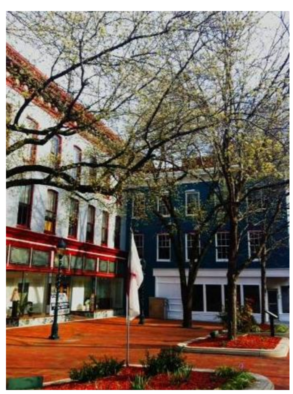
The Community's
City Center Plan
Hagerstown, MD
Market Analysis



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CORPORATION OF HAGERSTOWN
MARYLAND

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Key Market Findings

The Downtown Hagerstown Market Analysis for the Economic Analysis and Implementation Plan examines the residential, retail, cultural arts/entertainment/education, office, and hotel markets to evaluate potential projects identified in the City's Sustainable Community Action Plan. Following are key market findings of the analysis:

Residential Market: Sales Housing

There appears to be demand for Downtown market-rate housing for sale with significant price points, based on results of the Hagerstown City Center Housing Survey. Respondents interested in living Downtown indicated a preference for older historic and renovated properties, including rowhouses, upper floors of buildings, and warehouse/loft arrangements. The results also identified significant interest in new housing product for purchase, most likely in the form of townhomes. About half indicated a willingness to pay more than $150,000 for a Downtown home. Based on these survey results, it appears that there is opportunity for local developers to pursue both types of product. It also appears that both the southwestern and northeastern sectors of Downtown Hagerstown are the areas where the highest price points are currently being commanded, and therefore, the areas that likely have the most potential for creating additional market-rate housing momentum.

Residential Market: Rental Housing

Results of the Hagerstown City Center Housing Survey revealed demand for downtown market-rate rental housing, both historic and new construction. A significant number of renters indicated a willingness to pay more than $800 per month. Therefore, it appears that there’s a potential market for an attractive move-in-ready Downtown rental product, but less demand than housing for purchase. However, like sales housing, this demand could be a potential opportunity for the local development community.

Retail Market

Considering the potential sources of retail demand for Hagerstown City Center, there are several opportunities for expanded retailing in Downtown Hagerstown:

- The existing eating and drinking establishments in Hagerstown City Center provide the basis for an expanded dining and entertainment concentration capturing a significant portion of the $19 million in unmet demand from Washington County. There appears to be sufficient unmet demand to support up to 30,000 SF of new eating and drinking establishments.
- The area’s current specialty food stores, coupled with the existing City Farmers Market, could provide the basis for a specialty foods district capturing a significant portion of the $13 million in currently unmet demand Countywide for specialty food items. There appears to be sufficient unmet demand to support adding 15,000 SF to 20,000 SF of new specialty foods stores, including expanded activity at the City Farmers Market.
- The current arts and culture anchors could provide the basis for a more active arts and culture retail district. This district would build from the current group of antique stores/art dealers and gift shops to include dance apparel, musical instruments, and other arts-related retailing. There appears to be sufficient unmet demand to support up to 10,000 SF of additional arts and cultural-related retailing.

- The City Center area could also seek to capture other specialty goods niches similar to the current concentration of floor coverings stores. Expanding the current strength in specialty sporting goods could be one such opportunity. There appears to be sufficient unmet demand to support up to 10,000 SF of such new specialty stores.

Many of these retail opportunities will need to be captured incrementally over time and some of these opportunities will need to be positioned to create compact districts that benefit for other arts, cultural, entertainment, and promotional facilities and activities.

Cultural Arts/Education/Entertainment Market

Strong organizational interest appears to exist in expanding all aspects of the cultural arts/education/entertainment market Downtown. However, expansion of these facilities and programming will require significant civic and governmental leadership and financing. Continued civic and public investments in these arts-related sectors will be necessary to support the growth of many other Downtown markets, including residential, retail, and lodging, as well as additional visitation.

Office Market

It appears that the supply of smaller office space floorplates is more than adequate for its demand. However, there are currently limited opportunities for a business in need of a floorplate larger than 6,000 square feet, or a total building size of more than 30,000 square feet in a move-in ready condition. This scale of office development would require a committed user. To attract this larger committed tenant, the Downtown needs to offer a well-situated site that could accommodate a building of this magnitude. The site then needs to be heavily marketed to prospective companies potentially seeking new Class A build-to-suit space.

Hotel Market

An incremental increase in room-night demand has been occurring since 2009. If we assume that this demand continues for several years and that the current 62% is a healthy average occupancy rate, then we can conclude that the Hagerstown area can absorb 90-100 new hotel rooms every two years, beginning in 2016.

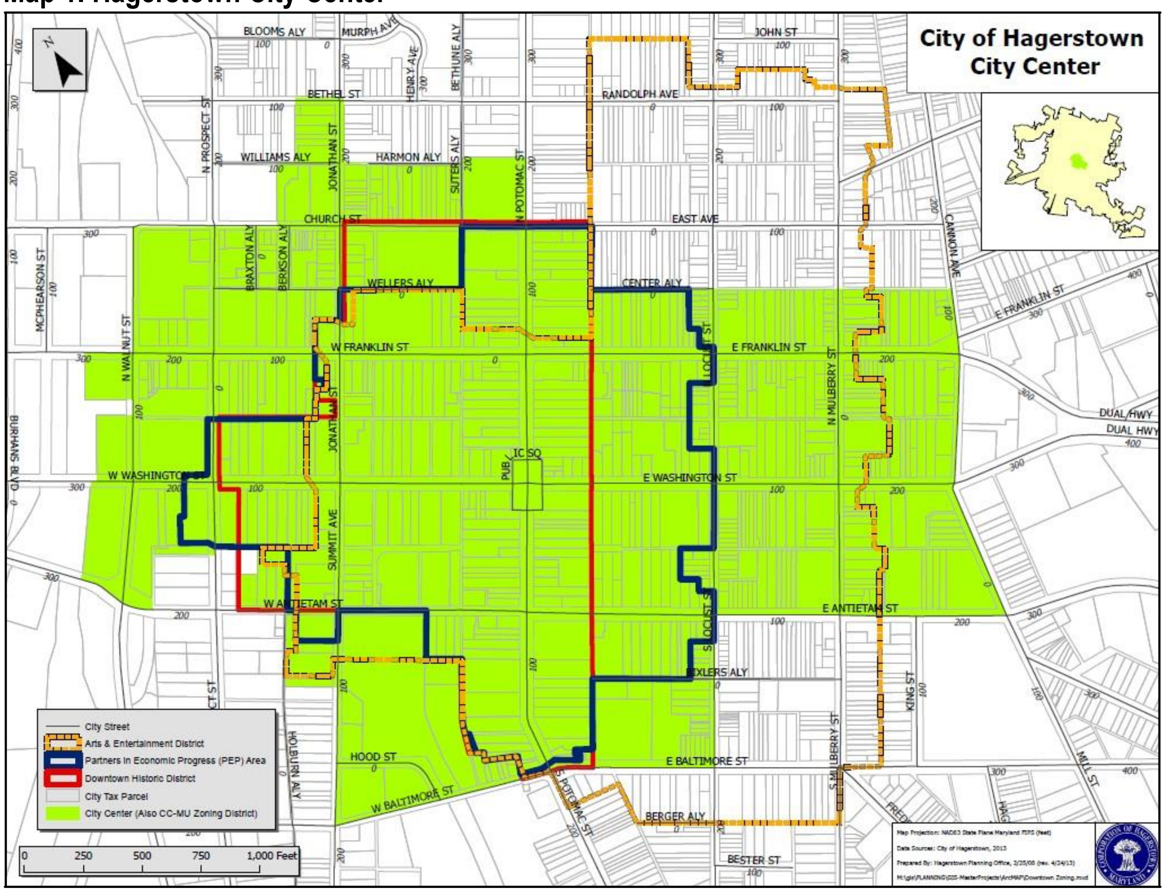
Given the circumstances of existing hotels in the region, the potential for adding a successful hotel property in Downtown Hagerstown is likely tied closely to its development in association with the parallel development of a hotel room-night generator such as a large conference center or major University expansion. It would also be critical that the new Downtown hotel be at least competitive in quality with the best in the market or, ideally, establish a new higher market standard in the "Upper Upscale" class. If a new Downtown hotel were constructed in association with a major conference center, this would establish new competition for the two existing hotel-based meeting facilities.

Introduction

Urban Partners has been retained by the City of Hagerstown to prepare a market analysis as an initial step of the Downtown Hagerstown Economic Analysis and Implementation Plan that will evaluate potential projects identified in the City's Sustainable Community Action Plan from 2012. Using that plan as a guide, we have examined specific markets potentially impacted by the City's suggested array of downtown development objectives contained within. These markets include retail, sales housing, rental housing, office, hotel, and arts/culture/entertainment.

The market analysis study area is mostly contiguous with the City's defined City Center area (see **Map 1**). Generally, this area is bound by Church Street, Bethel Street, Harmon Alley, and Center Alley on the north, by North and South Cannon Avenue on the east, East and West Baltimore Street and East Antietam Street on the south, and North and South Walnut Street on the west. This area is also CC-MU (City Center-Mixed Use) Zoning District. In some instances, we have examined market conditions for an area that extends slightly beyond this designated area as noted in the sections below.

Map 1. Hagerstown City Center

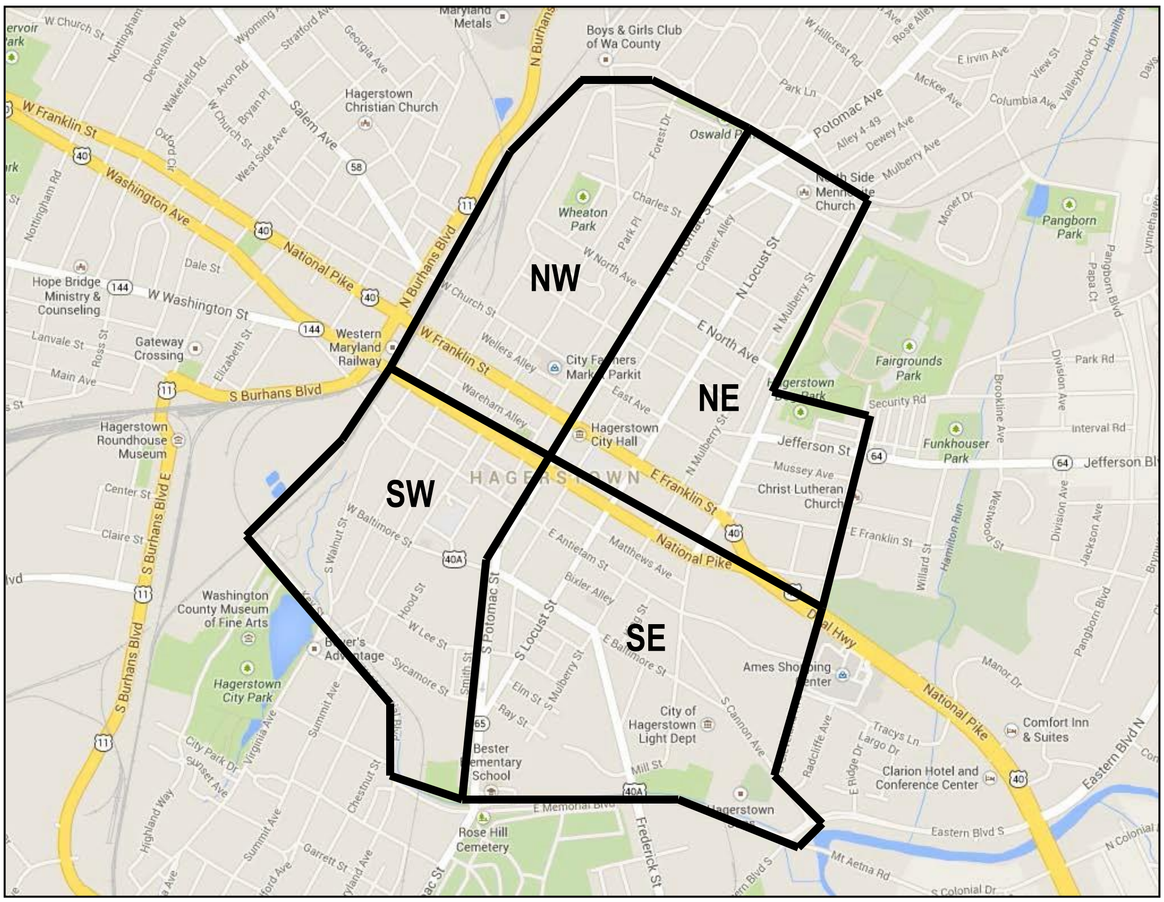


Source: City of Hagerstown

Residential Market: Sales Housing

A major emphasis of the Sustainable Community Action Plan is supporting housing diversity, improving the quality of the Downtown housing stock, and increasing market-rate housing. Urban Partners examined the Downtown Hagerstown sales housing market for 2012-2013 as well as new homes currently for sale in the City to identify trends in residential real estate and determine the potential for new residential development in the Downtown area. The resale housing market was examined for the greater Hagerstown City Center area, located within the larger Sustainable Community Area. For the purposes of this housing market analysis, we have divided the greater City Center area into four segments, including portions of one or more Census Tracts (see **Map 2**).

Map 2. Area of City Center Hagerstown Examined for Housing Market



Source: Google

Northwest City Center is defined as Census Tract 4 north of W. Washington Street. Northeast City Center is defined as the portion of Census Tract 5 south of the rail line below Manila Avenue and west of the Fairgrounds. In addition, this section contains a small portion of Tract 6.01 west of Cleveland Avenue. Southeast City Center is defined as the area of Census Tract 7 north of Memorial Boulevard, as well as a portion of Tract 6.02 north of Memorial Boulevard and west of Cleveland Avenue. Finally, Southwest City Center is the portion of Census Tract 4 south of W. Washington Street, as well as the portion of Tract 8 north of Memorial Boulevard. For this analysis, we collected data for single-family residences, townhomes/row houses, and condominiums.

Resale Sales Trends

As reported in Win2Data, a database of real estate transactions, there were 62 total sales of single-family owner-occupied homes from January 2012 through December 2013 in the area defined above (see **Table 1**). Just 3 of those sales, or 5%, occurred in Northwest City Center during that time, compared to 44% of the sales taking place in Northeast City Center, and 32% in Southeast City Center.

Table 1. Total Single-Family Housing Sales

Location	Total Sales 1/12 - 12/13	% of Total Sales 1/12	Median Sales $ 1/12 - 12/13
Northwest City Center	3	5%	$90,000
Northeast City Center	27	44%	$85,000
Southeast City Center	20	32%	$46,500
Southwest City Center	12	19%	$81,250
Total	62	100%	$80,450

Win2 Data

As the table indicates, median sales prices differ by location in Downtown Hagerstown, though three of the four areas have similar median sales prices. The highest median sales prices were found in Northwest City Center, where just three sales transactions took place in two years, so that figure is not likely the best indication of the sales market in that location. However, among the 27 sales in Northeast City Center, the median sales price was $85,000, the second highest in the study area. A slightly lower median sales price was found in Southwest City Center at $81,500, while the lowest - $46,500 - occurred in Southeast City Center. Of all 62 sales transactions, just 16% of the homes sold for greater than $125,000.

The highest priced home sales transaction - $198,900 - in the two-year period examined occurred in 2012 in the Southwest section of the City Center on the 200 block of S. Potomac Street. The highest sales price in the City Center in 2013 occurred on S. Prospect Street, also in the Southwest Section, for $180,000.

Despite the fact that highest sales prices from 2012 to 2013 occurred in 2012, sales housing trends in terms of numbers of sales and average sale prices per square foot throughout the City Center increased over the two year period examined (see **Tables 2 and 3**).

Table 2. Changes in Number of Sales, 1/12-12/13

Location	1/12 - 12/12	1/13 - 12/13	Change	% Change
Northwest City Center	0	3	3	--
Northeast City Center	10	17	7	70.0%
Southeast City Center	7	13	6	85.7%
Southwest City Center	6	6	0	0.0%
Total	23	39	16	69.6%

Win2 Data

As the table shows, the number of sales of single-family homes in the City Center increased by almost 70% from 2012 to 2013. While the Southeast section had the lowest median sales price during the period, it had the largest increase in number of sales, followed by the Northeast section. Southwest City Center experienced the same number of sales in both 2012 and 2013.

Table 3. Changes in Sale Price per Square Foot, 1/12-12/13

Location	1/12 - 12/12	1/13 - 12/13	Change	% Change
Northwest City Center	$0.00	$37.22	$37.22	--
Northeast City Center	$53.17	$64.50	$11.33	21.3%
Southeast City Center	$41.75	$46.72	$4.97	11.9%
Southwest City Center	$47.26	$57.35	$10.09	21.3%
Total	$48.33	$55.33	$7.00	14.5%

Win2 Data

Table 3 shows that sale prices per square foot increased between 2012 and 2013 in each of the sections of City Center that experienced sales. Prices per SF increased the most in both the Northeast and Southwest sections by more than 21%, with an overall increase of almost 15% in the entire City Center. Also apparent is the relatively low price per SF of the three homes sold in 2013 in Northwest City Center compared to homes sold in the other sections. All of these trends support the notion that the strongest City Center markets for single-family sales housing appear to be the Northeast and Southwest sections.

New Sales Trends

The Mount Prospect Condominium Building

All of the sales transactions examined above were for resale homes. We also examined new construction homes currently for sale to identify prices for comparison. While significant new construction is taking place in the Hagerstown area, a limited amount is occurring in the City of Hagerstown, and the only new housing currently available for sale in the City Center are condominiums in the Southwest section. These new condominiums are located in a recently-refurbished historic mansion at 37 S. Prospect Street, called the Mount Prospect Building. Two units are currently for sale: a one-bedroom, one-bath 800 SF unit is offered at $129,000 ($162.38/SF); and a 930 SF unit with two bedrooms and one bath also offered at $129,900 ($139.68/SF). Both units offer hardwood floors, deluxe kitchens and baths, storage, and gated off-street parking. While the prices per SF for these condos are significantly higher than the average price per SF commanded in the City Center in 2013, one 735 SF unit recently sold in November 2013 for $108,100, or $147.07/SF, which is on-par for the two units currently on the market.

Other new construction in the City of Hagerstown is taking place outside of the City Center. The most comparable examples of new construction that could eventually be offered downtown are new townhomes. An example is Hagers Crossing, located adjacent to the Centre at Hagerstown shopping center. Examples of units for sale range from a 1,685 SF end unit three-bedroom townhouse with two and a half baths for $190,450 ($113.03/SF) to a similar 1,685 SF middle unit for $185,550 ($110.12/SF).

Another new development in the City is Collegiate Acres located off Salem Avenue just west of Interstate 81. Townhomes currently for sale in this location range from a 2,300 SF end unit with garage, three bedrooms, and two and a half baths for $199,800 ($86.87/SF) to a 1,344 SF unit with garage, three bedrooms, and two and a half baths for $149,900 ($111.53/SF).

Hagerstown City Center Housing Survey

In a further effort to assess the market for housing in City Center Hagerstown, an online survey was conducted through the City's Facebook page, as well as an e-mail blast to Downtown employees. The survey was publicized in the Herald Mail and posted in late January 2014. Respondents were asked whether they would be interested in living in Downtown Hagerstown if attractive, affordable housing and/or financial incentives were made available and to indicate what type of housing they would prefer. Respondents were also asked to indicate their age, household size, current rent or mortgage obligations, and income. The survey instrument is attached in **Appendix 1**.

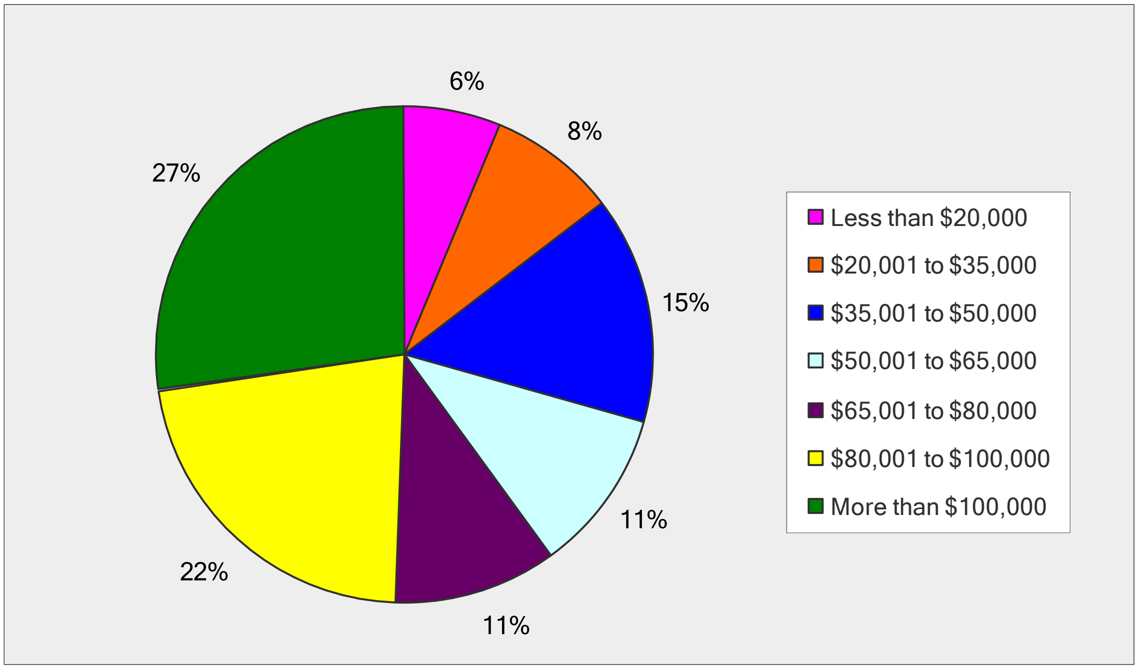
A total of 395 people completed the survey, however not all respondents answered every question. Of the respondents, 48.3% are male, and 51.7% female. The vast majority - 64.7% - are two-adult households, while another 17.5% live alone. Almost half of the respondents - 49.4% - are between 36 and 55 years old. Downtown workers are 42.9% of the respondents. The most popular home zip code of respondents is 21740, where 39.1% live, followed by 21742 at 35.6%. Pennsylvania residents make up 6% of respondents, and just 0.3% live in West Virginia.

Interest in Living Downtown

Of the total respondents, 100, or 25%, indicated that they would be interested in living in Downtown Hagerstown if attractive, affordable housing were available. It is important to note that this level of response falls below a statistically significant finding; therefore, we will use this information as an indication of potential housing market interest.

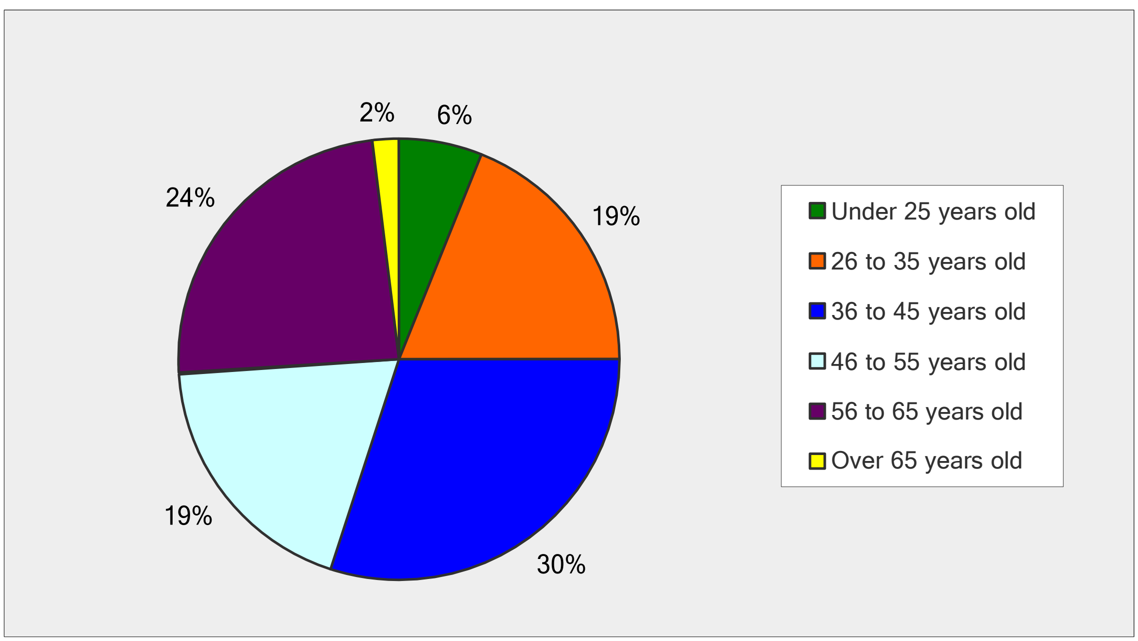
Respondents who expressed interest living Downtown appear to come from higher-income households (see **Figure 1**). Of the respondents interested in living downtown, 71% have incomes above $50,001; 27% have incomes over $100,000, 22% earn between $80,001 and $100,000, and 11% have incomes between $65,001 and $80,000. The median household income of respondents positive about Downtown living is nearly $79,000.

Figure 1. Annual Household Incomes of Respondents Interested in Living Downtown



Respondents positive toward Downtown living typically cluster within younger age cohorts. However, in the case of Hagerstown (see **Figure 2**), interest in Downtown living was spread almost evenly throughout the adult working age population with 92% of those showing interest being in the 26 to 65 age brackets. Within this group, the cohort of respondents aged 36-45 showed the greatest interest in living Downtown (30%).

Figure 2. Current Age Cohorts of Respondents Interested in Living Downtown



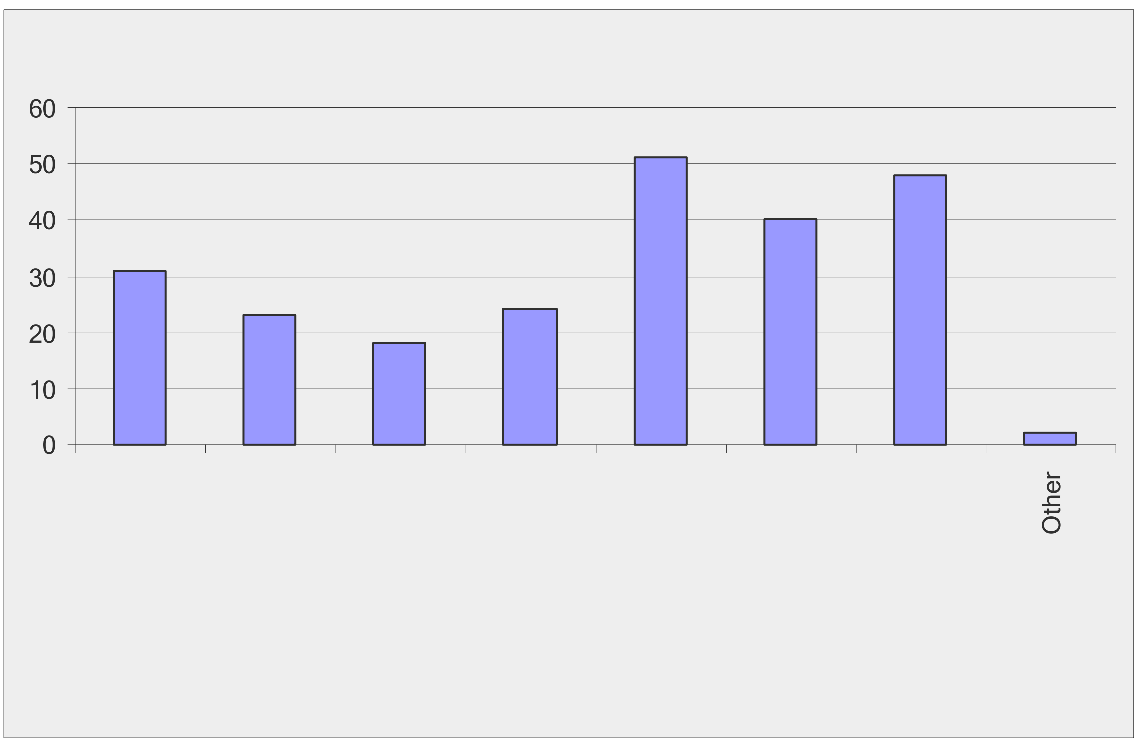
Two-person households show the most positive response to living Downtown with 60% indicating interest, followed by 25% of households with one person and 15% of households with 3 or more adults.

Of respondents interested in living Downtown, 64% currently own their homes and 36% rent. Of the current renters, 34% say they would prefer to own a home in Downtown Hagerstown, indicating the possibility of attracting some first-time home buyers, while the remaining 66% of current renters would prefer to continue renting. Overall, of all positive respondents, 71% indicated that they would prefer to own a home Downtown.

Among respondents interested in living Downtown, 57% live in single-family detached homes, compared to 71% of all survey respondents who currently live in single-family homes. Of those single-family home dwellers, 21% expressed interest in living Downtown. The remaining respondents live in apartments, condos, townhouses, and warehouse lofts. 34% of those dwellers expressed interest in Downtown living.

Residents who had positive responses to living Downtown were asked to identify all housing types in which they would consider living (see **Figure 3**). These respondents had a wide range of housing preferences. The most favored type of housing among positive respondents is a renovated/historic building, agreeable to 51 respondents, followed by warehouse loft/conversion, converted upper floor of an existing building, and single-family detached homes. This pattern indicates an overall preference for reusing and rehabilitating Hagerstown existing building stock for living versus new housing construction.

Figure 3. Housing Type Preferences of Respondents Interested in Living Downtown

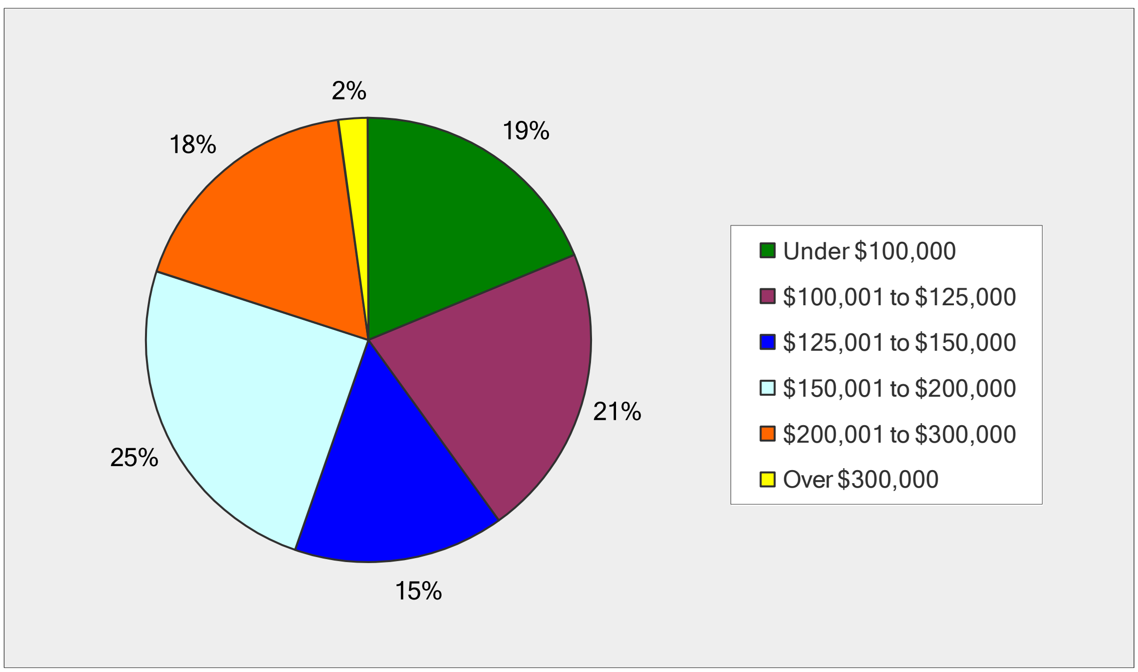


Respondents interested in living Downtown were also asked to identify the amenities that are important in their housing decisions. When asked to identify the amenities that are 'very important' in deciding where to live, central air conditioning was the most important factor (voted 'very important' by 77% of respondents); followed by having on-site parking (72%); having nearby shopping, restaurants, arts/culture (71%); security (65%); new kitchen/baths (59%); storage (52%); and a porch/balcony and historic architecture (tied at 46%). At the low end of importance, amenities deemed 'very important' by the fewest respondents included a swimming pool (2%), exercise room/jacuzzi (4%), and fireplace (12%).

The most common range of current rent or mortgage is $601 - $800 per month, paid by 28% of respondents interested in living Downtown. 16% of potential Downtown residents currently pay between $801 and $1,000 per month, while 40% currently pay more than $1,001 per month, while 42% of those pay more than $1,500 per month. At the low end, just 7% pay less than $400 per month.

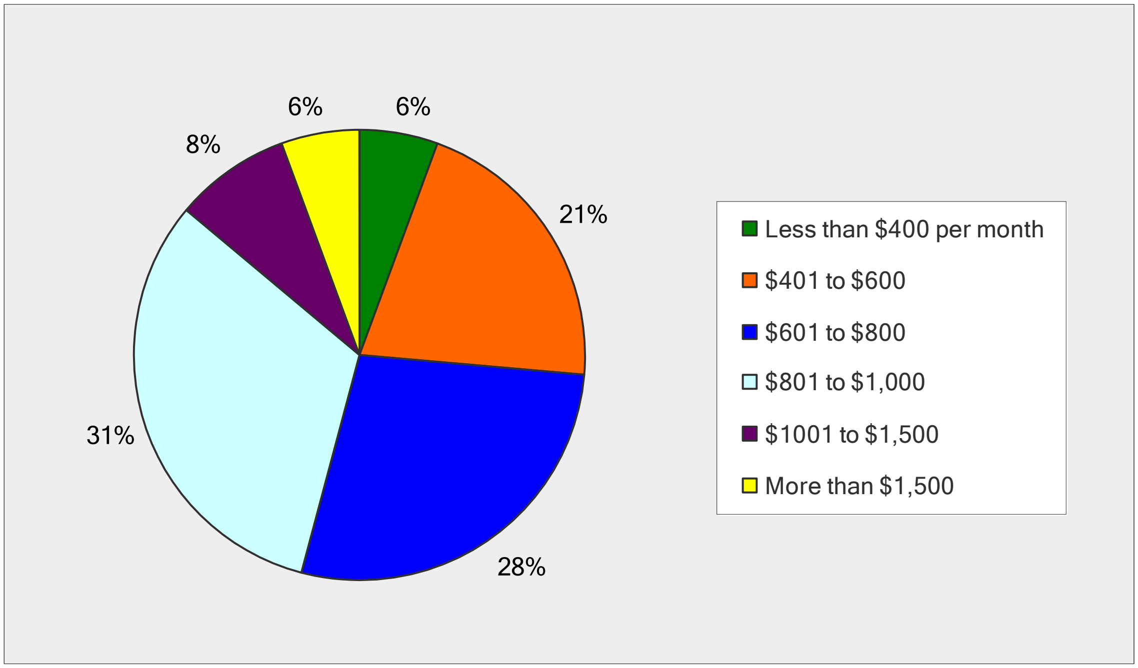
Of the respondents interested in owning a home Downtown, only 19% indicated that they would only be willing to pay less than $100,000 for a home (see **Figure 4**), while 21% said they would pay between $101,000 and $125,000. 60% of potential Downtown home purchasers indicated a willingness to pay more than $125,000 for that home, with 20% indicating capacity to pay more than $200,000.

Figure 4. Home Price Levels Affordable to Respondents Interested in Living Downtown



Potential Downtown renters, on the other hand, were seeking greater affordability. 55% were seeking rents below $800 per month, including 27% seeking rents below $600 (see **Figure 5**). These potential Downtown renters, however, were not seeking bargains compared to their current rent levels—reported data indicates that prospective Downtown residents are willing to pay at least the same amount per month that they currently pay elsewhere. We should note, however, that there is a group of potential renters (45% of those interested in Downtown rentals) that indicated that they would pay between $801 or more per month, including 14% willing to pay above $1,000.

Figure 5. Rent Levels Affordable to Respondents Interested in Living Downtown



Considering the above analysis of the Downtown Housing Survey results, all of the respondents interested in living Downtown (100) fall into one of five clusters:

- **Prospective Owners who Prefer a Historic Rowhouse**: 39 respondents or 39% of total positive respondents
- **Prospective Owners who Prefer an Older Building but not a Historic Rowhouse**: 19 respondents or 19% of total positive respondents
- **Prospective Owners who Do Not Want an Older Building**: 12 respondents or 12% of total positive respondents
- **Prospective Renters who Prefer an Older Building**: 17 respondents or 17% of total positive respondents
- **Prospective Renters who Do Not Want an Older Building**: 13 respondents or 13% of positive respondents

Below is a description of the three clusters of prospective Downtown owners. A description of the prospective renters can be found in the next section, which addresses the rental housing market.

Prospective Owners who Prefer a Renovated/Historic Rowhouse

This cluster of 39 respondents is the largest, and defined as individuals who are interested in purchasing a renovated/historic rowhome in Downtown Hagerstown, but would consider purchasing other housing types. Of this cluster,

- 17 would consider a converted upper floor of an existing building,

- 21 would consider a warehouse/loft/other historic renovation,
- 34 of the respondents in this group are two or more adult households - just five households have one adult.

The median household annual income for this cluster ranges between $80,001 to $100,000, and the median age cohort is 36 to 45 years old. Of these respondents,

- 32 currently own their home, so they are interested in continuing home ownership Downtown,
- Households in this group overwhelmingly occupy single-family detached homes currently (25), most of which have three or four bedrooms,
- Only 9 would consider replicating that type of house Downtown,
- Just 4 currently live in a renovated/historic rowhome,
- 33 respondents in this cluster desire at least a two-bedroom home, and 24 desire two or more bathrooms.

The group expressed interest in a range of price points;

- 2 are hoping to find a home for under $100,000,
- 11 are willing to pay between $100,001 and $125,000,
- 8 are willing to pay between $125,001 and $150,000,
- 13 are willing to pay $150,001 to $200,000,
- 3 would pay $200,001 to $300,000, and
- 2 would pay more than $300,000 to live Downtown in a renovated/historic rowhouse.

Prospective Owners who Prefer an Older Building but not a Historic Rowhouse

A cluster of 19 respondents is the second largest, and defined as individuals who are interested in purchasing a housing unit in an older building in Downtown Hagerstown, but not a renovated/historic rowhome, and would consider purchasing other housing types. Of this cluster,

- 13 would consider a converted upper floor of an existing building and
- 14 would consider a warehouse/loft/other historic renovation.
- Four of the respondents in this group are one-adult households, while 10 consist of two adults.

Like the first cluster, the median household annual income for this cluster ranges from $80,001 to $100,000. The median age cohort is 46 to 55 years old. Of these respondents,

- 16 currently own their home, so they are interested in continuing home ownership Downtown.
- Households in this group overwhelmingly occupy single-family detached homes currently (14), most of which have three or four bedrooms.
- Only 4 would consider replicating that type of house Downtown, however.
- 8 of respondents in this cluster desire fewer bedrooms than they currently have, so it appears this cluster is looking to downsize.

The group also expressed interest in a range of price points;

- 2 are hoping to find a home for under $100,000,
- 3 are willing to pay between $100,001 and $125,000,
- 4 are willing to pay between $125,001 and $150,000,
- 4 are willing to pay $150,001 to $200,000, and
- 6 would pay $200,001 to $300,000 to live Downtown in an older building.

- None of the respondents would pay more than $300,000 for this type of housing Downtown.

Prospective Owners who do Not Want an Older Building

A third cluster of 12 respondents is defined as individuals who are interested in purchasing a home in Downtown Hagerstown, but not a renovated/historic rowhome, a converted upper floor of an existing building, or a warehouse/loft/other historic renovation. Of this cluster,

- half would consider a single-family detached home,
- 5 would consider a new townhouse, and
- 3 a high-rise condo.
- 10 of the respondents in this group are two-adult households or less.

The median household annual income for this cluster ranges between $65,001 and $80,000, lower than the other two clusters of prospective Downtown home purchasers. The median age cohort is 36 to 45 years old. Of these respondents,

- 10 currently own their home, so they are also interested in continuing home ownership Downtown.
- Half of the households in this group currently occupy single-family detached homes, 4 of which have three or four bedrooms.
- The remainder of the respondents currently live in newer townhomes.
- 7 of respondents in this cluster desire at least as many bedrooms as they currently have.

The group also expressed interest in a range of price points;

- 2 are hoping to find a home for under $100,000,
- none suggested a sales price between $100,001 and $125,000,
- 3 are willing to pay between $125,001 and $150,000,
- 4 are willing to pay $150,001 to $200,000, and
- 3 would pay $200,001 to $300,000 to live Downtown.
- None of the respondents would pay more than $300,000 for this type of housing Downtown.

Respondents Not Interested in Living Downtown

While more than 25% of respondents to the Downtown Housing Survey (100) indicated an interest in potentially living in the City Center, as described above, the remaining 75% of the respondents (295) said they would not live Downtown. When asked specifically why, respondents listed a number of reasons, the most common of which include:

- There is too much crime; drugs and gangs are a problem and there's not enough police presence
- There is too much Section 8 and low-income housing
- There are too many homeless and transient people on the streets
- There are too many social service agencies
- It's too dirty and not kept up enough
- Too many buildings are vacant and in disrepair
- The homes are not large enough
- There is not enough green space and trees
- There are not enough businesses and services to serve residents

- Parking is a problem
- A more rural lifestyle is preferred

The most common complaint was the impression that crime is too high in the City Center to live there comfortably, especially for families with children. This sentiment was often coupled with the more specific comments about low-income housing, homelessness, and social service agencies.

Sales Housing Market Potential for the City Center

It appears from the City Center Hagerstown Housing Survey results that there is a substantial pool of residents who now own homes and would be interested in living Downtown in older historic and renovated properties, including rowhouses, upper floors of buildings, or warehouse/loft arrangements. This pool appears poised to pay significant price points for these desired housing types; about half indicated a willingness to pay more than $150,000 for a Downtown home. At the same time, there has been a notable amount of property sales in City Center Hagerstown over the past two years. However, there doesn't appear to be any significant level of rehabilitation activity of area historic properties by developers. As historic resale product becomes available, it is often in an unknown state and not always in move-in condition. Therefore, the capacity for which this renovation activity could occur by the local development community to capture the market of these potentially interested buyers should be examined further.

There's also a smaller but still significant interest in new housing product for purchase, most likely in the form of townhomes. Based on the survey results, there would be reason for local developers to pursue that type of product as well. It is also reasonable to conclude that both the southwest and northeast sectors seem to be the areas where healthy price points are currently being commanded. Therefore it is these areas that likely have the most potential for creating additional market-rate housing momentum through both new and rehab development activity.

Residential Market: Rental Housing

Urban Partners also examined the downtown Hagerstown rental housing market to determine the potential for new for-rent residential development in the Downtown area. The same geographic area of the City Center examined for sales housing was used for identifying the characteristics of apartments currently available for rent.

According to the Department of Community and Economic Development's 2013 *State of the Downtown Report*, 74% of the approximately 1,250 occupied units in the three Census tracts that contain the downtown are rental units. The report also states that the average median rent in those same three Census tracts is $669 per month. While this area is different than our defined area for the market analysis, these figures provide a valuable snapshot of the downtown rental housing situation.

Rental housing in Hagerstown's City Center can be categorized into two distinct segments - subsidized rental housing, and market-rate housing.

Subsidized Rental Housing

According to the 2013 *State of the Downtown Report*, 43% of occupied units in the downtown area are subsidized for low-income residents. These properties mostly include large multi-story buildings targeted to seniors and residents with disabilities, with the remaining properties being scattered sites or units occupied by Section 8 tenants. Buildings in the City Center containing subsidized housing for seniors and special needs populations include the following:

Northwest CC (Census Tract 4)

- Walnut Towers - 150 units

Northeast CC and Beyond (Census Tract 7)

- Elizabeth Court - 111 units
- Alexander House - 94 units
- Holly Place (assisted living) - 15 units

Southwest CC (Census Tract 8)

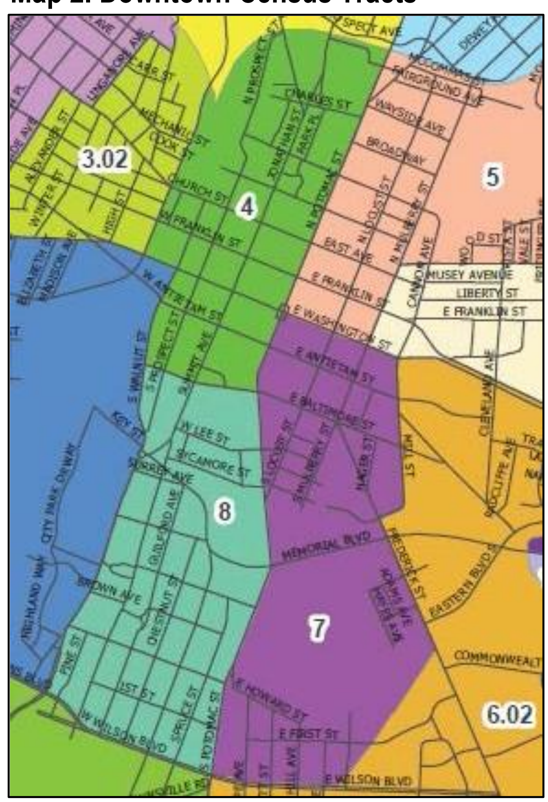
- Potomac Towers - 326 units
- C.W. Brooks - 60 units

Buildings in the City Center containing subsidized housing for non--senior individuals and families include the following:

Northwest CC (Census Tract 4)

- Bethel Gardens - 94 units
- Douglass Court - 30 units
- Parkside - 39 units

Map 2. Downtown Census Tracts



Northeast CC and Beyond (Census Tract 7)

- Frederick Manor - 125 units

The Hagerstown Housing Authority's C.W. Brooks Building

In addition, the City Center area contains many scattered sites and units housing recipients of Section 8 vouchers. In Census Tract 4, there are 10 scattered sites and 79 vouchers. For the remaining Census Tracts containing portions of the City Center, some of the scattered sites and vouchers may be located outside of the downtown. However, it is clear from the City's inventory that the downtown contains a disproportionate amount of subsidized housing:

- Census Tract 5 contains 192 vouchers,
- Tract 6.01 contains 29 vouchers and 8 scattered sites,
- Tract 6.02 contains 26 vouchers,
- Tract 7 contains 124 vouchers, and
- Tract 8 contains 90 vouchers.

Section 8 vouchers are not tied to the address, so recipients are able to move and live anywhere vouchers are accepted.

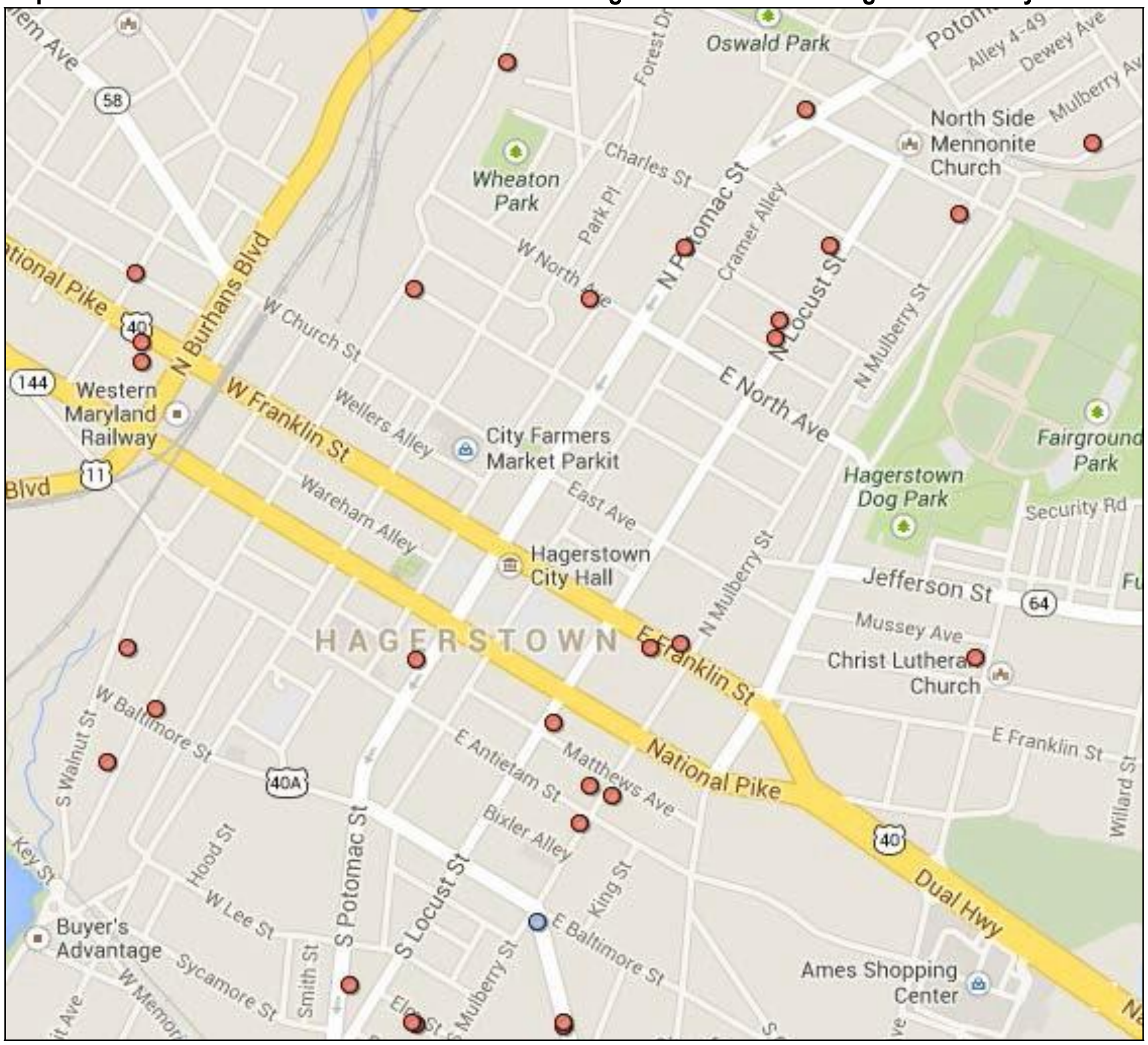
Market-Rate Rental Housing

Market-rate rental housing in the greater City Center area tends to be located in renovated older and historic townhouses, rowhouses, and doubles. **Map 3** on the next page shows the locations of various available rental housing units as of late January 2014, and **Table 4** shows a sample listing of some of those available properties in greater detail.

As the table indicates, there are a variety of market-rate rental options in Hagerstown's City Center in terms of price, size, and amenities as of late January 2014. Monthly rents range from $500 for a one-bedroom unit to almost double that - $975 - for a three-bedroom, with other variations in between. Amenities are fairly typical of units in older homes, with renovated kitchens and baths,

Sample market-rate units available for rent in Downtown Hagerstown hardwood floors, porches, fireplaces, and some outdoor space. Many of the available units have on-site laundry and off-street parking. For listings that included apartment size, we were able to calculate rent per square foot to further compare availability. Rents for these listings range from $.48 per square foot to $1.04 per month.

Map 3. Location of Various Market-Rate Rental Housing Units Available in Hagerstown's City Center



Source: mapliv.com

Table 4. Sample Listings for Market-Rate Rental Housing Available in Hagerstown's City Center

Address	Rent	SF	Rent/SF	BR	BA	Utilities	Description
178 S. Prospect Street	$650	650	$1.00	0	1	+ Electric	Large studio, 12-foot ceilings, large windows, hardwood floors, on-site laundry, off-street parking.
107 S. Mulberry Street	$500			1	1	+ Electric	Newly renovated, hardwood floors, pets allowed.
140 E. Franklin Street	$550			1	1	+ Electric	On-site laundry, wireless included.
34 S. Mulberry Street	$550			1	1	+ Electric	2nd floor unit, updated kitchen, hardwood floors, carpet, AC.

Table 4 cont. Sample Listings for Market-Rate Rental Housing Available in Hagerstown's City Center

Address	Rent	SF	Rent/SF	BR	BA	Utilities	Description
541 N. Potomac Street	$595			1	1	+ Utilities	Large bedroom, big closets, off-street parking.
113 E. Franklin Street	$600			1	1	+ Utilities	Large unit, new carpet and paint, fenced rear yard, pets considered.
213 N. Cleveland Avenue	$625	600	$1.04	1	1	+ Utilities	Newly painted, new flooring, private fenced-in yard, storage, washer hook up, large covered porch.
429 N. Locust Street	$675			1	1	+ Electric	Large unit, hardwood floors.
138 E. Antietam Street	$695	690	$1.01	1	1	+ Utilities	Condo at The Darby, gated parking, central AC, security, high-end appliances including washer/dryer.
162 S. Walnut Street	$700			1	1	+ Utilities	Partially-furnished house, large yard, off-street parking, across from park.
322 S. Potomac Street	$750	1,100	$0.68	1	1	+ Electric	Quiet building, on-site laundry, detached garage.
144 W. Bethel Street	$600			2	1	+ Utilities	Unique duplex, eat-in kitchen, small patio.
63 Broadway	$700			2	1	+ Utilities	Hardwood floors, off-street parking, security system, pets allowed.
127 E. Franklin Street	$700			2	1	+ Electric	Newly renovated, eat-in kitchen.
127 Elm Street	$750			2	1	+ Utilities	Duplex, washer/dryer hook up, large kitchen with outdoor access, backyard with deck, garage, storage.
124 Wayside Avenue	$900			2	1	+ Utilities	Updated full house, modern kitchen, fireplace, 3 off-street parking spaces, large rear yard.
233 S. Prospect Street	$950	2,000	$0.48	2	1	+ Electric	Hardwood floors, high ceilings, 3 fireplaces, gourmet kitchen, storage, private porch, back yard.
18 S. Locust Street	$800			3	1	+ Utilities	Large historic duplex, washer/dryer hook up.
266 Frederick Street	$975			3	1	+ Utilities	Spacious home, newly renovated, new flooring, large front porch, large back yard, off-street parking.

mapliv.com

Hagerstown City Center Housing Survey

As noted above, the Hagerstown City Center Housing Survey identified two clusters of respondents who expressed interest in renting Downtown.

Prospective Renters who Prefer an Older Building

The first cluster of 17 respondents is defined as individuals who indicated an interest in renting an apartment in an older building in Downtown Hagerstown, but are willing to consider a newer unit as well. Of this cluster,

- 13 would consider a warehouse/loft/other historic renovation,
- 12 would consider a renovated/historic rowhouse, and
- 10 would consider a converted upper floor of an existing building. In addition,
- 7 would consider a low-rise or garden apartment,

- 6 a single-family detached home, and
- 4 would consider both a high-rise apartment and new townhouse.
- 8 of the respondents in this group are one-adult households.

The median household annual income for this cluster is $35,001 to $50,000, significantly lower than that of households with respondents interested in purchasing a home. The median age cohort is 46 to 55 years old. Of these respondents, 7 currently own their home, so they are interested in ending their commitment of home ownership as part of a move Downtown.

Households in this group currently occupy a variety of home types:
- 9 live in single-family detached homes,
- 4 live in historic rowhomes, and
- 4 live in low-rise or garden apartments.
- 11 have three or more bedrooms in their existing home, 5 of whom desire fewer bedrooms than they currently have.

The group also expressed willingness to pay a range of rents;
- one respondent hopes to pay less than $400,
- 3 are hoping to rents of $401 to $600 per month,
- 5 are willing to pay between $601 and $800,
- 6 are willing to pay between $801 and $1,000,
- 1 is willing to pay $1,001 to $1,500, and
- 1 would pay more than $1,500.

Prospective Renters who Do Not Want an Older Building

A second cluster of 13 respondents is defined as individuals who expressed interest in renting in Downtown Hagerstown, but not in an older building such as a renovated/historic townhouse, the upper floor of an existing building, or warehouse/loft/other historic renovation. Of this cluster,
- 7 would consider a high-rise apartment,
- 6 would consider a low-rise or garden apartment, and
- 4 would consider both a new townhouse and a single-family detached home.
- 7 of the respondents in this group are one-adult households, while
- 4 contain two adults.

The median household annual income for this cluster is $20,001 to $35,000, even less than that of households with respondents interested in renting an older building. Like most of the other clusters, the median age cohort is 46 to 55 years old. All of the respondents in this cluster currently rent.

Households in this group overwhelmingly occupy apartments currently:
- 5 live in low-rise or garden apartments and
- 2 live in high-rise apartments, while
- 2 live in single-family detached homes.
- 10 respondents in this cluster currently have two or fewer bedrooms, and
- 5 wish to increase that number.

The respondents in this group hope to pay the least rent among clusters examined;

- 3 hope to pay less than $400 per month,
- 7 are hoping to rents of $401 to $600 per month,
- 1 is willing to pay between $601 and $800, and
- 2 are willing to pay between $801 and $1,000.
- No respondents in this cluster would pay more than $1,500 per month.

Rental Housing Market Potential for the City Center

Based on the analysis of the Downtown rental housing market, it appears that 1-bedroom units are commanding the highest rents per square foot among those currently available. The highest priced units appear to be located in or closest to Northeastern City Center. The available 2-bedroom units are similarly priced as the 1-bedroom units, resulting in lower rents per square foot. These units are scattered about the City Center. The few 3-bedroom units available are modestly priced compared to the other advertised units, indicating a potential issue with quality and/or location. Both are in the Southeastern City Center section.

Results of the Hagerstown City Center Housing Survey revealed that 25% of respondents indicated a potential interest in renting Downtown. The results identified two types of potential renters – those clearly seeking an older type of housing, whether historic rowhouse or warehouse loft style, and those seeking new construction. Of the former, this cluster of potential renters is also split between those able to afford rents less than $800 per month and those willing to pay more than $800. For the latter group, there is very little higher-end rental product currently available in Downtown Hagerstown to accommodate that demand, particularly with central air, parking, and storage that they require. Therefore, it appears that there’s a potential market for an attractive move-in-ready Downtown rental product, but less demand than housing for purchase. However, like sales housing, this demand could be a potential opportunity for the local development community.

Retail Market

Downtown Retail Supply

The Sustainable Community Action Plan outlines several recommendations that could potentially support an expansion of Downtown retailing. To identify and characterize retail development opportunities available within Downtown Hagerstown, Urban Partners updated an inventory of Downtown retail business establishments prepared by the City of Hagerstown's Department of Community and Economic Development in July, 2012. That inventory found 80 businesses providing retail goods, dining, and personal services within the defined City Center.

For that inventory and for this analysis, we are focused chiefly on retail stores engaged in selling merchandise for personal and/or household consumption and on establishments that render services incidental to the sale of these goods. Selected service establishments are also included, especially those businesses primarily providing personal services to individuals and households, such as hair and nail salons and laundry and dry cleaning establishments. All retail establishments in the area were classified by type of business according to the principal lines of merchandise sold and the usual trade designation. In general, this classification follows the numeric system established for both government and industry practice – the NAICS.

The term "retail store sales" in this analysis includes sales by establishments that are normally found in pedestrian-oriented retail shopping areas. This definition excludes the sales of automobile dealerships and repair facilities, service stations, fuel oil dealers, and non-store retailing. Banks and other financial establishments are also excluded from this assessment because banking activities – deposits, loans, etc. – cannot be added to sales volume data for other types of retail establishments. Unlike many secondary data sources, such as the Bureau of the Census, however and as noted above, this definition does include the sales of service establishments such as barber shops, hair and nail salons, and dry cleaners.

Table 5 describes the current range of stores available within City Center Hagerstown in July 2012 and in our January 2014 update (see **Appendix 2** for a complete listing). As of July 2012, City Center Hagerstown included 80 operating retail businesses; by January 2014, this total had declined to 75. This net decline of 5 stores, however, masks a much more extensive set of changes. During this 18 month period, 22 of the 80 stores found in July 2012 left the area and 17 new stores arrived. In addition, two other businesses relocated within the area.

More than 30% of these establishments (23) are full- and limited-service restaurants and bars serving a broad range of market segments including nearby residents, employees, event-goers, and the overall Washington County market. Another 17 stores (23%) are hair salons and laundries/dry cleaners. The other 35 stores are scattered among 15 broad categories of retailing, serving both nearby and more distant markets. The area includes three or more stores in these six categories:

- three floor covering stores
- four specialty food stores
- three clothing and accessories stores

- four gift shops
- four antique stores and art dealers, and
- three used merchandise stores.

Table 5. Downtown Hagerstown Retail Supply

Retail Category	# Stores 7/2012	# Stores 1/2014	Stores Left 2012-14	Stores Opened 2012-14	2014 % of County Supply
Antiques & Art Dealers	5	4	1		44.4%
Auto Parts	0	0			0.0%
Bars and Lounges	4	3	1		9.7%
Books; Other Specialty	0	0			0.0%
Camera & Photographic Equipment	0	0			N/A
Clothing, Jewelry & Shoes	4	3	1		2.4%
Computer & Software	0	0			0.0%
Convenience Stores	2	2	1	1	4.2%
Cosmetics, Beauty Supply	1	2		1	22.2%
Dollar Stores/Other General Merchandise	1	0	1		0.0%
Drug Store/Pharmacy	2	2	1	1	8.7%
Electronics	0	0			0.0%
Floor Coverings	3	3			27.3%
Florist	1	0	1		0.0%
Full-Service Restaurants	16	14	7	5	15.4%
Furniture	0	0			0.0%
Gifts	5	4	1		21.1%
Grocery Store, Supermarket	1	1			3.8%
Hair Salon	15	14	3	2	24.6%
Hardware Stores	0	0			0.0%
Home & Garden Centers; Other Building Materials	0	0			0.0%
Laundries; Dry Cleaning	3	3			6.8%
Limited-Service Restaurants	1	6		5	4.7%
Liquor and Beer Distributors	2	2			6.1%
Musical Instruments	0	0			0.0%
Office Supply	0	0			0.0%
Optical Goods	0	0			0.0%
Other Health/Personal Care	1	1			7.7%
Other Home Furnishings	0	0			0.0%
Other Miscellaneous Retail Stores	1	1			7.1%
Other Used Merchandise	6	3	3		37.5%
Paint & Wallpaper	0	0			0.0%
Sewing	0	0			0.0%
Specialty Food	3	4	1	2	36.4%
Sporting Goods	2	2			18.2%
Toy & Hobby	1	1			14.3%
Total	80	75	22	17	8.3%

City of Hagerstown, 7/2012 and Urban Partners, 1/2014

On Table 5, we also note for each category the share of all Washington County stores that can be found in the City Center. The most recent detailed and systematic data base of retail establishments in Washington County is the 2007 U. S. Economic Census; the 2012 Economic

Census will be published later this year. Based on the data from that 2007 Census, Washington County includes about 900 businesses in the retail/service categories included in this analysis. Hence, the City Center's 75 retailers represent overall 8.3% of all Washington County retailers.

However, the City Center does include a much more significant share of the retail supply in several specific categories:

- first, City Center's 14 full-service restaurants are a significant concentration of all full-service dining in the County—more than 15% of such restaurants—and represent a major strength of City Center;
- second, in certain non-apparel specialty goods categories, the two to four City Center stores represent 18% to 44% of all stores in the County. These categories include specialty sporting goods, antiques and art dealers, gift shops, cosmetics/beauty supply, and floor coverings;
- third, City Center includes almost 25% of all hair salons in the County; and
- fourth, City Center includes more than 33% of freestanding specialty foods retailers in the County as well as being the home of the City Farmers Market (not included in this inventory).

Survey of Retail Businesses

Urban Partners conducted in-store interviews with the owners or managers of nine Downtown Hagerstown retailers to gather qualitative information about the nature of their businesses, recent trends, and observations about the retail environment. The interviewees were distributed throughout the Downtown area and across different retail category types. The following data and analysis is limited exclusively to the interviewed businesses.

Business Longevity

Surveyed businesses include those that have been in operation for more than 40 years and newer businesses that had only been in operation for just a few months. The businesses that were surveyed have been in operation in the Downtown for an average of 24 years. About 56% of them have been in business for more than 20 years, which indicates that there are still a stable group of businesses in Downtown Hagerstown. But it is also attracting new businesses, as two of the nine surveyed have been open for less than a year, and two others have taken over ownership of an older business within the last year.

General Business Characteristics

The nine businesses interviewed are independently owned and operated. Interviewed businesses include a consignment shop, specialty sporting goods store, jewelry accessory store, beauty supply store, bar/tavern, antique store, full-service restaurant, limited-service restaurant, and a bakery. The interviewed businesses employ generally a small number of employees, both full- and part-time, with a total number of employees typically ranging from one to five. The bar and restaurants, however, employ between 10 and 20 workers. Of the retailers who were surveyed, 1/3 said they own their properties and 2/3 lease their retail space. One merchant reported that he's in the process of purchasing his current retail space.

Hours of Operation

Just two of the nine businesses surveyed - both serving breakfast-related food items - open their doors before 10 am most days, and both open at 7 am. One opens at 9, three open at 10, and the remaining open at 11. The latest-opening businesses are sit-down restaurants that do not serve breakfast, but are open for lunch and dinner. While the majority of interviewed businesses close between 5 and 6 pm, the restaurants all stay open later. Those serving liquor tend to stay open the latest. One is open until 2 am. None of the interviewed retail businesses are open every day. All businesses except one are open Sundays, though they tend to be closed another day of the week like Monday or Tuesday. When asked about their busiest times of operation, business owners overwhelmingly responded the lunch hour, or between 11 am and 2 pm, or evenings just before closing. The busiest time of year by far appears to be the holidays from Thanksgiving through New Years.

Recent Sales Trends and Space Needs

Sales trends have been varied among the interviewed retailers; four (44%) reported that sales had increased over the previous year, three (1/3) reported a decline in sales, and the remaining two reported sales figures remaining about the same. Those two are the newest of the businesses interviewed, both having opened in 2013. Of the four businesses with increased sales, two expressed an interest in expansion, either into a new location with larger space or into an upper level of the existing location. A third business indicated that expansion would be considered once the future of downtown retailing is more solidified. Another business, with slightly declining sales, wishes to expand on-line sales through its website.

Opportunities and Challenges in the Business District

When asked about opportunities and challenges in Downtown Hagerstown, several businesses cited examples of each. One reported that the University System of Maryland at Hagerstown facility has helped bring business to the store, and that Downtown events are good for bringing in new customers. Another merchant said that the Downtown offers a great location and faithful customers. On the other hand, several businesses reported that Downtown needs additional businesses (and new residents) to generate foot traffic. Some retailers mentioned a concern over the many social service entities Downtown as well as loitering that can drive customers away. Regarding parking, generally the merchants did not express concern over cost or availability to their customers.

Customer Base and Components of Retail Demand

Interviewed retailers were asked to assess the various market segments that make up their customer bases. Downtown workers are an extremely important customer segment for all Downtown retailers, but especially for frequent-purchase/daily-needs stores such as community-serving businesses and limited-service restaurants. For these businesses, Downtown workers are seen as half or more of the customer base, and in some cases up to 80%. The specialty retailers and full-service restaurants tend to get the majority of their customers - up to 80% - from other areas of Hagerstown, Washington County, and adjacent portions of West Virginia, Pennsylvania, and Maryland (particularly Frederick), as they are more of a destination. However, no business interviewed felt that more than 20% of their customer base is from residents in or near the Downtown or that more than 60% of their customers are from the City of Hagerstown.

Regional Retail Market Conditions

Retailing within Hagerstown's City Center functions within the larger Washington County and Hagerstown-Martinsburg MSA regional marketplace. On **Table 6**, we detail current retailing demand and supply conditions for Washington County as reported by one of the national data services—The Nielsen Company—typically utilized by retail store location and real estate professionals. We have modified and extended this data somewhat to estimate overall demand from the MSA region.

As noted on this table, current Washington County retail supply is estimated to generate $2.4 billion in sales, exceeding Washington County's $1.9 billion in demand by more than 25%. This indicates (1) that Washington County retailers are operating as the retail "hub" of the Hagerstown-Martinsburg region and (2) that certain categories of retailers are drawing customers from even more distant locations.

Regarding the first factor—Washington County's role as the retail "hub" of the region—we note that while the County includes 54.5% of overall regional population (149,000 of 274,000 people), the 2007 Census of Retail Trade reported that the County generated 71% of all regional retail sales in these categories. For 2013, the estimated total retail demand in the Hagerstown-Martinsburg MSA is $3.5 billion. Capture percentages on Table Y indicate that Washington County retailers are particularly strong in capturing these regional sales in apparel and other specialty goods categories.

Regarding the second factor—extra-regional draw—the Hagerstown Premium Outlets center is clearly attracting more distant shoppers for apparel and some specialty goods. This extra-regional capture could potentially be extended to nearby locations. The large volume of "pass-through" traffic along Interstates 81 and 70 also adds some increment to retail sales.

For this analysis, we are concerned with several aspects of these regional retail market conditions:

1. Are there gaps in the regional supply of retail and goods and services that could be met appropriately and competitively in Hagerstown City Center?
2. Are there strengths of the overall regional market—areas where more distant customers are being attracted—that could be extended to the City Center area?
3. Are there specific strengths of City Center that can be utilized to capture additional customers from the County, the region, and beyond?

With regard to retail supply gaps, Table 6 indicates the following:

- There is no camera and photographic supply store in the County. The estimated demand of $1.1 million is sufficient to support a profitable store of about 3,000 SF to 4,000 SF.
- Specialty food stores are only capturing 35% of the $20 million in demand Countywide for such specialty items. This gap in supply could support 25,000 SF to 35,000 SF of such stores providing a variety of products.

- There is a gap of over $19 million in the supply of eating and drinking establishments Countywide. This could support 45,000 SF to 50,000 SF of additional eating and drinking establishments.

Table 6. Selected Retail Market Conditions for Washington County & Hagerstown-Martinsburg MSA - Supply and Demand Estimates, 2013

	Washington Co. 2013 Supply (Retail Sales)	2013 Demand (Washington Co. Consumer Expenditures)	Washington Co. Capture As % of Washington Co. Demand	2013 Demand (Hagerstown-Martinsburg MSA Consumer Expenditures)	Washington Co. Capture As % of Hagerstown-Martinsburg MSA Demand
Total Retail Sales--Selected Categories	$2,411,619,245	$1,925,305,996	125.26%	$3,532,671,552	68.27%
Motor Vehicle and Parts Dealers-441	$518,264,077	$522,885,898	99.12%	$959,423,666	54.02%
Furniture and Home Furnishings Stores-442	$104,479,989	$46,957,431	222.50%	$86,160,424	121.26%
Electronics and Appliance Stores-443	$71,404,125	$42,080,265	169.69%	$77,211,495	92.48%
Appliances, TVs, Electronics Stores-44311	$56,744,725	$31,679,469	179.12%	$58,127,466	97.62%
Computer and Software Stores-44312	$14,659,400	$9,284,551	157.89%	$17,035,873	86.05%
Camera and Photographic Equipment Stores-44313	$0	$1,116,245	0.00%	$2,048,156	0.00%
Building Material, Garden Equip Stores -444	$220,145,246	$220,134,465	100.00%	$403,916,450	54.50%
Food and Beverage Stores-445	$379,133,974	$283,615,126	133.68%	$520,394,727	72.86%
Grocery Stores-4451	$328,436,152	$247,592,358	132.65%	$454,297,905	72.30%
Supermarkets, Grocery Stores-44511	$328,436,152	$234,731,983	139.92%	$430,700,886	76.26%
Specialty Food Stores-4452	$7,077,146	$20,215,301	35.01%	$37,092,295	19.08%
Beer, Wine and Liquor Stores-4453	$43,620,676	$15,807,467	275.95%	$29,004,527	150.39%
Health and Personal Care Stores-446	$154,565,634	$145,669,946	106.11%	$267,284,305	57.83%
Pharmancies and Drug Stores-44611	$114,389,843	$115,774,832	98.80%	$212,430,884	53.85%
Cosmetics, Beauty Supplies, Perfume Stores-44612	$11,646,416	$10,395,918	112.03%	$19,075,079	61.06%
Optical Goods Stores-44613	$12,746,818	$6,453,216	197.53%	$11,840,763	107.65%
Other Health and Personal Care Stores-44619	$15,782,557	$13,045,980	120.98%	$23,937,578	65.93%
Clothing and Clothing Accessories Stores-448	$282,009,517	$106,084,697	265.83%	$194,650,820	144.88%
Sporting Goods, Hobby, Book, Music Stores-451	$107,219,258	$40,128,949	267.19%	$73,631,099	145.62%
General Merchandise Stores-452	$379,807,138	$292,839,941	129.70%	$537,320,993	70.69%
Department Stores Excl Leased Depts-4521	$194,042,838	$118,887,154	163.22%	$218,141,567	88.95%
Other General Merchandise Stores-4529	$185,764,300	$173,952,787	106.79%	$319,179,426	58.20%
Miscellaneous Store Retailers-453	$71,901,191	$65,489,576	109.79%	$120,164,360	59.84%
Florists-4531	$4,273,795	$2,781,987	153.62%	$5,104,563	83.72%
Office Supplies, Stationery, Gift Stores-4532	$28,914,338	$19,277,033	149.99%	$35,370,703	81.75%
Office Supplies and Stationery Stores-45321	$14,517,836	$10,810,384	134.30%	$19,835,567	73.19%
Gift, Novelty and Souvenir Stores-45322	$14,396,502	$8,466,649	170.04%	$15,535,136	92.67%
Used Merchandise Stores-4533	$5,954,354	$5,720,330	104.09%	$10,496,018	56.73%
Other Miscellaneous Store Retailers-4539	$32,758,704	$37,710,226	86.87%	$69,193,075	47.34%
Foodservice and Drinking Places-722	$194,590,287	$224,909,278	86.52%	$412,677,574	47.15%
Full-Service Restaurants-7221	$106,273,406	$103,308,749	102.87%	$189,557,338	56.06%
Limited-Service Eating Places-7222	$77,851,044	$93,615,177	83.16%	$171,770,967	45.32%
Special Foodservices-7223	$7,071,241	$18,072,344	39.13%	$33,160,264	21.32%
Drinking Places -Alcoholic Beverages-7224	$3,394,596	$9,913,008	34.24%	$18,189,006	18.66%

Sources: The Nielsen Company; Urban Partners

Concerning the potential for Hagerstown City Center to capture more distant customers, this poses a more complex circumstance. To the extent that these out-of-area customers are being currently drawn to the Outlet Center and related facilities for apparel and specialty goods purchases, the relationship to City Center would be at best indirect, perhaps by promoting a dining concentration frequented by these customers as an add-on to a destination trip for bargain apparel purchases. Similarly, for out-of-area customers simply passing through Hagerstown along the interstate highway system, well-promoted dining and entertainment options could capture some business.

Concerning City Center strengths in attracting a more geographically dispersed customer base, the strongest potential appears to lie with arts, entertainment, and event promotion. The Maryland Theater and other affiliated activities, as well as programmed Downtown events, could potentially be exploited more substantially. Once again, though, the largest likely retail spillover will be to eating and drinking establishments.

Downtown Employee Retail Base

Total office, retail, and restaurant employment in the City Center area is estimated at 3,300 for early 2014. Retail purchasing patterns by area workers vary substantially among industries. Office workers, for instance, purchase substantial amounts of retail goods and services near their workplaces; the largest of these purchases is lunch, but they also make significant purchases of convenience and shopping goods items and expend substantial sums on after-work eating and drinking. The purchasing patterns of retail are diverse, but at lower expenditure levels due to lower earnings. Finally, restaurant employees typically spend substantially less on near-work retailing due to the availability of prepared food at their worksites and because they often work shifts when fewer retail establishments are open.

On **Table 7**, we estimate the retail purchases of the 3,300 Downtown employees in these employment categories based on these diverse consumption patterns. These estimates suggest that the City Center employee base spends (or could spend, if appropriate retail stores were available in the City Center) approximately $11.5 million on retail goods annually, of which:

- $4.9 million is spent at eating and drinking establishments,
- $3.9 million is spent on other community-serving goods and services,
- $0.6 million on apparel,
- $0.8 million on home furnishings and improvement, and
- $0.6 million on other specialty goods.

Table 7. Hagerstown City Center Employee Retail Purchases ($000) - January, 2014

	Office	Retail Non-Restaurant	Restaurant	Total
Number of Employees	**2,935**	**165**	**200**	**3,300**
TOTAL	**$10,914**	**$459**	**$105**	**$11,478**
COMMUNITY-SERVING GOODS & SERVICES	**$6,936**	**$333**	**$79**	**$7,349**
Bars and Lounges	$472	$27	$0	$498
Convenience Stores	$1,361	$70	$15	$1,446
Cosmetics, Beauty Supplies, & Perfume	$13	$1	$0	$14
Dollar Stores & Other General Merchandise Stores	$88	$2	$1	$91
Drug Stores/Pharmacies	$400	$17	$14	$430
Florists	$107	$2	$1	$110
Gift, Novelty, Souvenir Stores	$213	$4	$2	$219
Hair Salons	$41	$2	$3	$46
Hardware Stores	$57	$1	$1	$58
Health Food Supplements	$0	$0	$0	$0
Jewelry Stores	$197	$3	$2	$202
Laundries; Dry Cleaning	$37	$2	$3	$41
Limited-Service Restaurants	$2,716	$151	$3	$2,871
Liquor & Beer Distributors	$67	$3	$2	$72
Optical Stores	$30	$2	$2	$34
Speciality Foods	$74	$3	$2	$78
Supermarkets, Grocery Stores	$1,064	$45	$29	$1,138
FULL SERVICE RESTAURANTS	**$1,483**	**$83**		**$1,566**
DEPARTMENT STORES	**$552**	**$11**	**$7**	**$570**
Discount Department Stores	$229	$5	$3	$237
Full-Service Department Stores	$192	$3	$2	$198
Warehouse Clubs	$131	$3	$2	$136
APPAREL	**$570**	**$10**	**$6**	**$585**
Children's Clothing	$23	$0	$0	$23
Clothing Accesories	$11	$0	$0	$11
Family Clothing	$219	$4	$2	$225
Men's Clothing	$48	$1	$0	$50
Other Clothing	$35	$1	$0	$36
Shoe Stores	$101	$2	$1	$103
Women's Clothing	$133	$2	$1	$137
HOME FURNISHINGS & IMPROVEMENT	**$762**	**$11**	**$7**	**$780**
Antique Stores	$8	$0	$0	$8
Floor Coverings	$28	$0	$0	$28
Furniture	$70	$1	$1	$72
Home Centers	$215	$1	$0	$215
Household Appliances	$17	$0	$0	$18
Nursery & Garden Centers	$22	$0	$0	$23
Other Home Furnishings	$51	$0	$0	$51
Paint & Wallpaper Stores	$33	$1	$1	$34
Radio/TV/Electronics	$143	$4	$2	$149
Retail Lumber Yards	$174	$3	$2	$179
Window Treatments	$1	$0	$0	$2
OTHER SPECIALTY GOODS	**$611**	**$10**	**$6**	**$627**
Art Dealers	$20	$0	$0	$20
Book Stores	$103	$2	$1	$106
Camera, Photo Supply	$5	$0	$0	$5
Collectors' Items & Supplies	$14	$0	$0	$14
Computer & Software Stores	$53	$1	$1	$55
General-Line Sporting Goods	$51	$1	$1	$52
Luggage & Leatherwork	$8	$0	$0	$8
Music Stores	$21	$0	$0	$22
Office Supply/Stationers	$94	$2	$1	$97
Record/CD/Tape/Video Stores	$44	$1	$0	$45
Sewing, Needlework	$18	$0	$0	$18
Specialty Sporting Goods	$80	$1	$1	$82
Toys & Hobbies	$100	$2	$1	$103

Source: Urban Partners, 1/2014

Retail Market Potential for the City Center

Demand for retail goods and services in the City Center derives from at least five distinct markets—(1) nearby residents; (2) Downtown employees and students; (3) residents of other Hagerstown neighborhoods and Washington County communities; (4) attendees at the many Downtown cultural and sporting events; and (5) a broader MSA-wide (or larger) regional customer base. In general, consumer shopping patterns vary depending on the types of goods being purchased. For convenience goods purchased frequently, such as groceries, drugs, and prepared foods, shoppers typically make purchases at stores close to their home or place of work. For larger-ticket, rarely purchased items – such as automobiles, electronics and large appliances – shoppers may travel anywhere within the metropolitan area or beyond to obtain the right item at the right price. For apparel, household furnishings, and other shopping goods, consumers generally establish shopping patterns between these two extremes, trading at a number of shopping areas within a 30 minute commute of their homes.

In analyzing the retail market demand within a portion of a larger metropolitan area, these behavioral observations translate into a series of analytical rules-of-thumb:

- Shopping for community-serving goods and services is generally confined to the primary trade area.

- Expenditures made at full-service restaurants will occur chiefly within the primary trade area, but some restaurant expenditures made by the primary trade area population will be lost to established restaurants located outside the primary trade area. Similarly, some restaurant sales in the primary trade area will be attracted from residents who live elsewhere in the region.

- Expenditures made by primary trade area residents for shopping good items (department stores, apparel, most specialty goods) will more likely occur within the area, but a substantial proportion of these sales will occur outside the area. Similarly, significant sales will be attracted from residents outside the primary trade area to any large, well-known stores located within the trade area.

- Specific high-quality stores within the primary trade area may attract significant clientele from well beyond the primary trade area for highly-targeted, single destination trips for specialized purchases.

Aggregating all these potential sources of retail demand for Hagerstown City Center, we reach the following observations:

- the 23 eating and drinking establishments in Hagerstown City Center provide the basis for an expanded ***dining and entertainment concentration*** capturing a significant portion of the $19.4 million in unmet eating and drinking demand from Washington County. This potential is reinforced by the fact that at least ten of the full-service restaurants are already located within a compact two square block area;

- the area's current four specialty food stores, coupled with the existing City Farmers Market, could provide the basis for a ***specialty foods district*** capturing a significant portion of the $13 million in currently unmet demand Countywide for specialty food items;

- the current arts and culture anchors (Maryland Theater, Barbara Ingram School, etc.) could provide the basis for a more active ***arts and culture retail district***. This district would build from the current group of four antique stores/art dealers and four gift shops to include dance apparel, musical instruments, and other arts-related retailing. The current lack Countywide of a specialty camera/photographic supply shop might be one additional component of this concentration;

- the City Center area could also seek to capture ***other specialty goods niches*** similar to the current concentration of floor coverings stores. Expanding the current strength in specialty sporting goods could be one such opportunity.

Pursuing these four opportunities, **there appears to be sufficient unmet demand to support adding as much as 70,000 SF of new occupied store space**. These store categories include:

- up to 30,000 SF of new eating and drinking establishments;
- adding 15,000 SF to 20,000 SF of new specialty foods stores, including expanded activity at the City Farmers Market;
- up to 10,000 SF of additional arts and cultural-related retailing; and
- up to 10,000 SF of new specialty stores.

Many of these retail opportunities will need to be captured incrementally over time and some of these opportunities will need to be positioned to create compact districts that benefit other arts, cultural, entertainment, and promotional facilities and activities.

Cultural Arts/Education/Entertainment Market

Hagerstown's Arts and Entertainment District is a portion of City Center Hagerstown designated by the State of Maryland to help stimulate the City's economy and improve its quality of life. With an officially designated district, the City can offer tax incentives and grants to artists who wish to work and/or live within the district's boundaries. The Washington County Arts Council provides a variety of programming, technical assistance, and support to local arts organizations and 75 individual artists. While the Arts and Entertainment District encompasses an area of several square blocks in the City Center (see Map 1 above), the greatest concentration of arts activities is currently along South Potomac Street, between the Public Square and Antietam Street.

The Sustainable Community Action Plan cites a variety of suggested initiatives to enhance Hagerstown's Downtown Arts & Entertainment District by expanding the draw of regional patrons to the Downtown. These range from supporting and improving existing cultural arts facilities, such as the Maryland Theatre and the Barbara Ingram School for the Arts, to pursuing new attractions and events. Urban Partners examined several elements of the Downtown arts and entertainment market to identify the potential for each.

Cultural Arts

Performing Arts

Hagerstown's City Center is home to multiple live-performing venues including the Maryland Theatre, the Academy Theater, and the Washington County Playhouse. The Academy is home to the Hagerstown Children's Theater, and the Washington County Playhouse is a dinner theater that hosts Broadway musical classics, among other shows.

The Maryland Theatre is the region's premier venue for live theatrical, music, and dance performances, and is considered to be the anchor of Hagerstown's Arts and Entertainment District. Originally opened in 1915, the Maryland Theatre had a rich history of performances until the 1970s when a fire destroyed the front of the theater in 1974. It continued to fall into disrepair and was purchased in 1976 just months before being demolished. The theater reopened in 1978, led by efforts of a local businessman and dedicated community members. The facility had a grand reopening and has been open since.

The Maryland Theater Interior

Today the 1,300-seat theater hosts Broadway shows, musicals, plays, ballet performances, comedy acts, orchestra concerts, popular music concerts, and educational programming. In addition, the theater is home to Maryland Symphony Orchestra, hosting five or six orchestra concerts each year. On average, four to five ticketed events take place at the theater each month. The Maryland Theatre draws visitors from all over the tri-state region for its unique programming. The venue is also rented for weddings, fundraisers, holiday parties, business meetings, and lectures. The Maryland Theatre hosts approximately 120,000 patrons each year. Significant investments will be made in the theater in the near future; upcoming improvements include new seats, a new heating and cooling system, and plaster repair.

Visual Arts

The Arts and Entertainment District is also home to visual arts venues, namely galleries, including a few privately-owned galleries with art for sale as well as the Gallery Shop at the Washington County Arts Council. The Gallery Shop also hosts exhibit openings, parties, and other events. Just outside the Downtown are the Washington County Museum of Fine Arts (WCMFA) and Mansion House Art Gallery, located in Hagerstown City Park. WCMFA contributes to lifelong learning and visual literacy through its collection of over 7,000 paintings, prints, sculpture, and other works of art, travelling exhibits, and special programs. The City is also renovating space in 2014 at 36 N. Potomac Street for a cooperative art gallery.

The Gallery Shop at the Washington Co. Arts Council

While Downtown Hagerstown has several gallery venues, it does not have an arts center or incubator that could act as a hub for local artists and compliment other arts venues like the Maryland Theater. A study entitled *Developing an Arts, Entertainment, and Education Cluster in Washington County, Maryland*, completed in 2012, suggested creating an arts incubator Downtown. The study suggests that the City take the lead in establishing an incubator that would be housed in a building with subsidized office supplies, artist studio space, and technical assistance, as well as low-cost apartments for artists. Two locations were identified for such a center - 59 West Washington Street (the Susquehanna Building), and 13-17 S. Potomac Street (the building located between the Barbara Ingram School for the Arts and the Maryland Theatre). This facility would be in addition to the artist lofts recently completed at 36-40 N. Potomac Street.

Museums and Heritage Tourism

The tourism industry is strong in Washington County. According to the Convention and Visitors Bureau, Washington County was the State leader in 2012 and the first half of 2013 for increases in local tourist attraction visitation as well as increases in hotel occupancy. Visitor spending grew as well. In addition, the number of tourism jobs in the County in 2012 exceeded manufacturing jobs for the first time in the County's history. Supporting this industry are the cultural attractions in Hagerstown. A variety of museums are located in and around Hagerstown's City Center, adding to the significant supply of cultural venues Downtown. These include the following:

- Discovery Station at Hagerstown - 101 W. Washington Street
- Hagerstown Roundhouse Museum - 296 Burhans Boulevard
- Jonathan Hager House - 110 Key Street

- Miller House - 135 W. Washington Street
- Train Room - 360 S. Burhans Boulevard
- Washington County Historical Society - 135 W. Washington Street
- Washington County Museum of Fine Arts (WCMFA) - 401 Museum Drive


The Washington County Fine Arts Museum

These museums celebrate a variety of segments of Hagerstown's heritage, from art to railroads to its founding father. WCMFA is one of the finest regional art museums in the country. The Discovery Station is a museum and hands-on science center dedicated to children. In addition to these museums in the City, the historically significant Antietam National Battlefield is located just south of Hagerstown near Sharpsburg. Also nearby is the C&O Canal National Historical Park along the Potomac River.

Museum expansion efforts have been occurring recently in Downtown Hagerstown. The Doleman Black Heritage Museum collection is currently housed in the Doleman family home on N. Locust Street. Plans are being discussed to move the museum to a more permanent location that is suitable to accommodate the museum's collection of artifacts. The First Hose Fire Museum, located on S. Potomac Street in the Arts and Entertainment District, has completed its renovation and is working to set up its collection. There is also an effort to explore the creation of a Civil War History Museum in Downtown Hagerstown. A 2011 study prepared for the City entitled *Cultural Resource Development in Hagerstown City Center* suggested that establishing a start-up museum for a major regional attraction is difficult to achieve and keep sustainable, and that a satellite facility of an existing major venue headquartered elsewhere is a more viable model. Therefore, the City is exploring the opportunity to partner with an existing Civil War museum to establish a satellite location in Hagerstown. The study also suggests that a substantial national memorial, such as an urban park with commemorative statues and interpretive material, could be an even more affordable model for a Downtown cultural attraction with far less capital and overhead involved than a museum.

Education

Education has become a centerpiece of the Arts and Entertainment District as well, anchored by the Barbara Ingram School for the Arts (BISFA). Located next to the Maryland Theatre, BISFA is a magnet school for gifted art students that opened in 2009, and offers eight different arts-related majors, including visual arts, performing arts, dance, and music. As part of Washington County Public Schools (WCPS), enrollment is open

The Barbara Ingram School for the Arts

to Washington County students. However, students from nearby areas of Pennsylvania and West Virginia may apply as well. Enrollment in 2013 was 255 students. Currently the WCPS is considering an expansion to the educational footprint Downtown for special programs.


The University System of Maryland at Hagerstown

Another key educational facility in Downtown Hagerstown is the University System of Maryland at Hagerstown (USMH). USMH is a regional higher education center that offers 15 upper-level undergraduate and 22 graduate academic programs from five universities within the University System of Maryland. USMH works with local community colleges, businesses, and civic leaders to develop innovative partnerships for enhanced student learning. Opened in 2005, the USMH facility is a combination of the restored historic Baldwin House and an adjacent new state-of-the-art addition, totaling 77,000 square feet. The school enrolled nearly 500 students in 2013.

The newly renovated and expanded Alice Virginia and David W. Fletcher branch of the Washington County Free Library bookends the educational resources of S. Potomac Street. The state-of-the-art 80,000 square foot facility recently opened in the fall of 2013 and includes exhibition space for historic collections, expanded computer training labs, and expanded patron parking. Downtown Hagerstown contains other smaller educational facilities as well, including St. Mary Catholic School (pre-kindergarten through 8th grade) and the Award Beauty School, in operation since 1954.

Multi-Use Sports and Events Center

Over the course of 2012 and 2013, the City commissioned studies by Ripken Design to examine the feasibility for a new $37 million, 4,000-seat Downtown Multi-Use Sports and Events Center (MUSEC) as well as site alternatives. This new home for the Hagerstown Suns would replace the existing Municipal Stadium. Ripken Design prepared studies of various locations, including the former Meritus Washington County Hospital site, the existing stadium site, and a Downtown site at W. Baltimore and S. Summit Streets. The Ripken report for the Downtown facility concluded the following:

1. New revenues generated by the project will pay for costs
2. The market analysis supports increased attendance projections
3. The project will result in a positive economic impact for the community
4. Taking no action creates a harmful threat to the local economy in terms of loss in spending, tax revenue, and jobs


A rendering of the proposed Downtown MUSEC

5. The project is consistent with existing development plans
6. Renovation of the existing Municipal Stadium is not a feasible option due to costs

Subsequent to the release of the study, and while the City was examining the feasibility of the MUSEC, the Suns decided to pursue an offer to relocate to Fredericksburg, VA. The City is fielding inquiries from other baseball opportunities at this time.

Cultural Arts/Education/Entertainment Market Potential for the City Center

Our analysis has revealed that strong organizational interest exists in expanding all aspects of the cultural arts/education/entertainment market Downtown. While spillover from these activities can provide strong economic value, the actual activities and initiatives themselves are ones that require dedicated on-going public subsidies. Expansion of these facilities and programming to promote this economic spillover will require significant civic and governmental leadership and financing. In many cases, the organizational infrastructure is in place; it's now a matter of increasing the commitment of civic and public funds. Continued investments in these arts-related sectors will undoubtedly support the growth of many other Downtown markets, including residential, retail, and lodging, as well as additional visitation.

Office Market

The Sustainable Community Action Plan emphasizes the need for drawing new businesses to Downtown Hagerstown, as well as facilitating the relocation of government offices Downtown. To evaluate the potential for new commercial development in Hagerstown's City Center, Urban Partners assessed current market conditions of existing office space. The downtown has a significant number of smaller office buildings of various sizes and levels of quality (see **Table 8** on next page). According to the 2013 *State of the Downtown* report, the downtown area employs almost 3,300 workers. As the seat for County government and hub for City offices, as well as home for various State and Federal offices, the City Center houses a significant share of the region's governmental offices and related services, such as law offices and other consulting firms. The report states that in 2012, three of the top four employers in the downtown were the State of Maryland, Washington County, and the City of Hagerstown.

According to Loop Net, just two examples of Class A space were available downtown as of late January 2014. This label may be considered subjective since their advertised rents are lower than most of the Class B listings. Nonetheless, the two adjacent listings at the historic 111-113 S. Potomac Street, known as Potomac Hall, are asking for $8 and $10 (modified gross lease) per SF respectively. Amenities for 111 S. Potomac, a former judge's chamber, include partial furnishings, fireplace, and kitchenette. For 113 S. Potomac, amenities include fully-furnished private suites, a conference area, and security. By comparison, new Class A office space, located in the North End, is commanding the highest Class A office rents in the region. Lyles Center II, a new two-story office complex located at 12920 Conamar Drive, has 1,855 SF of Class A space available for $19 per SF triple net. This is a partially-finished space that includes a reception area, five offices, conference room, kitchenette, and storage area. Similarly, 18,000 SF of newer Class A space is also available for $19 per SF triple net at the Trilogy Professional Center at 1165 Imperial Drive in the East End. This complex has high visibility and ample parking.

Potomac Hall - 111-113 S. Potomac Street

Class B space is much more commonly available in the City Center. According to Loop Net, available Class B properties include 449 N. Potomac Street, offering the highest-priced Class B rent of $20 per SF (full service) for space in a large historic house including off-street parking. A more traditional office building is 100 W. Antietam Street, the Wright-Gardner Building, offering 9,200 SF of its 12,000 SF for $15 per SF. This building includes private offices, a break and conference room, and elevator access.

Wright-Gardner Building - 100 W. Antietam Street

Table 8. Sample Office Listings in Hagerstown's City Center, 1/2014

Address	Class	Building Size (SF)	# Floors	Total Available SF	Rent/SF/Year	Lease Type	Amenities
111 S. Potomac Street	A	15,570	3	2,500	$8.00	N/A	Historic building across from new library, partially furnished, former judge chamber, antique lighting, fireplace, two bathrooms, kitchenette, open areas.
113 S. Potomac Street	A	14,589	3	5,960	$10.00	Mod. Gross	Historic building, fully-furnished suites, reception area, conference area, security system, private suites and workstations.
22 Mulberry Street	B	75,000	3	35,000	$7.00	Full Service	Historic renovated loft building, new lobby, passenger and frieght elevators, adjacent parking lot, garden, more than 600 windows, unique space configurations.
324 W. Antietam Street	B	47,187	1	5,177	$14.00	N/A	Medical office space with exam rooms, lobby, bathrooms, reception area, private offices, and storage. Non-medical office suite has 5 offices, breakroom, reception area, and storage.
138 W. Washington Street	B	20,000	4	17,000	$11.00	NNN	Historic building completely updated with new mechanicals, common area bathrooms and kitchenettes on each floor, adjacent parking deck with spaces reserved for building.
100 W. Antietam Street	B	12,600	2	9,203	$15.00	N/A	Private offices, break room, conference room, open space for cubicles, file room, elevator access.
265 Mill Street	B	12,000	1	1,890	$12.00	Ind. Gross	End suite, 6 office, reception office, lobby area, bathroom, large parking lot, $7/SF rent for first year.
152 W. Washington Street	B	9,000	4	1,750	$13.71	Full Service	Historic building, off-street private parking lot with 4 spaces, courtyard, bathroom, kitchenette.
700 Frederick Street	B	7,500	2	1,000	$14.00	Full Service	Newly renovated, bright, divided into three rooms with own heat and AC, off-street parking, shared lobby and bathrooms.
449 N. Potomac Street	B	4,590	3	1,860	$20.00	Full Service	Large historic house building, free off-street parking, upstairs and downstairs offices available.
51 E. Antietam Street	B	2,500	2	1,250	$5.00	NNN	Large historic house building, free off-street parking, upstairs residential units.
111 W. Washington Street	B	2,470	2	2,470	$8.00	NNN	Historic building, 5 off-street parking spaces, convenient location.

Source: loopnet.com

Another traditional Class B space is at 138 W. Washington Street, with a rent of $11 per SF triple net. This historic building has been completely renovated, with kitchenettes on each floor and an adjacent parking deck with reserved spaces.


Mulberry Lofts - 22 N. Mulberry Street

The lowest-priced space is at the newly renovated Mulberry Lofts at 22 N. Mulberry Street. This unique 75,000 SF building offers remodeled office lofts and suites with an industrial vibe. The building has high ceilings, elevators, an open air central atrium, and gated off-street parking. Rents start at $7 per SF for a full service lease. Currently, about 35,000 SF of space is available for rent.

A 2013 City inventory of downtown commercial and mixed-use building occupancy revealed that 14% of the buildings were entirely vacant, 11% were entirely vacant on the ground-floor only, and 6% were entirely vacant on the upper floors. By comparison, the examined listings of available office space are contained in buildings totaling approximately 148,000 SF. Of that space, 85,000 SF, or 38%, is currently vacant and for lease. Combined, the two Class A buildings are 28% vacant and the Class B buildings are 35% vacant. Among the specific properties examined with the highest vacancies, 111 W. Washington Street is entirely vacant, the 20,000-SF 138 W. Washington Street is 85% vacant, and 100 W. Antietam Street (the Wright-Gardner Building) is 73% vacant.

Office Market Potential for the City Center

Based on the analysis of the Downtown Hagerstown office market, it appears that the supply of smaller office space floorplates is more than adequate for its demand. Mulberry Lofts captures the market for incubator-type space promoting entrepreneurship. There’s also a variety of product available for smaller office users – up to 5,000 square feet – in a variety of prices and office settings, including larger historic/renovated commercial buildings as well as former homes-turned-office buildings.

On the other hand, there are currently limited opportunities for a business in need of a floorplate larger than 6,000 square feet that's move-in ready, or a total building size of more than 30,000 square feet to accommodate a large company or agency that's move-in ready. Furthermore, no space that size is of Class A or higher-quality. This scale of office development would require a committed user. To attract this larger committed tenant, the Downtown needs to offer a well-situated site that could accommodate a building of this magnitude. The site then needs to be heavily marketed to prospective companies potentially seeking new Class A build-to-suit space.

Hotel Market

A suggested initiative identified by the City in the Sustainable Community Action Plan is a new downtown hotel with conference center or significant meeting space. The hotel market analysis area for a potential Downtown Hagerstown hotel focuses on an area that extends approximately four miles from Downtown. There are currently no hotels in City Center Hagerstown, but there are 17 properties located between 0.5 and 3.5 miles of Downtown. Four of these properties are considered "Economy" and were excluded from the analysis. The remaining 13 hotels are predominantly considered "Upper Midscale" (Holiday Inn Express, Hampton Inn, Comfort Inn & Suites, etc.), but three are considered "Upscale" (Courtyard, Springhill Suites, Homewood Suites) and two are considered "Midscale" (Best Western, Sleep Inn). Most of these hotels are located either at exits of Interstate 81 or along U.S. 40 as it approaches Downtown Hagerstown from the east from Interstate 70.

The newest hotel is the 96-room Courtyard by Marriott, which entered the market in August, 2010. Between April, 2005, and November, 2007, three suites hotels came on line: the Country Inn & Suites (85 rooms); the Springhill Suites (104 rooms) and the Homewood Suites (102 rooms). Five properties with 491 rooms date from the 1996 to 2001 period. The remaining four hotels are much older (1952 to 1985), but were all substantially updated in the past decade. At the current time, this pool of properties includes 1,339 rooms.

Using Smith Travel Research as the source, we obtained data on these 13 hotel properties. In total, hotel room demand in this Downtown Hagerstown area grew from 246,013 room-nights in 2007 to 287,868 in 2013, a total growth of 17% in the last six years (see **Table 9**). Room supply grew as well during this period from 456,676 room-nights in 2007 to 488,735 in 2013, a total growth of 7%. As noted above, the growth in supply during this period involved two properties opening in November, 2007, and in August, 2010. This analysis period includes a period of severe economic contraction (2007 to 2010), when overall occupancy dropped from 53.9% to as low at 49.9%, as well as a period of modest recovery when occupancy grew to 59.2% (2012) and 58.9% (2013). During this period, room rates have stayed largely stagnant—rising from $77.40 in 2007 to $83.32 in 2008, but then growing only modestly to $84.99 in 2013. Rate increases in 2008 and 2010 probably were partially influenced by the introduction of newer hotel product.

Table 9. Downtown Hagerstown Area Hotel Performance

Year	Supply (Room Nights)	Demand (Room Nights)	% Occupancy	Average Room Rate
2007	456,676	246,013	53.9%	$77.40
2008	470,485	234,586	49.9%	$83.32
2009	470,485	241,133	51.3%	$81.94
2010	484,959	250,947	51.7%	$83.73
2011	497,004	268,594	54.0%	$82.47
2012	496,985	294,076	59.2%	$84.73
2013	488,735	287,868	58.9%	$84.99

Source: STR Global, Urban Partners

Room demand is generally even during the Monday through Saturday period, with Sundays significantly weaker. Demand is seasonal: occupancy during May through August, 2013, averaged 69.0%, versus 48.1% for November through February.

Hotel Market Potential for the City Center

Since 2009, the annual growth in demand has been 11,700 room-nights per year. The additional supply from the introduction of the higher quality Courtyard by Marriott in 2010 was fully absorbed within two years, suggesting that improved quality of supply triggered at least some positive incremental demand response.

If we assume that this recent 11,700 annual average room-night increment in demand continues for several years and that 62% is a healthy average occupancy rate (given that 27% of the current room supply was constructed more than 30 years ago and will likely have lower average utilization), then we can conclude that the ***Hagerstown area can absorb 90-100 new hotel rooms every two years, beginning in 2016.***

In considering whether one or more of these new hotels could be located in Downtown Hagerstown, we note several issues:

- all recent hotel construction has occurred near exits of I-81, where hotel occupancy benefits from "pass-through" business and the Premium Outlets attraction;
- Downtown Hagerstown does not currently offer any major room-night generator such as a corporate headquarters, regional hospital, convention center, or large university to form the basis for hotel utilization;
- the highest quality hotel facilities in the area are classified as "Upscale"; there is no "Upper Upscale" hotel (Marriott, Hilton, Sheraton, Wyndham) located within 30 miles of Hagerstown.

Given these circumstances, the potential for adding a successful hotel property in Downtown Hagerstown is likely tied closely to its development in association with the parallel development of a hotel room-night generator such as a large conference center or major University expansion. It would also be critical that the new Downtown hotel be at least competitive in quality with the best in the market (Courtyard) or, ideally, establish a new higher market standard in the "Upper Upscale" class.

Windham Gateway Gettysburg

A nearby potential model facility is the Wyndham Gateway Gettysburg—a 248-room Upper Upscale hotel with a 25,000 SF conference center and the capacity to handle banquets for up to 1,700 people. The Hyatt Regency New Brunswick (NJ) is a similarly-sized, but somewhat more upscale, downtown facility with 288 rooms and 33,000 gross SF of function space.

Another recently-opened Downtown facility of this type is the 200-room Sheraton Erie Bayfront Hotel adjoining the new 90,000 SF Erie Convention Center with capacity to handle banquets for up to 2,000.

Sheraton Erie Bayfront Hotel

We also note that if a new Downtown hotel were constructed in association with a major conference center, this would establish new competition for the two existing hotel-based meeting facilities located along Dual Highway near Downtown: the Best Western Grand Venice Hotel & Conference Center and the Hager Hall Conference & Event Center (Clarion Hotel). Both facilities have free parking.

Economic Base

The economic base of Hagerstown and Washington County can be examined to determine the position of the Hagerstown market in a more global economy. Economic base is largely determined by the concentration of its workforce by industry type. This concentration can be measured by comparing workforce characteristics of a local economy to those of a reference economy such as the state and nation using the location quotient technique (LQ). LQs can be calculated for each workforce industry category to determine whether or not the local economy has a greater share of each industry than the reference economy.

When a local industry employs the same percentage locally as it does for the reference economy, the industry is considered to be self-sufficient and the area neither imports nor exports goods or services of that industry. The LQ value is 1.0. When the LQ of an industry is less than 1.0, the local economy must import a portion of goods and services of that industry. If the LQ for an industry is 0.0, all of the consumed product or service must be imported. If the local economy's share is greater than the reference economy's for a certain industry, the industry has an LQ value greater than 1.0, and the goods and services produced are assumed to be exported from the region. This sale of goods and services to other areas generates income for the local economy. For this exercise, we compared the employment industry categories for both the City of Hagerstown and Washington County to the State of Maryland as well as the United States.

The LQ for the City of Hagerstown compared to the State of Maryland in 2011 indicates that several of the City's top employment categories - specifically Public Administration, Health Care and Social Assistance, and Retail Trade - were its largest exporters of goods and services in 2011 (see **Table 10**. It should be noted, however, that Retail Trade in the City of Hagerstown experienced a loss in employment between 2006 and 2011, as did Manufacturing.

Table 10. Concentration of the City of Hagerstown Industries Compared to the State, 2011

NAICS Industry Sector	Hagerstown		Maryland		Location Quotient
	Employment	% of Total	Employment	% of Total	
Public Administration	9,899	29.0%	212,494	8.7%	3.35
Health Care and Social Assistance	5,890	17.3%	338,846	13.8%	1.25
Manufacturing	1,707	5.0%	116,333	4.7%	1.06
Retail Trade	3,945	11.6%	280,410	11.4%	1.01
Accommodation and Food Services	2,373	7.0%	193,428	7.9%	0.88
Information	558	1.6%	50,082	2.0%	0.80
Finance and Insurance	1,058	3.1%	97,629	4.0%	0.78
Educational Services	2,748	8.1%	274,481	11.2%	0.72
Administrative and Support and Waste Management	1,406	4.1%	145,996	5.9%	0.69
Arts, Entertainment, and Recreation	338	1.0%	35,803	1.5%	0.68
Transportation and Warehousing	585	1.7%	75,129	3.1%	0.56
Other Services (excluding Public Admin.)	659	1.9%	89,951	3.7%	0.53
Wholesale Trade	642	1.9%	88,253	3.6%	0.52
Construction	746	2.2%	136,986	5.6%	0.39
Real Estate and Rental and Leasing	229	0.7%	42,735	1.7%	0.39
Professional, Scientific, and Technical Services	1,199	3.5%	236,987	9.7%	0.36
Utilities	41	0.1%	10,137	0.4%	0.29
Management of Companies and Enterprises	59	0.2%	21,385	0.9%	0.20
Agriculture, Forestry, Fishing/Hunting	5	0.0%	5,395	0.2%	0.07
Mining, Quarrying, Oil/Gas Extraction	0	0.0%	1,595	0.1%	0.00

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Compared to the United States, the City of Hagerstown had a similar LQ pattern as it did to the State of Maryland in 2011 (see **Table 11**). However, in this case, all four industries with LQs greater than 1.0 were the City's top industries by employment.

Table 11. Concentration of the City of Hagerstown Industries Compared to the Nation, 2011

NAICS Industry Sector	Hagerstown		United States		Location Quotient
	Employment	% of Total	Employment	% of Total	
Educational Services	2,748	8.1%	3,386,047	2.5%	3.20
Public Administration	9,899	29.0%	21,201,694	15.8%	1.84
Health Care and Social Assistance	5,890	17.3%	18,059,112	13.4%	1.29
Retail Trade	3,945	11.6%	14,698,563	10.9%	1.06
Accommodation and Food Services	2,373	7.0%	11,556,285	8.6%	0.81
Finance and Insurance	1,058	3.1%	5,886,602	4.4%	0.71
Information	558	1.6%	3,121,317	2.3%	0.71
Arts, Entertainment, and Recreation	338	1.0%	2,003,129	1.5%	0.67
Manufacturing	1,707	5.0%	10,984,361	8.2%	0.61
Professional, Scientific, and Technical Services	1,199	3.5%	7,929,910	5.9%	0.60
Administrative and Support and Waste Management	1,406	4.1%	9,389,950	7.0%	0.59
Construction	746	2.2%	5,190,921	3.9%	0.57
Transportation and Warehousing	585	1.7%	4,106,359	3.1%	0.56
Other Services (excluding Public Admin.)	659	1.9%	5,181,801	3.8%	0.50
Real Estate and Rental and Leasing	229	0.7%	1,917,640	1.4%	0.47
Wholesale Trade	642	1.9%	5,626,328	4.2%	0.45
Utilities	41	0.1%	639,795	0.5%	0.25
Agriculture, Forestry, Fishing/Hunting	5	0.0%	156,520	0.1%	0.13
Management of Companies and Enterprises	59	0.2%	2,921,669	2.2%	0.08
Mining, Quarrying, Oil/Gas Extraction	0	0.0%	651,204	0.5%	0.00

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The Location Quotient of Washington County industries was identified as well (see **Table 12**).

Table 12. Concentration of Washington County Industries Compared to the State, 2011

NAICS Industry Sector	Washington County		Maryland		Location Quotient
	Employment	% of Total	Employment	% of Total	
Finance and Insurance	5,743	8.1%	97,629	4.0%	2.02
Manufacturing	6,162	8.6%	116,333	4.7%	1.82
Public Administration	11,197	15.7%	212,494	8.7%	1.81
Transportation and Warehousing	3,818	5.4%	75,129	3.1%	1.75
Mining, Quarrying, Oil/Gas Extraction	63	0.1%	1,595	0.1%	1.36
Retail Trade	9,820	13.8%	280,410	11.4%	1.20
Health Care and Social Assistance	9,845	13.8%	338,846	13.8%	1.00
Utilities	293	0.4%	10,137	0.4%	0.99
Accommodation and Food Services	5,156	7.2%	193,428	7.9%	0.92
Wholesale Trade	2,123	3.0%	88,253	3.6%	0.83
Arts, Entertainment, and Recreation	801	1.1%	35,803	1.5%	0.77
Construction	2,870	4.0%	136,986	5.6%	0.72
Information	980	1.4%	50,082	2.0%	0.67
Educational Services	5,351	7.5%	274,481	11.2%	0.67
Other Services (excluding Public Admin.)	1,637	2.3%	89,951	3.7%	0.63
Management of Companies and Enterprises	357	0.5%	21,385	0.9%	0.57
Administrative and Support and Waste Management	2,309	3.2%	145,996	5.9%	0.54
Real Estate and Rental and Leasing	529	0.7%	42,735	1.7%	0.43
Agriculture, Forestry, Fishing/Hunting	60	0.1%	5,395	0.2%	0.38
Professional, Scientific, and Technical Services	2,219	3.1%	236,987	9.7%	0.32

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In this comparison, there were seven industries with LQs above 1.0 in 2011. These include the County's largest employers - Public Administration, Retail Trade, Manufacturing, Finance and Insurance, and Health Care and Social Assistance. Each of these industries grew in Washington County between 2006 and 2011 except for Manufacturing. Finance and Insurance, with the highest LQ, experienced the largest increase in number of jobs.

Finally, the County was compared to the United States to identify the LQs of its industries (see **Table 13**). This comparison yields eight industries with LQs equal to or greater than 1.0. Six of the eight industries were the County's largest employers in 2011. Each experienced an increase in number of jobs from 2006 to 2011 except for Construction and Manufacturing.

Table 13. Concentration of Washington County Industries Compared to the Nation, 2011

NAICS Industry Sector	Washington County		United States		Location
	Employment	% of Total	Employment	% of Total	Quotient
Educational Services	5,351	7.5%	3,386,047	2.5%	2.98
Finance and Insurance	5,743	8.1%	5,886,602	4.4%	1.84
Transportation and Warehousing	3,818	5.4%	4,106,359	3.1%	1.75
Retail Trade	9,820	13.8%	14,698,563	10.9%	1.26
Manufacturing	6,162	8.6%	10,984,361	8.2%	1.06
Construction	2,870	4.0%	5,190,921	3.9%	1.04
Health Care and Social Assistance	9,845	13.8%	18,059,112	13.4%	1.03
Public Administration	11,197	15.7%	21,201,694	15.8%	1.00
Utilities	293	0.4%	639,795	0.5%	0.86
Accommodation and Food Services	5,156	7.2%	11,556,285	8.6%	0.84
Arts, Entertainment, and Recreation	801	1.1%	2,003,129	1.5%	0.75
Agriculture, Forestry, Fishing/Hunting	60	0.1%	156,520	0.1%	0.72
Wholesale Trade	2,123	3.0%	5,626,328	4.2%	0.71
Other Services (excluding Public Admin.)	1,637	2.3%	5,181,801	3.8%	0.60
Information	980	1.4%	3,121,317	2.3%	0.59
Professional, Scientific, and Technical Services	2,219	3.1%	7,929,910	5.9%	0.53
Real Estate and Rental and Leasing	529	0.7%	1,917,640	1.4%	0.52
Administrative and Support and Waste Management	2,309	3.2%	9,389,950	7.0%	0.46
Management of Companies and Enterprises	357	0.5%	2,921,669	2.2%	0.23
Mining, Quarrying, Oil/Gas Extraction	63	0.1%	651,204	0.5%	0.18

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