MARKET ANALYSIS AND RETAIL STRATEGY FOR DOWNTOWN FREDERICK, MARYLAND

Prepared for

City of Frederick
Department of Economic Development
and
Downtown Frederick Partnership

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FOREWORD

This market analysis has been prepared for the City of Frederick, Department of Economic Development and the Downtown Frederick Partnership. From the public sector perspective, the goals of downtown revitalization efforts are to positively affect the economic restructuring of the community and to maximize the fiscal return on investment in downtown infrastructure. From the private sector perspective, the goal of downtown revitalization is to maximize the economic performance of businesses and generate long-term asset value for investors.

The objective of the market analysis is to generate recommendations to guide the on-going retail revitalization of Downtown Frederick. The recommendations presented in the retail analysis should be useful as public sector organizations and private investors implement historic preservation and adaptive re-use programs within the Maryland "Main Street" guidelines.

This analysis incorporates consumer research undertaken for the purpose of measuring Downtown Frederick's role as a multi-purpose destination within the region. Experience in many cities has shown that vibrant retailing is an outcome of fully functional downtown areas; attempting to restore a dysfunctional downtown with retailing as a leading use is usually unsuccessful because the strategy violates many of the dynamics of modern retailing. Sustainable retail rejuvenation occurs simultaneously with other public and private efforts to bolster the importance of Downtown as a multi-purpose activity center and residential neighborhood.

Downtown's competitive market position and its drawing power are predicated upon maintaining its role as a unique specialty shopping and dining destination. In recent years, Downtown has offered a supportive environment that has enabled many entrepreneurs to survive and prosper. However, downtown's continued retail evolution is hindered by the marginal quality of much of the vacant commercial space as well as unreasonable rental demands and rapidly escalating real estate values. New economic tools to assist in the delivery of quality retail space in the core of Downtown are needed to break the current impasse.

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November, 2003

NOTES ON THE NATURE OF A "STRATEGY"

The formal definition of "strategy:"

Strategy: *noun* / a plan, method, or series of maneuvers for obtaining a specific goal or result
Random House Collegiate Dictionary

Several functional definitions of "strategy:"

Strategy: *noun* / a well-reasoned action plan that matches
knowledge of present market conditions (opportunities) with appropriate practices and procedures (tactics) to achieve desired results

Strategy: *noun* / a flexible action plan that enables its implementers to respond to changing circumstances

Strategy: *noun* / a plan so clear that new participants easily understand its intentions; a plan so clear that deviations become readily apparent; a plan so clear that its final achievement becomes widely recognizable

EXECUTIVE SUMMARY

Reviving the retail sector of any downtown is challenging. Some of the challenges facing Frederick are unique to Frederick while others reflect the dynamics of American retailing. In the past, Downtown Frederick had a broad retail base with department stores and a comprehensive assortment of comparison goods merchants. Established local retailers predominated. An onslaught of chain retailers in suburban locations provided overwhelming competition that gradually caused the downfall of downtown as a regional shopping destination. Across the country, malls and chains have caused independent local retailers to become an endangered species.

Pioneering merchants created a strong market niche for Downtown Frederick by using large, inexpensive warehouses as antiques stores and multi-dealer malls. Shoppers flocked from nearby major markets such as Washington, DC and Baltimore; visiting Downtown Frederick became a favorite weekend daytrip. Smaller specialty stores offering related merchandise opened to cater to the shoppers drawn to Downtown Frederick for antique furniture. East Patrick Street has become the retail connector linking the core of Downtown Frederick to a large cluster of antiques dealers on the eastern edge of downtown.

Although Talbot's operates a womens apparel store at Everedy Square, there are no other national chain retailers or restaurants in street locations in Downtown Frederick. Chains entering the Frederick market have strong site options that meet their criteria for accessibility and co-tenancy. Downtown Frederick is generally not one of the strongest site options for national merchants nor is it necessary for downtown to accommodate this category of tenant. Downtown's promoters can pursue an alternative merchandising strategy that acknowledges downtown's existing strengths and its unique market position. As suburban retailing becomes increasingly mundane and devoted to "task-oriented" chore shopping, Downtown Frederick is well-suited to position itself as a place for "recreational shopping" for unique specialty goods in an environment that offers dining and entertainment as important elements of drawing power. This is not a unique model, but it offers a great possibility of success in Frederick in light of downtown's current stature as a "place" defined by arts, entertainment, and specialty shopping.

Quantitative and qualitative research conducted for this analysis revealed a broad sense of opportunity facing downtown with citizens' expectations of good things to come. Indeed, many point to the many physical enhancements that have been implemented in the past five years as sources of pride. Existing merchants speak of loyal customers, and restaurateurs are optimistic since downtown seems to have quickly established itself as a dining destination.

Downtown is an occasional destination for many reasons other than shopping. Its shopper base is small but loyal; its user base for entertainment is larger and offers potential for growth—especially by tapping into the needs of 18 to 44 year olds who account for 21 percent of Frederick County's population and represent the consumer segment that is typically the leading edge of Downtown revitalization.

The general obstacles to revitalizing the retail function of a downtown district include the strength of suburban competition and the lack of understanding of urban site opportunities within the retail industry. The physical barriers to retail rejuvenation of many downtown areas include inadequate and/or costly parking, one-way streets that confuse patrons, fragmented property ownership, inconsistent operating hours and standards, and narrow, deep buildings that are functionally obsolete in the perspective of contemporary chain retailers.

The most effective strategy for retail revitalization is to preserve and enhance entrepreneurial environment of Downtown Frederick so that start-up businesses and small retailers can become established and profitable. As the retail base increases over time, Downtown may emerge as a critical mass with sufficient drawing power that it serves as a "destination" for drawing an adequate level of patrons with "shopping" as their primary purpose for visiting.

It is important to communicate the "big vision" for Downtown Frederick to capture the interest of prospective merchants and to assure them that downtown offers opportunities for profitable operations. Retaining county/city government offices, adding residential units and new office tenants in the Carroll Creek linear park, constructing additional public parking, creating a public amphitheater, and broadening the role of the Weinberg Center will bolster Downtown Frederick's environment for shopping and dining. Over the longer term, the addition of an inn and meeting facility (perhaps in conjunction with a new Visitors Center) will provide additional consumer demand for shops and restaurants in downtown. These developments and the series of on-going community events must be employed strategically to provide maximum economic impact for the benefit of existing merchants while becoming major parts of the "Downtown Frederick story" to be packaged and presented to prospective businesses.

The City's Economic Development Department and The Downtown Frederick Partnership are jointly responsible for commercial development and business recruitment. In the past, this effort has been undertaken with a variety of federal, state, and local economic development tools but with limited market data. The Maryland Main Street Program provides guidelines for accomplishing needed façade renovations without the benefit of grants to fund significant improvements. The Downtown Frederick Partnership and the City of Frederick are encouraged to create a grant program that leverages interior renovations to street level commercial space in exchange for facade renovations. Grants to improve the appearance of exterior facades do not address the condition of interior spaces; tenants who lease space are unwilling or unable to invest in interior improvements to make spaces useable.

This environmental scan and market analysis contains specific assessments of Downtown Frederick's role in the region with recommendations designed to guide the retail evolution of Downtown Frederick.

RECOMMENDATIONS

1. Initiate a comprehensive downtown planning process to provide a blueprint for future public and private sector investment. Link existing initiatives to a broad strategic plan for Downtown Frederick. The public process of creating a comprehensive downtown plan earns greater citizen support and inspires more private sector investment than incremental actions that appears to be randomly generated by the public sector without input from citizens and the private sector. The comprehensive downtown plan should address key elements such as:

    a. Land use
    b. Urban design
    c. Transportation
    d. Economic development
    e. Environmental considerations
    f. Public and human resources

2. Combine the façade grant program with incentives for property owners to make improvements to interior street-level spaces.

3. Adopt a policy of strict building code compliance to force exterior façade renovations. Target rotting wooden trim, peeling paint, improperly sealed vacant buildings, rusted metal, and other visible signs of neglect.

4. Continue to improve the landscape and physical environment of Downtown Frederick with a "place making" program that focuses upon creating a safe and attractive pedestrian environment. These efforts support retail rejuvenation and residential development.

5. Identify the block of N. Market Street between 2nd Street and 3rd Street as the focus of revitalization and business recruitment efforts. Target retailing and service uses that may simultaneously appeal to nearby residents and other downtown patrons. Add overlay zoning and land use restrictions on this area to facilitate street level retail activity and preclude drive-in and drive-through uses. Consider creating specific incentive grants for this geographic zone.

6. Consider multiple redevelopment strategies for the "Carmack Jay" site. Potential mercantile uses can range from attracting a "destination use" of regional interest to attracting "neighborhood mercantile uses."

7. De-emphasize street retailing on N. Market Street between 4th Street and 7th Street. Consider conversion of street-level commercial space into live-work space or residential use.

8. Establish functional and thematic linkages between the key activity centers in Downtown Frederick. Create effective pedestrian connections between Everedy Square/Shab Row, Carroll Creek Park, and the retail and dining "epicenter" of downtown at the Square Corner. Marketing messages should promote multi-purpose visits involving cross-patronage of several zones on the same visit to Downtown Frederick.

9. Avoid the temptation to require retail tenants in ground floor spaces of new buildings constructed along Carroll Creek Park. This is a comparatively weak location for retailing although it may emerge as a viable site for restaurants and entertainment-related development. Retailing may gravitate to the creek area if and when there is an adequate and sustained level of pedestrian traffic. Until then, retailing will struggle in this portion of downtown.

10. Encourage retailers capable of simultaneously being "destination" merchants and serving the needs of the key user segments (daytime workforce and dining patrons visiting Downtown evenings and weekends). Focus retail solicitation efforts on independent merchants in priority categories including new and used books, apparel, sporting goods, music, cards, gifts, kitchenware, art, and handcrafted items (jewelry, clothing, furniture, home furnishings). The absence of national retailers is not a compromise in the retail revitalization of Downtown Frederick.

11. Maximize upper-floor re-use for residential and commercial purposes by clarifying the applicability of Maryland's Smart Growth Building Codes.

12. Consider the development of an upscale inn on the site of the current post office distribution facility. A small adjunct meeting facility could be placed on the post office parking lot overlooking Carroll Creek Park. An inn on this site would benefit from a strategic location at the new "gateway" to Downtown Frederick while connecting Everedy Square/Shab Row with the existing mercantile activity on E. Patrick Street. Ground level lobby and restaurant space would activate the street; the city's planned parking deck could be placed behind the inn to service guests and the general public.

13. Implement a semi-annual or annual tracking program to measure sales performance of retailers and restaurants within Downtown Frederick. The Downtown Frederick Partnership and city/county/state should collaborate on the creation of geo-coded retail sales tax records that can be used to track annual sales performance of all retailers and restaurants within the boundaries of the Main Street program. The Downtown Frederick Partnership should also track changes in real estate property tax revenue. Implement market-wide "reach and frequency" consumer research on a regularly scheduled basis to assess changes in downtown's usage pattern and patron demographics.

14. There are dual strategies for generating increased traffic and sales in Downtown Frederick:

    a. Capitalize upon current patrons by encouraging cross-utilization of retailers and restaurants regardless of primary purpose for downtown visit

    b. Grow the user base primarily by increasing frequency of visits to downtown by current patrons; target increased reach among 18-44 year olds

15. The primary local marketing target is 18-44 year olds who represent nearly one-quarter (21 percent) of the adult population of Frederick County. The objective is to increase the proportion of local residents within this age range who visit Downtown as well as increase their frequency of visits. In addition, it is important to target increased spending by adding retail merchandise and food/beverage alternatives that will appeal to this consumer segment.

16. Positioning Downtown Frederick as a “must see” destination for visitors is a marketing opportunity that targets the region’s estimated 2.6 million annual tourists and daytrip visitors. This customer segment is lucrative for its overall size—12 times larger than the total population of Frederick County. This customer segment could ultimately account for 35-50 percent of the total sales volume of Downtown (compared to an estimate of less than 10-35 percent today).

17. Downtown Frederick’s key customer segments are of sufficient size and economic vitality that Downtown’s non-antiques sales capacity can increase from an estimated $13.5 million in 2003 to $36.0 million. A sales increase of this magnitude would allow for an increase of up to 52,000 square feet of occupied space.

18. Implement the recommendations of the recently completed Downtown Parking Plan to provide for additional parking capacity in strategic locations throughout Downtown Frederick.

19. Focus governmental employment within Downtown Frederick as a means of bolstering the employment base and stabilizing consumer demand for shops and restaurants in Downtown.

GENERAL OBSERVATIONS

Over the past two decades, Downtown Frederick has become a formidable shopping destination for antiques/collectibles and home furnishings. Traditional shoppers goods retailing has largely shifted to suburban shopping malls and strip centers following the advent of chain retailers and big-box discounters. Over the past decade, entrepreneurial retailing has returned to Market Street and spin-off uses from the antiques industry have proliferated on E. Patrick Street. Several high quality restaurants are succeeding in downtown. The vacancy rate of ground level space in the primary retail zone is less than 10 percent. Buildings are generally well maintained although there are highly visible exceptions. As is true in many communities, buildings of marginal quality have attracted tenants of marginal quality.

Downtown Frederick retains a position of prominence as a site for civic institutions and office employment, and it has been designated as an "arts and entertainment district" under a state program to encourage economic restructuring of urban areas. Downtown has a clear identity as an upscale specialty shopping area. The historic urban fabric has been preserved with a walkable street grid, and public parking is generally available for short-term transient users. Traffic engineering modifications have created one-way street pairings that may be confusing to some users.

Downtown Frederick contains the civic buildings typically found in most city centers as well as attractions, uses, and facilities that make it a unique and inviting place. Baker Park and the Weinberg Center are frequently used venues for performing arts and entertainment. The Museum of Civil War Medicine, the Bridge Mural, Everedy Square/Shab Row, and historic streets are important destinations for tourists. Periodic Farmer's Markets and an extensive events calendar draw residents to Downtown Frederick on a year-round basis. A massive investment has been made to create a linear park along the Carroll Creek promenade. Additional public space along Carroll Creek—perhaps with an amphitheater—will provide public gathering space that is essential to positioning Downtown Frederick as a family destination.

The community's architectural heritage is largely intact and is one of the primary generators of tourist visits. A massive postal service distribution center interrupts the historic fabric of E. Patrick Street and creates a barrier to pedestrian cross-usage of Everedy Square/Shab Row and the Square Corner area.

The extended downtown area of Frederick has a workforce estimated at 3,000 employees. The vast majority of these employees work within a 5-minute walk of the traditional retail core of Downtown Frederick. The City and County currently maintain most of their facilities within the downtown area although the commitment to maintaining governmental functions within downtown is uncertain. As the largest employers in downtown, the County and City will largely determine the fate of downtown as the region's central office district with their future office location decisions. The local banking and brokerage community is well represented with financial offices and branches in downtown. Professionals such as attorneys, real estate brokers, and title firms have clustered in downtown to take advantage of proximity to courts and the seat of government. This sector represents a large employment base comprised of many small firms.

A long-term plan to create Carroll Creek Park provides a rare opportunity to create a beautiful and unique amenity for Downtown. The linear park provides a backdrop for new development and provides a link to several important civic facilities including a new central library, the courts complex, and a proposed amphitheater.

Frederick Memorial Hospital is a major economic engine with a large employee base at its medical complex on the northern edge of downtown. The medical complex is relatively self-contained although its future growth and its spin-off uses could be directed toward downtown rather than away from it.

The key to the continued revitalization of Downtown Frederick is broadening its capacity as a multi-purpose destination so that it plays a more important role in the life of the community. Retail revitalization is an element of economic restructuring that will respond to the strategy of positioning Downtown Frederick as a multi-purpose destination. By form and function, downtown offers a high quality environment that is of human scale, pedestrian-friendly, readily accessible, and attractive to local residents, workers, and visitors. Downtown's mercantile content must remain unique to differentiate it from other more complete commercial areas. Its image and identity must be based upon an urban "sense of place" that is widely sought and a source of community pride.

Public policy at the city and county level must support the broader initiative of creating an important multi-purpose destination. The City and County of Frederick must acknowledge their direct roles in promoting the stability of downtown as a center for government services. The Department of Economic Development and the Downtown Partnership must actively market Downtown's considerable strengths while addressing specific liabilities.

OBSERVATIONS FROM A RETAILER'S PERSPECTIVE

Downtown Frederick generates shopping, dining, and entertainment trips by local residents and tourists. Downtown's unique niche as a destination for antiques shopping is not its sole retail niche. Downtown's core daytime workforce of 3,000 full-time employees is a base for retailing and food/beverage establishments. Nearby downtown residents also generate some consumer demand for goods and services.

Downtown Frederick has many viable retail merchants that provide "destination" drawing power. Independent retailers are more likely to appreciate the opportunity to establish businesses in Downtown than chain retailers. Chains rarely deviate from site selection models that incorporate quantitative and qualitative factors. The straight-forward quantitative factors are trade area demographics, co-tenancy requirements, sales performance of existing merchants, and building design standards; the subjective qualitative factors include compatibility of setting and corporate image and perceived degree of risk.

Downtown Frederick is not a suitable site for department store retailing or big-box merchants because of the space requirements of these tenants and the desire of the community to preserve the historic urban fabric. Tenant recruitment efforts can be successful over the long term by targeting merchandise categories that are not dependent upon department stores for co-tenancy and a specific entrepreneurial merchant typology.

Chain retailers will perceive most of the retail spaces in Downtown Frederick to be obsolete. Most store spaces in Downtown Frederick are long and narrow with frontage of 20-40 feet and depth of 100 feet or more. Chain retailers demand rectangular spaces with frontage of 40-100 feet with depth no greater than 60-80 feet. Fortunately, downtown's retail floor plates are less of a deterrent to restaurants and independent specialty businesses as these operators are able to configure their businesses to fit existing building floorplates.

Downtown Frederick has reached a point in its retail evolution that it is capable of attracting additional apparel retailers. Existing apparel retailers perform well, and the county is generally under-served in this merchandise category.

With few exceptions, Downtown Frederick is fortunate to not be hampered by offices occupying street level retail spaces within the principal retail blocks of Market and Patrick streets. Offices are more flexible in their site criteria than retailers and could occupy space on side streets or upper floors. The City should consider following the example of Daytona Beach, FL and other communities by enacting zoning regulations that prioritize ground level spaces within key zones for retail use.

The quantity and placement of short term parking within Downtown Frederick is generally supportive of retail development. Short-term curbside parking is readily available on most downtown streets, and the City's garage parking system is user-friendly. Research data regarding parking suggests that "availability of parking" is more of an issue than the "cost of parking." Downtown patrons rank "inadequate parking" as the top "dislike" about Downtown although only 16 percent of Downtown users indicate that the cost of parking is an important factor in their decision to visit Downtown Frederick. The City recently commissioned a study of parking to examine downtown parking capacity and future needs. The consultant suggested several enhancements that are compatible with a retail district. Planning for additional parking capacity is warranted as retailing and restaurant uses return to Downtown Frederick and as development occurs in the vicinity of Carroll Creek. Other parking demands will be generated in the event of relocations of city and county as government offices.

Downtown Frederick has a viable base of viable specialty retailers and numerous destination restaurants. There appears to be broad market support for more retail shops and quality restaurants. Downtown Frederick has established its reputation as an upscale destination with synergistic drawing power that is greater than the individual power of each shop or restaurant. It is a recognizable "address" with significant brand equity among consumers.

Existing merchants are "pioneers" that have re-established a consumer market in Downtown Frederick. The public sector can influence the environment for additional mercantile activity in Downtown Frederick through zoning, comprehensive planning, "place making" efforts, provision of parking, retention of employees in Downtown, and by creating specific economic development tools to be applied to retail solicitation and development.

RETAILING IN DOWNTOWN: UNDERSTANDING THE FUNDAMENTALS OF RETAILING

Retail development--in urban environments as well as suburban settings--is driven by business fundamentals that must be acknowledged and considered when creating a recruitment strategy or merchandising plan:

Retailing follows consumers; it leads customers with rare exceptions. Retailers look for established markets as signified by sustained traffic; they are reluctant to be pioneers. Ironically, retailers seek levels of traffic, which they themselves tend to generate. By far, most retailers are "convenience retailers" dependent upon being near their best customer prospects. They must see a steady stream of their customer type to be comfortable with a potential site. Some merchants can be classified as "destination retailers" because their customer franchise is so strong or their offering is so unique that they can draw patrons to any site they select. One effective strategy is to establish the retail legitimacy of an urban location with "convenience retailers" followed by adding "destination retailers" to the mix.

Consistent traffic is a prerequisite for most retailers. The level of rent that retailers are willing to pay is in direct proportion to traffic and sales opportunity they perceive. Inconsistent traffic is perceived to be risky, and in fact, inconsistent traffic makes it difficult for retailers to plan inventory purchasing and staffing. In urban settings, chain retailers are often willing to wait to commit to a lease until local entrepreneurs have established the legitimacy of a retail site. Increased rent is an acceptable trade-off for diminished risk and higher probability of immediate profit.

Consumer traffic must demonstrate sufficient "buying power" to be of interest to retailers. Retailers have preconceived notions of their customers' demographic characteristics and economic capacity. This insight is used to guide the site selection process. Retailers have too many viable site alternatives to take speculative risks; they must perceive their customer to be present or probable as the basis for leasing store locations.

Chain retailers have a limited number of prototypical store formats that they are willing to operate; deviating from these established formats is done only as a last resort in circumstances when demand for a location by the merchant

is high. Retailers have created preferred floor plans for maximum profitability. Departing from established store formats or merchandise assortments is a dollars-and-cents issue that conflicts with the efficiencies of multiple unit operations.

If the general key to real estate is "location, location, location," the key to strong urban retailing is creating and enhancing a "crossroads location" both in the literal sense of accessibility and in the figurative sense as a place where multiple customer segments can comfortably and conveniently interact. Automobile and pedestrian accessibility, adequate parking, and street (or mall) visibility are site prerequisites for all retailing; to compete successfully with suburban retailing alternatives, urban retailing districts must draw multiple customer segments including daytime employees, nearby residents, tourists, and residents from throughout the region.

Most retailers have established criteria for site selection. In its most basic sense, a retail site is nothing more than a place from which to have direct access to shopper traffic with certain characteristics. In the early stages of retail development, it is important to deliver consistent demographics while traffic grows. Prospective retailers must "see" their targeted customer demographics in the flow of traffic available to them at a proposed site.

"High traffic vs. the right traffic" can be a fundamental trade off for retailers. In general, an area that delivers a high level of traffic will be preferred by more retail tenants than an alternative site with more favorable rental economics but less traffic. The American retailing model of mass merchandising is predicated upon low margin/high traffic. Some specialty retailers are capable of generating high profitability on low traffic if their margins are high. In other cases, retailers can survive in low traffic conditions if there is minimal competition or when consumers have highly desirable demographics; these are the circumstances that permit retailing to flourish in resort settings.

"***Strong retailing requires a "critical mass" of merchants in order to be visible in the context of the larger, competitive retail landscape.*** The destination drawing power of a retail area is dependent on its size (critical mass), content, and location relative to its market and competition. Most retailers prefer to cluster with compatible merchants in a critical mass so that they are not solely dependent upon their own drawing power for traffic. Merchants have a herding mentality; often their preference is for an established critical mass rather than betting on the eventual evolution of a critical mass with destination drawing power.

Clustering of compatible retailers has become the norm in American retailing. "Birds of a feather flocking together" is the basis for successful shopping center development and applies no less to urban areas. Merchants seeking compatible customers will gravitate to "nodes" where multiple merchants have greater probability of drawing sufficient traffic than any single retailer could draw on its own merits. Stated in a neutral fashion, few retailers are willing to be "pioneers." Stated in a judgmental fashion, retailers are "lemmings." Some retailers view clustering as increased competition while most view clustering as a way of reducing risk and creating incremental business through synergy. Restaurateurs fear the competition inherent in clustering in the early stages of the evolution of a dining node. Restaurateurs generally perceive the benefits of a functional critical mass of dining options when a restaurant district achieves destination drawing power.

Control over environmental factors is important to retailers so they can focus their energy on "minding the shop." The competitive advantage that shopping centers have over downtown districts is tight control over environment placed in the hands of a single developer or landlord. By comparison, downtown areas typically offer more complex environments with fragmented property ownership often compounded by the problems of absentee ownership. The key environmental factors include a safe setting that is clean and well maintained with business spaces that are correctly sized and configured. Perception of safety is as important as actual statistical safety. Downtown areas require creative procedures for assuring property maintenance and cleanliness as opposed to malls and shopping centers where the developer provides centralized services in these areas. Establishing design criteria and enforcing the rules require special effort in non-centrally operated settings such as downtown districts.

Independent, entrepreneurial retailers are the first wave of new Downtown merchants yet they are an endangered species in American retailing. Mom-and pop retailers suffer in a world of increasingly large chain merchandisers due to small scale of operations, personality-dependence, and pricing constraints. Local merchants succeed by maintaining specialty niches and with admirable persistence. Expanding is often difficult for entrepreneurial retailers because they are fragile—often under-capitalized and without extensive management depth. Coaxing successful entrepreneurs into pioneering locations or expecting them to have capacity to expand to new stores challenges their capacity to survive. Chain retailers tend to ignore downtown sites unless and until local independent merchants prove the viability of retailing by successfully "establishing a market." Until a viable retail market has been demonstrated, chain retailers will not show interest even at low rental rates; when sustainable market support has been demonstrated, chain retailers will pay a rental premium for reduced risk.

Fragile entrepreneurs often lack rudimentary retail skills. Many people have romantic notions of opening a store or restaurant, yet these business sectors are seldom kind to inexperienced operators who lack basic retail skills. Unrealistic business plans and a lack of sales skills result in many business failures. Other entrepreneurs are predestined for failure when their creative passions are not backed by an in-depth understanding of the financial aspects of retailing. While some businesses fail due to poor customer service, many more fail because they are under-capitalized. Many start-up retail businesses never recover from the burden of excessive expenses incurred prior to opening day. Other traps include too much inventory or too little inventory. Finally, reliance upon "sales" to stimulate business hastens the decline of many retailers. A retailer who operates at "keystone" (100 percent mark-up over cost) gives away virtually all of his profit when taking a 20 percent price reduction. Novice merchants who reduce prices at the first sign of trouble are actually hastening their own demise.

Retailers cannot generally survive rent-to-sales ratios in excess of 12 percent. Retailers operating at "keystone" mark-up (selling cost is twice the cost of goods sold) cannot generate a profit if rent exceeds 10-12 percent of sales. Despite the importance of the rent-to-sales ratio, the vast majority of entrepreneurial merchants are unfamiliar with the concept and unaware of the immutability of the concept. Naive merchants with overly optimistic projections of sales may agree to unsustainable levels of rent, thereby playing into the hands of unscrupulous landlords who are comfortable churning tenants. Pragmatic merchants seek rent-to-sales ratios of 3 to 7 percent and are often amenable to paying progressively higher rents as warranted by sales. The single greatest cause of retail failure is rents (and other expenses) that are not commensurate with sales.

This summary of retailer preferences and perspectives has been provided to assist in understanding retailers' current reaction to site opportunities in Downtown Frederick. These retail "facts of life" have been considered in the formulation of the tenant solicitation and marketing strategies for Downtown Frederick. Recommendations in this analysis have been based upon a clear understanding of retailers' site requirements.

OVERVIEW OF FREDERICK'S RETAIL HIERARCHY

Frederick has two principal retail nodes that must be considered when defining the retail niche for Downtown:

1. Route 85/355 corridor in South Frederick node/Francis Scott Key Mall node
2. West Patrick Street extended/Frederick Towne Mall node (the "Golden Mile" area)

South Frederick

The southern portion of Frederick is the region's primary retail concentration. The heart of this retail node is approximately three miles south of Downtown Frederick. This node has extended regional drawing power attributable to its content and accessibility from Interstates 70 and 270 and Route 15. Highway improvements are causing temporary traffic congestion at the convergence of Routes 85 and 355.

Francis Scott Key Mall is the largest retail center in the region. Hecht's, Sears, JCPenney, and Value City anchor this enclosed, single-level regional center. Ethan Allen serves as a mini-anchor. The center has 716,000 square feet of gross leasable area with 251,000 square feet devoted to small specialty tenants. This mall offers a relatively strong assortment of mid-priced national chain apparel merchants including American Eagle Outfitters, The Gap, GapKids, Hot Topic, Christopher & Banks, B. Moss, and Victoria's Secret.

The mall itself is surrounded by major destination stores such as Bed Bath & Beyond, Lowe's, The Home Depot, Michael's Crafts, Best Buy, Circuit City, Kohl's, Wal*Mart, Costco, Sam's Club, The Sports Authority, Staples, Office Depot, Borders Books & Music, A.C. Moore, PetSmart, Men's Warehouse, Off Broadway Shoes, and Target.

Many family-style chain restaurants are located on the mall ring road and nearby streets. Well-know chains include Pargo, Lone Star Steak House, Olive Garden, Panera Bread, Cracker Barrel, Applebee's, Barley & Hops Grill, Pizzeria Uno, and Houlihan's.

Westview Promenade is a small "lifestyle" center located at the intersection of Route 85 and Crestwood Boulevard. Entertainment and dining are the major traffic generators. The principal anchor is a 16-screen multiplex cinema. Dining options already open or under construction include TGI Friday's, Chipolte, Macaroni Grill, Champion's Billiards and Sports Café, Mediterranean Café, and Matsutake Japanese Steak House. "Destination" retail tenants scheduled to open here include Ann Taylor Loft and Jos. A. Bank Clothiers.

West Patrick Street (the "Golden Mile")

Frederick Towne Mall is the largest retail center in this commercial corridor. This center of 593,000 square feet is the area's original enclosed regional mall. The anchors are The Bon Ton and Boscov's. The center is accessible from Route 15. Frederick Towne Mall is 30-40 percent vacant with an overwhelming proportion of space leased to local merchants and secondary chains. This center is only now rebounding from the 1978 opening of Francis Scott Key Mall and the 1999 departure of Montgomery Ward, and the 2003 departure of JCPenney. Frederick Towne Mall is within 3 miles of Francis Scott Key Mall; it is clear than "better" national chain merchants have defined Frederick as a "one store market" and have gravitated toward the larger of its two enclosed malls.

Local retailers, auto dealers, and chain restaurants such as Outback Steak House, Ruby Tuesday, and Red Lobster are represented in the mix in this node, both in strip centers and freestanding locations. Downtown Frederick is within 3 miles of the heart of this node.

Competing Retail Destinations

Highly competitive nearby retail destinations include Lake Forest Mall and the Washingtonian Center in Gaithersburg, The Mall in Columbia, Prime Outlets in Hagerstown, and Gettysburg Outlets.

Frederick County residents who commute to the Washington or Baltimore metro areas may take advantage of the full retail offering of those larger areas. Other Frederick County residents periodically shop outside of Frederick to take advantage of enhanced selection.

In contrast to the two major local retail nodes, Downtown Frederick's retail base consists almost exclusively of local merchants offering unique or handcrafted specialty goods. Unlike the merchandise offering at local malls, Downtown's retail base favors discretionary goods such as gifts, art,

crafts, and furniture/home furnishings over apparel and shoes. Downtown's restaurateurs are local operators. In contrast to suburban fare, downtown's eateries offer fine dining and bistros targeting adults or families with older children. Downtown's dining establishments appear to have a greater orientation to alcoholic beverages than suburban chain restaurants; they have also discovered the value of in-house entertainment and live music.

DISCRETIONARY USAGE OF DOWNTOWN FREDERICK

Consumer research illustrates the broad cumulative drawing power of Downtown Frederick—when all discretionary uses are considered. This analysis incorporates the results of a randomly conducted telephone survey of 350 households within the retail trade area defined by five successful Downtown merchants. A copy of the questionnaire and a map of the calling area are included in the Appendix.

On an expanded geographic basis, Downtown's annual reach is 69 percent and its average annual frequency is 65 visits for non-work purposes. It is evident that Downtown Frederick is currently attracting a wide cross-section of local residents for specific events and trip purposes.

DOWNTOWN USAGE INDEX BY AGE AND HOUSEHOLD INCOME		
	USAGE RATE	INDEX
18-24	70 percent	1.01
25-34	77 percent	1.12
35-44	77 percent	1.12
45-54	71 percent	1.03
55-64	74 percent	1.07
65+	56 percent	.81
Under $20,000	40 percent	.58
$20,000-$39,999	60 percent	.87
$40,000-$59,999	73 percent	1.06
$60,000-$79,999	75 percent	1.09
$80,000-$99,999	80 percent	1.16
$100,000-$149,999	81 percent	1.17
$150,000+	100 percent	1.45
ALL HOUSEHOLDS	69 percent	1.00

➔ Downtown usage is high among all age groups under age 65 and among households with annual incomes over $40,000.

The most important non-work trip generators in terms of "reach" or incidence of use are:

Miscellaneous Purposes	**16 percent**
Cultural/Entertainment Events	**28 percent**
Professional Appointment	**34 percent**
Outdoor Festival/Event	**37 percent**
Shop Everedy Square/Shab Row	**44 percent**
Church/Civic Purposes	**49 percent**
Shop Patrick/Market Streets	**52 percent**
Dining/Bar	**54 percent**

As shown in the charts on the facing page:

- ➔ Usage of Downtown Frederick for non-work purposes is highest among 25-44 year olds and lowest among those over age 65. This pattern is comparable to other communities where this research has been conducted. Incidence of Downtown usage is only slightly lower among 45 to 64 year olds than younger consumers. Usage of Downtown Frederick by younger adults between the ages of 18 and 24 appears to be lower than expected in light of the merchandise skew of existing retailers in the Market Street zone.

- ➔ There is a high statistical relationship between household income and usage of Downtown Frederick for discretionary purposes. As household income increases, so does incidence of visiting Downtown Frederick. This is a strong message to communicate to prospective merchants because more affluent households are generally stronger consumer prospects than less affluent households.

- ➔ "Shopping on Patrick/Market Streets" and "dining/drinking" are the two strongest non-work trip generators for Downtown Frederick. This finding attests to the progress that has occurred in Downtown Frederick's mercantile revitalization over the past decade. "Shopping" is firmly established in consumers' minds as a major element of Downtown Frederick. Many emerging Downtowns have not achieved this consumer mindset.

The most important discretionary trip generators in terms of "frequency of visit" are:

Cultural/Entertainment Event	**3.0 trips per year**
Outdoor Entertainment Event	**3.6 trips per year**
Professional Services	**4.7 trips per year**
Shopping Everedy Square/Shab Row	**5.6 trips per year**
Shopping Patrick/Market Streets	**6.1 trips per year**
Miscellaneous Downtown Use	**6.2 trips per year**
Dining/Drinking	**7.0 trips per year**
Library/Church/Post Office/ Government Office	**7.3 visits per year**

As shown in the bar charts on the facing page:

- ➔ As income rises, so, too, does frequency of use of Downtown Frederick. There is a high degree of statistical correlation between rising income and increased frequency of use of Downtown Frederick for non-work purposes. The correlation between age and frequency of use of Downtown is weaker.

- ➔ Frequency of visiting Downtown Frederick varies by purpose of trip. The two monitored forms of "shopping" earn modest visit frequencies of approximately 6 trips per year (roughly one shopping visit per 60 days). This frequency of use is significantly lower than the prevailing average frequency of use of a regional mall (approximately one visit per 10-14 days for an average of 25-36 visits per year).

- ➔ Outdoor events and cultural/entertainment activities currently generate relatively low annual trip frequencies. Downtown Frederick earns an average of one "cultural/entertainment" visit per 60 days. There is significant potential to increase visits to Downtown with increased programming and broader variety of events.

- ➔ Attending church/visiting the library and post office/visiting government offices represents the most prevalent trip generator for Downtown Frederick as measured by incidence and frequency.

- ➔ The important consumer segment of 18 to 24 year olds uses Downtown with significantly higher frequency than other segments. The average of 311 annual visits is undoubtedly influenced by the small sample size of this age segment in this survey; however, the general finding that Downtown is the dominion of younger people cannot be overstated. This finding warrants a strategic response given the spending patterns and potential of this segment and their prevalence in Frederick County (7.4 percent of the county's population).

- ➔ Higher income households ($40,000 and up) show greater usage of Downtown than lower income groups (under $40,000). Frequency of use by higher income households is higher than the frequency of use by lower income households.

As shown in the tables on the facing page:

- ➔ Downtown's "users" are younger and more affluent than its non-users. This has been factored into the merchandising strategy and recommendations for activating Downtown with more event programming focusing upon a wide range of entertainment.

- ➔ The "most liked" aspect of Downtown Frederick is its "historic atmosphere/setting/buildings." Downtown's "distinctive restaurants/bars" and "locally owned/specialty shops" are currently tied as the second "most liked" aspect of Downtown Frederick.
- ➔ It is logical to assume that greater use of Downtown Frederick would follow efforts to increase the amount of short-term parking. There may also be opportunities to address the cost of parking and the image of strict enforcement of parking regulations as part of a larger campaign to enhance the "user friendliness" of Downtown Frederick. Curbing traffic congestion and eliminating one-way streets would address major "dislikes" about Downtown.

Downtown's annual reach of 69 percent suggests that there are few non-users to convert into Downtown patrons. Instead, the results suggest that a more effective strategy for increasing the vitality of Downtown Frederick is to earn additional visits from infrequent patrons. Eliminating perceived and real hassles is critical when attempting to earn more visits by occasional patrons.

Earning discretionary trips requires an attitude of public accommodation by local government and private sector supporters of Downtown Frederick. The most reluctant Downtown patrons are those who visit infrequently; it is this segment of patrons who are most apt to be intimidated by traffic congestion, one-way streets, and parking that is not directly adjacent to their intended destination. The unfamiliar environment of Downtown translates into heightened sensitivity to aspects of Downtown that are different from more familiar surroundings and destinations. Infrequent Downtown patrons are outside of their "comfort zone" when they enter Downtown. As a result, they are often intimidated by a variety of factors including socioeconomic diversity that does not exist within their neighborhoods, one-way streets, and structured parking. These patrons are accustomed to acres of free parking in suburban shopping centers and wide, two-way streets that provide a sense of security against the fear of becoming lost.

These findings reinforce the value of capitalizing upon Downtown Frederick as a multi-purpose destination. Capturing retail and food sales from users drawn to Downtown for reasons other than shopping/dining is one of

the fundamental challenges of capitalizing upon the traffic in a busy "crossroads" setting.

Over the long term, building a larger mercantile base in the core area of Downtown Frederick will require dual efforts simultaneously executed:

1. ***To generate retail and restaurant sales as impulse spending by patrons drawn to Downtown for a variety of primary reasons other than shopping/dining***

2. ***To generate retail and restaurant sales as the direct result of an increase in the number of "destination shopping/dining visits" to Downtown***

The long-term goal is to establish a critical mass of shopping and dining that will have sufficient drawing power to establish Downtown as a more frequent "destination" for shopping and dining. Until this goal is achieved, Downtown retailers and restaurants must capitalize upon patrons who are drawn to Downtown for reasons other than shopping and dining. Once in Downtown, patrons must be encouraged to cross-utilize the core retail area regardless of their primary purpose for visiting.

NUMBER OF VISITS TO DOWNTOWN FREDERICK IN PAST YEAR							
	DINING	STREET SHOPPING	EVEREDY/ SHABROW	OUTDOOR EVENT	CULTURAL EVENT	PROF. SERVICES	CHURCH/ CIVIC
None	46%	48%	56%	63%	72%	66%	51%
1-3	13%	18%	20%	25%	21%	18%	11%
4-9	14%	14%	10%	7%	5%	9%	9%
10+	28%	21%	14%	4%	3%	7%	29%

AGE / INCOME CHARACTERISTICS OF USERS AND NON-USERS OF DOWNTOWN FREDERICK		
	USERS	NON-USERS
18-24	7 percent	7 percent
25-34	15 percent	11 percent
35-44	22 percent	16 percent
45-54	29 percent	29 percent
55-64	15 percent	13 percent
65+	12 percent	23 percent
Under $20,000	3 percent	12 percent
$20,000-$39,999	15 percent	26 percent
$40,000-$59,999	19 percent	19 percent
$60,000-$79,999	18 percent	16 percent
$80,000-$99,999	22 percent	15 percent
$100,000-$149,999	15 percent	9 percent
$150,000+	9 percent	--- percent

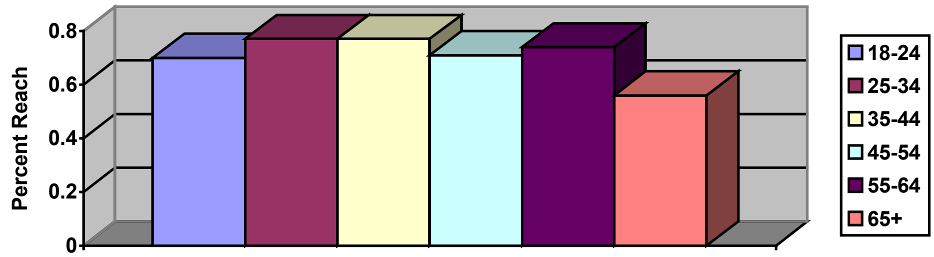
LIKE BEST ABOUT DOWNTOWN FREDERICK	
	ALL RESPONDENTS
Historic Setting/Buildings/Atmosphere	62 mentions
Distinctive Restaurants	23 mentions
Locally-owned/Specialty Shops	21 mentions

LIKE LEAST ABOUT DOWNTOWN FREDERICK	
	ALL RESPONDENTS
Not Enough Parking	54 mentions
Traffic Congestion/One Way Streets	53 mentions
Pay Parking/Expense/Parking Enforcement	7 mentions

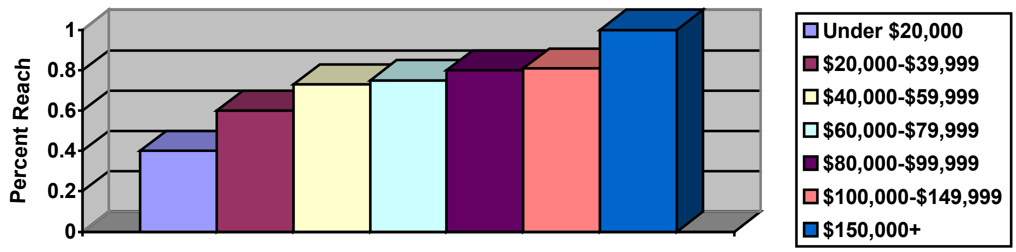
PREFERENCE FOR CHAIN VS. NON-CHAIN STORES IN DOWNTOWN	
	ALL RESPONDENTS
New stores should be local independent merchants	33 percent
New stores should be chain retailers	3 percent
New stores should be a mix of chains and local merchants	58 percent

PERCEPTION OF APPROPRIATENESS OF RESTAURANT COUNT	
	ALL RESPONDENTS
Currently have too many restaurants in Downtown	5 percent
Currently have too few restaurants in Downtown	10 percent
Have "just about right" number of restaurants in Downtown	73 percent

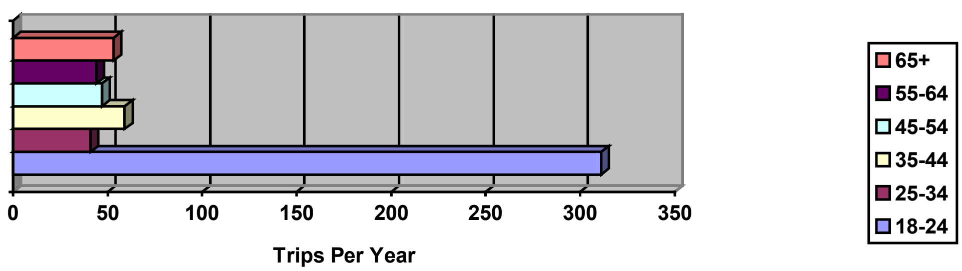
DOWNTOWN USE BY AGE



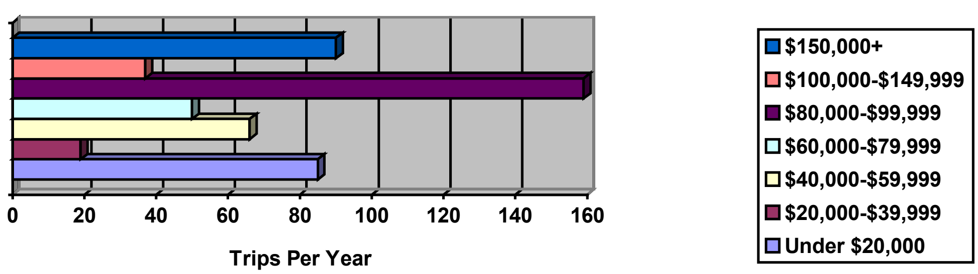
DOWNTOWN USAGE BY INCOME



DOWNTOWN FREQUENCY OF USE BY AGE



DOWNTOWN FREQUENCY OF USE BY INCOME



PERCEPTUAL RATINGS OF DOWNTOWN FREDERICK

Respondents were asked to rank attributes of Downtown Frederick using a 1 to 5 scale with 1 representing "very poor" and 5 representing "very good."

- ✓ Downtown's receives its highest scores on fundamental issues such as "comfortable during the day" and "convenient to use."
- ✓ Parking is perceived as "congested" although directional signage (for motorists and pedestrians) receives relatively high scores.
- ✓ Downtown is a source of pride and is viewed as an important part of local history.
- ✓ Downtown earns its one of its lower scores for being an "exciting and full of things to do."

PERCEPTUAL RATINGS OF KEY DOWNTOWN ATTRIBUTES	
Is comfortable for me during the day	4.2
Is convenient for me to use	4.1
Is friendly	4.0
Is visually appealing	4.0
Is well-lit at night	3.9
Has clean sidewalks, streets, and public areas	3.8
Has congested parking	3.8
Has enough directional signs to help you find your way when walking within Downtown	3.8
Has enough directional signs to help you find your way when approaching Downtown by car	3.7
Has enough directional signs to help you find your way when driving within Downtown	3.7
Is safe	3.7
Has buildings that are well-maintained	3.7
Is comfortable for me during the evening	3.7
Is exciting and full of things to do	3.6
Is safer, more comfortable now than 2-3 years ago	3.4

Attributes scores can be monitored periodically to assess perceptions of improvement in those areas that receive attention.

DOWNTOWN USER SEGMENTS

In September 2003, students enrolled in Hood College's "Seminar in Strategic Management" conducted a Downtown customer intercept survey using a questionnaire designed by H. Blount Hunter Retail & Real Estate Research Company for the Downtown Frederick Partnership. Dr. Anita Jose supervised the effort with assistance from the Downtown Frederick Partnership. In September 2003, the intercept research included 256 respondents. This is intended to be the first of four seasonal waves of research designed to create a composite portrait of Downtown's user base. (See Appendix for details.)

The goals of the intercept research were:

- ✓ to understand the mix of local residents and tourists using Downtown Frederick
- ✓ to prioritize current Downtown patrons' desires for mercantile categories and/or identify specific business names that would increase the use of Downtown Frederick as a shopping and dining destination
- ✓ to generate information to fill local knowledge voids regarding length of stay, place of stay, and repeat visitation patterns by out-of-town visitors

The mix of customer segments in September's intercept included 28 percent "visitors" from beyond Frederick's retail trade area. Some of these visitors are daytrippers while others are overnight visitors. The share of traffic generated by visitors can be expected to vary according to season; the intercept research should be repeated at least quarterly to create an accurate understanding of annual importance of these three customer segments.

SEPTEMBER, 2003 DOWNTOWN PATRON MIX BY CUSTOMER SEGMENT	
	PERCENT
Local Area Residents	54 percent
Downtown Workers	18 percent
Visitors from Beyond Trade Area	28 percent

Downtown is a "mixed use" destination with a variety of reasons for visiting. Retailers must acknowledge that

"shopping" is not the primary motivator for the majority of Downtown's patrons. This knowledge enables savvy merchants to capitalize upon traffic using frequent changes of window displays, product demonstrations, and personal selling skills to convert passers-by into patrons.

KEY MOTIVATIONS FOR VISITING DOWNTOWN FREDERICK	
	PERCENT
Work in Downtown/Work Related	24 percent
Eating/Drinking	24 percent
Shopping/Browsing	19 percent
Sightseeing	12 percent
Personal/Professional Errand	11 percent
Entertainment/Cultural Event	3 percent
All Other Motivations	7 percent

- ✓ Local residents originating from home (i.e. not in Downtown for work purposes} are more motivated to visit Downtown Frederick to dine than shop. Those who visit Downtown for shopping are almost equally split between browsing for antiques and shopping for other types of goods.

- ✓ Visitors from beyond Downtown Frederick's retail trade area visit Downtown equally for shopping and dining, with browsing for antiques representing three-quarters of the reason for shopping in Downtown Frederick.

KEY MOTIVATION FOR VISITING DOWNTOWN FREDERICK BY LOCAL RESIDENTS AND VISITORS		
	LOCAL RESIDENTS	VISITORS
Work-related visit	7 percent	3 percent
Personal Errand	15 percent	---
Antique Shopping	12 percent	18 percent
General Shopping	11 percent	6 percent
Dining/Drinking	32 percent	24 percent
Professional Office Visit	3 percent	---
Entertainment/Cultural	4 percent	3 percent

The Fall 2003 wave of patron research generated some understanding of the origin and behavior of patrons:

- 48 percent of respondents resided in Zip codes 21701/21702/21703 in Frederick City or County; 54 percent resided within the Zip codes defined as Downtown Frederick's retail trade area
- Almost half of the local resident patrons (40 percent) were escorting or accompanying out-of-town guests on trips to Downtown Frederick
- Three-quarters of the tourists were making a repeat trip to Downtown Frederick
- Only one-third of tourist patrons were staying in Frederick overnight; half of those who were staying locally overnight were guests in a private residence rather than commercial lodging
- The gender ratio was approximately half male/half female.

The demographics of patrons of Downtown Frederick are attractive to retailers and restaurateurs:

- ✓ The key age segment is 35 to 44 year olds with significant strength among 25 to 34 year olds and 45 to 54 year olds. As consumers, these age groups are within the "age of acquisition" in which purchasing for home and family is at its highest.

- ✓ With an average household income in excess of $76,000, Downtown's patrons have higher than average consumer purchasing power.

AGE AND HOUSEHOLD INCOME OF DOWNTOWN PATRONS	
	PERCENT
18 to 24	11 percent
25 to 34	22 percent
35 to 44	28 percent
45 to 54	22 percent
55 to 64	13 percent
65 +	5 percent
Mean / Median	41.9 years / 40 years
HH Income Under $34,999	13 percent
HH Income $35,000-$49,999	21 percent
HH Income $50,000-$74,999	26 percent
HH Income $75,000-$99,999	19 percent
HH Income $100,000-$149,999	15 percent
HH Income $150,000+	7 percent
Mean / Median	$76,550 / $62,500

- ✓ Among exiting patrons, 33 percent had made a retail purchase while 65 percent had made a food or beverage purchase.

- ✓ The most likely retail purchasers were 35 to 54 year olds; the most likely food/beverage purchasers were 18 to 34 year olds.

- ✓ The average retail expenditure among exiting patrons was $28.40 (including non-spenders).

- ✓ There is no consistent retail purchasing by household income level although food/beverage purchasing rate tended to rise with income.

- ✓ The average food/beverage expenditure among exiting patrons was $29.00 reflecting group meals (including non-spenders).

PURCHASING RATES BY AGE AND HOUSEHOLD INCOME OF EXITING RESPONDENTS

	RETAIL PURCHASING	FOOD/BEVERAGE PURCHASING
18 to 24	29 percent	71 percent
25 to 34	33 percent	80 percent
35 to 44	36 percent	59 percent
45 to 54	38 percent	62 percent
55 to 64	22 percent	56 percent
65 +	25 percent	50 percent
HH Income Under $34,999	25 percent	58 percent
HH Income $35,000-$49,999	46 percent	62 percent
HH Income $50,000-$74,999	27 percent	73 percent
HH Income $75,000-$99,999	25 percent	50 percent
HH Income $100,000-$149,999	38 percent	69 percent
HH Income $150,000+	50 percent	83 percent
Mean	33 percent	65 percent

All Downtown patrons were asked to name their "most liked" and "least liked" aspects of Downtown Frederick. The question was unaided; verbatim responses were grouped into general topics as shown in the following tables.

- ✓ Downtown's historic ambiance and architectural quality is the "most liked" aspect of Downtown. This image currently factors into Downtown's marketing messages; future images can stress Downtown's atmosphere as its most unique point of differentiation.

"LIKE MOST" ABOUT DOWNTOWN FREDERICK	
	PERCENT
Atmosphere/Historic Buildings	46 percent
Pedestrian-Oriented/Scale	17 percent
Locally-Owned Shops	8 percent
Much To Do in One Place	7 percent
Distinctive Restaurants	6 percent
Entertainment/Cultural Activities	4 percent
Pubs/Bars	4 percent

Downtown's current users cite several aspects of parking as their "least liked" aspects of Downtown Frederick. Parking is seen my many patrons as insufficient in quality, expensive, or inconveniently located.

- ✓ Identifying plentiful customer parking is a major element in retailers' site selection process. Downtown Frederick's future retail evolution may be affected by consumer and retailer perceptions of the availability and convenience of parking.

- ✓ "Excessive enforcement" of parking regulations is not a major issue to current patrons of Downtown.

"LIKE LEAST" ABOUT DOWNTOWN FREDERICK	
	PERCENT
Insufficient Parking	28 percent
Pay Parking/Expensive Parking	14 percent
Traffic Congestion/One Way Streets	9 percent
Run Down/Dirty Areas	7 percent
Inconveniently Located Parking	7 percent
Not Enough Shops	7 percent
Not Enough Events/Entertainment	6 percent

Current Downtown users are a valuable source of ideas for new retail content for Downtown Frederick. All patrons were asked to review a listing of store/merchandise categories with the request to select their two top priorities for new uses in Downtown Frederick.

- ✓ The highest priority additions to content in Downtown are a permanent farmer's market, new or used bookstore, fine dining restaurants, and apparel for men and women

- ✓ Perhaps predictably, 18 to 24 year olds requested books and music. Those between the ages of 25 and 44 requested mens and womens apparel and fine dining restaurants—with books among their highest requests. Those over age 45 were most likely to request books, and restaurants. A bookstore appeals to all age segments while a permanent farmer's market resonates with all respondents over age 25.

TOP PRIORITIES FOR NEW USES IN DOWNTOWN FREDERICK		
	1ST PRIORITY	2ND PRIORITY
Family/Childrens Apparel	2 percent	1 percent
Womens Apparel	7 percent	6 percent
Mens Apparel	9 percent	2 percent
Sports Apparel	3 percent	2 percent
Unisex/Juniors Apparel	---	2 percent
Shoes	4 percent	4 percent
Greeting Cards/Gifts	4 percent	3 percent
New/Used Books	11 percent	6 percent
Music CDs and Tapes	4 percent	6 percent
Sporting Goods	2 percent	3 percent
Home Décor Items	5 percent	2 percent
Kitchen/Cookware	5 percent	6 percent
Optical Shop	1 percent	1 percent
Hair Styling/Barber	2 percent	3 percent
Candy/Baked Goods	2 percent	2 percent
Cameras/Film Processing	---	2 percent
Jewelry/Watches	1 percent	4 percent
Carry-Out Restaurant	2 percent	6 percent
Fine Dining Restaurant	11 percent	4 percent
Office Supplies	1 percent	4 percent
Tailor/Seamstress	1 percent	1 percent
Dry Cleaner	1 percent	3 percent
Permanent Farmer's Market	12 percent	15 percent
Art Gallery	2 percent	6 percent
Perfume/Cosmetics	3 percent	2 percent
Ice Cream/Yogurt	2 percent	3 percent
Candle Shop	---	1 percent
Flower Shop	---	1 percent

GUIDING PRINCIPLES FOR EXPANDING THE ROLE OF DOWNTOWN FREDERICK IN THE LIFE OF THE COMMUNITY

Expanding Downtown Frederick's role in the community must reflect these principles:

- ➔ Downtown is a pedestrian-friendly historic setting with no peer in the Frederick region.
- ➔ Much of the investment in downtown's infrastructure has already been made. The community has a vested interest in protecting its investment and adding uses that increase the value of properties within the district.
- ➔ Downtown is important for the tax revenue it generates. Taxes generated in Downtown pay for services in neighborhoods throughout the City of Frederick. Therefore, local government decisions that bolster the health of downtown tend to stimulate positive fiscal impact for the City and County.
- ➔ Downtown as a whole aspires to be greater than the sum of its parts. Its "brand image" can impart value to sub-areas and specific features within downtown.
- ➔ Downtown must respond to real market opportunities via niche strategies that make it a genuine "gathering place" and a great place to live, work, and play.
- ➔ Downtown must create effective "tools" to overcome investor inertia and accommodate market demand.
- ➔ Larger social purpose can be served by using public investment to leverage private investment.
- ➔ Public-private partnerships and broad-based leadership are essential to the success of downtown reinvestment efforts.
- ➔ Public policy must support downtown development through growth management plans which reward density and

efficient development patterns and full utilization of existing infrastructure.

- ➔ Downtown's "vision" and positioning strategy must remain authentic to the region and must be comprehensive in scope to achieve sustained success in broadening the role of Downtown Frederick in the life of the community.

- ➔ Downtown needs a strong champion and advocate with a broad constituency to coordinate and leverage community support and guide on-going development. The job is too large to be sustained exclusively by the Downtown Frederick Partnership or the public sector; the larger community must be involved from a grass-roots level up to the top echelons of the business community.

DOWNTOWN'S CURRENT AND FUTURE ROLES BY CATEGORY OF USE

Downtown Frederick's role in the community has changed from undisputed retail hub and commercial center as recently as the 1960s to an office employment node and destination for specialty shopping, dining, and entertainment. Downtown is a niche retail destination for few consumers could satisfy all of their retail needs solely within downtown.

Downtown has "high reach/modest frequency" of use with "shopping" and "dining" already established as important trip generators. The concentration of key activity generators near the core of Downtown has resulted in Downtown use that is predominantly "destination-specific" trips. To be sustainable, future market position of Downtown Frederick must be grounded in market and economic realities. The competitive market influences the options available for niche development of Downtown.

OFFICE:

With approximately 3,000 employees, downtown has the region's largest concentration of office employment. Downtown fulfills the traditional role as the center of finance, law, and government. Retaining the offices of city and county government is essential for the long-term stability of Downtown Frederick.

Because of its unique atmosphere and the availability of non-traditional office spaces, Downtown Frederick is already positioned as the center of the region's "creative services" industry. Additional rehabilitation projects similar to the Glass Factory should be encouraged. Architects, engineers, designers, computer software developers, and consultants are typically drawn to downtown settings with amenities and environments similar to those of Downtown Frederick. Many of these workers avoid suburban office complexes because they are sterile and uninspiring. Downtown can even compete for medical offices given its proximity to a major hospital complex.

Office tenants can be sought via relocation of existing businesses and through start-up companies. Downtown Frederick has a modest amount of multi-tenant office space that would be classified as "Class A" space using BOMA (Building Owners and Managers Association) standards. The absence of quality space is one of the factors hindering downtown's ability to compete for corporate office relocations. Development sites in the Carroll Creek area will permit the city to attract a new employer seeking "Class A" space. On the other hand, Downtown Frederick has ample "Class B" and "Class C" office space that may be incubator space for firms seeking less prestigious backroom space or small start-up firms that cannot afford "Class A" space. Upper floor renovation should also be encouraged for office uses.

Downtown Frederick can have multiple office market images: a prestigious site for private businesses, a central location for government functions, and an exciting center for creative entrepreneurship. The economic development strategy adopted by the City of Frederick will optimally include soliciting start-up firms and others that require "Class B" or "Class C" space. The office market in Downtown Frederick is not predictable enough to permit projections of demand. There is no history of absorption and new space development that can be used as the basis for forecasting new building development or space needs. To generate new office tenants, the City and local business development agencies must actively recruit small entrepreneurial businesses as tenants for non-traditional space in Downtown Frederick. Existing office space can be used as a business incubator to provide a low-cost option for start-up firms.

HOUSING:

The consumer research conducted for this analysis probed the perception of Downtown Frederick as a good place to live. Fully 59 percent of respondents felt that Downtown would be a good place to live with the greatest support coming from 18 to 24 year olds and those over age 55. Interest in Downtown living is highest among disparate income groups: respondents with household incomes under $60,000 and those with household incomes in excess of $100,000. These results are generally reflective of the age and income segments that profess interest in living in urban settings in other communities. The suburbs are the preference for respondents with children while Downtown living appeals to young singles/childless couples and active (affluent) older residents. In Downtown Frederick, the preferred housing stock would be detached single-family homes (34 percent) followed by townhouses (31 percent). Condominium units (16 percent), traditional apartments (7 percent) and loft-style units (7 percent) would appeal to smaller market segments. Of importance, two-thirds of those interested in multi-family units would be willing to live in the upper floors of commercial buildings in Downtown Frederick. Potential Downtown residents are predominantly owners (74 percent) although interest in Downtown living is very high among current renters. This positive consumer feedback reflects reaction to the current environment and housing selection in Downtown Frederick. Further, it suggests demand for upper floor space that is currently dormant either because investors have not tested market demand or because there are impediments to re-use of upper floors.

Downtown Frederick offers the region's authentic "city life" alternative. No other neighborhood can compete with downtown in this housing niche. The common denominators among those who chose to live in Downtown are active lifestyles and a desire to occupy historic buildings in a high-density setting. This market niche includes positive diversity of age, ethnicity, and income. Public policy should support new construction and re-use of existing structures and the development of mix of owner-occupied units and rental units. Policy should support a mix of rental and for-sale units with a variety of prices.

RETAIL:

Downtown Frederick's current retail offering is of generally high quality. Local entrepreneurs have established a base of specialty retail shops with broad appeal. There is a mixture of merchants with long operating histories as well as newer merchants. In addition to functioning as a "design center" for household furnishings, downtown has destination shopping for apparel and other comparison goods. Downtown also has a relatively strong offering of convenience goods for daytime employees and nearby residents.

The larger retail marketplace affects Downtown Frederick's potential as a retail center. In the vast majority of cases, department stores are necessary for drawing an effective cluster of national chain retailers. The placement of department stores in nearby suburban shopping centers precludes aspirations for Downtown Frederick's emergence as an open-air street version of a suburban mall.

Competitive retail areas in the Frederick area have "national chain stores" and "mass merchandise" as their common denominators. These competing areas are organized in effective "critical mass" clusters. Downtown Frederick does not need to attract mall-type retailers to exploit its niche as a specialty shopping destination. Consumer research documents sentiment in favor of a mix of "chain retailers" and "independent local entrepreneurs." Such combinations tend to be more stable with broader appeal than retail collections consisting entirely of local merchants or chain retailers. A stronger positioning opportunity is for downtown to remain the antithesis of the typical regional mall or suburban shopping center. The merchandising theme of hand-made goods and local-interest products can be interwoven with downtown's niche as an Arts/Cultural and Dining/Entertainment District as a sustainable opportunity for the retail component of Downtown Frederick. This strategy has civic appeal because it provides opportunities for independent local businesses, artisans, and entrepreneurs--many of whom are unable or unwilling to locate in regional malls and shopping centers. There is also a natural synergy with the antiques industry that is well established in Downtown Frederick.

The strategy of being the "un-mall" has been successful in cities as diverse as Corning, NY, Charlottesville, VA, Palm Springs, CA, and Ann Arbor, MI. The retail mix in Annapolis has come full circle with the departure of many chains in favor of local merchants once again.

DINING:

Frederick County's restaurant industry is booming following the advent of dozens of national family-style chain eateries in suburban locations. Downtown Frederick is unquestionably the region's most significant "Restaurant Row" for local, signature restaurants. Consumer research suggests than many Downtown patrons perceive "just the right number" of restaurants in Downtown Frederick today. However, this category of use is well suited for Frederick's emerging Arts/Cultural District as well as sites along the Carroll Creek promenade. The dynamics of Downtown Frederick support the clustering of additional full service restaurants since flexible spaces are readily available. In addition, the desire to incorporate a mix of uses in new developments in the Carroll Creek area bodes well for the possibility of new restaurants in this portion of downtown. Unlike freestanding sites or suburban clusters, Downtown offers benefits to restaurateurs with strong potential lunch sales, executive "expense account" dining, spin-off patrons from arts/culture/entertainment activities, and access to the visitor market that is already an important customer segment in Downtown Frederick.

Downtown's central location and easy accessibility make it a good location for restaurants with destination drawing power.

Downtown Frederick is an established dining destination featuring primarily independent local entrepreneurs and multi-unit operations that are not perceived as "chains." Dining can be an adjunct activity enjoyed in conjunction with other Downtown activities or it can be a destination activity in its own right. Dining will flourish as new activity generators are established within Downtown Frederick. The synergy that comes from creating a "Restaurant Row" with a cluster of restaurants tends to be beneficial for all operators.

ENTERTAINMENT:

Leisure-time entertainment can be active or passive; it encompasses many forms ranging from organized activities and large gated venues to small events and spontaneous gatherings. The trend toward higher spending for discretionary activities illustrates the importance of "entertainment" in our lives.

Downtown Frederick has been designated by the State of Maryland as an "Arts and Entertainment District" in recognition of its current variety of entertainment options. The goal of the program is to enhance the variety and impact of arts and entertainment venues.

The Weinberg Center is a historic theater that serves as a multi-purpose venue for stage productions, concerts, and children's events. Its downtown location is a competitive advantage, and this venue is (or can become) a major attraction for Downtown Frederick. The full strategic impact of this venue on the retail/restaurant base of Downtown Frederick has not been realized.

Downtown plays a role in the entertainment spectrum as the host to the Cultural Arts Center of Frederick County and several community-based performance groups. Future growth of the Cultural Arts Center bodes well for enhancing the importance of culture/entertainment as a Downtown trip generator. Nearby Baker Park is the site of many events. A wide variety of community events and celebrations are held in the streets of downtown. Event programming compensates for the absence of theaters and performance spaces by activating downtown in such a way that it has become the region's undisputed "family entertainment destination." Concerts, art shows, gallery walks, children's' programming, and community celebrations draw traffic and have established Downtown Frederick as the region's undisputed destination for community entertainment.

An opportunity appears to exist for creating an independent movie house (or permanent film forum) in Downtown Frederick. This type of programming is popular across the segment of the population that is supporting the retail and restaurant mix in Downtown Frederick. There is no vacant movie palace in downtown to be used as a venue although the Weinberg Center may be a viable site for this type of use in its mix of uses. Limitations imposed by deed restrictions or use clauses should be examined and reconsidered if possible.

Downtown Frederick cannot expect to use multiplex cinemas as an anchor. It would be difficult to establish a new movie zone in downtown given the proximity of existing cinemas. The region's multiplex cinemas are located at the Westview Promenade (16 screens) and Frederick Towne Mall (10 screens). Frederick County has one traditional cinema screen per 7,700 residents. The theater industry views the optimum ratio of population-to-screens as one screen per 10,000 residents. Based upon this perspective, Frederick County (population 200,000) already has a glut of traditional movie screens, and Downtown Frederick should not aspire to become the site of a traditional cinema complex.

Downtown Frederick is already established as the region's dominant multi-purpose entertainment center for a broad segment of the local population. Downtown has distinguished itself as a popular gathering place for the community. Downtown has programming flexibility without the need for capital investment in new "buildings" by using streets, parks, and existing venues. The consideration of an amphitheater in Carroll Creek Park is to be encouraged. Stimulating entertainment-driven patronage will continue to generate economic benefits for Downtown's existing restaurants while leading to additional restaurant and retailer interest.

DOWNTOWN FREDERICK AS A "GATHERING PLACE":

It is important for downtown to be perceived as a fun "gathering place" for the family. The experience of Downtown Frederick as a unique as a "place" can become one of its most important strategic attributes; however, Downtown's distinctiveness as a "place" is not fully evolved. It is somewhat disturbing that "an exciting place full of things to do" received the lowest perceptual rating of all tested attributes. Content, environment, and programming contribute to "place making" and the creation of downtown as an "experience."
Streetscape and amenities contribute to the quality of "place" in Downtown Frederick as do the human scale of buildings and their architectural quality. Historic standards are strictly enforced yet there remain opportunities to enhance the "sense of place" through the sensitive and tasteful use of signs, banners, lighting, and landscaping. Shopkeepers should be praised for their use of flowers and plants at doorways and in windows. On the other hand, some outdoor ding areas are poorly executed with inappropriate furniture styles and materials. The regulatory environment has resulted in attractive permanent store signage, yet window signs and "tent-style" street signs are of generally lower quality. Street trees have grown large and block storefronts and building facades, and tree planters show lack of attention to detail.

Downtown Frederick currently lacks a central public gathering place and community celebration space. Baker Park is not centrally located; Everedy Square/Shab Row is off-center and privately controlled. The potential for creating a gathering space that contributes to the quality of life for the community exists in conjunction with the Carroll Creek Park. Currently, the esplanades along the creek are hard, harsh areas that conflict with the character and texture of the overall environment of Downtown Frederick. While there is the potential to create a "sense of place" along the creek, it is important to acknowledge the magnitude of the challenge and to underscore the notion that retailing should not be considered the leading element to be used in attempting to establish this area as a beautiful part of the "public realm" in Downtown Frederick. Programming of the amphitheater and the quality of the public space are the key factors for establishing the creek area as a desirable public gathering place.

Downtown's physical environment and streetscapes contribute to a unique "sense of place." The Carroll Creek linear park requires extensive "place making" before it becomes memorable as a "place" or an "experience." Over the long term, downtown becomes a compelling "place" by virtue of the unique experiences it can deliver. As the streets of Downtown Frederick fill with new uses and activities, visiting downtown will be a more complete "experience." Restaurants are the initial beneficiaries of "place making" efforts, but over the long term, retailers will respond to the sustained levels of traffic they see in Downtown Frederick.

SUMMARY

Today, Downtown Frederick is a hub of government and civic activity, office employment, entertainment, and a strong destination for upscale specialty shopping and dining. Even without a hotel, Downtown Frederick plays a central role in the local visitor economy. In the future, Downtown can **continue to grow by attracting the region's creative endeavors and by expanding its appeal as a destination for shopping, dining and a broad array of entertainment options and experiences reflecting a special quality of "place."**

ASSESSMENT OF EXISTING RETAIL CONDITIONS IN DOWNTOWN FREDERICK

North Market Street: Patrick Street to Church Street

Adjacency to Square Corner is makes this block a strong location for retailers and restaurants. This could be a “signature address” given the visibility, quality of the buildings/storefronts and proximity to the Weinburg Center. A recent conversion of ground floor space from office to retail reinforces this as a retail corner. There are two vacant storefronts on the western side of the block that may be unoccupied as a result of targeted rental rates. The Cultural Arts Center of Frederick occupies valuable space in this block.

North Market Street: Church Street to 2nd Street

This block benefits from direct access to the Church Street municipal parking deck and proximity to the Frederick Visitor Center. It is the site of several of Downtown’s strongest “destination” restaurants and several popular retail shops. Occupancy is generally high; most buildings in this block have been renovated and are well maintained. A glaring example of a poorly maintained property is the large building that formerly hosted the Asiana Restaurant. This three-story structure retains a poorly maintained façade that hides the original elevation of the structure; its ground level space lacks the type of capital investment that would make the space attractive to a quality tenant or tenants. Absent appropriate investment in façade and interior space, this property will continue to have a blighting influence on this block.

North Market Street: 2nd Street to 3rd Street

This block features several entrepreneurial retail shops and casual restaurants. Currently, this is the northern edge of mercantile activity in the "primary retail zone." Storefronts are generally smaller and buildings are generally less impressive than those in the blocks to the south. Current retail activity extends to the middle of this block where a specialized pharmacy is a major anchor. A new hair salon at the corner of North Market Street and 3rd has become a destination use at the northern end of this block. The recent sale of a two-level building opposite the salon suggests solid investor interest in this block. The middle of the western side of the block has several contiguous properties with visible physical decay including wood rot, peeling paint, and extensive rust. Strict enforcement of building codes may be appropriate. With sustainable mercantile activity on both ends of this block, it would be appropriate to target the middle of this block as a high priority for property rehabilitation and tenant solicitation.

North Market Street: 3rd Street to 4th Street

This block has dual personalities. The eastern side of the block has contiguous ground level storefronts in traditional buildings of 2-3 stories. There are a wide variety of business types including services, a second hand shop, an adult bookstore, neighborhood pubs, and art galleries. Part of the western side of the block also has traditional storefronts, but much of the western side of the block was cleared for surface parking and a grocery store. The grocery store building appears to be functionally obsolete as a supermarket due to limited square footage; there are signs of physical obsolescence as well. It is unlikely that this building will return to service as a traditional grocery store given the proximity of several major chain operators and the absence of "mom and pop" corner grocer operators in the Frederick market. The site would not meet the selection criteria for a specialty store such as Whole Foods (see appendix for details). The concept of developing a Public Market has been evaluated and may have merit from the perspective of creating a use that would simultaneously appeal to adjacent residents and the population of a larger region. A Public Market could become an effective anchor to draw retail momentum farther north on Market Street while establishing a strong merchandising theme for small storefronts on the opposite side of the street.

North Market Street: 4th Street to 5th Street

A former gas station occupies the northeast corner of the intersection of North Market Street and 4th Street. Residential uses begin to predominate including some ground level spaces and occupied upper floor uses. Storefronts in this block are not an extension of the "primary retail zone" of Downtown Frederick; they are remnants of neighborhood-oriented mercantile activities that have fallen by the wayside. Filling these storefronts with retail uses should not be embraced as a goal. Some can serve as offices in love/work buildings while others can be returned to residential use.

North Market Street: 5th Street to 6th Street

Street level commercial spaces on both sides of this block are remnants of mercantile activity that disappeared long ago. Upper floors are used for residential space; conversion of street level commercial space into offices or residential use should be considered as an alternative to attempts to restoring retail activity in this block. This block should not be forced to re-connect with the retail base of Downtown Frederick although neighborhood mercantile activity can be appropriate here.

North Market Street: 6th Street to 7th Street

A diner and a car dealer are the principal mercantile activities in the northern end of the corridor. A residential neighborhood lies beyond the traffic circle at 7th Street. This is a major east-west connector to the regional hospital complex, community shopping centers, and Route 15. This block should not be forced to re-connect with the retail base of Downtown Frederick although neighborhood mercantile activity can be appropriate here.

South Market Street: South Street to All Saints Street

This block is a "gateway entrance" to Downtown Frederick albeit an uncelebrated one. Uses in this block include a volunteer fire squad and a viable furniture importer; many of the attractive buildings in this zone are completely vacant (upper floors and ground level spaces). Downtown retail activity currently ceases at South Street where a soup kitchen is located; however, there is significant long-term potential to integrate this block with the Carroll Creek Park and to capitalize upon parking and proximity to Square Corner.

South Market Street: All Saints Street to Patrick Street

The Carroll Creek Canal crosses South Market Street at the southern end of this block. There is direct access to a municipal parking lot as well as a municipal parking deck. Business uses range from a long-established mens shop and a popular trail outfitter to edgy galleries and an upscale guild jeweler. There are numerous carryout food establishments as well as several pubs.

Some specialty shops occupy English basement space. There are few vacancies. This shaded street is connected to the vitality of Square Corner/North Market Street and to the future activity in the Carroll Creek Park.

East Patrick Street: Market Street to S. Carroll Street

This segment of Patrick Street includes the main public library and a municipal parking deck. The street is lined with historic structures currently used for retailing, restaurants, and commercial offices. The vacancy rate is low. The prevailing merchandising themes are antiques and collectibles and home décor items. Spaces range in size from large multi-dealer antique malls to 500-square foot specialty shops. This area can become a strong gateway to the Carroll Creek Park area. Alleyway development should be considered as a means of extending retail from East Patrick Street to Carroll Creek canal.

East Patrick Street: S. Carroll Street to East Street

The Post Office maintains a consumer station and a regional mail distribution facility on the northern side of this block. This industrial use is out of place in form and function. The southern side of the block consists of historic commercial and residential structures that are currently used as professional and business offices and retail shops. This block has strategic potential as a link between the activity of Square Corner and Everedy Square/Shab Row. The critical value of this linkage will increase when East Street becomes a major thoroughfare providing direct access to Interstate 70.

West Patrick Street: Market Street to Court Street

This is mixed-use block anchored by the Weinberg Center for the Arts and the Cultural Arts Center of Frederick County. Approximately 50 market-rate apartments have been developed in the former Patrick Hotel. There are several cafes and delis here to capitalize upon the employees and visitors to the county government offices and court complex. Retailing may be encouraged to cluster here due to the visibility generated by the Weinburg Center for the Arts and visibility/proximity to Square Corner.

West Patrick Street: Court Street to Bentz Street

This is another mixed-use block consisting of county offices and private sector offices for realtors, attorneys, and other professionals. There is little mercantile activity in this sub-area. The Barbara Fritchie House, one of the region's most important historic attractions, is located here. Nearby Baker Park is the site of frequent events and community programming. Residential neighborhoods are located to the west of Bentz Street. Retail uses in this area can be expected to be oriented to serving the convenience needs of daytime employees.

DEFINING THE FOCAL POINT FOR RETAIL DEVELOPMENT

Retailers prefer to cluster in concentrated nodes or zones for the convenience of shoppers and so that they may benefit from traffic drawn by neighboring merchants.

The "primary retail zone" for intensifying comparison goods shopping would optimally radiate 3 to 4 blocks to the north and south of "Square Corner." Therefore the "primary retail zone" would be the blocks South Market Street between All Saints and Patrick Street and North Market Street between Patrick Street and 3rd or 4th Streets. Blocks to the north of 4th Street can accommodate commercial activity as it expands from the "primary retail zone" but these blocks should not be targeted for immediate retail development.

This area fits many of the criteria sought by retailers:

- ✓ Retail blocks are "double-loaded" meaning that storefronts face other storefronts across the street
- ✓ Contiguous storefronts with no major "dead zones" where street activity is interrupted by vacant lots, parking lots, or physical/psychological barriers
- ✓ Short-term parking is available at curbside and in strategically located lots within this zone and adjacent to it
- ✓ Major employers and institutions are located within and adjacent to this zone
- ✓ The architectural quality of the buildings within the zone is consistently attractive
- ✓ A nucleus of existing retailers and restaurants exists in this zone
- ✓ Store spaces are available in various sizes and dimensions ranging from small spaces to large formats
- ✓ Pedestrian traffic is focused on these blocks

Concentrating retailers and restaurants along a 5-7-block portion of Market Street responds to consumers' willingness to walk a maximum of approximately 1,000-1,500 feet in a double-loaded environment. Retail/restaurant uses can occupy virtually 100 percent of ground floor spaces along

Market Street as far north as 4th Street. The City and the Main Street Program are urged to focus on the creation of the

highest quality facades and interior tenant spaces in order to attract retail tenants of high quality. Many building in this key activity corridor are in marginal condition.

Existing storefronts to the north of 4th Street may never return to mercantile use, or they can be filled with neighborhood-oriented uses until other blocks of North Market Street become fully occupied. It is not recommended that extraordinary effort be expended to push retail activity into these blocks unless and until the 300 block of North Market Street is reclaimed as a site for strong retailers and restaurants. These storefronts will suffer in the absence of an "anchor" use generating traffic for the northern end of North Market Street. A strong use for the Carmack Jay site could provide impetus for retail revitalization of these blocks.

Future retail and restaurant development should be encouraged to occur on East Patrick Street where the postal distribution facility is currently located. Development in this area would serve as a means of linking Everedy Square/Shab Row with Square Corner. While outside of the scope of this analysis, consideration should be given to the development of a small inn with meeting facilities as an anchor and catalyst project in this area. A facility located here would benefit from connections to Carroll Creek Park and the ambiance of East Patrick Street.

The Carroll Creek Park is not a strong candidate for retail development unless and until it is a popular destination for dining and entertainment. Restaurants can be early uses along the Carroll Creek Park as patrons seek good quality dining experiences despite remote setting. Retail uses as the first generation of tenants could succeed only if the Park itself has a significant and consistent level of pedestrian activity, if a meaningful quantity of stores opens as a "critical mass" or with merchants that are very strong "destination businesses" with high name recognition and established drawing power. The City's insistence upon active uses in ground level spaces of buildings developed along the Carroll Creek Park is an appropriate step to activating the park area; however, there should be no requirement for "retailing" to be the predominant first generation use.

Defining a "primary retail zone" is not intended to suggest that other streets in Downtown are inappropriate for

retailers and restaurants. In fact, viable street retailing currently exists on East Street (Everedy Square/Shab Row) and along several blocks of E. Patrick Street. The rationale for defining a "primary retail zone" springs from the strategy of match Main Street façade and rehabilitation incentives with geographic zones identified as high priority development opportunities. This approach is recommended for Downtown Frederick.

DESIRED STORES AND RESTAURANTS IN DOWNTOWN FREDERICK

All respondents were asked what stores and restaurants they would like to see in Downtown Frederick. Respondents were also asked about their preferences for local merchants, national chains, or a mix of both types of retailers.

PREFERENCE FOR LOCAL MERCHANTS VS. NATIONAL CHAINS IN DOWNTOWN FREDERICK	
Local Merchants	33 percent
National Chains	3 percent
Mix of Local Merchants and National Chains	58 percent
Don't Care	6 percent

Respondents profess a preference for local merchants or locals mixed with national chains. Many national retailers would be impossible to secure in Downtown for one or more of the following reasons:

- Frederick is outside of the chain's geographic area of operation
- Many merchants do not operate in urban environments
- The population density of the Frederick area does not meet the site selection criteria of many merchants
- Many chain retailers operate only in settings with multiple fashion department store anchors

All intercept research respondents were asked what specific stores or restaurants they would like to have in Downtown Frederick. Specific merchant requests were rare; general requests centered upon "any grocery store" and "any drug store."

"MOST REQUESTED" STORES FOR DOWNTOWN FREDERICK	
	PERCENT
Starbucks Coffee	5 percent (6 requests)
Barnes & Noble	4 percent (4 requests)
The Gap	3 percent (3 requests)
Banana Republic	2 percent (2 requests)
Ann Taylor	2 percent (2 requests)
Any Grocery Store	14 percent (16 requests)
Any Drug Store	6 percent (7 requests)
More Apparel Stores	6 percent (7 requests)

The list of retailers demonstrates the overwhelming orientation of Frederick's consumers to chain stores and moderate-priced retailers. Many of the desired retailers already have locations in Frederick; it is unlikely that retailers will feel the need to open second locations in Downtown Frederick given its proximity to the three key retail nodes.

SALES CAPACITY ILLUSTRATION
DOWNTOWN FREDERICK, MARYLAND

CURRENT ESTIMATE	PCT. SALES BY SEGMENT	EST. SALES BY SEGMENT
(WORKERS GENERATE 40 PERCENT OF SALES)		
LOCAL TRADE AREA RESIDENTS	30-40 percent	$4.5-$6.0 million
DAYTIME EMPLOYEES	40 percent	$5.4 million
TOURISTS	20-30 percent	$1.5-$5.2 million
ESTIMATED CURRENT SALES		**$13.5 million**
SUPPORTABLE FOOTAGE AT **$200 PSF**		**67,500 SF**
PROJECTED PERFORMANCE ALTERNATIVE	PCT. SALES BY SEGMENT	SALES BY SEGMENT
(WORKERS GENERATE 15 PERCENT OF SALES)		
LOCAL TRADE AREA RESIDENTS	35-50 percent	$12.6-$18.0 million
DAYTIME EMPLOYEES	15 percent	$5.4 million
TOURISTS	35-50 percent	$12.6-$18.0 million
PROJECTED SALES CAPACITY		**$36.0 million**
SUPPORTABLE FOOTAGE AT **$300 PSF**		**120,000 SF**

ESTABLISHING SALES GOALS BY CUSTOMER SEGMENT FOR DOWNTOWN FREDERICK

No annual sales data currently exists for Downtown Frederick as a sub-sector of Frederick County. Total retail sales in Frederick County are estimated at $3.5 billion. Downtown's projected capacity for retail sales (excluding antiques) is approximately 1 percent of the county's total or $36.0 million.

- It is estimated that the daytime workforce currently generates 40 percent of total retail/restaurant sales (excluding sales of antiques and home décor items) in Downtown. Using national averages for annual spending of $1,800 per capita by office workers, Downtown Frederick's 3,000 employees spend an estimated $5.4 million annually in Downtown during/after the workday—with approximately $4.0 million devoted to meals and $1.4 million devoted to retail goods and personal services. Fully functional Downtown areas that draw residents for a variety of trip purposes and penetrate their local tourist markets tend to rely upon the daytime workforce for no more than 15 percent of sales. Using this benchmark, Downtown Frederick's sales capacity is approximately $36.0 million.

- The local resident market is a customer segment to be cultivated for increased sales. Currently, it is estimated that local residents generate 30 to 40 percent of non-antiques sales in Downtown Frederick. In the future, this segment can be expected to generate 35 to 50 percent of total sales (excluding antiques). This range of estimated spending equals $12.60-$18.0 million of sales potential based upon Downtown's projected capacity of $36.0 million.

- The Frederick area's annual visitor volume of 2.6 million represents a huge consumer market. Typically, visitors are oriented to the unique offering of a unique niche retail district such as Downtown Frederick. The impact of visitors on the antique sector of retailing is clear; however, most retailers polled during the course of this analysis indicated that visitors generated 10-50 percent of their sales. Many felt the visitor segment contributed the increment of sales that translated into operating profits. This segment can be expected to generate 35 to 50 percent of Downtown's non-antiques sales or $12.6 to $18.0 million in retail and food sales (excluding antiques and home décor items) in Downtown Frederick based upon reasonable capture and typical expenditure patterns.

Downtown Frederick has significant potential to become a more important destination to residents of an extended region and visitors. A performance forecasting model based upon similar urban settings suggests that Downtown Frederick has sales capacity of $36.0 million (excluding antiques) based upon the size of consumer market segments available to it and predicated upon a mix of tenants representing appropriate merchandise categories. Implicit in these projections is an increase in total supportable square footage simultaneously with an increase in sales productivity.

RETAIL-ORIENTED ECONOMIC DEVELOPMENT TOOLS

The City of Frederick has no effective retail-oriented economic development incentives to use in its Downtown revitalization effort. Façade grants alone are inadequate because they focus solely upon exterior improvements rather than interior rehabilitation; tax credits that apply only to building owners do not apply to tenants. Reliance upon independent merchants and start-up entrepreneurs demands programs tailored to businesses needing up-front working capital. Retail revitalization may proceed without retail development incentives, but at a slower pace than may be expected in appropriate incentives were applied. In addition, the in the absence of rehabilitation of interior spaces, marginal buildings will attract only marginal quality tenants.

The Downtown Frederick Partnership (DFP) must identify whether any existing state and local economic development tools are applicable to retailers. This report suggests that there are few—if any—financial incentives that apply to retailers or building owners preparing space for retail use. In the absence of existing programs, the DFP must take a leadership role in establishing the need for new tools that would assist in establishing new retailers in Downtown.

The City of Frederick should consider supplementing its broaden range of economic development incentives to include specific categories of retailers and restaurants within defined geographic boundaries. Because buildings in marginal physical condition tend to attract tenants of marginal quality, it is important to provide capital resources for building improvement that can draw tenants for leased space.

Any new programs should address the most typical scenario:

A new retail tenant wishes to lease a storefront in Downtown Frederick at prevailing market rent (estimated at $10.00-$12.00 per square foot on a gross basis), but the retail space is in poor condition. Because the tenant has no equity position in building, the tenant is unwilling to make capital investment to improve space. The building owner lacks the capital for necessary improvements to make space suitable for use by the retailer, and the prevailing market rent is inadequate to earn a reasonable return on the required renovations and improvements. (Examples include provision of functional HVAC system, restrooms, basic electrical wiring and panel, and “vanilla box” drywalls.) The economics of early-state urban retail rejuvenation are dysfunctional because low rents fail to offset high capital requirements of bringing new space to market. The stalemate continues until market rents justify the required capital investments.

The City and County economic development organizations may be able to create a revolving loan package targeting rehabilitation of economically/functionally obsolete buildings for contemporary uses with improvements to include life safety and handicap accessibility features. The City may consider a loan program to assist property owners in the financing of alterations and improvements necessary for compliance with current building codes, fire codes, and accessibility codes. The City may consider waiving municipal fees such as building permit fees when property owners reuse or rehabilitate an existing building that has been vacant for a specified minimum time.

Many cities have established retail development grant programs and revolving loan funds to address the dysfunctional economic model of downtown retail redevelopment. Some communities make outright grants to support property renovation; typically these grants are expresses in terms of subsidy dollars per square foot of renovated space (i.e. $3.00 per foot in the Kalamazoo, MI Building Revitalization Program). Many revolving loan programs have shared characteristics worthy of evaluation by the City of Frederick:

- ✓ Defined geographic district for concentrated development activity and strategic impact
- ✓ Inclusion of buildings over certain age without respect to historic certification
- ✓ Interior leasehold improvements included in addition to façade improvements
- ✓ Applicability to targeted merchandise categories only (following recommendations from retail market studies)
- ✓ Selectively applied to businesses that can serve as “catalysts” to act as a draw for downtown while reaching out to a new customer base
- ✓ Below-market interest rates
- ✓ Loan forgiveness provisions for meeting established criteria related to duration of tenancy and “catalyst” quality of tenant

The three most widely used forms of financial incentives for retailers are programs that are not connected to building ownership:

1) Catalyst tenant grants
2) Performance grants (tax increment financing)
3) Revolving loan funds

Catalyst Tenant Grants are cash inducements for specific types of retailers to locate in defined, high-priority zones. Communities establish stringent criteria defining the nature of "catalyst tenants" in order to provide incentives only those retailers that will have unusually profound impact on the direction or pace of retail revitalization. "Catalyst tenants" are "anchors" without necessarily being large format stores. These tenants can be expected to generate substantial retailer interest as a result of their decision to locate in a downtown area. Communities that employ this process are careful to provide narrow definitions of "catalysts" and to include specific geographic references to applicable site locations. An effective program could require funding of $500,000 to $2 million.

Performance Grants utilize tax increment financing to return incremental revenues to the retailer as long as performance benchmarks are reached. These grants are less attractive to retailers because they are paid in arrears and are not guaranteed. Bankers do not view these grants as collateral for borrowing, and they do not address the problem of up-front capital shortfalls. Municipalities use these grants when it is not feasible to fund other programs or when they wish to share the risk with pioneering merchants.

Revolving Loan Funds are low interest lending programs that provide small business loans to people who have no credit history or access to commercial bank loans. Revolving Loan Funds provide the initial loans for business start-up and expansion. The ultimate goal is for these entrepreneurs to become financially independent and eligible for loans from commercial banks. Payments are generally returned directly to the fund and used to make new loans — hence, the term *revolving* loan fund.

"Best cases" include San Jose, CA, Memphis, TN, Kalamazoo, MI, Lansing, MI, Long Beach, CA, Oakland, CA, Eau Claire, WI, Monroe, MI, and Orlando, FL

COMMUNITY RETAIL VOID ANALYSIS

Frederick County captured approximately 3.5 percent of total taxable retail sales in the State of Maryland in FY 2001 and FY 2002. The data in the table on the facing page shows Frederick County's share of statewide sales in key merchandise categories. There are merchandise voids in categories where the county captures less than 3.5 percent of the state's sales:

- ✓ Apparel and Clothing Specialty Stores:
  - Men's and Boy's clothing stores
  - Women's and Girl's clothing stores
  - Infant's clothing stores
  - Family clothing stores
  - Shoe stores

- ✓ New Furniture and Home Appliances

- ✓ Specialty Retail Categories:
  - Tailors and uniform shops
  - Variety stores
  - Jewelry stores
  - Sports goods and toy stores
  - Leather products stores

- ✓ Restaurants with Beer & Wine Licenses

These major categories are under-represented in Frederick County's base retail sales and therefore should be considered in the merchandising direction for Downtown Frederick.

FREDERICK COUNTY'S SHARE OF MARYLAND'S TAXABLE RETAIL SALES BY MAJOR CATEGORY		
	FY 2001	**FY 2002**
Total Taxable Retail Sales	3.4 percent	3.6 percent
Food and Beverage	3.6 percent	3.6 percent
Apparel	2.0 percent	2.1 percent
General Merchandise	3.6 percent	3.8 percent
Furniture/Appliances	2.2 percent	2.6 percent
Hardware/Machinery/Equipment	3.6 percent	3.5 percent
Miscellaneous Retail	2.4 percent	2.8 percent

SOURCE: *Maryland State Comptroller's Office*

FREDERICK COUNTY'S SHARE OF MARYLAND'S TAXABLE RETAIL SALES BY SPECIFIC STORE CATEGORY		
	FY 2001	**FY 2002**
Apparel		
Mens and Boys Apparel Stores	2.0 percent	2.1 percent
Womens and Girls Apparel Stores	2.6 percent	2.5 percent
Infants Apparel Stores	0.5 percent	1.3 percent
Family Apparel Stores	1.7 percent	2.0 percent
Shoe Stores	2.6 percent	2.5 percent
Food and Beverage		
Restaurants with Liquor Permits	3.3 percent	3.3 percent
Miscellaneous Retail		
Tailors/Uniform Shops	0.3 percent	0.4 percent
Variety Stores	3.1 percent	2.6 percent
Jewelry Stores	3.6 percent	3.3 percent
Sports/Toy Stores	3.3 percent	3.3 percent
Leather Products Stores	1.6 percent	1.6 percent

SOURCE: *Maryland State Comptroller's Office*

PROFILE OF TARGET TENANT TYPES AND MERCHANDISE CATEGORIES

Current downtown retailers share important common denominators of specialized merchandise and exceptional product knowledge or levels of service:

- A renowned jeweler designer who offers one-of-a-kind items and settings backed by exemplary service
- A trail outfitter that supplements sales with experienced staff
- A skateboard retailer who stocks shoes and accessories that keep his store on the leading-edge of the industry
- A junior's apparel store that interprets trends and sets new trends based upon the skills of its owner
- An upscale candy shop that is a tradition in the community with a reputation enhanced by exposure in national magazines
- An educational toy store that appeals to the imagination of children and adults alike
- A quality toy retailer who is expanding to accommodate parties and in-store activities

Optimally, tenant prospects will share these attributes of specialized offerings and customer care for these are the key ingredients that make them "destination" businesses. It is best if downtown merchants "own their categories" so that they are not dependent upon mass co-tenancy especially in the early phases of retail revitalization.

This analysis endorses the conclusions from the National Main Street Center with respect to national chains, department stores, and mall-type stores as being the least likely candidates for Downtown Frederick at this time. This analysis echoes the conclusions that the most desirable prospects for Downtown Frederick's on-going retail revitalization include successful businesses from neighboring communities and local entrepreneurs. Independent retailers will sustain downtown's current image as an alternative to the "sameness" of suburban shopping centers.

Over the long-term, selected "chain operators" may be attracted to Downtown Frederick—but only after independent merchants have demonstrated the sustainability of the consumer base.

The best merchant prospects currently fit two descriptions:

- ✓ Independent entrepreneurs and start-up businesses
- ✓ Local and regional operations with locations in similar downtown settings

Business clusters that customers will seek out without regard to convenience of location:

1. Restaurants
2. Entertainment venues
3. Retailers with specialized products and services

Based on the retail market visit conducted as part of this assignment, appropriate merchandise categories for merchant recruitment in Downtown Frederick are:

- ✓ Eating and drinking places (casual and fine dining; ethnic dining; bistros and pubs; tea salon)
- ✓ Services (personal service establishments and business-to-business service providers)
- ✓ Entertainment venues (independent cinema, upscale billiards, jazz club)
- ✓ Comestibles (candy, bakery, ice cream/yogurt, artisan breads)
- ✓ Retailers (oriented to impulse purchasing and comparison shopping):

    New and used books
    Art and craft galleries; handcrafted goods (jewelry, clothing, furniture, soaps and body lotions, home furnishings, toys)
    Apparel (women's, juniors, teens, infants, bridal/formal]
    Home décor items
    Greeting cards and gifts
    Stationery and office supplies
    Kitchen shop (with cooking school)
    Upscale consignment shops (apparel, home décor)
    Sports equipment (new and exchange shop)
    Runner's store
    Soccer/team sports specialty store
    Leather goods
    Lotions/Skin Care

Specialty shoes (e.g. Birkenstock)
CD/tape exchange shop
Garden/patio shop
Wild bird store
Optical store (upscale specialty products)
Perfume/cosmetics (e.g. organic products)
"Maryland store" perhaps with tie-in to McCutcheon's
Apple Products and local vineyards
Cigar store
Gourmet wine/cheese shop
Musical instrument specialty store

DEVELOPMENT OPTIONS FOR "CARMACK JAY" SITE

The "Carmack Jay" site is located on the western side of North Market Street near the intersection of 4th Street. The site has been sold to a developer who has indicated flexibility in redeveloping the building and/or site. The building has approximately 16,000 square feet of floor space and a mezzanine with 4,000 square feet. The parcel consists of approximately 40,000 square feet.

An adjacent municipal parking lot expands the parking capacity associated with the "Carmack Jay" property. The block of street level retail spaces opposite the site is approximately 50 percent vacant.

This block of North Market Street is a "transition block" between predominantly commercial uses to the south and predominantly residential uses to the north. This circumstance enables multiple strategies to be envisioned for retail re-use of the "Carmack Jay" property.

A. A strong retail "anchor" use (or uses) with destination drawing power could link this block of North Market Street to connect with retail blocks to the south in a way that extends the commercial vitality of Downtown Frederick beyond its current terminus at 3rd Street.

B. A cluster of neighborhood-oriented commercial uses could establish this block as a convenient destination for nearby residents. While there may be some use by patrons of the traditional downtown retail/dining core, the merchandise and services would be primarily aimed at residents within walking distance or a short drive.

C. Conversion of the site to residential use would respond to demand for new housing in Downtown Frederick. Commercial space demand could be accommodated in existing retail storefronts in the block opposite the "Carmack Jay" site.

Redevelopment of the site could proceed in several ways. The existing building could be renovated, thereby perpetuating a deep setback from the street with the parking lot facing North Market

Street. As an alternative, a new building (either residential or commercial) could be developed along the front property line thereby reinforcing the character of other blocks on North Market Street.

Commercial uses for the site include:

- ✓ Public Market/Year-Round Indoor-Outdoor Farmer's Market
- ✓ Crafts market
- ✓ Relocated pharmacy
- ✓ Gourmet/natural grocer (independent operator)
- ✓ Automobile dependent neighborhood services (dry cleaner, video rental, carry-out restaurants)

Several citizens expressed a desire for a "Whole Foods" type of grocery store at this location. It is unlikely that Whole Foods would perceive sufficient market support for a store at this site. Their prototypical store of 35,000 square feet must achieve initial-year sales of $16 million; profitability commences in year 2 or 3 when sales surpass $20 million. A national chain operator such as Whole Foods would probably not select this site given the low population density of surrounding neighborhoods and the modest number of high income households in the immediate vicinity of the site. This site would not be perceived as readily accessible and centrally located for patrons who demand "convenience" in supermarket shopping. Finally, the existing building is too small and would be of inferior quality for a national retailer even if extensively renovated. (Sales criteria for Whole Foods Market can be found in the Appendix.)

Creating a Public Market (or a permanent Downtown Farmer's Market) is appealing in a community with demonstrated support for seasonal Farmer's Markets. Randall Gross Development Economics evaluated this concept and provided insight into the operational challenges inherent in this undertaking. The operator would create a business incubator with financial risk to the individual entrepreneurs as well as the organizer. This use could be a neighborhood amenity while potentially serving as a "destination" for consumers from throughout the region. Much is predicated upon the ability of the community to commit the human and financial capital to establishing and operating a Public Market or permanent Farmer's Market.

Relocating and expanding a nearby pharmacy provides an opportunity to enhance an important neighborhood service. Proximity to the hospital complex is beneficial to the operator's specialized home health care, prosthetics, and diabetes support services. Downtown workers and other patrons would continue to find this new location convenient to use as it is within one block of the existing pharmacy location.

APPENDIX