Final Report

Miller's Landing Public Finance Review

The Economics of Land Use

Prepared for:

Town of Castle Rock, Colorado

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1. EXECUTIVE SUMMARY

Introduction

This report summarizes Economic & Planning System's (EPS) review and analysis of the proposed Public Finance Agreement (PFA) for the Miller's Landing Project, a proposed mixed-use development located adjacent to the Plum Creek I-25 Interchange in Castle Rock, Colorado.

The Town of Castle Rock, through its urban renewal authority (URA), has been approached by a private developer to implement a public-private development partnership (P3) on a 66-acre parcel of land near the Plum Creek I-25 interchange. Citadel Development LLC (Developer) has a contract to purchase the property which includes a former municipal landfill site in need of remediation. The proposed Project is an ambitious mixed use development named Miller's Landing, including a full-service hotel with conference space, as well as additional destination retail uses and professional office development sites.

The Developer is proposing to undertake the required redevelopment mitigation work as well as to construct the major trunk infrastructure needed to develop the property under a proposed P3 agreement at no risk to the City. A Business Improvement District (BID) was formed to undertake the infrastructure and remediation work partially funded by tax increment revenues from the URA and a credit public improvement fee from the Town.

The Town of Castle Rock (Town) retained EPS, a full service economic consulting firm with offices in Denver, CO, to provide an independent third-party review of the proposed finance agreement. This report is presented in three chapters following this Executive Summary as follows:

- **Development Program and Market Assumptions** – Verification of the supportable land and market values, associated property and sales tax values, and absorption estimates upon which the Project financing plan is based.
- **Financial Analysis** – A "But For" financial analysis of the Developer's financing plan to determine 1) "but for" the public investment the Project is financially infeasible, and 2) with public investment the Project is feasible with a reasonable rate of return given current financial conditions and the associated level of developer risk.
- **Project Benefits and Risks**– An assessment of the economic development benefits of the Project to the Town and evaluation of any associated financial risks.

EPS has extensive experience working for cities, towns, and URAs evaluating market and financial components of public-private development proposals involving TIF, metropolitan and other special districts, and other economic development incentives. Our analysis of market conditions relies on our recent project experience in Castle Rock as well as elsewhere in the Colorado Front Range along the I-25 Corridor. We also have a current understanding of property and sales tax values in Castle Rock having completed an independent analysis of revenue projections for the Promenade at Castle Rock Metropolitan District revenue bonds issued by DA Davidson.

Public Financing Request

The Developer of Miller's Landing has requested a significant public finance package from the Town of Castle Rock and the Castle Rock URA including the following components:

- **Tax Increment Financing** – 100 percent property tax increment from all taxing entities in the Town of Castle Rock, as enabled by the URA, including Douglas County, Douglas County School District, and the Town of Castle Rock. The Town's URA approved an urban renewal plan on the site on September 2014, making the Project eligible for TIF for which the 25-year clock was triggered in 2014. As a result, each subsequent year without development the Town loses potential development incentives. This "ticking clock" adds a sense of urgency to the Project.
- **Credit Public Improvement Fee (PIF)** – A 2.4 percent "credit" PIF, which results in a 60 percent reduction of the Town's 4 percent sales tax rate.

In addition, the Developer intends to generate additional financing revenues from the formation of a special district and the imposition of a privately imposed fee applied to the Citadel Station-Castle Meadow Urban Renewal Plan area as follows:

- **Business Improvement District (BID)** – A 50 mill property tax levy against all property owners for eligible capital improvements as well as an additional 10 mill levy for operations and maintenance (O&M).
- **Add-on PIF** – A 1.25 percent "add-on" PIF to be applied over and above the existing sales tax and credit PIF.

Table 1
Miller's Landing Public Finance Request

Vehicle	Request	Payer
URA	100% of property tax increment 2.4% Credit PIF (60% of 4% sales tax)	URA Town
BID	50 mills on property tax levy for capital 10 mills on property tax levy for O&M	Property-owners
PIF	1.25% add-on PIF to sales tax	Public/Patrons

Source: Miller's Landing Program and Financial Documentation; Economic & Planning Systems

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Summary of Findings

Development Program and Market Assumptions

The proposed program and the assumed absorption rates are well above historic development rates in Castle Rock, and the success of the development likely depends on the Developer's ability to attract large hotel and office anchor tenants. Class A office and full-service hotels would be the first of their kind, both in use and scale, in the Town, and are largely untested in the Castle Rock market. However, this type of development program has precedents in communities comparable to the Town, and the lack of significant development may be an indicator of a gap in the market.

While hotel and office are untested, the retail market in Castle Rock is fairly saturated. Existing regionally oriented destination retail development in Castle Rock is concentrated in the northern part of the Town including the Castle Rock Outlets and the Promenade at Castle Rock project, which is only about 50 percent complete. The Town's community serving retail is also more heavily concentrated on the north end, including King Soopers and Walmart. The best opportunities for retail uses at the Miller's Landing site are therefore for the destination type uses, which the developer has proposed. These types of uses would be complementary to both hotel and office uses as well as the park and recreational facilities adjacent to the development.

The Developer has estimated project costs of $72.1 million, including $8.5 million in land costs, $54.7 million in construction costs, and $8.9 in operating expenses. Approximately $60 million of the land and construction costs are related to public infrastructure improvements to be built by the BID and, as such, eligible for public financing. The Developer has provided documentation from its technical team to verify the estimates of public improvements.

Financial Analysis

Without public financing, the Developer estimates that the Project will earn negative $37.7 million and, as a result, will not be viable. With the complete public financing package requested by the Developer, the Project is estimated to make $11.4 million in profits with the Developer achieving an internal rate of return (IRR) of 19.6 percent. An IRR of approximately 20 percent is a reasonable return for a land development project of this size and scale, expected development time period, and level of market risk. Therefore, "but for" the public financing, the Project would not be viable.

Project Benefits and Risks

The proposed Miller's Landing Project is an ambitious undertaking that has the potential to address a number of key economic development objectives of the Town:

- Remediate the Town municipal landfill enabling full utilization of the subject property;
- Provide a location for Class A office space to attract business and professional service tenants;
- Attract a full-service 4-star hotel with conference, meeting and banquet space; and
- Develop destination retail/entertainment and recreation uses that bring new customers and that do not compete with existing retailers in the Town.

The Project would be new and unique to Castle Rock and therefore there is not sufficient historical development trend data upon which to base an estimate of absorption. The ultimate buildout of the Project may therefore take longer than anticipated by the Developer, and may also end up having a somewhat different allocation of space by land use category. However, in our opinion, the Town has proposed appropriate and reasonable minimum thresholds on the development of hotel and office uses to ensure that its basic economic development objectives are met. The proposed development agreement also provides defined triggers as to when the Developer can receive the requested public financing revenues. The property needs to be fully remediated and a full-service hotel property acquired with the first phase of development. The Town is also not front-ending any financing and the risks of slower absorption and corresponding slower TIF and/or PIF revenues are borne by the Developer.

Disclaimer

This analysis was based on cost and revenue estimates and proposed programming as of February 2017. Updates to costs, revenues and/or program subsequent to February 2017 are not reflected in this analysis, and EPS cannot guarantee that report conclusions are still accurate, and may change underlying conclusions of the report.

2. *DEVELOPMENT PROGRAM AND MARKET ASSUMPTIONS*

This chapter of the report reviews the proposed development program and the estimated market values and absorption timing if the Project. The Developer has not provided a market supporting its market value and absorption assumptions which are key inputs to the financial “but for” analysis presented in the next chapter. EPS’ review therefore is based on its recent experience in the Castle Rock and larger Denver metro area market as well as for a comparative analysis of Castle Rock to other smaller Front Range markets.

Development Program

The proposed Miller’s Landing Project is located on 66 acres of land made up of the Citadel and Castle Meadows parcels near the Plum Creek I-25 Interchange in Castle Rock, as shown in **Table 2**. The site is also adjacent to Philip S. Miller Park, a 300 acre public park with a recreation center, amphitheater, adventure park, and extensive hiking and bike trail system. Its proximity to the highway interchange and the park has the potential to add significant attraction and draw to the proposed Project. The Developer has executed purchase sale agreements (PSA) for the two parcels comprising the Project site.

In addition, the property has also been rezoned from Industrial One (I-1) to Interchange Overlay District (IOD) which allows for a mixed-used and flexible development program at higher densities. As part of the proposed development agreement, the Town has excluded residential from the site, and limits the amount of retail the Developer can build until minimum thresholds of office and hotel uses are completed.

Table 2
Parcel Information

Description	Acres	Sq. Ft.	% Area
Parcel Information			
Citadel	48.19	2,099,156	73%
Castle Meadows	17.78	774,497	27%
Subtotal	**65.97**	**2,873,653**	**100%**

Source: Miller's Landing Program and Financial Documentation; Economic & Planning Systems

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The Developer has proposed an ambitious program. Importantly for the Town, the program includes a full-service hotel with conference space and Class A office development. The bond revenue model includes a 250-room hotel and 480,000 square feet of office employment. However, in interviews, the Developer has suggested that the hotel could be larger. For purposes of contractual commitment, the Developer is committing to a pad site for a 250-room hotel with a minimum of 10,000 square feet of conference space. This allows the developer flexibility in seeking a wider range of hoteliers in negotiations.

In addition to the hotel and conference space and office development, the proposed program includes a mix of retail, entertainment, and food and beverage uses. The Developer has suggested that the retail will be "destination retail" with a focus on uses that are synergistic with both the hotel and the recreation use of Philip S. Miller Park. The goal is that, taken together, the mix of hotel, retail, entertainment, and restaurants will create an "experiential lifestyle district" that is distinct from the other retail and restaurants in the area and will be a unique draw to Castle Rock.

The development is organized into four distinct phases, with overlap in years. Phase 1 includes the hotel and the initial retail development. Phase 2 includes the initial office development, located in closest proximity to the highway interchange. Finally, Phase 3 is primarily retail, and Phase 4 is primarily office with a little retail. **Table 3** and **Figure 1** summarize the Developer's program by phase.

Table 3
Miller's Landing Program by Phase

Description	**Phase 1** 2019	**Phase 2** *2021*	**Phase 3** *2022*	**Phase 4** *2022/3*	**Total**
Program					
Hotel & Conference	165,000	0	0	0	165,000
Retail	24,000	0	120,000	30,000	174,000
Entertainment	24,000	0	0	0	24,000
Food and Beverage	34,000	0	0	0	34,000
Office	0	250,000	0	230,000	480,000
Subtotal	**247,000**	**250,000**	**120,000**	**260,000**	**877,000**

Source: Miller's Landing Program and Financial Documentation; Economic & Planning Systems

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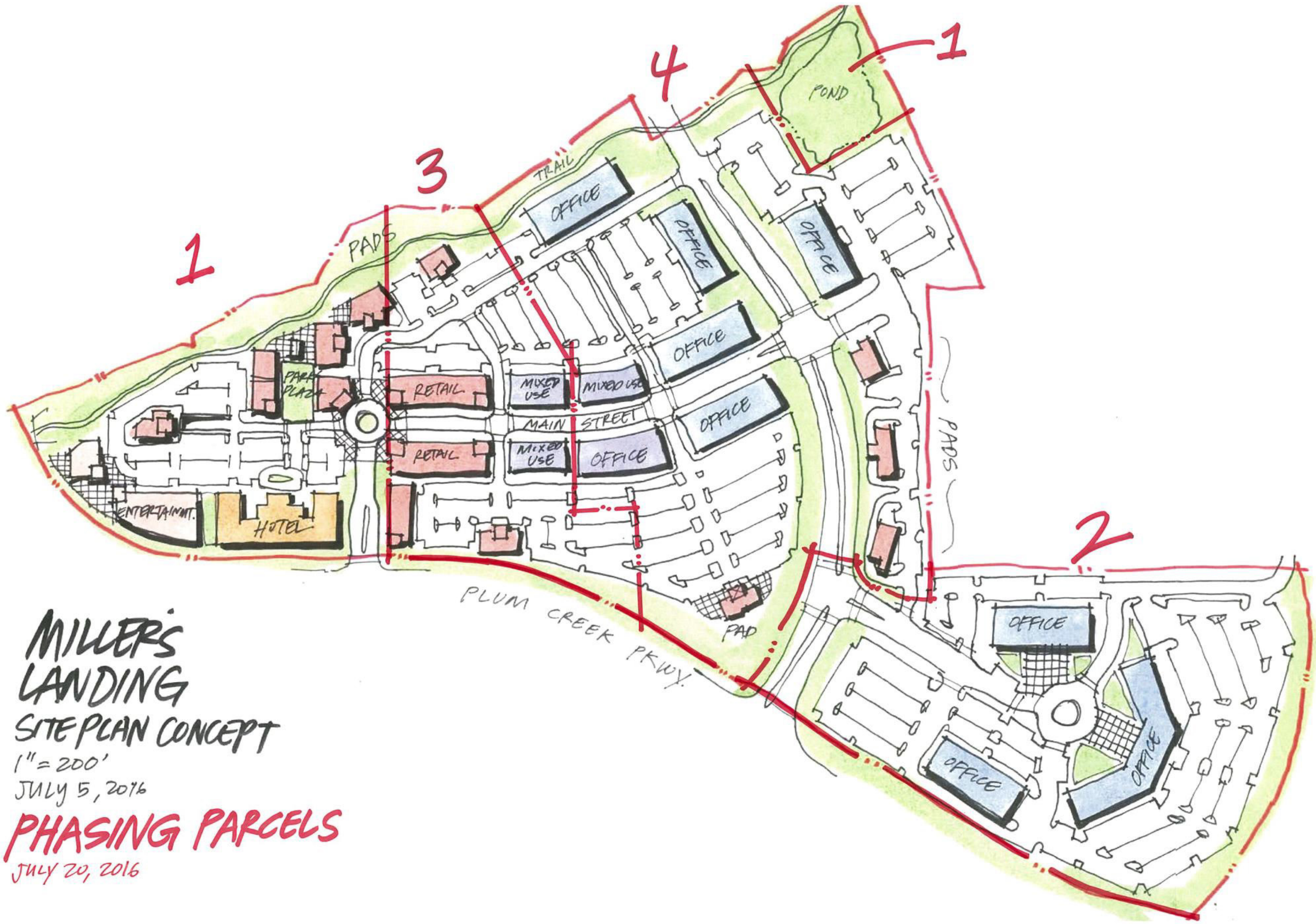
Figure 1
Miller's Landing Phasing Diagram



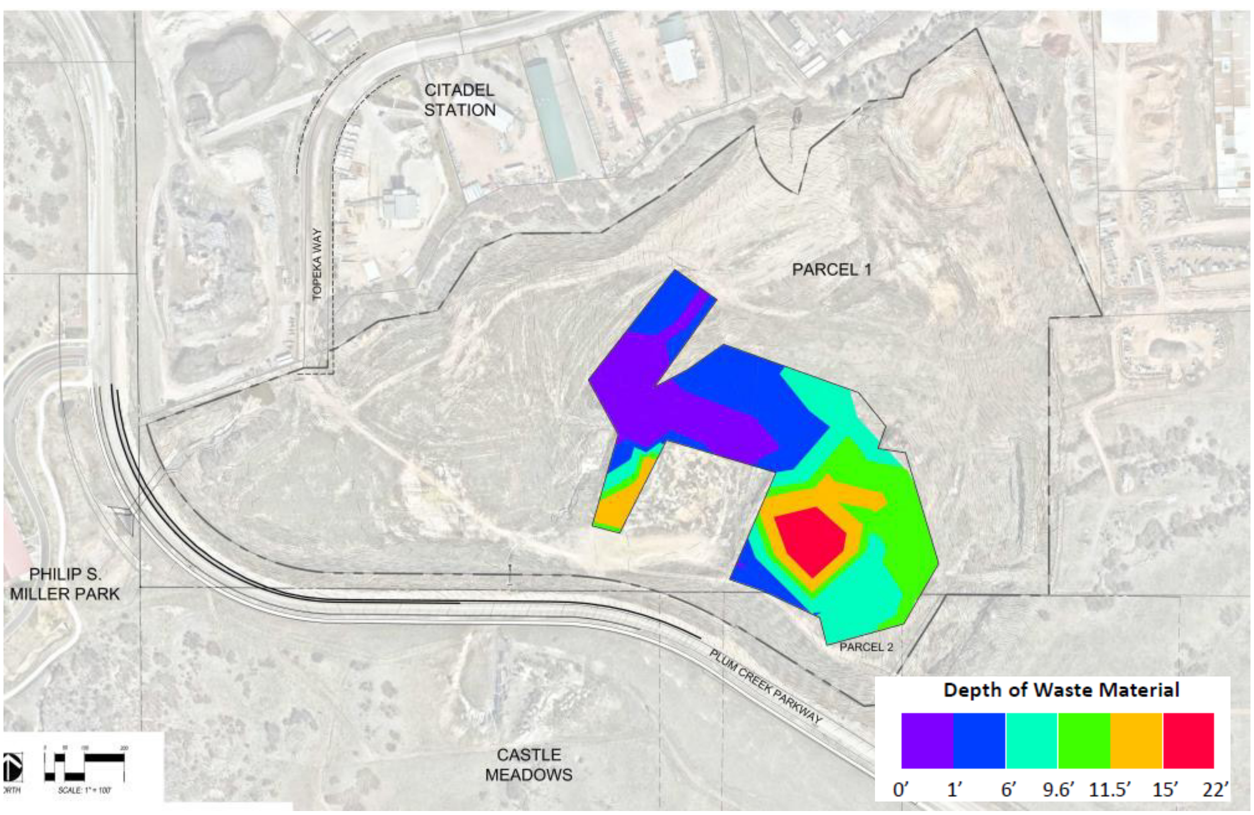
Public Improvements

This section outlines the public improvements that are eligible to be funded by public sources. The most significant is an old Town dump facility that must be remediated before any substantial development can occur (**Figure 2**). The Developer has fully delineated the extent of the contamination and estimates the cost of the remediation to be approximately $10 million. Given the environmental liability to the Town and limitations on development imposed by the landfill, the proposed remediation is perhaps the key public infrastructure improvement and benefit justifying the public contributions to the Project.

The plan incorporates a number of infrastructure improvement and public amenities in addition to the land fill remediation. These include:

- Roadway networks, including two intersections, and a lane extension on Plum Creek Drive and a road extension of Prairie Hawk Drive
- Public parking and overflow parking for Philip S. Miller Park
- Storm drain and storm water management infrastructure
- Sanitary sewer and water infrastructure
- Industrial ditch
- Open space

Figure 2
Miller's Landing Site with Contaminant Delineation



Market Values and Assumptions

The section reviews: (1) market conditions and absorption assumptions, which affect timing of cash flows for both the Developer and bond investors; (2) land sale prices and cost of development, which affect revenue and expense projections outside of the financing decisions of the Project; and (3) public finance inputs, including property tax and sales tax assumptions, which affect the level of bond capital that the Project can raise. Ultimately, the inputs affect the level of return for the Project, and the section provides perspective on the likelihood that the Developer is able to achieve the return reported in its financial documents.

The Developer has not provided a market study substantiating the land and market values, associated property and sales tax values, and absorption estimates upon which the Project financing plan is based. EPS has reviewed and evaluated the values used based on available secondary data and its knowledge of the Castle Rock and larger Front Range market.

Absorption Rate and Market Conditions

Project absorption rates affect how soon the district will start generating public financing revenues and cash flows. **Table 4** presents the proposed Miller's Landing program square footage and year in which this programming is projected to come online. In Year 2, the development is projected to absorb a 165,000 square feet hotel with 250 rooms, 82,000 square feet of retail, entertainment, and restaurants, and 250,000 square feet of office. In Year 4 (Phase 3), the development is projected to absorb 230,000 square feet of office. Finally, in Years 5 and 6, the development is projected to absorb 150,000 square feet of additional retail/ entertainment uses.

It is important to note that the IOD zoning provides a great deal of flexibility in the allowable mix of uses. The development plan may therefore evolve and include more hotel and/or retail uses and less office or vice versa. The proposed development agreement however establishes a number of key triggers to ensure that the Project remains consistent with the Town's economic development objectives.

- No more than 100,000 square feet of retail can be built prior to a full service hotel with at least 250 rooms and 10,000 square feet of conference space.
- No Credit PIF revenues will be pledged until closing of the property for the full-service hotel.
- Retail space is capped at 250,000 square feet until at least 150,000 square feet of office is completed.

Table 4
Miller's Landing Development Program

Description	Year 0 0 *2017*	Year 1 1 *2018*	Year 2 2 *2019*	Year 3 3 *2020*	Year 4 4 *2021*	Year 5 5 *2022*	Year 6 6 *2023*	Total
Hotel & Conference	0	0	165,000	0	0	0	0	165,000
Retail	0	0	24,000	0	0	120,000	30,000	174,000
Entertainment	0	0	24,000	0	0	0	0	24,000
Food and Beverage	0	0	34,000	0	0	0	0	34,000
Office	0	0	250,000	0	230,000	0	0	480,000
Total	**0**	**0**	**497,000**	**0**	**230,000**	**120,000**	**30,000**	**877,000**

Source: Miller's Landing Program and Financial Documentation; Economic & Planning Systems

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EPS has researched the historic development trends of Castle Rock and four comparable exurban communities in the Denver market area. These communities are referred to as the comparable cities from here on and include: Lone Tree, Longmont, Loveland, and Parker, Colorado. (This section presents a summary and the key takeaways from this market assessment. The full research is presented in **Appendix A**.)

When compared to the historic development rates in Castle Rock and the comparable cities, EPS finds the assumed absorption rates to be aggressive, although not completely unprecedented. **Table 5** presents the most optimistic annual absorption rate assumption used in the Developer's financial analysis and compares this to the historic and maximum delivery rates of Castle Rock and the comparable cities in its competitive set. In terms of average rates, the development would generally have to capture many times more than the historic market average for retail and office. In Castle Rock, for example, for the Project to meet the retail absorption assumptions modeled in Year 4 of the pro forma and the office absorption assumptions modeled in Year 5, it would have to capture 205 percent of historic annual retail deliveries and 679 percent of historic annual office deliveries in the Town over the last 10 years. These Project absorption rate assumptions look a little more reasonable when compared to maximum deliveries, where in Castle Rock, for example, the Project would only have to capture 49 percent of maximum delivery. The numbers look worse for office, though there are examples of Projects of similar size.

The hotel is different in that the Project is only looking to attract one tenant. However, a 250-room hotel (165,000 square feet) is large when compared to the historic maximum delivery in the comparable cities. The largest hotel built in the last 10 years in the comparable cities is the 300-room 4-Star Embassy Suite Hotel with 40,000 square feet of conference space built in Loveland in 2008.

For retail sales, the Developer models a more conservative revenue estimate by assuming that the retail will not reach full occupancy until three years after land sales, in essence modeling a three year absorption rate. While more realistic, this absorption rate is still fairly aggressive. Moreover, the Developer does not apply these same conservative factors to property tax revenue estimates, which, in the end, account for a larger portion of the public finance contribution.

Table 5
Annual Project Absorption Compared to Historic Deliveries

	Average Deliveries (2006-2016)			Max Deliveries (2006-2016)		
Description	**Hotel**	**Retail**	**Office**	**Hotel**	**Retail**	**Office**
Program	*Year 1*	*Year 5*	*Year 4*	*Year 1*	*Year 5*	*Year 4*
Assumed Absorption	165,000	120,000	250,000	165,000	120,000	250,000
Historic Deliveries						
Castle Rock	4,935	58,665	36,819	54,280	244,919	85,900
Lone Tree	13,165	29,553	126,856	80,812	116,029	380,000
Longmont	0	179,927	20,149	0	923,576	80,808
Loveland	35,240	97,179	85,749	307,636	623,397	211,099
Parker	4,545	105,869	33,003	50,000	328,753	157,204
Percent Market						
Castle Rock	3344%	205%	679%	304%	49%	291%
Lone Tree	1253%	406%	197%	204%	103%	66%
Longmont	---	67%	1241%	---	13%	309%
Loveland	468%	123%	292%	54%	19%	118%
Parker	3630%	113%	758%	330%	37%	159%

Source: Miller's Landing Program and Financial Documentation; CoStar; Economic & Planning Systems

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Given this context, the success of the development likely depends on the Developer's ability to attract large hotel and office anchor tenants. Without attracting such a large anchor tenant and relying instead on the historic trends in Castle Rock, the Project will take longer to absorb.

The Developer is in discussions with a national hotel development firm regarding a proposed full service hotel with additional conference space. The development program used in the pro forma analysis includes a 250-room hotel with 10,000 square feet of conference space. The Developer has also indicated that it is also pursuing a larger and more unique destination hotel/resort property.

The Castle Rock market to date is primarily composed of limited service hotels without a significant conference, banquet, or event space. There is clearly a need and desire for a full service property with a higher level of amenities. It is unclear however, given the lack of a competitive local inventory, how soon and how large a hotel may be built on this site, and, as noted above, the proposed development agreement between Miller's Landing and the Town would require that a full-service hotel with a minimum of 250 rooms and 10,000 square feet of conference space be completed before more than 100,000 square feet of retail can be built.

The retail market in Castle Rock in particular is already fairly saturated. Existing regionally oriented destination retail development in Castle Rock is concentrated in the northern part of the Town including the 478,000 square foot Castle Rock Outlets and the 1.0 million square foot Promenade at Castle Rock project, which is only about 50 percent complete. The Town's community serving retail is also more heavily concentrated on the north end, including King Soopers and Walmart. The best opportunities for retail uses at the Miller's Landing site are therefore for the destination type uses proposed. However, there is more uncertainty surrounding how fast this type of retail space might develop. Destination retail/entertainment uses would likely be developed in a "lumpy" fashion in larger increments.

If completed at the proposed or larger level, the hotel portion of the Project would be a major anchor and help catalyze the additional proposed uses including the destination retail and office development. While EPS believes that while the office development is viable with or without the complementary hospitality and retail uses, the level of retail proposed is likely only viable with a successful hotel and conference center.

Market Value and Sales Tax Assumptions

Table 6 summarizes the property and sales tax assumptions used by the Developer in the bond model. EPS finds that these assumptions are reasonable assumptions, especially given that the retail, food and beverage, and entertainment portions of the program are still not full-detailed. Once more specific tenant selection begins, the percent taxable sales for different uses may decrease. In particular, service tenants are not subject to sales tax. A reduction in this taxable rate will in turn reduce public finance revenues and the resulting level of bond issuance.

Table 6
Property and Sales Tax Assumptions

	Property Tax		Sales Tax (PIF)		
Description	**Unit**	**Market Value**	**Sales**	**Occupancy**	**Taxable**
		(2015 $ per Unit)	*(2015 $ per Sq. Ft.)*	*(Yr1, Yr2, Yr3)*	% Sales
Retail/Food and Beverage	Sq. Ft.	$100	$250	50%, 65% ,100%	100%
Entertainment	Sq. Ft.	$200	$500	50%, 65% ,100%	100%
Office	Sq. Ft.	$200	---	---	---
Hotel & Conference	Room	$80,000	$150	50%, 60% ,70%	100%

Source: Miller's Landing Program and Financial Documentation; Economic & Planning Systems

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Land Sales

Land price per square foot assumptions affect the total revenues that the Developer can raise from land sales. The Developer's financial model lists land sale prices by phase with prices ranging between $11.00 and $13.00 per square foot. To test these assumptions, EPS created a range of likely land sale prices based on interviews with developers and CoStar data. EPS established prices by different commercial types, as shown in **Table 7.** EPS then calculated a land price per square foot per phase based on a weighted average of the different uses in each phase by square foot, as shown in **Table 8**.

Table 7
Land Price per Sq. Ft. by Land Use Type

	EPS Consensus		
Description	**Lower**	**Upper**	**Average**
Retail	$7	$10	$9
Entertainment	$7	$10	$9
F&B	$14	$31	$22
Office	$4	$8	$6
Hotel & Conference	$12	$14	$13

Source: Costar; Economic & Planning Systems

H:\173010-Castle Rock Millers Landing TIF Analysis\Data\[173010-Land Sales.xlsx]T-COmparison by Phase

In its research, EPS found that a land price per square foot between $11.00 and $13.00 is reasonable for retail, entertainment, food and beverage, and hotel uses. The range is slightly high for retail and entertainment, low for food and beverage, and just about average for hotel use. Phases 1 and 3 are primarily made up of these components. As a result, the Developer's land price most closely matches EPS's consensus in theses phases. The ultimate land price per phase will depend on the relative proportion of retail, entertainment, hotel, and food and beverage. For example, a higher proportion of upscale restaurant/bar will increase the price of the land. It is likely that the mix of potential tenants is still in flux as the Developer looks to find potential tenants.

The range of $11.00 to $13.00 is high for office development when compared to EPS research into recent office sales in the comparable cities surveyed. EPS found that in these exurban office locations recent sales typically range between $4 and $8 per square foot. The office land values reflect the size of office buildings being built, and the land value is ultimately determined by the value per buildable square footage. Miller's Landing will have the ability to achieve higher values in later phases if the site is established and larger office buildings are marketable.

Further, the property tax applied by the BID is essentially an extra cost passed on to prospective tenants in the district. This extra cost will be factored into the investment decision of these tenants and in turn the investment decision of the horizontal developers, ultimately deflating the price that they will be willing to pay for land. As a result, EPS believes that it is likely the Developer has overestimated its land sale revenues, resulting in higher returns than the Project is likely to achieve.

Table 8
Land Price per Sq. Ft. by Phase

Description	Program	EPS Consensus [1] Lower	Upper	Average
Phase 1	$12.00	$9.91	$18.73	$14.32
Phase 2	$13.00	$4.00	$8.00	$6.00
Phase 3	$13.00	$7.00	$10.24	$8.62
Phase 4	$11.00	$4.35	$8.26	$6.30

[1] Calculated based on the w eighted average of different land uses in each phase.
Source: Miller's Landing Program and Financial Documentation; CoStar; Economic & Planning Systems
H:\173010-Castle Rock Millers Landing TIF Analysis\Data\[173010-Land Sales.xlsx]T-COmparison by Phase

Construction Costs and Eligibility

Construction costs and expenses will obviously affect project cash flows. In this case, the Developer has divided expenses into two categories: operating expenses and investment expenses. Operating expenses account for cost associated with the administration of the development entity and the horizontal development, and includes general and administration (G&A) expenses, developer operation expenses, and property taxes. In total, operating expenses are approximately $8.9 million or 12 percent of total costs. Investment expenses include those associated with land purchases and horizontal development. These costs are estimated to be $63.2 million. In total, the development expenses equal $72.1 million, as shown in **Table 9**.

However, project costs also determine the level of eligible project financing. There are a number of rules defined by the URA and special district statutes regarding eligible public expenses, but general remediation and trunk infrastructure are eligible. The Developer's model includes $52.6 million of reimbursable costs, which sets the upper range of the bond financing. To justify this level of eligible public improvement costs, the Developer included documentation of these costs estimates from its technical team in its submittal to EPS. **Table 10** summarizes the eligible costs from this documentation, and includes a total of $62.7 million of reimbursable expenses.

In addition to cost eligibility, the projected public finance revenues from property and sales tax will also limit the amount of reimbursement. In the financial information submitted by the Developer, the current estimated Project funds from bond issues are projected to be $55.7 million, which is 3.1 million higher than the current projected reimbursable Project costs of $52.7 million, but still below the $62.7 million in the separate cost documentation.

Table 9
Operating and Investment Expenses

Description	Total Expense	% Total	Per Land Sq. Ft.
Operating			
G&A Expenses [1]	$3,803,797	5%	$1.32
Developer Operations	$3,600,000	5%	$1.25
Property Taxes	$1,541,907	2%	$0.54
Subtotal	**$8,945,704**	**12%**	$3.11
Investment			
Land Purchase	**$8,486,750**	**12%**	**$2.95**
Reimburseable	$515,000	1%	$0.18
Non-Reimbursable	$7,971,750	11%	$2.77
Horizontal	**$54,745,974**	**76%**	**$19.05**
Reimburseable	$52,060,565	72%	$18.12
Non-Reimbursable	$2,685,409	4%	$0.93
Subtotal	**$63,232,724**	**88%**	**$22.00**
Total	**$72,178,428**	**100%**	**$25.12**
Reimburseable	$52,575,565	73%	$18.30
Non-Reimbursable	$19,602,863	27%	$6.82

[1] Prices include a 2% escalation rate per year.

Source: Miller's Landing Program and Financial Documentation; Economic & Planning Systems

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Table 10
Eligible Public Improvement Costs

Description	Amount	% Total
Public Infrastructure	$52,743,914	84%
Public Amenities	$543,257	1%
Land	$5,491,730	9%
Fees	$3,950,186	6%
Total	**$62,729,087**	**100%**

Source: Miller's Landing Program and Financial Documentation; Economic & Planning Systems

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3. *FINANCIAL ANALYSIS*

This chapter of the report summarized EPS' independent analysis of the proposed public financing agreement with the Town and URA. The review is based on a "But For" financial analysis of the Developer's proposed financing plan to determine 1) "but for" the public investment to Project would be financially infeasible and 2) with the public investment the Project is feasible with a reasonable rate of return given current financial conditions and the associated developer risk.

The Developer provided EPS with the necessary financial information including its own pro forma analysis (on a confidential basis) and documentation on its bond revenue estimation. EPS used this information to construct its own financial model to evaluate the Project against acceptable measures of return for public investment in real estate projects. In its analysis, EPS calculated the Developer's returns without public investment to determine if (1) "but for" the public investment the Project is financially infeasible and (2) with the public investment the Project is feasible with a reasonable rate of return given current financial conditions and the associated level of Developer risk.

In addition to the analysis of financial returns with and without public investment, referred to as the Baseline Model, EPS also calculated the Developer's return under a number of different public finance scenarios. This latter analysis provides the Town insight into the degree each additional layer of public finance contributes to the Project returns.

Baseline Model

Under this baseline scenario, EPS used the financial information provided by the Developer to calculate and present Project returns with and without public finance. This section reviews Project revenues, sources and uses, and the resulting returns.

Project Revenues

The Developer is a horizontal land developer that will remediate the brownfield condition and install trunk infrastructure and then sell development pads to vertical developers. In total, the Developer plans to sell approximately 2.8 million square feet of land for an average of $11.99 per square foot, as shown in **Table 11**. The Developer's pro forma includes land sales of open space and ROW setbacks for total revenue of $3 million. The Town understands that the BID will purchase the necessary ROW/open space/easement dedications.

Table 11
Developer Revenues from Land Sales

Description	Total Revenue	% Total	Per Unit Sq. Ft.	Per Unit Price [1]
Land Sales				
Phase 1	$5,227,200	15%	435,600	$12.00
Phase 2	$10,475,224	30%	774,497	$13.53
Phase 3	$4,236,633	12%	307,098	$13.80
Phase 4	$11,467,533	33%	963,112	$11.91
Open Space	$1,905,475	6%	246,550	$7.73
ROW, setbacks	$1,134,532	3%	146,797	$7.73
Total	**$34,446,596**	**100%**	**2,873,653**	**$11.99**

[1] Prices include a 2% escalation per year.

Source: Miller's Landing Program and Financial Documentation; Economic & Planning Systems

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Source and Uses

There are three sources of debt financing or leverage for the Project: a land loan, a construction loan, and bond revenue, as shown in **Table 12**. The Developer has assumed that the land loan will be an interest only loan at 50 percent of the cost of the land purchase. The loan will have a term of three years and a 10 percent interest rate. The horizontal construction loan is also assumed to be 50 percent of the development costs, with a five year term and 4.5 percent interest rate. The higher interest rate for the land loan reflects the lack of collateral associated with the land before the completion of remediation and horizontal development. The Developer's investment firm (D.A. Davidson) projects that it will issue two bond series, one in 2018 and the other in 2022, each with a coupon rate of 6.5 percent.

Table 12
Debt Financing

Description	Term	Int. Rate	Amount	Notes
Land Loan	3	10%	$3,725,000	Interest only; 50% of land cost
Horizontal Construction	5	4.5%	$26,030,283	50% of development cost
Bond Issue 1	23	6.5%	$28,152,297	Issued 2018
Bond Issue 2	19	6.5%	$27,555,481	Issued 2022

Source: Miller's Landing Program and Financial Documentation; Economic & Planning Systems

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Table 13 summarizes the sources and uses for the Project. In addition to the debt financing, the Developer will invest $10.9 million in equity, and land sales will provide $34.4 million of funds available for the Project. In terms of uses, the Developer estimates that the Project will have $33.1 million in financing costs, including financing fees, interest payments, and loan repayments as well as $22.3 million of cash distributable to equity holders in addition to the land, operating, and development costs. The distributable cash account is the balancing account for the uses of Project funds and the source of return for the Developer.

Table 13
Source and Uses

Description	Total	% Total
Sources		
Land Loan	3,725,000	3%
Horizontal Construction	$26,030,283	20%
URA & BID Bond	$52,575,564	41%
Equity	$10,918,908	9%
Land Sales	$34,446,596	27%
Total	**$127,696,351**	**100%**
Uses		
Land	$8,486,750	7%
Horizontal Development	$54,745,974	43%
Operating	$8,945,704	7%
Financing Costs	$33,199,955	26%
Distributable Cash	$22,317,967	17%
Total	**$127,696,351**	**100%**

Source: Miller's Landing Program and Financial Documentation; Economic & Planning Systems

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Returns

Without public financing, the Project would have negative profits of $37.7 million and would not be viable. These are the unleveraged cash flows for the Project. However, given its overall negative fundamentals, leverage would not improve Project returns or make the Project viable. With the complete public financing package requested by the Developer, the Project is projected to make $11.4 million in profits with the Developer achieving an IRR of 19.6 percent. In short, "but for" the public financing, the Project would not be viable. An IRR of approximately 20 percent is a reasonable return for a land development project of this size and scale and level of market risk.

Table 14
Leverage and Unleveraged Returns

Description	Unleveraged/Project (without Public Financing)	Leveraged (with Public Financing)
Project Profits	-$37,731,831	$11,399,060
IRR	---	19.6%
NPV @ 15% discount	-$28,860,416	$1,591,649

Source: Miller's Landing Program and Financial Documentation; Economic & Planning Systems

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Table 15
Leveraged and Unleveraged Cash Flows

Description	Totals	Year 0 2017	Year 1 2018	Year 2 2019	Year 3 2020	Year 4 2021	Year 5 2022	Year 6 2023
PROJECT CASH FLOWS								
REVENUES								
Land Sales	**$34,446,596**	**$0**	**$5,227,200**	**$0**	**$10,475,224**	**$4,236,633**	**$11,467,533**	**$3,040,007**
EXPENSES								
Operating								
G&A Expenses	-$3,803,797	$0	-$603,000	-$615,060	-$627,361	-$639,908	-$652,707	-$665,761
Development operations	-$3,600,000	$0	-$600,000	-$600,000	-$600,000	-$600,000	-$600,000	-$600,000
Property Taxes	-$1,541,907	$0	-$331,008	-$337,628	-$314,140	-$234,734	-$182,488	-$141,909
Subtotal	**$34,446,596**	**$0**	**-$1,534,008**	**-$1,552,688**	**-$1,541,501**	**-$1,474,642**	**-$1,435,195**	**-$1,407,670**
Investing								
Land Purchase	-$8,486,750	-$8,486,750						
Reimburseable	-$515,000	-$515,000						
Non-Reimbursable	-$7,971,750	-$7,971,750						
Horizontal	-$54,745,974	$0	-$10,902,163	-$10,039,454	-$13,851,469	-$3,683,451	-$3,687,749	-$12,581,688
Reimburseable	-$52,060,565	$0	-$10,734,913	-$9,362,571	-$12,929,273	-$3,447,040	-$3,467,940	-$12,118,828
Non-Reimbursable	-$2,685,409	$0	-$167,250	-$676,883	-$922,196	-$236,411	-$219,809	-$462,860
Subtotal	**-$63,232,724**	**-$8,486,750**	**-$12,436,171**	**-$11,592,142**	**-$15,392,970**	**-$5,158,093**	**-$5,122,944**	**-$13,989,358**
Total	**-$72,178,428**	**-$8,486,750**	**-$13,970,179**	**-$13,144,830**	**-$16,934,471**	**-$6,632,736**	**-$6,558,138**	**-$15,397,027**
PROJECT CASH FLOWS	**-$37,731,831**	**-$8,486,750**	**-$7,208,971**	**-$11,592,142**	**-$4,917,746**	**-$921,460**	**$6,344,589**	**-$10,949,351**
IRR	**---**							
NPV @ 15% discount	**-$28,860,416**							
LEVERAGED CASH FLOWS								
DEBT FINANCING								
Land Loan								
Proceeds	$3,725,000	$3,725,000	$0	$0	$0	$0	$0	$0
Fees, appraisal, escrows	$140,675	-$140,675	$0	$0	$0	$0	$0	$0
Interest reserve	$93,125	-$93,125	$0	$0	$93,125	$0	$0	$0
Interest	-$1,117,500	$0	-$372,500	-$372,500	-$372,500	$0	$0	$0
Principal repayment	-$3,725,000	$0	$0	$0	-$3,725,000	$0	$0	$0
Subtotal	**-$1,258,175**	**$3,491,200**	**-$372,500**	**-$372,500**	**-$4,004,375**	**$0**	**$0**	**$0**
Construction Loan								
Proceeds	$26,030,283	$0	$5,367,457	$4,681,286	$6,464,637	$1,723,520	$1,733,970	$6,059,414
Fees, appraisal, escrows	$540,454	$0	-$540,454	$0	$0	$0	$0	$0
Interest reserve	$292,841	$0	-$292,841	$0	$0	$0	$0	$292,841
Interest	-$1,646,044	$0	-$241,536	-$452,193	-$290,909	-$77,558	-$155,587	-$428,261
Principal repayment	-$26,030,283	$0	$0	-$10,048,742	-$6,464,637	$0	$0	-$9,516,904
Subtotal	**-$2,186,498**	**$0**	**$4,292,626**	**-$5,819,650**	**-$290,909**	**$1,645,962**	**$1,578,383**	**-$3,592,910**
BID and URA Bonds								
Bond Issue 1	$27,191,000	$0	$0	$20,612,483	$6,578,517	$0	$0	$0
Bond Issue 2	$25,384,564	$0	$0	$0	$0	$0	$0	$25,384,564
Subtotal	**$52,575,564**	**$0**	**$0**	**$20,612,483**	**$6,578,517**	**$0**	**$0**	**$25,384,564**
Total	**$49,130,891**	**$3,491,200**	**$3,920,126**	**$14,420,333**	**$2,283,233**	**$1,645,962**	**$1,578,383**	**$21,791,654**
LEVERAGED CASH FLOWS	**$11,399,060**	**-$4,995,550**	**-$3,288,845**	**$2,828,191**	**-$2,634,513**	**$724,501**	**$7,922,972**	**$10,842,303**
IRR	**19.6%**							
NPV @ 15% discount	**$1,591,649**							

Source: Miller's Landing Program and Financial Documentation; Economic & Planning Systems

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Scenario Analysis

To gain a more accurate estimate with and without public financing, EPS evaluated Project returns under a series of tiered public finance scenarios. **Table 16**, at the end of this chapter, summarizes the scenarios and the resulting Project finances, and is organized into two sections. The first section describes the scenario assumptions. In this section, **green** highlighted cells indicate that the scenario includes the corresponding public financing in the row, and the **red** highlighted cells indicates that the scenario does not include the public financing. **Yellow** highlighted cells indicate a divergence from the public finance factors or the program as modeled in Developer's pro forma financial statement. The second section presents the estimated bond revenues to the Project, the reimbursable expense coverage (or the amount of the $52.5 million in reimbursable project expenses covered by the bond revenues), and the Project returns (IRR).

Scenarios 1 through 5 evaluate the individual impact of the layers or tiers of public financing outlined in the proposed public finance agreement (PFA). Only Scenario 1 and 5 have a positive IRR. Scenario 1 models returns without the add-on PIF, and the estimated IRR is 13.7 percent. This is below the 20 percent target IRR identified as reasonable for a land development project of this size and level of risk. Further, the returns have been modeled using, in EPS's consideration, optimistic inputs, and the financial returns are therefore likely to represent the upper end of the possible range of returns. Scenario 5 models returns without the credit PIF, and the estimated IRR is 3.6 percent. Such a return would not compensate for the Developer for the project risk. Scenarios 2, 3, and 4 all have negative profits and are not viable.

Scenario 6 presents the Project assuming a 40 percent credit PIF instead of a 60 percent credit PIF, with all other sources of public financing remaining the same as the Baseline scenario. This change results in a 2.2 percent decrease in the IRR of the Project from 19.6 percent to 17.4 percent.

Scenario 7 and 8 were evaluated to gain perspective on what would happen to Developer returns if the development team decided to focus exclusively on retail development after the Project met the triggers or guarantees outlined by the proposed PFA, which caps retail at 250,000 square feet until the Developer builds a 250 room hotel with 10,000 square feet of conference space and at least 150,000 square feet of office development. Both scenarios assume these guaranteed levels of hotel and office. In addition, Scenario 7 assumes a total of 250,000 square feet of retail, and Scenario 8 assumes a total of 424,000 square feet of retail. As proposed, the 424,000 square feet of retail assumed in Scenario 8 is based on the amount of retail needed for the Developer to achieve the same return as estimated in the Baseline scenario. In other words, the Developer would have to build an additional 192,000 square feet of retail on top of the 232,000 square feet used in the Baseline pro forma financial analysis – an 83 percent increase in retail. Given the already saturated retail market in the Town, it is unlikely that Miller's Landing would be able to support this amount of retail in the next 10 years.

Table 16
Public Finance Scenarios and Associated Returns

Description	Baseline	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6	Scenario 7	Scenario 8
Scenario Description									
Public Finance									
URA Property Tax TIF (mills)	67.882	67.882	67.882	67.882	---	67.882	67.882	67.882	67.882
Credit PIF (% sales)	60.00%	60.00%	60.00%	---	---	---	40.00%	60.00%	60.00%
BID Mill Levy (mills)	50.000	50.000	---	---	50.000	50.000	50.000	50.000	50.000
Add-on PIF (% sales)	1.25%	---	---	---	1.25%	1.25%	1.25%	1.25%	1.25%
Program									
Hotel & Conference (rooms)	250	250	250	250	250	250	250	250	250
Office (sq. ft.)	480,000	480,000	480,000	480,000	480,000	480,000	480,000	150,000	150,000
Retail/Enterainment/Restaurant (sq. ft.)	232,000	232,000	232,000	232,000	232,000	232,000	232,000	250,000	424,000
Project Funds from Bond Issues									
Bond Issue 1	$28,152,297	$24,800,000	$16,700,000	$10,300,000	$11,400,000	$21,800,000	$26,000,000	$19,900,000	$27,200,000
Bond Issue 2	$27,555,481	$24,300,000	$16,400,000	$10,100,000	$11,200,000	$21,300,000	$25,500,000	$20,100,000	$27,900,000
Total	**$55,707,779**	**$49,100,000**	**$33,100,000**	**$20,400,000**	**$22,600,000**	**$43,100,000**	**$51,500,000**	**$40,000,000**	**$55,100,000**
Reimbursable Expense Coverage									
Total Reimbursable Expenses	$52,575,565	$52,575,565	$52,575,565	$52,575,565	$52,575,565	$52,575,565	$52,575,565	$52,575,565	$52,575,565
Surplus/Deficit	**$3,132,214**	**-$3,475,565**	**-$19,475,565**	**-$32,175,565**	**-$29,975,565**	**-$9,475,565**	**-$1,075,565**	**-$12,575,565**	**$2,524,435**
Returns									
Project Profits	$11,399,060	$7,923,496	-$8,076,504	-$20,776,504	-$18,576,504	$1,923,496	$10,323,496	-$1,176,504	$11,399,060
IRR	19.6%	13.7%	-16.3%	---	---	3.6%	17.4%	-2.2%	19.6%
NPV @ 15% discount	$1,591,649	-$449,359	-$9,576,507	-$17,139,490	-$15,832,172	-$3,718,891	$858,453	-$5,557,235	$1,593,676

Source: Miller's Landing Program and Financial Documentation; Economic & Planning Systems

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To gain further insight into the importance of office to development returns in the Baseline scenario as well as to potential bond holder, **Table 17** presents the percentage of property tax and taxable sales attributable to each land use type, and **Table 18** presents the percentage of public finance revenues attributable to each land use type. Office accounts for 60 percent of the estimated property taxes (which affect TIF and BID revenues) due both to its programmed square footage as well as a market value at $200 per square feet, which is twice as much as the assumed market value of retail. Based on the estimated property tax valuation, office accounts for 43 percent of estimate public finance revenues. The Developer would therefore likely to be motivated, to the degree the market would allow, to maximize the amount of office space in the project.

Table 17
Baseline Scenario Estimated Property Tax and Taxable Sales

	Property Tax		Taxable Sales	
Description	Amount	% Total	Amount	% Total
Retail [1]	$189,009,390	20%	$1,452,425,431	86%
Office	$639,877,098	66%	$0	0%
Hotel & Conference	$138,114,840	14%	$239,701,516	14%
Total	**$967,001,329**	**100%**	**$1,692,126,947**	**100%**

[1] Includes retail, entertainment, and food & beverage.
Source: Miller's Landing Program and Financial Documentation; Economic & Planning Systems
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Table 18
Baseline Scenario Estimated Public Finance Revenues

Description	**URA Property Tax TIF**	**Credit PIF (2.4%)**	**BID Mill Levy**	**Add-on PIF (1.25%)**	**Total**	**% Total**
Retail [1]	$12,501,994	$34,858,210	$9,817,148	$18,155,318	$75,332,669	**43%**
Office	$42,324,560	$0	$33,235,216	$0	$75,559,777	**43%**
Hotel & Conference	$9,135,582	$5,752,836	$7,173,685	$2,996,269	$25,058,372	**14%**
Total	**$63,962,136**	**$40,611,047**	**$50,226,049**	**$21,151,587**	**$175,950,819**	**100%**
% Total	**36%**	**23%**	**29%**	**12%**	**100%**	

[1] Includes retail, entertainment, and food & beverage.
Source: Miller's Landing Program and Financial Documentation; Economic & Planning Systems
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4. ECONOMIC BENEFITS AND RISKS

This chapter summarizes EPS' opinion on the economic benefits and associated risks of the Project.

Economic Benefits

The proposed Miller's Landing Project is an ambitious undertaking that has the potential to address a number of key economic development objectives of the Town:

- Remediate the Town municipal landfill enabling full utilization of the subject property;
- Provide a location for Class A office space to attract business and professional service tenants;
- Attract a full-service 4-star hotel with conference, meeting and banquet space; and
- Develop destination retail/entertainment and recreation uses that bring new customers and that do not compete with existing retailers in the Town and that generate tax revenues to pay for the requested public financing.

The Project would be new and unique to Castle Rock and therefore there is not sufficient historical development trend data upon which to base an estimate of absorption. The ultimate buildout of the Project may therefore take longer than anticipated by the Developer, and may also end up having a somewhat different allocation of space by land use category. However, in our opinion, the Town has proposed appropriate and reasonable minimum thresholds on the development of hotel and office uses to ensure that its basic economic development objectives are met. The proposed development agreement also provides defined triggers as to when the Developer can receive the requested public financing revenues. Specifically, the property needs to be fully remediated and a full-service hotel property acquired with the first phase of development.

Conclusions

The "but for" analysis, based on the Developer's pro forma and market and financial information, estimates that the development achieves negative $37.7 million in Project and no return without public financing and $11.4 million in profits and a 19.6 percent return with public financing. A return of approximately 20 percent is a reasonable return for a land development project of this size and scale and level of market risk, completed over a five to 10 year period. Given the public benefits and the market risk, EPS believes that it is reasonable to conclude that the requested level of public investment is appropriate.

Further, EPS found the market assumptions, including the absorption and potentially the land price assumptions to be optimistic. As a result, a 20 percent return likely represents the upper range of outcomes for the Project. That said, the ultimate return will depend on the Developer's success in attracting and leasing the property to the desired hotel, retail and office uses to comprise a successful mixed use business park.

The ultimate mix of hotel, retail and office uses may vary from what is proposed. EPS believes that a high quality full-service hotel with associated conference space will be critical to the Project's overall success. The hotel will be the anchor that can attract the entertainment/

destination retail envisioned for the site. Without the hotel, this site would be a more standard retail location in a market that is largely saturated with neighborhood and community retail uses as well as in a less desirable location on the south end of Town. The hotel will also be a key amenity to the business and service uses anticipated in the office park and can help establish the location and accelerate absorption for this desired economic development use.

Appendix A

Market Assessment and Competitive Analysis

Hotel and Conference

The Castle Rock market to date is primarily composed of limited service hotels without a significant conference, banquet, or event space. There is clearly a need and desire for a full service property with a higher level of amenities. It is unclear however, given the lack of a competitive local inventory, how soon and how large a hotel may be built on this site or elsewhere in the Town. The proposed development agreement between Miller's Landing and the Town would require that a full-service hotel with a minimum of 150 rooms and 10,000 square feet of conference space be completed before more than 100,000 square feet of retail can be built.

An analysis of the largest hotels built in the four comparable communities in the past 10 years, as shown in **Table 19**, suggests that the proposed 250 key hotel falls within range of hotels built. The potential for a larger 4-star hotel and conference space in the range of 450 keys is less historically supported. The largest hotel is the 300-room 4-Star Embassy Suite Hotel with 40,000 square feet of conference space built in Loveland in 2008.

Table 19
Largest Hotel Built since 2006

Description	Phase 1 *2019*
Program	
Hotel & Conference	**65,000**
Largest Hotel Built Since 2006 [1]	
Castle Rock	54,280
Lone Tree	80,812
Longmont	0
Loveland	307,636
Parker	50,000

[1] Inventory does not include motels.

Source: Miller's Landing Program and Financial Documentation; CoStar; Economic & Planning Systems

H:\173010-Castle Rock Millers Landing TIF Analysis\Data\[173010-CoStar_v2.xlsx]T-Hotel Absorption

A comparison of the hotel square footage per capita of Castle Rock and its competitive set, as shown in **Table 20**, does not in and of itself reveal market opportunities. Castle Rock is largely in line with its competitive set. Lone Tree presents as a notable outlier primarily due to its relatively low population and high retail and hospitality base. However, this may suggest the potential for Castle Rock to also serve the hotel market in a larger capture area.

Table 20
Hotel Square Feet per Capita

Description	Castle Rock	Comparable Cities			
		Lone Tree	Longmont	Loveland	Parker
Sq. Ft. per Capita					
Inventory (Sq. Ft.) [1]	238,666	388,384	298,396	457,384	154,529
Population	52,143	12,462	89,814	71,755	47,342
Sq. Ft. per Capita	**4.6**	**31.2**	**3.3**	**6.4**	**3.3**

[1] Inventory does not include motels.
Source: CoStar; Economic & Planning Systems
H:\173010-Castle Rock Millers Landing TIF Analysis\Data\[173010-CoStar_v2.xlsx]T-Hotel Per Capita

However, a view of inventory accounting for hotel segmentation by star rating, as shown in **Table 21**, does reveal a low percentage of four and five star hotels in Castle Rock when compared to the competitive set. Such a gap may present an opportunity for Miller's Landing to fill a need and differentiate from the current market. Further, a higher end hotel will better complement with other proposed uses in the development program, including supporting business traveler market.

Table 21
Hotel Inventory by Star Rating

Description	Castle Rock	Comparable Cities			
		Lone Tree	Longmont	Loveland	Parker
Inventory [1]					
2 Star	0%	21%	3%	0%	0%
3 Star	77%	16%	0%	33%	20%
4 Star	23%	19%	52%	67%	80%
5 Star	0%	43%	45%	0%	0%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

[1] Inventory does not include motels.
Source: CoStar; Economic & Planning Systems
H:\173010-Castle Rock Millers Landing TIF Analysis\Data\[173010-CoStar_v2.xlsx]T-Hotel Type

Retail and Entertainment

The proposed development program includes nearly 200,000 square feet of retail and entertainment space. The target market, as represented by the Developer, would be destination retail and entertainment uses attracted by the hotel and by the adjacent Miller Park recreation complex.

Competitive Analysis

Existing regionally oriented destination retail development in Castle Rock is concentrated in the northern part of the Town including the 500,000 square foot Castle Rock Outlets and the 750,000 square foot partially completed Promenade at Castle Rock Project. The community serving retail is also more heavily concentrated on the north end of Town, including King Soopers and Walmart. The best opportunities for retail uses at the Miller's Landing site are therefore for the destination type uses proposed.

There is more uncertainty surrounding how fast this retail space might develop. Destination retail/entertainment uses would likely be developed in a "lumpy" fashion in larger increments. However, a comparison to historic delivery rates suggests that the proposed retail and entertainment program would be a significant amount for the market to absorb based on historic deliveries.

Table 22 presents Miller's Landing retail and entertainment programs broken out by phase. In addition, the table shows the number of years that it would take for the development to become fully absorbed based on historic rates of deliveries from 2010 to 2016. Optimistically, the analysis assumes that Miller's Landing will capture 100 percent of these historic deliveries, essentially presenting a best case scenario. Based on these factors, the analysis finds that Phase 1 and Phase 4 would be absorbed in one to two years. However, the Phase 3 retail would more likely take between three and five years to absorb. If the capture assumption was reduced to 50 percent of historic deliveries, a more realistic assumption, then the estimate would jump to full absorption occurring between six and 10 years.

Again, this level of development is not unprecedented in Castle Rock or its competitive set, as revealed in **Table 28** at the end of this section. However, the analysis suggests that the success of retail will depend on the delivery and success of the hotel and office aspects of the program, or on the Developer's ability to attract specialty tenants.

Table 22
Years to Absorption based on Historic Retail Deliveries

Description	Phase 1 *2019*	Phase 3 *2022*	Phase 4 *2023*
Program			
Retail	24,000	120,000	30,000
Entertainment	24,000	0	0
Subtotal	**48,000**	**120,000**	**30,000**
Years until Absorption [1]			
Castle Rock	1	3	1
Lone Tree	2	5	1
Longmont	0	1	0
Loveland	2	5	1
Parker	1	3	1

[1] Years to absorption calculated based on average retail deliveries from 2010 to 2016. Assumes 100% capture.
Source: Miller's Landing Program and Financial Documentation; CoStar; Economic & Planning Systems
H:\173010-Castle Rock Millers Landing TIF Analysis\Data\[173010-CoStar_v2.xlsx]T-Retail Absoprtion

Expanding the analysis beyond historic deliveries to retail inventory reveals a market already fairly saturated. The retail per capita of Castle Rock is slightly below its competitive set, but higher than the Denver metropolitan statistical area (MSA), as shown in **Table 23**. Further, Castle Rock already has significant nodes of specialty retail, including Lifestyle Center and Outlet Center nodes, as shown in **Table 24**.

Again, the analysis suggests the importance of proposed development differentiating itself from the existing market and importance of the other aspects of the proposed program to the success of the retail. In particular, EPS believes that it the hotel and conference center will be of importance to bring traffic and patrons to the retail.

Table 23
Castle Rock Retail Square Footage per Capita in Comparison to Competitive Set

		Comparable Cities				
Description	**Castle Rock**	**Lone Tree**	**Longmont**	**Loveland**	**Parker**	**Denver MSA**
Inventory (Sq. Ft.)	3,839,948	3,634,625	6,722,914	6,383,963	4,292,006	149,745,147
Population	52,143	12,462	89,814	71,755	47,342	2,814,330
Sq. Ft. per Capita	**74**	**292**	**75**	**89**	**91**	**53**

Source: CoStar; US Census; Economic & Planning Systems
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Table 24
Retail Inventory by Type

Description	Castle Rock	Comparable Cities			
		Lone Tree	Longmont	Loveland	Parker
Inventory					
General Retail	1,563,571	1,046,652	2,359,085	2,545,103	1,351,187
Strip Center	160,378	96,506	405,498	232,057	345,955
Neighborhood Center	823,833	342,898	1,081,708	659,628	709,717
Community Center	350,028	517,852	1,408,205	1,152,823	963,904
Lifestyle Center	479,737	0	470,600	638,684	0
Outlet Center	477,998	0	0	0	198,012
Power Center	0	263,474	838,373	1,155,668	723,231
Super Regional Mall	0	1,367,243	0	0	0
Total	**3,855,545**	**3,634,625**	**6,563,469**	**6,383,963**	**4,292,006**

Source: CoStar; Economic & Planning Systems

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Office

The development proposal includes 480,000 square feet of office space built in two phases. There is currently no significant amount of Class A professional office space in the Castle Rock area; the Project therefore would be a major economic development element for the Town.

Competitive Analysis

A comparison to historic delivery rates of office development also suggests that the proposed program is outside the business as usually development trends for Castle Rock and its competitive set, and that the proposed office program would be a significant amount for the market to absorb. **Table 25** presents Miller's Landing office broken out by phase. As with the retail analysis, the table shows the number of years that it would take for the development to become fully absorbed based on historic rates of deliveries from 2010 to 2016 and assuming the best case scenario of a 100 percent capture rate of the historic rate. The analysis finds that Phase 2 and Phase 4 would be absorbed between two and thirty-two years based on the competitive set. Using Castle Rock specific rates, the analysis estimates that the program would take eight years to absorb under a 100 percent capture scenario and 16 years to absorb under a 50 percent capture scenario. While historic delivery rates suggest that the development may take a number of years to absorb, there are a number of examples of office parks of similar size to the proposed program in the competitive set being delivered in short timeframe.

Outside of the question of absorption, **Table 26** lists major office park development over 100,000 square feet that have been development since 2000. While Castle Rock currently does not include such an office park, the analysis again suggests that there is opportunity for such a development.

Table 25
Years to Absorption based on Historic Office Deliveries

Description	Phase 2 *2019*	Phase 4 *2021*
Program	**250,000**	**230,000**
Years until Absorption [1]		
Castle Rock	8	8
Lone Tree	2	2
Longmont	18	17
Loveland	6	6
Parker	32	29

[1] Years to absorption calculated based on average retail deliveries from 2010 to 2016. Assumes 100% capture.
Source: Miller's Landing Program and Financial Documentation; CoStar; Economic & Planning Systems
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Table 26
Major Office Parks, 2000-2016

Description	Most Recent Delivery	Rentable Building Area
Lone Tree		
Park Meadows Corp Center	2003	300,695
Park Ridge Corporate Ctr	2004	397,071
Lincoln Station	2008	210,787
Sky Ridge Medical Center	2015	343,964
Longmont		
Creekside Business Park	2001	257,955
Front Range Office Park	2002	106,336
Loveland		
Medical Center of the Rockies	2008	160,303
Rangeview	2010	235,145
Centerra	2016	350,365
Parker		
Meridian Commons Office Park	2008	115,362

Source: CoStar; Economic & Planning Systems
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In addition to examples of similar types of office parks in the competitive set, an analysis of the per capita square footage of office in Castle Rock compared to the competitive set reveals a potential opportunity to attract office users to the market. Based on this metric, Castle Rock lags behinds Longmont and Loveland and has similar office inventory to Parker, as shown in **Table 27**. Lone Tree once again represents an outlier due to its low population. Given the site's access to I-25 and proximity to both Denver and DIA, the site should be able to attract a large office user.

Table 27
Castle Rock Office Square Footage Comparison

		Comparable Cities			
Description	**Castle Rock**	**Lone Tree**	**Longmont**	**Loveland**	**Parker**
Inventory (Sq. Ft.)	1,072,746	2,780,556	2,768,647	2,639,876	1,032,013
Population	52,143	12,462	89,814	71,755	47,342
Sq. Ft. per Capita	**21**	**223**	**31**	**37**	**22**

Source: CoStar; US Census; Economic & Planning Systems

H:\173010-Castle Rock Millers Landing TIF Analysis\Data\[173010-CoStar_v2.xlsx]T-Office Per Capita

Table 28
Historic Delivery of Commercial Development

Description	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2006-2016 Total	2006-2016 Ann #	2010-2016 Total	2010-2016 Ann #
HOTEL [1]															
Castle Rock	0	0	0	0	0	0	0	0	0	54,280	0	54,280	4,935	54,280	7,754
Lone Tree	0	0	0	0	80,812	0	0	64,000	0	0	0	144,812	13,165	144,812	20,687
Longmont	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Loveland	0	0	307,636	0	0	0	0	0	0	0	80,000	387,636	35,240	80,000	11,429
Parker	50,000	0	0	0	0	0	0	0	0	0	0	50,000	4,545	0	0
RETAIL															
Castle Rock	76,807	244,919	31,038	13,192	4,318	28,244	17,332	42,367	4,945	29,587	152,564	645,313	58,665	279,357	39,908
Lone Tree	74,869	11,090	5,556	55,488	49,433	0	0	116,029	0	0	12,615	325,080	29,553	178,077	25,440
Longmont	923,576	184,067	93,725	11,182	0	215,764	0	8,074	52,117	299,550	191,144	1,979,199	179,927	766,649	109,521
Loveland	238,628	623,397	17,582	10,535	38,384	13,272	8,104	12,063	67,879	0	39,124	1,068,968	97,179	178,826	25,547
Parker	222,937	267,529	328,753	21,440	22,466	3,010	18,841	0	3,798	180,493	95,289	1,164,556	105,869	323,897	46,271
OFFICE															
Castle Rock	41,000	70,852	57,164	22,600	0	0	0	85,900	39,527	10,171	77,800	405,014	36,819	213,398	30,485
Lone Tree	41,157	9,080	288,711	92,960	0	0	0	275,000	380,000	308,505	0	1,395,413	126,856	963,505	137,644
Longmont	80,808	27,544	16,718	0	46,384	7,500	0	0	3,084	0	39,600	221,638	20,149	96,568	13,795
Loveland	147,055	211,099	171,733	139,996	85,800	38,817	30,579	0	16,779	0	101,376	943,234	85,749	273,351	39,050
Parker	42,125	19,072	157,204	89,989	25,899	15,375	0	0	0	0	13,368	363,032	33,003	54,642	7,806

[1] Inventory does not include motels.

Source: CoStar; Economic & Planning Systems

H:\173010-Castle Rock Millers Landing TIF Analysis\Data\[173010-CoStar_v2.xlsx]T-Commercial Summary