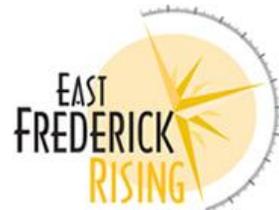
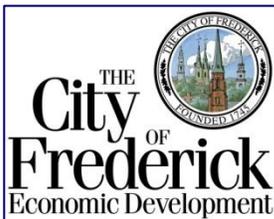




Real value in a changing world

Downtown Frederick Hotel

October 11, 2013



Downtown Frederick Hotel Site Acquisition Strategy Recommendation

Executive Summary

The Downtown Hotel Advisory Committee (DHAC) and Jones Lang LaSalle have engaged in a process to identify and analyze prospective sites for a full-service downtown hotel with meeting space. As a result of the process, DHAC and Jones Lang LaSalle have identified four potential sites as being the best options for the location of the downtown hotel:

- News Post site in the 200 block of E. Patrick St. (Corner of E. Patrick and S. Carroll St.)
- Wormald site at 107 S. East Street (corner of E. All Saints St., S. East St. and Carroll Creek)
- US Postal Service site at 201 E. Patrick St. (corner of E. Patrick and S. East St.)
- Jemal sites at 300/340 E. Patrick (Corner of E. Patrick and S. East St., including the Union Mills building)

Jones Lang LaSalle recommends a strategy of pursuing acquisition of these sites concurrently.

- All sites listed above present potential acquisition challenges. Until negotiations have commenced in earnest, it is difficult to assess the likelihood of reaching mutually agreeable purchase terms.
- Non-exclusive and concurrent negotiations will create a competitive process among the property owners to present DHAC and the City of Frederick the best possible transaction terms.

Overview

Downtown Frederick has been chosen by DHAC as the preferred location for this facility in Frederick County because of its central location, easy access from Interstates, amenities like restaurants, shops, museums, parks, visitor center, public transit options, and the unique marketing character of the historic district.

The primary goal of this initiative is to facilitate the development of a full-service downtown hotel with sufficient meeting space to serve the community and induce robust economic activity and revitalization. The Downtown Hotel and Advisory Committee has established the following four desired objectives for this project (not in priority order):

- 1) Serve Business and Citizen Needs
 - Business meetings & corporate events
 - Weddings and family events
- 2) Induce Economic Impact
 - Tax revenue generation
 - Job creation
 - Increase foot traffic and sales volume in downtown
 - Induce new business activities
- 3) Be a Catalyst for Downtown Revitalization & Growth
 - Induce additional private investment in downtown Frederick
 - Encourage historic renovation and adaptive reuse of buildings in the vicinity
- 4) Induce Tourism and Conference Activity

- Draw new regional/national small to mid-size conferences
- Serve as an anchor hospitality asset to all Frederick Hotels by offering the capacity to book larger group/meeting events than those that can currently be accommodated
- Increase potential for overnight stays by visitors
- Develop relationships with museums, galleries and arts venues, to increase activity levels

Identification of Potential Sites

In their initial work, DHAC identified sites 1 through 6 as potential downtown hotel sites, and site 7 was later added as prospective site. The sites identified include:

Site	Name
1	US Postal Service Site
2/2A	News Post Site
3	Wormald Site
4	MARC Site
5/5B/5C	Potomac Edison Site
6	Brickworks Site
7/7A	Jemal Site

The locations of the 7 sites in downtown Frederick are presented in the following map.



In September 2012, DHAC issued a Request for Information (RFI) to owners of potential hotel sites to determine the owner's interest in selling, and (if there was interest) seeking detailed information about properties and purchase terms. The owners of the News Post, Potomac Edison, Wormald, and Brickworks site responded to the RFI. The MARC site is owned by the City of Frederick, and the US Postal Service did not respond but is open to discussions. The owner of the Jemal site did not respond to the RFI but has since indicated verbally that they may be open to discussions.

In March 2013, DHAC engaged Jones Lang LaSalle to assist in selecting a site and a hotel development team for the construction of a privately owned and operated full-service hotel with meeting space. An initial question posed to JLL was: Should a site be selected first or should a hotel developer be selected first? JLL's recommendation was (and continues to be) to select a site first and secure it through an option agreement or land purchase contract. Once the site is secured, steps to select a hotel developer through an RFP process can commence. This two-phased approach brings several key benefits:

- Having a site selected when the developer selection process begins will give the project credibility with potential developers by reducing risk and enhancing certainty from the developer's perspective
- Land purchase negotiations are likely to be more challenging than selecting a developer. If a developer is selected first, any land purchase negotiating leverage is compromised.
- Jones Lang LaSalle, with our significant hotel and development experience and developer connections, can provide input as to developer and hotel site preferences.

Site Analysis

The process to narrow the list of prospective sites included information from multiple sources, including:

- Collection and assessment of publicly available site information and information available to DHAC
- Information submitted by property owners in response to the RFI
- Detailed analysis of site characteristics
- DHAC and JLL discussions with community stakeholders
- JLL discussions with hotel developers who are active in the market
- DHAC and JLL discussions

JLL began the process with a detailed analysis of the characteristics of the prospective sites from a development perspective including:

- Location including proximity to downtown, proximity to Carroll Creek, walking distance to Square Corners (Patrick and East Streets)
- Physical site features such as topography, geotechnical issues, and environmental issues
- Allowable site density per zoning regulations and discussions with the City of Frederick Planning Department
- Development time and approvals needed
- Parking considerations – whether underground parking is necessary or can parking be accommodated in an above-ground garage?

Information sources included conversations with DHAC, materials assembled by DHAC, public records, and discussions with city officials.

In addition, JLL and DHAC met with multiple community stakeholders, including

- Chamber of Commerce Major Employers Group
- NAC and Church Street Neighbors
- Downtown Businesses & East Frederick Rising
- Frederick Preservation Trust
- Office of Planning
- Downtown Frederick Partnership
- Downtown Frederick Partnership-Property Owners
- Downtown Frederick Partnership-Business Owners
- Frederick Tourism Council

- Frederick Chief of Police
- County Commissioners
- State elected officials
- Maryland Stadium Authority
- Maryland Economic Development Corporation
- Maryland Department of Business and Economic Development

All groups are supportive of a downtown hotel. While most stakeholders did not express a direct preference with regards to a particular site, it is noted that Church Street residents expressed concerns that a hotel located on the site of the US Postal Service (Site 1) would bring increased noise and light and reduced privacy to their properties. The most common issues generally raised are related to traffic and parking concerns. These issues would need to be addressed during the development process.

Two primary tasks involved in successfully bringing a hotel to downtown Frederick involve selecting a site and selecting a developer to build and own the hotel. JLL has had discussions with multiple hotel developers to both generate and assess development community interest in a hotel in downtown Frederick. A number of hotel developers indicated that they had reviewed Frederick for potential hotel development locations for several years. The primary development issues raised related to the low room rates in Frederick compared to urban development costs which would necessitate public support in order to make a project financially viable. Developers familiar with Frederick expressed a strong preference for downtown sites such as the US Postal Service, News Post, and Wormald sites (Sites 1, 2/2A and 3, respectively)¹.

Jones Lang LaSalle and DHAC discussed in detail all site information and the strengths and weaknesses of each site.

Site	Strengths	Weaknesses
US Postal Service	<ul style="list-style-type: none"> • Downtown location • Walking distance to Square Corners • Site is a redevelopment target • Adequate size 	<ul style="list-style-type: none"> • Church Street neighbor concerns • Acquiring a USPS property may be a relatively more time-consuming process as distribution facilities will need to be relocated
Potomac Edison	<ul style="list-style-type: none"> • Adequate size 	<ul style="list-style-type: none"> • Site is not downtown • Site is not easily walkable to downtown • Site has industrial character
News Post Site	<ul style="list-style-type: none"> • Downtown location • Walking distance to Square Corners • On Carroll Creek 	<ul style="list-style-type: none"> • Historic elements of site may limit potential hotel size. • Size of site may necessitate underground parking and/or acquisition of additional adjacent sites
Jemal Sites	<ul style="list-style-type: none"> • Downtown location • Walking distance to Square Corners • On Carroll Creek 	<ul style="list-style-type: none"> • Size of site may necessitate underground parking and/or acquisition of additional adjacent sites • Necessitates street closure • Unknown at this time if owner is interested in selling

¹ Because Jemal had not responded to the RFI, developers were not asked about that site as a potential site. Analysis of the Jemal site as appealing to developers is based on Jones Lang LaSalle's real estate and hotel experience.

Site	Strengths	Weaknesses
Wormald Site	<ul style="list-style-type: none"> • Downtown location • Walking distance to Square Corners • On Carroll Creek • Prior development approved for site which had similar massing and density as proposed hotel 	<ul style="list-style-type: none"> • May be challenging to reach sale terms with owner
MARC site	<ul style="list-style-type: none"> • On Carroll Creek • Ease of acquisition-site is owned by City of Frederick 	<ul style="list-style-type: none"> • Inadequate size • Train noise
Brickworks	<ul style="list-style-type: none"> • Adequate size • Visible from S. East St. 	<ul style="list-style-type: none"> • Site is not downtown • Site is not easily walkable to downtown • Site has industrial character • Long development timeline - master plan must be approved before site plan approval can commence

Site Ranking

Using the information in the site analysis and the project goals identified by DHAC, JLL and DHAC developed a methodology to evaluate and rank the potential sites. Specifically, the team identified five key site criteria, and weighted them by their importance:

Criteria	Weight
<p>Catalyst for Downtown Growth & Revitalization</p> <ul style="list-style-type: none"> -Located downtown -Walking distance to Square corner (1/4 mile) -Located in Historic District (Marketing) -Frontage on Carroll Creek -Induced demand for downtown businesses -Site character 	30%
<p>Developer Feedback</p> <ul style="list-style-type: none"> -Developer stated site preferences based on JLL conversations with hotel developers knowledgeable about the Frederick market and familiar with prospective hotel sites. 	25%
<p>Anticipated Ease of Acquisition</p> <ul style="list-style-type: none"> -Time to acquire -Estimated price (per unit and total price) 	15%

Criteria	Weight
Site Size -Site can accommodate hotel program -Room for future expansion	15%
Overall Develop ability -Community support -Access -Visibility -Prior development approvals -No historic buildings on site -No physical site issues (i.e. subsurface, topography) -No additional zoning processes needed (consolidation/subdivision of property, master plan, historic approvals, rezoning, demolition review)	15%
TOTAL	100%

- Catalyst for downtown growth and revitalization was given the most weight (30%) because this category embodies the primary goal of the project: to bring a full-service hotel and meeting space to downtown Frederick.
- Developer feedback was given the second highest weight (25%). The hotel is intended to be privately developed, owned and operated. It is important to select a site that appeals to prospective developers.
- The remaining three criteria, ease of acquisition, site size and overall developability were each weighted 15%. While the Overall Developability category takes into account a number of issues (topography, environmental, access, etc.), all sites are considered developable. While all sites have various development issues that must be addressed, and some have more issues than others, no site has any know issues that make development of the site impractical.

Using the above criteria, we ranked the properties as follows (detailed ranking is included in Exhibit 1).

Site	Name	Ranking
1	USPS SITE (U)	9
2/2A	FNP SITE (V)	8
3	WORMALD SITE (W)	8
4	MARC PARKING SITE (X)	4
5/5B/5C	POTOMAC EDISON SITE (Y)	4
6	BRICKWORKS SITE (Z)	4
7/7A	JEMAL	7

Based on the above rankings, we recommend pursuing acquisition of the sites ranked over a 5 as potential hotel sites:

- News Post site in the 200 block of E. Patrick St. (corner of E. Patrick and S. Carroll St.) – Sites 2/2A
- Wormald site at 107 S. East Street (corner of E. All Saints St., S. East St. and Carroll Creek) – Site 3
- US Postal Service site at 201 E. Patrick St. (corner of E. Patrick and S. East St.) – Site 1
- Jemal sites at 300/340 E. Patrick (corner of E. Patrick and S. East St., including the Union Mills building) – Sites 7/7A

The sites not recommend for acquisition pursuit have several key issues which resulted in lower scores:

- MARC train site, because the site is too small to accommodate the hotel and meeting space and because of noise from the train. The vehicular access to the site also presents challenges.
- Potomac Edison and Brickworks sites for numerous reasons: they are not downtown, they are not comfortably walkable to downtown and the Square Corners, they have an industrial character, and do not meet the primary objectives of bringing economic revitalization to downtown Frederick. In addition, hotel developers familiar with downtown Frederick did not consider these to be desirable hotel sites, stating a preference for the sites which were located downtown (i.e. the USPS, News Post and Wormald sites).

Site Configuration and Site Comments

During the discussions with community stakeholders, JLL has been asked about options to locate the meeting space on a separate (not adjacent) site from the hotel, or parking on a separate site from the hotel. JLL recommends against separating the meeting and/or parking facilities from the main hotel improvements. These facilities are integral to a successful hotel and separating them will decrease operating efficiency and will compromise hotel marketability.

Acquisition Strategy

Jones Lang LaSalle recommends a strategy of pursuing acquisition of the recommended sites concurrently. Ultimately, only one of the recommended sites will purchased and will become the hotel site. However, pursuing all recommended sites has strategic advantages:

- All sites listed above present potential acquisition challenges. Until negotiations have commenced in earnest, it is difficult to assess the likelihood of reaching mutually agreeable purchase terms.
- Non-exclusive and concurrent negotiations will create a competitive process among the property owners to present DHAC and the City of Frederick the best possible transaction terms.

In addition, the City of Frederick owns a development site adjacent to the Potomac Edison site. This site could be included in a purchase agreement for a recommended hotel site and swapped with the hotel site (a cash payment to hotel site owner will likely still be needed due to differences in property values). Likewise, the US Postal Service site is a redevelopment target for the City of Frederick whether it becomes the site for the hotel or not. If it is possible to acquire the US Postal Service site, it could become the hotel site or it could potentially be exchanged for another recommended hotel site.

Once the acquisition strategy is underway, the City of Frederick will enter into a Request for Proposal (RFP) process with developers to submit plans for incorporating the recommended sites. However, it is possible developers will submit unsolicited proposals concurrent with this RFP process.