EXHIBIT 2

FINANCIAL ANALYSIS OF THE PROJECT

PIONEER
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City Hotel Feasibility Study

Town of Castle Rock

August 10, 2023

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Castle Rock Downtown Alliance
Town of Castle Rock, Colorado

Dear Mr. Tilson,

Pioneer Development Company (PDC) has been engaged by the Castle Rock Downtown Development Authority (DDA) to review a redevelopment project requesting financial support in the form of a public private partnership.

The proposed development is the City Hotel, a mixed-use concept located at 415 Perry Street. The existing property is the historically designated City Hotel, which has fallen into disrepair. White Development is seeking to redevelop the site, in the process remediating blighting factors identified at this property while also facilitating desirable hospitality and mixed-use development. The Castle Rock DDA and the site owner/developer provided project information, marketing information, budgets, and proformas to be reviewed and evaluated by this Gap Funding Report.

This development review is intended to provide a third-party, objective evaluation of market assumptions and development and operating proformas to inform public investment decision-making. This memorandum summarizes PDC's review and findings.

Andrew Arnold, AICP
Founder | Principal
Pioneer Development Company
Durango, Colorado

CC: Karah Reygers

Table of Contents

Executive Summary

The City Hotel Gap Funding Analysis:

This report evaluates the financial feasibility of a proposed redevelopment project at 415 Perry Street. The project proposes to redevelop the existing City Hotel property into a new hotel featuring retail space and a rooftop restaurant. The redevelopment vision includes preserving the original City Hotel while also constructing new building improvements around the site.

The former City Hotel, built in 1872, is a designated historic landmark. PDC visited the site with members of the Castle Rock DDA and the Development team and identified numerous blighting factors afflicting the property. This deterioration is problematic given the property's historic designation and central location within Castle Rock's downtown area. The property's historic landmark designation also presents a challenging redevelopment scenario because the original structure must be preserved. The site is also small and limits the uses and space available for redevelopment.

The proposed development concept is ambitious and, from a real estate investment standpoint, risky. The City Hotel project is an adaptive reuse of a historic property that also proposes an infill, mixed-use program with an independent hotel as its anchor. These features are unique and require an adjustment to market return metrics and costs to better reflect the development challenges.

PDC evaluated this development on behalf of the Castle Rock DDA to determine if a feasibility gap exists with the proposed project and if financial support is necessary to achieve market returns. This report provides a detailed analysis of the project's assumptions benchmarked to the market. The analysis also performs a gap funding range analysis on various levels of financial assistance and examines the effect on return indicators.

After completing the analysis, the Reviewers find that the proposed redevelopment of the City Hotel site will require funding assistance to become financially feasible. The GAP funding assistance range and its associated target market indicators are included in the tables below:

ROI Indicator	Description	Market Target
Return-on-Cost	Net Operating Income at Stabilization before debt service as % of Project Cost	7.5% to 10.0%
Internal Rate of Return (IRR, unleveraged)	Annual revenue and asset sale over 10 years as return on development costs.	10.5% to 11.5%

ROI Indicator	Market Target	GAP Funding Range		
	Estimated Gap (Stabilized Year)	***$1,500,000***	***$2,000,000***	***$2,500,000***
Return-on-Cost	**7.5% to 10.0%**	**8.61%**	**9.13%**	**9.73%**
IRR, Unlevered	**10.5% to 11.5%**	**9.98%**	**10.83%**	**11.76%**

Background

Scope of the Review

To benchmark the proposed project to the market, PDC reviewed and provided independent research regarding the following assumptions:

- Independent verification for market assumptions presented in the development proposal,
- Construction costs estimates verification,
- Financial gap analysis,
- Market verification on commercial mortgage loan rates and terms,
- Comparison with market rate investment criteria and yield indicators,
- Potential impacts from current economic uncertainty.

Methodology

The Developer provided a detailed marketing piece (based on an old newspaper circulation), renderings, and development and operating proformas. The Developer also allowed PDC to visit the site and tour the existing building. This information helped inform this Report's analysis.

The Reviewers conducted independent research into market conditions and development costs to establish a market baseline for evaluating this Project's feasibility. The development's costs were independently verified to determine their reasonableness. Projected revenues, in the form of Hotel Rooms Revenue, retail rents and commercial leases, were contrasted with comparable properties throughout the local market. The same method was used to compare the project's expenses, including hotel departmental and undistributed operating expenses, absorption, lease-turnover, vacancy, and financial terms to local market realities. Once these assumptions were evaluated, the Reviewers performed a sensitivity analysis on a range of gap funding scenarios. These potential financial gaps were estimated by the Reviewers through an independent rate of return analysis targeting market-based investment expectations.

Project Basis

Proposed Redevelopment Project (City Hotel)	
Douglas County Account Number	R0070674
Douglas County Parcel Number	**2505-112-07-005**
Property Owner	Timothy L White
Street Address	415 North Perry Street. Castle Rock Colorado

- The redevelopment of the City Hotel (Project) is assumed by the Reviewer to be a stand-alone mixed-use project, not related to other nearby projects that may or may not be owned and operated by related entities.
- The site is 0.193 acres situated on the western side of Perry Street, between Fifth and Fourth street.

- The completed redevelopment project will feature the revitalized historic City Hotel building surrounded by a new 4-story building. These two structures will function as a single property. The project will feature a 24-room boutique hotel, and 8,550 SF of retail space. The retail space is organized into four units that are assumed to be for lease product.
- The completed redevelopment project will feature a 24-room boutique hotel.
- The completed redevelopment project will feature 8,550 Square Feet of retail space. This space is assumed to be four individual units, including one bar, one restaurant and two retail spaces.
- The completed redevelopment project is designed to include an interior courtyard of 3,700SF.

Current Economic Environment

Overall, today's hospitality and retail real estate market is considered good for investors, but unpredictable given the economic headwinds being presented by inflation, interest rates, and global supply chain and political issues. The cost of capital has dramatically increased following the COVID-19 pandemic. Macro-economic uncertainty also presents an ongoing systemic risk in real estate markets. Despite indications that interest rates are plateauing, these forces cultivate an environment with additional investment risks that warrant higher returns. This Report applies this perspective to its analysis when reviewing the City Hotel mixed-use development.

Hotels are the most volatile major property type compared to retail or multi-family. Hotel revenues are based on daily occupancy rather than long term leases, and expenses are higher and require daily management compared to other income producing real estate assets. A hotel is therefore unique, in that it is both a real estate asset and business, and this exposure makes it vulnerable to market downturns.

These characteristics help explain why the hotel industry was severely impacted during the COVID-19 pandemic period, especially 2020. Hotel occupancy rates dramatically fell during this time. The Denver Market experienced historic lows of 23% occupancy in 2021, and this had catastrophic impacts on revenue. These impacts affected hotels of all classifications and affiliations. However, this analysis found that independent hotels suffered the worst. Out of Colorado's permanent hotel closures the past three years, a majority were independently affiliated.

Since 2021, the hospitality market has rebounded. RevPAR is up 13.9% YTD in 2023 compared to the same timeframe in 2019. Demand has surged, and supply has been slow to catch up. Branded hotels have fared better than independent boutique properties, largely because of their ability to weather the market downturn from end of 2019 to the beginning of 2021. So while the Hospitality market has experienced a significant resurgence the past two years, this report finds independent boutique hotels to represent a riskier asset than branded hotels.

Looking ahead, market trends indicate a "return to normalization" in the hospitality industry. This implies that occupancy rates are likely to stabilize at levels experienced throughout the Denver markets prior to 2019. Persistent inflation is likely to keep ADR higher than historic levels, and in effect maintain slightly higher RevPAR than in the past.

Retail markets are also expected to experience growth in the coming years. According to Integra Realty Resources 2023 "Viewpoint" publication on Commercial Real Estate, the Denver-area market is in an expansion phase. This implies that rental rates and sales will continue to increase over the next five years.

To account for current economic conditions over a 10-year proforma, the Reviewers have estimated growth for both retail and hospitality categories. For the retail uses being proposed, the Reviewers estimate a 3% annual growth rate in years one (1) through ten (10). For the hotel component of the project, the reviewers estimate only 1% annual growth in occupancy after stabilization, and 2% annual growth in average daily rates after stabilization.

ROI metrics were also adjusted based on the economic conditions. The proposed retail uses are assumed to match typical ROI metrics typical to the Denver submarket. The hotel being proposed is an independent boutique hotel, which represents a riskier property type than branded/affiliated hotels. This report assumes a risk premium for the hotel to represent this investment reality.

Project Assumptions

Development Program

The Reviewers have evaluated this proposed development from the perspective of an open market. This analysis assumes that all commercial units, including the rooftop bar, restaurant, and demisable retail units, are designed to be for rent product. The analysis also assumes that the boutique hotel rooms will be designed as luxury class units.

The following chart compares the as-proposed development proforma assumptions with PDC's market-derived assumptions. The City and Project's demographic assumptions are listed in the following tables:

Assumptions	As Proposed	Market Estimate	Comments
Hotel Rooms (Keys)	24	-	All Hotel Rooms assumed to be Luxury Class.
Commercial Retail	8,550	-	Commercial Space assumed to be leased to maximize NOI.
Hotel Component			
Days Open	365	365	Reviewers assume same construction/absorption schedule as development
First Year of Operations	2025	2025	
Stabilization Year	2027	2027	
Hotel Revenue (Stabilized)			
ADR	$280	$275	Reviewer estimates assume an ADR in 2023 of $246. Estimate based on market averages in both Luxury and Upper Upscale Comp Properties. This is expected to increase by 3% annually for the 10-year forecast. Stabilized ADR in 2027 assumed to be $275.89.
Occupancy	65%	65.51%	Reviewer assumption based on current market averages for Luxury Hotel Class. Opening Occupancy assumed to be 55% in 2025, 60% in 2026, and stabilized in 2027. Normalization of hotel market assumes only 1% annual occupancy growth after stabilization.
RevPAR	$182	$180.72	RevPAR follows assumptions made for ADR and Occupancy at stabilization.
Revenue Per Occupied Room (POR)	$5.50	$5.50	Reviewers assume developer's estimate for Revenue POR.

Hotel Expenses (Stabilized)			
GOP Margin	48%	37.50%	Reviewers assume market benchmark for departmental and operating expenses. Developer's margin is higher on account of innovative operation strategy that reduces labor costs.
Hotel Growth Rates (After Stabilization)			
ADR	3%	3%	Reviewers assume similar market growth rate for 10-yr forecast
Occupancy	0%	1%	Reviewers assume modest annual occupancy growth after stabilization.
Retail Component	**SF**		
Retail Unit 1	1500	-	Reviewers Assume market averages for rent and expenses for all demisable retail space. Leases are assumed NNN and all income derived from rental rates.
Retail Unit 2	2000	-	
Restaurant	3700	-	
Bar	1350	-	
First Year of Operations	2025	2025	Reviewers assume same construction/absorption schedule as development
Stabilization Year	2026	2026	
Revenue (Stabilized)			
Commercial Retail Leasing Rates	$26.00	$27.00	Reviewers assumption based on weighted average for high quality retail/restaurants under 5,000SF within Denver Metro Submarket. Market leases on average are higher than developer's projection.
Stabilized Vacancy	-	5% + 1% Credit Loss	
Retail Expenses (Stabilized)			
Lease Type	NNN	NNN	
Expenses PSF		$15.00	Based on Market Benchmark
Financing			
Debt			
Loan: Value Ratio	70%	70% - 80%	Financing terms are consistent with the market given lender relationships and project nuances.
Interest Rate	8.00%	6.75% - 8.5%	
Amortization	30 Years	20-30 Years	

Capitalization Rates			
Stabilized – Hotel	7.50%	8.15%	Economic and market conditions have led to a decompression of hotel capitalization rates. Retail capitalization around Denver, however, is within an expanding market and is compressed.
Stabilized – Retail	7.50%	6.50%	The going-in (stabilized) cap rate used in the Review reflect these market expectations. Typically, exit cap rates (at asset liquidation) are 50 to 150 basis points higher than going-in rates. The reviewers used a 75 basis point increase for liquidated capitalization rates. The blended rate reflects a weighted average between the hotel and retail capitalization rates.
Liquidated - Hotel	7.50%	9.00%	
Liquidated – Retail	7.50%	7.25%	
Blended Rates			
Stabilized	7.50%	7.50%	
Liquidated	7.50%	8.25%	
Target Yield			
Yield Rate (IRR Unlevered)		10.5% to 11.5%	Market-based target yield rates are used to estimate the financial gap. These yield rates represent a blended return based on market surveys for hotel and retail commercial property investments. The Reviewers added a risk premium to the hotel yield of 100-basis points to account for the Hotel's independent affiliation and boutique operation.
Return on Cost		7.5% to 9.0%	
Development Cost	**$10,088,628**	**$10,200,000**	The Reviewer’s estimated development cost is based on the project concept as understood by the Reviewer using cost guide approximations. The Developer’s estimated development costs are within 1% of the Reviewer’s estimate and considered reasonable. The reviewer’s cost estimate was used in estimating the feasibility gap.

1. Source: CoStar, RERC; Realtyrates.com; RS Means; Zillow; CBRE; DMCAR; NAR, Commercial Real Estate Finance Co. of America, CommercialLoanDirect.com, Integra Realty Resources, Hoyt Advisory Services; NMHC/NAA; U.S. Census Bureau; RealPage, fixr.com, Statista: Denver, Fannie Mae, EV Studio, ARGUS College, Development Research Partners

Estimated Feasibility Gap

Based on investor surveys and market data reviewed by PDC, the following target rates are used to proxy investment hurdle rates of return. In other words, it is assumed the cash flow projections must yield rates within the following ranges to be considered attractive to the market. Return On Investment (ROI) estimates are based upon stabilization in 2027, designated as Year 3 of the Proforma.

ROI Indicator	Description	Market Target
Return-on-Cost	Net Operating Income (NOI) in Stabilization Year before debt service as % of development cost.	7.5% to 10.0%
Internal Rate of Return (IRR, unleveraged)	Annual revenue and asset sale over 10 years as return on development costs.	10.5% to 11.5%

The following Gap Funding range analysis illustrates the application of total GAP funding against construction cost during the first year of construction.

ROI Indicator	Market Target	GAP Funding Range		
Estimated Gap		**$1,500,000**	**$2,000,000**	**$2,500,000**
Return-on-Cost	**7.5% to 10.0%**	**8.61%**	**9.13%**	**9.73%**
IRR, Unlevered	**10.5% to 11.5%**	**9.98%**	**10.83%**	**11.76%**

The development project as proposed indicates a **financial gap ranging from $1.5 to $2.5 million.** The gap funding range analysis reveals that the project will begin to achieve market target rates for "return-on-cost" and unleveraged IRR with **$2.0 million in gap funding.**

To achieve market target rates, this Gap Funding estimate is assumed to be applied to construction equity. The funding, therefore, is estimated as **a net present value of at least $2 million. This review estimates that the project will achieve target market hurdle rates at this level of public funding.**

Feasibility Gap Analysis

The proposed development has unique challenges that were considered in this analysis. This section will provide an explanation of these challenges and how they were considered by the analysis when estimating potential funding gaps.

Unique Challenges and Yields

The City Hotel Project is an ambitious project in that it proposes to restore the historic Castle Rock City Hotel, while also develop a new, four story, mixed-use structure around the existing structure. This development plan is challenging. The costs incurred for adaptive reuse projects are typically higher than new construction projects. Design is also constrained in that it must balance redevelopment with historic preservation. The mixed-use design concept is also challenging in that it eliminates parking from the property to maximize its space and uses. Parking is intended to be located off-site, which adds an additional complication to the property. These challenges, when blended, represent a complex development project that has very little comparable properties. The project's challenges and relative lack of "comps" create a "riskier" investment environment that necessitates higher yields.

The Gap Analysis quantified this perspective by adding additional development costs, expenses and a "Risk Premium" to quantify return on investment hurdle rates. This risk premium was applied to the Hotel's expected unlevered IRR as a 100-basis point increase. Retail yields were not given a risk premium. The development costs were increased by $120,000, to a total project cost of $10,200,000 and the hotel's operating expense ratio was increased by 8%. These changes were derived from market benchmarks.

Hospitality Component

The project's hospitality component features 24 keys (rooms) that will be designed as Luxury class hotel rooms. These rooms are expected to stabilize at an average daily rate of $275 and achieve 65% occupancy. These rates are comparable to downtown Denver luxury class, independent, boutique hoteliers.

The Reviewers did not find the developers ADR, Occupancy Rate, or RevPAR understated. In fact, the Reviewers found these projections to be aggressive. This was especially true when evaluating the City Hotel Expenses and comparing them to market benchmarks. Comparable Hotel properties exhibited an expense ratio of approximately 60-65%. The City Hotel, by contrast, exhibited an expense ratio of only 55% at stabilization. This is an aggressive assumption on expenses since it effectively increases net operating income and lowers potential funding gaps.

The Developer indicated that this Hotel Property will feature an innovative management approach, one similar to "AirBnB Models" that could lower operating expenses. It is assumed that labor costs will be reduced through this innovation. While this innovation may prove successful in lowering actual expenses for the City Hotel, this approach also presents risks. The reviewers assumed that Hotel expenses will instead match market benchmarks, similar to that of comparable hotel properties.

The Reviewers also identified a capitalization rate that was higher than the rate the developer was including within their model. Both the going in and reversionary capitalization rate used by the Reviewers were higher than the Developer's estimate, based on market surveys.

Retail Component

The project' retail component features 8,550 square feet of commercial space. The Developer's pro forma indicates an average lease rate of $26.00 PSF for the commercial space.

The Reviewers benchmarked the commercial space to current market conditions, meaning revenues and expenses are based on comparable retail uses throughout the market area. General commercial retail rates, assuming NNN leases, were used by this analysis in evaluating the financial gap.

The Reviewers found that the Developer's expected lease rates and expenses were slightly lower than comparable commercial properties. Commercial retail properties throughout the Denver sub-market area and within Castle Rock were analyzed, specifically higher quality retail and restaurant properties with less than 5,000 square feet of space. The average lease rates for commercial retail properties were around $27.00 per SF. The Reviewers estimated a $15 per SF expense for the commercial retail space also.

Retail capitalization rates were slightly compressed relative to the blended rate reported by the developer. This cap rate compression is based on market surveys that indicate Denver and its surrounding markets are in an expansion phase.

Development Risk

Project proformas are projections and always carry market and other risks impacting costs, operations, and ROI. In reviewing this project the following risks are summarized amongst other potential risks:

- Capitalization Rates may be lower than can be realized;
- Potential Rent Concessions as a deduction to asking rents may become more common in the market;
- Debt financing rates may escalate;
- Public participation by the Castle Rock DDA may be limited; and
- Current economic uncertainty as previously described.

Historic Credits

This Gap Funding analysis does not consider how public funding assistance may be provided to this development if a financial gap is identified. It does not quantify property or sales tax TIF, identify grant sources, or other possible funding tools. These are policy questions that must be answered through negotiations between the public and private sector.

However, the Developer's pro forma does indicate the possibility for a unique funding source that should be mentioned in this analysis. The funding source identified in the pro forma is historic tax credits. According to interviews with the developer, these credits may be sold to help reimburse eligible expenses. The present value of these tax credits, assuming interested parties are willing to buy them, may be as high as $1 million.

Although these Historic Tax Credits represent a possible public funding source, they are by no means a guarantee. The tax credits and the expenses they may be allocated towards must be determined by state agencies. These agencies determine which expenses are in fact eligible for the tax credit, which risks lowering the total value for reimbursement.

The Reviewers recommend that the Castle Rock DDA work with the development team to determine the appropriate public funding package necessary to close the identified funding gap and make the City Hotel feasible. This funding package may include non-traditional financing mechanisms and sources, such as the off-site parking agreement. The Reviewers do not recommend basing this negotiation around the assumption that all potential historic tax credits will become eligible expense reimbursements on this project.

Conclusion

The City Hotel redevelopment is a project that advances the Castle Rock DDA's and the Town of Castle Rock's goals and objectives. The proposed redevelopment will remediate blighting conditions within this property and renew it as a historic landmark. The project will also act as a catalyst development for the area, creating a new hotel and helping draw additional guests, shoppers, and visitors to downtown Castle Rock.

This analysis found only slight variations between the Developer's pro forma and current market conditions. The estimated development costs were in line with market norms. The vacancy rates, absorption schedule, and financing terms also aligned with current market conditions.

The differences between the Developer's pro forma and the Reviewer's model were caused by differences between retail asking rents, hotel expenses, and capitalization rates. The Developer, in general, projected lower hotel expenses than comparable properties and a more aggressive (lower) capitalization rate. These assumptions are optimistic and effectively lower the amount of financial assistance needed to make the project feasible. The Reviewers modelled this development according to comparable market realities and assumed expenses and revenues in line with general hospitality and retail space.

In conclusion, it is the reviewer's opinion that a feasibility gap does exist for the development as proposed, in the range of:

$1,500,000 to $2,000,000