

RENWICK COMPOUND

FREDERICKSBURG, VIRGINIA

MARKETING AND ARCHITECTURAL FEASIBILITY STUDY



Fredericksburg, Virginia
MAIN STREET INC.



RENWICK COMPOUND MARKETING AND ARCHITECTURAL FEASIBILITY STUDY

For:
FREDERICKSBURG MAIN STREET

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EXECUTIVE SUMMARY

Frazier Associates, a Staunton-based architecture firm and the Community Land Use + Economics Group, an Arlington-based downtown economic development firm were retained by the Fredericksburg Main Street Program to explore use options for the Renwick Complex on Princess Anne Street in downtown Fredericksburg. The complex served as the local court facility since its construction in 1852 until the new courthouse was completed and the facility was vacated in 2014.

The complex includes three buildings: The Renwick building built in 1851, the Wallace Library built in 1910 and the Old Jail, built in 1928. The buildings together include over 20,000 square feet of floor space. Commonwealth Architects completed a detailed historic structures report (HSR) on the site and the buildings in 2016 and this feasibility study builds on their work. The Executive Summary from the HSR is included as an appendix to this report.

A large part of this study includes a market analysis prepared by Kennedy Smith of the CLUE Group. Based on the potential uses that could be supported by the market, design options with cost estimates were prepared and fed back to Ms. Smith in order to run an operational analysis of the uses.

The options and the financial analysis was delivered to Fredericksburg Main Street in order to vet the options with the City. Based on review, it was decided that the boutique hotel option would be explored in more detail.

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INFORMATION GATHERING I.

A. MARKET ASSESSMENT

The City would like to find new uses for the three buildings. Doing so involves answering several key questions:

- What new uses might downtown Fredericksburg be able to support?
- Might any of these potential uses be a good fit for the Renwick Compound, given its size, location, and physical/design characteristics?
- Are there any particular uses to which the buildings' design characteristics lend them?
- Might different uses require different levels of building rehabilitation? For which potential uses might rehabilitation be most affordable?
- Of the potential uses for which there appears to be sufficient market demand and for which the buildings might be a good fit, which have the greatest likelihood of generating enough income to cover the buildings' rehabilitation costs?

This overview summarizes our research on potential market opportunities for downtown Fredericksburg and, in particular, for the Renwick Compound. Our core research included several components:

- An inventory and analysis of business entities (including nonprofit and government entities) within a half-mile radius of the intersection of George and Princess Anne Streets;
- Retail sales void analyses for Fredericksburg and the areas within 5-, 10-, and 15-minute drive times of the intersection of George and Princess Anne Streets;
- An examination of major demographic characteristics of residents of Fredericksburg and adjacent Spotsylvania and Stafford Counties that typically influence consumers' shopping decisions, such as household income, household size, age, and education;
- An analysis of the psychographic characteristics of Fredericksburg's and Stafford County's residents, providing important insights into likely consumer preferences;
- An inventory of prevailing rents for downtown commercial space and of recent commercial property sales transactions;
- An inventory of performance venues and event venues in Fredericksburg;
- An inventory of transient lodging facilities in Fredericksburg (hotels/motels, B&Bs, Airbnb/VRBO rooms);
- An estimate of the retail buying power of Fredericksburg-area residents, downtown workers, and visitors for a variety of products and services;

- An examination of vehicular traffic counts through downtown Fredericksburg;
- Pedestrian traffic counts at the Renwick Compound and at the corner of George and Caroline Streets; and
- Interviews (by phone or email) with a dozen people with particular insights into leasing commercial space and/or operating specific types of business activities (such as event venues) in Fredericksburg.

We also reviewed and incorporated information from a number of recent studies. For instance, as part of the process of developing its 2016 historic structures report, Commonwealth Architects conducted an online survey, promoted through the City's website, asking for thoughts about the Renwick Complex, the three buildings' significance, and their potential futures. Only 48 people responded to the survey – but most of them provided in-depth comments, many of which were helpful in our research. We also examined the first two of 10 Small Area Plans being prepared for the City's Community Planning and Building Department. And, we reviewed current planning documents, particularly the City of Fredericksburg's 2017 Economic Development Strategic Plan.

Our assignment overlapped with a citywide market study conducted by StreetSense to supplement the City's Comprehensive Plan and support other City initiatives, including its Economic Development and Tourism Strategic Plan. Some of our research overlapped, although ours focuses primarily on downtown Fredericksburg.

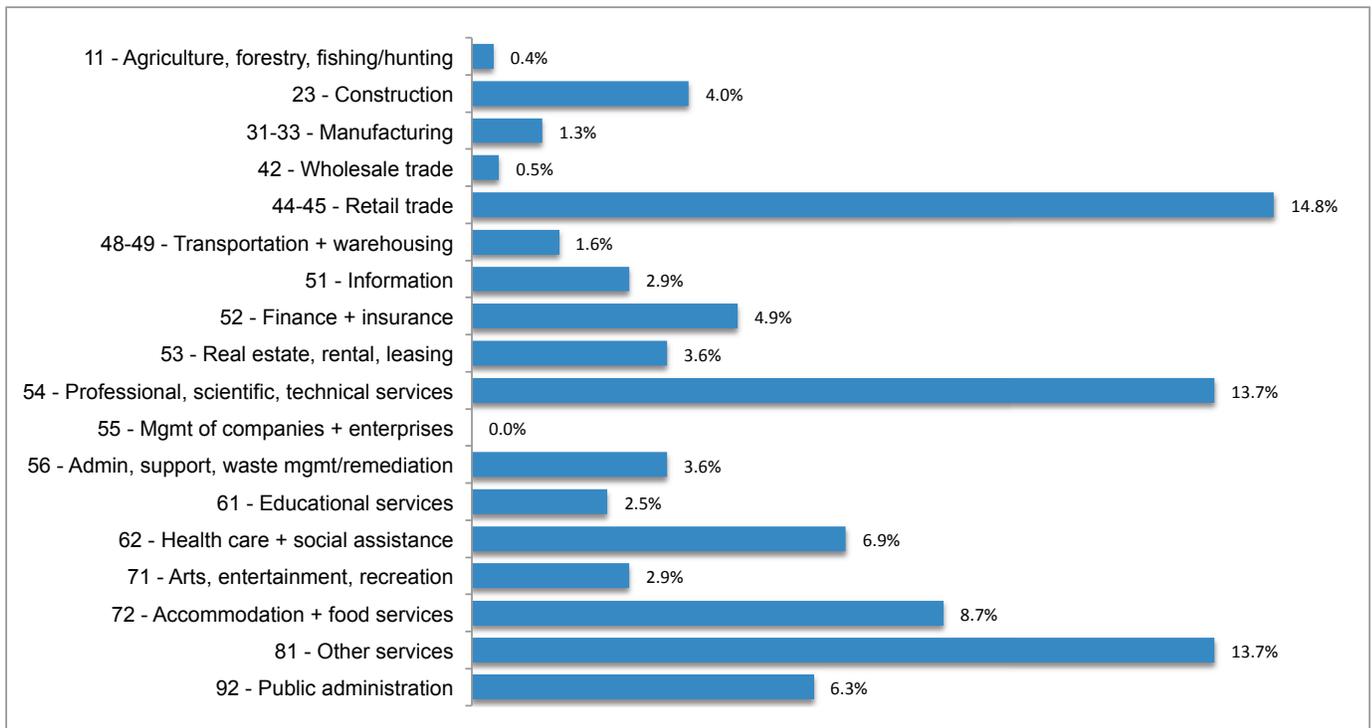
FREDERICKSBURG BUSINESS COMPOSITION

We began by compiling an inventory of businesses within one-half mile of the intersection of George and Princess Anne Streets, categorizing them by their two-digit North American Industry Classification System (NAICS) category number (see chart below).

We found that the distribution of businesses, by NAICS code, is more or less within the typical range of most older downtowns. Retail businesses account for 14.8 percent of all the businesses in the half-mile radius, which is on par with other high-performing older and historic downtowns (the national norm is 15-17 percent). The percentage of businesses in the “accommodation and food services” category – restaurants and hotels – is a healthy 8.7 percent (5-7 percent is the norm). But the half-mile radius has a range of industry and service-sector businesses, including construction businesses (four percent); professional, scientific, and technical services (13.7 percent); and “other services” (also 13.7 percent), which includes services not included in other NAICS categories, such as nonprofit organizations (religious, advocacy, grant making), equipment repair, funeral services, pet care services, dating services, and other various services.

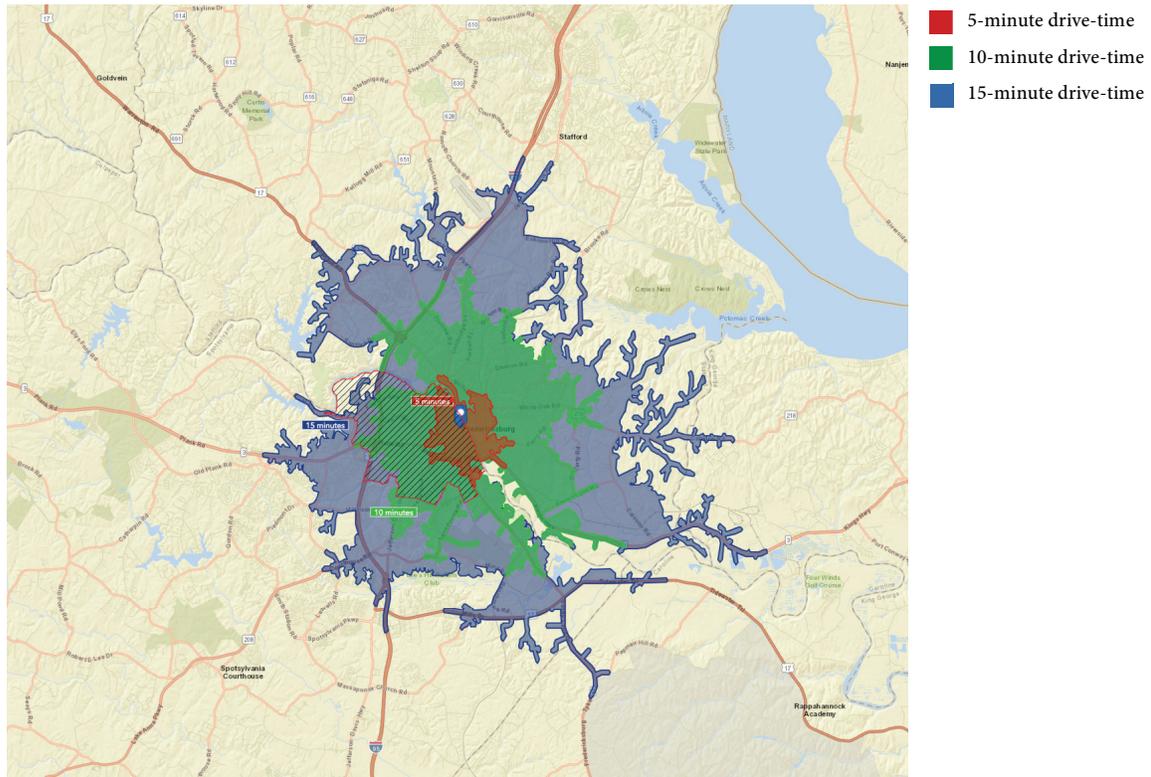
Together, the businesses within this half-mile radius employ roughly 2,250 people. Conservatively assuming that 80 percent of these workers represent unique households and that their average household size is equivalent to those in Fredericksburg as a whole, these 2,250 workers represent approximately 735 households. And, assuming these households’ purchasing power is equivalent to those in the city as a whole, they represent approximately \$17.2 million in annual retail buying power.

Business distribution, ½ mile radius from the Renwick Compound



Source: ESRI

Drive-times from the Renwick Compound



RETAIL SALES VOID ANALYSIS

Using data from ESRI, a private-sector geospatial data provider, we compiled sales void analyses for Fredericksburg and for the areas within a five-, ten-, and 15-minute drive-time from the intersection of George and Princess Anne Streets (see map above and tables next page).

Sales void analyses compare the sales volume that businesses within a given area are capturing with the amount of money that households living within that area are likely spending, somewhere, based on their income levels and other demographic characteristics. If the resulting sales gap (also called a sales void) is positive, it generally suggests that the area is attracting outside shoppers. If the resulting sales gap is negative, it suggests that area residents are making some of their purchases elsewhere and that their out-of-the-jurisdiction shopping is not being offset by sales the area's businesses are making to customers who live outside the area.

A sales leakage in a particular store category might represent an opportunity to recapture sales (by adding new merchandise to existing businesses or opening new businesses, for example). But sometimes doing so might be challenging. For instance, there might be a very strong competitor in a nearby community. Or, there might be preferences or cultural characteristics unique to the community that could make doing so impractical (e.g., a community with a strong tradition of home gardening might not spend as much money on groceries as another community with comparable demographic characteristics). And, while a sales surplus in a store category might mean that a community has absorbed all available sales in that category, it might suggest that the community has become a regional magnet and can actually absorb even more, building on its surplus.

Retail sales void analysis for the area within a five-minute drive-time from the Renwick Compound

NAICS	Store category	Actual sales	Market demand	Void
441	Motor vehicle + parts dealers	\$ 22,119,000	28,952,000	(6,833,000)
442	Furniture + home furnishings stores	9,194,000	5,129,000	4,065,000
443	Electronics + appliance stores	3,198,000	4,479,000	(1,281,000)
444	Building materials, garden equipment + supply stores	12,433,000	8,221,000	4,212,000
445	Food + beverage stores	14,740,000	24,805,000	(10,065,000)
446	Health + personal care stores	18,286,000	8,146,000	10,140,000
447	Gasoline stations	12,761,000	13,909,000	(1,148,000)
448	Clothing + clothing accessories stores	9,215,000	6,946,000	2,269,000
451	Sporting goods, hobby, book, music stores	8,910,000	3,754,000	5,156,000
452	General merchandise stores	3,916,000	24,939,000	(21,023,000)
453	Miscellaneous store retailers	15,216,000	5,055,000	10,161,000
454	Nonstore retailers	8,056,000	2,589,000	5,467,000
722	Food services + drinking places	30,566,000	14,994,000	15,572,000
	Total	168,610,000	151,918,000	16,692,000

Retail sales void analysis for the area within a ten-minute drive-time from the Renwick Compound

NAICS	Store category	Actual sales	Market demand	Void
441	Motor vehicle + parts dealers	\$ 266,054,000	153,501,000	112,553,000
442	Furniture + home furnishings stores	25,271,000	27,649,000	(2,378,000)
443	Electronics + appliance stores	9,865,000	23,686,000	(13,821,000)
444	Building materials, garden equipment + supply stores	83,113,000	46,931,000	36,182,000
445	Food + beverage stores	133,984,000	128,527,000	5,457,000
446	Health + personal care stores	67,073,000	42,680,000	24,393,000
447	Gasoline stations	76,731,000	71,903,000	4,828,000
448	Clothing + clothing accessories stores	19,630,000	36,887,000	(17,257,000)
451	Sporting goods, hobby, book, music stores	28,034,000	19,973,000	8,061,000
452	General merchandise stores	53,932,000	131,165,000	(77,233,000)
453	Miscellaneous store retailers	35,734,000	26,464,000	9,270,000
454	Nonstore retailers	25,088,000	13,602,000	11,486,000
722	Food services + drinking places	85,815,000	79,261,000	6,554,000
	Total	910,324,000	802,229,000	108,095,000

Retail sales void analysis for the area within a 15-minute drive-time from the Renwick Compound

NAICS	Store category	Actual sales	Market demand	Void
441	Motor vehicle + parts dealers	\$ 912,275,000	268,747,000	643,528,000
442	Furniture + home furnishings stores	132,115,000	48,407,000	83,708,000
443	Electronics + appliance stores	38,056,000	41,410,000	(3,354,000)
444	Building materials, garden equipment + supply stores	257,115,000	82,701,000	174,414,000
445	Food + beverage stores	335,666,000	224,167,000	111,499,000
446	Health + personal care stores	127,541,000	74,700,000	52,841,000
447	Gasoline stations	157,026,000	125,687,000	31,339,000
448	Clothing + clothing accessories stores	137,128,000	64,318,000	72,810,000
451	Sporting goods, hobby, book, music stores	84,344,000	34,863,000	49,481,000
452	General merchandise stores	734,076,000	228,888,000	505,188,000
453	Miscellaneous store retailers	71,932,000	46,194,000	25,738,000
454	Nonstore retailers	27,357,000	23,712,000	3,645,000
722	Food services + drinking places	276,747,000	138,326,000	138,421,000
	Total	3,291,378,000	1,402,120,000	1,889,258,000

Retail sales void analysis for the City of Fredericksburg

NAICS	Store category	Actual sales	Market demand	Void
441	Motor vehicle + parts dealers	\$ 139,846,000	71,593,000	68,253,000
442	Furniture + home furnishings stores	28,649,000	12,645,000	16,004,000
443	Electronics + appliance stores	28,732,000	11,059,000	17,673,000
444	Building materials, garden equipment + supply stores	60,889,000	19,751,000	41,138,000
445	Food + beverage stores	135,473,000	61,619,000	73,854,000
446	Health + personal care stores	38,924,000	19,802,000	19,122,000
447	Gasoline stations	71,130,000	34,512,000	36,618,000
448	Clothing + clothing accessories stores	49,659,000	17,325,000	32,334,000
451	Sporting goods, hobby, book, music stores	37,378,000	9,343,000	28,035,000
452	General merchandise stores	191,631,000	61,961,000	129,670,000
453	Miscellaneous store retailers [see note below]	47,044,000	12,386,000	34,658,000
454	Nonstore retailers [see note below]	19,330,000	6,350,000	12,980,000
722	Food services + drinking places	144,251,000	37,413,000	106,838,000
	Total	992,936,000	375,759,000	617,177,000

SOURCES: ESRI, CLUE Group

NOTE: “Miscellaneous store retailers” includes retail stores that do not fall into any of the other major store categories, such as office stores, gift stores, florists, used merchandise stores, and pet supply stores. “Nonstore retailers” includes retail businesses that operate retail space *per se*, such as door-to-door sales businesses, food carts, online retailers, and home heating oil dealers.

As recently as just a few years ago, sales void analyses were widely used to estimate the amount of new retail square footage a community could, theoretically, support. But, for a variety of reasons, this is no longer considered as reliable or responsible a practice. Internet shopping, in particular, has changed how, where, and when people shop. Five years ago, it might have been reasonable to assume that a community could absorb all or part of the sales leakages it was experiencing by adding new products to existing businesses or by developing new businesses offering the things for which people were shopping out of town. But the variety of products and services available online now, and the convenience that online shopping offers, means that some percentage of a community’s retail buying power will be spent online. The impact of online shopping is less significant in the handful of place-dependent retail categories for which people must shop locally, like gasoline, dining, and groceries. But almost all other categories are affected. Shoppers are even increasingly buying convenience items online; batteries and diapers were among the top items purchased from Amazon in January 2018.

For purposes of retail development, sales void analysis remains an invaluable tool for identifying sales leakages and surpluses and for understanding their likely magnitude. But, except for those few place-dependent categories, it is much less reliable now as a tool for estimating the amount of new retail square footage a community can likely support.

There is, however, a positive flip side to internet shopping: Downtown businesses can now find and sell things to customers throughout the world. This is a profound and important shift. In essence, it means that entrepreneurs with solid online marketing strategies can potentially thrive in any downtown. Local market demand is no longer required. Online sales, as well as sales through other channels, can be a game-changer for downtown businesses.

We found that Fredericksburg has a sales surplus of approximately \$617.2 million – meaning that Fredericksburg’s retail businesses are generating \$617.2 million more in retail sales than Fredericksburg residents alone are likely spending. Given that Fredericksburg residents shop outside the city (including shopping online) for some things, the city is likely attracting more than \$617.2 million in non-resident purchases. Somewhat remarkably, there are no sales leakages in any store category; every single store category has a sales surplus.

However, while the area within a five-minute drive time of the Renwick Compound has an overall retail sales surplus of \$16.7 million, this area has sales leakages in several retail store categories:

- Motor vehicle and parts dealers
- Electronics and appliance stores
- Food and beverage stores (grocery stores)
- Gasoline stations
- General merchandise stores

Given that this five-minute drive time area consists of the central business district and neighborhoods close to it, it is not surprising that it lacks motor vehicle dealers, gasoline stations, food/beverage stores, or general merchandise stores, which require either a large parcel of land or substantial drive-by traffic, or both. It is also not surprising that the five-minute drive time area lacks electronics and appliance stores; due to the dominance of online retailers and big-box stores (categorized as “general merchandise stores”, nearly every city in the US now has a leakage in this store category.

Not surprisingly, given the number of restaurants in downtown Fredericksburg, the five-mile drive time area has a \$15.6 million surplus in the “food services and drinking places” store category (restaurants and bars).

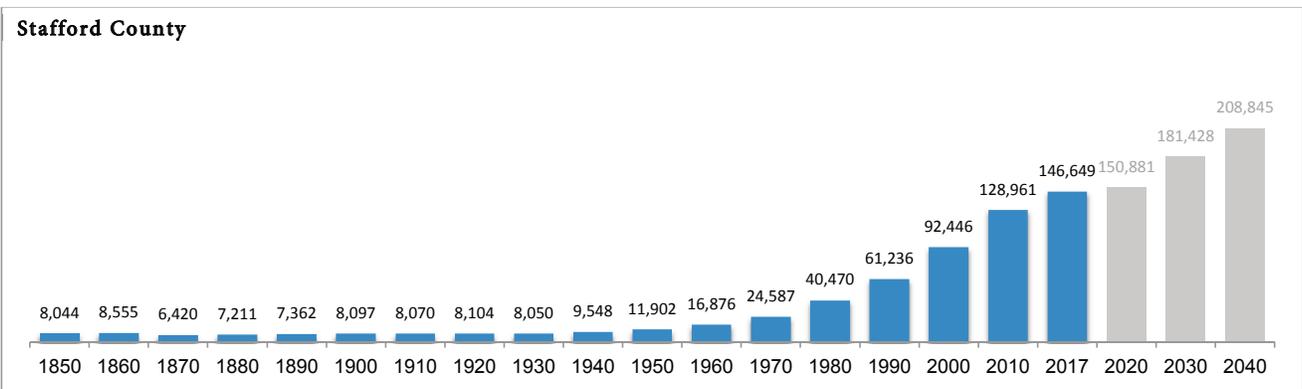
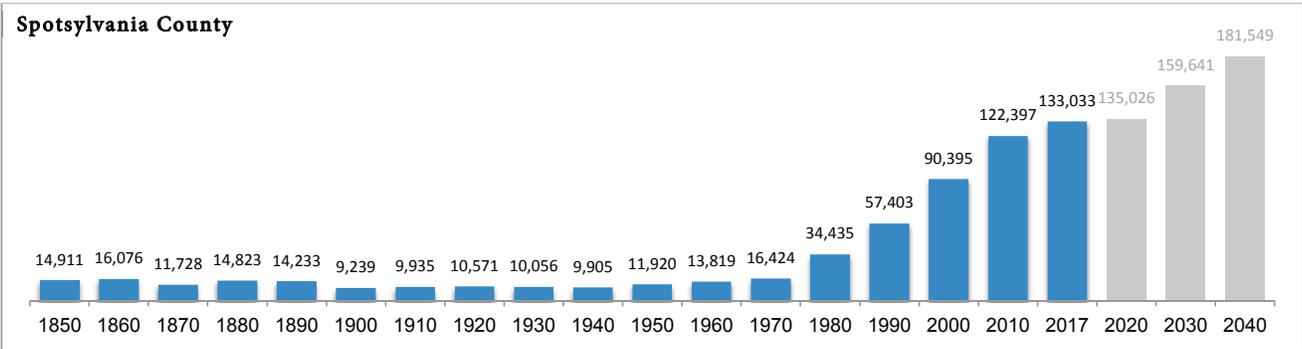
DEMOGRAPHIC + PSYCHOGRAPHIC CHARACTERISTICS

We examined data from the current and recent Censuses of Population and from the US Census Bureau's American Community Survey to identify trends and patterns in key demographic characteristics of Fredericksburg and regional residents.

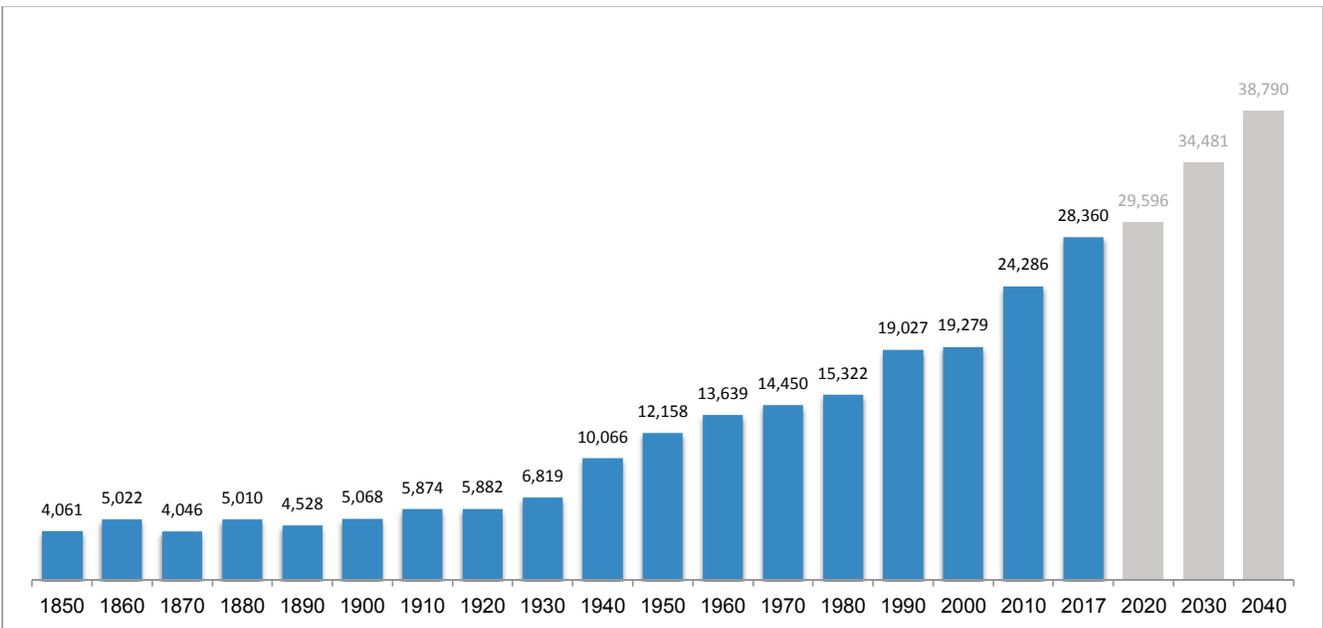
Perhaps the most significant demographic characteristic, in terms of predicting future demand for retail goods and services, dining, entertainment, and transient lodging is simply that Fredericksburg and both of the counties that border it – Spotsylvania and Stafford – are growing at healthy rates (see chart next page). Fredericksburg's population has grown by 47.1 percent since 2000. Spotsylvania County has grown by roughly the same percentage, increasing from 90,395 residents in 2000 to 133,033 in 2017. And Stafford County has grown at an even faster clip, with a 58.6 percent increase since 2000 (from 92,446 to 146,649 residents). Based on the average incomes of households in the three jurisdictions, every new household moving to the area brings with it roughly \$13,200 in new retail buying power (not including automotive vehicles). So, as the city and region continue to grow, retail demand will continue to grow, also, making it theoretically possible to support more businesses and community activities.

Other demographic trends worth noting:

- The median household incomes of Fredericksburg and neighboring counties is growing. In Fredericksburg, median household income grew from \$43,558 in 2010 to \$57,258 in 2017, a 31.4 percent increase. Spotsylvania and Stafford Counties experienced more modest increases in median household income over that period of time (6.3 percent and 10.7 percent, respectively).
- The unemployment rate in Fredericksburg has dropped from 10.3 percent in 2010 to 3.8 percent in 2017.
- Education and health care are the industry sectors employing the largest number of Fredericksburg's working residents, but the retail trade industry saw the largest increase in employment – 155 percent - between 2010-2017. Employment in professional services businesses (law, architecture, engineering, etc.) and in finance, insurance, and real estate businesses has also experienced significant growth, increasing by 55.2 percent and 87.7 percent, respectively.
- The number of Fredericksburg residents working in home-based businesses increased by an astonishing 302 percent between 2010-2017. This reflects a national trend; after the Great Recession of the late 2000s, many people launched home-based businesses, and a sizable number of Millennials have gravitated to 'gig-economy' jobs with location flexibility. Even so, the number of US residents working from home grew by only 22.0 percent from 2010-2017, with a 21.3 percent increase among Virginia residents – growth that pales in comparison to Fredericksburg's hefty 302 percent increase. Spotsylvania and Stafford Counties also outpaced the nation and Commonwealth in growth in home-based workers (49.7 percent and 33.0 percent, respectively).



Sources: US Census Bureau’s decennial censuses (1850-2010) and 2017 American Community Survey
Fredericksburg’s population, 1850-2017, with projections through 2040



Sources: US Census Bureau’s decennial censuses (1850-2010) and 2017 American Community Survey; Demographics Research Group | Weldon Cooper Center for Public Service at the University of Virginia (2020-2040 population projections).

To better understand some of the general lifestyle characteristics and consumer preferences of residents of Fredericksburg and in neighboring Spotsylvania and Stafford Counties, we used data from ESRI, a private-sector geospatial information provider. ESRI has developed a proprietary classification system, called Tapestry, to classify residential neighborhoods in the US into 14 major “LifeMode” groups, then into 67 more detailed segments, or subgroups, based on demographic and socioeconomic characteristics. It then identifies concentrations, or clusters, of individuals and households throughout the US according to these characteristics. ESRI uses information from almost 6,000 sources to develop its segments and to identify clusters throughout the US. Its sources include data about magazine and newspaper subscriptions, TV watching and radio listening by program and channel, and internet usage, as well as Census information and direct consumer surveys .

ESRI’s Tapestry database has been used by the National Weather Service to predict the locations of potentially vulnerable neighborhoods before hurricanes strike, by political candidates to select locations for campaign events – and, of course, by countless product marketers to design products, create advertising campaigns, and choose store locations. For the purposes of downtown revitalization, Tapestry data can be useful in helping civic leaders and landlords make decisions about the types of businesses to develop or recruit, in helping retail business owners make decisions about the types and price points of merchandise to carry, and in helping create marketing and promotional events for the district.

In brief, ESRI has identified clusters in Fredericksburg in six of its 14 LifeMode groups:

- Upscale Avenues
- GenXurban
- Middle Ground
- Midtown Singles
- Hometown
- Scholars and Patriots

More than two-thirds of Fredericksburg’s households fall into just two of these six LifeMode groups: 41.7 percent fall into its “Middle Ground” category, and 31.4 percent fall into “Midtown Singles”. By comparison, just 10.6 and 6.2 percent of US households, respectively, fall into these two LifeMode groups. This is a remarkable degree of psychographic homogeneity.

ESRI describes “Middle Ground“ residents as thirtysomething Millennials in the middle of transformation – some are still single, while others are married; some are renters, while others have bought homes; some are working class, some are middle class. The majority have attended college or have a college degree. They spend lots of time online, using the internet for entertainment, social media, shopping, and news, and have ditched their landlines for cellphones. Their leisure activities focus on night-life (clubs, movies), going to the beach, hiking, and traveling.

ESRI describes “Midtown Singles“ as Millennials on the move – single, diverse, and urban. As with members of the “Middle Ground“ psychographic segment, “Midtown Singles“ embrace the internet and use it extensively for keeping in touch, entertainment, shopping, and news. They are more likely than “Middle Ground“ residents to work in service or unskilled positions, though, and tend to live paycheck-to-paycheck. They are brand-savvy shoppers who seek out budget-friendly stores.

INVENTORY OF PERFORMANCE + EVENT VENUES

We conducted an inventory of performance venues in and around Fredericksburg. We identified dozens of places where performances take place – but the overwhelming majority of them are restaurants that provide (usually) free musical entertainment on a casual or regular schedule. Of the true performance venues in Fredericksburg and environs, we found only half a dozen:

- Marks & Harrison Amphitheater (5030 Gordon W. Shelton Boulevard) is an open-air stage with approximately 1800 covered seats, plus general admission seating for several thousand people on the grassy lawn outside the tented auditorium. It is home to “Celebrate Virginia After Hours”, whose recent bookings have included Boys II Men, The Beach Boys, and Alabama.
- The Central Rappahannock Regional Library’s Fredericksburg Branch (1201 Caroline Street) contains a 165-seat theatre.
- There are several theatres and assembly spaces belonging to the University of Mary Washington:
 - Dodd Auditorium, the University’s largest venue, has 1,237 fixed seats on two levels (orchestra and balcony). It hosts numerous University-related events annually and therefore is available for rent only during spring break and from mid-May to July. A one-day rental is \$3,500, with additional fees for rehearsals, additional performances, and additional labor.
 - Klein Theatre has 233 seats.
 - Studio 115 is a black-box theatre seating up to 32 people.
 - The Hurley Convergence Center’s Digital Auditorium is an open, flexible space that can seat 150 people (or accommodate 300 standing people).

We also found several spaces that, while primarily venues for special events, occasionally host musical and/or dramatic performances:

- music and spirits (2215 Plank Road), housed in the A. Smith Bowman Distillery, hosts occasional performances produced by Keep the Music Playing, a local nonprofit organization dedicated to American music genres (bluegrass, blues, country, folk, jazz, old time). It has not hosted a performance since 2016.
- Riverside Center for the Performing Arts (95 Riverside Parkway), which opened in 1998, hosts a variety of musical and dramatic performances. It seats approximately 400 people and offers meals during performances. It also contains 7,500 square feet of meeting space.
- Fredericksburg Square (525 Caroline Street) is an event venue for weddings, business events, and private celebrations, housed in a historic mansion in downtown Fredericksburg. It is occasionally used for music events, seating a maximum of 150 people in its garden.
- The Venue (454 Cambridge Street), a downtown event center with a 2,500 square foot ballroom that could accommodate a 160-person audience, closed in November 2017.

(cont)

- KC's Music Alley (1917 Princess Anne Street) offers occasional performances, primarily by metal and punk musicians.
- Fred's Theatre (810 Caroline Street, 3rd floor) describes itself as "a quirky black box-ish theater home to Fredericksburg Theatre Ensemble." FTE rents its space to others for private events and performances.
- Gari Melcher's Pavilion, which belongs to the University of Mary Washington, hosts occasional small musical performances (string quartets, etc.).

INVENTORY OF TRANSIENT LODGING FACILITIES

Drawing on data primarily from the Fredericksburg Convention and Visitors Bureau, augmented by phone calls to individual lodging facilities, we identified 3,869 hotel, motel, and B&B rooms within the city limits, plus another ten Airbnb rooms. We were not able to obtain data on the overall occupancy rate of the city's hotels, motels, and B&Bs, but confidential interviews with managers of six representative chain hotels suggest that occupancy was around 68.5 percent in 2017. This is roughly consistent with the national hotel occupancy rate – 65.9 percent – in 2017 (up from a 20-year low of 54.6 percent in 2009, at the height of the Great Recession).

In spite of the availability of nearly 4,000 hotel, motel, and B&B rooms in Fredericksburg (in essence, one room for every 7.28 Fredericksburg residents), two factors suggest that there could be sufficient demand for a downtown boutique hotel:

- With the exception of B&B and Airbnb rooms, virtually all of the transient lodging rooms available in Fredericksburg and the region are in national chain hotels, such as Best Western, Holiday Inn, or Marriott. So, while Fredericksburg and the region have an abundant supply of overnight lodging options, there is not much market diversity in what is available.
- Downtown Fredericksburg's one hotel, the Courtyard by Marriott, reported a 2017 occupancy rate of 77 percent to Fredericksburg Main Street, Inc., significantly greater than that of the city's likely overall hotel occupancy rate.

VEHICULAR + PEDESTRIAN TRAFFIC COUNTS

The Virginia Department of Transportation's 2017 summary of average daily traffic volumes throughout the Commonwealth reports that, that year, an average of 14,000 motor vehicles traveled on Caroline Street between William and Herndon Streets. The average annual daily traffic count is even higher on US Rt. 1/Business 17 (Jefferson Davis Blvd.), with 33,000 motor vehicles daily between Fall Hill Avenue and Princess Anne Street – not exactly downtown, but brushing against its northern edge.

On a July midday weekday visit, we counted the number of pedestrians passing through two intersections:

- George and Princess Anne Streets (the location of the Renwick Compound), 10:00-10:30am: 80 people
- George and Caroline Streets (10:30-11:00am): 424 people

This was a one-time measurement – but it was a sunny weekday, with no special event taking place, and therefore most likely typical of most weekdays in downtown Fredericksburg. The Caroline Street intersection had more than five times the pedestrian foot traffic than the Renwick Compound intersection.

COMMUNITY SURVEY CONDUCTED FOR THE 2016 HISTORIC STRUCTURES REPORT

As part of its 2016 historic structures report, Commonwealth Architects conducted a community survey, asking for input into preservation priorities and potential new uses for the Renwick complex.

The survey asked six questions:

1. There are a great many historic sites in Fredericksburg. Moving forward, what could be done at the Renwick Courthouse, Old Jail, and the Old Wallace Library to allow it to stand out more prominently in Fredericksburg?
2. Do you have any suggestions or comments about any aspect of the Renwick Courthouse, Old Jail, and the Old Wallace Library?
3. What are the most important, character-defining characteristics of the Renwick Courthouse, Old Jail, and the Old Wallace Library that you would like to see retained and preserved?
4. What advice would you offer the City of Fredericksburg as it looks to the future of the Renwick Courthouse, Old Jail, and the Old Wallace Library?
5. Do you have any memories of the library, the jail, or the courthouse that you would like to share?
6. Do you have any additional information regarding the Renwick Courthouse, Old Jail, and the Old Wallace Library that you would like to share with us?

Only 48 people responded to the survey, and respondents were self-selecting, so their responses cannot be interpreted to represent opinions of the overall community. Nonetheless, some consistent themes emerged from the responses. Among the major threads:

- The top challenges facing the Renwick complex are preserving historic integrity and connecting the complex to the rest of downtown Fredericksburg.
- Regardless of whether the buildings are used for public- or private-sector purposes, they should include exhibits explaining their significance to Fredericksburg's history.

FINDINGS + OBSERVATIONS

What does all this mean for Fredericksburg, and for downtown Fredericksburg, in particular? Several things:

- Fredericksburg's and the region's strong population growth means that, even though the retail industry is a little less robust nationally today than a decade ago, retail market demand within Fredericksburg is likely to continue growing. This likelihood is bolstered by drops in unemployment and growth in household income.
- Due to Fredericksburg's roles as a regional trade center, a college town, and a tourism destination, the city's retail sector is strong, attracting shoppers from outside its geographic boundaries in every retail store category.
- Downtown Fredericksburg has several thousand workers, providing a consistent captive customer base for downtown businesses. There are over 220 business entities within a half-mile radius of the George/Princess Ann intersection (including for-profit, nonprofit, and government entities), employing roughly 2,100 people. They and their households represent more than \$9 million in retail buying power, including \$1.3 million in buying power for restaurant meals and \$1.4 million for hobbies and entertainment. Their presence provides a small, but significant, captive workday market of potential customers.
- The amount of money that area residents spend on dining out and entertainment is growing. According to the Center for Economic Policy Studies at the University of Virginia's Weldon Cooper Center for Public Service, which tracks and publishes data on taxable sales in conjunction with the Virginia Department of Taxation, overall taxable restaurant sales grew by 8.2 percent between 2014–2016. Of course, the city's population grew during this period of time, and the number of Fredericksburg restaurants reporting taxable sales grew from 173 to 180. We therefore calculated sales per restaurant, then sales per restaurant per capita over that period of time – and found that, adjusting for population and business growth, Fredericksburg's restaurants captured 3.9 percent more in sales per resident in 2016 than in 2014.
- The Renwick Compound is off the beaten path. Footfall on William Street at Caroline is more than five times that at Princess Anne Street. Retail businesses almost always need strong street visibility, suggesting that the Renwick Compound might not be an ideal location for retail businesses.
- There are relatively few performance venues in Fredericksburg – and there is no full-blown theatre downtown. But the growth in the number of younger households suggests continued growth in market demand for entertainment.
- Although the City and region have lots of hotel rooms, there is little product diversity.

We concluded that there could be several viable uses for the Renwick Compound:

- A boutique hotel, with a full-service restaurant, meeting/event space, and meeting/event catering: Either the courtroom or the library could function as a restaurant, serving hotel guests and the general public, as well as providing catering services for meetings and events taking place at the hotel.
- A performance venue and event space: In this scenario, the courtroom would serve as a performance space and event space (meetings, weddings, special occasions), with ancillary space used for rehearsals, classes, workshops, storage, and other performance-related needs.
- Class A office space: Our conversations with several commercial real estate brokers, property owners, and developers confirmed that Class A office space is in demand. StreetSense's December 2018 citywide market study concluded that, although Fredericksburg's office market is still stabilizing after several years of somewhat high vacancy, only three percent of the city's office space is Class A space, which is generally the first to be absorbed. StreetSense's report also notes that professional office space is likely to be in greatest demand near municipal offices such as City Hall and the courts.
- Retail: Although retail dependent on street visibility would be a challenge, it is conceivable that, with aggressive marketing, careful merchandising, and good management, a specialized cluster of destination retail businesses could succeed (a design center, for example, offering a range of unique furniture and home furnishings products and home design services), most likely in tandem with a restaurant, workspace, and offices.

We previewed these options with the City's task force exploring options for the Renwick Compound, and the task force chose the first option – a boutique hotel – as its top choice.

B. Design Concepts and Relative Costs

Several concepts for the complex were generated based on market factors, the location of the property, the types of buildings on the site and input from the City of Fredericksburg and the Fredericksburg Main Street program. Using the state and federal historic tax credits was a consideration in the design and placed parameters on what could be altered to both the interior and exterior of the buildings and the site.

Options explored included a boutique hotel, a performance center, and an office complex. Very general construction costs were generated for each option along with a financial analysis of operating costs.

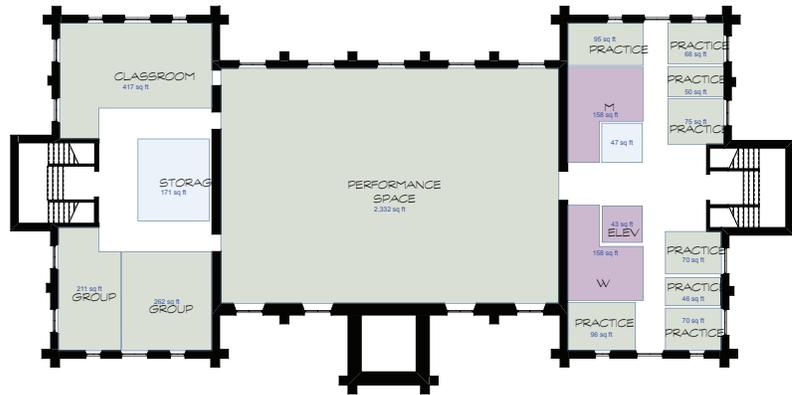
Based on this data, the City chose to move forward with the Boutique Hotel Option as the preferred option in order to have a more detailed design, cost and operational analysis. Plans and rehabilitation costs for the Boutique Hotel Option can be found in the Preferred Option section of this report.

The general construction cost estimates for the Performance Option and the Office Option are as follows:

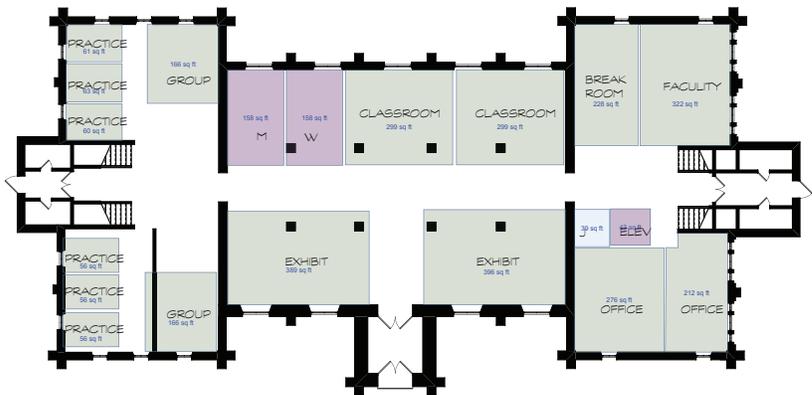
Performance Option: \$4.6 million

Office Option: \$4.8 million

PERFORMANCE FACILITY OPTION

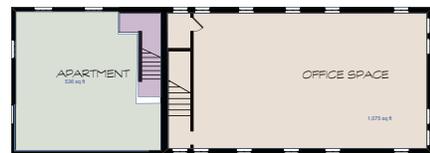
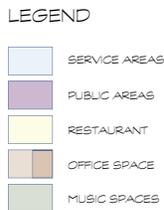


2 SECOND FLOOR - PERFORMANCE
SCALE: 1/16" = 1'-0"



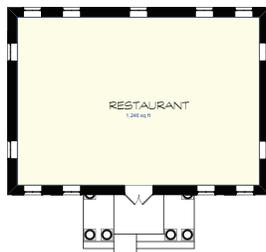
1 FIRST FLOOR - PERFORMANCE
SCALE: 1/16" = 1'-0"

Performance Use Option - Renwick Courthouse becomes performance space, classrooms, offices and exhibit space.



3 MUSIC APTS SECOND FLOOR
SCALE: 1/16" = 1'-0"

Performance Use Option - Wallace Library is converted into a restaurant and the Jail includes a visiting artist apartment and offices.



1 LIBRARY FIRST FLOOR
SCALE: 1/16" = 1'-0"

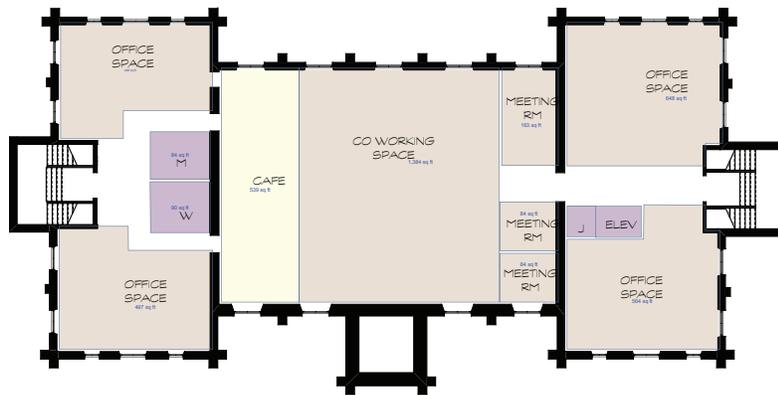


2 MUSIC APTS FIRST FLOOR
SCALE: 1/16" = 1'-0"

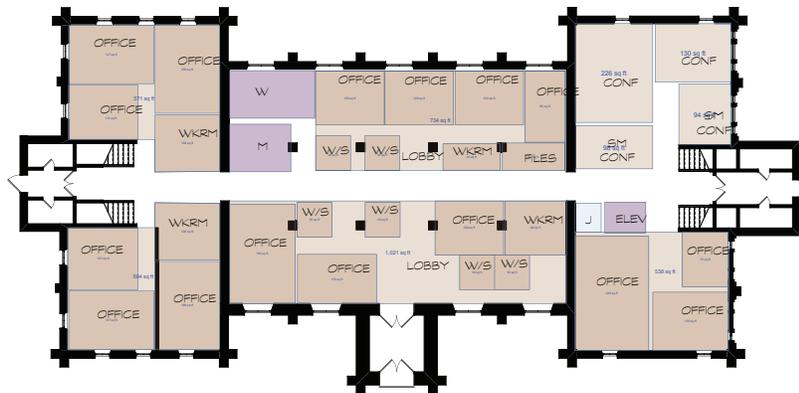
OFFICE OPTION

LEGEND

- SERVICE AREAS
- PUBLIC AREAS
- RESTAURANT
- OFFICE SPACE



2 FIRST FLOOR - OFFICE OPTION
SCALE: 1/16" = 1'-0"
0 8' 16' 32'

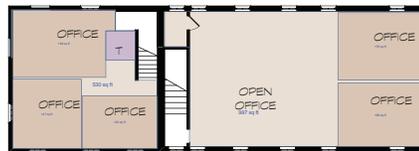


1 FIRST FLOOR - OFFICE OPTION
SCALE: 1/16" = 1'-0"
0 8' 16' 32'

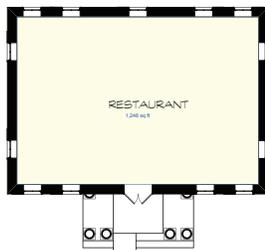
Office Option - Renwick Courthouse includes offices and co-working space in the second floor courtroom space.

LEGEND

- SERVICE AREAS
- PUBLIC AREAS
- RESTAURANT
- OFFICE SPACE



3 JAIL SECOND FLOOR
SCALE: 1/16" = 1'-0"
0 8' 16' 32'



2 JAIL FIRST FLOOR
SCALE: 1/16" = 1'-0"
0 8' 16' 32'

Office Option - Wallace Library is converted into a restaurant and the Jail includes offices.

1 LIBRARY FIRST FLOOR
SCALE: 1/16" = 1'-0"
0 8' 16' 32'

C. Operations Analysis and Recommendations

We recommend that the City retain ownership of the Renwick Compound. The Renwick Courthouse is arguably the most architecturally significant building in downtown Fredericksburg, designed by one of the nation's most celebrated 19th century architects. The building anchors the three-building site and plays a crucial role in Fredericksburg's history. In the Civil War alone, the Courthouse served as a Confederate barracks, a shelter for people escaping slavery, and a Union army hospital. There was a jail on this very site since the mid-1700s, a century before the Courthouse. And, the Wallace Library – Fredericksburg's first permanent public library – was built half a century after the Courthouse and now nearly 100 years ago. Fredericksburg's history is encapsulated by these three buildings.

The Renwick Courthouse's most significant interior space is the courtroom, and we therefore recommend that, regardless of the use of the remainder of the building and the Compound, the courtroom be used for public purposes. It might be a restaurant or a performance space or some other sort of public assembly space – or any two or three of these.

Local governments are generally safe and stable stewards of significant municipal assets, and this particular site is too significant to Fredericksburg's history to risk a change in ownership that might endanger the buildings. We therefore recommend that the City retain ownership of these three buildings – or, in order of magnitude, that it retain ownership of the Renwick Courthouse, then the Wallace Library, then the jail.

Many towns and cities own historic buildings, and for many different reasons. Some continue to use these buildings for their original purposes. Some have adapted them for new municipal uses. Some lease them for new commercial uses, but retain ownership so that they can control their future uses and protect them from damage. Some use them to generate income for municipal needs. Some preserve them as museums of their city's past. And, there are myriad other examples.

Our conclusion is that the Renwick Compound is so significant to Fredericksburg's history and identity that the City should own the site in perpetuity and lease its buildings to meet current market needs.

Should the City decide to retain ownership of the buildings, it would not be able to use historic rehabilitation tax credits itself, since it has no taxable income against which to apply them. But there are a couple of situations in which historic tax credits could nonetheless help finance the building's rehabilitation, with the City retaining ownership:

1. Leasing the building to a tax-paying entity for a minimum of 39 years: A tax-paying entity that leases a building for a term longer than the cost recovery period (currently 39 years for non-residential property and 27.5 years for residential rental property) can claim historic rehabilitation tax credits for eligible rehabilitation expenses it incurs. The City could therefore lease the buildings to a developer, and the developer could use the tax credits to help finance the building's rehabilitation. The developer must follow all tax credit regulations (such as meeting the substantial rehabilitation test), just as if it were the building's owner.

2. Syndicating the tax credits: In situations in which a property owner cannot use the tax credit (if the owner is a nonprofit entity, for example, or does not have enough income tax liability to fully use the credit), a property owner can form a for-profit partnership with an investor, with the investor using the tax credits in exchange for making an equity contribution to the rehabilitation project. In this scenario, the investor-partner usually leaves the partnership at some point after the five-year federal tax credit recapture period has ended.

The rehabilitation of the Historic Lexington Courthouse, in Lexington, Kentucky, was recently completed using a combination of these two options. The imposing 1898 building, on a prominent square in downtown Lexington, had been vacant since the courts moved out in 2002, and the building's dome had been closed to the public since the 1960s. The City recognized that the building was too significant to demolish and, after exploring several options, decided to use a master-lease structure, with several subsidiary entities, in order to make it possible for the project's financing to benefit from federal and state historic rehabilitation tax credits.

There are several important advantages in this type of deal structure versus a simpler "single tier" structure (in which a for-profit property owner uses the credits directly). In particular, the Internal Revenue Code requires that a building's post-rehabilitation basis be reduced by the value of the historic tax credits (which, in turn, means that the amount of annual depreciation the property owner can claim would be smaller) – but the master tenant structure avoids this.

In Lexington, Historic Courthouse LLLP, the for-profit entity that manages the courthouse, has a 50-year master lease for the property from the City of Lexington. The limited liability limited partnership is, in turn, a wholly owned subsidiary of Historic Courthouse Square Development, Inc. (a nonprofit organization) and Historic Courthouse Investor, LLC. This structure made it possible for Historic Courthouse Investor, LLC to use the tax credits and, in turn, to make an equity investment in the project. Of the overall \$32 million rehabilitation cost, roughly \$10 million was covered by historic tax credits. The City issued \$22.4 million in general obligation bonds (payable over 20 years) to finance the remainder of the project. About half of this \$22.4 million was made available to the project as a grant, and half will be repaid by leases (as will future maintenance costs).

Historic Courthouse LLLP manages leasing within the building, maintenance, and other ongoing management duties. The building's lessees include a restaurant, a bourbon bar, offices, and, in the dome, and event space. According to a Milwaukee-based accounting firm that analyzed the economic impact of the courthouse redevelopment project and six other historic rehabilitation projects in Kentucky in 2015, every dollar of state historic tax credit leveraged \$2.87 in construction-period spending (of which \$1.87 was in the form of direct wages) and \$0.38 in annual tax revenue to the state – meaning that the state's investment in tax credits was completely repaid in new tax revenue within three years.

Another example – this time, of a cluster of historic buildings redeveloped for use as a hotel – is the Inn on Ferry Street, in Midtown Detroit.

In the 1850s, the Ferry Seed Company bought an expansive tract of land in what is now Midtown Detroit to cultivate seed. When Ferry Seed relocated in the mid-1880s, it platted its farm land into residential plots and sold them to affluent Detroit executives, who built grand Victorian homes here. By the 1930s the neighborhood had become more commercial, and many of the houses were demolished for business and institutional uses. But a group of four mansions and two large carriage houses remained on East Ferry Street. The Merrill Palmer Institute bought them in the 1930s, hoping to expand – but, when they were unable to do so, they sold them the Detroit Institute of Art (DIA), which in turn leased them to a variety of nonprofit organizations over the next several decades, thinking it might use them itself at some point in the future.

By the mid-1990s, DIA decided to explore redevelopment options, and it partnered with the local neighborhood revitalization organization, the University Cultural Center Association (UCCA; now called Midtown Detroit, Inc.), to do so. They considered several options, including using the buildings for retail space or single-family homes, before deciding to redevelop them as a boutique hotel. The two organizations were interested in providing something needed in the Midtown area – but their main priority was preserving these six buildings and the historic legacy they represented.

The project's total cost was \$8.1 million, with \$6.2 million in “qualified rehabilitation expenses” that were eligible for federal and state historic rehabilitation tax credits. Because both DIA and UCCA were nonprofit organizations with no income tax liability, they could not use the potential tax credits themselves – and they needed cash for the rehabilitation project. So, they partnered with National City Bank and Comerica, who could use the credit to offset income tax liability and, in exchange, would make an equity investment in the project.

They used a master lease structure for the tax credit deal. In brief, a new for-profit limited liability company (Ferry Street Development Company LLC) became the owner and lessor of the properties. Ferry Street Development Company then entered into a 50-year lease with a master tenant (also a limited liability company). The master tenant is responsible for leasing the property to tenants (which, in this case, is Allied Hospitality, a hotel management company), paying operating expenses, and paying rent to the owner/landlord. The owner/landlord (Ferry Street Development Company), which had incurred the project's qualified rehabilitation expenses, then elected to pass the historic tax credits to the master tenant, in which National City Bank and Comerica had a 99 percent ownership share, with UCCA/DIA having the remaining one percent share but serving as the managing member.

The Inn on Ferry Street was able to convert its tax credits into equity contributions of \$1.2 million for federal historic tax credits and \$174,000 for the Michigan state historic tax credit of \$174,000, accounting for 17 percent of the project's financing. The remainder of the project's financing came from “patient” loans from local nonprofit finance entities (\$1.99 million), a deferred development fee (\$516,000), owner's equity (\$1.26 million), and a conventional mortgage (\$3 million).

The Inn consists of 40 guest rooms, and one of the carriage houses serves as a meeting center. It offers free breakfast to its guests. Although it does not contain a restaurant, it offers room service through a partnership with Union Street, a nearby restaurant. Its guests have include Yoko Ono, Frank Gehry, Ken Burns, and Jane Goodall. It has won numerous awards, including certificates of excellence from TripAdvisor, Booking.com, and HotelsCombined. It is a member of Historic Hotels of America.

Hotels are, in fact, among the more popular building uses for which historic tax credits have been used. HRI Properties, Joie de Vivre, Sage Hospitality, Standard Hotels, 21C Museum Hotels, and Thompson Hotels are among the hotel companies that actively use historic tax credits to help finance their buildings' rehabilitation and conversion to hotel use. Closer to home, historic rehabilitation tax credits have been instrumental in hotel redevelopment projects like the former Miller & Rhoads building in Richmond (now a Hilton Garden Inn) and the Craddock Terry Hotel (a former shoe factory) in Lynchburg. Even the Trump International Hotel in Washington, DC, in the historic Old Post Office Building, used \$40 million in federal historic tax credits to help cover the cost of the building's rehabilitation.

We recommend that the City of Fredericksburg retain ownership of the Renwick Compound and, as in the two examples above, use a master lease tax credit structure in order to make it possible for the project to use federal and state historic tax credits to help finance the buildings' rehabilitation. It will be crucial to consult with legal and accounting firms with expertise in historic tax credits and tax credit syndication to do so. In both the Historic Lexington Courthouse and Inn on Ferry Street examples, the projects used five specialized firms:

- A development agent, who served as the owner's representative throughout the process, including tax credit negotiations with the tax credit investor;
- Legal counsel with expertise in historic tax credits and tax credit syndication;
- An accounting firm with expertise in historic tax credits and tax credit syndication;
- An architectural/engineering firm; and
- A construction management firm with expertise in historic building rehabilitation projects.

D. Parking Analysis

After reviewing Article 72-53.3 Alternate Parking Plans of the City zoning code and the 2017 City of Fredericksburg Parking Plan prepared by Walker Parking Consultants, it should be assumed that hotel/special event uses will want to offer valet parking to available long-term public parking lots. The property is located in the downtown which allows for alternative parking plans. The developer will be required to provide an alternative parking plan for approval with the City since on-site parking is limited.

The Parking Plan analysis shows that there is ample on-street parking on the north side of Princess Anne Street and adjacent to the site (See Figure 6 of the study.) These spaces could be used for handicapped parking and short term drop off. A few spaces are also available on site and could be used for the same purposes.

The Parking Plan also indicates that downtown Fredericksburg has ample parking and in the case of the Renwick, the parking for larger events are only a couple of blocks away. Again, offering a valet service or shuttle service for large events will easily help visitors have comfortable access to parking.

A few other observations from the study includes that Block 14, where the Renwick is located, has a high parking demand (See Figure 8), likely caused by the uses on Caroline Street. Another thing to be aware of is the potential hotel use was not factored into future parking needs in the study (See Figure 16). Even with those things considered, the study clearly states that the downtown does not have a parking shortage but simply has some hot spots where parking demand is at, or near, capacity. Fortunately, the on-street parking on Princess Anne Street is currently underutilized.

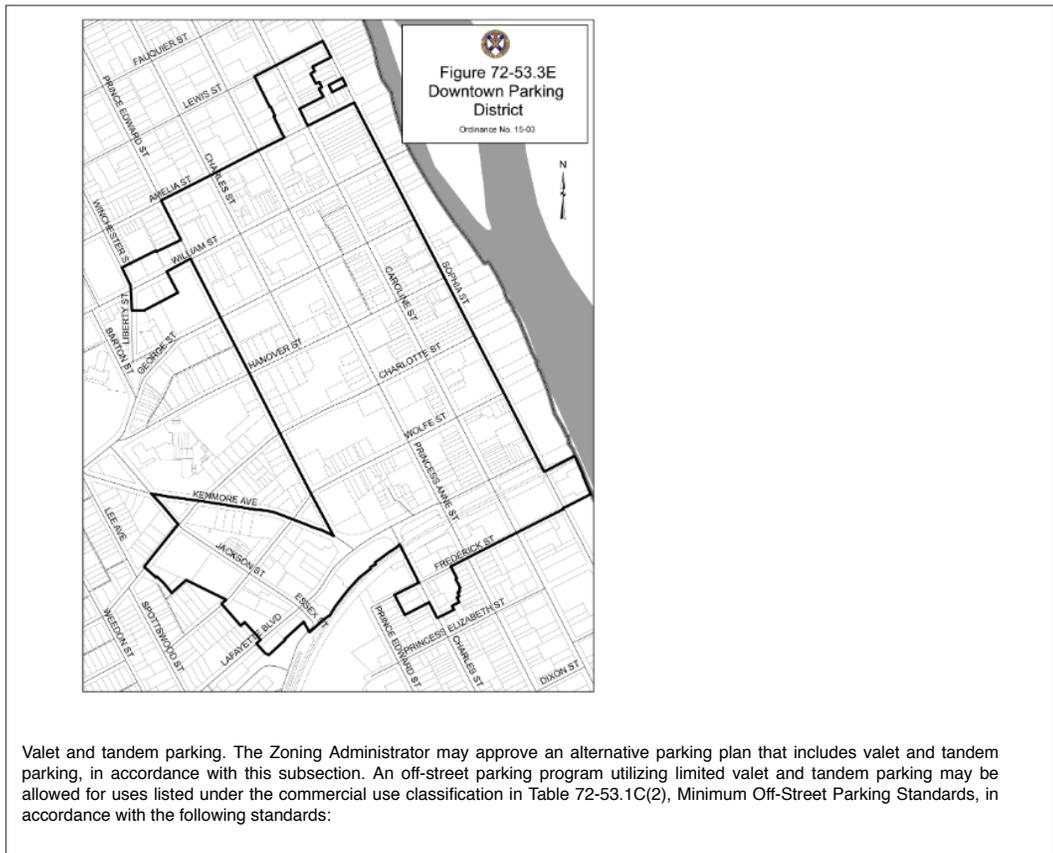


Diagram of the downtown parking district from the City of Fredericksburg Zoning Code.

RENWICK COMPOUND

FREDERICKSBURG, VIRGINIA

PREFERRED OPTION II.

A boutique hotel was the preferred option to be further developed for the Renwick Compound. What follows is a building code analysis for this use along with a rehabilitation summary, construction cost estimate, managements/owner structure options and options for financing. The design and cost analysis assumes that the project would use the historic tax credits.

The preferred option includes 25 guest rooms, a restaurant, and an event space located in the second floor courtroom of the Renwick building.

Two scenarios are included for the Wallace Library building.

Scenario 1 assumes that the Wallace Library is rehabilitated into six guest rooms and retains the added second floor. The commercial kitchen and the restaurant servicing the hotel guests are located in the Renwick building.

Scenario 2 moves the kitchen and restaurant into the Wallace Library and calls for removing the added second floor and restoring the two-story space. This option allows for more engagement of the outdoor space on the northwest corner of the site.

Scenario 1 allows for more flexible hotel restaurant/catering business for the chef, while Scenario 2 is intended as an independent restaurant that can also service the event space. This would also allow for events to hire their own caterer. And because the restaurant would be larger than in Scenario 1, it would have greater revenue generation potential.

A. Building Code Analysis

Code Analysis

Each of the three buildings in the complex are reviewed individually below per the 2015 Virginia Existing Building Code, VEBC, and the 2015 Virginia Construction Code, VCC, when referred. The buildings being classified as historic allow additional provisions to be considered for code compliance.

Renwick Courthouse Building

1. Construction Type: For the purposes of this analysis IIIB will be used – solid masonry exterior walls and wood framed interior walls, floors and roof.

2. Use Groups:

A. Existing Use: A-3 (Assembly)

B. Proposed Uses:

R-1 (Residential) R-1 is residential occupancies containing sleeping units where the occupants are primarily transient in nature;

A-3 (Assembly) for seminar space; and

B (Business) for meeting room spaces.

C. Change of occupancy: The proposed uses for the building constitute a change of occupancy.

3. Area:		Existing	Proposed
	First Floor	5,618 SF	5,840 SF
	Second Floor	5,579 SF	5,661 SF
		11,197 SF	11,501 SF

Allowable Area per floor (R-1): 48,000 SF

Allowable Area per floor (A-3): 28,500 SF

Allowable Area per floor (B): 57,000 SF

Building meets allowable area for all use groups.

4. Height: Courthouse – 45', 2 stories

Allowable Height: 5 stories, with sprinklers provided throughout the building

Building meets allowable height requirements for R-1, which is the most restrictive.

5. Occupant Load:

First Floor -	3,890 SF - Residential @ 200 SF / =	19
	843 SF - Kitchen @ 200 SF / =	4
	1,573 SF - Assembly @ 15 SF / = 105 x .75 =	79
		102
Second Floor	1,637 SF - Residential @ 200 SF / =	8
	2,825 SF - Assembly @ 7 SF / = 404 x .75 =	303
	1,216 SF - Business @ 100 SF / =	12
		323

6. Egress

- Two means of egress are required from all floors as a general rule.
- Open stairs in Renwick Building – Means of Egress conforming to these requirements of the building code under which the building was constructed shall be considered compliant means of egress VEBC 603.3 exception 2.
- Open stairs in Renwick Building – The open stairs can remain unenclosed provided the surrounding walls are rated, a sprinkler head is on the tenant side of the doors leading into the stair and frames are steel VEBC 705.3 exception 3
- The guestroom doors at the corridor shall be labeled and have closers.

7. Fire Rated Construction

Current code calls for the following:

- Mixed use separation between assembly and residential use – 2 hours.
- Corridors in residential floors – .5 hour (20 minute door)
- Shafts less than four stories – 1 hour (1 hour door)
- Guestroom separations – 1- hour
- Draft stopping required in attic unless sprinklered
- Exterior walls have the same exterior hazard category for the old and new occupancies therefore, the walls are deemed to be compliant.

8. Accessibility

Buildings with a complete change of occupancy shall have the following.

- At least one accessible building entrance.
- At least one accessible route from an accessible building entrance to primary function areas.
- Signage
- Accessible parking where parking is provided.
- At least one accessible passenger loading zone, when loading zones are provided.
- At least one accessible route connecting accessible parking to an accessible entrance.

9. Plumbing Fixtures

- For restaurant, 1 toilet is required for each 75 occupants and 1 sink is required for each 200 occupants. Based on the occupancy numbers above, 1 toilet and 1 sink are required each for men and women in the public restrooms.
- For seminar & break-out rooms, 1 toilet is required for each 75 occupants and 1 sink is required for each 200 occupants. Based on the occupancy numbers above, 2 toilets and 1 sink are required each for men and women in the public restrooms.
- The code allows for restrooms to be one floor above or below the area requiring restrooms.

10. Fire protection systems:

- The current code requirements call for a sprinkler system in an assembly use with a fire area of greater than 12,000 SF or an occupant load more than 300.
- A sprinkler system is required in an R-1 use.
- A manual fire alarm system and an automatic fire detection system are required for occupant loads greater than 300. If occupancies are not separated, they shall be considered a single occupancy. The Renwick will be required to have a manual fire alarm system.

Wallace Library - Scenario 1 – Guest Rooms

1. Construction Type:

For the purposes of this analysis IIIB will be used – solid masonry exterior walls and wood framed interior walls, floors and roof.

2. Use Groups:

A. Existing Use: Library - B (Business)

B. Proposed Use: Library – R-1 (Residential) R-1 is residential occupancies containing sleeping units where the occupants are primarily transient in nature.

C. Change of occupancy: The proposed uses for the building constitute a change of occupancy.

3. Area:

	Existing	Proposed
Basement	1,264 SF	1,264 SF
First Floor	1,246 SF	1,246 SF
Second Floor	1,246 SF	1,246 SF
	3,756 SF	3,756 SF

Allowable Area per floor (R-1): 48,000 SF

Building meets allowable area for R-1.

4. Height:

Library 28' 2 stories + Basement

Allowable Height: 5 stories, with sprinklers provided throughout the building

Building meets allowable height requirements for R-1

5. Occupant Load:

Basement - 1,264 SF – Stor/Mech @ 300 SF/= 4

First Floor - 1,246 SF – Residential @ 200 SF/= 6

Second Floor - 1,246 SF – Residential @ 200 SF/= 6

16

6. Egress:

- Two means of egress are required from all floors as a general rule. However single-exit buildings are allowed when R-1 Residential is not more than two stories in height and not more than 4 units per floor. The travel distance does not exceed 50 feet. The current layout only has three units per floor and less than 50 feet of travel distance to the exit.
- The guestroom doors at the corridor shall be labeled and have closers.

7. Fire rated construction:

Current code requires the following:

- Corridors in residential floors – .5 hour (20 minute door)
- Shafts less than four stories – 1 hour (1 hour door)
- Guestroom separations – 1- hour
- Draft stopping required in attic unless sprinklered
- Exterior walls have the same exterior hazard category for the old and new occupancies therefore, the walls are deemed to be compliant and will not need fire protection at windows.

8. Accessibility:
 - Buildings with a complete change of occupancy shall have the following:
 - At least one accessible building entrance.
 - At least one accessible route from an accessible building entrance to primary function areas.
 - Signage
9. Fire Protection Systems:
 - A sprinkler system is required in an R-1 use.
 - A manual fire alarm system and an automatic fire detection system are required for occupant loads greater than 300.

Wallace Library – Scenario 2 - Restaurant

1. Construction Type:
For the purposes of this analysis IIIB will be used – solid masonry exterior walls and wood framed interior walls, floors and roof.
2. Use Groups:
 - A. Existing Use: Library - B (Business)
 - B. Proposed Use: A-2 (Assembly) A-2 is restaurants.
 - C. Change of occupancy: The proposed uses for the building constitute a change of occupancy.
3. Area:

Area:	Existing	Proposed
Basement	1,264 SF	1,264 SF
First Floor	1,246 SF	<u>1,246 SF</u>
Second Floor	<u>1,246 SF</u>	
	3,756 SF	2,510 SF

Allowable Area per floor (A-2): 28,500 SF
Building meets allowable area for A-2.
4. Height:

Library 2 stories + Basement, 28' tall

Allowable Height: 2 stories, with sprinklers provided throughout the building the height can be increased to 3 stories.
5. Occupant Load:

Basement -	1,264 SF – Kitchen/Mech @ 200 SF/=	4
First Floor -	1,246 SF – Assembly @ 15 SF/= 83 @ .75 =	<u>63</u>
		67
6. Egress:

Two means of egress are required from the first floor. A second exit will be required through the basement.

II PREFERRED OPTION

7. Fire rated construction:

Current code requires the following:

- Shafts less than four stories – 1 hour (1 hour door)
- Draft stopping required in attic unless sprinklered
- Exterior walls have the same exterior hazard category for the old and new occupancies therefore, the walls are deemed to be compliant and will not need fire protection at windows.

8. Accessibility:

Buildings with a complete change of occupancy shall have the following:

- At least one accessible building entrance.
- At least one accessible route from an accessible building entrance to primary function areas.
- Signage

9. Plumbing Fixtures

Restaurants, 1 toilet is required for each 75 occupants and 1 sink is required for each 200 occupants. Based on the occupancy numbers above, 1 toilet and 1 sink are required each for men and women in the public restrooms.

10. Fire Protection Systems:

A sprinkler system is required in an A-2 use only if there are more than 300 occupants.

A manual fire alarm system and an automatic fire detection system are required for occupant loads greater than 300.

Jail

1. Construction Type:

For the purposes of this analysis IIB will be used – solid masonry exterior walls and concrete or masonry framed interior walls, floors and roof.

2. Use Group:

A. Existing Use: I-3 (Institutional)

B. Proposed use: R-1 (Residential) R-1 is residential occupancies containing sleeping units where the occupants are primarily transient in nature.

C. Change of occupancy: The proposed uses for the building constitute a change of occupancy.

3. Area:

	Existing	Proposed
Basement	1,539 SF	1,539 SF
First Floor	1,625 SF	1,625 SF
Second Floor	1,718 SF	1,718 SF
	4,882 SF	4,882 SF

Allowable Area per floor (R-1): 48,000 SF

Building meets allowable area

4. Height:

Jail 2 stories - 35' + Basement

Allowable Height: 5 stories, with sprinklers provided throughout the building

5. Occupant Load:

Basement -	1,536 SF – Stor/Mech @ 300 SF/	= 5
First Floor -	1,613 SF – Residential @ 200 SF/	= 8
Second Floor -	1,700 SF – Residential @ 200 SF/	= 9
		22

6. Egress

- Two means of egress are required from all floors as a general rule. However single-exit buildings are allowed in the following: R-1 Residential buildings not more than two stories in height and not more than 4 units per floor are permitted one exit provided the travel distance does not exceed 50 feet. The Jail is classified as two buildings with the masonry wall that divides the two sides.
- The guestroom doors at the corridor shall be labeled and have closers.

7. Fire rated construction

Current code calls for the following:

- Corridors in residential floors – .5 hour (20 minute door)
- Shafts less than four stories – 1 hour (1 hour door)
- Guestroom separations – 1- hour
- Exterior walls have the same exterior hazard category for the old and new occupancies therefore, the walls are deemed to be compliant.

8. Accessibility

Buildings with a complete change of occupancy shall have the following:

- At least one accessible building entrance;
- At least one accessible route from an accessible building entrance to primary function areas;
- Signage

9. Fire protection systems:

- A sprinkler system is required in an R-1 use.
- A manual fire alarm system and an automatic fire detection system are required for occupant loads greater than 300.

B. Rehabilitation Scope of Work Summary

The following scope of work is based on the schematic floor plans for a boutique hotel that were developed for this report. When the project moves to the next steps, the scope and plans will be more fully developed and modified as more is known about the buildings, programmatic needs and market demand. In addition, if the historic tax credits are part of the business plan, all building scope and plans will need to be submitted to and approved by the Virginia Department of Historic Resources before any work commences.

The scope of work for all three properties on the site combines the detailed maintenance scope and costs developed by Commonwealth Architects as a part of their Historic Structure Report for the complex. As the project moves forward, the scope and cost estimates will be refined and updated.

RENWICK BUILDING

Maintenance work identified in the HSR by Commonwealth Architect is as follows:

Exterior Maintenance

1. Repair and repoint brick walls of the bell tower as necessary.
2. Patch and repair copper roofing and install snow guards.
3. Replace gutters and downspouts, with new metal half round gutters and metal downspouts. Provide gutter screens.
4. Install a lightning protection system.
5. Remove Portland-cement based stucco from the exterior walls and apply a lime-based stucco.
6. Remove black streaking from window sills and paint sills to match other sills.
7. Redirect drainage from downspouts and site away from basement.
8. Install ventilation in cellar to prevent moisture infiltration.
9. Repoint foundation walls where mortar has eroded.
10. Infill all abandoned MEP openings in foundation walls with new masonry to match existing.
11. Repair and paint iron railings.
12. Remove exterior east stair and fence enclosure.
13. Clean, prep and paint eaves and cornice.
14. Patch and repair main entrance steps.
15. Clean, Prep, and paint wood windows. Replace rotted wood in kind, replace cracked glass, and replace deteriorated glazing compound.
16. Clean, prep, and paint steel windows.
17. Repair exterior doors and restore finishes. Install new weather stripping on doors.
18. Provide low-profile chimney caps on any unused chimneys.
19. Remove and provide new landscaping within two feet of building.
20. Provide a new hatch cover at the exterior basement access.
21. Provide new site lighting.

Interior Maintenance

1. Repair acoustical panels in courtroom after water infiltration has been resolved.
2. Repair hammer beam and scissor trusses in courtroom space. There is cracking in some of the members.

3. Repair hammer beam trusses in courtroom space. One bearing end is showing signs of crushing.
4. Repair framing to King post trusses in the north wing.
5. Eliminate water leaks in the roof in the north and south attics.
6. Replace the south wing roof purlin, replace charred roof sheathing and repair the scissor brace.
7. Repair water damaged wood decking in the tower and repair any active water infiltration points.
8. In the south wing, the trusses are being over stressed due to the added dropped ceiling. Remove ceiling and reinforce truss.
9. Repair and reinforce the tower second floor joists where they are water damaged and need reinforcement.
10. Add a sump pump in the cellar.
11. Repair plaster ceilings where existing acoustical ceiling are to be removed.
12. Repair interior plaster on exterior walls.
13. Retain historic doors and refinish.
14. Clean, prep, and paint remain existing wood trim.
15. Repair the tile floors and walls in restrooms.
16. Provide new basement utility lighting.
17. Repair wood ladder in bell tower.
18. Provide new historic lighting in public spaces.

Interior work for conversion to hotel and event space in Scenario 1

1. Demolish new and/or non-historic interior partitions.
2. Remove all non-original flooring.
3. Remove suspended acoustical ceilings.
4. Remove existing mechanical systems, plumbing systems and electrical distribution.
5. Install new mechanical, electrical and plumbing systems throughout the building.
6. Provide ten new hotel rooms.
 - a. Drywall partitions with dense sound attenuation insulation.
 - b. Restore original flooring.
 - c. Provide sound attenuation insulation in restored ceilings.
 - d. Provide new doors and hotel security hardware.
 - e. Provide new tile floors and wainscot in bathrooms.
 - f. Provide individually controlled mechanical units.
 - g. Provide new plumbing including water closet, bath and vanity sink.
 - h. Provide new electrical distribution, data, and lighting.
 - i. Provide one handicap accessible room.
7. Provide carpet in public corridors, other public spaces will have restored wood.
8. Provide new restaurant and bar at first floor north end

RENWICK BUILDING (cont)

9. Provide a new commercial kitchen serving the restaurant and event space.
 - a. Equipment.
 - b. Quarry tile flooring.
 - c. Fiberglass Reinforced Plastic wall treatment.
 - d. New drywall ceiling.
 - e. Exhaust hood directed out to loading dock.
10. Install new passenger elevator sized to provide accessibility to the second floor and located where the existing elevator.
11. Provide a new loading dock on the east side.
12. Provide a service corridor from the kitchen to the restaurant.
13. Provide a service elevator from the kitchen to the second floor seminar space.
14. Provide fixed exterior storm windows on the first and second floor windows.
15. Provide new directional signage

Interior work differences for conversion to hotel and event space in Scenario 2.

1. Provide 16 new hotel rooms.
2. Delete the restaurant in the Renwick and move it to the Wallace Library.
3. Delete the kitchen in the Renwick and move it to the Wallace Library.
4. Provide a coffee shop on the first floor near the hotel lobby.

WALLACE LIBRARY – Scenario 1 with six hotel rooms.

In this scenario, the added second floor is retained on the interior to accommodate six hotel rooms.

Maintenance work identified in the HSR by Commonwealth Architect is as follows:

Exterior Maintenance

1. Repair & repoint masonry walls. Remove Portland-cement mortar repairs and install lime-based mortar.
2. Repair slate roof and add snow guards.
3. Provide low-profile chimney caps on any unused chimneys.
4. Replace gutters and downspouts, with new metal half round gutters and metal downspouts. Provide gutter screens.
5. Redirect drainage from downspouts and site away from basement.
6. Clean southeast corner efflorescence from masonry wall.
7. Conduct masonry repairs on north wall, use matching brick and mortar.
8. Repoint/rebuild segmental arch brick lintels on east façade.
9. Repoint joints at stone flat lintel bearings.
10. Clean, prep and paint cornice and eaves. Replace rotted wood.

11. Clean, prep and paint wood windows.
12. Remove window a/c units.
13. Repair and paint exterior doors and install weather-stripping.
14. Remove and replace landscaping within two feet of building.

Interior work for conversion to hotel in Scenario 1

1. Remove interior partitions on first and second floors.
2. Remove all non-original flooring.
3. Demolish of suspended acoustical ceilings.
4. Demolish mechanical systems, plumbing systems and electrical distribution.
5. Remove non-bearing partitions in basement.
6. Provide six new hotel rooms:
 - a. Provide drywall partitions with dense sound attenuation insulation;
 - b. Restore original flooring where feasible;
 - c. Provide sound attenuation insulation in restored ceilings;
 - d. Provide new doors and hotel security hardware;
 - e. Provide new tile floors and wainscot in bathrooms;
 - f. Provide individually controlled mechanical units ;
 - g. Provide new plumbing;
 - h. Provide new electrical distribution and lighting.
7. Provide carpet in public corridors, other public spaces will have restored wood and carpet on second floor rooms.
8. Build in stair to second floor in existing opening.
9. Provide exterior storm windows.
10. Provide new directional signage.
11. Provide new entrance ramp complying with accessibility standards.

WALLACE LIBRARY – Scenario 2 with restaurant.

Interior work differences for conversion to restaurant in Scenario 2

1. Remove the second floor in its entirety.
2. No hotel rooms will be provided in the library building.
3. The first floor will be utilized as a restaurant and public restrooms.
4. The basement will have the kitchen for the restaurant and mechanical equipment.

JAIL

Maintenance work identified in the HSR by Commonwealth Architect is as follows:

Exterior

1. Remove loose spalling concrete around windows in south portion of the building.
2. Remove loose spalling concrete at one-story south addition above first floor.
3. Replace membrane roofing with new membrane roof.
4. Replace gutters and downspouts with new metal half round gutters and metal downspouts. Provide gutter screens.
5. Patch and repair exterior wall, concrete & CMU, to match existing.
6. Repoint foundation stone on east elevation.
7. Repair and repoint brick foundation. Remove Portland-cement mortar and install line-based mortar.
8. Replace windows with new aluminum clad wood windows with insulating glass.
9. Install new main electrical service and power distribution.
10. Repoint open joints and cracks in chimney.
11. At the southeast corner, the retaining wall is bulging. The wall should be disassembled and rebuilt.
12. Infill all abandoned MEP openings in foundation walls with new masonry to match existing.
13. Repair first floor concrete beams where reinforcement has corroded.
14. In the north addition, install bridging between joist at first floor, second floor and roof framing.
15. Clean and paint concrete and CMU walls.
16. Remove rust from bars on windows, then prep and paint iron.
17. Restore finish to exterior doors and install weather-stripping.
18. Provide low-profile chimney caps on any unused chimneys.

Interior work for conversion to hotel

1. Remove interior partitions on first and second floors.
2. Demolition of mechanical systems, plumbing systems and electrical distribution
3. Remove non-bearing partitions in basement.
4. Provide nine new hotel rooms:
 - a. Provide drywall partitions with dense sound attenuation insulation;
 - b. Provide new carpet on floors;
 - c. Provide sound attenuation insulation in new drywall ceilings;
 - d. Provide new doors and hotel security hardware;
 - e. Provide new tile floors and wainscot in bathrooms;
 - f. Provide individually controlled mechanical units;
 - g. Provide new plumbing;
 - h. Provide new electrical distribution and lighting.
5. Provide carpet in public corridors will have carpet, other public spaces may have exposed concrete.
6. Build two new stairs to second floor in existing openings.
7. Provide new exterior storm sash in all windows.
8. Provide new directional signage.

C. Construction Cost Estimates

The costs shown here are total amounts for the outlined scope of work in this section. Detailed cost estimates can be found in the appendix of this report.

RENWICK COMPOUND -Scenario 1
 Conceptual Phase Construction Cost Estimate
 January 2019

Total Cost Estimate	Low	High			Low Cost/SF	High Cost/SF
Renwick Courthouse	5,246,100	6,605,550	11,560	SF	453.81 \$/SF	571.41 \$/SF
Wallace Library	928,954	1,225,077	3,738	SF	248.52 \$/SF	327.74 \$/SF
Jail	1,784,164	2,280,680	4,882	SF	365.46 \$/SF	467.16 \$/SF
Total	7,959,218	10,111,307	20,180	SF	394.41 \$/SF	501.06 \$/SF

Scenario 1 has the restaurant in the Renwick Building and the Wallace Library is used for six guest rooms.

RENWICK COMPOUND -Scenario 2
 Conceptual Phase Construction Cost Estimate
 January 2019

Total Cost Estimate	Low	High			Low Cost/SF	High Cost/SF
Renwick	5,911,380	7,437,150	11,560	SF	511.37 \$/SF	643.35 \$/SF
Wallace Library	761,887	1,016,244	3,738	SF	203.82 \$/SF	271.87 \$/SF
Jail	1,784,164	2,280,680	4,882	SF	365.46 \$/SF	467.16 \$/SF
Total	8,457,431	10,734,074	20,180	SF	419.10 \$/SF	531.92 \$/SF

Scenario 2 has the restaurant in the Wallace Library with six guest rooms added in the Renwick Building.

D. Operations Analysis

Frazier Associates developed two scenarios in which the Renwick Compound’s three buildings would be rehabilitated and converted for use as a 25-key boutique hotel, restaurant, and meeting/venue space:

Scenario 1: In this scenario, a restaurant and bar would be located on the first floor of the Renwick Courthouse. The Courtroom would be reserved for use as a meeting space and event venue, and two breakout rooms would be available for meetings or ancillary event space. The remainder of the Courthouse would be used as hotel rooms. The jail and Wallace Library would be used as hotel rooms.

Scenario 2: In this scenario, the Wallace Library would house a restaurant. As in Scenario 1, the Courtroom would be used as a meeting space and event venue, and two breakout rooms would be available for meetings or ancillary event space. The Courthouse would contain a coffee bar in the lobby, primarily for hotel guests. The remainder of the Courthouse, and the jail, would be used as hotel rooms.

Frazier Associates has provided low and high estimates of the costs of rehabilitation and adaptive use for each of these two scenarios. These estimates – including a 20 percent contingency – are:

	SF	Low estimate		High estimate	
		Total	Per SF	Total	Per SF
Scenario 1	20,180	\$ 7,959,218	\$ 394.41	\$ 10,111,307	\$ 501.06
Scenario 2	20,180	\$ 8,457,431	\$ 419.10	\$ 10,734,074	\$ 531.92

The key question: Can a 25-key boutique hotel, restaurant, and meeting/event venue in downtown Fredericksburg generate enough revenue that it could afford the rent needed to cover the mortgage cost for the building’s rehabilitation and adaptive use? Using general hotel and restaurant industry budget guidelines, we developed rough projections of the three buildings’ potential income and expenses for the first ten years of operation. Then, using the recommended hospitality industry budget guideline of a maximum of ten percent of a business’s Effective Gross Income being spent for rent, and using Frazier Associates’ rehabilitation cost estimates, we explored whether the

Our analysis assumes that the hotel, food service, and event space would be managed by a single management entity that would lease the Renwick Compound from the City of Fredericksburg (separate hotel and food service entities are possible, of course, but economies of scale make it more practical for a single operator). This entity’s primary revenue centers would therefore be:

1. Lodging
2. Restaurant + bar
3. Meeting/event space + related catering

There could be other potential revenue sources, such as revenues from overnight parking, equipment rentals in conjunction with meetings and special events, and business and personal services offered by the hotel. But, for the purposes of this analysis, we are omitting these smaller potential revenue sources.

In estimating operating expenses for the hotel, restaurant, and event venue functions, we have used the following industry benchmarks:

- **Prime cost:** The prime cost (the sum of food/beverage costs and labor costs, including payroll taxes and employee benefits) should not exceed 65 percent of effective gross income.
- **Management costs:** Management costs should not exceed ten percent of effective gross income.
- **Rent:** Although the percentage of gross revenues budgeted for rent varies considerably from place to place, the industry standard is 6–8 percent of effective gross income for hotels and 6–10 percent for restaurants. For the purposes of this analysis, we have used ten percent for the blended restaurant/hotel operations.

We have also estimated that, after it is established, the hotel could, conservatively, achieve an annual occupancy rate of 72 percent, with an average room rate of \$190 (in 2019 dollars). These estimates are based on these assumptions:

- **Occupancy:** In its December 2018 market report for the City of Fredericksburg, StreetSense states that Fredericksburg’s 2017 hotel occupancy rate was 65 percent (versus the 2017 national average of 73 percent). However, it pointed out that “Few hotels exist within walking distance to historic downtown [Fredericksburg], the prime destination for tourists. An additional hotel operation in Downtown, mirroring the development of the Courtyard Marriott, would provide additional lodging opportunities for visitors and help create a robust and active downtown.” According to Fredericksburg Main Street, Inc., 2017 occupancy at the Courtyard Marriott in downtown Fredericksburg was 77 percent, significantly above the city’s overall hotel occupancy rate. We believe it is likely that a boutique hotel at the Renwick Compound could match or exceed this occupancy rate within several years of opening – but, to be conservative, we have used an annual occupancy rate of 72 percent as a target.
- **Room rate:** StreetSense found that the average daily rate achieved by Fredericksburg’s hotels was \$96.16 in 2017 – but it estimated that historic lodging options, such as B&Bs, achieved an average daily rate of \$179, operating at a 95 percent premium above chain hotels in non-historic buildings. We believe that a boutique hotel in the Renwick Compound could command rates slightly above this, as it would offer a broader range of services than is typically available in B&Bs (such as a full-service restaurant). We have therefore used \$190 as a somewhat conservative average daily rate target.

We also made a few initial assumptions about revenues and operating expenses for the entity that owns the Renwick Compound (either the City or a nonprofit or for-profit entity to which it transfers ownership – see “Ownership Structure”, beginning on page x, for more discussion of this option). These assumptions include:

- The property owner would be responsible for insuring the buildings, for certain variable expenses (such as utilities for the small park connected to the Compound), and for setting aside reserve funds for replacement of building components. It would also be responsible for making mortgage payments, using revenue generated from its property lease. The business entity that leases the property would be responsible for insuring the business (furnishings, equipment, etc.).
- If the property becomes taxable through a transfer of ownership, the City would be willing to abate property taxes for at least ten years.
- The hotel, restaurant, and event venue would ramp up its revenues and net operating income over the course of several years, achieving its occupancy and sales goals by Year 6.

BACK-OF-THE-ENVELOPE

In our first, back-of-the-envelope estimate of whether the hotel/restaurant/event venue operation would generate enough income to support a mortgage payment for the building’s rehabilitation, we assumed that the City, as the owner of the three buildings, would contribute 20 percent of the rehabilitation cost as owner’s equity, financing the remaining 80 percent for 30 years, with an annual interest rate of 4.5 percent. In order to break even, the City would need to earn enough in rent from the hotel/restaurant operator to cover its annual mortgage payment.

	SCENARIO 1		SCENARIO 2	
	Low estimate	High estimate	Low estimate	High estimate
Rehabilitation cost	\$ 7,959,218	\$ 10,111,307	\$ 8,457,431	\$ 10,734,074
Owner’s equity @ 20% LTV	1,591,844	2,022,261	1,691,486	2,146,815
Mortgage	6,367,374	8,089,046	6,765,945	8,587,259
Rate	4.50%	4.50%	4.50%	4.50%
Term (years)	30	30	30	30
Annual mortgage payment	\$ 387,151	\$ 491,832	\$ 411,385	\$ 522,125

However, this is not likely to be feasible for the hotel/restaurant operator. In our initial pass, we estimated that the hotel might generate \$1,248,300 in gross income annually, the restaurant/bar \$295,011 (for Scenario 1) or \$461,999 (for Scenario 2), and meetings/events \$72,000, for a total effective gross income of \$1,598,613 (for Scenario 1) or \$1,765,600 (for Scenario 2).

	SCENARIO 1	SCENARIO 2
INCOME		
Hotel		
Rooms	25	25
Nights/year	365	365
Average Daily Rate (ADR)	\$ 190	\$ 190
Occupancy target	72%	72%
<i>Subtotal: Hotel</i>	<i>\$ 1,248,300</i>	<i>\$ 1,248,300</i>
Restaurant/bar		
SF	800	1,246
Seats @ 15 SF/customer	53	83
Income per meal		
Breakfast (avg. meal price \$5.00; 50% capacity)	\$ 48,363	\$ 75,738
Lunch (avg. meal price \$7.50; 50% capacity)	72,544	113,606
Dinner (avg. meal price \$18.00; 50% capacity)	174,105	272,655
<i>Subtotal: Restaurant/bar</i>	<i>\$ 295,011</i>	<i>\$ 461,999</i>
Meeting/event space		
Events/year	24	24
Average gross revenue/event (meeting/event space)	\$ 2,500	\$ 2,500
Average gross revenue/event (catering)	500	500
<i>Subtotal: Meeting/event space</i>	<i>\$ 72,000</i>	<i>\$ 72,000</i>
Effective Gross Income (EGI)	\$ 1,615,311	\$ 1,782,299
EXPENSES		
Prime costs @ 65% EGI	\$ 1,049,952	\$ 1,514,954
Management costs @ 10% EGI	161,531	178,230
Rent @ 10% EGI	161,531	178,230
Total expenses	\$ 1,373,015	\$ 1,514,954
Net Operating Income (NOI)	\$ 161,531	\$ 178,230
Gross profit margin (gross profit ÷ revenue)	15%	15%

Assuming these revenue and expense projections are realistic, this would provide a gross profit margin of 15 percent to the Compound’s operator. But, there are a couple of problems. First, if the hotel/restaurant/event venue operator uses the industry guideline of budgeting no more than 10 percent of Effective Gross Income for rent, the rent paid - \$161,531 in Scenario 1 and \$178,230 in Scenario 2 - would not cover the cost of the City’s annual mortgage payment. Second, with the three buildings totaling 20,180 square feet, this rent would be \$8.00/square foot for Scenario 1 and \$8.83/square foot for Scenario 2, somewhat below prevailing market rates for commercial space in downtown Fredericksburg.

It is obvious that Scenario 2 will be more profitable for both the hotel/restaurant operator and (depending on whether rehabilitation expenses are on the low or high end of the scale) for the City. Since the restaurant space allotted in Scenario 2 is larger, the restaurant could serve more customers than that in Scenario 1. For this reason, we lean towards Scenario 2 rather than Scenario 1.

HISTORIC REHABILITATION TAX CREDITS

We then factored in the use of federal and state historic rehabilitation tax credits to help cover the costs of the building's rehabilitation, thus reducing the size of the mortgage (pages X-X). We made the assumption that a tax credit investor might invest 90 cents for every dollar of federal tax credit it receives and 60 cents for every dollar of state tax credit, and that it might have a 95 percent ownership interest in the entity that manages the building.

	SCENARIO 1		SCENARIO 2	
	Low estimate	High estimate	Low estimate	High estimate
Rehabilitation cost	\$ 7,959,218	\$ 10,111,307	\$ 8,457,431	\$ 10,734,074
Owner's equity @ 20% LTV	1,591,844	2,022,261	1,691,486	2,146,815
Tax credit equity:				
Federal (20% credit, 90% pricing)	1,361,026	1,729,033	1,446,221	1,835,527
State (25% credit, 60% pricing)	1,134,189	1,440,861	1,205,184	1,529,606
Mortgage	3,872,160	4,919,151	4,114,540	5,222,127
Rate	4.50%	4.50%	4.50%	4.50%
Term (years)	30	30	30	30
Annual mortgage payment	\$ 235,436	\$ 299,095	\$ 250,173	\$ 317,517

The bottom-line impact is significant. In Scenario 2's low cost estimate, for example, the mortgage needed would drop from \$6.8 million to \$4.1 million. But, the project would still result in an annual deficit for the buildings' owner or managing entity, albeit a smaller one.

Next, we examined how much equity the property owner might need to invest in order to eliminate an annual operating deficit.

Owner's equity	Annual operating deficit in Year 5			
	SCENARIO A		SCENARIO B	
	Low estimate	High estimate	Low estimate	High estimate
20%	- \$ 145,657	- 209,317	- 160,395	- 227,738
30%	- 97,264	- 147,838	- 108,972	- 162,473
40%	- 48,870	- 86,359	- 57,549	- 97,207
50%	- 476	- 24,880	- 6,125	- 31,942
60%	47,918	36,599	45,298	33,324

With a 60 percent equity investment by the City, the property would produce positive cash flow. But, that is a significant equity investment.

MARKET-RATE RENT

We explored four scenarios in which the rent paid by the hotel/restaurant/event venue operator is dictated by the hospitality industry guideline not to exceed ten percent of Effective Gross Income. But, we also explored four scenarios in which the facility operator would pay rent in Year 1 close to the mid-point of the current market rate scale for commercial property in downtown Fredericksburg, with rent increasing by a modest amount annually (pages Y-Y). These options improve cash flow for the property owner (the City, or possibly an entity created by the City) and still appear to provide a modest gross profit for the hotel/restaurant/event venue's operator, although, alone, they do not eliminate property owner's annual operating deficit.

MUNICIPAL BOND

We explored an option similar to that used for the rehabilitation of the Historic Lexington Courthouse, in Lexington, Kentucky, that would involve the City issuing a municipal bond, half of the proceeds of which would be a grant to the rehabilitation project and half of which would be paid off by rental income paid by the hotel/restaurant/event venue operator. In this scenario, the City would also provide \$1 million in owner's equity and would pursue \$250,000 in grants – and, as in all other scenarios, would use historic rehabilitation tax credit equity. This scenario produces a relatively modest annual operating deficit for the property owner and an acceptable gross profit margin for the hotel/restaurant/event venue operator (page Z).

RANDOM NOTES

- Of the three main revenue centers this analysis envisions for the Renwick Compound – lodging, restaurant/bar, and meeting/event space (with related catering), the latter has the greatest potential for revenue growth. This analysis conservatively projects the Courtroom being rented for special events 60 times per year, at full booking – but it could, in theory, be rented much more often. In particular, since there is no comparable performance space or theatre downtown, it might be possible for the Courtroom to be rented on a regular basis by an entertainment production company that books entertainers, sells tickets, and pays a rental fee to use the Courtroom for its performances.
- The City might consider adopting a modest ticket surcharge for ticketed events taking place in the Courtroom, with proceeds used to support the facility's maintenance and periodic rehabilitation.
- The Courtroom is 2,332 square feet. Because of its architectural and historic significance, it is in the interest of the community to preserve the Courtroom and make it available for public use – but doing so constrains the entity leasing the property from taking full advantage of the property's square footage. If the City were to move forward with one of the scenarios that uses market-rate rent, removing this square footage from the total square footage on which rent is based would make the use of the Renwick Compound more affordable for the hotel/restaurant/venue management entity. Doing so would reduce the Year 1 rent by \$27,984 (assuming rent of \$12/SF).

- We have provided the City with a copy of a Microsoft EXCEL workbook with all the sources/uses of financing and building and business operating pro formas in electronic format, and we encourage the City to use this workbook to fine-tune the initial revenue and expense estimates we have made and to explore additional options for financing the rehabilitation and adaptive use of the Renwick Compound.

GENERAL LIMITATIONS + DISCLAIMER

Retail market analyses, their components (such as retail sales void analyses), and derivative business development plans and feasibility studies provide important guidance on how a commercial property or commercial district should, theoretically, be able to perform and on the sales levels businesses should be able to achieve. However, a number of factors affect the actual performance of businesses, commercial properties, and downtown districts, including the skills of the business operator, level of business capitalization, the quality of the physical environment, changes in overall economic conditions, the effectiveness of business and district marketing programs, and many other factors. The information in this report is intended to provide a foundation of information and options for making commercial development and downtown revitalization decisions in downtown Fredericksburg, but it does not, and cannot, ensure business success. Accordingly, the CLUE Group makes no warranty or representation that any of the potential results contained in this study will actually be achieved.

As is true of all demographic, economic, and market studies, the reliability of our analysis is limited to the reliability and quality of the data available. Our research assumes that all data made available by federal, state, county, regional, and municipal sources, from community organizations, and from business owners is accurate and reliable. Given these limitations, our report reflects what we believe are reasonable estimates of trends, current conditions, and future possibilities.

Tax credit syndication projects are logistically and financially complex and require specialized assistance from skilled attorneys, accountants, and project managers with expertise in historic rehabilitation tax credits. The City of Fredericksburg should consult with professionals with these skills when considering next steps.

RENWICK COMPOUND

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FINANCIAL TOOLS AND INCENTIVES III.

The most realistic option for financing the rehabilitation and reuse of the Renwick Compound is a combination of federal and state historic tax credits and municipal bond financing. There are also some options for grant and business tax credit funding that might augment other project funding and/or cover specific components of the building rehabilitation project and/or launching a hotel or restaurant on site.

- The Virginia Economic Development Partnership offers several discretionary incentives to encourage and support business development in the Commonwealth. While most of its discretionary incentives are used to attract or expand major employers and to support investment in targeted industries (such as forestry products and maritime services), there are several that might help support either the rehabilitation of the Renwick complex buildings or the development and operation of a hotel and/or restaurant leasing space there. These include:

- **New Company Incentive Program:** The Commonwealth makes state corporate income tax relief available (\$2,000 for each new job created), plus, in some instances, loans or grants from the Commonwealth's Opportunity Fund, to companies that had no presence in Virginia before January 1, 2018 and that spend at least \$5 million in property capital investment and create a minimum of ten new jobs.

- **Small Business New Jobs Program:** This program, which is available to businesses that create a minimum of five new jobs and make a capital investment of at least \$100,000, provides grants to help with recruiting and training workers.

Contact:

Virginia Jobs Investment Program

Virginia Economic Development Partnership

901 E Cary Street, Suite 900

Richmond, VA 23219-0798

tstuller@vedp.org

804-971-7447

- **Line-item appropriations:** Although this would be a long shot, rehabilitation and reuse of many historic preservation projects throughout the Commonwealth has occasionally been supported by line-item appropriations from the state legislature. According to Chapter 22, Article 1, Section 10.1-2213 of the Code of Virginia, appropriations are limited to properties that have been designated as historic landmarks by the Commonwealth's Board of Historic Resources, listed on the Virginia Landmarks Register, and whose owner agrees to open the property to the public for at least 100 days annually for at least five years.

- **Save America's Treasures** is a grant program launched in 1998 by then-First Lady Hillary Clinton, in partnership with the National Trust for Historic Preservation. The program provides grants of up to \$500,000 for historic sites (and also for collections of national significance). Since its beginning, Save America's Treasures has made over 1,300 grants, totaling more than \$315 million. The program was suspended for nine years but is now active again and is administered by the National Park Service, in partnership with the Institute of Museum and Library Services, the National Endowment for the Arts, and the National Endowment for the Humanities.

The program provides funding for preservation of nationally significant properties. To be eligible, a property must be designated a National Historic Landmark or listed on the National Register of Historic Places. In Virginia, preservation projects like the Henry County Courthouse (in Martinsville), Battersea (in Petersburg), and the Robert Russa Morton Museum (in Farmville) have received Save America's Treasures grants in the past. Property acquisition costs and costs associated with construction of new buildings, as well as a few other costs, are not eligible – but almost all rehabilitation costs are. Grants must be matched 1:1 with cash or in-kind contributions (but not with other federal funds). Given the historic and architectural significance of the Renwick Compound (and, in particular, the Courthouse), we think a Save America's Treasures grant in the range of \$250,000 might be possible, particularly if used for rehabilitation of a significant component of the project (such as the Courtroom).

- **Our Town**, a program offered by the National Endowment for the Arts, supports “creative placemaking” projects – in essence, projects that use the arts (in a broad sense) to improve community livability. The program supports projects that incorporate arts, culture, or design into strategies for achieving community development goals. Established in 2011, Our Town grants are intended to use arts as “a force for social cohesion and economic development in neighborhoods, communities, and cities”, according to former NEA Administrator Rocco Landesman, who created the program. Our Town has funded hundreds of creative placemaking projects so far, many of them in older and historic downtowns. There are two subcategories:
 - **Place-Based Projects:** Grants in this subcategory support activities that foster interaction between community members and artists or activities that help create or support the infrastructure needed for creative placemaking to succeed, such as master planning, designs for public spaces and cultural facilities, and mapping creative assets. Grants in this subcategory require a partnership between a nonprofit organization and a local government entity, one of which must be a cultural organization. The Endowment makes matching grants of between \$25,000-\$200,000 in this category.

- **Knowledge Building Projects:** Grants in this subcategory support activities that build and disseminate knowledge about using arts to strengthen communities.

Our Town grants support program planning and certain project-related hard costs. They do not support building acquisition or renovation. In the case of the Renwick Compound, an Our Town grant might be a possibility for designing the site's public spaces (such as the courtyard and the Courtroom) and for features and programming that interpret the site's history.

- **The Cynthia Woods Mitchell Fund for Historic Interiors,** offered by the National Trust for Historic Preservation, makes small grants (maximum of \$15,000) for the preservation, restoration, and/or interpretation of historic interiors. Grants must be matched 1:1. Funds may be used for professional expertise, to create interior restoration plans, and to pay for certain bricks-and-mortar improvements. While the grants are small, it is certainly possible that some aspect of the rehabilitation of the courtroom in the Renwick Courthouse might qualify.

- **Deferred loan repayment programs:** High start-up costs often impede development of certain types of businesses, like restaurants and other businesses that must purchase expensive equipment and/or furnishings. In Winston-Salem, North Carolina, the city government partnered with two local financial institutions to develop a deferred loan repayment program for qualified restaurateurs interested in opening a restaurant in a designated area on the edge of the downtown district. Restaurateurs could borrow up to 70 percent of the funds needed to start new restaurants. The city then used \$1.6 million in Community Development Block Grants to repay the first two years of their loans; the restaurateurs repaid the city at the end of the 10-year loan term. The deferred loan repayment program relieved financial pressure in the restaurants' first two years, giving them time to develop clientele.

- **Crowdfunding and private investment:** Countless downtown businesses have been launched with equity from private investors – but, with the advent of crowdfunding and the passage of the Jumpstart Our Business Startups (JOBS) Act in 2012, crowdfunding and private investment in business startups has dramatically accelerated. Nationally, the number of new businesses that raised start-up capital through crowdfunding more than quadrupled in 2016. There are four types of crowdfunding:

- **Rewards-based:** Using a crowdfunding platform like Kickstarter.com or Indiegogo.com, people make a donation to a business in exchange for a reward or premium. Sweet Bar, a bakery in downtown Oakland, California, raised more than \$20,000 on Kickstarter in 2014, offering premiums such as private baking lessons, catered breakfasts, and even the naming rights to menu items.

- **Donation-based:** Rather than receiving a premium, people simply make a donation to support a business or activity. Scores of historic theatres used donation-based crowdfunding several years to raise money to cover the costs of digital equipment.
- **Debt-based:** With debt-based crowdfunding, donors make small loans to businesses. Kiva is probably the best-known example of crowdfunded loans, although there are many other examples. Kiva is also experimenting with partnerships with local nonprofit development corporations for targeted business development in economically distressed communities.
- **Equity-based:** The JOBS Act of 2012 makes it possible for non-accredited investors to invest equity, via crowdfunding, in small businesses. The regulations for Section CF were finalized in 2016. In brief, a small business may now raise up to \$1 million annually from individuals, through qualified crowdfunding portals. Individuals whose net worth or annual income is \$100,000 or less may invest the greater of \$2,000 or five percent of the lesser of his or her net worth or annual income. Individuals whose net worth and annual income are greater than \$100,000 may invest \$10,000 or the lesser of ten percent of his or her net worth or annual income.

Of these four types, we believe that equity-based crowdfunding could be an option for helping finance development of a restaurant at the Renwick Compound. Local investors might not only receive a (probably modest) financial return on their investments but would have the satisfaction of contributing to the site's reactivation.

- **Private investment groups:** Private groups, typically of fewer than a dozen residents who pool their money (usually via a limited liability company), have launched thousands of businesses throughout the US. Many restaurants, in particular, are owned by private investment groups, often in partnership with an executive chef or experienced restaurateur. In a growing number of communities, private investors are launching downtown businesses not only as investments but also to actively create the types of businesses the district needs, rather than waiting for a qualified entrepreneur to appear. In Flint, Michigan, for example, a group of six affluent residents launched a limited liability company – the Uptown Six – to develop several downtown restaurants and apartments. In Effingham, Illinois, a similar group of investors pooled some money to launch a new restaurant. They hired a young chef and a recent graduate of a restaurant management program to operate the restaurant, offering them the option of buying out the investors' equity shares over a period of time.

RENWICK COMPOUND
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APPENDIX A: EXECUTIVE SUMMARY FROM
HISTORIC STRUCTURE REPORT
BY COMMONWEALTH ARCHITECTS

Chapter 1: Introduction

The City of Fredericksburg commissioned Commonwealth Architects to compile a historic structure report and maintenance recommendations for the Renwick Courthouse, the Wallace Library, and the Old Jail, located in Fredericksburg, Virginia. Each of the three buildings was built at different times (and, in the case of the Old Jail, contains material both retained and reused from earlier buildings), and have undergone their own individual history of construction, modification, renovation, alteration, and maintenance.

The three buildings are listed on both the Virginia Landmarks Register and the National Register of Historic Places, as contributing resources to the Fredericksburg Historic District. Both listings occurred in 1971. The buildings are excellent candidates for a rehabilitation project utilizing state and federal Historic Rehabilitation Tax Credits, which would both help to insure the protection of the physical integrity of the buildings, and offer incentives to the City of Fredericksburg to rehabilitate the buildings in a historically-appropriate manner.

When establishing a new benchmark for well-informed future work, it is essential to distinguish original from merely old conditions whenever possible. During generation of this report, Commonwealth addressed this central need by utilizing three methodologies: investigation of extant documentary materials, clarification of the historical narrative and timeline, and assessment of present physical conditions. We investigated archival holdings and examined the property with an eye toward both cause and effect of natural aging and decay processes. We also worked closely with professional engineers to assess existing structural, mechanical, and utility systems, and

provide recommendations for their maintenance or replacement.

We commend the City of Fredericksburg for sponsoring this research and documentation effort. As architectural historians, we are honored to add our support to this organization's stewardship of the Renwick Courthouse, the Wallace Library, and the Old Jail.

Executive Summary

Renwick Courthouse

The Renwick Courthouse, designed by James Renwick and built in 1852, is an imposing two-story structure with a bell tower incorporated into the front facade. In 1862 the courthouse served as a Confederate barracks. Hardly a year later, it served as a war hospital. The Courthouse was said to have been struck by cannon fire during the Battle of Fredericksburg in 1862, but ultimately survived.

The building can be divided into three major sections: the north, center and south wings. It is constructed of exterior masonry bearing walls with concrete- or steel-framed first and second floors. The roofs at all three major sections of the building are wood-framed. At the south wing, the roofs are supported by scissor trusses that were originally exposed. Above the court room in the center wing, exposed hammer beam trusses can be observed. The north wing roof framing, never intended to be exposed, consists of a system of simple king post trusses.

Multiple renovations over the past century and a half have resulted in much of the original exposed structure being covered up and many original finishes removed. Architecturally it lacks much of the original grandeur Renwick had intended due to the introduction of a second floor, effectively cutting the height of the court room to half of

the original. On the exterior, the removal of the original parapets and the reworking of the roof line, alterations to the bell tower, and the addition of a rough-cast stucco finish, similarly divide from the original design. In recent times, the courthouse was found to no longer meet the demands of modern court operations. Perhaps Fredericksburg's most significant piece of architecture, it has been vacant since 2014.

Challenges at the Renwick Courthouse

Among the many challenges presented at the Renwick Courthouse are:

- Persistent moisture infiltration through hairline cracks in the Portland cement textured stucco (Fig. 1.1).
- Significant damage to and stress upon structural members (Figs. 1.2, 1.3).
- Chronic moisture infiltration in the bell tower (Fig. 1.4).



Figure 1.1, Renwick Courthouse, detail of exterior stucco. Note hairline cracks that result in moisture infiltration. Photograph 2015.



Figure 1.2, Fredericksburg Courthouse, North attic. Shifting of and damage to structural members. Photograph 2015.



Figure 1.3, Fredericksburg Courthouse, North attic. Broken truss. Photograph 2015.



Figure 1.4, Fredericksburg Courthouse, bell tower. Moisture infiltration into the bell tower. Photograph 2015.

Opportunities at the Renwick Courthouse

Among the many opportunities presented at the Renwick Courthouse are:

- The potential reinstatement of a historically-compatible exterior stucco

finish through removal of the existing Portland cement textured stucco.

- The potential to reveal the two-story south wing space and decorative scissor trusses in the south attic (Figs. 1.5, 1.6).
- The potential reinstatement of the original parapet walls and roof slope (Figs. 1.7, 1.8).



Figure 1.5, Fredericksburg Courthouse, South attic. Evidence of the original surface treatment of the exterior (which survives on the portion of the South attic above the early 20th century ceiling) remains, as does the interior finish itself. Photograph 2015.

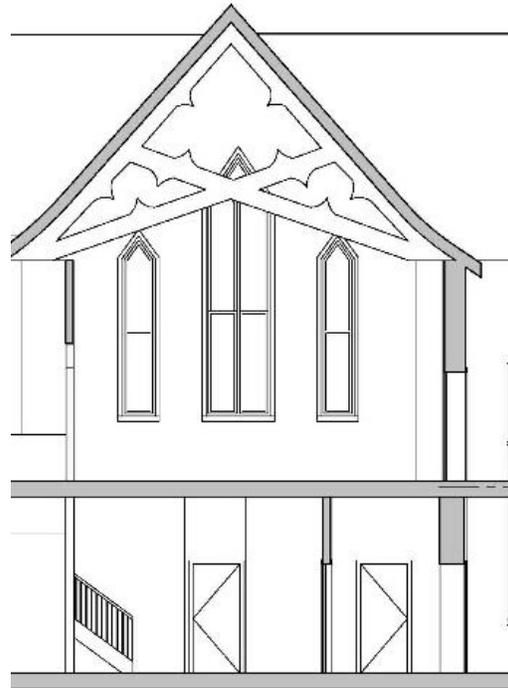


Figure 1.6, Fredericksburg Courthouse, South Wing, section. Among the many opportunities at the Renwick Courthouse is the potential reinstatement of the volume of the second floor space and the distinctive scissor truss in the South Wing. Sketch 2015.



Figure 1.7, Fredericksburg Courthouse, South Wing. Image of the original parapets and roof slope, removed by later alterations. Photograph 1865.

Wallace Library

To the north of the historic courthouse sits the old Wallace Library, a 2-story Colonial Revival building constructed in 1910. It was used as a public library until 1971, when the Fredericksburg School Board took over the building for its administrative offices. Similar to the Jail, it is also built into the hill with only the monumental façade exposed on the west side and an additional partial lower level exposed on the east. The building was renovated in the 1970s and the monumental space was divided vertically with the introduction of a second floor. The second

floor structure is unknown due to the presence of architectural finishes. The building was also underpinned during the renovation to create the below-grade mechanical space.

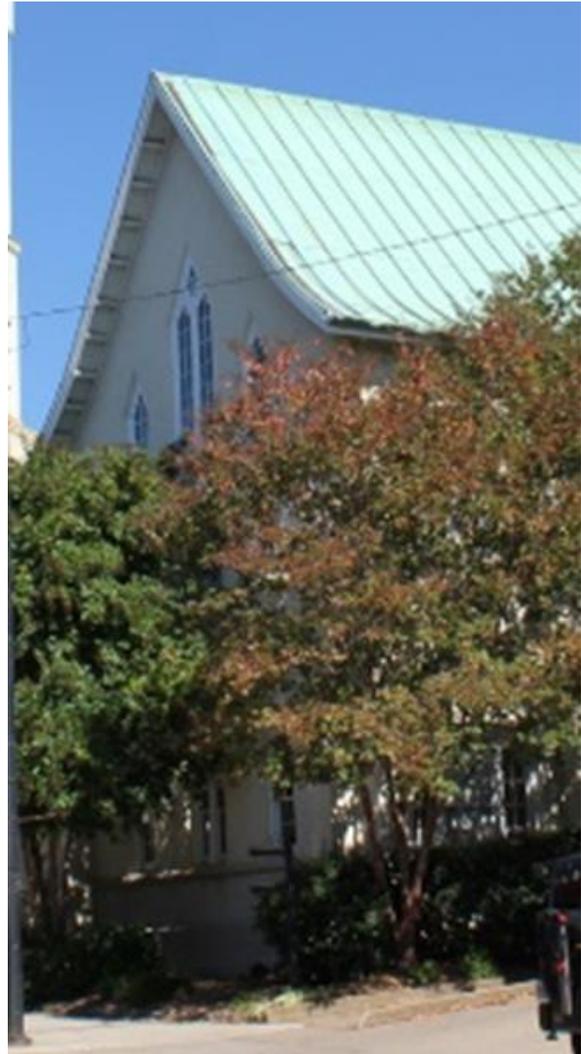


Figure 1.8, Fredericksburg Courthouse, South Wing, Existing roof. Photograph 2015.

Challenges at the Wallace Library

Among the many challenges presented at the Wallace Library are:

- Significant loss of mortar on the north elevation (Fig. 1.9).
- Persistent moisture infiltration into the basement level (Fig. 1.10).

- Shifting and cracking of the brick at the north elevation, a situation related to loading issues on the basement wall created by the excavation of the basement (Fig. 1.11).



Figure 1.9, Wallace Library. Extensive mortar loss in the north elevation. Photograph 2015.



Figure 1.10, Wallace Library. Persistent moisture infiltration in the basement. Photograph 2015.



Figure 1.11, Wallace Library. Pervasive shifting and cracking of brick in the north elevation. Photograph 2015.

Opportunities at the Wallace Library

Among the many opportunities presented at the Wallace Library are:

- Flexibility of use and finishes created by the lack of interior historic fabric. Non-historic interiors do not require special treatment or consideration under the Standards (Fig. 1.12).
- The building's excellent exterior integrity (Fig. 1.13).
- Potential reinstatement of the original two-story volume through the removal of the non-historic second floor (Fig. 1.14).



Figure 1.12, Wallace Library. Existing, non-historic interior finishes that do not require special treatment or consideration. Photograph 2015.



Figure 1.14, Wallace Library. The current interior partitions and finishes are not historic, creating an opportunity for the removal of the non-historic floor and the reinstatement of the original two-story volume. Photograph 2015.



Figure 1.13, Wallace Library. Note the building's excellent exterior physical integrity. Photograph 2015.

Old Jail

The Old Jail was built in 1928 and served as a jail into the 1970s, when the police department vacated the building. In 2006 it was re-utilized as temporary holding cells. Presently, a portion of the building is being used by the Police Department for bicycle storage.

The Jail is built into the hill directly behind the courthouse. It consists of two stories, one above grade and one partially below grade, and can be divided into north and south portions. The north portion is constructed of wood, with floor and roof framing supported on masonry bearing walls, concrete masonry at the upper level and brick at the lower level. The south portion has a reinforced concrete-framed roof and second floor with concrete bearing walls at the upper level and brick and stone masonry walls at the lower level.

Challenges at the Old Jail

Among the many challenges presented at the Old Jail are:

- Spalling, oxide-jacking, and cracking of the exterior concrete walls (Figs. 1.15, 1.16).
- Lack of functional windows (Fig. 1.17).
- A roof nearing the end of its lifespan (Fig. 1.18).



Figure 1.15, Old Jail. Rust-jacking and spalling of the exterior concrete wall surfaces. Photograph 2015.



Figure 1.16, Old Jail. Cracking of the exterior concrete wall surfaces. Photograph 2015.



Figure 1.17, Old Jail. Nonfunctional window. Photograph 2015.



Figure 1.18, Old Jail roof, which is nearing the end of its expected lifespan. Photograph 2015.

Opportunities at the Old Jail

Among the many opportunities presented at the Old Jail are:

- Clearly-visible layers of the building's history (early stone, later brick, and the existing concrete jail), which lends itself to public interpretation (Fig. 1.19).
- The fact that two historic jail cells remain, offering opportunities for preservation and interpretation (Fig. 1.20).
- The potential for flexibility in build-out of the concrete jail portion of the building (1.21).



Figure 1.19, Old Jail. Visible layers of history: early stone, later brick, and the existing concrete jail. Photograph 2015.



Figure 1.20, Old Jail. Two surviving jail cells, Photograph 2015.



Figure 1.21, Old Jail. Concrete jail portion of the building, where much of the historic material has already been removed or compromised.

Federal and State Rehabilitation Tax Credits

The Historic Rehabilitation Tax Credit Program provides a dollar-for-dollar reduction of Federal and State income tax equal to the designated percentage of qualifying rehabilitation costs. The federal credit is worth 20% of the qualified rehabilitation expenses; the Virginia credit is

worth 25%. In order to be eligible for the federal credit, a building must be listed on the National Register of Historic Places and must be income producing, and the cost of the qualifying rehabilitation expenses must be equal at least the adjusted bases of the resource, or \$5,000, whichever is greater. Eligibility for the Virginia credit requires the building to be listed on the Virginia Landmarks Register. The resource can be income-producing or owner-occupied, but the cost of qualifying rehabilitation expenses must equal at least 50% of the assessed value of the resource (or 25%, if owner occupied).

Both the federal and state programs require that the rehabilitation work be completed within a 24-month period or, if stated in advance, the project can be phased over a 60-month period. Qualifying expenses include both hard and soft costs. *Hard costs* are associated with the work related directly to the structure and its operation, and typically included such expenses as general construction, electrical, plumbing, and mechanical systems costs. *Soft costs* are those associated with the professional services required to rehabilitate the structure and typically include such expenses as architectural fees, engineering fees, and specialty consultant fees. Expenses which do not qualify for either federal or state tax credits include acquisition costs, site work, cabinets, appliances, and new additions.

Comparison of Federal And State Rehabilitation Tax Credits		
	Federal	State
<i>Agency</i>	National Park Service	Virginia Department of Historic Resources
<i>Eligibility</i>	Income-producing buildings only	Income-producing and owner-occupied buildings

	Listing on the National Register of Historic Places	Listing on the Virginia Landmarks Register
<i>Credit</i>	20% of eligible expenditures	25% of eligible expenditures
<i>Holding Period</i>	5-year holding period	No holding period
<i>Carry-forward, carry-back</i>	20-year carry-forward, 1-year carry-back	10-year carry-forward, no carry-back

Figure 1.22: Comparison of Federal and State Rehabilitation Tax Credits

Summary of Federal Credits

The federal rehabilitation credit for any taxable year is the sum of 20% of the qualified rehabilitation expenditures with respect to any certified historic structure. (IRC § 47(a)). “Qualified rehabilitated building” means any building (and its structural components) that has been “substantially rehabilitated”, was placed in service before the beginning of the rehabilitation, and for which depreciation or amortization is allowable with respect to the building (i.e, it is/was used for a business purpose). (IRC § 47(c)(1)(A)).

“Substantially rehabilitated” means that the qualified rehabilitation expenditures during the 24-month period selected by the taxpayer, and ending with or within the taxable year, exceed the greater of:

1. the adjusted basis of such building (and its structural components), or
2. \$5,000.

Essentially, this means that for most projects the greatest expenditures must be made within a two-year period.

For a phased rehabilitation, as set forth in architectural plans and specifications submitted with the Part 2 application before the rehabilitation begins, a 60-month period applies rather than the 24-month period for determining that the building was substantially rehabilitated. (IRC § 47(c)(1)(C)). In order to



use the 60-month measuring period for a phased project, the taxpayer must phase the project from the beginning. (It is advisable to submit a phasing plan at the start of a project, even if there is a possibility the project can be completed within two years. The phasing plan will hold open the possibility of taking up to 60 months to complete the project, but the taxpayer is not obligated to take that long to complete the project.)

“Qualified rehabilitation expenditures” (QREs) include any amount properly chargeable to capital account for depreciable property (i.e., business use property), *incurred at any time prior to the end of the year in which the building is placed in service*, in connection with the rehabilitation of a qualified rehabilitated building. Straight-line depreciation generally must be used with respect to determining any qualified rehabilitation expenditures. CITE

“Qualified rehabilitation expenditures” do not include:

1. the cost of acquiring any building or interest therein.
2. any expenditure attributable to the enlargement of an existing building.
3. costs for rehabilitations not certified as compliant with the The Secretary of the Interior's Standards for Rehabilitation.

Under the federal program if the building is disposed of or loses its income producing status within 5 years after the rehabilitation is completed, the taxpayer will face recapture of a percentage of the credit received. The amount of recapture is reduced by 20% in each succeeding year after the year the rehabilitation is completed and is completely phased out after five years. CITE

“Tax exempt use property” cannot qualify for federal historic credits. (IRC § 50(b)(3)). For property other than nonresidential real property, “tax exempt use property” refers to

the portion of any tangible property leased to a tax-exempt entity. For nonresidential real property, “tax exempt use property” refers to the portion of the property leased to a tax-exempt entity in a disqualified lease, provided that the portion leased to tax-exempt entities in disqualified leases is more than 50% of the property. To comply with this limitation less than 50% of the building may be used by City/non-profit agencies post-rehabilitation. The extent of use of the building by City/non-profit agencies will reduce the amount of federal historic credits available.

A “disqualified lease” means any lease of the property to a tax-exempt entity, but only if:

1. part or all of the property was financed (directly or indirectly) by tax-exempt bonds issued by such entity (or a related entity);
2. under such lease there is a fixed or determinable price purchase or sale option (or its equivalent) with such entity (or a related entity);
3. such lease has a lease term in excess of 20 years; or
4. such entity (or a related entity) previously owned the property and engaged in a sale and leaseback transaction, excluding sale and leasebacks occurring within 3 months after the date such property is first used by the tax-exempt entity (or a related entity). CITE

As a general matter, property used by a tax-exempt or governmental organization (except to the extent such property is used predominantly in an unrelated trade or business or is treated as debt-financed property) does not qualify as property that can be the subject of a federal general business credit under Section 38. (See Treas. Reg. 1.48-1(j)&(k)). Property used by such organizations includes:



1. property owned by the organization (whether or not leased to another person); and
2. property leased to the organization.

Unless used predominantly in an unrelated trade or business, property leased by another person to such organizations, or property leased by a tax-exempt organization to another person, does not qualify as Section 38 property to either the lessor or the lessee. This restriction does not apply to property leased on a casual or short-term basis to a tax-exempt organization.

Summary of State Credits

The Virginia Department of Historic Resources administers the historic rehabilitation tax credit in Virginia. An individual, trust or estate, or corporation incurring eligible expenses in the rehabilitation of a certified historic structure is entitled to a credit against the Virginia income tax (or bank franchise or insurance company license taxes) equal to 25% of eligible expenses. (Va. Code § 58.1-339.2). Under the state program there is no continuing ownership requirement following completion of the rehabilitation (ie: no recapture period). "Tax exempt use property" restrictions do not apply for state historic credits, providing much more flexibility for historic credits to benefit governmental and non-profit entities.

Similar to the federal program, "eligible rehabilitation expenses" are expenses incurred in the material rehabilitation of a certified historic structure and added to the property's capital account. "Material rehabilitation" means improvements or reconstruction consistent with The Secretary of the Interior's Standards for Rehabilitation, the cost of which amounts to at least 50% of the assessed value of such building for local real estate tax purposes for the year prior to the initial expenditure of any rehabilitation expenses.

An "owner-occupied building" means any building that is used as a personal residence by the owner. If the building is owner-occupied, "material rehabilitation" means the cost of improvements amounting to at least 25% of the assessed value of such building for local real estate tax purposes for the year prior to the initial expenditure of any rehabilitation expenses.

Credits granted to a partnership or S corporation are passed through to the partners or shareholders, respectively, either in proportion to their ownership interest in such entity or as provided in an executed agreement between the partners or shareholders.

Tax Credit Syndication

"Syndication" is the process by which the owner of a building undergoing a rehabilitation tax credit project brings an investor into the ownership structure of the building so that the investor can claim the credits (and other economic and tax benefits), typically in exchange for providing equity to the rehabilitation project. It is important to note that federal historic tax credits are not sold directly to an investor. With syndication, an investor becomes a minority "owner" of the property as a participant in a limited partnership or as a member in a limited liability company (an LLC).

In order for a federal tax credit to be generated by the Renwick Courthouse, Wallace Library, and Old Jail, the complex would have to be income-producing. For that purpose, it would have to be either sold to a new owner or have a long-term lease (typically 39 years) executed to establish a tax generating entity, typically an LLC. The entity would not have to be income-producing in order for a state tax credit to be generated. In either case, if the entity taking on the work does not have enough federal or state income tax liability to justify holding the credit



through the carry-forward period, the federal and / or state tax credit can be syndicated to an investor. A given entity can syndicate one or both credits, and if both credits are syndicated, they need not go to the same investor. The investor would be required to be admitted to the LLC, and to remain within it for the purposes of the federal credit, through the full five-year holding period. The current rate for federal credits are \$0.85-\$0.88 per \$1.00 credit, while current market rate for state credits are \$.80-\$.85 per \$1.00 credit, depending upon the size of the credit and individual market conditions. At the end of the five-year federal holding period, the federal investor could exit the LLC.

This system allows non-income-producing entities to utilize historic rehabilitation tax credits. Although there are several investment structures that would allow use of both federal and state tax credits, due to the complexity and longevity of the structure required for the federal credit, most municipalities elect to pursue state tax credits only.

A typical syndication would proceed as follows:

1. Municipal leaders approve of the rehabilitation plan, and identify a master tenant site developer as partner for the project.
2. An ownership LLC is created, and the buildings are transferred to that LLC. The LLC master leases the site to the tenant LLC. The locality may still retain site control through lease rights (there are a number of possible scenarios under this arrangement).
3. The tenant LLC partners with a Historic Tax Credit (HTC) investor. Rehabilitation plans are finalized and a financial model updated. Development financing is secured. The tenant LLC proceeds with development, incurring the HTC

QRE directly. Tenant LLC HTC pass-through elections are done with investors.

4. The tenant LLC completes the project, the building is placed in service, and the historic rehabilitation tax credits are awarded. The loan is paid down by the HTC equity.
5. After 5+ years, the locality can buy out residual interests (a variety of options exist for this).

While it is possible for a municipality to directly undertake a rehabilitation tax credit project, ownership (e.g. tax generation) and financing (especially if certain funding sources, such as general obligation bonds, cannot be used to fund QREs) and other complications make this option very difficult.

Review of Available Documentation

Several documents were provided by the City of Fredericksburg for review. The available documentation was limited to the historic Courthouse and included partial original and renovation drawings as well as previous reports and studies. These documents provided critical historical background information, past observations, information on repointing efforts, and architectural repairs and reinforcement.

Drawings

- Three original drawings for the Historic Courthouse, including one partial exterior elevation, a section through the court room, and the plan of one of the wings, James Renwick, Jr., ca. 1852.
- *Revised Alterations to Courthouse for City of Fredericksburg*, J. Binford Walford & O. Pendleton Wright Architects, 1948.
- *Renovations to the Fredericksburg Circuit Courthouse*, James O. McGhee Architects, 1990.
- *Bell Tower Restoration Circuit Court Building*, Seal Engineering, 2002.

Reports and Studies

- *Works Progress Administration of Virginia Historical Inventory- Spotsylvania County Courthouse*, January 1937.
- *Renwick's Virginia Courthouse: A Product of Patriotism*, Margareta Williamson, 1982.
- *Court Facility Feasibility Study*, Moseley Architects with Sadler & Whitehead Architects, August 2007.
- *Courthouse and Court Facilities Master Planning and Design*, Glavé and Holmes Associates, November 2009.

Note: very limited architectural materials were made available, or could be subsequently located, for the Wallace Library and Old Jail. The only architectural drawings located for the Old Jail pertained to a 1970 mechanical upgrade. No architectural drawings for the Library were available at the time this report was written.

Team Organization & Methodology

The team for this historic structure report effort was led by architectural historian Bryan Clark Green, PhD, with welcome guidance from the City of Fredericksburg's Mark Whitley. Green surveyed the building to record present conditions and assess its current state, and performed documentary research in the collections of Preservation Virginia, the Virginia Department of Historic Resources, the Library of Virginia, and other repositories.

Investigation began in September 2015. Initial efforts focused upon collection of documentary evidence, beginning with the City of Fredericksburg. The team collected all of the available documents on the Renwick Courthouse, the Wallace Library, and the Old Jail, including generations of architectural drawings, historic photographs, and previous studies and reports. A wide range of documentary and historical items were also collected from archives at Central Rappahannock Regional Library & Virginia

Room and the Central Rappahannock Heritage Center. These documents were scanned as portable document formula (.pdf) documents and organized into an electronic archive, which has since been presented to the City of Fredericksburg so that future preservation and maintenance efforts will have the benefit of an easily accessible archive. This collection of electronic documents will allow City of Fredericksburg staff to easily adapt this material for educational purposes, assistance with maintenance, and future research. This material was located by the HSR research team at the beginning of the process, and has been fully incorporated into this report. It has proved to be an invaluable resource for understanding previous repair and restoration efforts, and has shaped and informed our restoration recommendations throughout this report.

Following the collection and organization of archival materials, team members conducted a detailed physical survey of building fabric on all floors of the building as well as survey of exterior fabric. The City of Fredericksburg generously allowed the team complete access to the interior and exterior of the buildings, including roofs, and for that we are grateful. A structural analysis was performed by Nicole Ferran, PE, and Rebecca Domingue, PE, of 1200 Architectural Engineers. A mechanical, electrical, and plumbing evaluation was performed by John Dunlap of John Dunlap & Partners. Architectural analysis was performed by Bryan Green and Lisa Bricker of Commonwealth Architects.

The team also undertook a 3-D building scan in order to better document the physical construction of the Renwick Courthouse, the Wallace Library, and the Old Jail. Hunter McGuire and Scott Reed of Prologue scanned the building and created a three-dimensional point cloud model of the buildings that was then transitioned into a 3-D Revit model.

Once in Revit, Lisa Bricker and Tyler Carter of Commonwealth Architects took the 3-D mass models and provided custom modeling of the unique architectural features of the Renwick Courthouse, Wallace Library, and Old Jail, in order to produce accurate plans and elevations. One of the great advantages of this process is that it allows us to return to these models in the future to add additional detail, such as individual room elevations, or to tag to specific locations, photographs and conditions information. This data may thereafter be used to develop fully-interactive, data-rich 3-D models of Renwick Courthouse, Wallace Library, and Old Jail that can be collaboratively developed as we move into the future.

The various repair recommendations were assembled, discussed, and prioritized into four categories that addressed the severity, nature, and recommended time frame for each repair. These recommendations were then studied by our cost estimator, James Akers of Akers Cost Group, and from them a series of cost estimates were developed. The cost estimates reflect the repair recommendations as a series of *individual* repairs, designed to allow the City of Fredericksburg to group these repairs into packages that reflect their severity, as well as institutional priorities and available funding. This format offers the City of Fredericksburg the greatest flexibility in designing a financial approach to the rehabilitation, and to shape and inform the rehabilitation to follow. To accompany the prioritized repairs, the report includes a series of detailed descriptions of repair techniques for the various repairs recommended. These repair techniques were designed in consultation with the Secretary of the Interior's Standards for Rehabilitation and historic preservation best practices. These recommendations will assist the City of Fredericksburg by providing guidance for repairs of all kinds – from minor to major – whether they are performed by City of Fredericksburg staff, or by outside

contractors, and will help insure consistency on approach and result. Finally, the repair section contains a maintenance schedule, to help to organize periodic maintenance and upkeep at a rehabilitated Renwick Courthouse, Wallace Library, and Old Jail, to support the physical recommendations contained within this report.

While the physical investigations were underway, Bryan Green and Jennifer Hugman assembled a history of the Renwick Courthouse, Wallace Library, and Old Jail. The history, which included physical and documentary evidence as well as extensive analysis of the various repair and restoration campaigns, created a detailed documentation of the design, construction, enlargement, alteration, restoration and repair of the Renwick Courthouse, Wallace Library, and Old Jail.

After the physical investigation was conducted and the repair recommendations were assembled, we developed a series of interpretive recommendations. These recommendations proposed both physical improvements to support both interior and exterior interpretation.

Public outreach was an important and extensive component of this project. A series of public meetings were held in Fredericksburg, including a Princess Anne Street Corridor Businesses and Property Owners meeting (27 October 2015), a public meeting held at the Renwick Courthouse (7 December 2015), a meeting with the Fredericksburg Architectural Review Board (14 December 2015), and a meeting with the Fredericksburg City Council (23 February 2016). In addition to the in-person meetings, a digital survey was created and distributed by way of the City of Fredericksburg web site, to collect additional information from residents of the Fredericksburg area about the Renwick Courthouse, Wallace Library, and Old Jail.

The survey received an excellent response: 48 members of the public responded, some with extensive comment. The survey results are presented in Appendix 4 of this report.

Our hope is that this Historic Structures Report will support and inform the City of Fredericksburg's long-term commitment to the preservation and care of the Renwick Courthouse, Wallace Library, and Old Jail. The preservation of historic structures is always a challenge, never more so when the structure is a complex that was adapted over time to meet the ever-changing demands of courts, jails, and schools. The City of Fredericksburg is to be commended for its long-term commitment to preserving and protecting these historic buildings and interpreting them for generations of Virginians who have visited the buildings and conducted the business of the City of Fredericksburg within their walls and on their grounds. We hope that our efforts will help to sustain and support the City of Fredericksburg's efforts to preserve and protect the Renwick Courthouse, Wallace Library, and Old Jail.

As a result of the findings in this report, the City of Fredericksburg commissioned Commonwealth Architects and 1200 AE Structural Engineers to provide further structural investigation into the bell tower, the bell framework, and to provide repair procedures for the bell tower. The detailed analysis of the bell tower can be found in Appendix 10.

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