Development Research Partners

Date: July 6, 2015

From: Jesse Silverstein, Senior Economist, Development Research Partners

To: Kevin Tilson, Director, Castle Rock Downtown Alliance

RE: Addendum 1: Development Proforma Review for Project 1920 dated May 12, 2015

Development Research Partners, Inc. (DRP) has been engaged to review the development budgets provided by the project developer and to independently develop market data and proformas for the referenced project.

MODIFICATION TO PROJECT

To shrink feasibility gaps the developer has proposed constructing the project without the basement component.

- According to developer representative Gene Gregory, construction costs to be saved by eliminating basement construction include:
    - Cost of foundation walls plus shoring during construction
    - No longer need caissons to bedrock, without basement they can use spread footings
    - Can eliminate need for steel beams and corrugated steel flooring on the first floor; will be replaced by the slab foundation
    - Basement would require buried plumbing for bathrooms and restaurant/bar space; now not needed
    - They would have needed larger water lines to service the basement
    - The basement would have needed pumps to move sewage up to the sewer mains
    - They eliminated the need for grease traps to service the basement restaurant space
    - Costs of permits and other fees associated solely with the basement space that will no longer be incurred
- Mr. Gregory estimates these components will save the project approximately $600,000 in construction costs.
- The project will also lose 7,200 rentable square feet of basement space for which DRP has previously estimated market rent at $14.00 per square foot triple net.

IMPACT ON FEASIBILITY

Eliminating the basement from the project will both lower construction costs and also lower anticipated rental income that would have otherwise accrued to the basement space.

Target Rates of Return

Based on investor surveys and market data reviewed by DRP, the following target rates are used to proxy investment hurdle rates of return. In other words, it is assumed the cash flow projections should yield rates within the following ranges to be considered attractive to the market:

Cash-on-Cash	Income after debt service as % of equity	10% to 20% (minimum 10%)
Internal Rate of Return (IRR)	Annual revenue and asset sale over 10 years as return on development costs	9% to 12% (minimum 9%)

Development costs Project 1920, without the basement, is estimated at $6.6 million. There is an associated decrease in net operating income estimated at $900,000. As a result

	Upfront Gap Funding	
Gap Funding Level	Cash-on-Cash	IRR
None	2.8%	5.4%
$1,400,000	9.4%	8.7%
$1,500,000	11.4%	8.9%
$1,600,000	14.4%	9.2%

Based on assumptions and analysis presented in the original memorandum and this addendum, gap financing in the range of $1.4 million to $1.6 million would just reasonably cover the anticipated gap.

IN CONCLUSION

A target of $1.5 million in public investment to bridge feasibility gaps is indicated. As with all investors, this particular developer has its own internal investment criteria, hurdle rates, and performance projections which may or may not match the generalized market parameters used herein.

During interviews regarding the basement cost, this particular developer noted a concern that the estimated gap is a lump sum estimate and that annualizing that funding into equal increments would merely enable him to repay principal for a loan but may not cover interest costs on that loan.

The suggested ranges of gap funding will necessitate negotiation to determine the specific level acceptable to the City and the developer.

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