state. This was true in both 2000 and 2012. Another way to consider these data is by analyzing the growth of median family income. Exhibit 1.5 reflects the fact that median family income expanded more slowly in the city (36.5%) than in the county (43.7%) and the state (42.4%) between 2000 and 2012. This may be due to migration patterns, with more established, higher income families moving to areas around the city in larger numbers and younger families locating to the city.

Exhibit 1.6 supplies a more granular perspective regarding median income. Lower incomes prevail in Downtown Frederick, consistent with the notion of younger, smaller, less established households living there. Incomes in the Golden Mile area are also lower than in the balance of the city or county. This is at least partially a reflection of the older housing and lower price points that prevail there relative to much of the housing in newer suburban areas.

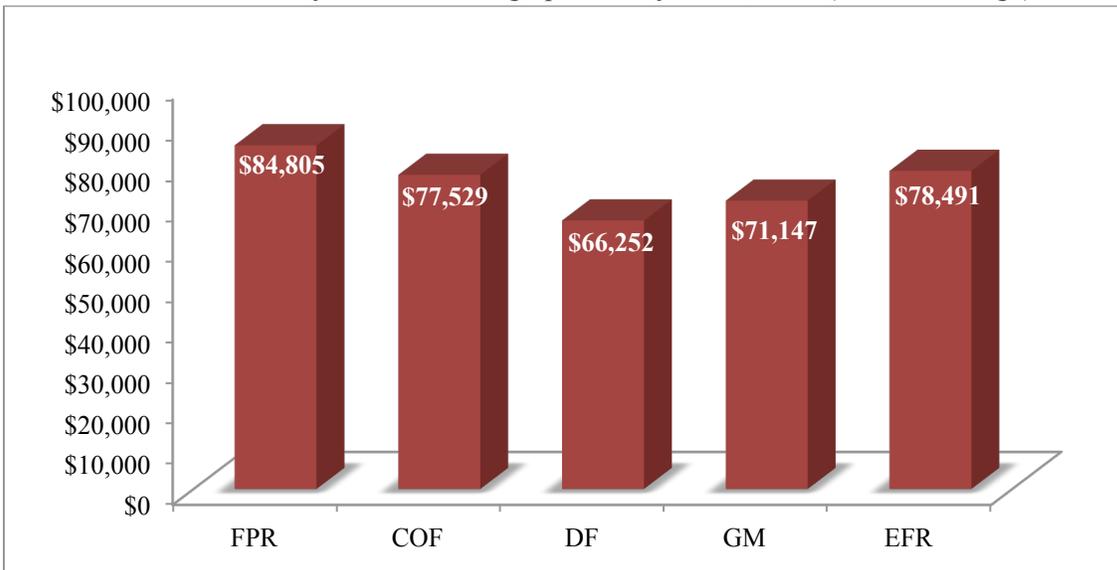
Exhibit 1.5. Median Family Income 2000 and 2012 (5-Year Average)\*



Source: U.S. Census Bureau, 2000 Census: DP-3; 2008-2012 American Community Survey 5-Year Estimates: DP03.

\*Not adjusted for inflation. 2000: income in 1999; 2012: in 2012 inflation adjusted dollars.

Exhibit 1.6. Median Family Income in Geographic Study Areas, 2012 (5-Year Average)\*



Source: U.S. Census Bureau, 2008-2012 American Community Survey 5-Year Estimates: DP03.

\*In 2012 Inflation-Adjusted Dollars. Estimate is average of median income in Census tracts within each study area.

FPR: Frederick Planning Region

COF: City of Frederick

DF: Downtown Frederick

GM: Golden Mile

EFR: East Frederick Rising

### City Represents Roughly Half of Countywide Employment

As reflected in Exhibit 1.7, as of 2011, the city was responsible for 49.6 percent of countywide employment. The city has large proportions of countywide employment in utilities, public administration, healthcare/social assistance, finance/insurance, and information. In each of these segments, the city's share of countywide employment stands at two-thirds or above.

Exhibit 1.7. At-Place Employment by Industry, City of Frederick and Frederick County, 2011

Industry	City		County		City % of County
	No.	Share	No.	Share	
Agriculture, Forestry, Fishing and Hunting	129	0.3%	507	0.6%	25.4%
Mining, Quarrying, and Oil and Gas Extraction	36	0.1%	59	0.1%	61.0%
Utilities	133	0.3%	136	0.2%	97.8%
Construction	1,485	3.3%	7,670	8.5%	19.4%
Manufacturing	1,301	2.9%	5,008	5.6%	26.0%
Wholesale Trade	1,034	2.3%	2,822	3.1%	36.6%
Retail Trade	4,759	10.7%	10,836	12.1%	43.9%
Transportation and Warehousing	281	0.6%	1,356	1.5%	20.7%
Information	831	1.9%	1,227	1.4%	67.7%
Finance and Insurance	4,397	9.9%	5,815	6.5%	75.6%
Real Estate and Rental and Leasing	369	0.8%	726	0.8%	50.8%
Professional, Scientific, and Technical Services	3,942	8.8%	9,587	10.7%	41.1%
Management of Companies and Enterprises	216	0.5%	527	0.6%	41.0%
Administration & Support, Waste Management and Remediation	1,757	3.9%	4,659	5.2%	37.7%
Educational Services	6,496	14.6%	11,682	13.0%	55.6%
Health Care and Social Assistance	7,520	16.9%	10,197	11.3%	73.7%
Arts, Entertainment, and Recreation	323	0.7%	1,163	1.3%	27.8%
Accommodation and Food Services	3,372	7.6%	7,859	8.7%	42.9%
Other Services (excluding Public Administration)	1,873	4.2%	3,262	3.6%	57.4%
Public Administration	4,357	9.8%	4,774	5.3%	91.3%
Total	44,611	100.0%	89,872	100.0%	49.6%

Source: U.S. Census Bureau. 2013. OnTheMap Application. Longitudinal-Employer Household Dynamics Program. <http://onthemap.ces.census.gov/>.

Institutional employment dominates the City of Frederick economic environment. The top four employers, which collectively represented roughly 21,000 jobs in 2013, are all either attached to government or healthcare. There are a number of key finance/insurance employers as well, including Wells Fargo Home Mortgage, United Health Care, and State Farm Insurance. While the concentrations in government, healthcare and finance may create an impression that Frederick’s economy is insufficiently diversified, a deeper dive into the data indicates that such an impression is flawed. Government’s presence is neatly divided between federal and local employment. Local healthcare encompasses direct caregivers, insurers, and biotech manufacturing. Finance includes lending and insurance functions.

Exhibit 1.8. Top 10 Employers in the City of Frederick, 2013

<b>Business</b>	<b>Number of Employees</b>	<b>Industry Sector</b>
Fort Detrick Campus	11,000	Military, Bioscience, Communications
Frederick County Board of Education	5,700	Public Education
Frederick Memorial Healthcare	2,696	Comprehensive Health Care
Frederick County Government	2,072	County Government
Wells Fargo Home Mortgage	1,881	Mortgage Loans & Service Center
Frederick Community College	939	Two-Year College
State Farm Insurance Corporation	839	Regional Headquarters - Insurance
United Healthcare	832	Health Insurance Provider
City of Frederick Government	831	Municipal Government
AstraZeneca/MedImmune	595	Biotech Manufacturing

Source: City of Frederick Department of Economic Development (DED), 2013 Economic Development Annual Report.

### Employment Trends in the City and the County: 2002-2011

Employment in finance and insurance grew substantially between 2002-2007 (up nearly 60%) in the city before slowing during the 2007-2011 period (only up 1.6%; still impressive since that period fully encompassed the Great Recession and global financial crisis). Part of this performance is attributable to Wells Fargo Home Mortgage’s relocation into the City. Economic development professionals were heavily engaged in that successful public-private site selection process. Employment in the educational services industry expanded in both the city and the county during the 2002-2011 period, growing by 29.1 percent in the City and 45.2 percent in the County.

In the city, professional, scientific, and technical services employment (e.g., Charles River Labs) grew at a stable pace during both the 2002-2007 and 2007-2011 periods. Overall, employment in this industry expanded by 26 percent over the 2002-2011 period. In Frederick County, professional, scientific, and technical services employment grew rapidly between 2002-2007 (+57%) before slowing between 2007-2011 (only up 4.3%).

In the county, employment in health care and social assistance grew by more than 18 percent and public administration employment expanded by 31 percent between 2007-2011. Public administration in the city also expanded briskly between 2007-2011 (+26.4%), helping to reinforce the community's institutionally oriented employment base.

Countywide accommodation and food services employment also expanded between 2002-2007 (+28%) and then slowed thereafter as the Great Recession took its toll (only up 3% during the 2007-2011 period). In the city, the corresponding growth for the two periods was 9.4 percent and 8.2 percent, respectively. Retail employment in Frederick County declined during the 2007-2011 period (-9%). Interestingly, retail employment contracted in the city by 1 percent between 2002 and 2011, a fact reflected in the real estate-related discussions to follow. This decade-long period included more years of economic recovery than recession.

Construction employment in the City of Frederick declined steadily over both periods (-16.1% from 2002-2007 and -23.8% from 2007-2011). Manufacturing employment declined substantially in both areas between 2002-2011, falling more than 31 percent in the county and 48 percent in the city. Wholesale trade employment declined by nearly 20 percent in the county during that ten-year period while falling 5 percent citywide. Frederick County employment in information (includes newspapers and magazines, for instance) declined 30 percent and real estate, rental and leasing services fell 17.4 percent between 2002-2011.

The total impact of the Great Recession and other macroeconomic developments has been to render the city more dependent upon institutional (especially government) employment over time. While certain industries associated with smaller employers, including leasing agents and retail contracted, large government and financial employers have either expanded and or remained significant employers. This, too, is reflected in the real estate-oriented discussion to follow in ensuing chapters.

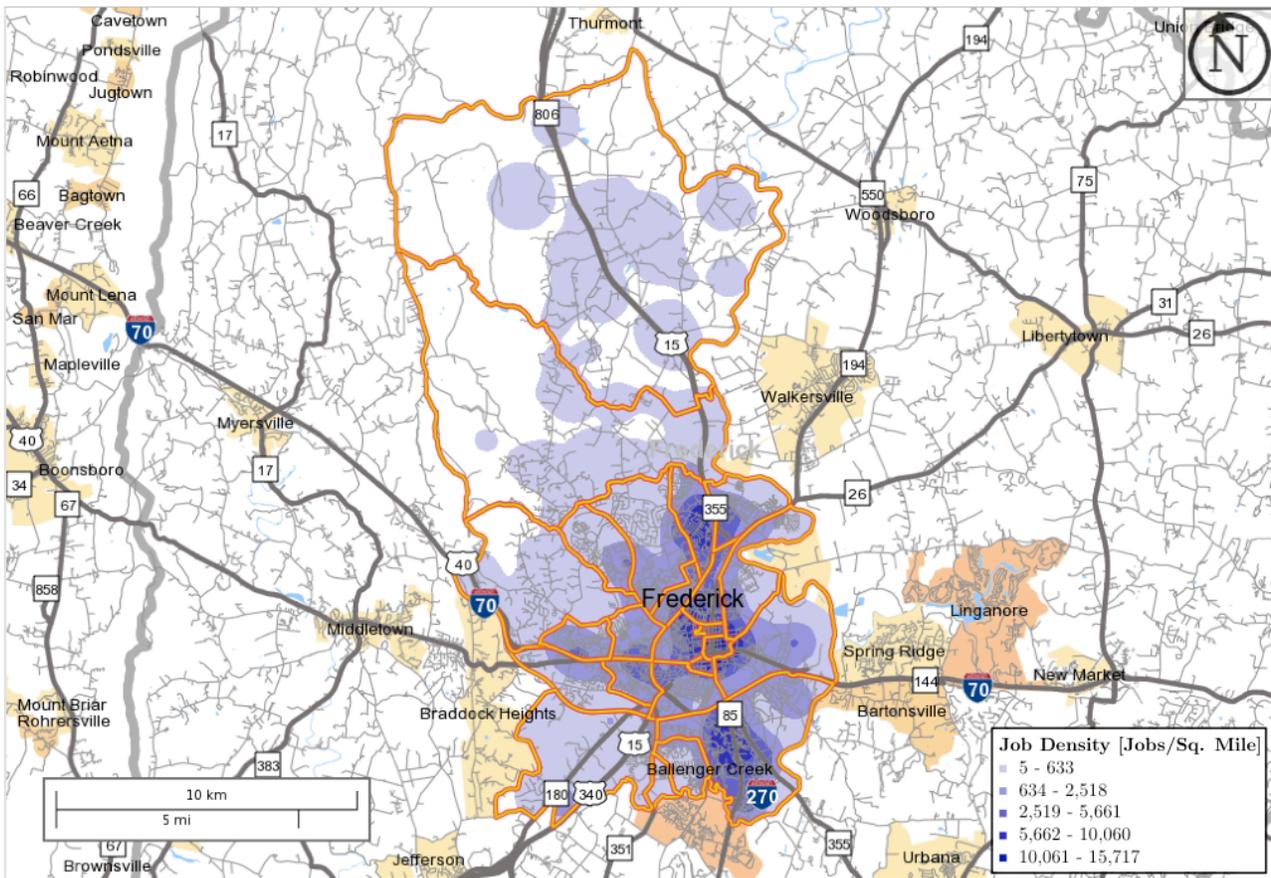
## II. Geographies of Interest

### Frederick Planning Region

The definition of the Frederick Planning region is provided below. Exhibit 1.9 shows the boundaries of this region, which stretches to the north toward Thurmont (but does not reach quite so far), to the west toward Middletown, toward Walkersville to the east and barely encompasses Ballenger Creek to the south. Planning Region employment is heavily concentrated in Downtown Frederick, to the north and to the south.

Frederick Planning Region Census Tracts, 2010 (100% of Census Tract Contained in Region)			
7501.00	7505.06	7508.03	7512.02
7502.00	7506.00	7510.01	7512.03
7503.00	7507.01	7510.02	7513.01
7505.03	7507.02	7510.03	7513.02
7505.04	7508.01	7510.04	7651.00
7505.05	7508.02	7512.01	7722.00

Exhibit 1.9. Frederick Planning Region, Counts and Density of All Jobs in Work Selection Area, 2011



Source: U.S. Census Bureau. 2013. OnTheMap Application. Longitudinal-Employer Household Dynamics Program. <http://onthemap.ces.census.gov/>.

Exhibit 1.10 provides statistical detail regarding employment by industry in the Frederick Planning Region. As of 2011, the largest industries included healthcare, retail and education. This is both a reflection of the area’s heavy institutional presence as well as the existence of retail districts such as Downtown Frederick and the Golden Mile.

Exhibit 1.10. Frederick Planning Region Employment by Industry, 2011

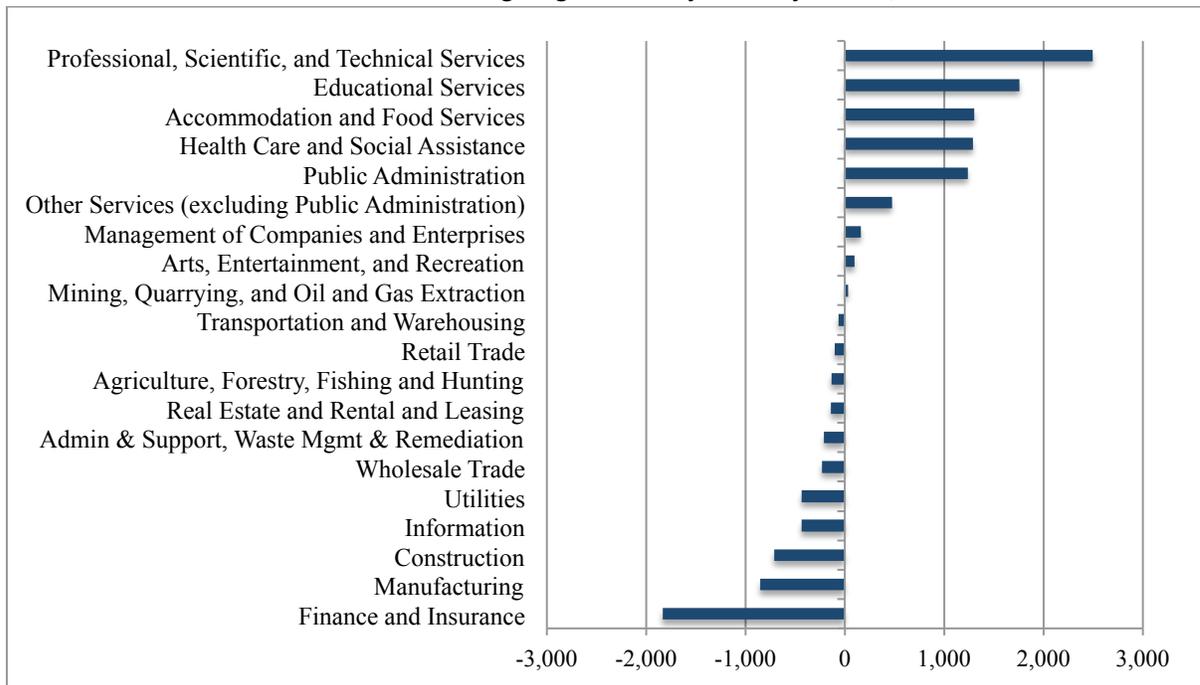
<b>Industry</b>	<b>Count</b>	<b>Share</b>
Agriculture, Forestry, Fishing and Hunting	165	0.3%
Mining, Quarrying, and Oil and Gas Extraction	36	0.1%
Utilities	133	0.2%
Construction	3,203	5.4%
Manufacturing	2,418	4.1%
Wholesale Trade	1,659	2.8%
Retail Trade	7,998	13.4%
Transportation and Warehousing	534	0.9%
Information	1,075	1.8%
Finance and Insurance	3,559	6.0%
Real Estate and Rental and Leasing	499	0.8%
Professional, Scientific, and Technical Services	7,022	11.8%
Management of Companies and Enterprises	232	0.4%
Administration & Support, Waste Management and Remediation	2,612	4.4%
Educational Services	7,230	12.1%
Health Care and Social Assistance	8,299	13.9%
Arts, Entertainment, and Recreation	515	0.9%
Accommodation and Food Services	5,680	9.5%
Other Services (excluding Public Administration)	2,265	3.8%
Public Administration	4,417	7.4%
<b>Total</b>	<b>59,551</b>	<b>100%</b>

Source: U.S. Census Bureau. 2013. OnTheMap Application. Longitudinal-Employer Household Dynamics Program. <http://onthemap.ces.census.gov/>.

Exhibit 1.11 provides detail regarding job growth for the decade-long period ending in 2011. This period includes the recession of 2007-2009. Despite that, the Frederick Planning Region experienced significant job growth in professional, scientific, and technical services (high-wage), educational services (mid-wage), accommodation and food services (low-wage), healthcare and social assistance (mid-wage) and public administration (mid-wage).

However, the Planning Region experienced significant job loss in a number of high- to mid-wage segments, including in finance and insurance (the single highest wage segment for the average worker). Examples include CitiMortgage’s office closure in 2011, which resulted in the loss of several hundred positions, another large number of jobs lost at JPMorgan Chase’s credit card center in 2010, and Bank of America’s downsizing in 2011. The list of other high- and middle-wage segments shedding employment between 2001 and 2011 includes manufacturing, construction, information and utilities.

Exhibit 1.11. Growth in Frederick Planning Region Jobs by Industry Sector, 2002-2011



Source: U.S. Census Bureau. 2013. OnTheMap Application. Longitudinal-Employer Household Dynamics Program. <http://onthemap.ces.census.gov/>.

Exhibit 1.12 provides data regarding Planning Region employment by worker characteristic. Again, 2011 represents the latest year for which such local data are available. Much of the data pertains to factors such as race and ethnicity, but the most important data relate to age. Note the large share of workers in their prime working years between the ages of 30 and 54. Another large group is aged 29 and younger. This share looms particularly large when one considers that this figure excludes young people who are still in school or are simply not working for whatever reason. These data should be interpreted as indications of strength. Many younger workers are choosing to work in the Frederick Planning Region because of its relatively deep job market.

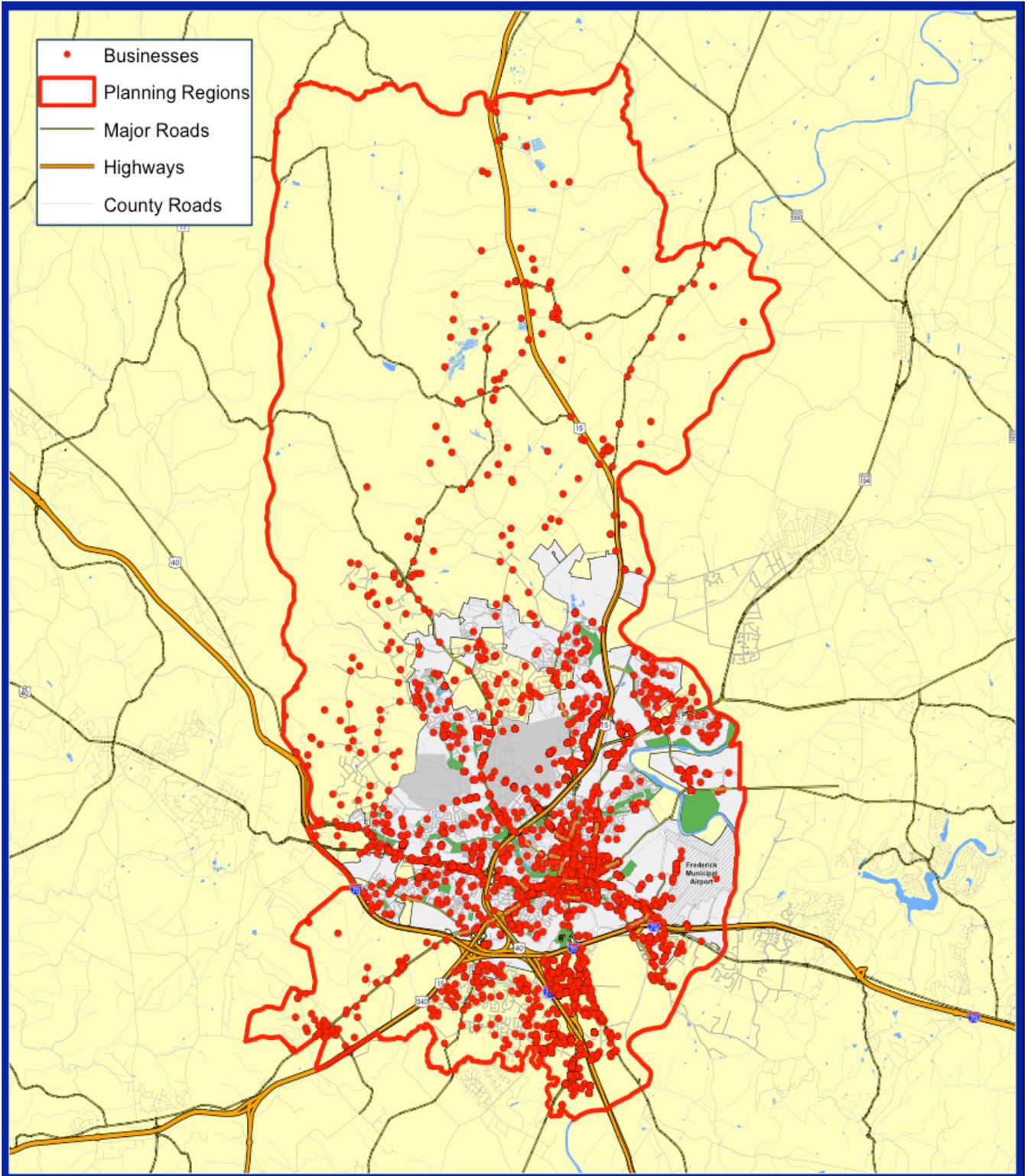
Exhibit 1.12. Frederick Planning Region Jobs by Worker Characteristic, 2011

	<b>Count</b>	<b>Share</b>
<i>Race</i>		
White	49,540	83.2%
Black or African American	6,721	11.3%
American Indian or Alaska Native	165	0.3%
Asian	2,481	4.2%
Native Hawaiian or Other Pacific Islander	48	0.1%
Two or More Race Groups	596	1.0%
<i>Ethnicity</i>		
Not Hispanic or Latino	56,500	94.9%
Hispanic or Latino	3,051	5.1%
<i>Sex</i>		
Male	27,315	45.9%
Female	32,236	54.1%
<i>Age</i>		
Age 29 or younger	13,998	23.5%
Age 30 to 54	33,398	56.1%
Age 55 or older	12,155	20.4%

Source: U.S. Census Bureau. 2013. OnTheMap Application. Longitudinal-Employer Household Dynamics Program. <http://onthemap.ces.census.gov/>.

Exhibit 1.13 below reflects the concentration of jobs in the Frederick Planning Region in and around downtown. Given recent and planned annexations by the City of Frederick, there is a likelihood that jobs will become somewhat more dispersed during the years ahead, particularly if local government jobs are pulled out of Downtown Frederick, which the study team concludes would meaningfully undermine the stability of real estate performance downtown.

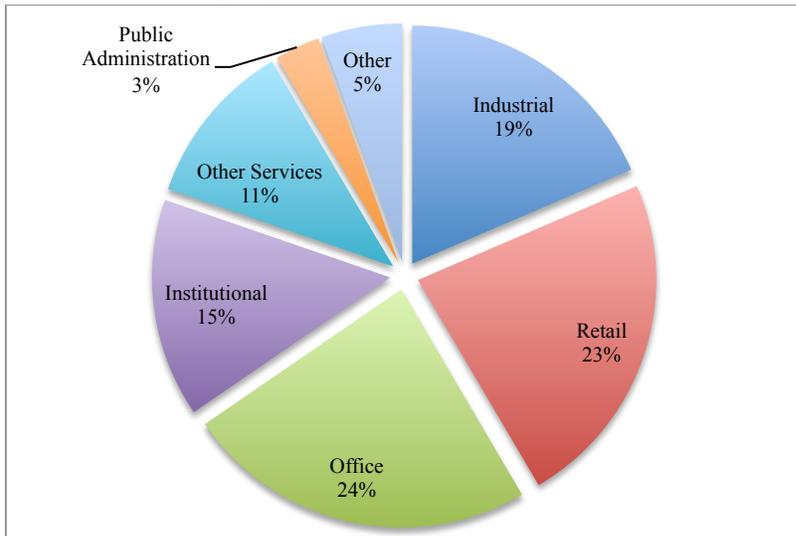
Exhibit 1.13. Businesses in the Frederick Planning Region, 2013



Source: City of Frederick.

Establishments vary significantly by size. The typical industrial facility is much larger than the typical retail establishment. Public administration agencies are often much larger in terms of employment than businesses in the other or miscellaneous services category. Therefore, the data provided below should be interpreted with some care. That said, the data in Exhibit 1.14 make it reasonably clear that the Frederick Planning Region is heavily diversified, with large public/institutional, industrial, retail, and office segments.

Exhibit 1.14. Breakdown of Business Establishments in the Frederick Planning Region, 2013



Type of Establishment	Number of Establishments
Industrial	865
Retail	1,073
Office	1,114
Institutional	693
Other Services (except Public Administration)	523
Public Administration	142
Other	255
<b>Total</b>	<b>4,665</b>

Source: InfoUSA.

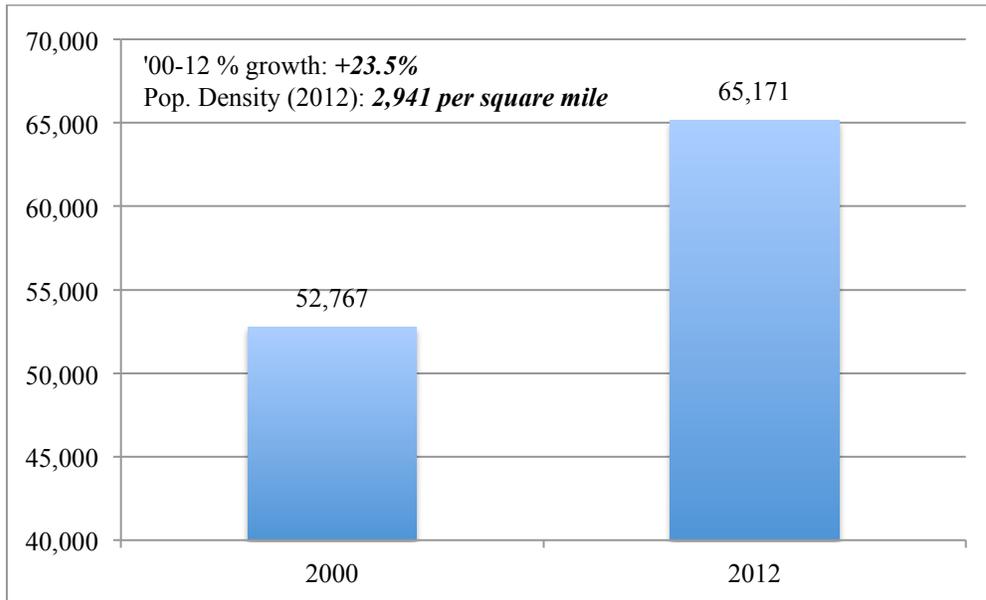
## The City of Frederick

Immediately below is the geographic definition of the City of Frederick in terms of Census tracts. Note that many of the Census tracts listed below are entirely within the confines of the City of Frederick. However, some like 7756.00 barely fall within City limits.

City of Frederick Census Tracts, 2010		
7501.00	7506.00	7512.01
7502.00	7507.01	7512.02
7503.00	7507.02	7512.03
7505.03	7508.01	7513.01
7505.04	7508.02	7651.00
7505.05	7508.03	7722.00
7505.06	7510.03	7756.00

Exhibit 1.15 provides a key statistic. Between 2000 and 2012, the City of Frederick added nearly 24 percent to its population. Exhibit 1.16 indicates that the population of men expanded faster than the population of women, which given gender-based labor force participation rates may be an indication that many single men moved to the region for work. This is also consistent with the relatively faster growth (in percentage terms, not absolute terms) of non-family households as opposed to family households.

Exhibit 1.15. City of Frederick Population, 2000 v. 2012 (5-year Average)



Source: U.S. Census Bureau, 2000 Census: DP-1; 2008-2012 American Community Survey 5-Year Estimates: DP02, DP05.

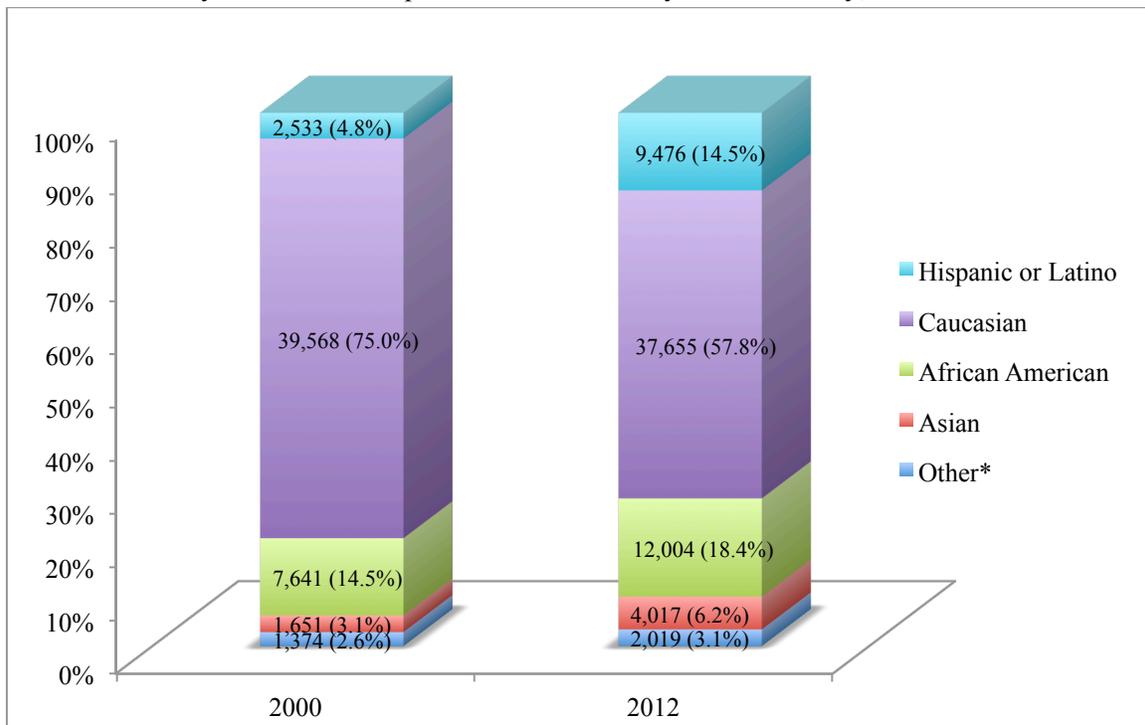
Exhibit 1.16. City of Frederick Population Characteristics, 2000 v. 2012 (5-year Average)

Category	2000	2012	Net Change	% Change
Total population	52,767	65,171	12,404	23.5%
Male	25,126	31,776	6,650	26.5%
Female	27,641	33,395	5,754	20.8%
Total households	20,891	25,689	4,798	23.0%
Family households (families)	12,787	15,549	2,762	21.6%
Nonfamily households	8,104	10,140	2,036	25.1%
Average household size	2.42	2.46		1.7%
Average family size	3.05	3.11		2.0%

Source: U.S. Census Bureau, 2000 Census: DP-1; 2008-2012 American Community Survey 5-Year Estimates: DP02, DP05.

Exhibit 1.17 reflects the expanding racial and ethnic diversity associated with the City of Frederick. In a little more than a decade, between 2000 and 2012, the Caucasian population dipped from 75 percent to 58 percent, while the Hispanic population climbed from 5 percent to nearly 15 percent. The share of Asian Americans in the population doubled to 6.2 percent while the African-American population continues to approach the one in five resident threshold (18.4% as of 2012).

Exhibit 1.17. City of Frederick Population Breakdown by Race/Ethnicity, 2000 v. 2012



Source: U.S. Census Bureau, 2000 Census: QT-PL; 2008-2012 American Community Survey 5-Year Estimates: DP05; \*Includes American Indian, Alaska Native, Native Hawaiian, Other Pacific Islander, and people of multi-race or ethnicity.

Jointly, exhibits 1.18 and 1.19 indicate three things worthy of note, two of which appear contradictory. First, the City of Frederick was younger in 2012 than it was in the year 2000. Second, at the same time, the City of Frederick was somewhat older in 2012 than it was in the year 2000. Third, the City of Frederick’s population aged 25 and older was significantly more educated in 2012 than it was in 2000.

The first point is illustrated by the fact that population increased significantly in all youthful age categories during that twelve-year period, especially among the population aged 25 to 44. This again speaks to the city’s allure for mid-career individuals. However, people aged within their various categories, which helped to push the median age up to 34.5 by 2012, an indication that the city’s population is fractionally older.

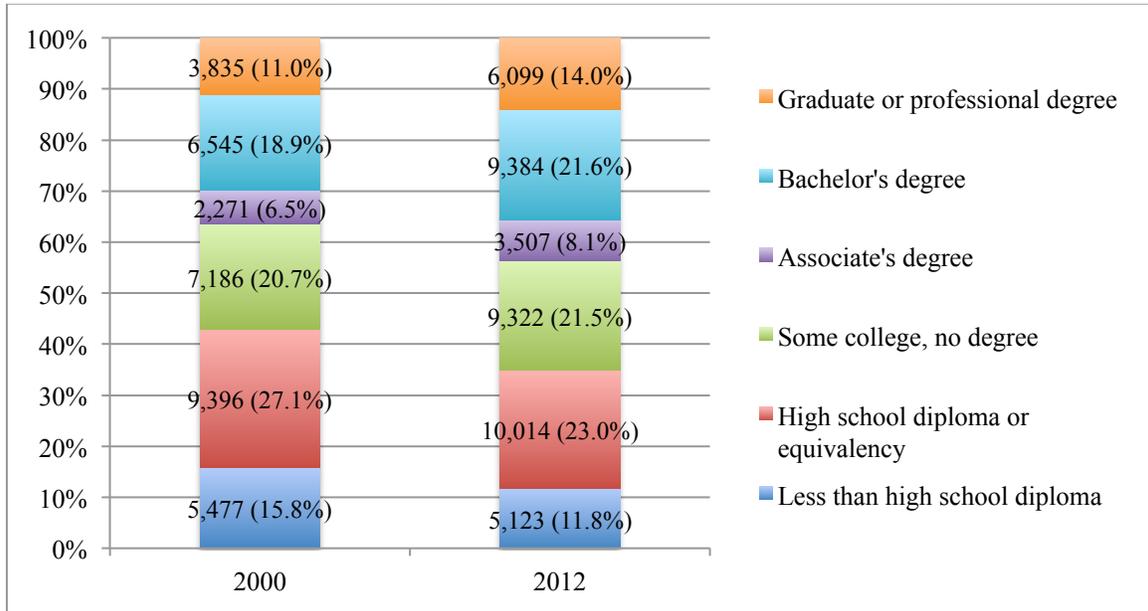
There was also a significant increase in the share of population aged 25 and older with a graduate degree. The same can be said of the bachelor’s and associate’s degree categories. Meanwhile, the population share of those with a high school degree as their highest form of educational attainment and the absolute share of those lacking a high school degree declined.

Exhibit 1.18. City of Frederick Population by Age Group, 2000 v. 2012 (5-year Average)

	2000	% of the Population	2012	% of the Population
<14	11,391	21.6%	13,349	20.5%
15-24	6,800	12.9%	8,373	12.8%
25-44	18,598	35.2%	21,184	32.5%
45-64	10,033	19.0%	15,209	23.3%
65+	5,945	11.3%	7,056	10.8%
Total Population	52,767	100%	65,905	100%
Median Age	33.8	-	34.5	-

Source: U.S. Census Bureau, 2000 Census: DP-1; 2008-2012 American Community Survey 5-Year Estimates: DP05.

Exhibit 1.19. Population Aged 25+ by Educational Attainment, 2000 v. 2012 (5-year Average)



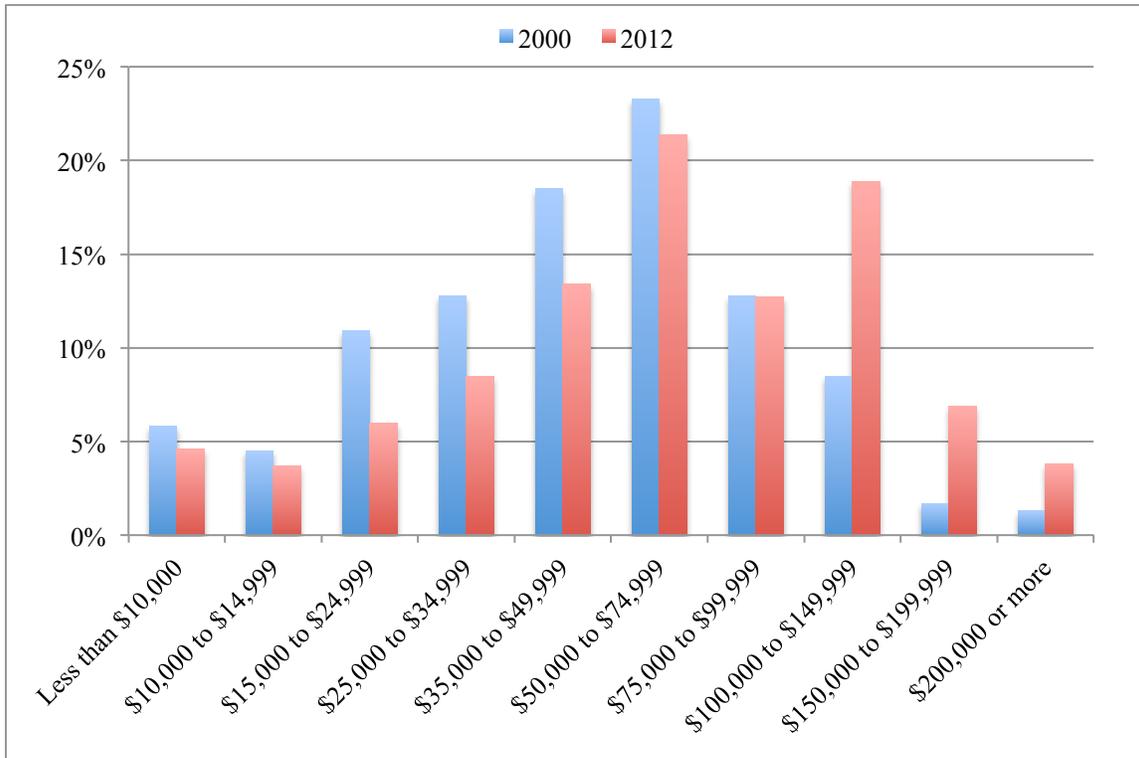
Source: U.S. Census Bureau, 2000 Census: DP-2; 2008-2012 American Community Survey 5-Year Estimates: DP02.

Higher educational attainment is associated with higher incomes, but communities adding large numbers of educated residents also frequently experience rising income disparity. Perhaps the most interesting aspect of Exhibit 1.20 is the large share gains produced by households in categories associated with more than \$100,000 in annual income. A significant fraction of this is explained merely through the effects of inflation. Over the course of 12 years, the income of the typical household can be expected to expand in the range of 30-50 percent. However, note that despite inflation, the share of households earning between \$75,000 and \$100,000 declined slightly and the shares of those earning between \$25,000 and \$35,000, \$35,000 and \$50,000, and \$50,000 and \$75,000 declined significantly. At the same time, the share of those earning more than \$200,000 rose substantially, rising to roughly 4 percent by 2012.

These trends are evident in much of the nation and in much of the world. As it turns out, income disparity has been rising more rapidly in parts of the world that are more dynamic economically. These areas are associated with plentiful opportunities for the highly educated, talented and skilled to increase their incomes. These areas are also often meaningfully impacted by global and technological forces, which appear to have collectively affected the ability of middle class Americans to sustain their incomes. Note earlier mentioned evidence indicating that the Frederick Planning Region has lost manufacturing jobs during the last few years, historically an important source of middle-income jobs.

One could also argue that the explanation is not quite as dramatic as the paragraph above suggests. During this same time period, the City of Frederick attracted many younger workers who are not part of a family. Many of these people are in the early portions of their career and therefore would not be expected to be associated with higher or even middle-income categories.

Exhibit 1.20. City of Frederick: Income Distribution by Level of Household Income, 2000 v. 2012 (5-year Average)



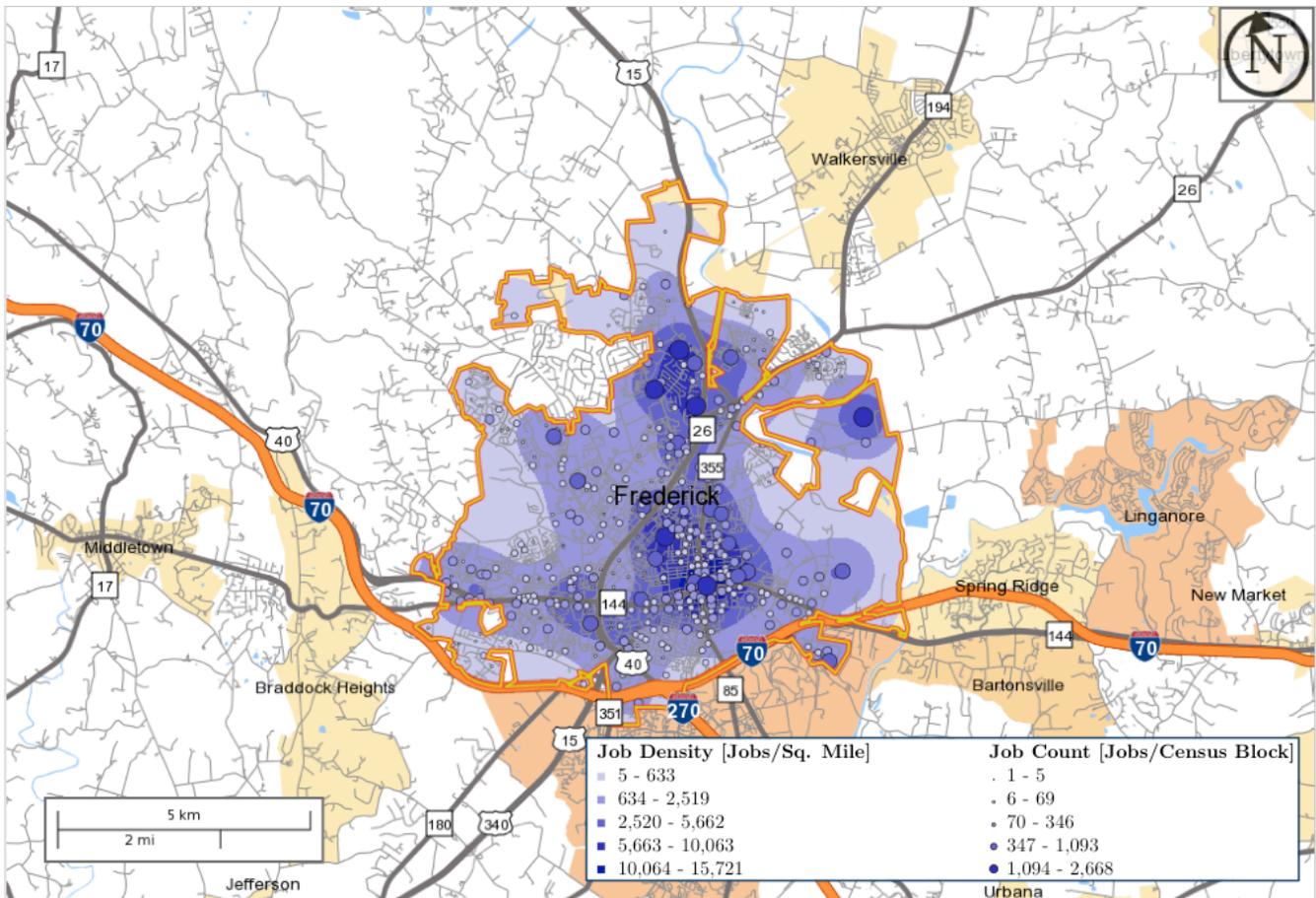
Source: U.S. Census Bureau, 2000 Census: DP-3; 2008-2012 American Community Survey 5-Year Estimates: DP03.

Exhibit 1.21 reflects the concentration of jobs at Fort Detrick north of Downtown as well as in Downtown itself. There is also a concentration of jobs in and around the airport, which is located east of Downtown and is accessible from Downtown via E. Church Street or E. Patrick Street.

Again, there is a likelihood or at least some potential that jobs will become increasingly dispersed over time, in part due to recently completed and potential annexations. Those annexations are often associated with mixed-use developments that target to varying degrees employer-based uses. The process of job dispersion would be accelerated by a relocation of local government jobs beyond Downtown.

That said, Sage’s research and touring of the city reveals significant job growth opportunities in and around Downtown. The implication is that the rate of job dispersion may turn out to be quite slow and may not occur at all under certain circumstances.

Exhibit 1.21. City of Frederick, Counts and Density of All Jobs in Work Selection Area, 2011



Source: U.S. Census Bureau. 2013. OnTheMap Application. Longitudinal-Employer Household Dynamics Program. <http://onthemap.ces.census.gov/>.

Exhibit 1.22 reflects the fact that like the broader Frederick Planning Region, the city depends heavily upon jobs in healthcare, education, and public administration. Retail activities, however, are relatively more concentrated in the city itself, in part because of the presence of the retail clusters Downtown and along the Golden Mile.

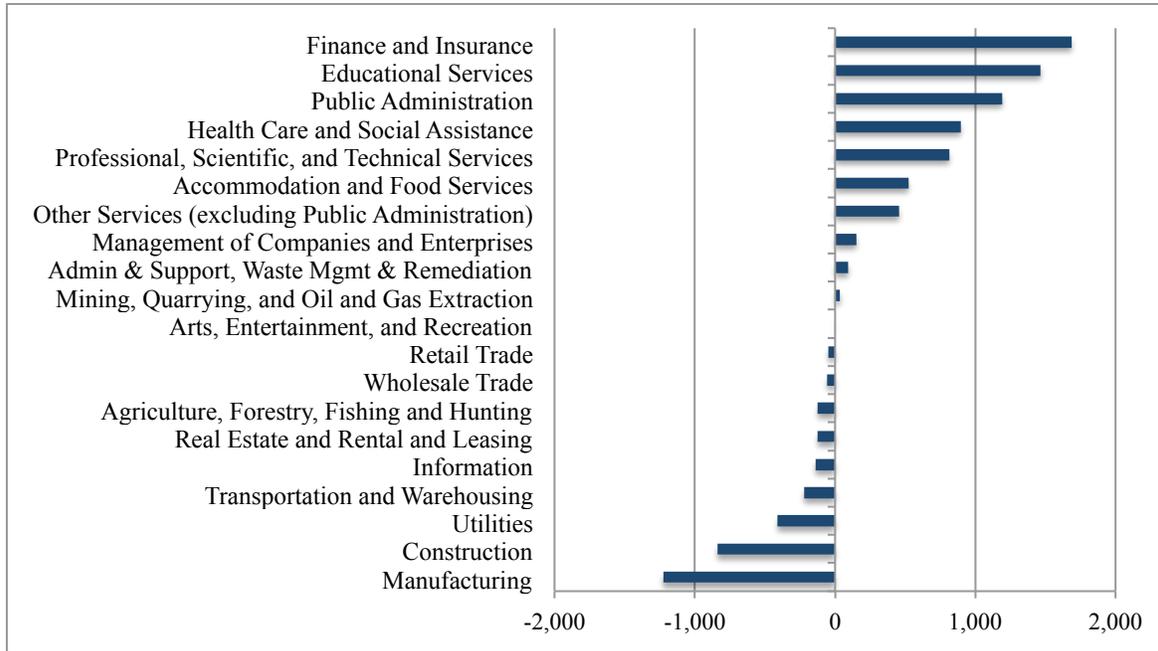
Exhibit 1.22. City of Frederick Employment by Industry, 2011

<b>Industry</b>	<b>Count</b>	<b>Share</b>
Agriculture, Forestry, Fishing and Hunting	129	0.3%
Mining, Quarrying, and Oil and Gas Extraction	36	0.1%
Utilities	133	0.3%
Construction	1,485	3.3%
Manufacturing	1,301	2.9%
Wholesale Trade	1,034	2.3%
Retail Trade	4,759	10.7%
Transportation and Warehousing	281	0.6%
Information	831	1.9%
Finance and Insurance	4,397	9.9%
Real Estate and Rental and Leasing	369	0.8%
Professional, Scientific, and Technical Services	3,942	8.8%
Management of Companies and Enterprises	216	0.5%
Administration & Support, Waste Management and Remediation	1,757	3.9%
Educational Services	6,496	14.6%
Health Care and Social Assistance	7,520	16.9%
Arts, Entertainment, and Recreation	323	0.7%
Accommodation and Food Services	3,372	7.6%
Other Services (excluding Public Administration)	1,873	4.2%
Public Administration	4,357	9.8%
<b>Total</b>	<b>44,611</b>	<b>100%</b>

Source: U.S. Census Bureau. 2013. OnTheMap Application. Longitudinal-Employer Household Dynamics Program. <http://onthemap.ces.census.gov/>.

While the Frederick Planning Region lost jobs in finance, the city gained them between 2002 and 2011 (Exhibit 1.23). The City of Frederick also experienced job growth in education, government, healthcare, professional/technical services, hotels and restaurants and in a handful of other segments. Job losses were concentrated in goods producing industries such as manufacturing and construction, which helps explain the shrinking share of households in middle-income categories.

Exhibit 1.23. Growth in City of Frederick Jobs by Industry Sector, 2002-2011



Source: U.S. Census Bureau. 2013. OnTheMap Application. Longitudinal-Employer Household Dynamics Program. <http://onthemap.ces.census.gov/>.

Exhibit 1.24 can be viewed from a number of different perspectives. First, unlike many communities, between 2000 and 2012, the City of Frederick’s rate of homeownership remained relatively steady and rose from 55.6 percent in 2000 to 56.7 percent 12 years later. This is likely a reflection of greater stability in the local employment base, which is characterized by a heavy presence of large institutional employers. There was, however, an increase in the number of vacant housing units, largely a reflection of the impact of the Great Recession on the market for owner-occupied dwellings.

Exhibit 1.24. Housing Occupancy in the City of Frederick, 2000 v. 2012 (5-year Average)

Category	2000	2012	Net Change	% Change
Total housing units	22,106	27,550	5,444	24.6%
Vacant housing units	1,215	1,861	646	53.2%
Occupied housing units	20,891	25,689	4,798	23.0%
Owner-occupied housing units	11,624	14,556	2,932	25.2%
Renter-occupied housing units	9,267	11,133	1,866	20.1%

Source: U.S. Census Bureau, 2000 Census: QT-H1; 2008-2012 American Community Survey 3-Year Estimates: DP04.

Perhaps the most interesting aspect of Exhibit 1.25 is the significant increase in median value of owner occupied housing structures between 2000 and 2012. This is consistent with household income data indicating significant population share gains among households earning well in excess of \$100,000/annum.

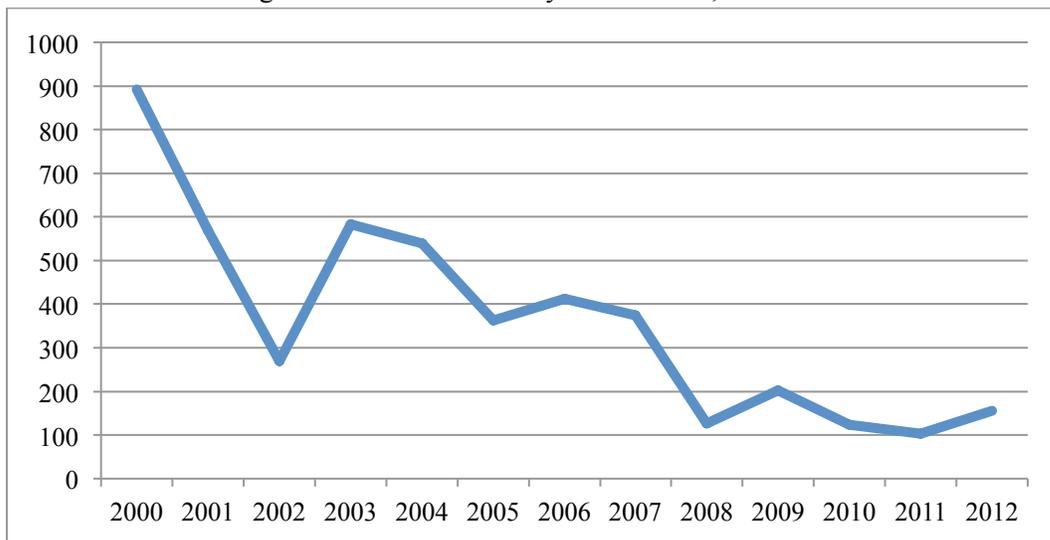
Moreover, the median age of the housing stock has declined, a reflection of the significant amount of owner-occupied housing construction that transpired during the years of the now long-ended housing boom. While few would refer to the current housing market as booming, it has improved. This helps explain the increase in building permits issued by the City in 2012. However, the volume of permits falls far short of prior years, including during the years 2003, 2005, and 2006. Exhibits 1.27 and 1.28 reflect the steep falloff in permitting activity in even starker ways.

Exhibit 1.25. Select Housing Characteristics in the City of Frederick, 2000 v. 2012 (5-year Average)

Category	2000	2012
Average household size of owner-occupied unit	2.59	2.56
Average household size of renter-occupied unit	2.22	2.33
Median year structure built	1979	1985
Median value of owner occupied housing unit	\$138,000	\$255,600

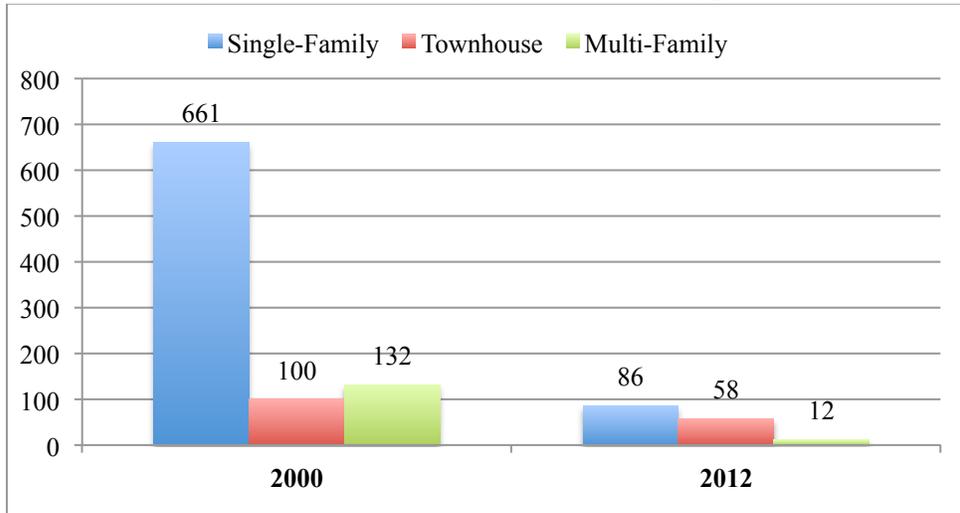
Source: U.S. Census Bureau, 2000 Census: DP-1, DP-4, H035; 2008-2012 American Community Survey 5-Year Estimates: DP04, B25035.

Exhibit 1.26. Dwelling Unit Permits in the City of Frederick, 2000-2012



Source: City of Frederick Planning Department, 2012 Annual Report.

Exhibit 1.27. City of Frederick Dwelling Unit Permits by Type, 2000 & 2012



Source: City of Frederick Planning Department, 2012 Annual Report.

Exhibit 1.28. City of Frederick Dwelling Unit Permits by Type, 2000-2012

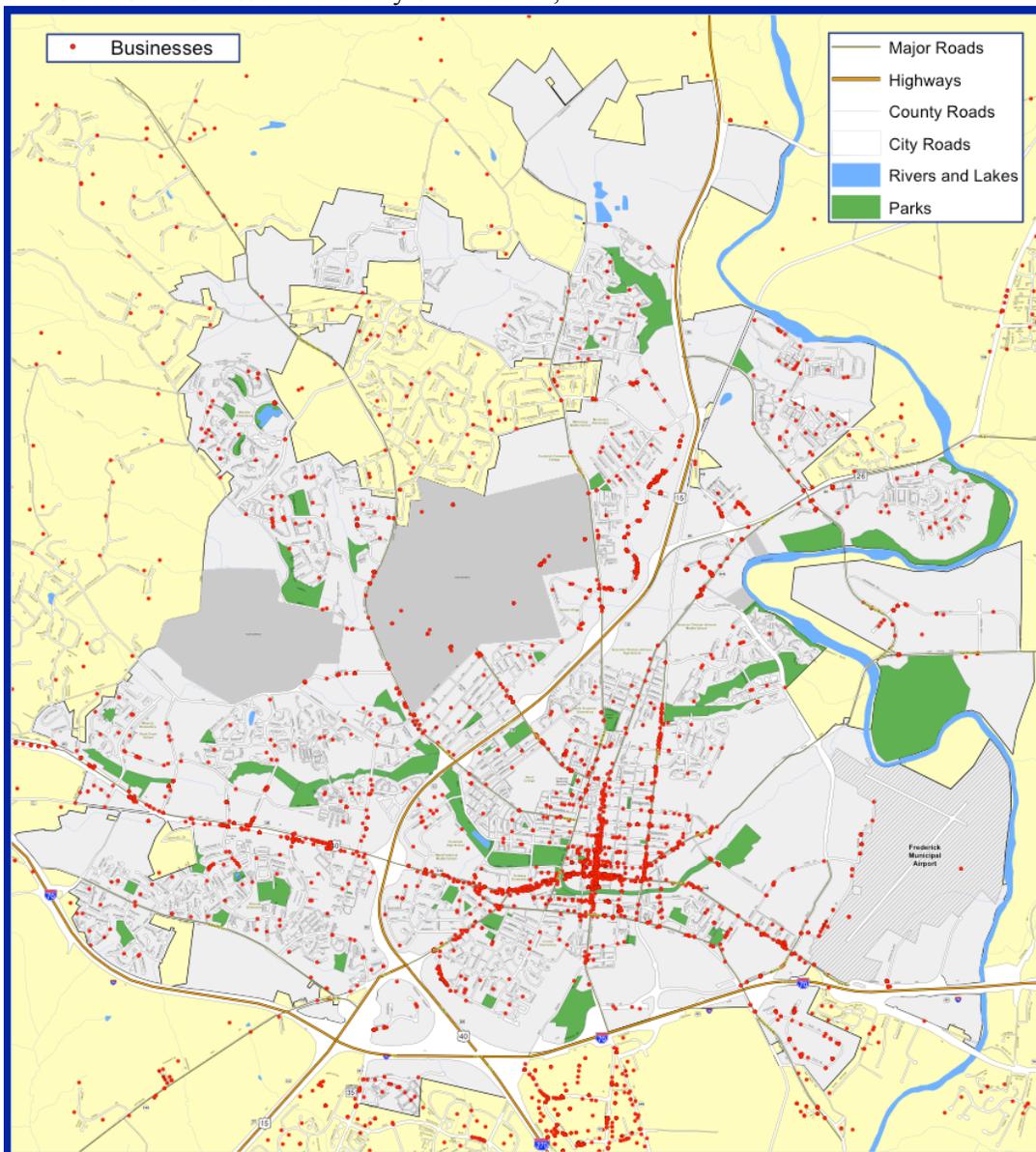
Year	Single-Family	Townhouse	Multi-Family	Total Units
2000	661	100	132	893
2001	212	319	38	569
2002	126	124	19	269
2003	111	232	240	583
2004	169	350	20	539
2005	151	180	31	362
2006	105	102	205	412
2007	58	128	189	375
2008	60	12	55	127
2009	100	64	38	202
2010	56	64	3	123
2011	51	52	0	103
2012	86	58	12	156

Source: City of Frederick Planning Department, 2012 Annual Report.

In urban economics, there is a theory of land use that suggests that commercial activity follows along transportation paths that radiate from a given central business district. These radials form the basis of urban sprawl, with commercial activity leaving the central business district over time in favor of suburban locations that are closer to concentrations of workforce.

Theorists that favor this explanation of land use might cite Exhibit 29 as supplying evidence in favor of their perspectives. Note how businesses are located along radials, many of them quite distant from the heart of downtown Frederick. Predictably, many businesses are located along Route 40.

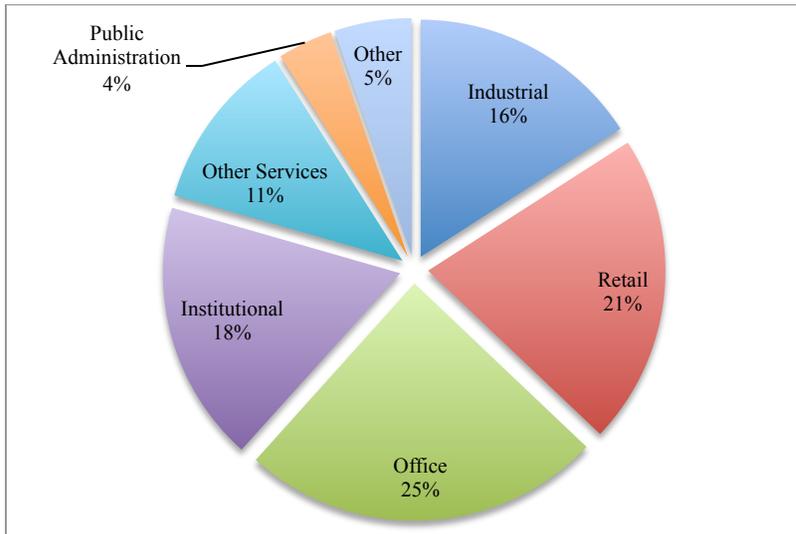
Exhibit 1.29. Businesses in the City of Frederick, 2013



Source: City of Frederick.

Exhibit 1.30 reflects trends similar to those observed for the broader Frederick Planning Region – namely the concentration of businesses in office and retail categories. The data also reflect the incredible importance of institutions in health and education as well as the significant presence of activities falling within the public administration category.

Exhibit 1.30. Breakdown of Business Establishments in the City of Frederick, 2013



Type of Establishment	Number of Establishments
Industrial	532
Retail	708
Office	821
Institutional	595
Other Services (except Public Administration)	386
Public Administration	125
Other	176
Total	3,343

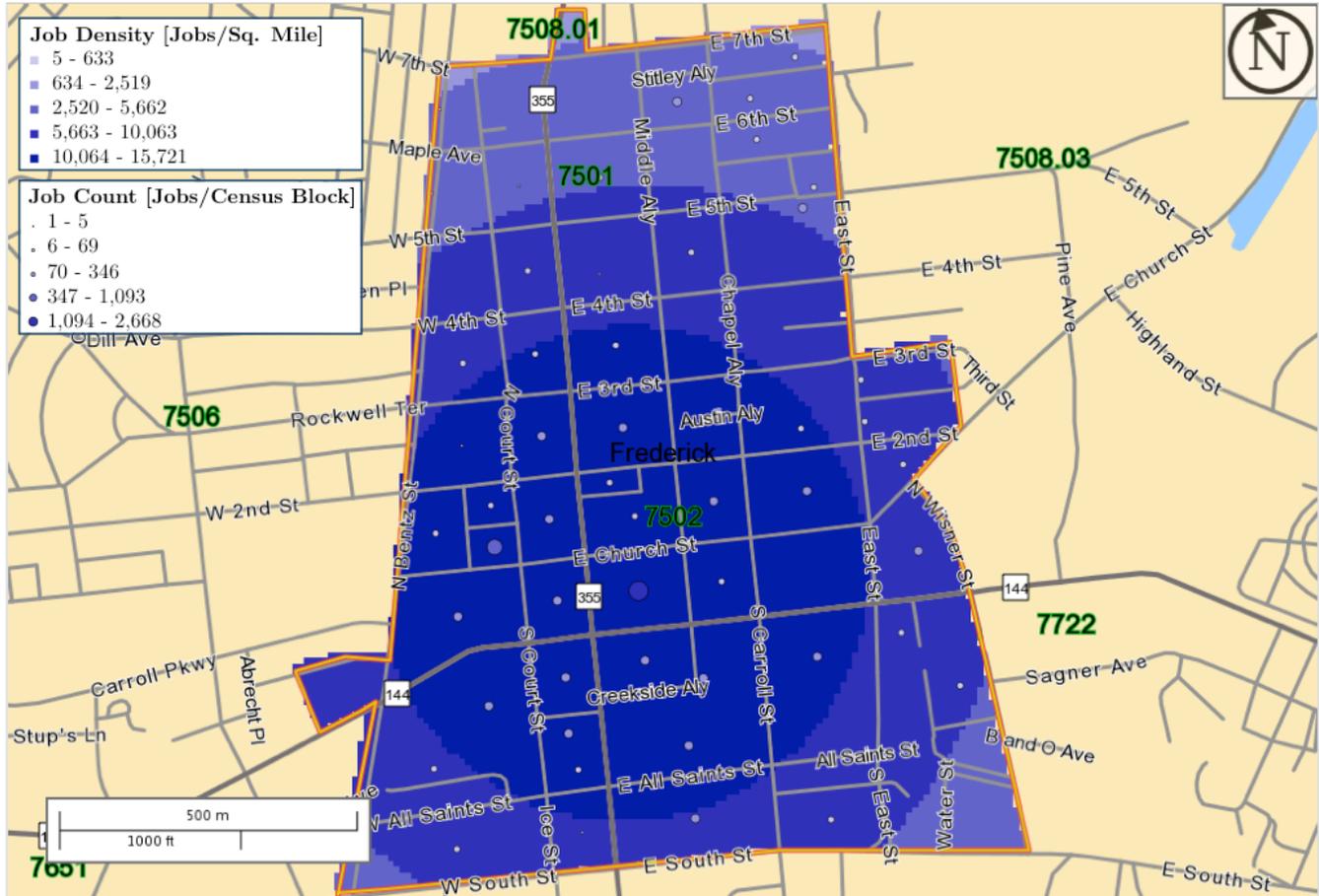
Source: InfoUSA.

## Downtown Frederick

Immediately below are the Census tracts that comprise Downtown Frederick. None of these tracts is fully encompassed by Downtown. Exhibit 1.31 provides a map of Downtown and a reflection of job density. Areas in the deepest blue are associated with the greatest density. This map is consistent with another urban economics concept – job density shrinks as one moves further away from the central business district.

Downtown Frederick Census Tracts, 2010	
	7503.00
	7722.00
	7501.00
	7502.00

Exhibit 1.31. Downtown Frederick, Counts and Density of All Jobs in Work Selection Area, 2011



Source: U.S. Census Bureau. 2013. OnTheMap Application. Longitudinal-Employer Household Dynamics Program. <http://onthemap.ces.census.gov/>.

Exhibit 1.32 expands on the data presented in the executive summary concerning Downtown Frederick’s employment composition. Nearly half of all Downtown employment (47.6%) was in public administration as of 2011. This is likely at odds with the perceptions of many, particularly visitors who largely associate Downtown Frederick with fashionable boutiques and restaurants. Downtown is home to the board of education, the Frederick Police Department, several agencies of County government (including Winchester Hall) and City Hall.

There is of course a significant concentration of employment in retail trade (5.5%) and accommodation/food services (8.6%). There is also a significant concentration of professional/scientific and technical service workers, who represented not quite 13 percent of total downtown employment in 2011.

Exhibit 1.32. Downtown Frederick Employment by Industry, 2011

<b>Industry</b>	<b>Count</b>	<b>Share</b>
Agriculture, Forestry, Fishing and Hunting	95	1.4%
Mining, Quarrying, and Oil and Gas Extraction	0	0.0%
Utilities	0	0.0%
Construction	116	1.7%
Manufacturing	89	1.3%
Wholesale Trade	39	0.6%
Retail Trade	374	5.5%
Transportation and Warehousing	4	0.1%
Information	297	4.4%
Finance and Insurance	266	3.9%
Real Estate and Rental and Leasing	50	0.7%
Professional, Scientific, and Technical Services	843	12.5%
Management of Companies and Enterprises	48	0.7%
Administration & Support, Waste Management and Remediation	223	3.3%
Educational Services	131	1.9%
Health Care and Social Assistance	153	2.3%
Arts, Entertainment, and Recreation	10	0.1%
Accommodation and Food Services	581	8.6%
Other Services (excluding Public Administration)	212	3.1%
Public Administration	3,212	47.6%
<b>Total</b>	<b>6,743</b>	<b>100%</b>

Source: U.S. Census Bureau. 2013. OnTheMap Application. Longitudinal-Employer Household Dynamics Program. <http://onthemap.ces.census.gov/>.

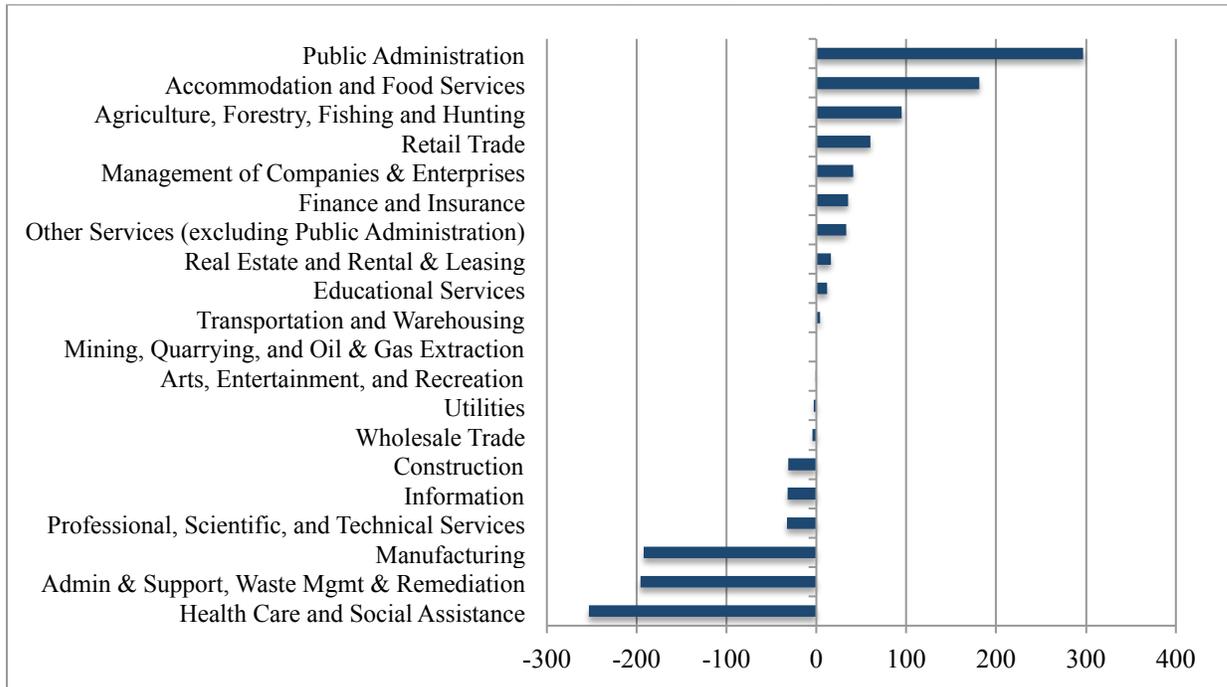
Exhibit 1.33 presents some immense surprises. For instance, the data reveal a loss of jobs in healthcare and social assistance between 2002 and 2011. The reasons for this are not obvious, but one of the emerging trends in healthcare is the location of outpatient centers and clinics in more remote areas as regulators work to keep health spending down by deemphasizing inpatient acute care. This may not be a particularly powerful explanation

in this circumstance, however, since Frederick Memorial Hospital is located just beyond downtown’s boundaries.

There was also a decline in manufacturing, professional, information and construction jobs, which is quite common to many communities in light of the economic downturn of 2007, 2008 and 2009. Manufacturing and construction were leaders in terms of job loss. Many professional service providers ranging from law firms to architectural firms also downsized during that period.

Job growth has been led by public administration, which has merely served to enhance the importance of the public sector to the stability of Downtown Frederick. There was also growth in leisure related segments such as accommodation and food services as well as retail trade. Finance and management expanded by fewer than 100 jobs apiece during the 2002 to 2011 period.

Exhibit 1.33. Growth in Downtown Frederick Jobs by Industry Sector, 2002-2011



Source: U.S. Census Bureau. 2013. OnTheMap Application. Longitudinal-Employer Household Dynamics Program. <http://onthemap.ces.census.gov/>.

Exhibit 1.34 provides statistical detail related to the people who work in Downtown Frederick. As one might expect, a large number of workers is below the age of 54. That said, roughly one in five workers appears within roughly a decade of retirement. Those retirements will create additional job opportunities for younger workers even absent economic growth.

Exhibit 1.34. Downtown Frederick Jobs by Worker Characteristic, 2011

	<b>Count</b>	<b>Share</b>
<i>Race</i>		
White	5,985	88.8%
Black or African American	566	8.4%
American Indian or Alaska Native	14	0.2%
Asian	124	1.8%
Native Hawaiian or Other Pacific Islander	5	0.1%
Two or More Race Groups	49	0.7%
<i>Ethnicity</i>		
Not Hispanic or Latino	6,532	96.9%
Hispanic or Latino	211	3.1%
<i>Sex</i>		
Male	3,405	50.5%
Female	3,338	49.5%
<i>Age</i>		
Age 29 or younger	1,425	21.1%
Age 30 to 54	3,957	58.7%
Age 55 or older	1,361	20.2%

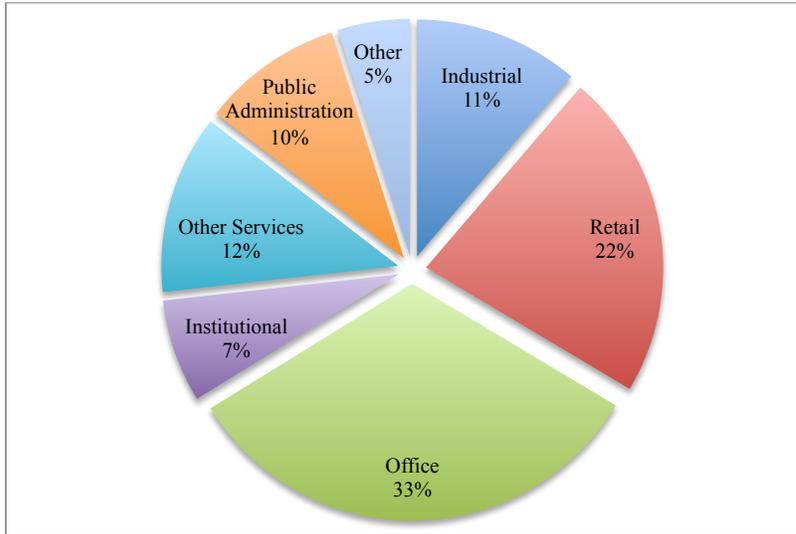
Source: U.S. Census Bureau. 2013. OnTheMap Application. Longitudinal-Employer Household Dynamics Program. <http://onthemap.ces.census.gov/>.

Exhibit 1.35 below shows the clustering of businesses in Downtown Frederick, particularly along Market and Patrick streets. A concentration of businesses is proximate to the intersection of Market and Patrick streets, though the same can be said of many other Market Street intersections.



Exhibit 1.36 reflects the breakdown of business establishments in downtown Frederick (2013). Roughly one in three establishments falls within the office category. More than one in five is in the retail category. Interestingly, Downtown Frederick is also associated with a surprising number of businesses in the industrial category.

Exhibit 1.36. Breakdown of Business Establishments in Downtown Frederick, 2013



Type of Establishment	Number of Establishments
Industrial	96
Retail	190
Office	278
Institutional	60
Other Services (except Public Administration)	104
Public Administration	82
Other	42
Total	852

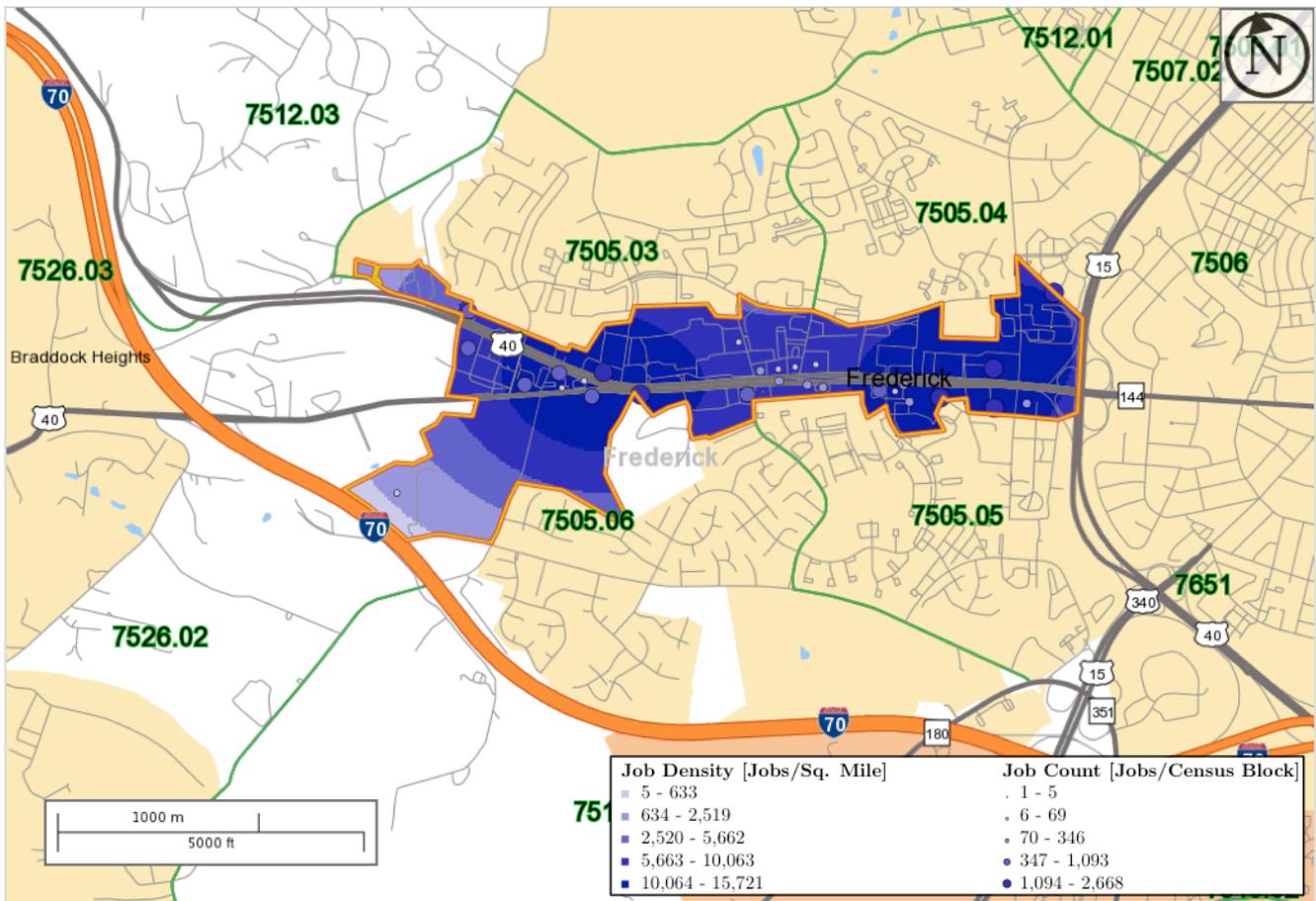
Source: InfoUSA.

## The Golden Mile

The table immediately below reflects Census tracts associated with the Golden Mile. This part of the study area overlaps heavily with Census tract 7505.05 and 7505.06. Exhibit 1.37 shows the concentration of jobs along the Golden Mile. There is a high concentration of jobs along much of the Golden Mile, and the extent of employment intensity is set to expand with the planned redevelopment of Frederick Towne Mall.

Golden Mile Census Tracts, 2010
7505.05
7505.06
7505.03
7505.04

Exhibit 1.37. GM, Counts and Density of All Jobs in Work Selection Area, 2011



Source: U.S. Census Bureau. 2013. OnTheMap Application. Longitudinal-Employer Household Dynamics Program. <http://onthemap.ces.census.gov/>.

Exhibit 1.38 reflects employment within the Golden Mile. Not surprisingly, a high proportion of employment (nearly 42 percent) in this retail-oriented district is associated with retail trade. Accommodation and food services represent nearly a third, which is also consistent with the notion that this area heavily targets people looking to spend, often on discretionary goods and services.

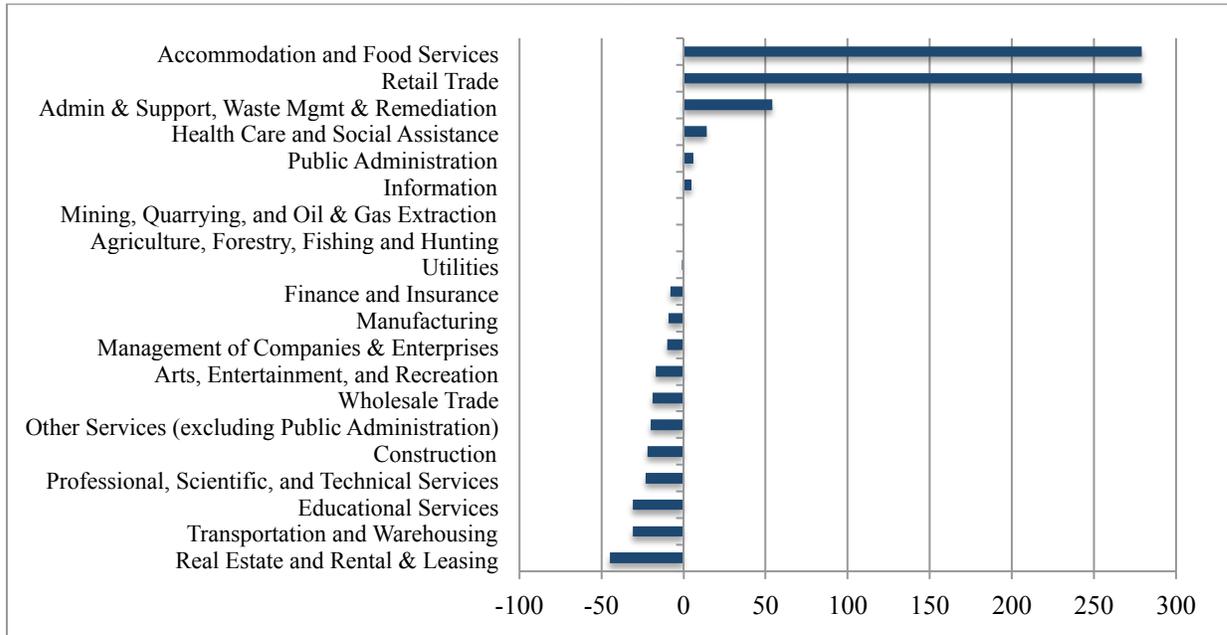
Exhibit 1.38. Golden Mile Employment by Industry, 2011

<b>Industry</b>	<b>Count</b>	<b>Share</b>
Agriculture, Forestry, Fishing and Hunting	0	0.0%
Mining, Quarrying, and Oil and Gas Extraction	0	0.0%
Utilities	0	0.0%
Construction	93	3.4%
Manufacturing	0	0.0%
Wholesale Trade	17	0.6%
Retail Trade	1,130	41.7%
Transportation and Warehousing	8	0.3%
Information	60	2.2%
Finance and Insurance	67	2.5%
Real Estate and Rental and Leasing	27	1.0%
Professional, Scientific, and Technical Services	60	2.2%
Management of Companies and Enterprises	0	0.0%
Administration & Support, Waste Management and Remediation	113	4.2%
Educational Services	1	0.0%
Health Care and Social Assistance	98	3.6%
Arts, Entertainment, and Recreation	49	1.8%
Accommodation and Food Services	882	32.6%
Other Services (excluding Public Administration)	96	3.5%
Public Administration	6	0.2%
<b>Total</b>	<b>2,707</b>	<b>100%</b>

Source: U.S. Census Bureau. 2013. OnTheMap Application. Longitudinal-Employer Household Dynamics Program. <http://onthemap.ces.census.gov/>.

Despite the economic downturn, the Golden Mile’s concentrations in food services and retail expanded between 2002 and 2011. However, there were many more segments that shed employment than added jobs, including real estate, transportation/logistics, educational services, professional services, and the category that includes the arts.

Exhibit 1.39. Growth in Golden Mile Jobs by Industry Sector, 2002-2011



Source: U.S. Census Bureau. 2013. OnTheMap Application. Longitudinal-Employer Household Dynamics Program. <http://onthemap.ces.census.gov/>.

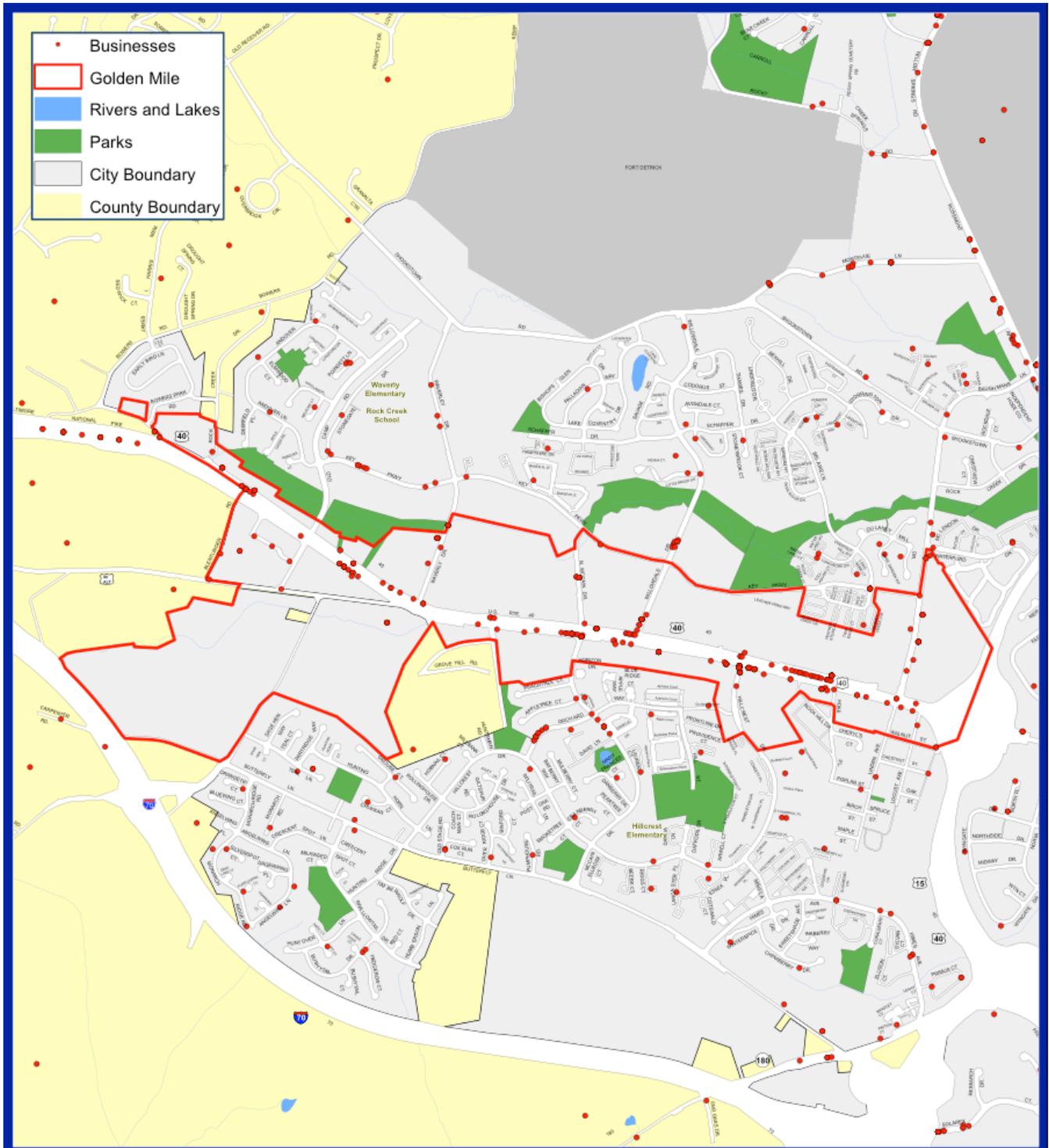
Exhibit 1.40. Golden Mile Jobs by Worker Characteristic, 2011

	Count	Share
<i>Race</i>		
White	2,143	79.2%
Black or African American	386	14.3%
American Indian or Alaska Native	8	0.3%
Asian	131	4.8%
Native Hawaiian or Other Pacific Islander	6	0.2%
Two or More Race Groups	33	1.2%
<i>Ethnicity</i>		
Not Hispanic or Latino	2,509	92.7%
Hispanic or Latino	198	7.3%
<i>Sex</i>		
Male	1,361	50.3%
Female	1,346	49.7%
<i>Age</i>		
Age 29 or younger	948	35.0%
Age 30 to 54	1,297	47.9%
Age 55 or older	462	17.1%

Source: U.S. Census Bureau. 2013. OnTheMap Application. Longitudinal-Employer Household Dynamics Program. <http://onthemap.ces.census.gov/>.

The Golden Mile is associated with one major thoroughfare – Route 40. The map reveals the heavy concentration of businesses along this roadway, particularly in the eastern portions of the Golden Mile.

Exhibit 1.41. Businesses in the Golden Mile Area, 2013

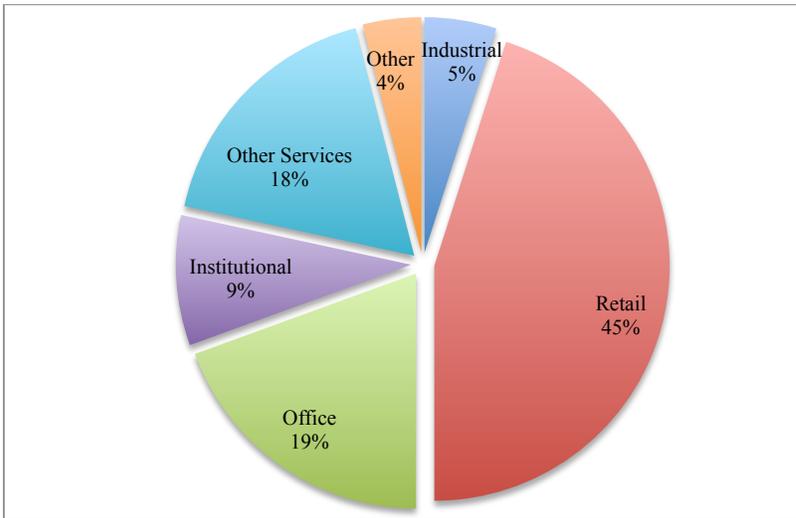


Source: City of Frederick.

Exhibits 1.42 and 1.43 round out this portion of the analysis. Nearly half of all establishments is associated with retail trade, which is consistent with the area’s employment share. There are also a significant number of office and other services uses. An example of other services would be dry cleaners.

Exhibit 1.43 helps stakeholders understand how important the Golden Mile is to the City of Frederick from a fiscal perspective. The asset value of Golden Mile properties approached \$240 million in 2010. It is quite likely that asset value now stands above a quarter of a billion dollars.

Exhibit 1.42. Breakdown of Business Establishments in the Golden Mile Area, 2013



Type of Establishment	Number of Establishments
Industrial	16
Retail	146
Office	63
Institutional	29
Other Services (except Public Administration)	57
Other (1)	13
<b>Total</b>	<b>324</b>
Industrial	16

Source: InfoUSA; Notes: 1. Includes 1 public administration establishment/agency.

Exhibit 1.43. Asset Value of Golden Mile Properties, 2010

Land Value	\$113,915,580
Improvement Value	\$124,012,580
<b>Total Land Value</b>	<b>\$237,928,160</b>

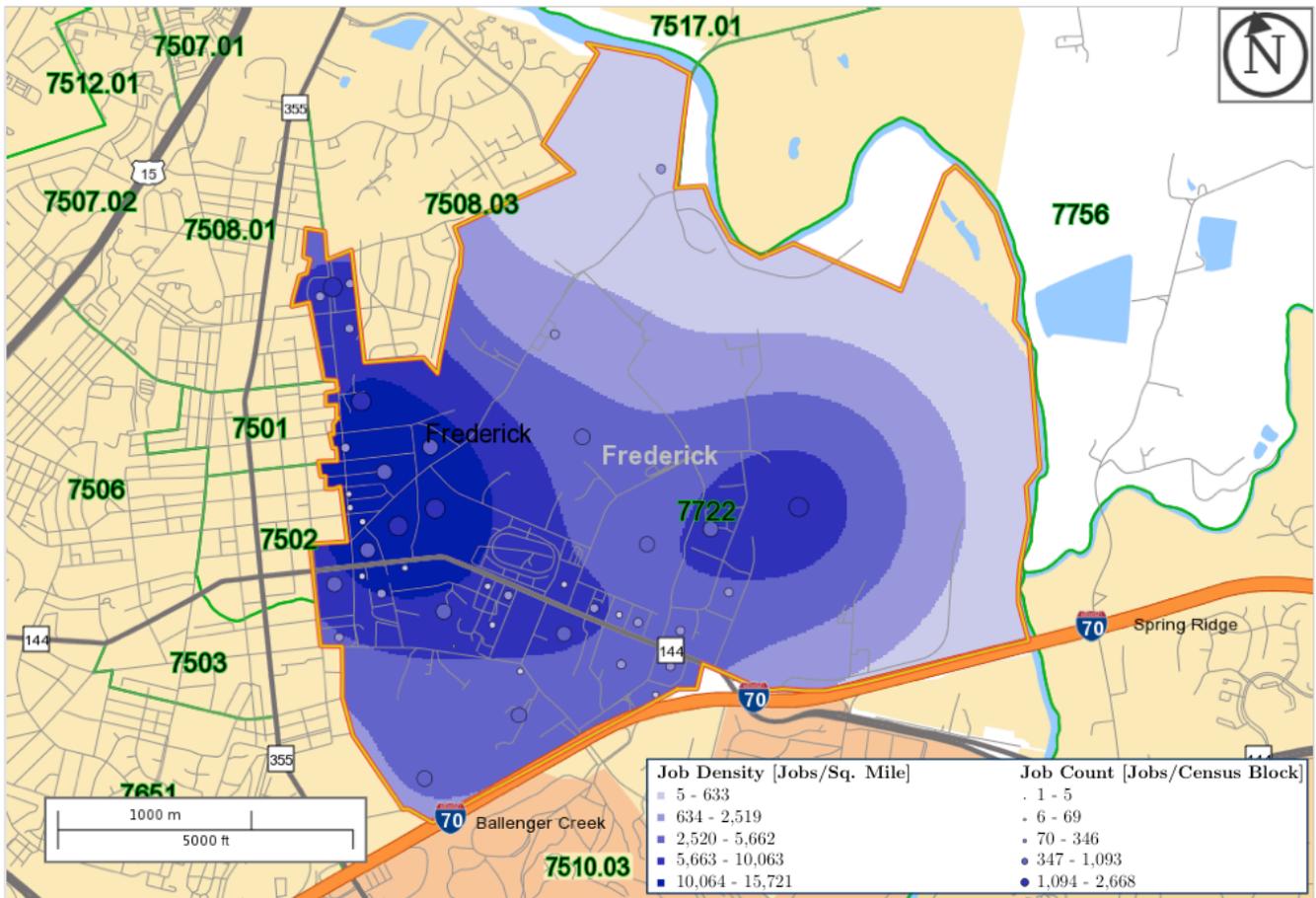
Source: City of Frederick Planning Department, The Golden Mile Small Area Plan, 2013.

## East Frederick Rising

East Frederick Rising is expected to experience significant private investment during the years ahead. The table below reflects associated Census tracts. Exhibit 1.44 reflects this part of the study area's job density.

East Frederick Rising Census Tracts, 2010
7722.00
7502.00
7501.00
7508.01
7508.03

Exhibit 1.44. EFR, Counts and Density of All Jobs in Work Selection Area, 2011



Source: U.S. Census Bureau. 2013. OnTheMap Application. Longitudinal-Employer Household Dynamics Program. <http://onthemap.ces.census.gov/>.

Exhibit 1.45 reflects many things, one of which is the very different mix of industries and employment in East Frederick Rising relative to other portions of the study area. In particular, the largest concentration of employment is in distribution (transportation and warehousing). There are also significant shares in professional services and healthcare (e.g., Wells Fargo Home Mortgage, Charles River Labs). Many of the industries concentrated Downtown are also concentrated in East Frederick Rising, which implies a certain level of competition between the two geographies. Unlike Downtown, there is virtually no public administration employment in East Frederick Rising.

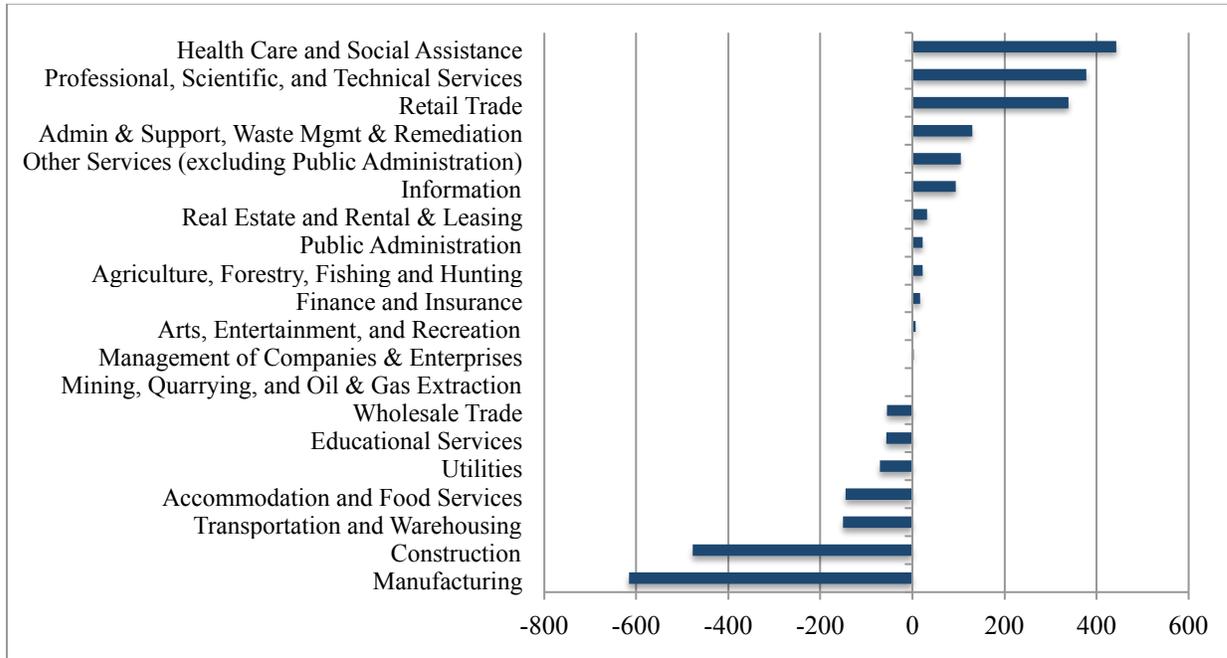
Exhibit 1.45. East Frederick Rising Employment by Industry, 2011

<b>Industry</b>	<b>Count</b>	<b>Share</b>
Agriculture, Forestry, Fishing and Hunting	28	0.4%
Mining, Quarrying, and Oil and Gas Extraction	0	0.0%
Utilities	95	1.5%
Construction	538	8.6%
Manufacturing	520	8.3%
Wholesale Trade	465	7.5%
Retail Trade	1,009	16.2%
Transportation and Warehousing	170	2.7%
Information	517	8.3%
Finance and Insurance	161	2.6%
Real Estate and Rental and Leasing	40	0.6%
Professional, Scientific, and Technical Services	803	12.9%
Management of Companies and Enterprises	3	0.0%
Administration & Support, Waste Management and Remediation	526	8.4%
Educational Services	41	0.7%
Health Care and Social Assistance	679	10.9%
Arts, Entertainment, and Recreation	16	0.3%
Accommodation and Food Services	178	2.9%
Other Services (excluding Public Administration)	417	6.7%
Public Administration	22	0.4%
<b>Total</b>	<b>6,228</b>	<b>100%</b>

Source: U.S. Census Bureau. 2013. OnTheMap Application. Longitudinal-Employer Household Dynamics Program. <http://onthemap.ces.census.gov/>.

Exhibit 1.46 reflects the sectors adding and losing jobs in East Frederick Rising for the period 2002-2011. The three fastest job-adding sectors in absolute terms are in segments also important to Downtown: healthcare, professional services and retail trade. Downtown lost jobs in healthcare and professional services during this period. For its part, East Frederick Rising lost jobs in distribution, construction and manufacturing during this 10-year period.

Exhibit 1.46. Growth in East Frederick Rising Jobs by Industry Sector, 2002-2011



Source: U.S. Census Bureau. 2013. OnTheMap Application. Longitudinal-Employer Household Dynamics Program. <http://onthemap.ces.census.gov/>.

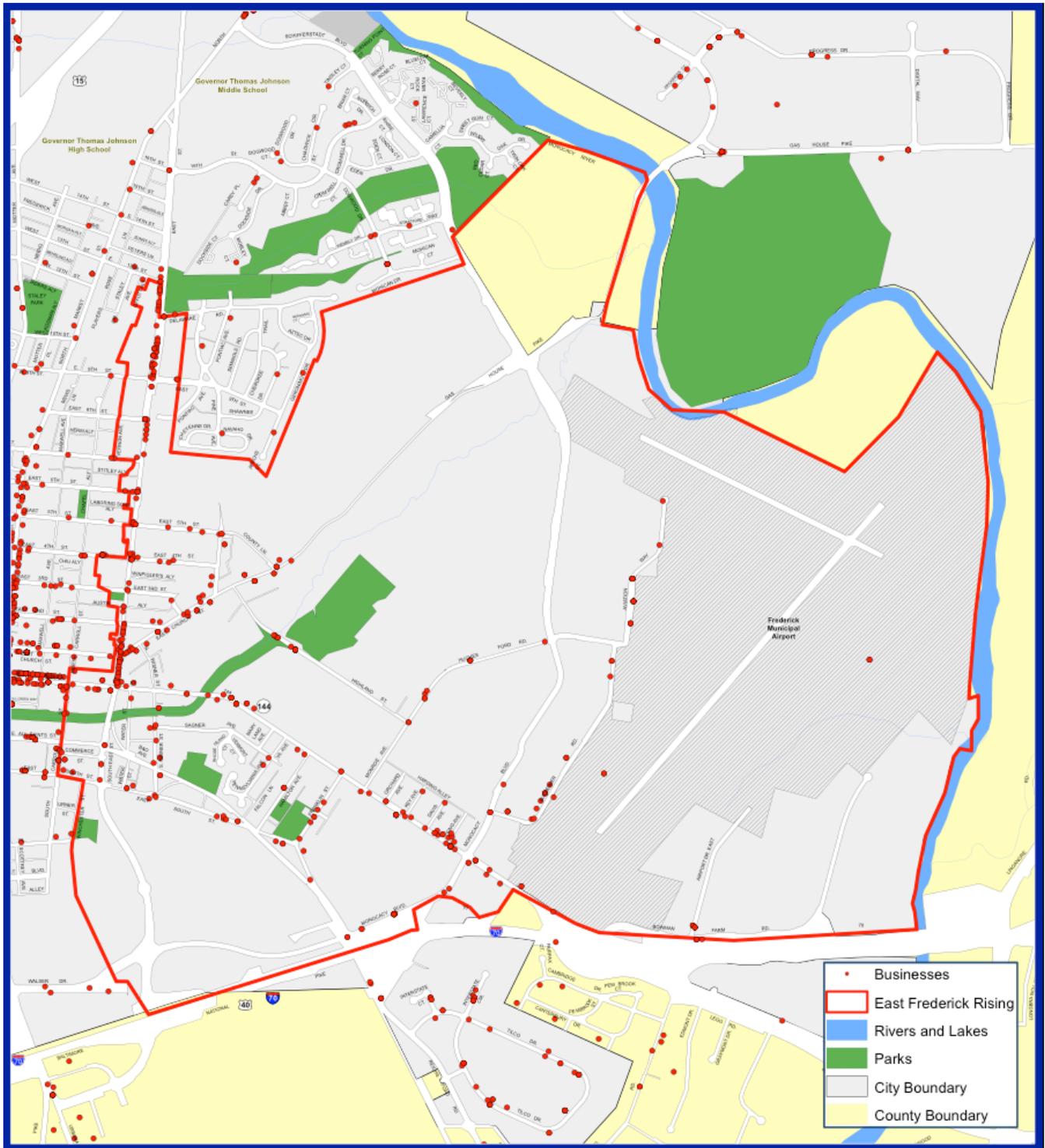
Like much of the balance of the Frederick Planning Region, East Frederick Rising is home to many younger workers. Exhibit 1.48 shows concentrations of employment within the East Frederick area, including along East Street, near Frederick Municipal Airport, and within Riverside Research Park.

Exhibit 1.47. East Frederick Rising Jobs by Worker Characteristic, 2011

	Count	Share
<i>Race</i>		
White	5,240	84.1%
Black or African American	681	10.9%
American Indian or Alaska Native	20	0.3%
Asian	231	3.7%
Native Hawaiian or Other Pacific Islander	5	0.1%
Two or More Race Groups	51	0.8%
<i>Ethnicity</i>		
Not Hispanic or Latino	5,918	95.0%
Hispanic or Latino	310	5.0%
<i>Sex</i>		
Male	3,545	56.9%
Female	2,683	43.1%
<i>Age</i>		
Age 29 or younger	1,330	21.4%
Age 30 to 54	3,622	58.2%
Age 55 or older	1,276	20.5%

Source: U.S. Census Bureau. 2013. OnTheMap Application. Longitudinal-Employer Household Dynamics Program. <http://onthemap.ces.census.gov/>.

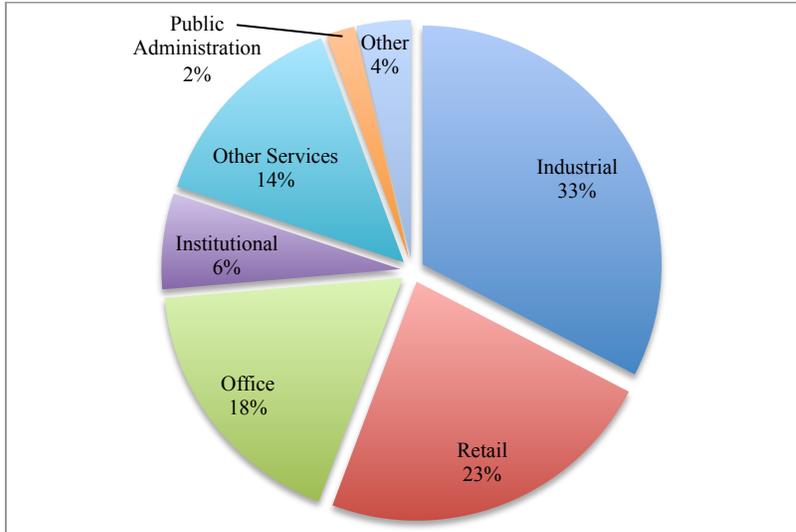
Exhibit 1.48. Businesses in East Frederick Rising, 2013



Source: City of Frederick.

Exhibit 1.49 reinforces the notion that East Frederick Rising is associated with significant numbers of industrial users. There are also concentrations in retail and office categories.

Exhibit 1.49. Breakdown of Business Establishments in East Frederick Rising, 2013



Type of Establishment	Number of Establishments
Industrial	151
Retail	107
Office	83
Institutional	30
Other Services (except Public Administration)	66
Public Administration	9
Other (1)	17
Total	463

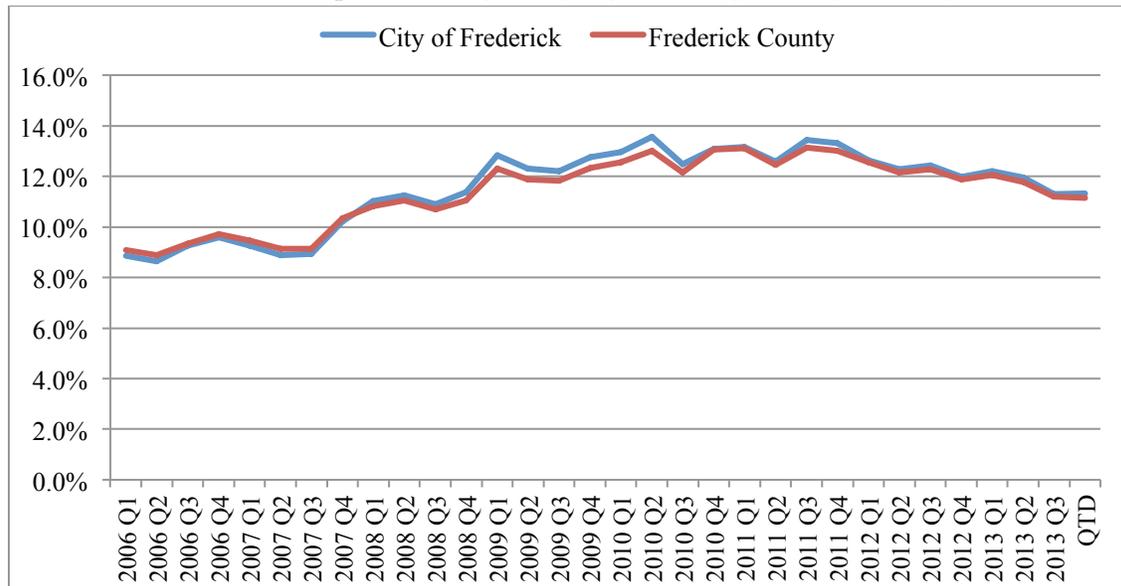
Source: InfoUSA; Notes: 1. Includes 1 utility.

### III. A Statistical Overview of City of Frederick Commercial Markets

#### Office/Industrial/Flex

In their separate ways, exhibits 1.50 and 1.51 reflect the downturn’s impact on office/industrial/flex real estate and evidence of recent stabilization. Commercial vacancy has been declining for roughly two years, though in part because tenants have been attracted by declining rents.

Exhibit 1.50. Commercial Space Vacancy Rate, City v. County 2006 Q1-2013 Q3



Source: Costar; Notes: 1. Includes sub-leasable space.

Exhibit 1.51. Commercial Space Rental Rate per SF, City v. County, 2006-2013

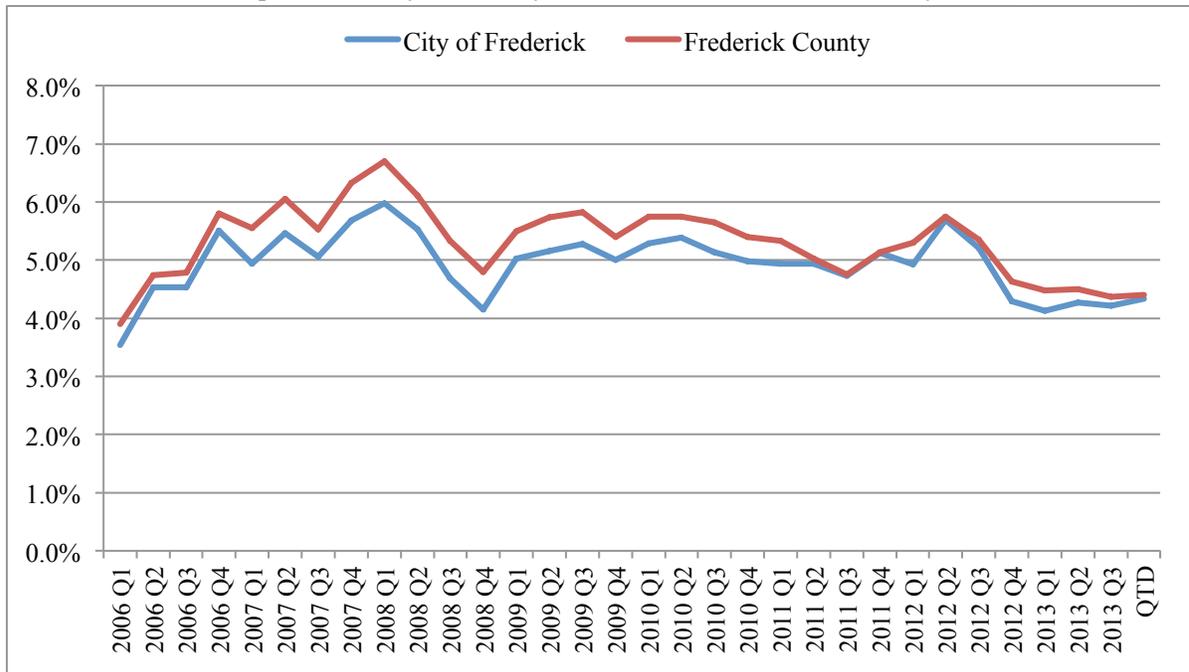
	Office Average Rate		Non-Office Average Rate	
	City of Frederick	Frederick County	City of Frederick	Frederick County
<b>2006</b>	\$23.19	\$23.17	\$9.59	\$9.48
<b>2007</b>	\$23.55	\$23.50	\$9.74	\$9.86
<b>2008</b>	\$23.53	\$23.45	\$9.60	\$9.80
<b>2009</b>	\$23.51	\$23.50	\$8.81	\$9.04
<b>2010</b>	\$23.13	\$23.10	\$8.58	\$8.07
<b>2011</b>	\$23.01	\$22.90	\$9.28	\$8.51
<b>2012</b>	\$21.60	\$21.53	\$9.22	\$8.44
<b>2013 Q1</b>	\$20.55	\$20.51	\$8.98	\$8.27
<b>2013 Q2</b>	\$20.72	\$20.68	\$9.45	\$8.59
<b>2013 Q3</b>	\$20.83	\$20.83	\$9.67	\$8.78
<b>QTD</b>	\$20.18	\$20.19	\$9.74	\$9.19

Source: Costar; Notes: 1. Includes sub-leasable space. 2. All rates are triple-N basis. 3. Yearly figures are averages of 4 quarters in the year.

## Retail

Like most other nonresidential real estate segments, retail has also experienced a degree of stabilization. The city's vacancy rate is now between 4 and 5 percent, which suggests a market in equilibrium. A certain level of vacancy is generally desirable since that creates opportunities for new ideas to enter the marketplace (exhibits 1.52 and 1.53).

Exhibit 1.52. Retail Space Vacancy Rate, City of Frederick v. Frederick County 2006Q1-2013Q3



Source: Costar; Notes: 1. Includes sub-leasable space.

Exhibit 1.53. Retail Space Rental Rate per SF, City of Frederick vs. Frederick County, 2006-2013

	City of Frederick	Frederick County
<b>2006</b>	\$19.10	\$18.70
<b>2007</b>	\$19.21	\$18.70
<b>2008</b>	\$16.83	\$16.82
<b>2009</b>	\$15.62	\$15.74
<b>2010</b>	\$15.92	\$15.57
<b>2011</b>	\$17.23	\$16.43
<b>2012</b>	\$18.40	\$17.51
<b>2013 Q1</b>	\$18.18	\$17.40
<b>2013 Q2</b>	\$18.44	\$17.67
<b>2013 Q3</b>	\$18.45	\$17.58
<b>QTD</b>	\$18.92	\$17.97

Source: Costar; Notes: 1. Includes sub-leasable space. 2. All rates are triple-N basis. 3. Yearly figures are averages of 4 quarters in the year.

## Recent Commercial Construction

When the marketplace is active, commercial construction tends to add significantly to local square footage availability as large projects are developed and come online. Often, this lumpy activity comes at inopportune moments. Developers and financiers are often most confident after several years of expansion. However, that also tends to coincide with the latter stages of economic expansion. Consequently, significant volumes of space often become operational immediately prior to or during periods of economic downturn or slow growth. This is precisely what occurred in 2006 and 2007, which represent years of significant commercial construction in the City of Frederick. The good news is that the data above suggest that the commercial marketplace has been able to accommodate new space and has since stabilized. Exhibits 1.54-1.56 provide relevant informational detail.

Exhibit 1.54. Commercial Construction in the City of Frederick, 2002-2014

<b>Year</b>	<b>Est. Construction Value</b>	<b># of Permits</b>	<b>Average Const. Value</b>
2002	\$256,303,271	45	\$5,695,628
2003	\$239,799,050	43	\$5,576,722
2004	\$40,082,859	47	\$852,827
2005	\$74,875,046	45	\$1,663,890
2006	\$221,511,698	67	\$3,306,145
2007	\$113,773,624	194	\$586,462
2008	\$84,242,364	153	\$550,604
2009	\$50,498,858	121	\$417,346
2010	\$104,101,762	145	\$717,943
2011	\$59,805,245	159	\$376,134
2012	\$31,245,772	149	\$209,703
2013	\$64,535,948	176	\$366,682
2014*	\$17,734,550	87	\$203,845
<b>Total</b>	<b>\$1,358,510,047</b>	<b>1,431</b>	<b>-</b>
<b>Average 2002-2013</b>	<b>\$143,492,861</b>	<b>112</b>	<b>\$1,693,340</b>

Source: City of Frederick Permit Database. \*Through 6/30/2014.

Exhibit 1.55. Recently Completed Commercial Projects in the City of Frederick

Date Completed	Name	Type	Acres/SF	Location
December 2009	East Street Gateway	Transportation	-	Connects I-70 to S. East St.
June 2010	City Parking Garage #5	Parking, Retail	365 space public/private parking garage; Retail available on 1st floor	All Saints Street
July 2010	FCPS Central Office	Office	89,800 SF	East Street; next to Frederick Visitors Center
April 2011	Frederick Visitor's Center	Tourism Council of Frederick County	6,300 SF on one level	East Street; across from MARC Train Station
Summer 2011	Clemson Corner	Retail	370,000 SF retail space on 38 acres	Rt 26 @ Monocacy Blvd
Fall 2011	Frederick Municipal Airport (FDK)	Air Traffic Control Tower- Class D airspace	-	111 Airport Drive East
2011	Astra Zeneca (MedImmune)	Pharmaceutical Manufacturing Plant Expansion	355,000 SF	I-70 & Ballenger Creek Pike (US-340/MD-180)
2012	NCI @ Riverside ATRF	Research Facility	330,000 (First building out of a total 800,000 sf)	Monocacy Blvd

Source: City of Frederick.

Exhibit 1.56. Other Commercial Development Projects Under Construction

Name	SF/Size	Type	Location	Status
Genesis HealthCare	5.8 acres	Skilled nursing and rehabilitative care center	Ballenger Center Drive	Under construction
Fort Detrick (1)	835,000SF; 700 parking spaces.	USAMRIID	Fort Detrick Campus	Estimated completion – uncertain

Source: City of Frederick; Notes: 1. Biosafety level-2, 3 and 4 laboratories for the U.S. Army Medical Research Institute of Infectious Diseases (USAMRIID) on Fort Detrick campus; clinical, administrative and logistical offices as well.

## **IV. Key Perceptions Derived from Focus Group Sessions**

Chapter 1 concludes with a brief description of the viewpoints expressed by participants of three focus groups conducted by the study team. Focus group participants included business owners, commercial brokers and local opinion leaders generally. Among the most widely expressed concerns were 1) the higher tax burdens in the City relative to the balance of Frederick County and 2) the threat of public administration departures from Downtown Frederick.

The study team notes that more urban areas often are associated with higher taxes, in part because of greater demands for public safety, transportation, and social assistance services. However, cities can be successful by countervailing cost disadvantages by 1) providing an amenity-rich environment that attracts businesses searching for dense revenue opportunities; 2) creating a physically attractive and vibrant environment that attracts tourists, young knowledge workers and other key constituencies; and 3) leveraging physical ties to the infrastructure that allowed cities to emerge in the first place.

As this chapter has indicated, the presence of public administration in Downtown Frederick is quite large. Public administration represents a surprisingly large share of Downtown employment. It would be a simple matter to relocate certain agencies to emerging communities like East Frederick Rising, but at the potential expense of real estate stability and elevated community functioning Downtown.

### **Conclusions**

The Frederick economy is beginning to recover. However, because of the impact of the economic downturn on vacancy rates, recovery will not immediately trigger a wave of new construction. Rather, recovery will continue to be associated with stabilizing vacancy rates and rents.

One of the key findings of this section of the report is that due to significant losses of employment in construction, manufacturing and distribution, the City of Frederick is now far more dependent upon institutional employment. For this reason, it is important for the City to retain institutional employment, including public administration positions, to the extent possible.

## Chapter 2. Office, Flex & Industrial Space Dynamics

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IV. Flex/R&D Market.....	83
Conclusions .....	88

## **Introduction**

This section of the report focuses on real estate and construction-related metrics and performance. Data are provided for Downtown Frederick, the City of Frederick, the Frederick Planning Region, the Golden Mile and East Frederick Rising. The data reflect many things, including the impacts of the Great Recession and the soft economic recovery that followed. The data also reflect the fact that certain market segments have been more impacted than others, with those properties that are newer and/or in better locations generally prevailing over second and third tier properties.

Relative to the 2007 report, this update is able to supply a bit more detail for sub-city areas because of the availability of Costar data that would not have been available to the prior study team. Despite only encompassing two-thirds of relevant properties, these data are highly valuable and associated with a significant survey response rate. These data have been particularly useful in terms of characterizing activity for East Frederick Rising, Downtown and the Golden Mile.

### **I. Economic and Market Overview**

#### A Quick Look at the Previous Study

In 2007, the previous consultant, BBPC, provided estimates of how much space would be needed to accommodate future market growth. Viewed from the perspective of 2014, those projections appear optimistic. The explanation -- the previous study team simply could not have imagined the impact of the Great Recession on real estate.

Exhibit 2.1 provides the prior report's expectations for employment and demand for various types of space. Note that the expectation was that between 2007 and 2020, employment in the office space category would expand 58 percent, employment in the industrial category would expand 63 percent, and employment in flex space would expand by nearly 200 percent. It appears that these forecasts will not come to pass.

In 2007, the City of Frederick was home to approximately 49,000 jobs. About half of those jobs were in office, industrial or flex space. The balance of employment was in retail, hotel, restaurant and other spatial settings.

Exhibit 2.1. Projections from the 2007 Report

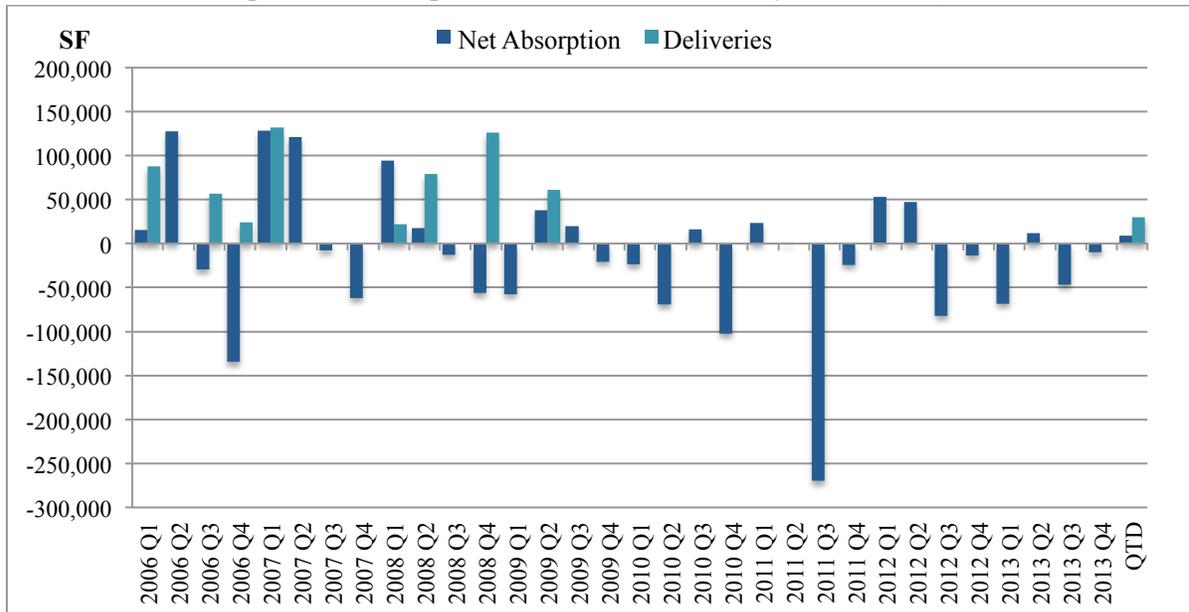
Office, Industrial & Flex Development Opportunities Based on Demand and Supply Factors 2007-2020			
	Office	Industrial	Flex
Current Supply (SF)	3,797,672	2,340,378	1,474,547
Current Employment (Jobs)	14,317	4,626	3,244
Current Occupied Supply (SF)	3,459,679	1,996,342	1,285,805
Square Feet Per Employee	240	430	400
Net Future Employment (Jobs)	8,300	2,900	6,400
Net Future Demand (SF)	2,000,000	1,250,000	2,560,000
Annual Demand (SF)	153,000	96,000	197,000
Net Future Supply (Pipeline in SF)	1,900,000	700,000	1,200,000
Opportunity Gap (SF)	100,000	550,000	1,400,000
Total Future Potential Space (SF)*	5,800,000	3,550,000	4,100,000

Source: Basile Baumann Prost Cole and Associates (BBPC), “Frederick Market Analysis: Phase 2: Office, Industrial & Flex/R&D Analysis,” May 2008.

\*Total Future Space = Current Supply (includes occupied and vacant space) plus net future supply (pipeline) plus opportunity gap.

Exhibit 2.2 reflects two things. First, almost no new office space has been delivered in the City of Frederick since the recession ended in June 2009. Second, net absorption has been negative during many recent quarters. Rather than progress briskly during the 2007-2013 period, the city’s real estate markets have in general taken a backward step or two.

Exhibit 2.2. Office Space Net Absorption vs. Deliveries in the City of Frederick, 2006-2013



Source: Costar; Notes: 1. Net absorption measured in SF, Deliveries measured in rentable building area.

The discussion that follows provides detailed snapshots and analyses of the real estate market and begins with an analysis of the office market.

## II. Office Market

### City of Frederick Office Market Conditions & Comparison to Larger Markets

Exhibit 2.3 indicates that several Washington area markets were associated with office vacancy rates in excess of 20 percent by year-end 2013. Frederick County was one of them (CBRE does not provide data at the city level).

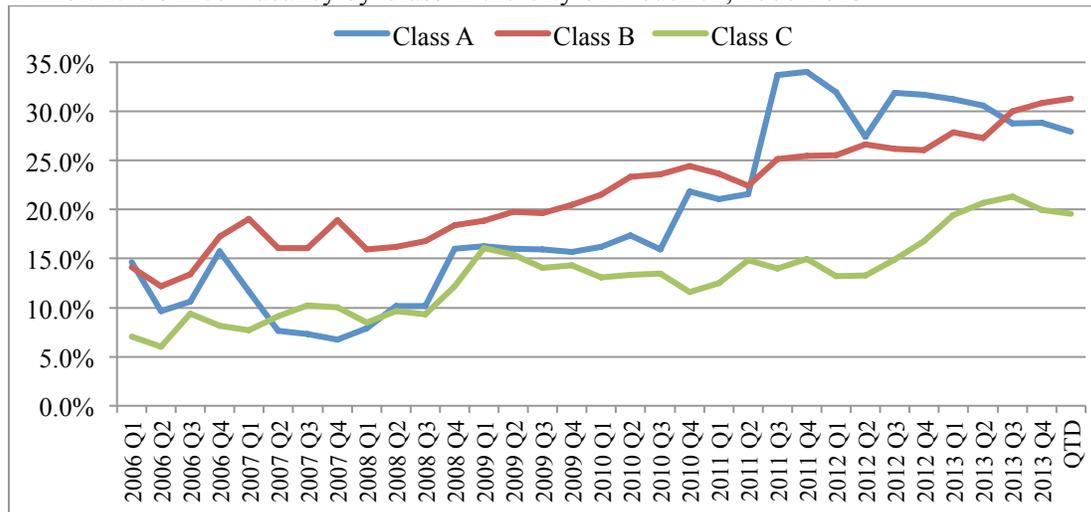
Exhibit 2.3. Washington D.C. and Suburban Maryland Office Markets, 2013 Q4

	Inventory (SF)	Overall Vacancy Rate	Q4 Net Absorption (SF)	2013 Net Absorption (SF)	Class A FS Asking Rent (\$/SF)	Overall FS Asking Rent (\$/SF)	SF Under Construction
Frederick County	4,548,847	21.20%	-46,466	31,204	\$23.64	\$23.41	-
Bethesda/CC	10,952,311	8.80%	57,172	-769	\$44.09	\$39.65	227,902
N. Bethesda	10,498,895	20.40%	26,359	-586,850	\$32.06	\$30.77	80,000
Rockville	6,707,323	14.10%	27,374	100,948	\$32.69	\$30.90	490,998
North Rockville	12,870,680	15.10%	-6,702	654,603	\$29.06	\$26.82	-
Gaithersburg	5,238,789	11.00%	4,731	-4,796	\$24.71	\$22.99	-
Germantown	2,492,305	24.90%	-37,290	-23,911	\$25.79	\$25.35	-
Suburban Maryland	81,724,815	16.50%	104,881	-335,324	\$28.50	\$26.61	798,900
Washington D.C.	125,187,551	10.70%	64,540	372,975	\$55.71	\$51.50	1,941,223

Source: CBRE.

Vacancy in the City of Frederick has risen in all three categories of office space (A, B and C) over time. The segment that has recovered the fastest recently is Class A (Exhibit 2.4). This makes sense since the reduction of rents that often follows downturns induces surviving firms to move into higher quality, better situated, more prestigious space. That said, of the three classes of space, Class C is associated with the lowest overall vacancy rate. This is important because it strongly suggests that the supply of older, unmarketable office space in the city is quite limited.

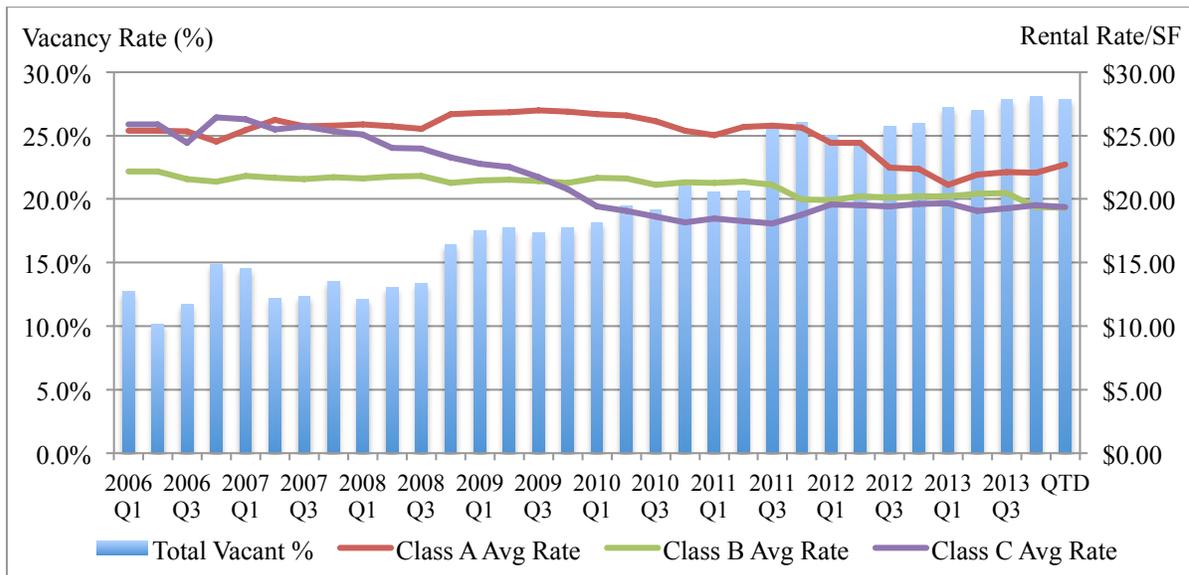
Exhibit 2.4. Office Vacancy by Class in the City of Frederick, 2006-2013



Source: Costar; Notes: 1. Vacancy rate expressed as a percentage and characterizes the amount of vacant new/relet/sublet space divided by existing RBA. Includes sub-leasable space for A, B, and C properties.

Exhibit 2.5 reflects a fundamental economic tenet – the greater is available supply, the lower is price *ceteris paribus*. The office vacancy rate has been rising in the City of Frederick (note what a departure that is from the expectations set forth in the 2007 report). Correspondingly, rental rates have been in decline. Once one takes inflation into account (which this exhibit does not), the actual decline in rates is even more substantial. However, consistent with recent observed increases in Class A office absorption, rental rates for Class A space expanded in 2013.

Exhibit 2.5. Office Space Average Asking Rents vs. Overall Vacancy in the City of Frederick, 2006-2013



Source: Costar; Notes: 1. Rental rates are defined as the annual rental costs quoted on a per square foot basis. Includes sub-leasable space. 2. Vacancy rate is expressed as a percentage - it identifies the amount of new/relet/sublet space vacant divided by the existing RBA. Includes sub-leasable space for all A, B, and C properties.

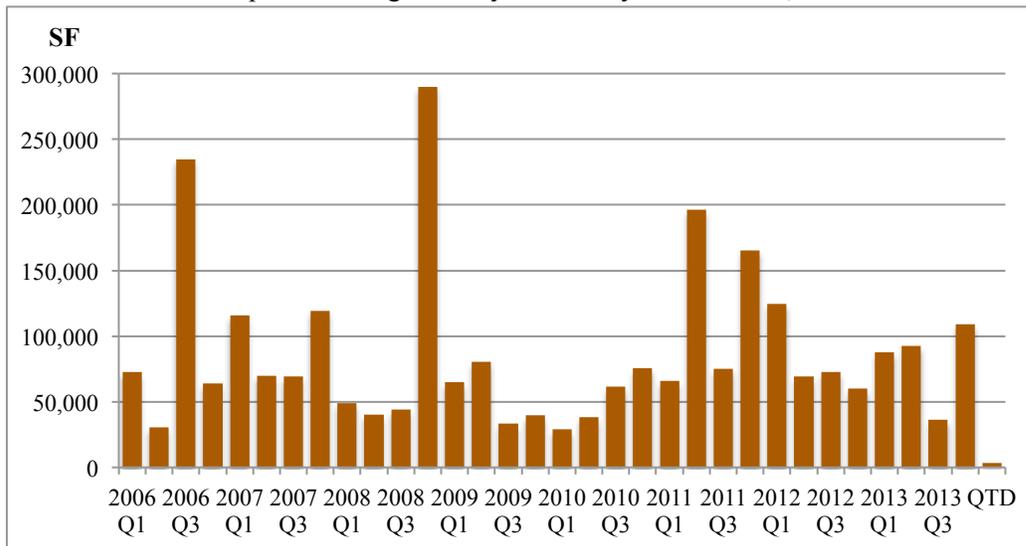
There may be a presumption that the city’s office market will return to historic form during the years ahead as long as the national economy continues to recover. Perhaps, but there is more to economic life than the business cycle. Arguably, there have also been several structural shifts that have taken place in recent years, including slower growth in federal outlays. Sequestration represents a key manifestation of shifting federal spending patterns. As of the time of this writing, the national debt stands at approximately \$17.5 trillion.

Recent years have witnessed near debt defaults, a federal government shutdown, sequential continuing resolutions, smaller defense budgets, decreased spending on federal research and development, and sequestration. If these are reflective of a new normal, then the Washington metropolitan area will not expand as rapidly as it has in the past. The Washington metropolitan area added fewer than 16,000 jobs between December

2012 to December 2013 according to the Bureau of Labor Statistics and actually shed employment in professional and business services. That segment includes many government contractors, which have a disproportionate impact on the regional office market and have been heavily implicated by sequestration.

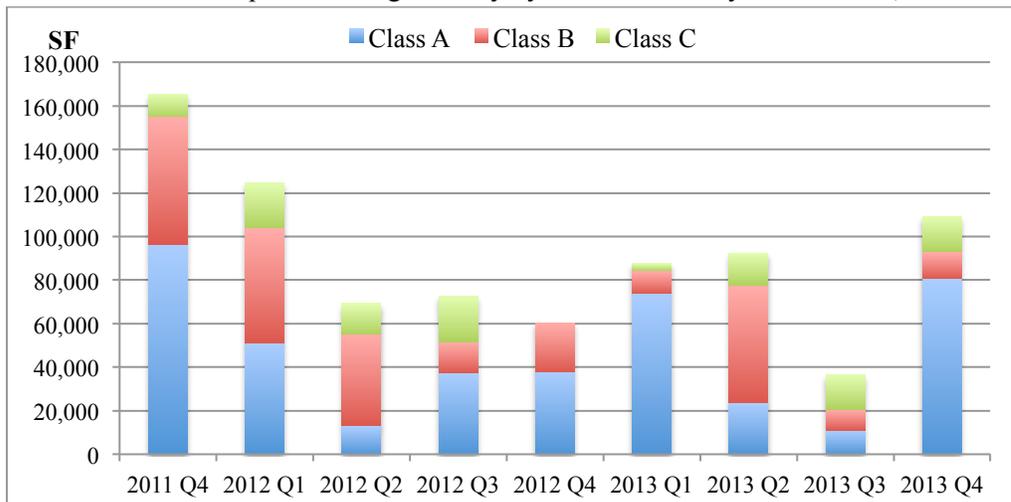
These emerging dynamics may help explain the ongoing lack of office space leasing activity in the City of Frederick. Exhibit 2.6 reflects the fact that leasing activity has not yet established persistent momentum, while Exhibit 2.7 indicates that leasing activity during the fourth quarter of 2013 fell well short of the same quarter two years prior.

Exhibit 2.6. Office Space Leasing Activity in the City of Frederick, 2006-2013



Source: Costar; Notes: 1. Leasing activity for all class A, B, and C properties.  
2. Includes direct and sublet leasing activity.

Exhibit 2.7. Office Space Leasing Activity by Class in the City of Frederick, 2011-2013



Source: Costar; Notes: 1. Includes direct and sublet leasing activity.

## A Statistical Review of Real Estate Dynamics in Key City of Frederick Communities

- Rate of Market Healing Has been Slow

Newly available Costar snapshot data allow for a deeper analysis of specific regions of the City. Based on the study team’s analysis, these data capture activity associated with roughly two-thirds of available space. Therefore, summary square footage statistics in this section of the report will not line up precisely with data characterizing total square footage in other sections of the report. But these data remain highly useful because they provide insight into leasing and other dynamics in City of Frederick communities garnering significant interest. Exhibit 2.8 provides some very basic data regarding the marketplace for each of the geographies of interest.

Exhibit 2.8. Office Space Inventory in Select Geographic Areas, 2013

<b>Area</b>	<b>RBA</b>	<b>Total Available SF</b>
Frederick County	3,935,491	1,412,021
Frederick Planning Region	3,734,339	1,366,299
City of Frederick	2,084,995	567,500
Downtown	545,524	164,529
Golden Mile	260,984	41,744
East Frederick Rising	55,336	12,155

Source: Costar snapshot data;

Notes: 1. Frederick County numbers include the Frederick Planning Region. Frederick Planning Region numbers include the COF, DF, GM, and EFR. City of Frederick numbers include DF, GM, and EFR.

2. Rentable Building Area (RBA) “is the space the tenant will occupy in addition to the associated common areas of the building such as the lobby, hallways, bathrooms, equipment rooms, etc. There is no real difference between RBA and GLA (Gross Leasable Area) except that GLA is used when referring to retail properties while RBA is used for other commercial properties.”

3. Available Space represents “the total amount of space that is currently being marketed as available for lease or sale in a given time period. It includes any space that is available, regardless of whether the space is vacant, occupied, available for sublease, or available at a future date.”<sup>1</sup>

4. Figures do not include one building under renovation that is in the boundary of all areas (69,893 SF).

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<sup>1</sup> Costar includes existing, under construction, and under renovation buildings in its statistical calculations of available space.

Another useful source of information is the U.S. Census Bureau's OnTheMap application, a unique resource for the characterization of small-area workforces. Unfortunately, these data are only available through 2011. That said, they provide a sense of the industries that motivate demand for office space in the Golden Mile, East Frederick Rising, downtown and other geographies of interest.

According to the 2007 report, the industries most closely associated with office space utilization are:

- Professional, Scientific, and Technical Services
- Management of Companies and Enterprises
- Administration & Support, Waste Management and Remediation
- Information
- Finance and Insurance
- Real Estate and Rental and Leasing
- Health Care and Social Assistance
- Public Administration
- Other Services (excluding Public Administration)

Exhibit 2.9 shows employment in these categories for six geographies of interest. There is much to note here, but perhaps the most surprising aspect of these data is that East Frederick Rising is home to more employment than downtown in a number of key segments, including administration and support, healthcare and other services.

Note also how dependent downtown is upon public administration as a source of office space demand. This is one of the report's key findings and also helps to contextualize one of the key insights generated during the focus groups: the movement of public administration jobs away from downtown could severely undermine the stability of that office market. This was a concern voiced by many stakeholder participants. Moreover, given the overall softness of job creation in the Washington metropolitan area and in Frederick, there can be no presumption that space vacated by public administrations would be quickly filled by incoming and/or expanding private tenants.

Exhibit 2.9. Office Space Related Employment in the Geographic Study Areas, 2011

	Frederick County	Frederick Planning Region	City of Frederick	Downtown Frederick	East Frederick Rising	Golden Mile
Professional, Scientific, and Technical Services	9,587	7,022	3,942	843	803	60
Management of Companies and Enterprises	527	232	216	48	3	0
Administration & Support, Waste Management and Remediation Information	4,659	2,612	1,757	223	526	113
Finance and Insurance	1,227	1,075	831	297	517	60
Real Estate and Rental and Leasing	5,815	3,559	4,397	266	161	67
Health Care and Social Assistance	726	499	369	50	40	27
Public Administration	10,197	8,299	7,520	153	679	98
Other Services (excluding Public Administration)	4,774	4,417	4,357	3,212	22	6
<b>Total</b>	<b>40,774</b>	<b>29,980</b>	<b>25,262</b>	<b>5,304</b>	<b>3,168</b>	<b>527</b>

Source: U.S. Census Bureau. 2013. OnTheMap Application. Longitudinal-Employer Household Dynamics Program. <http://onthemap.ces.census.gov/>; Notes: 1. Frederick County numbers include the Frederick Planning Region. Frederick Planning Region numbers include the COF, DF, GM, and EFR. City of Frederick numbers include DF, GM, and EFR.

These 2011 data also reveal that Downtown represented just 21 percent of the City of Frederick’s office-related employment even when public administration positions are included. If one just considers private employment in office space using industries, Downtown Frederick represented almost precisely 10 percent of all citywide positions. Downtown was home to a bit more than 2,000 jobs in the private categories listed above. East Frederick Rising was home to more than 3,100.

### Forecasting Office Space Demand

To forecast future office-related employment, Sage leveraged projections of total Frederick County employment supplied by the Metropolitan Washington Council of Governments (MWCOG). These projections were coupled with occupational projections from the Maryland Department of Planning in order to permit estimates of the distribution of future employment by industry. Based on this information and Sage’s analysis, it is estimated that Frederick County will experience the addition of approximately 6,100 office-based jobs between 2015 and 2030. The Frederick Planning Region would capture about 4,500 of these jobs, or roughly three in four. The City of Frederick would house 3,700 of these net new positions based on the city’s share of countywide office employment in 2011.<sup>2</sup>

<sup>2</sup> FPR estimates include City of Frederick estimates and City of Frederick estimates include DF, GM, and EFR estimates.

Applying a standard parameter of 190 square feet per employee to the forecasted growth in office employment allows for estimates of total office space need going forward.<sup>3</sup> Sage’s projections are summarized in Exhibits 2.10-2.14 for the Frederick Planning Region, City of Frederick, Downtown, Golden Mile and East Frederick Rising, respectively. Estimated office demand in the city totals in excess of 700,000 square feet for the 2015-2030 period, of which a bit more than 150,000 square feet are associated with Downtown.

Exhibit 2.10. Frederick Planning Region Employment Growth Based Office Space Demand, 2015-2030

	2015-2020	2020-2025	2025-2030	Total 2015-2030
Frederick County: Net New Office Employment	2,631	2,011	1,470	6,112
Frederick Planning Region (73.5%): Net New Office Employment	1,934	1,478	1,081	<b>4,494</b>
FPR Employment Growth-Based Office Demand (SF)	367,540	280,896	205,403	<b>853,839</b>
Average SF per Worker	190			

Source: Sage, MWCOG and MDP; FPR: Frederick Planning Region; Notes: 1. FPR estimates *include* City of Frederick estimates; City of Frederick estimates *include* DF, GM, and EFR estimates.

Exhibit 2.11. City of Frederick: Employment Growth Based Office Space Demand, 2015-2030

	2015-2020	2020-2025	2025-2030	Total 2015-2030
Frederick County: Net New Office Employment	2,631	2,011	1,470	6,112
City of Frederick (62%): Net New Office Employment	1,630	1,246	911	<b>3,787</b>
COF Employment Growth-Based Office Demand (SF)	309,699	236,691	173,078	<b>719,469</b>
Average SF per Worker	190			

Source: Sage; COF: City of Frederick; Notes: 1. City of Frederick estimates *include* DF, GM, and EFR estimates.

Exhibit 2.12. Downtown Frederick: Employment Growth Based Office Space Demand, 2015-2030

	2015-2020	2020-2025	2025-2030	Total 2015-2030
City of Frederick: Net New Office Employment	1,630	1,246	911	3,787
Downtown Frederick (21%): Net New Office Employment	342	262	191	<b>795</b>
DF Employment Growth-Based Office Demand (SF)	65,024	49,696	36,339	<b>151,059</b>
Average SF per Worker	190			

Source: Sage; DF: Downtown Frederick.

<sup>3</sup> Stephen S. Fuller, “How Office, Industrial and Retail Development and Construction Contributed to the U.S. Economy in 2011.” Center for Regional Analysis George Mason University, May 2012.

Exhibit 2.13. The Golden Mile: Employment Growth Based Office Space Demand, 2015-2030

	2015-2020	2020-2025	2025-2030	Total 2015-2030
City of Frederick: Net New Office Employment	1,630	1,246	911	3,787
Golden Mile (2.1%): Net New Office Employment	34	26	19	<b>79</b>
GM Employment Growth-Based Office Demand (SF)	6,461	4,938	3,611	<b>15,009</b>
Average SF per Worker	190			

Source: Sage; GM: Golden Mile.

Exhibit 2.14. East Frederick Rising: Employment Growth Based Office Space Demand, 2015-2030

	2015-2020	2020-2025	2025-2030	Total 2015-2030
City of Frederick: Net New Office Employment	1,630	1,246	911	3,787
East Frederick Rising (12.5%): Net New Office Employment	204	156	114	<b>475</b>
EFR Employment Growth-Based Office Demand (SF)	38,838	29,682	21,705	<b>90,226</b>
Average SF per Worker	190			

Source: Sage; EFR: East Frederick Rising

## Current Office Development Pipeline

Approximately 120,000 square feet of office space is scheduled for delivery in 2014. Three-quarters of this space is associated with buildings at the Aspen Ridge Professional Center. The presence of construction in Frederick is an indication of growing confidence in the local marketplace, including among both developers and their financiers.

Exhibit 2.15. Office Development Projects Under Construction

<b>Project</b>	<b>Location</b>	<b>Available S.F.</b>	<b>Delivery</b>	<b>Community</b>
Aspen Ridge Professional Center 1 (2)	161 Thomas Johnson Dr	47,726	2014	COF
Aspen Ridge Professional Center 2 (2)	163 Thomas Johnson Dr	21,154	2014	COF
Aspen Ridge Professional Center 3 (2)	165 Thomas Johnson Dr	20,909	2014	COF
Monocacy Valley Cannery (3)	East Street & South Street	30,000	2014	COF, DF, EFR
<i>Total</i>		<i>119,789</i>		

Source: Costar snapshot data; City of Frederick.

COF: City of Frederick

DF: Downtown Frederick

EFR: East Frederick Rising

Notes: 1. The figures for available space reflect when a building is already partially pre-leased.

Aspen Ridge Professional Center 2 is 12.42% leased (total RBA is 24,154).

2. Thomas Johnson Drive; Class A Professional Center with a total of 92,790 SF; spaces divisible as small as 2,500 SF; 384 parking spaces & close proximity to the Frederick Memorial Healthcare System. Under construction; expected occupancy – first half of 2014.

3. Historic Building Rehabilitation & New construction; multi-story office building and 1st floor retail; \$2 million in capital investment; 30,000 SF Office/Retail; suite sizes – 1,000 – 30,000 SF.

There were 22 office development projects representing roughly 2.7 million square feet proposed for construction in Frederick County as of 2013. Twenty-two of these projects are located in the Frederick Planning Region and eleven are located in the City of Frederick (Exhibit 2.16). There is no assurance that each of these projects will ultimately be built.

Exhibit 2.16. Proposed Office Development Projects

Project (1)	Location	Available S.F. (2)	Class	Delivery	Community
Avison Young-Building C	5205 Chairmans Ct	42,999	A	2013	FPR
Ausherman Properties at Corporate Drive-Building 1	5270 Corporate Dr	40,896	A	2014	FPR
Ausherman Properties at Corporate Drive-Building 2	5270 Corporate Dr	41,310	A	2014	FPR
Westview 3	5205 Chairmans Ct	42,999	A	2015	FPR
Jefferson Place Town Center & Technology Park	Route 340 @ Route 70	1,000,000	A	Unknown	FPR
Westview South Building 3 - Phase I	New Design Rd	27,000	B	Unknown	FPR
Westview South Building 4	New Design Rd	66,000	A	Unknown	FPR
Matan Realty	Executive Way	433,700	A	Unknown	FPR
Conley Farm Bldg. 3	7125 Guilford Dr	32,400	B	Unknown	FPR
Abrams Development Group-Building 2	7221 Bank Court Dr	66,000	B	Unknown	FPR
St. John Properties-Lot 1	5100 Pegasus Ct	7,963	N/A	Unknown	FPR
Ausherman Properties at Broadband Way-Building 1	8420 Broadband Way	75,000	A	2014	COF
Ausherman Properties at Broadband Way-Building 2	8420 Broadband Dr	82,998	A	2014	COF
Ballenger Center (3)	327 Ballenger Center Dr	120,000	A	Unknown	COF
Riverside 6 (4)	Progress Dr	110,600	A	Unknown	COF
Riverside 7 (4)	Progress Dr	110,600	A	Unknown	COF
Riverside 8 (4)	Progress Dr	110,600	A	Unknown	COF
Mackintosh Inc. Realtors (5)	577 Himes Ave	84,733	A	Unknown	COF
Sunshine Management Corp.	61 Thomas Johnson Dr	20,731	B	Unknown	COF
McHenry's (6)	Carroll Creek Park & E. Patrick St	80,000	A	Unknown	COF, DF
Union Mills-Office Component (7)	340 E Patrick St	41,500	N/A	2014	COF, DF, EFR
One Commerce Plaza-Office Component (8)	East Street/Commerce Street	60,000	N/A	Unknown	COF, DF, EFR
<b>Total SF</b>		<b>2,698,029</b>			

Source: Costar snapshot data; City of Frederick.

FC: Frederick County FPR: Frederick Planning Region

COF: City of Frederick

DF: Downtown Frederick GM: Golden Mile

EFR: East Frederick Rising

1. Where Costar does not provide a specific name for a project the leasing company name is provided instead.

2. The figures for available space reflect when a building is already partially pre-leased.

St. John Properties-Lot 1 is 50% leased (total RBA is 15,925).

The Mackintosh Inc. Realtors building is 0.31% leased (total RBA is 85,000).

3. Site work complete; Time to complete will take 9 months from a signed lease. 6-acre site; 120,000 square foot Class A, energy efficient office building; planned as first LEED Gold Certified Office Building; highway-visible signage along Highway 70.

4. Site Plan approved; construction pending. Class A Office Space adjacent to Wells Fargo and NCI-Frederick ATRF; 330,000 SF; \$18 million project; 3 buildings with tilt up design, each offering 110,000 SF. Costar lists the available SF as 116,600 while a City of Frederick source indicates that the available SF at each building will be 110,000. The total SF of proposed office space in this exhibit reflects City of Frederick's information.

5. Design approved; Construction pending. Off Route 40/US 15; Zoned PB (professional business). Five story, class A Office Building.

6. Design approved; Construction pending. Carroll Creek Park & E. Patrick Street; zoned DB. New construction; 80,000 SF of new construction office space; 48 parking spaces; \$24M in capital investment.

7. Design approved; Construction pending. \$20 million in capital investment/rehabilitation of historic Union Knitting Mills building 41,500 SF office space; 25,000 SF 1st Floor retail space; 104 parking spaces.

8. Office/Retail/Residential; zoned DB New construction; \$24 million in capital investment. 60,000 SF Office, 20,000 SF Retail or Residential. Design Approved; Construction pending.

Exhibit 2.17 reflects two projects in neighboring communities that may eventually compete with the City of Frederick. Urbana has already emerged as a competing market with significant employers such as Banner Life Insurance Company and the Social Security Administration’s new National Support Center.

Exhibit 2.17. Proposed Office Development Projects in Neighboring Communities

Project	Location	Available S.F. (1)	Class	Delivery	Community
Villages of Urbana	3300-3399 Urbana Pike	1,200,000	A	Unknown	Frederick County
Knowledge Farms Phase II	3290 Urbana Pike	50,100	A	Unknown	Frederick County

Source: Costar; Notes: 1. The figures for available space reflect when a building is already partially pre-leased. Villages of Urbana is 12.1% leased (total RBA is 1,365,000).

Despite the impacts of the Great Recession and structural shifts in federal procurement activity, enthusiasm for developing in Frederick has scarcely waned. Here is a quote from the 2007 report. “As of November 2007, there were 28 office development projects representing over 4.6 million square feet proposed for construction in the City of Frederick and Frederick County. The office development project in the Villages of Urbana, which calls for 2 million square feet of space, is the largest single proposed project and accounts for approximately 43 percent of the total proposed inventory. Twelve projects representing 1.9 million square feet were proposed for construction in the City of Frederick. One of the City projects (73-77 Thomas Johnson Drive) was planned with specific organizations committed as occupants, and three other projects located in the County were preleased. The remaining 24 projects are thus far proposed to be built under a speculative basis.”

### Opportunity Gap

The previous (2007) study found that even if the then-existing construction pipeline were fully developed and came on-line, there would still be future shortages of space. Sage does not see it that way. We suspect that many of the projects that are listed above will not be built for several years and that no shortages of office space are anticipated in the foreseeable future. Sage’s expectation is that over the next 15 years, the Planning Region will generate demand of less than 1 million square feet of net new space. The proposed development pipeline is associated with roughly four times that amount of space.

It is possible, however, that a certain amount of Class B and C space will be retired and/or converted for other purposes. For instance, some office space may ultimately be redeveloped into apartments or condominiums. To the extent that occurs, there will be more of a market for new space to serve.

### III. Industrial Market

#### General Market Conditions

As with the office market, Frederick County’s industrial vacancy rate is relatively high. According to CBRE, by the end of 2013, overall vacancy in the industrial/warehouse market stood at 16 percent, well above the corresponding rates in Montgomery and Prince George’s counties. There were no square feet under construction in any of these three markets.

Exhibit 2.18. Suburban Maryland Industrial Markets, 2013 Q4

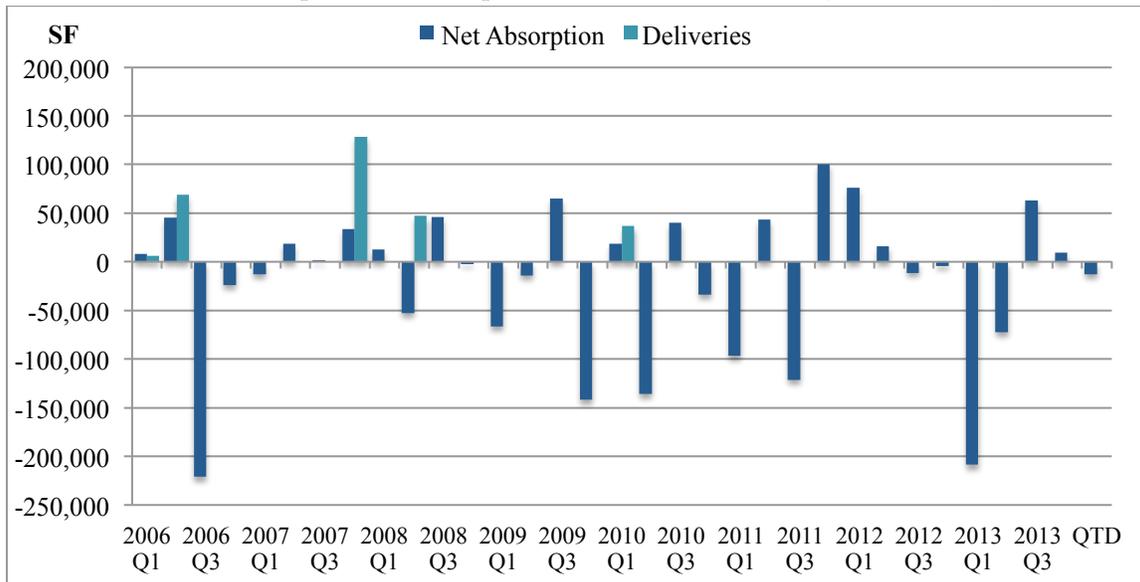
	Inventory (SF)	Overall Vacancy Rate	Availability Rate	Q4 Net Absorption (SF)	YTD Net Absorption (SF)	Asking NNN (\$/SF)	SF Under Construction
Frederick County	6,024,347	16.00%	16.60%	44,480	90,366	\$5.25	-
Montgomery	9,522,873	9.90%	14.20%	341,466	-178,147	\$6.92	-
Prince George's	38,872,841	9.20%	11.80%	110,400	551,607	\$6.89	-
Total	54,420,061	10.00%	12.80%	496,346	463,826	\$6.71	-

Source: CBRE.

#### City of Frederick Industrial Market

Exhibit 2.19 reflects the fact that very little new space has been delivered since the previous report was submitted. Moreover, there have been a number of quarters associated with significant negative net absorption, which is consistent with the high observed vacancy rate in the local industrial market.

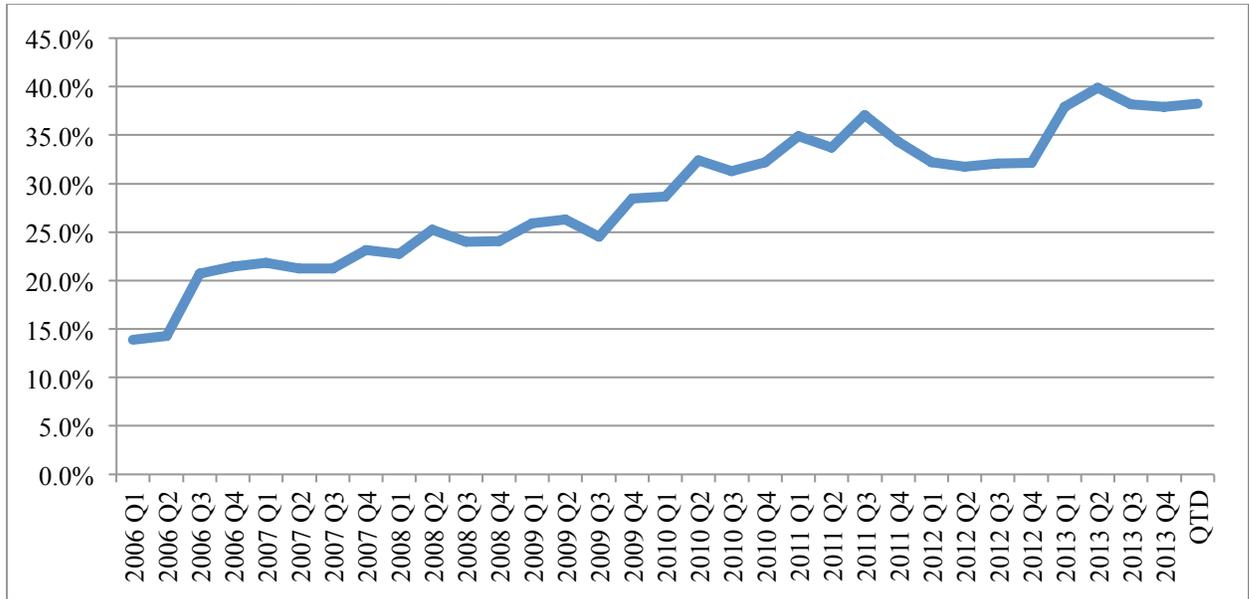
Exhibit 2.19. Industrial Space Net Absorption vs. Deliveries in the City of Frederick, 2006-2013



Source: Costar.

Jointly, exhibits 2.20 and 2.21 characterize an industrial marketplace that has been quite soft in terms of demand. Industrial vacancy is elevated in the City of Frederick based on Costar data and average asking rents have been stagnant for the past 5 years.

Exhibit 2.20. Industrial Space Vacancy Rate in the City of Frederick, 2006-2013



Source: Costar; Notes: 1. Vacancy rate is expressed as a percentage and describes the amount of new/relet/sublet space vacant divided by the existing RBA. Includes sub-leaseable space for all A, B, and C properties.

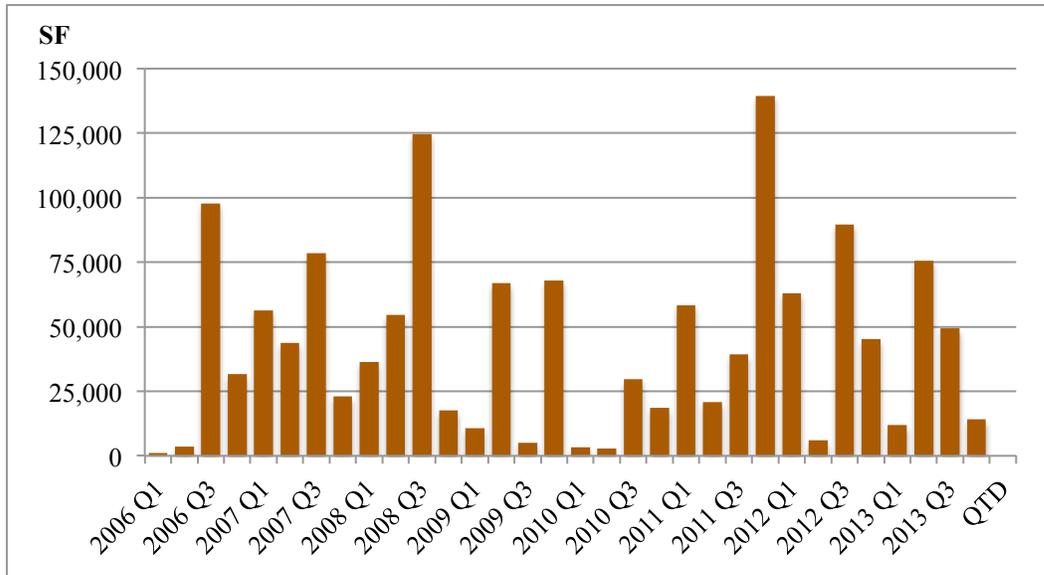
Exhibit 2.21. Industrial Space Average Asking Rents in the City of Frederick, 2008-2013



Source: Costar; Notes: 1. Rental rates are stated on a triple net basis. 2. Class A market consisted of only 1 building in 2008:Q1, 2 buildings from 2008:Q2-2009:Q4, and 3 buildings from 2010:Q1 to present. Class B market consisted of 27 buildings in 2008:Q1 and 28 buildings from 2008:Q2 to present. Class C market consists of 25 buildings from 2008:Q1 to present.

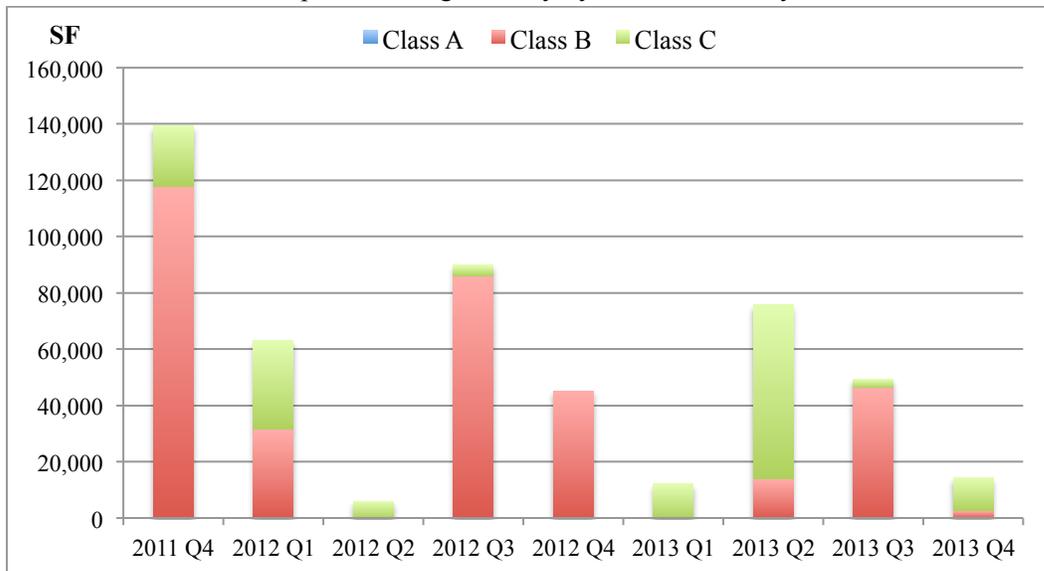
Exhibits 2.22 and 2.23 indicate an industrial market in the City of Frederick that is holding its own in terms of leasing activity, but only manifesting sporadic indications of progress. What is most interesting is that much of the leasing in recent quarters has been in older industrial space. This is not surprising given the highly limited availability of Class A space, but also may be a reflection of entrepreneurial activities among craft brewers, artisans or other start-up or emerging businesses.

Exhibit 2.22. Industrial Space Leasing Activity in the City of Frederick, 2006-2013



Source: Costar; Notes: 1. Leasing activity for all class A, B, and C properties. 2. Includes direct and sublet leasing activity.

Exhibit 2.23. Industrial Space Leasing Activity by Class in the City of Frederick, 2011-2013



Source: Costar; Notes: 1. Includes direct and sublet leasing activity.

## Industrial Market Dynamics in Geographies of Interest

Exhibit 2.24 is based upon Costar snapshot data and provides very basic statistics. According to these data, Downtown is not home to any industrial space inventory. However, that is known to be untrue. There is industrial space within Downtown, including the Willard Agriculture facility near Carroll Creek and the adjoining Carroll Creek Business Park (flex/industrial with M1/M2 zoning). Based on this, it can be said that the Downtown accommodates a relatively small amount of industrial space. Not surprisingly, the Golden Mile also has a limited industrial footprint, given its intense retail profile. Neither is the Golden Mile, which isn't surprising given its intense retail profile. East Frederick Rising is home to roughly two-thirds of the city's industrial space inventory whether measured in terms of rentable building area or total available square feet.

Exhibit 2.24. Industrial Space Inventory in Select Geographic Areas, 2013

<b>Area</b>	<b>RBA</b>	<b>Total Available SF</b>
Frederick County	3,686,668	1,578,143
Frederick Planning Region	2,023,794	906,255
City of Frederick	1,516,055	617,275
Downtown	-	-
Golden Mile	-	-
East Frederick Rising	1,028,787	435,935

Source: Costar snapshot data; Notes: 1. Frederick County numbers include the Frederick Planning Region. Frederick Planning Region numbers include the COF, DF, GM, and EFR. City of Frederick numbers include DF, GM, and EFR. 2. Available square footage represents "the total amount of space that is currently being marketed as available for lease or sale in a given time period. It includes any space that is available, regardless of whether the space is vacant, occupied, available for sublease, or available at a future date.

## Projected Demand for Industrial Space

Projecting demand for industrial space is complicated because some users migrate toward manufacturing-oriented space, some toward warehouses and yet others toward flex space (which competes heavily with traditional office space according to a 2006 Sage study conducted on behalf of St. John’s Properties). U.S. Census data from OnTheMap indicate that in 2011, combined employment in industrial and flex space using industries in the Frederick Planning Region accounted for 46.4 percent of countywide employment in these industries. The City of Frederick accounted for 24.3 percent of countywide employment in these industries or 52.5 percent of Frederick Planning Region employment in these industries.

Within the City of Frederick, the East Frederick Rising area represented 41 percent of the City of Frederick’s industrial/flex related employment in 2011. Downtown Frederick and the Golden Mile corridor represented 6.0 and 2.9 percent of industrial/flex related employment in the City of Frederick, respectively. Sage used these shares to estimate future demand for space in conjunction with projections of job growth in key industrial space-using industries. In the 2007 report, these industries included:

- Construction
- Manufacturing
- Wholesale trade
- Transportation and warehousing

Exhibit 2.25. Industrial & Flex Space-Related Employment in Geographic Areas of Interest, 2011

	Frederick County	Frederick Planning Region	City of Frederick	Downtown Frederick	East Frederick Rising	Golden Mile
Construction	7,670	3,203	1,485	116	538	93
Manufacturing	5,008	2,418	1,301	89	520	0
Wholesale Trade	2,822	1,659	1,034	39	465	17
Transportation and Warehousing	1,356	534	281	4	170	8
<b>Total</b>	<b>16,856</b>	<b>7,814</b>	<b>4,101</b>	<b>248</b>	<b>1,693</b>	<b>118</b>

Source: U.S. Census Bureau. 2013. OnTheMap Application. Longitudinal-Employer Household Dynamics Program. <http://onthemap.ces.census.gov/>; Notes: 1. Frederick County numbers include the Frederick Planning Region. Frederick Planning Region numbers include the COF, DF, GM, and EFR. City of Frederick numbers include DF, GM, and EFR.

To forecast future employment in the construction, manufacturing, wholesale trade and transportation and warehousing industries, Sage once again leveraged MWCOG projections of total Frederick County employment between 2015 and 2030. Sage also estimated the distribution of employment by analyzing occupational projections from the Maryland Department of Planning.

These industries often split their spatial needs between flex and other forms of industrial space. Based on the current inventory of space in the City of Frederick as well as national space utilization trends, Sage estimates that 65 percent of new jobs in relevant industries will be accommodated in industrial space (e.g., distribution centers) while 35 percent will select flex space. This distribution of spatial utilization yields an estimate of net new job growth of 1,095 using industrial space and 590 positions accommodated in flex space between 2015 and 2030 in Frederick County. Sage estimates that the City of Frederick will capture approximately 270 of these 1,095 positions.

The study team applied a standard parameter of 725 square feet per industrial space employee (it sounds like a big number, but many massive warehouses have relatively few employees) to produce estimates of future spatial demand.<sup>4</sup> As reflected in Exhibit 2.26, the study team estimates a demand for nearly 370,000 square feet of industrial space on net between 2015 and 2030 in the Frederick Planning Region. Exhibit 2.27 indicates that more than half of that net new square footage will be required in the City of Frederick (193,200 sq. ft.).

Exhibit 2.26. Frederick Planning Region: Employment Growth Based Industrial Space Demand, 2015-2030

	2015-2020	2020-2025	2025-2030	Total 2015-2030
Frederick County: Net New Industrial Employment	475	357	263	1,095
Frederick Planning Region (46%): Net New Industrial Employment	220	166	122	<b>508</b>
FPR Employment Growth-Based Industrial Space Demand	159,580	120,090	88,494	<b>368,164</b>
Average SF per Worker	725			

Source: Sage, MWCOG and Maryland Department of Planning; FPR: Frederick Planning Region;

Notes: 1. FPR estimates *include* City of Frederick estimates; City of Frederick estimates *include* DF, GM, and EFR estimates.

Exhibit 2.27. City of Frederick: Employment Growth Based Industrial Space Demand, 2015-2030

	2015-2020	2020-2025	2025-2030	Total 2015-2030
Frederick County: Net New Industrial Employment	475	357	263	1,095
City of Frederick (24%): Net New Industrial Employment	116	87	64	<b>267</b>
COF Employment Growth-Based Industrial Space Demand	83,752	63,027	46,444	<b>193,222</b>
Average SF per Worker	725			

Source: Sage; COF: City of Frederick; Notes: 1. City of Frederick estimates *include* DF, GM, and EFR estimates.

<sup>4</sup> Stephen S. Fuller, "How Office, Industrial and Retail Development and Construction Contributed to the U.S. Economy in 2011." Center for Regional Analysis George Mason University, May 2012.

Exhibits 2.28-2.30 reflect estimates of future industrial space demand downtown, in the Golden Mile and in East Frederick Rising. Only East Frederick Rising is associated with consequential increases in demand going forward (2015-2030; 80,000 sq. ft.).

Exhibit 2.28. Downtown Frederick: Employment Growth Based Industrial Space Demand, 2015-2030

	2015-2020	2020-2025	2025-2030	Total 2015-2030
City of Frederick: Net New Industrial Employment	116	87	64	267
Downtown Frederick (6%): Net New Industrial Employment	7	5	4	<b>16</b>
DF Employment Growth-Based Industrial Space Demand	5,065	3,811	2,809	<b>11,685</b>
Average SF per Worker	725			

Source: Sage; DF: Downtown Frederick.

Exhibit 2.29. The Golden Mile: Employment Growth Based Industrial Space Demand, 2015-2030

	2015-2020	2020-2025	2025-2030	Total 2015-2030
City of Frederick: Net New Industrial Employment	116	87	64	267
Golden Mile (3%): Net New Industrial Employment	3	3	2	<b>8</b>
GM Employment Growth-Based Industrial Space Demand	2,410	1,813	1,336	<b>5,560</b>
Average SF per Worker	725			

Source: Sage; GM: Golden Mile.

Exhibit 2.30. East Frederick Rising: Employment Growth Based Industrial Space Demand, 2015-2030

	2015-2020	2020-2025	2025-2030	Total 2015-2030
City of Frederick: Net New Industrial Employment	116	87	64	267
East Frederick Rising (41%): Net New Industrial Employment	48	36	26	<b>110</b>
EFR Employment Growth-Based Industrial Space Demand	34,575	26,019	19,173	<b>79,767</b>
Average SF per Worker	725			

Source: Sage; EFR: East Frederick Rising.

## Industrial Development Pipeline & Proposed Industrial Development Projects

Proposed projects in Frederick County encompass nearly 310,000 square feet of identifiable, potential future industrial space. The study team predicts net new incremental demand of 368,000 square feet of industrial space in the Frederick Planning Region between 2015-2030. The implication is that most of this space, if not all, will be developed by 2030 assuming that projects do not drop out of the queue because of financing or other impediments.

Exhibit 2.31. Proposed Industrial Development Projects

<b>Project</b>	<b>Location</b>	<b>Available SF (1)</b>	<b>Delivery</b>	<b>Community</b>
Frederick Distribution Center	3500-3599 New Design Rd	100,000	Unknown	Frederick County
Stanford Trading Ctr VI	4880 Winchester Blvd	20,000	Unknown	Frederick County
Stanford Trading Ctr VII	4870 Winchester Blvd	70,000	Unknown	Frederick County
Stanford Trading Ctr VIII	4850 Winchester Blvd	80,000	Unknown	Frederick County
Stanford Trading Center IV	3950 Dartmouth Ct	30,404	Unknown	Frederick County
Stanford Trading Center V	3954 Dartmouth Ct	8,000	Unknown	Frederick County
<i>Total</i>		<i>308,404</i>		

Source: Costar snapshot data; Notes: 1. The figures for available space reflect when a building is already partially pre-leased.

### Opportunity Gap

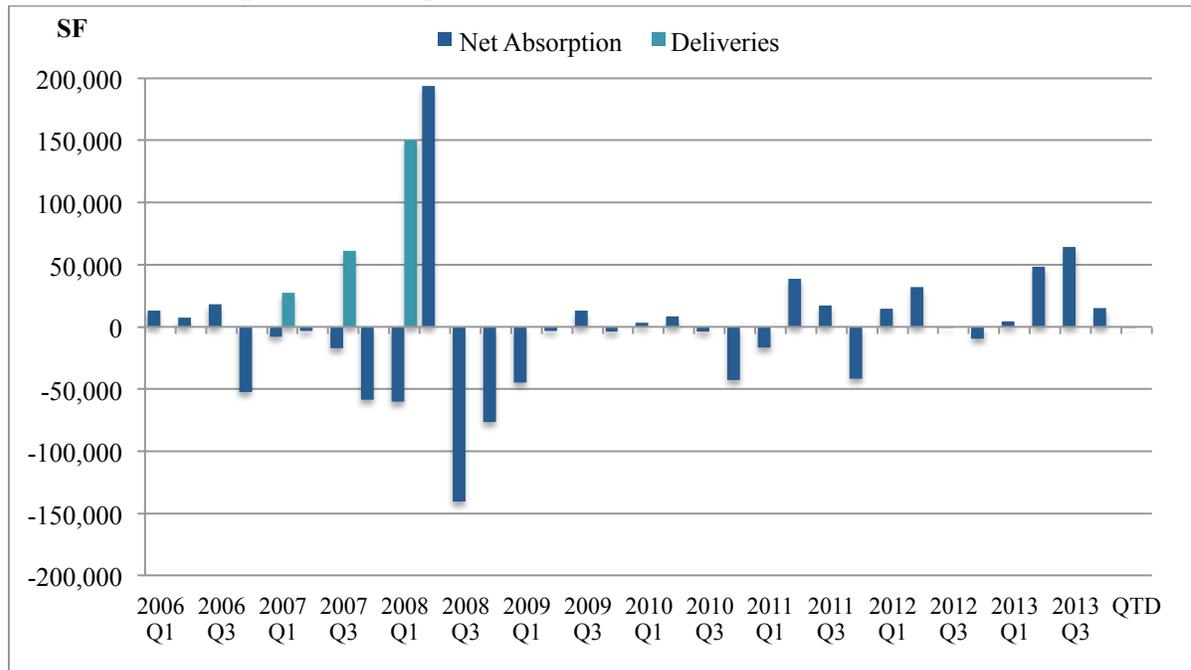
Based on the study team's estimates, there will be limited opportunities to add industrial space in the Frederick Planning Region beyond the projects listed above. Much will depend upon the pace of build-out at the proposed Stanford Trading Center slated for the county. Should the more than 300,000 square feet associated with that proposed project not be constructed, one would expect that there would be significantly more opportunity to supply industrial space within the Frederick Planning Region, including a significant amount of space in East Frederick Rising.

## IV. Flex/R&D Market

### City of Frederick Flex Market

As with other commercial real estate segments, recent years have been associated with soft net absorption and subdued deliveries. In fact, there have been no deliveries of flex space in the City of Frederick since the initial quarter of 2008, an indication that at least for much of the period since the recession began (December 2007), flex space supply has exceeded demand.

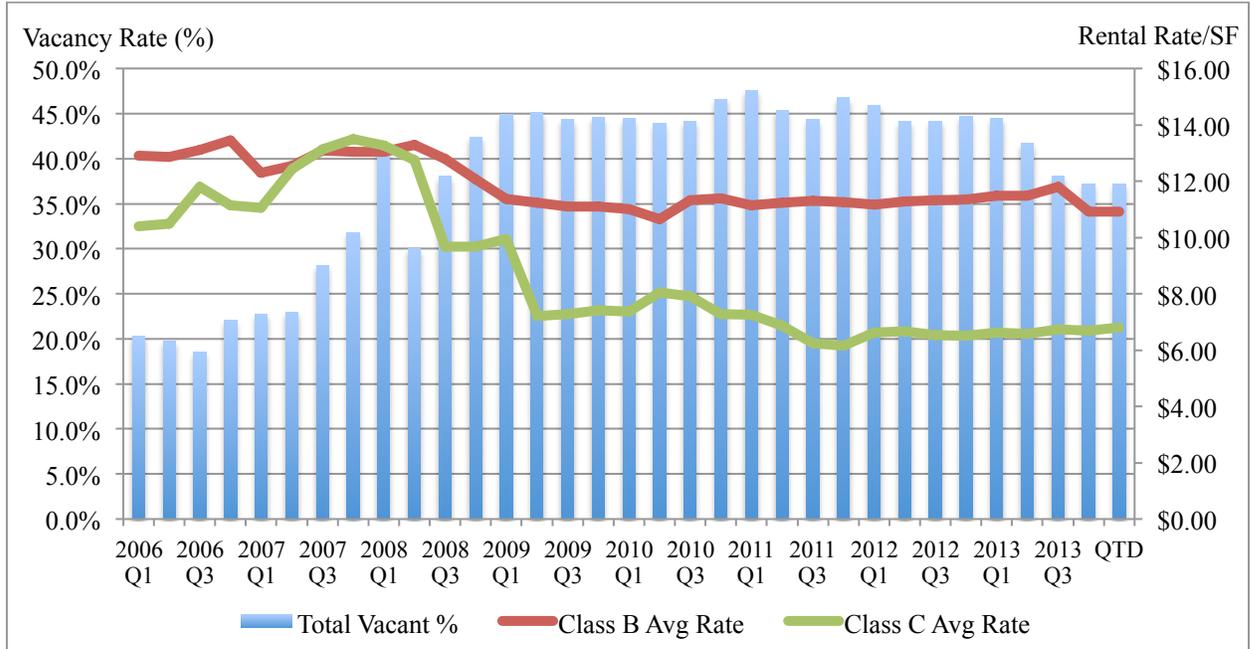
Exhibit 2.32. Flex Space Net Absorption vs. Deliveries in the City of Frederick, 2006-2013



Source: Costar.

In recent quarters, flex space vacancy has stabilized across property types. Rental rates have not begun to rise, however, indicating that landlords continue to motivate greater occupancy by suppressing rental rates.

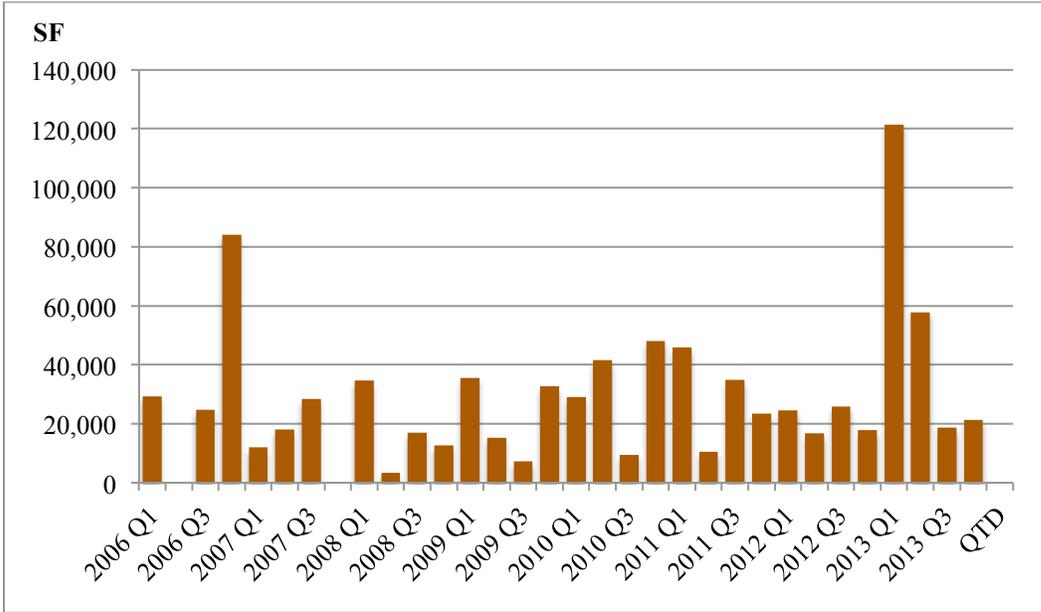
Exhibit 2.33. Flex Space Average Asking Rents vs. Overall Vacancy in the City of Frederick, 2006-2013\*



Source: Costar; Notes: 1. Rental rates are defined as the annual rental costs quoted on a per square foot basis. Includes sub-leasable space. 2. Vacancy rate is expressed as a percentage - it identifies the amount of new/relet/sublet space vacant divided by the existing RBA. Includes sub-leasable space for all A, B, and C properties. \*Class A rental rates not available.

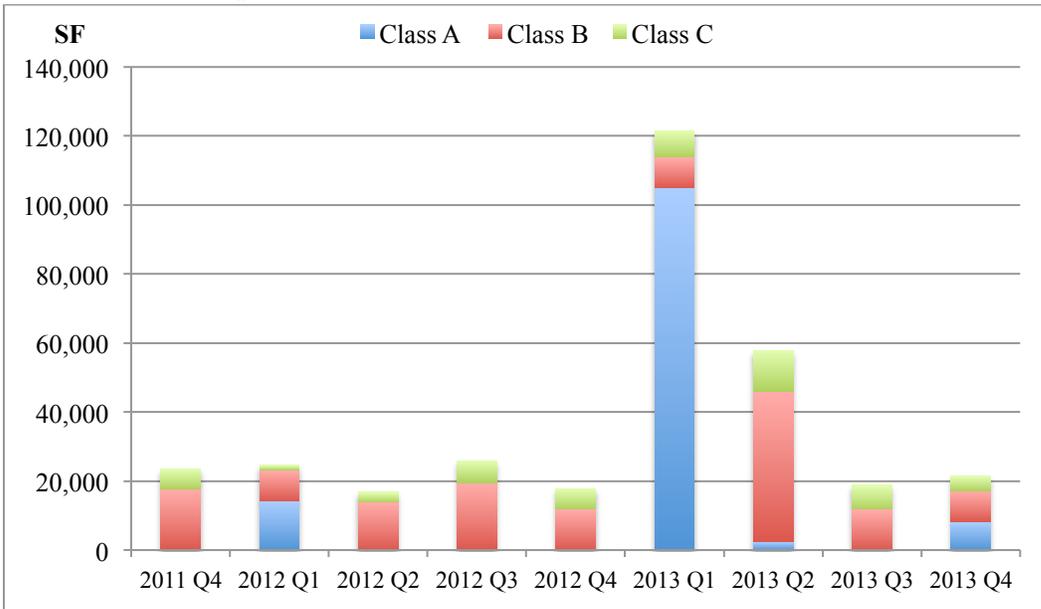
Exhibits 2.34 and 2.35 indicate that with the exception of the first quarter of 2013, leasing activity has been subdued in recent years. The first quarter of 2013 was associated with a significant lease of Class A space, but other than that one episode, there is no indication of accelerating momentum.

Exhibit 2.34. Flex Space Leasing Activity in the City of Frederick, 2006-2013



Source: Costar; Notes: 1. Leasing activity for all class A, B, and C properties. 2. Includes direct and sublet leasing activity.

Exhibit 2.35. Flex Space Leasing Activity by Class in the City of Frederick, 2006-2013



Source: Costar; Notes: 1. Includes direct and sublet leasing activity.

## Projected Demand for Flex Space

The same industries that feed demand for industrial space also feed demand for flex space. Sage estimates that the City of Frederick is likely to capture approximately 144 of the 590 flex space-associated jobs that are expected to be created in Frederick County between 2015 and 2030. Exhibits 2.36-2.40 summarize study team estimates of future spatial demand for the Frederick Planning Region, City of Frederick, Downtown, the Golden Mile and East Frederick Rising, respectively.<sup>5</sup> Of the sub-city geographies of interest, only East Frederick Rising is associated with a consequential amount of net new demand for flex space. In part, this is a reflection of the significant amount of space anticipated at the Riverside Research Park, which will potentially limit demand for new flex space elsewhere.

Exhibit 2.36. Frederick Planning Region: Employment Growth Based Flex Space Demand, 2015-2030

	2015-2020	2020-2025	2025-2030	Total 2015-2030
Frederick County: Net New Flex Employment	256	192	142	590
Frederick Planning Region (46%): Net New Flex Employment	119	89	66	<b>273</b>
FPR Employment Growth-Based Flex Space Demand	53,334	40,136	29,576	<b>123,047</b>
Average SF per Worker	450			

Source: Sage, MWCOG and Maryland Department of Planning; FPR: Frederick Planning Region; Notes: 1. FPR estimates *include* City of Frederick estimates. City of Frederick estimates *include* DF, GM, and EFR estimates.

Exhibit 2.37. City of Frederick: Employment Growth Based Flex Space Demand, 2015-2030

	2015-2020	2020-2025	2025-2030	Total 2015-2030
Frederick County: Net New Flex Employment	256	192	142	590
City of Frederick (24%): Net New Flex Employment	62	47	34	<b>144</b>
COF Employment Growth-Based Flex Space Demand	27,991	21,065	15,522	<b>64,578</b>
Average SF per Worker	450			

Source: Sage; COF: City of Frederick; Notes: 1. City of Frederick estimates *include* DF, GM, and EFR estimates.

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<sup>5</sup> Stephen S. Fuller, op. cit.

Exhibit 2.38. Downtown Frederick: Employment Growth Based Flex Space Demand, 2015-2030

	2015-2020	2020-2025	2025-2030	Total 2015-2030
City of Frederick: Net New Flex Employment	62	47	34	144
Downtown Frederick (6%): Net New Flex Employment	4	3	2	<b>9</b>
DF Employment Growth-Based Flex Space Demand	1,693	1,274	939	<b>3,905</b>
Average SF per Worker	450			

Source: Sage; DF: Downtown Frederick.

Exhibit 2.39. The Golden Mile: Employment Growth Based Flex Space Demand, 2015-2030

	2015-2020	2020-2025	2025-2030	Total 2015-2030
City of Frederick: Net New Flex Employment	62	47	34	144
Golden Mile (3%): Net New Flex Employment	2	1	1	<b>4</b>
GM Employment Growth-Based Flex Space Demand	805	606	447	<b>1,858</b>
Average SF per Worker	450			

Source: Sage; GM: Golden Mile.

Exhibit 2.40. East Frederick Rising: Employment Growth Based Flex Space Demand, 2015-2030

	2015-2020	2020-2025	2025-2030	Total 2015-2030
City of Frederick: Net New Flex Employment	62	47	34	144
East Frederick Rising (41%): Net New Flex Employment	26	19	14	<b>59</b>
EFR Employment Growth-Based Flex Space Demand	11,556	8,696	6,408	<b>26,660</b>
Average SF per Worker	450			

Source: Sage; EFR: East Frederick Rising.

## Proposed Flex Development Projects

Exhibit 2.41. Proposed Flex Development Projects

<b>Project</b>	<b>Location</b>	<b>Available SF (1)</b>	<b>Delivery</b>	<b>Community</b>
Hyattstown Business Park Ph 2	1 Urbana Pike	90,000	Unknown	FC
McKinney Business Center 2	4450 Georgia Pacific Blvd	29,000	Unknown	FC
McKinney Business Center 3	4400 Georgia Pacific Blvd	49,500	Unknown	FC
R&D / Build-to-suit	Executive Way	352,400	Unknown	FPR
Riverside Research Park	Gas House Pike @ Monocacy Blvd	1,800,000	Unknown	COF
Monocacy Center East - Bldg. 3	Bowmans Farm Rd	30,600	Unknown	COF, EFR
Monocacy Center East - Bldg. 4	Bowmans Farm Rd	30,600	Unknown	COF, EFR
<i>Total</i>		<i>2,382,100</i>		

Source: Costar snapshot data.

FC: Frederick County

FPR: Frederick Planning Region

COF: City of Frederick

DF: Downtown Frederick

GM: Golden Mile

EFR: East Frederick Rising

Notes: 1. The figures for available space reflect when a building is already partially pre-leased.

### Opportunity Gap

Based on the study team's formulaic approach, it is unlikely that there will be meaningful shortages of flex space in the City of Frederick anytime soon. However, economic development never follows a formula. We expect that the Riverside Research Park will attract many new tenants over time because of its location, physical appeal and connection to key institutions.

Over time, the Park is expected to supply 1.8 million square feet of space. Delivery times are unknown. What is known is that the eventual supply of this space will likely suppress demand for flex space in other parts of the city.

### **Conclusions**

The study team has provided forecasts for future demand for office, industrial and flex space for the Frederick Planning Region, the City of Frederick, and key sub-city geographies. Unlike the 2007 report, the current report does not foresee significant shortages of space in any category. This is partially a reflection of still high vacancy rates in all categories of commercial real estate discussed in this chapter. It is also a reflection of projections of job creation throughout the Washington metropolitan area going forward. The region has already been significantly impacted by sequestration, falling defense budgets and cutbacks in procurement. The region added jobs more slowly than the nation in 2013 and actually lost jobs in the professional and business services category.

This dynamic status quo heavily shapes projections for the future. Of course, there are things that can interrupt economic trajectories. This is precisely what occurred after the Great Recession. The 2007 study team predicted large shortfalls of commercial space. The global financial crisis intervened. Rather than make significant progress since 2007, the market has taken a step back with limited absorption recorded in all commercial real estate categories and almost no new construction delivered.

It is possible that a great economic boom awaits; one that will once again alter the trajectory of spatial demand in Frederick. However, this boom is not reflected in current Council of Government forecasts. Given the general lack of speculative construction presently taking place in the City of Frederick, the marketplace also does not sense an imminent surge of commercial real estate demand.

From a community planning perspective, it is good to know that should economic growth begin to blossom again, there are sites that could accommodate a real estate boom. Exhibit 2.42 reflects many of the key sites available to accommodate additional economic activity, including the Brick Works Property and the aforementioned Riverside Research Park. The City has also annexed a number of properties slated for development, including the Crum Farm and Thatcher properties.

Exhibit 2.42. Key Available Properties or Land

Site/Name	Type	Acres/SF	Location	Notes/Amenities
Ballenger Creek Center	Manufacturing/ Office	5.9 acres	Ballenger Center Drive	Adjacent to the Frederick News-Post facility is 5.9 acres remaining of a 15-acre business park. Zoned MO. Good access, excellent highway visibility from I-70, land can be purchased as a 3.58 ac lot and a 2.1ac lot.
Frederick Brick Works Property	Mixed-Use	66 acres	East Street	66 AC mixed-use infill development along new S. East Street Gateway. The site proposes a mix of office, retail and residential opportunities. Foulger Pratt – Developer
Frederick News Post	Mixed-Use	1 acres	200 E. Patrick St.	1 AC; With the relocation of the FNP to a new facility on the City’s SE side, this downtown location is available. This site offers both renovation and infill development opportunity along Carroll Creek Park and E. Patrick St.
Riverside Research Park	Office, Industrial, Warehouse	1.8m SF on 121 acres	Rt. 26 and Monocacy Blvd.	Home to NCI@Riverside and Charles River Labs, Riverside Research Park is a Research and development campus with secured access; part of the 450-acre Riverside Corporate Park; First life sciences research campus in Frederick County
Schley Farm	Industrial (land)	74.50 AC*	Church Street/ Monocacy Blvd	For sale: close I-70 and US15; 1 1/2 miles from Fort Detrick. Zoned GC and M-1. *74.50 AC total (M-1: 59.2; GC: 15.3)
Vantage 70	Office, Research, Industrial, Manufacturing	23 acres*	Intersection of I70 & I270	More than \$10M of infrastructure investment including immediate access to water, sewer, electric and fiber. Ideal for office, research, industrial and manufacturing. Zoned M-1. *(65,000 SF state-of-the-art warehouse, 130,000 SF concrete foundation, 66,500 SF underground warehouse)

Source: City of Frederick.

## Chapter 3. Retail Market Dynamics

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## **Introduction**

### Retail as a Driver of Quality of Life

The third and final chapter of this report focuses upon retail dynamics in the study areas. The performance of retail is not only a reflection of demographics, job creation, income formation, fads and fashion, the collective decisions of entrepreneurs and major chains, etc., it also helps define the real and perceived quality of life in any given community.

One of Frederick's great strengths is its significant retail concentration, including along the Golden Mile and Downtown. People seemingly have a preference for areas with substantial retail opportunities, including those that take the form of restaurants, taverns, specialty clothing, art galleries, antique shops and stores focused upon children. They like product choice and they like to compare prices. Frederick offers people the opportunity to do what they want, and this working in conjunction with attractive area demographics leads to the conclusion that additional retail real estate investment is forthcoming.

## **I. Retail Real Estate Dynamics**

### Retail Real Estate Before, During and After the Recession

Exhibit 3.1 presents Costar data characterizing retail vacancy in the city and county. By the third quarter of 2013, retail vacancy in both the city and county had returned to pre-recession levels, though not levels achieved during the pinnacle of economic expansion (during the prior business cycle) experienced during the 2005-2006 period.

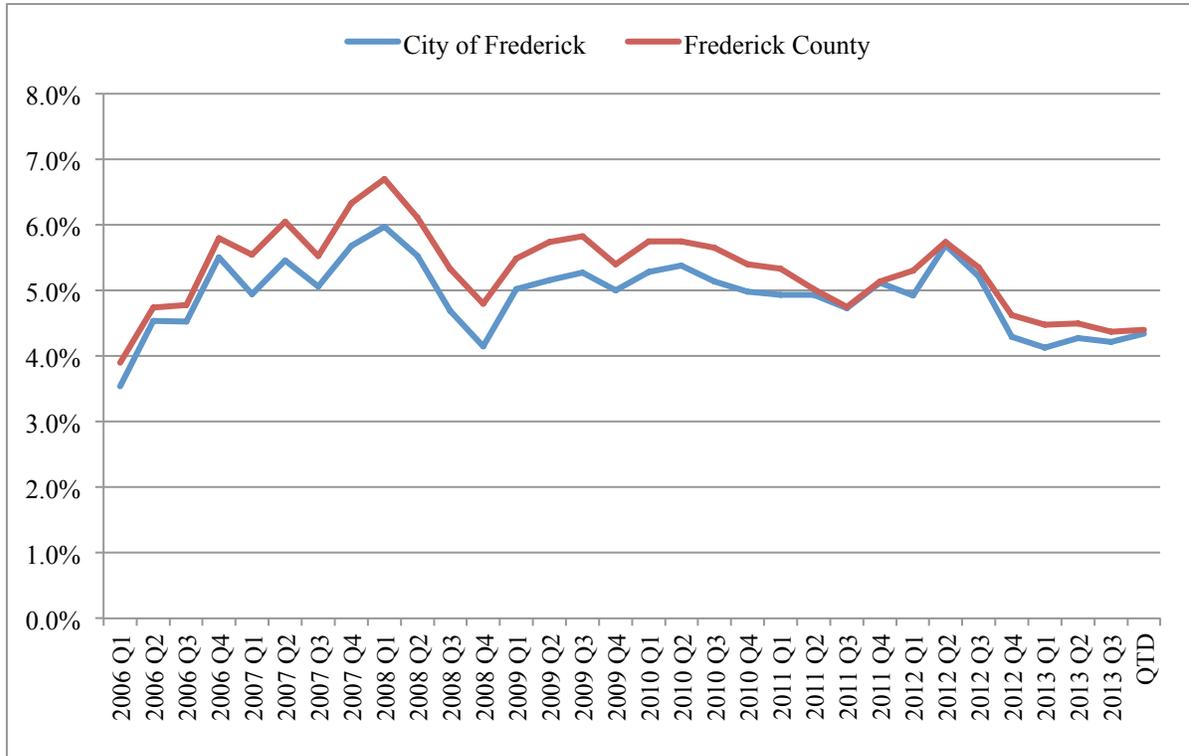
As with other property types, low retail vacancy rates often serve as a signal to developers to add space. The years 2006-2008 were associated with significant retail expansion both nationally and locally. Unfortunately, large investments in commercial real estate often seem to occur just before an economic downturn.

This business cycle was no different. For a time, property owners and managers can reduce vacancy through stepped up marketing and by lowering asking rents. This may help explain the declines in City of Frederick and Frederick County retail vacancy rates in 2008, which essentially represented the first year of the recession. The recession's negative momentum picked up during September of that year and vacancy rose and remained elevated for much of the subsequent 2-year period.

But it is important to note that though vacancy expanded, Frederick seems to have avoided the level of deterioration that was experienced in many other commercial real

estate markets across the nation. There are a number of explanations for this, including the fact that the recession's impact was felt less intensely in the Washington metropolitan areas than in virtually all other major communities. Moreover, Frederick's retail real estate market re-attained equilibrium more promptly due to the physical constraints on construction that existed prior to the recession. As of this writing, retail space vacancy remains below 5 percent in both the city and the county.

Exhibit 3.1. Retail Space Vacancy Rate, City of Frederick v. Frederick County 2006 Q1-2013 Q3



Source: Costar; Notes: 1. Includes sub-leasable space.

Exhibit 3.2, also based upon Sage’s analysis of Costar data, offers a different perspective on the recent business cycle. By 2007, the average square foot of retail space in Frederick City yielded owners \$19.21. Demand had been expanding faster than supply, allowing property owners and managers to produce higher returns.

When the recession and global financial crisis took hold, rents were suppressed as vacancy rose and as tenants began asking for larger concessions (see Exhibit 3.3 to observe the obvious and inverse relationship between vacancy and rental rates). The result was that by 2009, rent per retail square foot has fallen to \$15.62, a decline approaching 20 percent in nominal terms, more if one considers inflation. Even by third quarter of 2013, rents had not return to pre-recession levels in either the city or the county. While this is a reflection of economic dislocation, lower rents also render it more feasible for prospective entrepreneurs to move forward with their plans. It is during periods like these that tomorrow’s successful businesses are often founded. The money saved on rent allows these businesses to invest more on marketing, quality of product and quality of service.

Exhibit 3.2. Retail Space Rental Rate per SF,  
City of Frederick vs. Frederick County, 2006-2013

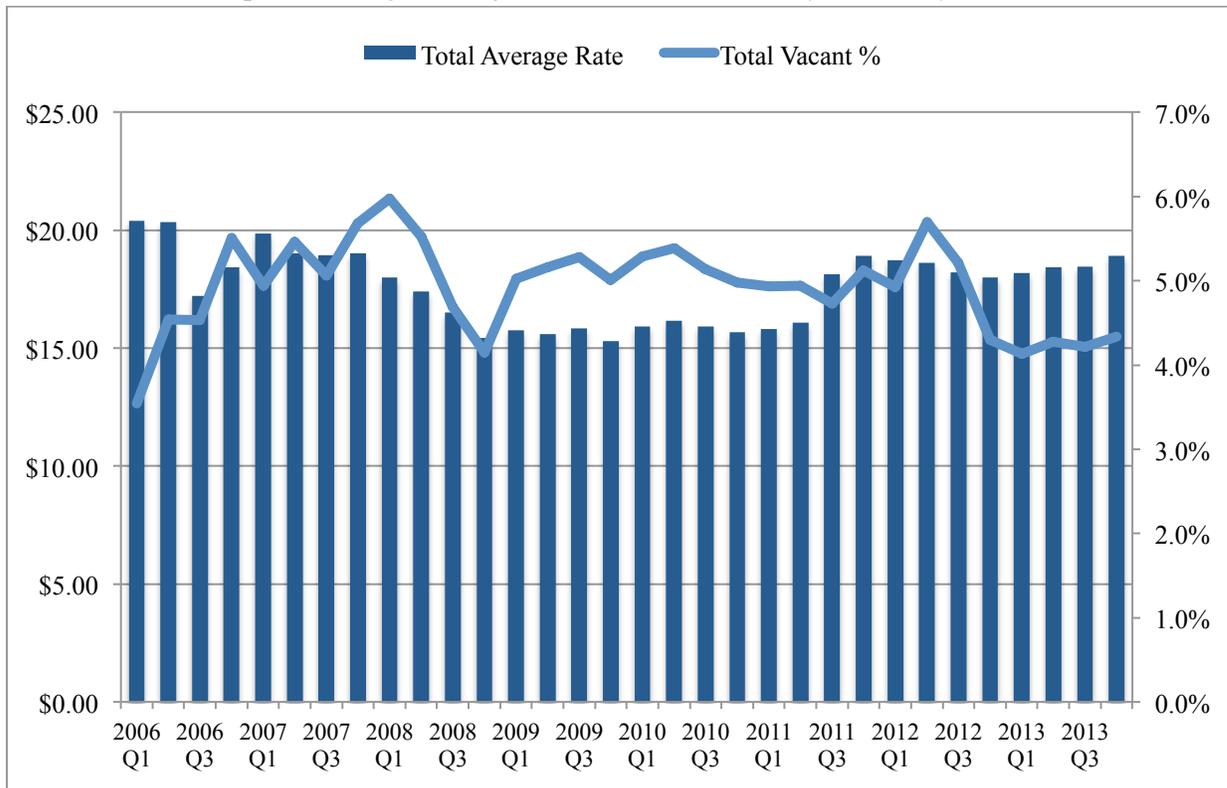
	<b>City of Frederick</b>	<b>Frederick County</b>
<b>2006</b>	\$19.10	\$18.70
<b>2007</b>	\$19.21	\$18.70
<b>2008</b>	\$16.83	\$16.82
<b>2009</b>	\$15.62	\$15.74
<b>2010</b>	\$15.92	\$15.57
<b>2011</b>	\$17.23	\$16.43
<b>2012</b>	\$18.40	\$17.51
<b>2013 Q1</b>	\$18.18	\$17.40
<b>2013 Q2</b>	\$18.44	\$17.67
<b>2013 Q3</b>	\$18.45	\$17.58
<b>QTD</b>	\$18.92	\$17.97

Source: Costar; Notes: 1. Includes sub-leasable space. 2. All rates are triple-N basis. 3. Yearly figures are averages of 4 quarters in the year.

Exhibit 3.3 shows that average retail rent began to decline in sustainable fashion by early 2007. By that point, the economic recovery was losing steam and property owners were having to compete more aggressively with new construction. Rents did not begin to mount a sustained recovery until mid-2011, meaning that rents remained highly suppressed for more than four years. There are many implications associated with a lack of rent growth for such a sustained period, including a lack of impetus for new construction and less money available for property maintenance and improvement.

Despite the availability of diminished rents, vacancy did not begin to decline in sustained fashion until early- to mid-2012. Over the past year, vacancy has been stable even as rents have been expanding. These are positive indications.

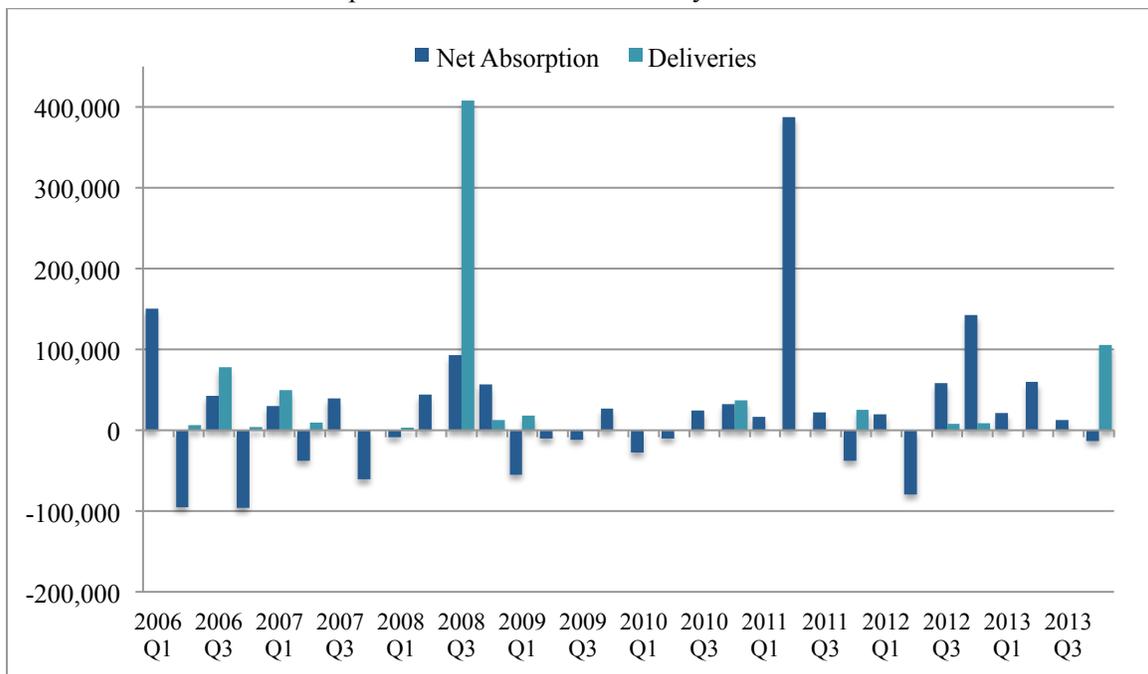
Exhibit 3.3. Retail Space: Average Asking Rents vs. Overall Vacancy in the City of Frederick



Source: Costar; Notes: 1. Includes sub-leasable space.

Exhibit 3.4 reflects one of the great ironies of economics – real estate development often tends to come on-line during recessionary periods. That is because the decision to move forward with development typically takes place during times of economic expansion, but the time to build projects can result in newly constructed space becoming available at very inopportune moments. In fact, as an economic recovery continues, developers, financiers and others become more confident. New projects become bigger. As the exhibit indicates, a significant amount of new retail space became available in the city during the third quarter of 2008, which is precisely when investment banking giant Lehman Brothers failed, ushering forth the global financial crisis. That helped to push total vacancy higher, with retail vacancy rising through mid-2010.

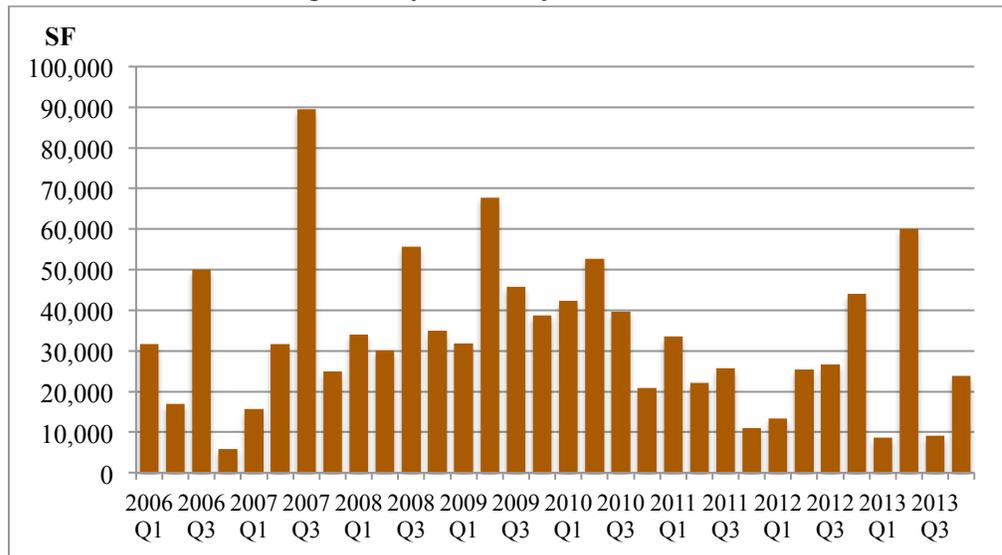
Exhibit 3.4. Retail Net Absorption vs. Deliveries in the City of Frederick



Source: Costar; Notes: 1. Includes sub-leasable space. 2. Deliveries measured in terms of rentable building area, Net Absorption measured in SF.

As Exhibit 3.5 reveals, retail leasing activity remained subdued until late-2012 and into 2013. The recent enhancement has helped push rents higher. By 2012, retail space rental rates had recovered to their highest levels since 2007, the year preceding the recession. Exhibit 3.6 provides summary data for select geographic areas of interest. Note the significant amount of available space downtown relative to rentable building area there according to Costar snapshot data. This appears to be due to the fact that many Downtown properties were only loaded into the Costar database recently and that coverage continues to fall well short of 100 percent.

Exhibit 3.5. Retail Leasing Activity in the City of Frederick



Source: Costar; Notes: 1. Includes sub-leasable space.

Exhibit 3.6. Retail Space Inventory in Select Geographic Areas, 2013

Area	RBA	Total Available SF
Frederick County	3,926,027	582,827
Frederick Planning Region	3,420,114	494,879
City of Frederick	2,309,740	361,817
Downtown	153,156	47,951
Golden Mile	870,813	129,830
East Frederick Rising	7,380	1,230

Source: Costar snapshot data; Notes: 1. Frederick County numbers include the Frederick Planning Region. Frederick Planning Region numbers include the COF, DF, GM, and EFR. City of Frederick numbers include DF, GM, and EFR. 2. Rentable Building Area (RBA) “is the space the tenant will occupy in addition to the associated common areas of the building such as the lobby, hallways, bathrooms, equipment rooms, etc. There is no real difference between RBA and GLA (Gross Leasable Area) except that GLA is used when referring to retail properties while RBA is used for other commercial properties.” 3. Available Space represents “the total amount of space that is currently being marketed as available for lease or sale in a given time period. It includes any space that is available, regardless of whether the space is vacant, occupied, available for sublease, or available at a future date.” Costar includes existing, under construction, and under renovation buildings in its statistical calculations of available space.

Exhibit 3.7 reflects existing shopping locations in the City of Frederick. The largest concentrations of retail square footage are along the Golden Mile (1.6 million SF) and Downtown (1.1 million SF).

Exhibit 3.7. City of Frederick Retail Shopping Centers, 2014

Name	Location	Total SF	Corridor
40 West Center	1425 W. Patrick St.	12,683	Golden Mile
Amber Meadows	Opossumtown Pike & Thomas Johnson Dr.	100,387	TJ Drive
Antietam Village Shopping Center (Walgreen's)	1595 Opossumtown Pike	14,820	TJ Drive
Clemson Corner	RT. 15 & RT. 26	362,000	Northern
College Park Plaza	7th St. & Fairview Ave.	78,722	Downtown Frederick
Downtown Frederick Retail	Core Downtown Frederick Retail	523,602	Downtown Frederick
East Patrick Retail Center	430 E. Patrick St.	6,150	Downtown Frederick
East Street Center	911 - 923 N. East St.	73,478	East Frederick
East Street Plaza	501-509 East St.	5,700	East Frederick
Eastgate Shopping Center	E. Patrick St. & Shaw Rd.	40,061	Downtown Frederick
Everedy Square & Shab Row	East St. & Church St.	70,000	Downtown Frederick
Fairview Shopping Center	921 W. 7th St.	53,998	Downtown Frederick
Festival at Frederick	Prospect Blvd & Jefferson St.	130,757	Other
Frederick County Square	US 40 W. & Hoke Rd.	235,000	Golden Mile
Frederick Shoppers World	US 40 W. & Baughman's Ln.	132,681	Golden Mile
Frederick Shopping Center	7th St. and Taney Ave.	236,557	Downtown Frederick
Golden Mile Market Place	US 40 W-W. Patrick & McCain Dr.	152,225	Golden Mile
Kinko's Center	1046 W. Patrick St.	13,500	Golden Mile
Market Square	RT. 26 & RT 15.	179,350	Northern
McCain Center	4 S. McCain Dr.	19,200	Golden Mile
McCain Plaza	50 N. McCain Dr.	11,295	Golden Mile
Monocacy Village Center	East St. & E. 9th St.	78,898	East Frederick
Old Farm Station	Yellow Springs Rd. & Old Farm Dr.	8,725	Other
Patrick Street Shopping Center	467 W. Patrick St.	45,311	Downtown Frederick
Prospect Plaza Shopping Center	S. Jefferson St. at Prospect Blvd.	125,306	Other
Retained portion of Frederick Towne Mall	US 40 W. & Waverly Dr.	367,434	Golden Mile
Rock Center (AT&T Center)	US 40, 1170 W. Patrick St.	23,000	Golden Mile
Rockledge Plaza	US 40, 1100 W. Patrick St.	22,572	Golden Mile
Rose Hill Plaza	US 15 N. & Opossumtown Pike	30,000	TJ Drive
Rosemont Center	1713 Rosemont Ave	9,674	Other
Stonegate Center	US 40, 1517 W. Patrick St.	14,400	Golden Mile
Taskers Chance Village Center	Baughman's Ln & Key Parkway	26,027	Golden Mile
The Shops at Monocacy	1700 Kingfisher Dr.	109,144	Northern
Vienna Plaza	1507-1509 W. Patrick St.	17,015	Golden Mile
Vista Shops at Golden Mile	Rt. 40 & Hillcrest Dr.	105,309	Golden Mile
Walnut Ridge Shopping Center	Yellow Springs Rd. & Old Farm Dr.	53,792	Northern
Waverly Center	45 Waverly Dr.	20,000	Golden Mile
West Patrick Street Center	W. Patrick & College Terr.	51,572	Downtown Frederick
Westpointe Plaza	US 40 W. at US 40 A, 1440-1450 W Patrick St.	33,000	Golden Mile
Westridge Square	US 40 W, S side of Key Pkwy	275,154	Golden Mile
Whittier Lakefront Center	Christopher's Crossing & Whittier Dr.	41,577	Northern
Wild Bird Garden Center	1407-1413 W. Patrick St.	6,765	Golden Mile
Willowtree Plaza	US 40 W, E side of McCain Dr.	44,847	Golden Mile
Wolf's Furniture Plaza	1217-1219 W. Patrick St.	71,900	Golden Mile
Total SF		4,033,588	
Total SF in 2007		3,325,288	

Source: City of Frederick; BBP Associates.

## II. A Granular Analysis of Retail Dynamics in Frederick

This portion of the analysis focuses on two primary study areas:

1. Downtown Frederick
2. The Golden Mile (representing the major retail hub of the city of Frederick outside downtown)

Downtown is a fashionably walkable retail area offering a variety of retail opportunities and dining experiences. Many of the businesses are homegrown. This historic core of the city and county includes significant nodes of activity along Market and Patrick streets and near the intersection of East and Church streets (e.g., Everedy Square & Shab Row, which represent downtown Frederick's largest cluster of specialty shops). The area encompasses roughly 262 acres or 0.4 square miles.

While Downtown wins awards and inspires envy among other similarly situated communities, the Golden Mile represents a major, historic retail district in its own right. This analysis treats the Golden Mile as representing the city's primary retail trade area. The Golden Mile embodies the largest concentration of retail uses as measured by gross leasable area or GLA. The corridor includes Fredericktowne Mall (slated for redevelopment), which was Frederick's first enclosed shopping center. There are also numerous strip-style centers there supported by standalone specialty stores and restaurants.

Together, the Golden Mile and downtown represent nearly 50 percent of all retail establishments in the City of Frederick. While there are many local businesses, more than a few national/regional chains are also present, including Talbots at 18 N. East Street, Costco at 10 Monocacy Boulevard, Walmart, which is one of the city's major employers (approx. 700 employees), and Wegman's (550 employees).

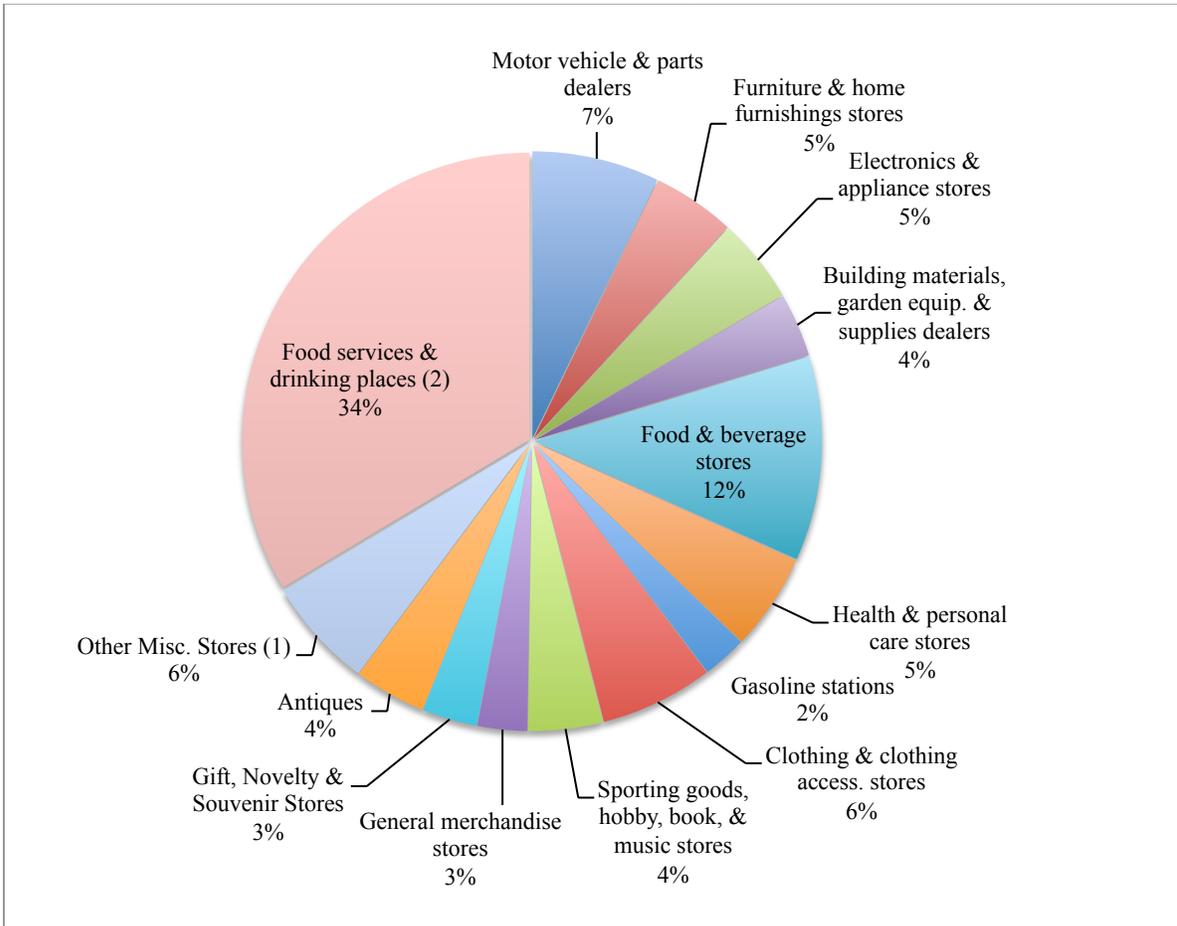
As noted in the 2007 report, many of Downtown's historic buildings have been revitalized and rehabilitated, particularly along Market Street from Carroll Creek to 3rd Street, along E. Patrick Street, and at the intersection of Church and East. Other retail blocks, particularly those north of 3rd and south of Carroll Creek along Market, while offering fewer active ground floor retail business opportunities, have created support for retail through rehabilitation for residential use. New and highly visible infill development has occurred along Carroll Creek Park (the city's urban linear park).

Of course, there are many other important retail districts in the city. Newer retail buildings are clustered in Frederick's Northern End (e.g. Market Square, Clemson Corner) near recently constructed residential neighborhoods (within the past decade or so). The Shops at Monocacy is a strip-style shopping center anchored by a Giant Food Store surrounded primarily by national chain tenants including Starbucks, Cold Stone Creamery, Mamma Lucia, Hair Cuttery, Panera Bread, and Capital One Bank.

Exhibit 3.8 provides summary detail regarding retail establishment presence in the City of Frederick. There is much to note here, including the concentrations of auto dealers, furniture stores and sellers of electronics and appliance stores. The presence of these retailers in large numbers speaks to the attractive and ever-improving demographics of Frederick, Maryland.

Remaining retail nodes within the city can generally be characterized as small-scale, neighborhood-serving shopping centers. Frederick Shopping Center (1305 West 7<sup>th</sup> Street), the City's first suburban-style strip shopping center, was refurbished during the prior decade with façade renovations and the addition of regionally oriented businesses (e.g. Bonefish Grill, Ashley Furniture). Many other businesses there reflect the connection to the neighborhood, including J&M Cleaners, Jackson Hewitt Tax Service, Pet Valu, Allegany Optical, Radio Shack and U.N.I. Urgent Care Center.

Exhibit 3.8. Breakdown of Retail Establishments in the City of Frederick, 2013



Type of Retail	No. of Retail Establishments
Motor vehicle & parts dealers	46
Furniture & home furnishings stores	30
Electronics & appliance stores	31
Building materials, garden equip. & supplies dealers	23
Food & beverage stores	74
Health & personal care stores	35
Gasoline stations	16
Clothing & clothing access. stores	41
Sporting goods, hobby, book, & music stores	27
General merchandise stores	18
Gift, Novelty & Souvenir Stores	20
Antiques	26
Other Misc. Stores (1)	40
Food services & drinking places (2)	216
<i>Total</i>	<i>643</i>

Source: InfoUSA; Notes: 1. Includes nonstore retailers. 2. Excluding caterers.

## Downtown Frederick

The 40-block historic downtown Frederick district is bound by 7<sup>th</sup> Street to the north, East Street and N. Wisner Street to the east (including Everedy Square/Shab Row), South Street to the south, and Bentz Street to the west (including a section of West Patrick Street extending from Bentz to Jefferson Street). Food services and drinking places make up a third of all retail establishments in Downtown Frederick. Other consequential categories include clothing and clothing accessory stores (12%), food and beverage stores (10%), gift, novelty, and souvenir stores (9%).

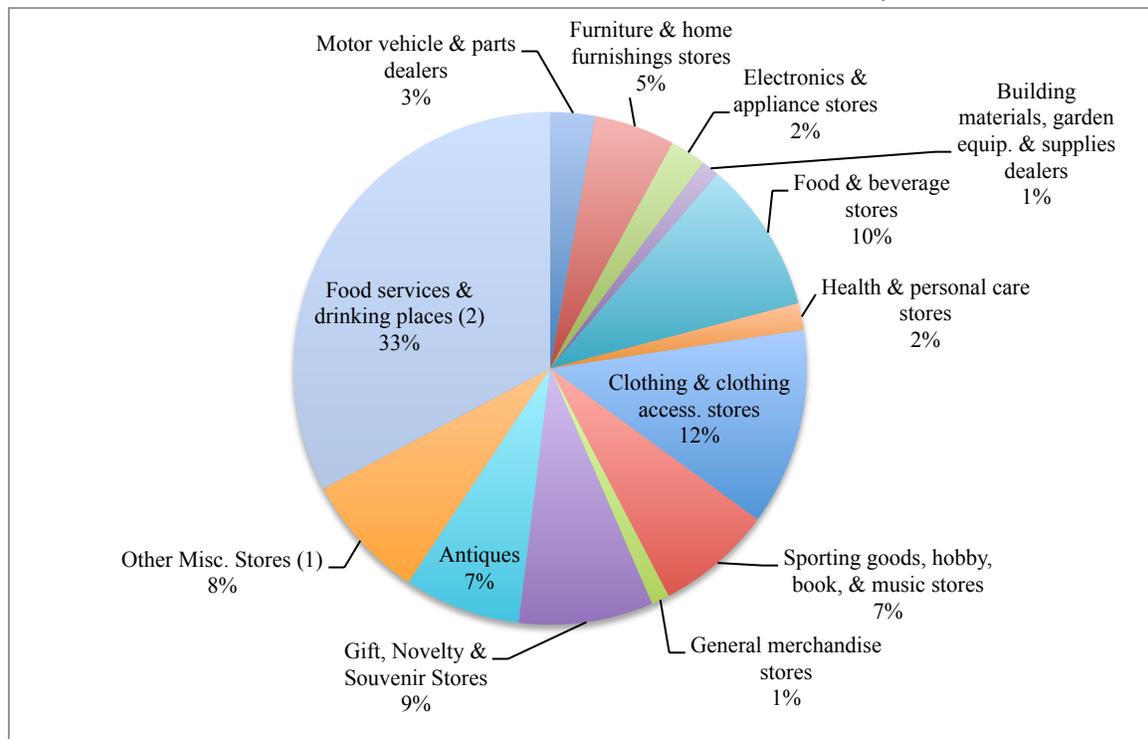
Exhibit 3.9. Map of historic Downtown Frederick



Source: Sage; The Nielsen Company.

As reflected in Exhibit 3.10, unlike the broader city, Downtown tends to have a higher share of businesses in specialty clothing stores, gift stores (reflecting its role as a regional destination), and restaurants (reflecting in part the experiential component of Downtown). Not surprisingly, these retailers tend to be smaller on average across most dimensions and are arguably more vulnerable to economic downturns. This helps explain Downtown’s relatively higher retail vacancy rate recently.

Exhibit 3.10. Breakdown of Retail Establishments in Downtown Frederick, 2013



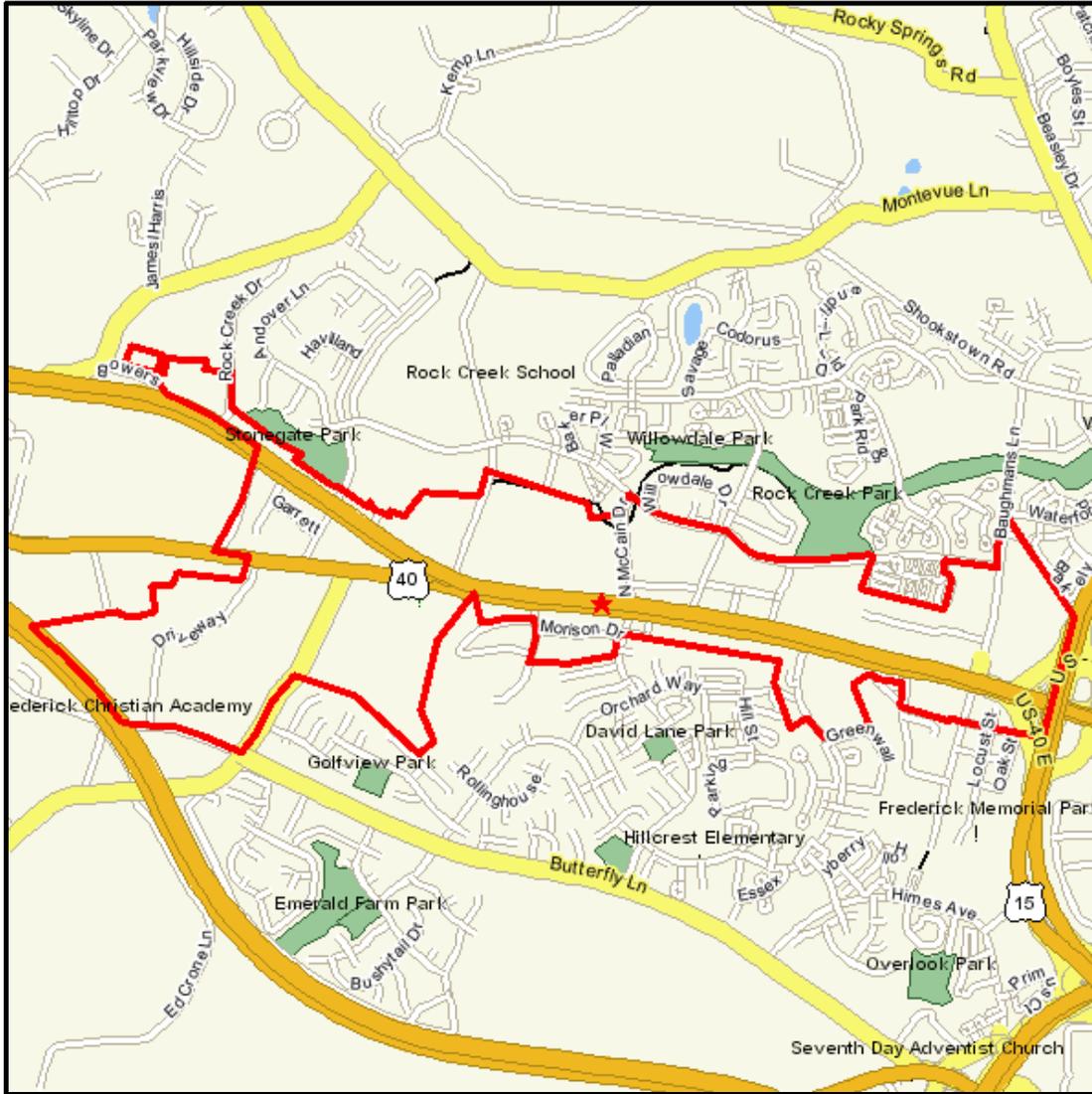
Type of Retail	No. of Retail Establishments
Motor vehicle & parts dealers	5
Furniture & home furnishings stores	9
Electronics & appliance stores	4
Building materials, garden equip. & supplies dealers	2
Food & beverage stores	17
Health & personal care stores	3
Clothing & clothing access. stores	22
Sporting goods, hobby, book, & music stores	13
General merchandise stores	2
Gift, Novelty & Souvenir Stores	15
Antiques	13
Other Misc. Stores	14
Food services & drinking places	58
<i>Total</i>	<i>177</i>

Source: InfoUSA.

## The Golden Mile

The Golden Mile extends from Route 15 west to Frederick Towne Mall. It is often said that geography is destiny. That is true in this instance. The retail district's affinity to routes 40 and 15 ensures a regional audience.

Exhibit 3.11. Map of Frederick's Golden Mile



Source: Sage; The Nielsen Company.

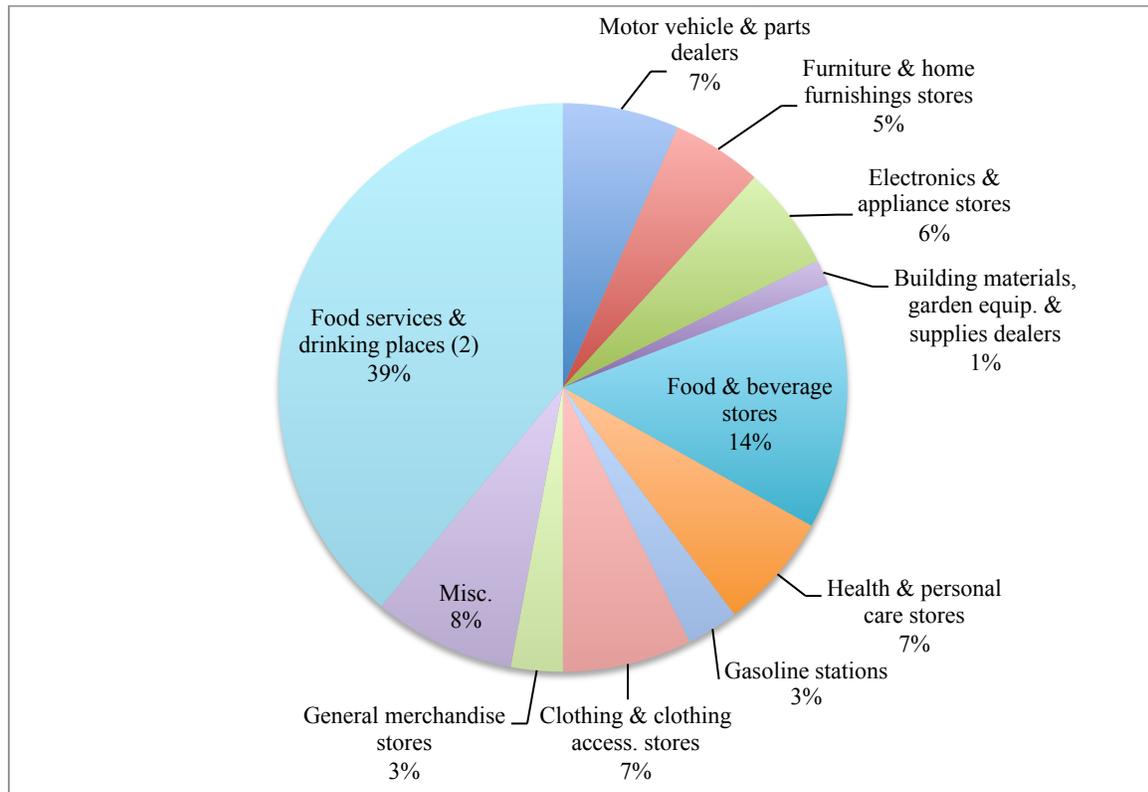
Exhibit 3.12. Top Three Largest Commercial Areas in Golden Mile

Shopping Center	SF
Frederick Towne Mall (to be redeveloped)	602,000
Westridge Square	282,255
Frederick County Square	234,250
Total	1,118,505

Source: Sage; The Golden Mile Small Area Plan (2013).

Together, Exhibits 3.12 and 3.13 help to statistically characterize the Golden Mile. Unlike Downtown, the Golden Mile is generally associated with considerably larger retail footprints. Businesses tend to be tied together in mall and strip-mall settings, with Frederick Towne Mall, Westridge Square and Frederick County Square collectively accounting for more than 1.1 million square feet.

Exhibit 3.13. Breakdown of Golden Mile Retail Establishments, 2013



Type of Retail	No. of Retail Establishments
Motor vehicle & parts dealers	9
Furniture & home furnishings stores	7
Electronics & appliance stores	8
Building materials, garden equip. & supplies dealers	2
Food & beverage stores	19
Health & personal care stores	9
Gasoline stations	4
Clothing & clothing access. stores	10
General merchandise stores	4
Misc.	11
Food services & drinking places (1)	53
<i>Total</i>	<i>136</i>

Source: InfoUSA; Notes: 1. Excluding Caterers.

### **III. Retail Market Analysis**

#### Estimating Market Share

This portion of the analysis is meant in part to determine market capture rates in key retail categories. If an area (e.g., the Golden Mile) is able to capture a significant share of its market, the implication is that the marketplace is functioning effectively and that the supply of retail opportunities is sufficient. However, if the capture rate is small, the interpretation is either that the marketplace suffers from a retail gap, meaning that there are opportunities for additional retail capacity, or that there is some factor or force (e.g., effective competition elsewhere) that limits market share acquisition.

In order to calculate market capture rates for Downtown and other city retail nodes, Sage used retail expenditures made by residents of the marketplace as defined and sales by market source. The discussion that follows sets forth the data used and methods implemented to conduct a retail market analysis for Frederick.

A trade area represents the geographic area from which the preponderance of a retail establishment's or retail district's customers originate. Trade areas differ based on the type of products offered at various retailers. As an example, the trade area for bottled water (relatively undifferentiated good where price matters little) may be smaller than for a comparison good such as an automobile (price matters a lot as does product differentiation).

#### Downtown Frederick Trade Areas

The 2007 study identified four main segments from which Downtown retailers derive their sales: 1) residents of a local primary market area, 2) residents of a broader regional secondary market area, 3) Downtown employees, and 4) tourists. Retailers derive the majority of repeat sales from the primary market area (PMA). Depending on the density of development and location of competing retail areas, the PMA generally extends from 5 to 30 minutes by car.<sup>6</sup>

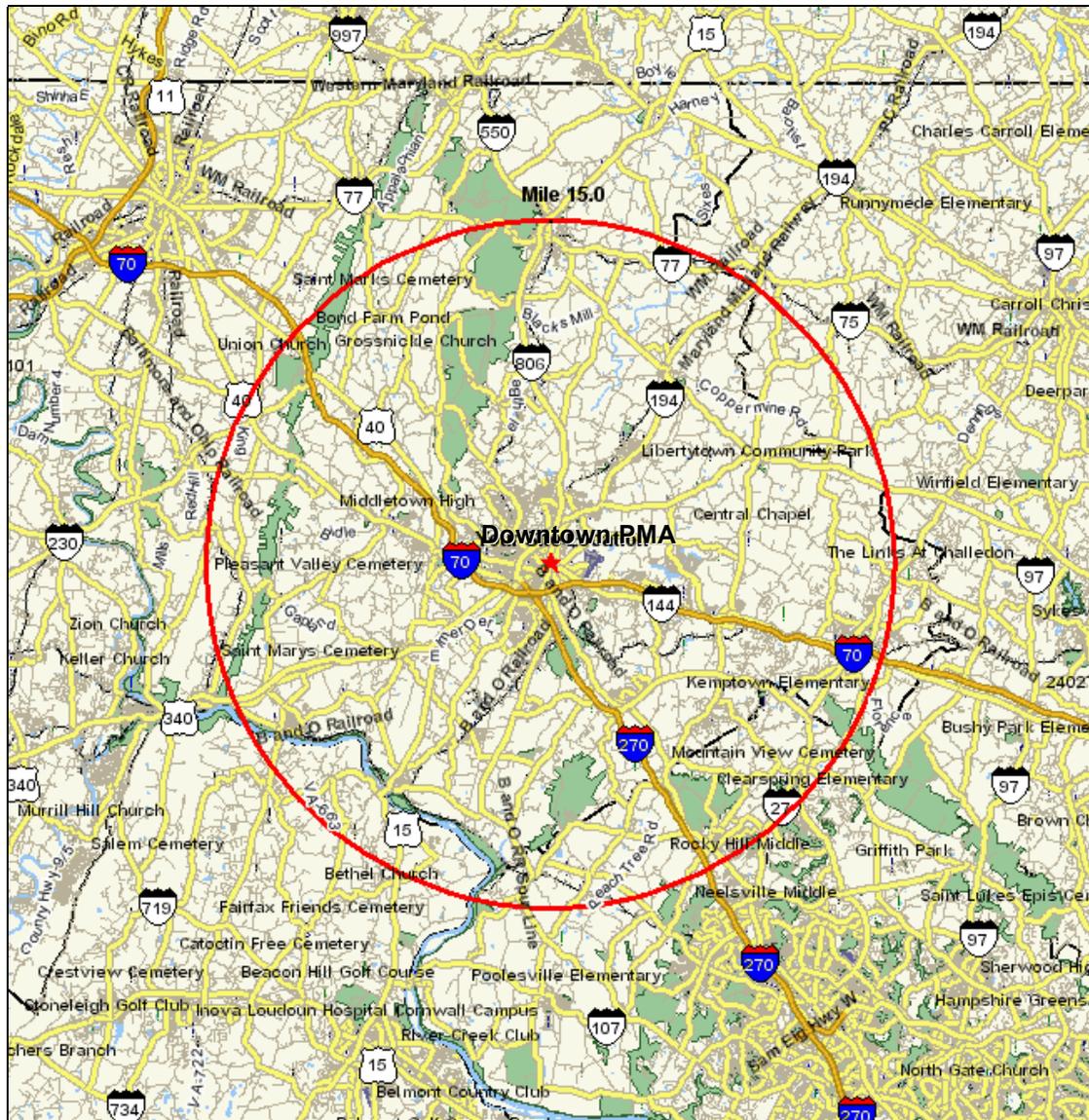
For analytical purposes, Sage has defined the primary market area for Downtown Frederick as a 15-mile radius from the heart of Downtown. The next largest proportion of Downtown sales derives from the broader regional area known as the secondary market area (SMA). Sage has defined this area as a 45-mile radius from the center of downtown Frederick (roughly a one-hour drive). This area extends east to Baltimore,

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<sup>6</sup> BBP Associates citing the Urban Land Institute.

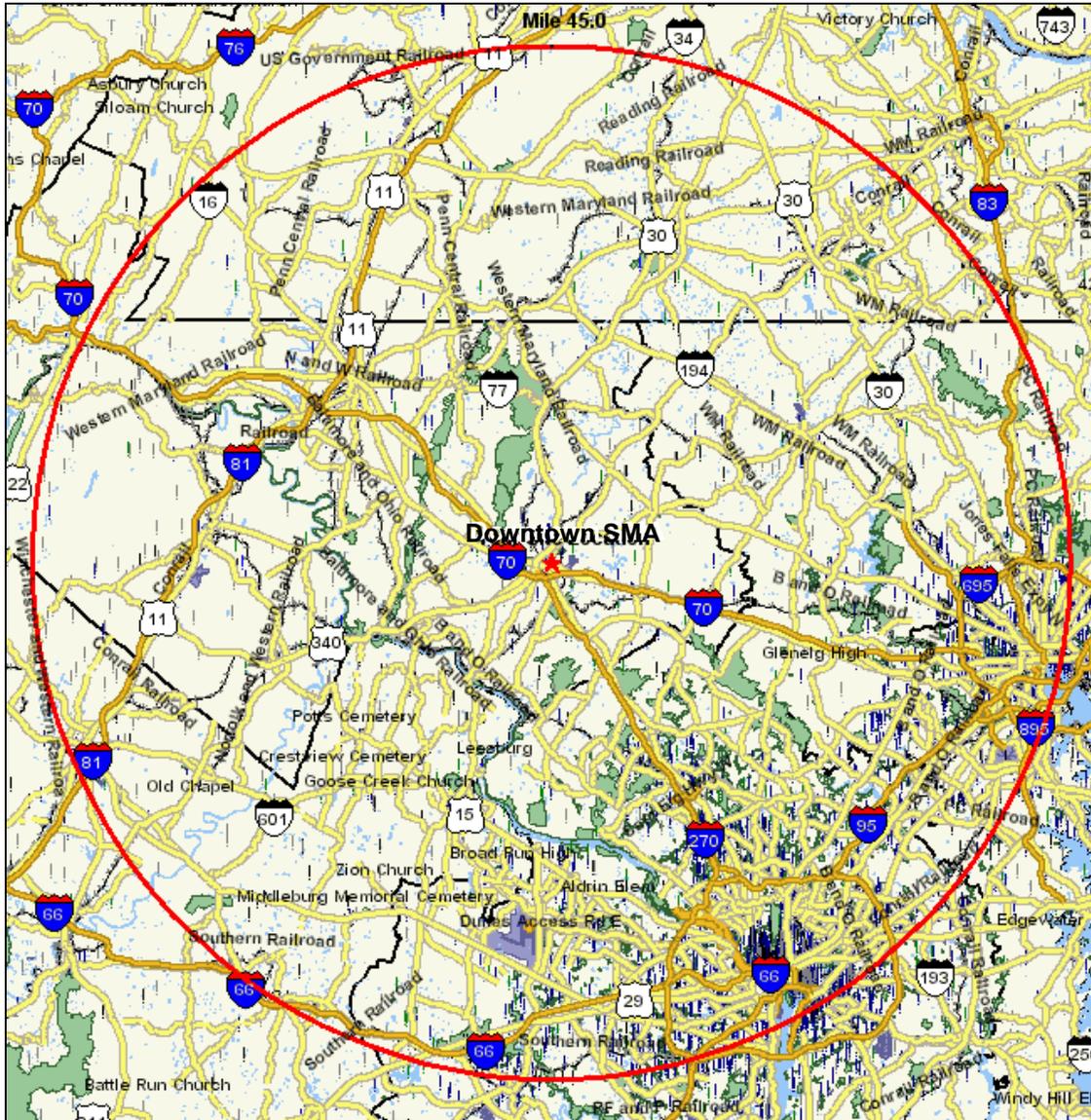
south to Northern Virginia, west past Hagerstown, and north past Gettysburg. These thresholds are similar to those used in the 2007 study, though the primary market area has been defined a bit more broadly to reflect downtown Frederick's expanding regional importance. Exhibits 3.14 and 3.15 provide maps detailing what communities are included within the primary and secondary market areas available to downtown Frederick.

Exhibit 3.14. Downtown Frederick Primary Market Area



Source: Sage; The Nielsen Company.

Exhibit 3.15. Downtown Frederick Secondary Market Area



Source: Sage; The Nielsen Company.

Exhibit 3.16 reflects total retail sales produced in four geographies of interest. Note that the secondary market area is associated with nearly \$95 billion in retail sales per annum, a reflection of the massive spending power of both the Washington and Baltimore metropolitan areas.

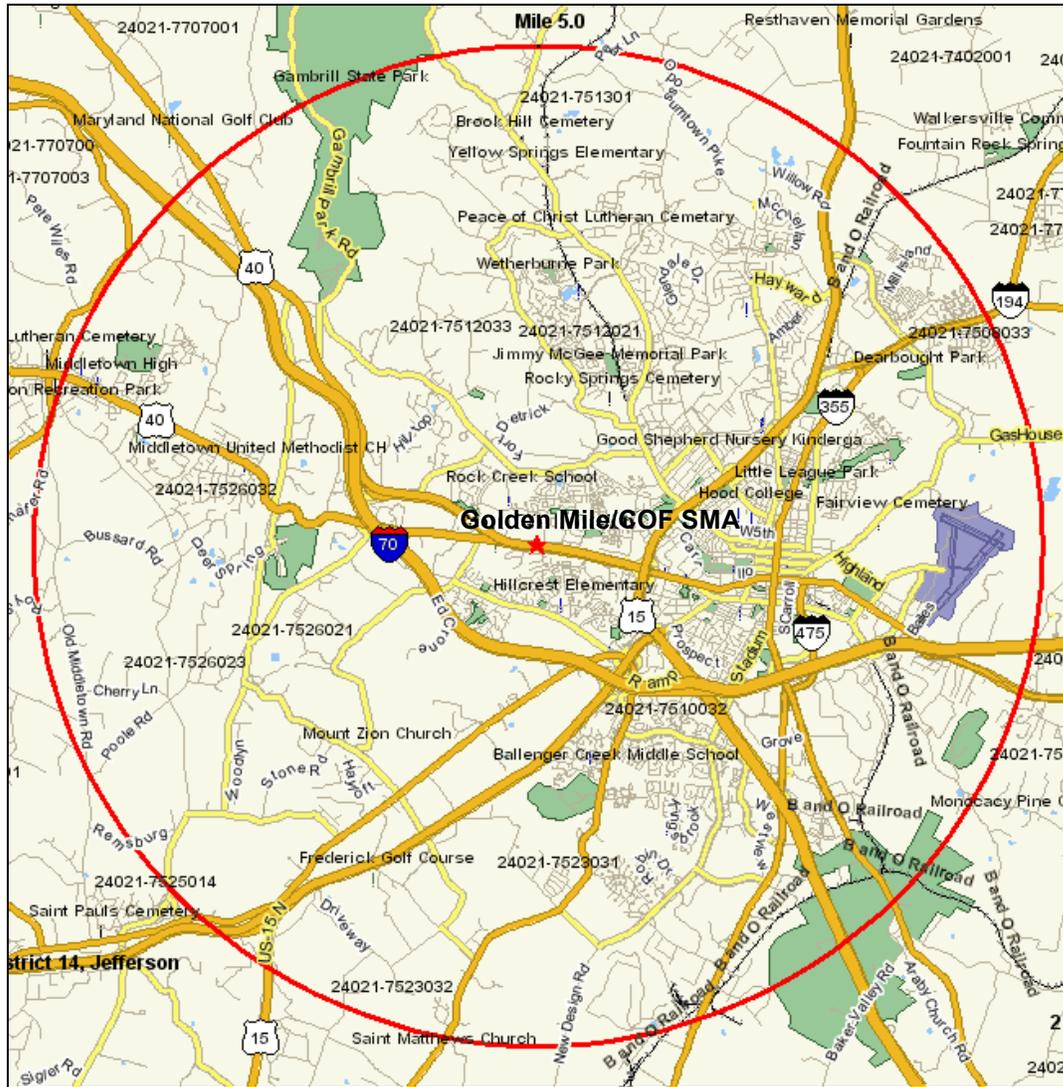
Exhibit 3.16. Total Retail Sales (Supply) in Downtown Frederick and Downtown Market Areas (1), 2014 Estimates

	Downtown Frederick	1-Mile Radius	PMA (15-Mile Radius)	SMA (45-Mile Radius)
Total Retail Sales	\$223,567,341	\$508,525,007	\$5,375,663,970	\$94,555,915,212

Source: Sage; The Nielsen Company; Notes: 1. Excluding sales of non-store retailers.



Exhibit 3.18. City of Frederick/Golden Mile Secondary Market Area



Source: Sage; The Nielsen Company.

Exhibit 3.19 reflects the amount of retail sales generated within the Golden Mile and in radial areas defined by 1, 3, and 5 mile radii. The secondary market area is associated with \$3.3 billion in annual retail sales, roughly twice the amount associated with the primary market area.

Exhibit 3.19. Total Retail Sales (Supply) in Golden Mile and Golden Mile Market Areas (1), 2014 Estimates

	Golden Mile	1-Mile Radius	PMA (3-Mile Radius)	SMA (5-Mile Radius)
Total Retail Sales	\$166,826,587	\$475,164,740	\$1,726,883,180	\$3,314,882,213

Source: Sage; The Nielsen Company; Notes: 1. Excluding sales of non-store retailers.

## Retail Gap & Market Capture Analyses

### Combination of Data Utilized

A meaningful fraction of the analysis to follow relies upon the Opportunity Gap Report provided by the Nielsen Company. Nielsen’s demand (expenditure) data are derived from the Consumer Expenditure Survey (CE Survey), which is conducted by the U.S. Census Bureau and published through the Bureau of Labor Statistics (BLS). Supply data are derived from the Census of Retail Trade (CRT) made available by the U.S. Census.

### Downtown Frederick

- Retail Demand in Downtown Frederick and Downtown Market Areas

Exhibit 3.20 reflects household expenditures in geographies of interest. These figures are not to be confused with those in Exhibit 3.16, which reflect retail sales for the same geographies. The numbers in Exhibit 3.16 are generally smaller because demand is spread across a large geography and therefore total local household expenditures (e.g., upon trips to Las Vegas or Europe) tend to exceed local sales. The exception is Downtown Frederick, where sales total nearly \$224 million despite local household retail demand just short of \$67 million. Demand in Downtown Frederick far exceeds household spending power among its residents. This is a reflection of the fact that Downtown Frederick “imports” a considerable level of demand, much of it from other parts of Frederick County.

Exhibit 3.20. Resident/Household Expenditures (Demand) Downtown Frederick and Downtown Market Areas (1), 2014 Estimates

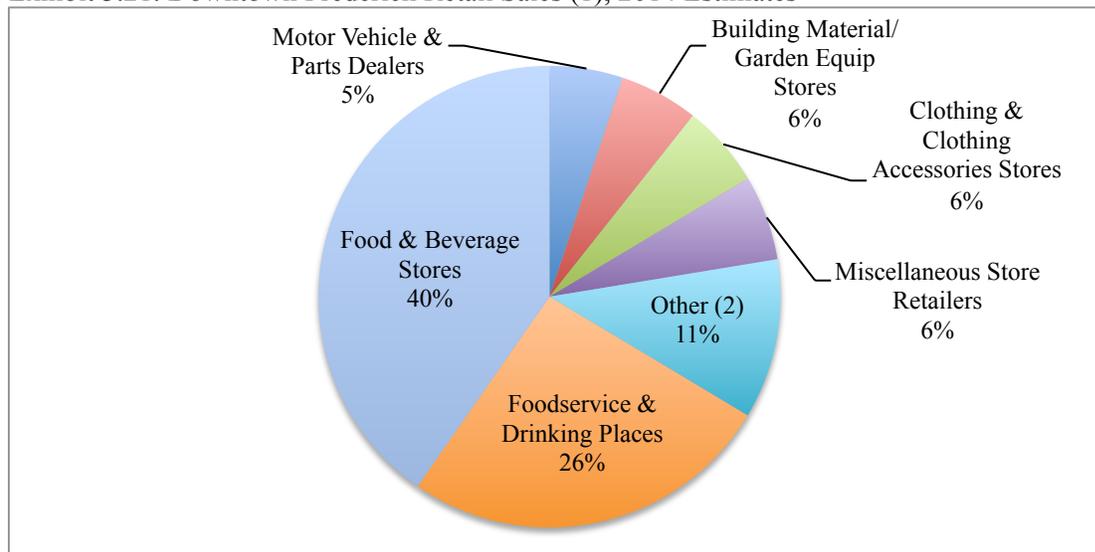
	Downtown Frederick	1-Mile Radius	PMA (15-Mile Radius)	SMA (45-Mile Radius)
Total Expenditures	\$66,743,609	\$226,891,943	\$5,011,083,331	\$113,266,517,129

Source: Sage; The Nielsen Company; Notes: 1. Excluding expenditures at non-store retailers. 2. Figures for SMA include PMA figures, PMA figures include figures for the 1-mile radius, 1-mile radius figures include downtown figures.

- Downtown Frederick Retail Sales

Exhibit 3.21 shows the breakdown of the \$224 million in estimated retail sales to be generated by Downtown retailers this year. As the exhibit shows, much of the activity is oriented around food and drink, whether at grocery stores (food & beverage stores) or at bars and restaurants (foodservice & drinking places). Exhibit 3.22 indicates this as well. Of total retail sales, almost precisely two-thirds are associated with food and beverages. Non-store retailers have been excluded from these exhibits because of their ambiguous relationship to retail space.

Exhibit 3.21. Downtown Frederick Retail Sales (1), 2014 Estimates



Source: Sage; The Nielsen Company; Notes: 1. Excluding sales of non-store retailers. 2. Other includes: Health and Personal Care Stores; Gasoline Stations; General Merchandise Stores; Sporting Goods, Hobby, Book, Music Stores; Furniture and Home Furnishings Stores; Electronics and Appliance Stores.

Exhibit 3.22. Breakdown of Downtown Frederick Retail Sales Ranked by % of Total Sales (1), 2014 Estimates

Retail Category	Retail Sales	% of Total
Food and Beverage Stores	\$90,158,645	40.3%
Foodservice and Drinking Places	\$58,284,273	26.1%
Miscellaneous Store Retailers	\$13,327,378	6.0%
Clothing and Clothing Accessories Stores	\$12,943,692	5.8%
Building Material, Garden Equip Stores	\$12,339,304	5.5%
Motor Vehicle and Parts Dealers	\$11,478,776	5.1%
Electronics and Appliance Stores	\$5,984,697	2.7%
Furniture and Home Furnishings Stores	\$5,238,901	2.3%
Sporting Goods, Hobby, Book, Music Stores	\$4,065,976	1.8%
General Merchandise Stores	\$4,008,157	1.8%
Gasoline Stations	\$2,883,399	1.3%
Health and Personal Care Stores	\$2,854,143	1.3%
<b>Total Retail Sales</b>	<b>\$223,567,341</b>	<b>100%</b>

Source: Sage; The Nielsen Company; Notes: 1. Excluding sales of non-store retailers/Internet (\$78,567,891).

- **Downtown Retail Sales by Market Source**

The 2007 study reported that approximately 70 percent of retail sales are made to residents of the primary market area and that the remaining 30 percent are made to residents of the secondary market area, downtown employees and tourists. BBP Associates made this assumption based upon their discussions with study area business owners and upon their own industry knowledge. In the absence of better information and to ease comparisons with the 2007 study, Sage uses the same parameters. There is no evidence to indicate that the 70 percent parameter has become unworkable and this figure remains consistent with occupied retail square footage.

As a reminder, the PMA includes the circular area within 15 miles from the heart of downtown Frederick. Based upon those presumptions, Sage estimates that sales to PMA residents total approximately \$156.5 million per annum and that sales to people living outside the PMA now totals a bit more than \$67 million.

Exhibit 3.23. Downtown Frederick Retail Sales by Market Source (1), 2014 Estimates

<b>Retail Category</b>	<b>PMA Sales</b>	<b>Non-PMA Sales</b>
Motor Vehicle and Parts Dealers	\$8,035,143	\$3,443,633
Furniture and Home Furnishings Stores	\$3,667,231	\$1,571,670
Electronics and Appliance Stores	\$4,189,288	\$1,795,409
Building Material, Garden Equip Stores	\$8,637,513	\$3,701,791
Food and Beverage Stores	\$63,111,052	\$27,047,594
Health and Personal Care Stores	\$1,997,900	\$856,243
Gasoline Stations	\$2,018,379	\$865,020
Clothing and Clothing Accessories Stores	\$9,060,584	\$3,883,108
Sporting Goods, Hobby, Book, Music Stores	\$2,846,183	\$1,219,793
General Merchandise Stores	\$2,805,710	\$1,202,447
Miscellaneous Store Retailers	\$9,329,165	\$3,998,213
Foodservice and Drinking Places	\$40,798,991	\$17,485,282
<b>Total Retail Sales</b>	<b>\$156,497,139</b>	<b>\$67,070,202</b>

Source: Sage; The Nielsen Company; Notes: 1. Excluding sales of non-store retailers.

- **Downtown Market Retail Gaps/Surpluses**

A retail surplus indicates that retailers in the area are capturing more sales than local market demand generates. This is precisely Downtown Frederick’s circumstance.

Downtown’s retail surplus totals nearly \$157 million/annum. The implication is that Downtown cannot depend upon local demand and must remain attractive to outsiders. It is important to remember that the market in which these retailers operate includes new retail developments in Gaithersburg (e.g., Washingtonian Center), the expansion of downtown Columbia, new casinos under construction in downtown Baltimore and in Prince George’s County, a massive outlet center in Hagerstown and competition from retail developments outside of the downtown core. In other words, there is a premium to be placed on keeping Downtown Frederick lively.



Exhibit 3.24. Summary of Downtown Frederick Retail Gap by Store Types (1), 2014 Estimates

<b>Retail Category</b>	<b>Demand (Expenditure)</b>	<b>Supply (Sales)</b>	<b>Retail Gap (+) / Surplus (-)</b>
Motor Vehicle and Parts Dealers	\$11,882,687	\$11,478,776	\$403,911
Furniture and Home Furnishings Stores	\$1,463,837	\$5,238,901	-\$3,775,064
Electronics and Appliance Stores	\$1,419,852	\$5,984,697	-\$4,564,845
Building Material, Garden Equip Stores	\$7,231,241	\$12,339,304	-\$5,108,063
Food and Beverage Stores	\$8,977,476	\$90,158,645	-\$81,181,169
Health and Personal Care Stores	\$4,199,972	\$2,854,143	\$1,345,829
Gasoline Stations	\$7,548,169	\$2,883,399	\$4,664,770
Clothing and Clothing Accessories Stores	\$3,365,994	\$12,943,692	-\$9,577,698
Sporting Goods, Hobby, Book, Music Stores	\$1,374,839	\$4,065,976	-\$2,691,137
General Merchandise Stores	\$8,321,168	\$4,008,157	\$4,313,011
Miscellaneous Store Retailers	\$2,099,885	\$13,327,378	-\$11,227,493
Foodservice and Drinking Places	\$8,858,488	\$58,284,273	-\$49,425,785
<b>Total Retail Sales</b>	<b>\$66,743,609</b>	<b>\$223,567,343</b>	<b>-\$156,823,734</b>

Source: Sage; The Nielsen Company; Notes: 1. Excludes demand and supply from non-store retailers. 2. The difference between demand and supply represents the opportunity gap or surplus available for each retail segment. When the demand is greater than the supply there an opportunity gap and when demand is less than supply there is a surplus, for that retail outlet—A positive value signifies an opportunity gap, while a negative value signifies a surplus.

That said, the Downtown area is associated with a number of gaps that are common to downtowns generally, including auto dealers, health and personal care stores, gasoline stations and department stores (general merchandise retailers). Given the physical constraints presented by Downtown, the most likely retail gap that could be addressed downtown is the category known as health and personal care stores, including stores that market beauty products. Exhibit 3.25 provides the retail gap for the PMA and SMA. Interestingly, the PMA is associated with a large retail gap in the categories of food and beverage stores (grocery stores). This may explain the surprisingly good performance of Whole Foods, Wegman’s and other regional grocery chains that have a large presence just outside the 15-mile boundary centered in Downtown Frederick.

Exhibit 3.25. Downtown Trade Areas Retail Gap by Store Type, 2014 Estimates (\$ Millions)

Retail Category	PMA (15-Mile Radius)			SMA (45-Mile Radius)		
	Supply (Sales)	Demand (Expenditures)	Retail Gap	Supply (Sales)	Demand (Expenditures)	Retail Gap
Motor Vehicle and Parts Dealers	\$1,092.3	\$1,042.9	\$49.4	\$23,293.4	\$19,363.8	\$3,929.6
Furniture and Home Furnishings Stores	\$120.9	\$103.9	\$17.0	\$2,873.8	\$2,317.1	\$556.7
Electronics and Appliance Stores	\$103.7	\$97.0	\$6.7	\$2,493.1	\$1,683.0	\$810.1
Building Material, Garden Equip Stores	\$581.1	\$531.1	\$50.0	\$13,034.5	\$8,666.0	\$4,368.4
Food and Beverage Stores	\$606.9	\$1,591.4	-\$984.5	\$13,807.4	\$16,151.0	-\$2,343.6
Health and Personal Care Stores	\$290.2	\$257.4	\$32.8	\$6,611.5	\$4,874.8	\$1,736.7
Gasoline Stations	\$493.7	\$449.6	\$44.2	\$10,751.5	\$5,833.5	\$4,918.0
Clothing and Clothing Accessories Stores	\$276.0	\$92.5	\$183.5	\$6,718.3	\$5,969.4	\$748.9
Sporting Goods, Hobby, Book, Music Stores	\$108.5	\$52.3	\$56.2	\$2,608.1	\$2,320.1	\$288.1
General Merchandise Stores	\$623.7	\$529.8	\$93.9	\$14,402.5	\$10,226.7	\$4,175.7
Miscellaneous Store Retailers	\$144.0	\$104.6	\$39.5	\$3,256.3	\$2,189.5	\$1,066.8
Foodservice and Drinking Places	\$570.0	\$523.2	\$46.8	\$13,416.1	\$14,961.0	-\$1,544.8
<b>Total Retail Sales</b>	<b>\$5,011.1</b>	<b>\$5,375.7</b>	<b>-\$364.6</b>	<b>\$113,266.5</b>	<b>\$94,555.9</b>	<b>\$18,710.6</b>

Source: Sage; The Nielsen Company; Notes: 1. Excludes demand and supply from non-store retailers.

- **Downtown Frederick Market Capture Rates**

Total sales (supply) to a trade area divided by the total expenditures (demand) of that trade area results in a percentage that is referred to as a capture rate. Those sales not captured represent the net leakage or the amount of expenditures that take place beyond the boundaries of Downtown Frederick. Generally speaking, these sales are presumed to leak to competing retail centers and nodes located in other parts of the City of Frederick, the Planning Region, and the broader region (e.g. competing urban retail centers and downtowns such as Leesburg, Georgetown, Gaithersburg, Columbia, Alexandria and Bethesda).

Exhibit 3.26. Downtown Frederick Retail Market Capture Rates by Retail Category

<b>Retail Category</b>	<b>Total Retail Sales</b>	<b>Sales to PMA</b>	<b>PMA Expenditures (Demand)</b>	<b>Capture Rate</b>
Motor Vehicle and Parts Dealers	\$11,478,776	\$8,035,143	\$1,092,287,436	0.7%
Furniture and Home Furnishings Stores	\$5,238,901	\$3,667,231	\$120,901,074	3.0%
Electronics and Appliance Stores	\$5,984,697	\$4,189,288	\$103,736,538	4.0%
Building Material, Garden Equip Stores	\$12,339,304	\$8,637,513	\$581,108,640	1.5%
Food and Beverage Stores	\$90,158,645	\$63,111,052	\$606,919,783	10.4%
Health and Personal Care Stores	\$2,854,143	\$1,997,900	\$290,223,148	0.7%
Gasoline Stations	\$2,883,399	\$2,018,379	\$493,727,141	0.4%
Clothing and Clothing Accessories Stores	\$12,943,692	\$9,060,584	\$275,999,287	3.3%
Sporting Goods, Hobby, Book, Music Stores	\$4,065,976	\$2,846,183	\$108,522,921	2.6%
General Merchandise Stores	\$4,008,157	\$2,805,710	\$623,679,355	0.4%
Miscellaneous Store Retailers	\$13,327,378	\$9,329,165	\$144,025,916	6.5%
Foodservice and Drinking Places	\$58,284,273	\$40,798,991	\$569,952,092	7.2%
<b>Total</b>	<b>\$223,567,341</b>	<b>\$156,497,139</b>	<b>\$5,011,083,331</b>	<b>3.1%</b>

Source: Sage; The Nielsen Company.

The 2007 report determined that Downtown retail establishments were collectively capturing 4 percent of total local market area expenditure. Sage’s estimate is closer to 3 percent (as Exhibit 3.26 reflects), but this could simply be a function of different parameterization and data sources between the two studies. However, Sage does not believe this to be the only explanation. One would expect Downtown’s capture rate to have declined in recent years. Given its concentration of restaurants and specialty retailers, downtown tends to attract discretionary spending power relative to spending on basic staples. Discretionary spending is more vulnerable to economic downturns and to soft income growth.

## The Golden Mile

- Retail Demand in and around the Golden Mile

The Golden Mile is associated with retail sales approaching \$167 million per annum, but the household population within the community is relatively small as is total household demand. Therefore, the Golden Mile generates the vast majority of its sales outside of the immediate area, which again is consistent with its history and its geography relative to routes 15 and 40.

Exhibit 3.27. Resident/Household Expenditures (Demand) Golden Mile and Golden Mile Market Areas (1), 2014 Estimates

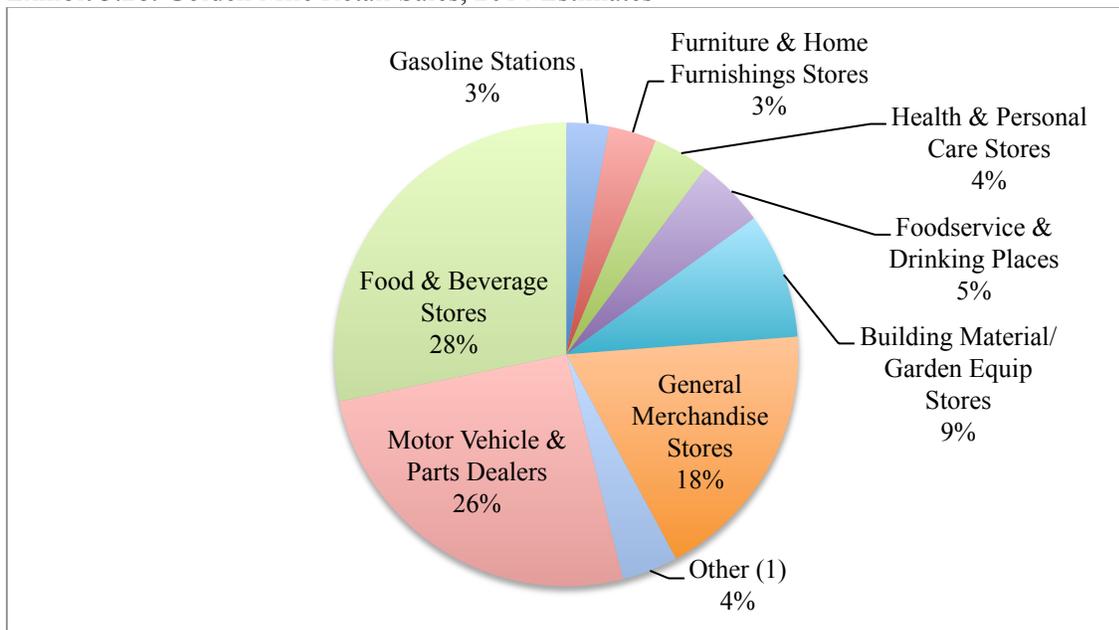
	Golden Mile	1-Mile Radius	PMA (3-Mile Radius)	SMA (5-Mile Radius)
Total Expenditures	\$19,704,980	\$281,445,289	\$1,127,110,750	\$1,855,844,098

Source: Sage; The Nielsen Company; Notes: 1. Excluding expenditures at non-store retailers. 2. Figures for SMA include PMA figures, PMA figures include figures for the 1-mile radius, 1-mile radius figures include Golden Mile figures.

- Golden Mile Retail Sales

Exhibit 3.28 shows that unlike downtown, food plays less than a dominant role in the Golden Mile. This might actually hint at an opportunity to better serve patrons coming to the Golden Mile for other purposes, including to shop for automobiles, department store merchandise or building materials.

Exhibit 3.28. Golden Mile Retail Sales, 2014 Estimates



Source: Sage; The Nielsen Company; Notes: 1. Other includes: Miscellaneous Store Retailers; Electronics and Appliance Stores; Sporting Goods, Hobby, Book, Music Stores; Clothing and Clothing Accessories Stores.

Exhibit 3.29. Breakdown of Golden Mile Retail Sales Ranked by % of Total Sales, 2014 Estimates

<b>Retail Category</b>	<b>Retail Sales</b>	<b>% of Total</b>
Food and Beverage Stores	\$47,136,450	28.3%
Motor Vehicle and Parts Dealers	\$42,836,895	25.7%
General Merchandise Stores	\$30,671,903	18.4%
Building Material, Garden Equip Stores	\$14,625,557	8.8%
Foodservice and Drinking Places	\$7,999,444	4.8%
Health and Personal Care Stores	\$6,522,663	3.9%
Furniture and Home Furnishings Stores	\$5,579,121	3.3%
Gasoline Stations	\$4,947,756	3.0%
Miscellaneous Store Retailers	\$3,395,194	2.0%
Electronics and Appliance Stores	\$1,539,116	0.9%
Sporting Goods, Hobby, Book, Music Stores	\$1,187,442	0.7%
Clothing and Clothing Accessories Stores	\$385,045	0.2%
<b>Total Retail Sales</b>	<b>\$166,826,586</b>	<b>100%</b>

Source: Sage; The Nielsen Company.

- **Golden Mile Sales by Market Source**

The 2007 study concluded based upon a combination of business owner surveys and industry awareness that approximately 80 percent of Golden Mile sales are made to residents of the primary market area and the remaining 20 percent to residents of the secondary market area and beyond. Even in the absence of further analysis, this suggests that the Golden Mile is not nearly as attractive to people who are three or more miles away as it could be. The Golden Mile appears to be more about convenience than magnetic appeal. The proposed new Walmart likely will attract more people beyond the 3-mile threshold, but this analysis suggests that more could be done.

As stated, the previous study team estimated that 80 percent of retail sales generated by the Golden Mile were associated with the primary market area. Because the Sage study team has defined the primary market area a bit more broadly than the prior study team did, the analogous split between PMA and SMA for these purposes is 65 percent to 35 percent.

Exhibit 3.30. Golden Mile Retail Sales by Market Source, 2014 Estimates

<b>Retail Category</b>	<b>PMA Sales</b>	<b>Non-PMA Sales</b>
Motor Vehicle and Parts Dealers	\$27,843,982	\$14,992,913
Furniture and Home Furnishings Stores	\$3,626,429	\$1,952,692
Electronics and Appliance Stores	\$1,000,425	\$538,691
Building Material, Garden Equip Stores	\$9,506,612	\$5,118,945
Food and Beverage Stores	\$30,638,693	\$16,497,758
Health and Personal Care Stores	\$4,239,731	\$2,282,932
Gasoline Stations	\$3,216,041	\$1,731,715
Clothing and Clothing Accessories Stores	\$250,279	\$134,766
Sporting Goods, Hobby, Book, Music Stores	\$771,837	\$415,605
General Merchandise Stores	\$19,936,737	\$10,735,166
Miscellaneous Store Retailers	\$2,206,876	\$1,188,318
Foodservice and Drinking Places	\$5,199,639	\$2,799,805
<b>Total Retail Sales</b>	<b>\$108,437,281</b>	<b>\$58,389,305</b>

Source: Sage; The Nielsen Company; Notes: 1. Excluding sales of non-store retailers.

- **Golden Mile Retail Gaps/Surpluses**

Not surprisingly, when one considers the area immediately associated with the Golden Mile, a large retail surplus emerges. In other words, the Golden Mile depends primarily upon people who live outside the immediate area.

Exhibit 3.31: Summary of Golden Mile Retail Gap by Store Types (1), 2014 Estimates

<b>Retail Category</b>	<b>Demand (1) (Expenditure)</b>	<b>Supply (Sales)</b>	<b>Retail Gap (+) / Surplus (-)</b>
Motor Vehicle and Parts Dealers	\$3,882,941	\$42,836,895	-\$38,953,954
Furniture and Home Furnishings Stores	\$438,902	\$5,579,121	-\$5,140,219
Electronics and Appliance Stores	\$423,536	\$1,539,116	-\$1,115,580
Building Material, Garden Equip Stores	\$2,021,103	\$14,625,557	-\$12,604,454
Food and Beverage Stores	\$2,534,651	\$47,136,450	-\$44,601,799
Health and Personal Care Stores	\$1,187,087	\$6,522,663	-\$5,335,576
Gasoline Stations	\$2,135,153	\$4,947,756	-\$2,812,603
Clothing and Clothing Accessories Stores	\$1,072,545	\$385,045	\$687,500
Sporting Goods, Hobby, Book, Music Stores	\$423,798	\$1,187,442	-\$763,644
General Merchandise Stores	\$2,514,008	\$30,671,903	-\$28,157,895
Miscellaneous Store Retailers	\$568,432	\$3,395,194	-\$2,826,762
Foodservice and Drinking Places	\$2,502,822	\$7,999,444	-\$5,496,622
<b>Total Retail Sales</b>	<b>\$19,704,980</b>	<b>\$166,826,587</b>	<b>-\$147,121,607</b>

Source: Sage; The Nielsen Company; Notes: 1. Excludes demand and supply from non-store retailers. 2. The difference between demand and supply represents the opportunity gap or surplus available for each retail segment. When the demand is greater than the supply there an opportunity gap and when demand is less than supply there is a surplus, for that retail outlet—A positive value signifies an opportunity gap, while a negative value signifies a surplus.

Analytically, matters become more interesting when one considers the 3-mile defined PMA and the 5-mile defined SMA. Once one considers larger geographies, gaps emerge in categories such as food and beverage stores, foodservice and drinking places, auto dealers and gasoline stations. Sage's analysis suggests that the Golden Mile would benefit from amenities that render the district about much more than mere convenience. This means, for instance, the availability of fine/family dining establishments to upscale the district's image and enhance its appeal.

Exhibit 3.32: Golden Mile Areas Retail Gap by Store Type, 2014 Estimates (\$ Millions)

Retail Category	PMA (3-Mile Radius)			SMA (5-Mile Radius)		
	Supply (Sales)	Demand (Expenditures)	Retail Gap	Supply (Sales)	Demand (Expenditures)	Retail Gap
Motor Vehicle and Parts Dealers	\$220.6	\$351.8	-\$131.2	\$375.5	\$809.9	-\$434.4
Furniture and Home Furnishings Stores	\$25.4	\$38.0	-\$12.7	\$43.3	\$83.9	-\$40.6
Electronics and Appliance Stores	\$23.8	\$26.0	-\$2.2	\$39.1	\$74.9	-\$35.8
Building Material, Garden Equip Stores	\$124.2	\$84.9	\$39.3	\$210.4	\$232.9	-\$22.5
Food and Beverage Stores	\$145.6	\$550.8	-\$405.2	\$233.7	\$831.8	-\$598.1
Health and Personal Care Stores	\$68.6	\$86.1	-\$17.5	\$111.3	\$185.9	-\$74.6
Gasoline Stations	\$118.9	\$195.5	-\$76.6	\$190.3	\$225.2	-\$34.9
Clothing and Clothing Accessories Stores	\$60.3	\$26.5	\$33.8	\$100.7	\$83.4	\$17.3
Sporting Goods, Hobby, Book, Music Stores	\$24.5	\$17.3	\$7.1	\$40.4	\$39.6	\$0.7
General Merchandise Stores	\$144.6	\$89.2	\$55.4	\$235.5	\$321.8	-\$86.3
Miscellaneous Store Retailers	\$33.1	\$43.7	-\$10.7	\$54.1	\$72.7	-\$18.6
Foodservice and Drinking Places	\$137.6	\$216.9	-\$79.3	\$221.4	\$352.8	-\$131.4
<b>Total Retail Sales</b>	<b>\$1,127.1</b>	<b>\$1,726.9</b>	<b>-\$599.8</b>	<b>\$1,855.8</b>	<b>\$3,314.9</b>	<b>-\$1,459.0</b>

Source: Sage; The Nielsen Company; Notes: 1. Excludes demand and supply from non-store retailers.

- Golden Mile Market Capture Rates

With respect to the PMA, the Golden Mile produces a capture rate approaching 12 percent. The proposed Walmart will presumably lift this rate. The capture rate in the foodservice category is less than 5 percent, again suggesting that this should be an area of focus. The capture rate in the sporting goods, etc. category is less than 4 percent while the corresponding rate in the clothing and accessories category is less than 4 percent. There may also be room for additional electronics retailers, though it should be noted that Walmart stands to address many of the categories associated with small capture rates with the noteworthy exception of fine/family dining.

Exhibit 3.33. Golden Mile Retail Market Capture Rates by Retail Category, 2014 Estimates

<b>Retail Category</b>	<b>Total Retail Sales</b>	<b>Sales to PMA</b>	<b>PMA Expenditures (Demand)</b>	<b>Capture Rate</b>
Motor Vehicle and Parts Dealers	\$42,836,895	\$34,269,516	\$220,626,654	15.5%
Furniture and Home Furnishings Stores	\$5,579,121	\$4,463,297	\$25,397,513	17.6%
Electronics and Appliance Stores	\$1,539,116	\$1,231,293	\$23,811,287	5.2%
Building Material, Garden Equip Stores	\$14,625,557	\$11,700,446	\$124,192,988	9.4%
Food and Beverage Stores	\$47,136,450	\$37,709,160	\$145,597,093	25.9%
Health and Personal Care Stores	\$6,522,663	\$5,218,130	\$68,580,787	7.6%
Gasoline Stations	\$4,947,756	\$3,958,205	\$118,862,887	3.3%
Clothing and Clothing Accessories Stores	\$385,045	\$308,036	\$60,289,322	0.5%
Sporting Goods, Hobby, Book, Music Stores	\$1,187,442	\$949,954	\$24,479,465	3.9%
General Merchandise Stores	\$30,671,903	\$24,537,522	\$144,573,307	17.0%
Miscellaneous Store Retailers	\$3,395,194	\$2,716,155	\$33,080,901	8.2%
Foodservice and Drinking Places	\$7,999,444	\$6,399,555	\$137,618,544	4.7%
<b>Total</b>	<b>\$166,826,586</b>	<b>\$133,461,269</b>	<b>\$1,127,110,748</b>	<b>11.8%</b>

Source: Sage; The Nielsen Company.

## Retail Projects in the Pipeline

Addressing retail gaps downtown and in the Golden Mile becomes even more important once one considers the significant retail development pipeline in and around the City of Frederick. When and if these projects become operational, there will be additional competition for both shoppers and tenants. Exhibit 3.34 highlights two retail developments already under construction. In the City of Frederick 12,250 SF of retail space is expected to come online in 2014 at Market Square. Beyond city limits, New Market Commons is expected to open in 2014. Retail space at New Market Commons is nearly 50 percent pre-leased, leaving 13,950 SF of available retail space upon delivery. Exhibit 3.35 shows projects associated with approximately 1,570,000 square feet of additional space, much of which (nearly a third) is scheduled for delivery in 2014.

Exhibit 3.34. Retail Development Projects under Construction

<b>Project</b>	<b>Location</b>	<b>Available S.F.</b>	<b>Delivery</b>	<b>Community</b>
New Market Commons (1)	11710 Old National Pike	13,950	2014	Frederick County
Market Square (2)	Rt. 26	12,250	2013-2014	City of Frederick
<i>Total</i>		<i>26,200</i>		

Source: Costar snapshot data; City of Frederick.

Notes:

1. New Market Commons is 46.6 percent leased (total RBA is 26,100 SF).
2. Market Square is close to 93% leased (Total SF: 175,000). Mixed use: 175,000 SF Retail/Commercial space with additional SF for a multi-family component developed by JBG Rosenfeld. Current tenants include Home Goods, Pier 1 Imports, Sport & Health, and Buffalo Wild Wings. Close to 93% leased. 762 parking spaces.

Exhibit 3.35. Proposed Retail Development Projects

Project	Location	S.F.	Delivery	Community
Grocery Anchor-H & R Retail, Inc.	Jefferson Pike	60,000	2014	FC
H & R Retail, Inc.	Jefferson Pike	30,000	2014	FC
Villages at Urbana-Retail/Office Out parcel (CC)	3530 Sugarloaf Pkwy	22,900	Unknown	FC
Villages at Urbana-Phase II (CC)	3530 Sugarloaf Pkwy	9,810	Unknown	FC
Villages at Urbana-Phase II -Strip Center (CC)	3530 Sugarloaf Pkwy	6,750	Unknown	FC
Agent 007 Real Estate	136-138 Frederick Rd	18,000	Unknown	FC
New Market Retail Center	Old National Pike	82,455	Unknown	FC
Shields Plaza (NC)	Shields Dr @ Urbana Pike	28,500	2014	FPR
Matan Realty	Executive Way	177,600	Unknown	FPR
Frederick Gateway (SC)	E Patrick St	245,254	2014	COF
Public Fitness Center (NC)	1 Mill Pond Rd	3,000	2014	COF
Inline Retail (NC)	1 Mill Pond Rd	19,114	2015	COF
Restaurant Pad Site (NC)	1 Mill Pond Rd	4,950	Unknown	COF
Restaurant Pad Site II (NC)	1 Mill Pond Rd	3,180	Unknown	COF
McCutcheon's Mill (1)	13 S Wisner St/Carroll Creek Park	34,000	Unknown	COF, DF, EFR
Union Mills-Retail Component (2)	340 E Patrick St	25,000	2014	COF, DF, EFR
One Commerce Plaza-Retail Component (3)	East Street/Commerce Street	20,000	Unknown	COF, DF, EFR
Ausherman Properties	107 Storage Way	7,000	2014	COF, EFR
Golden Mile Gateway (SC)	US 40, W. Patrick St. (Old MSP Barracks)	20,352	Unknown	COF, GM
Village Center at Worman's Mill (4)	Worman's Mill & Route 26	27,244	Unknown	COF
North Gate Town Center (5)	RT 15 @ Christopher Crossing	300,000	2016	COF
River Run Retail Center (6)	Progress Drive & Riverside Research Park	134,356	Unknown	COF
The Galleria	Adjacent to Carroll Creek	30,000	2015	COF, DF, EFR
Frederick Towne Mall Redevelopment (7)	Rt 40/Golden Mile	193,800	Unknown	COF, GM
<b>Total</b>		<b>1,503,265</b>		

Source: Costar snapshot data; City of Frederick.

SC: Strip Center

FC: Frederick County

DF: Downtown Frederick

Notes:

NC: Neighborhood Center

FPR: Frederick Planning Region

GM: Golden Mile

CC: Community Center

COF: City of Frederick

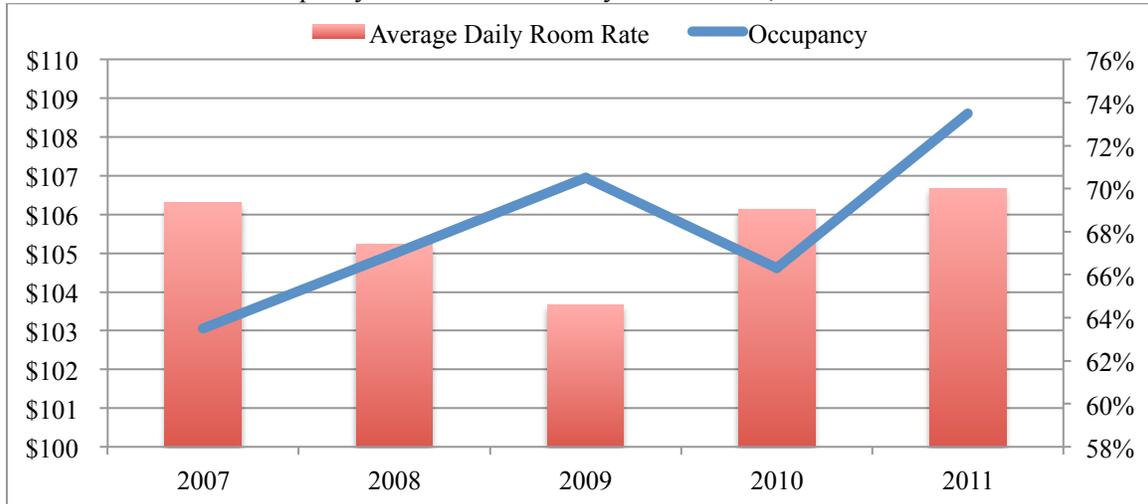
EFR: East Frederick Rising

1. Design approved; Construction pending. Zoned M1. 34,000 SF retail facility added to existing structure, with frontage along Carroll Creek Park. Portion of space is to be for lease. 20 ft. working water wheel, two levels of covered porch space and a covered parking area. \$5 million in capital investment.
2. Design approved; Construction pending. \$20 million in capital investment/rehabilitation of historic Union Knitting Mills building 41,500 SF office space; 25,000 SF 1<sup>st</sup> Floor retail space; 104 parking spaces.
3. Office/Retail/Residential, zoned DB New construction; \$24 million in capital investment. 60,000 SF Office, 20,000 SF Retail or Residential. Design Approved; Construction pending.
4. Mixed-use. Turning Point Real Estate presents a resort-style mixed-use development, the Village Center at Worman's Mill located in Frederick. Upscale amenities: restaurants, cafes, shops, bank, dry cleaner and more. Retail streetscape with 27,244 SF of retail and 660 parking spaces. Design approved/Construction pending.
5. Rt 15 @ Christopher Crossing; Retail shopping center; 25,000 – 150,000 SF anchor positions; Out parcels available; located on 35 acres; zoned B-3. New US15 interchange at Christopher Crossing/Monocacy Blvd to serve the shopping center slated for 2016 completion. KLN Retail. Design under review.
6. Retail center on Monocacy Boulevard in Riverside. Chesapeake Realty Partners. Site Plan approved.
7. Redevelopment of retail shopping mall; 150,000 SF (Walmart), 43,800 SF outparcel. Developer improvements to include connector road, trail improvements and possibly creek restoration and community center. DLC Management Corp. Under Design.

## IV. Lodging Market Overview and Analysis

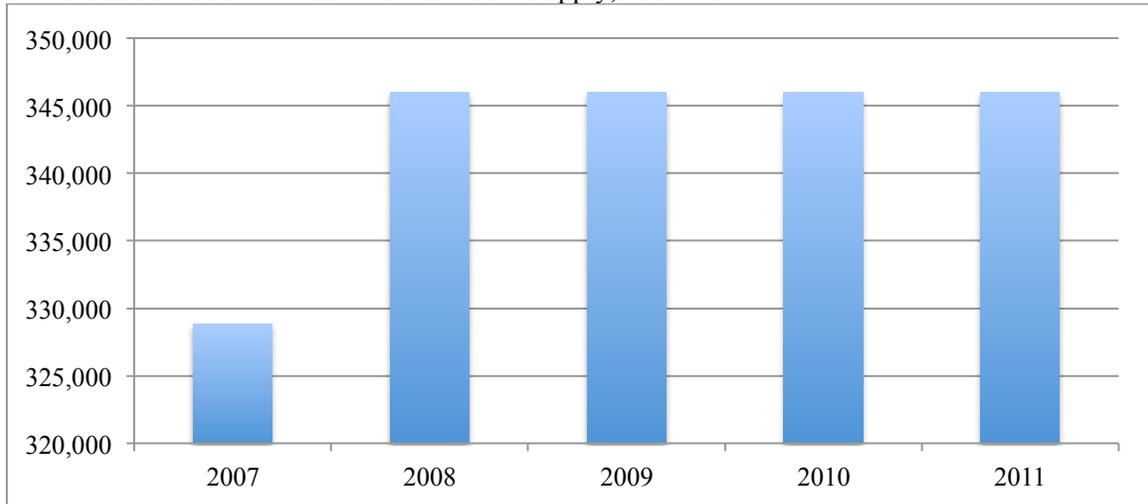
As with other forms of commercial real estate, lodging suffered greatly during the downturn, with average daily room rates falling along with occupancy rates. By 2010, however, the market was in the mend as highlighted by a 2012 study by HGS and Crossroads Consulting (see Exhibit 3.36). Exhibit 3.37 shows that hotel market supply has been unchanged during a period of industry turmoil. While that reflects a market that has been somewhat challenging, the lack of new space has helped to accelerate recovery. By 2011, occupancy was approaching 74 percent, meaning that demand had firmed nicely as neatly reflected in Exhibits 3.38 and 3.39 below.

Exhibit 3.36. Hotel Occupancy and ADR in the City of Frederick, 2007-2011



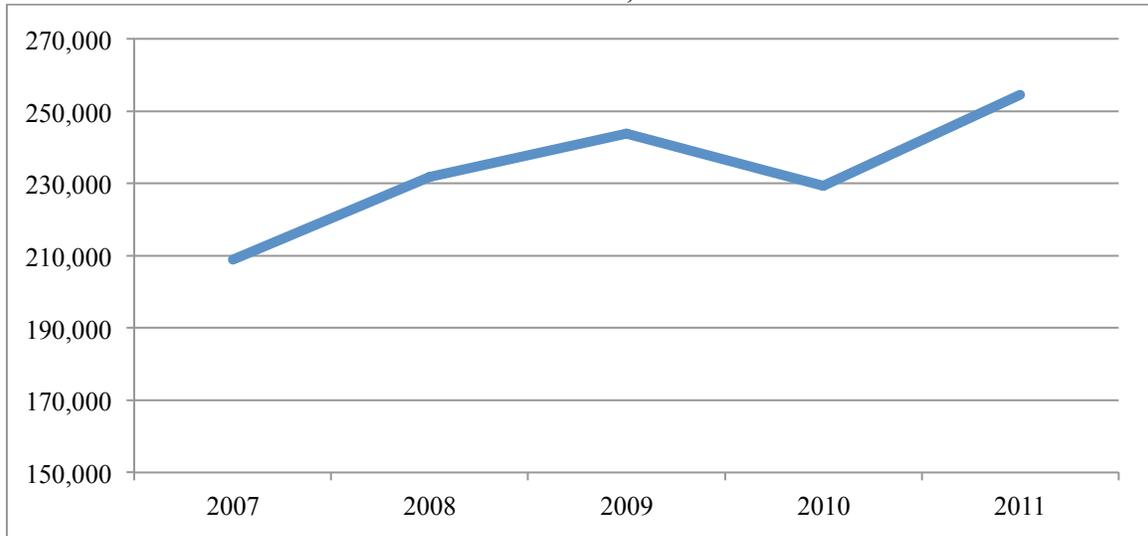
Source: Crossroads Consulting Services LLC (Crossroads Consulting) and Hospitality and Gaming Solutions (HGS), "Critique/Update the Market and Economic Analysis for a Proposed Full-Service Downtown Hotel in Frederick, Maryland Conducted By Pinnacle Advisory Group and OPX." July 2012.

Exhibit 3.37. Frederick Hotel Market Room Supply, 2007-2011



Source: Crossroads Consulting Services LLC (Crossroads Consulting) and Hospitality and Gaming Solutions (HGS), July 2012.

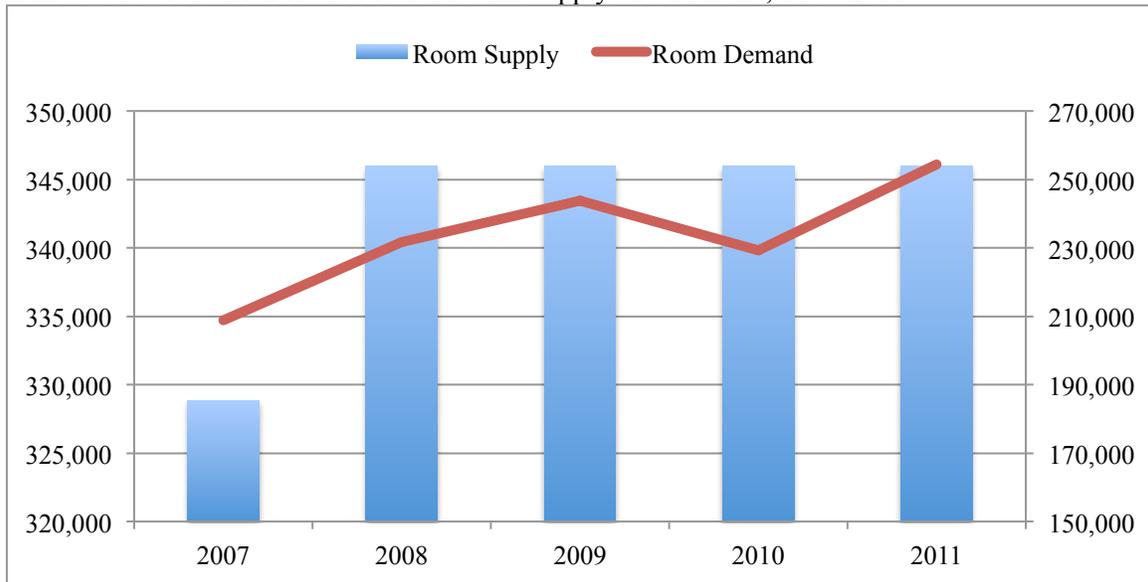
Exhibit 3.38. Frederick Hotel Market Room Demand, 2007-2011



Source: Crossroads Consulting Services LLC (Crossroads Consulting) and Hospitality and Gaming Solutions (HGS), July 2012.

Crossroads Consulting/HGS’ analysis indicates that from 2008-2010, room supply exceeded demand. That was no longer the case by 2011, with the market effectively at equilibrium by that point. Since that time, a 120-room TownePlace Suites rated at 3 stars has opened at 5050 Westview Drive. Reviews have been positive, which may help explain its solid performance since coming online.

Exhibit 3.39. Frederick Hotel Market Room Supply and Demand, 2007-2011



Source: Crossroads Consulting Services LLC (Crossroads Consulting) and Hospitality and Gaming Solutions (HGS), July 2012.

## Proposed Downtown Hotel & Conference Center

Given the extent to which the local hotel market has recovered, there is likely sufficient demand to support a proposed Downtown hotel and conference center that would offer 200 rooms and 15,000+ square feet of meeting space. This amenity appears to be sorely needed in Frederick.

According to HGS/Crossroads Consulting, the proposed hotel would represent “the first full-service and the first branded property in downtown Frederick. Development of the proposed hotel should accommodate existing unmet demand and induce incremental new demand in the market. It is assumed that the proposed full-service hotel will be privately owned and operated.” HGS/Crossroads Consulting also determined that “several major hotel companies have an interest in potentially developing the proposed 200-room full-service hotel in downtown Frederick” and that the hotel should offer “approximately 14,000 to 15,000 square feet of meeting space”, including a 5,000 to 6,000 square foot ballroom.

Two separate studies concluded that stabilized occupancy would be associated with occupancy of 72 percent and total room nights exceeding 52,500. However, one found that average daily rate would be equal to \$140 while the other found that it would approach \$180. From the perspective of profitability, that difference is massive. Of course, to the extent that the project is privately funded and managed, local policymakers would be generally less concerned (though still concerned) about the absolute level of performance. To the extent that the project represents a public-private partnership, however, actual performance will matter more. A comparison of the two studies is presented in Exhibit 3.40.

Exhibit 3.40. Proposed Downtown Hotel & Conference Center: Comparison of Recent Studies Findings

Study	Pinnacle/OPX (2010)	HGS (2012)
Stabilized Year	Year 3 - 2016	Year 4 - 2019
Leisure	10,016	7,884
Group	17,179	16,294
Government	3,259	8,935
Commercial Individual	22,122	19,447
Total Room Nights	52,576	52,560
Occupancy	72%	72%
Average Daily Rate (2011 \$)	\$178	\$140

Source: Crossroads Consulting Services LLC (Crossroads Consulting) and Hospitality and Gaming Solutions (HGS), July 2012.

The proposed downtown hotel and conference center would have limited direct competition. According to HGS, the defined competitive set for the Frederick hotel market consists of eight properties totaling 948 rooms. All of the properties, with the exception of the Holiday Inn, are limited-service properties. Exhibit 3.41 supplies relevant statistical detail.

Exhibit 3.41. City of Frederick Competitive Hotel Market, 2012 (HGS Study)

Property	Number of Guest Rooms	Meeting/ Ballroom SF
Holiday Inn Frederick Conference Center	155	14,000
Hampton Inn & Suites Fort Detrick	104	3,928
Hilton Garden Inn Frederick	143	2,016
Hampton Inn Frederick	161	1,800
Residence Inn Frederick	90	1,100
Holiday Inn Express Frederick	100	689
Marriott Courtyard Frederick	90	221
Fairfield Inn & Suites Frederick	105	n/a
<b>Total</b>	<b>948</b>	

Source: Crossroads Consulting Services LLC (Crossroads Consulting) and Hospitality and Gaming Solutions (HGS), July 2012.

Ultimately, the question of whether the proposed hotel project should move forward ought to depend upon the private sector. Given the existence of the Holiday Inn Frederick Conference Center, one could argue that significant public funding or other forms of support for the proposed hotel would create an unbalanced competitive environment. Moreover, given the strengthening of the market recently, the City of Frederick's general appeal, the limited number of directly competing hotels and the number of hotel companies expressing interest, public subsidy should not be necessary, at least not in large amounts.

However, greater public support may be warranted if the hotel project is able to offer highly sought after amenities that would attract visitors from longer distances, including upscale meeting rooms, at least one ballroom to host major events and a top tier restaurant. It is important to note that there are many other conference facilities in suburban Maryland against which to compete, including the Bethesda North Marriott Hotel & Conference Center with 20 meeting rooms and a banquet capacity of 1,700 and facilities at local colleges/universities such as Hood College and Frederick Community College.

## Conclusions

This section of the report indicates that retail real estate in the City of Frederick is in recovery with vacancy no longer rising and rents on the rise both downtown and citywide. Developers appear anxious to take advantage of an improving commercial real estate environment, with roughly 1,500,000 square feet of development in the pipeline, nearly a third of which could come online in 2014.

Based on Costar snapshot data, Downtown is still associated with a relatively high vacancy rate, which comes as little surprise given its emphasis on discretionary items as opposed to consumer staples. Downtown's primary market capture rate has declined from an estimated 4 percent in 2007 to 3 percent currently, though some of this change may simply be a function of different analytical methods deployed on behalf of the 2007 and 2014 studies, respectively. Given the physical constraints presented by Downtown, the most likely retail gap that could be addressed is the category known as health and personal care stores, including stores that market beauty products.

When one considers the 3-mile and 5-mile area around the Golden Mile, retail gaps emerge in categories such as food and beverage stores, foodservice and drinking places, auto dealers and gasoline stations. These categories therefore represent opportunities to augment the Golden Mile's offerings. A proposed Walmart in the Golden Mile will help address many of the retail gaps associated with the Golden Mile, including in the categories of electronics, apparel and accessories, and sporting goods. The retail gap associated with fine/family dining in the Golden Mile should be addressed in part to help attract more patrons from its secondary market area.

# Summary of Analytical Findings

## Chapter 1

- Both Frederick City and County have exhibited higher than average population growth in recent decades whether compared to the balance of the state or key proximate municipalities. Between 2000 and 2012, the City of Frederick added nearly 24 percent to its population.
- By the year 2030, the city's population is expected to approach six figures (2012: 65,171) while the county's population, which was in the range of 234,000 in 2012, will surpass 300,000.
- In a little more than a decade, between 2000 and 2012, the Caucasian population share in the City of Frederick dipped from 75 percent to 58 percent, while the Hispanic population climbed from 5 percent to nearly 15 percent. The share of Asian Americans in the population doubled to 6.2 percent while the African-American population continues to approach the one in five resident threshold (18.4% as of 2012).
- Institutional employment dominates the City of Frederick economic environment. The top four employers, which collectively represented roughly 21,000 jobs in 2013, are all either attached to government or healthcare. Nearly half of all Downtown employment (47.6%) was in public administration as of 2011.
- Public administration in the city expanded briskly between 2007-2011 (+26.4%), helping to reinforce the community's institutionally oriented employment base. Countywide, public administration employment expanded by 31 percent between 2007-2011.
- Employment in finance and insurance grew substantially between 2002-2007 (up nearly 60%) in the city before slowing during the 2007-2011 period (only up 1.6%).
- Employment in the educational services industry expanded in both the city and the county during the 2002-2011 period, growing 29.1 percent in the City and 45.2 percent in the County.
- Professional, scientific, and technical services employment (e.g., Charles River Labs) grew at a stable pace during both the 2002-2007 and 2007-2011 periods in the City of Frederick.
- Countywide accommodation and food services employment expanded between 2002-2007 (+28%) and then slowed thereafter as the Great Recession took its toll (only up 3% during the 2007-2011 period). In the city, the corresponding growth for the two periods was 9.4 percent and 8.2 percent, respectively.
- Manufacturing employment fell by more than 31 percent in the county and 48 percent in the city between 2002 and 2011.
- The total impact of the Great Recession and other macroeconomic developments has been to render the city more dependent upon institutional (especially government) employment over time.

## Chapter 2

- Almost no new office space has been delivered in the City of Frederick since the recession ended in June 2009 and net absorption has been negative during many recent quarters.
- Very little new industrial space has been delivered since the previous report was submitted in 2007-2008.
- There have been no deliveries of flex space in the City of Frederick since the initial quarter of 2008, an indication that at least for much of the period since the recession began (December 2007), flex space supply has exceeded demand.
- Based on Sage’s analysis, it is estimated that Frederick County will experience the addition of approximately 6,100 office-based jobs between 2015 and 2030. The Frederick Planning Region would capture about 4,500 of these jobs, or roughly three in four. Frederick City would house 3,700 of these net new positions based on the city’s share of countywide office employment in 2011.
- Estimated office demand in the city totals in excess of 700,000 square feet for the 2015-2030 period, of which a bit more than 150,000 square feet are associated with Downtown.
- It is estimated that between 2015 and 2030, there will be net job growth approaching 1,100 positions among users of industrial space in Frederick County. It is estimated that the city will be associated with 267 of these jobs.
- Estimated demand for industrial space in the city between the years 2015-2030 approaches 200,000 square feet, of which nearly 80,000 is associated with East Frederick Rising.
- Sage estimates that the City of Frederick is likely to capture approximately 144 of the 590 flex space-associated jobs that are expected to be created in Frederick County between 2015 and 2030.
- Estimated demand for flex space in the city between the years 2015-2030 approaches 65,000 square feet, of which nearly 27,000 is associated with East Frederick Rising.

### Office Development Opportunities/Summary of Sage Office Space Projections, 2015-2030

	FPR	COF	DF	GM	EFR
Current Employment (Jobs)	29,980	25,262	5,304	3,168	527
Net New Office Employment (Projected)*	4,494	3,787	795	79	475
Employment Growth-Based Office Demand (SF)*	853,839	719,469	151,059	15,009	90,226

Source: Sage, MWCOG and Maryland Department of Planning; Notes: 1. Average SF per Worker: 190.

### Industrial Development Opportunities/Summary of Sage Industrial Space Projections, 2015-2030

	FPR	COF	DF	GM	EFR
Current Employment (Jobs)	10,956	5,079	2,666	161	1,100
Net New Industrial Employment (Projected)*	508	267	16	8	110
Employment Growth-Based Industrial Demand (SF)*	368,164	193,222	11,685	5,560	79,767

Source: Sage, MWCOG and Maryland Department of Planning; Notes: 1. Average SF per Worker: 725.

### Flex Development Opportunities/Summary of Sage Flex Space Projections, 2015-2030

	FPR	COF	DF	GM	EFR
Current Employment (Jobs)	5,900	2,735	1,435	87	593
Net New Flex Employment (Projected)*	273	144	9	4	59
Employment Growth-Based Flex Demand (SF)*	123,047	64,578	3,905	1,858	26,660

Source: Sage, MWCOG and Maryland Department of Planning; Notes: 1. Average SF per Worker: 450.

\*FPR (Frederick Planning Region) estimates *encompass* COF (City of Frederick) estimates. City of Frederick estimates *encompass* DF (Downtown Frederick), GM (Golden Mile), EFR (East Frederick Rising estimates).

### Chapter 3

- By the third quarter of 2013, retail vacancy in both the city and county had returned to pre-recession levels, though not levels achieved during the pinnacle of economic expansion (during the prior business cycle) experienced during the 2005-2006 period.
- Developers appear anxious to take advantage of an improving commercial real estate environment, with roughly 1,500,000 square feet of development in the pipeline, nearly a third of which could come online in 2014.
- Together, the Golden Mile and downtown represent nearly 50 percent of all retail establishments in the City of Frederick.
- Food services and drinking places make up a third of all retail establishments in Downtown Frederick. Other consequential categories include clothing and clothing accessory stores (12%), food and beverage stores (10%), gift, novelty, and souvenir stores (9%). Downtown tends to have a higher share of businesses in specialty clothing stores, gift stores (reflecting its role as a regional destination), and restaurants (reflecting in part the experiential component of Downtown).
- When one considers the 3-mile and 5-mile area around the Golden Mile, retail gaps emerge in categories such as food and beverage stores, foodservice and drinking places, auto dealers and gasoline stations. These categories therefore represent opportunities to augment the Golden Mile's offerings.

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