



2023 Mid-Year Report

Mayor, Town Council, County Commissioners and Economic Development Council Investors:

Re: Castle Rock EDC Mid-Year Report to Investors

National, Regional and Local Economic Update: Is the Economy More Resilient than Expected?

At the midpoint of 2023, the U.S. economy is arguably outperforming expectations. First quarter GDP was revised up to 2%. Personal consumption expenditures posted the best growth (4.2%) since Q2 2021. Nonresidential fixed investment in structures posted a second-consecutive double-digit gain (15.8%). Government expenditures accelerated from growth in both federal and in state and local spending. National job growth, too, remained resilient despite potential headwinds, adding 6.3 million jobs in 2022—the most jobs added in a single year and the fastest pace of growth (4.3%) since 1983. Strong gains continued into 2023 with nearly 280,000 jobs added per month through June, however, June itself slowed to 209,000 jobs—the slowest gain in 2 ½ years.

The Fed increased rates 10 times beginning in March 2022, increasing the federal funds rate by 500 basis points to tamp down inflation. The challenging inflationary environment appears to be subsiding. The June 2023 U.S. Consumer Price Index from the Bureau of Labor Statistics shows growth of 3.1%—the slowest rate since March 2021. The producer price index slowed to 1.1% in May—the slowest rate since December 2020.

A financial crisis caused by failing banks appears to have been averted, however challenges remain. The \$1 trillion outflow of deposits from commercial banks paints tighter financial conditions for borrowers. Excess savings continue to come down, and savings rates remain low. Employment growth and the associated income have been, in part, responsible for the continued growth in retail sales and personal consumption expenditures, and if employment growth continues to slow, this could result in a slowdown in consumption. National retail sales and wholesale trade are showing the symptoms of the strain, and in Colorado, sales tax collections fell year-over-year in May.

Colorado has been an economy that has outperformed for the last decade and a half. We have the ingredients to thrive—a desirable place to live, a thriving base of advanced industries, a highly talented and educated workforce, a high labor force participation, a world-class airport, and the attraction of investment. Thus, it came as somewhat of a surprise that Colorado job growth slowed way ahead of the nation, dragging the state to 48th nationally (the Denver metro region performed similarly, slowing to the bottom 10% of metropolitan areas nationally in the official statistics). However, two phenomena are at play—the data suggests that Colorado's slowdown is not demand-driven but a worker supply issue, and the state labor office has demonstrated that the official statistics are likely to be revised upward. Two consecutive years of slow net migration to Colorado did little to help the constrained supply of workers.

At a glance, Colorado's employment paradox is confounding. From 2011 through 2022, Colorado's job growth ranked in the top 10 for 70% of the months and in the top half for 91% of the months. However, since January, Colorado has ranked among the bottom states—a rank not recorded for the state since the recovery from the financial crisis in 2010. At the same time, Colorado's May labor force participation rate ranked 4th-

highest, the number of people in Colorado's labor force was at the highest level ever and continued to grow at the 16th-fastest pace nationally, the unemployment rate stood well-below historical averages (a tight 2.8%), and the job openings rate was the 2nd-highest in the country in April. The high level of job openings and tight labor market suggests continued demand pressures and a lack of labor supply—perhaps not a paradox at all.

Population growth in Douglas County has slowed, but population growth remained higher than the nation, state, and Denver MSA. The unemployment rate in the county is lower than the region and the state, and the labor force continues to post gains. However, after recording a strong and sustained recovery from the pandemic, state taxable retail sales slowed in Douglas County in the first three months of the year to 3.7%, and even further in Castle Rock (2%).

For the remainder of the year, two key indicators to watch include hiring and consumption—the trajectories will influence the pace of growth for the country and the local economy.

By Brian Lewandowski; Colorado Leeds School of Business

2023 Mid-Year Committees Economic Development Report & Prospects

Castle Rock Economic Development Council's (EDC) mission is to support local job creation and expand the Town of Castle Rock's tax base. The three fundamental functions of the EDC include:

- Business Attraction (new prospect development)
- Business Retention and Expansion
- Creation of a business-friendly environment

Business Attraction Team (BAT) & Business Retention Expansion (BRE)

Business Attraction (BAT) and Business Retention Expansion (BRE) are two of Castle Rock EDC's core services.

BAT oversees the strategic attraction of new primary employers to Castle Rock, focusing on both direct and indirect marketing strategies. Additionally, BAT fosters relationship with developers to encourage office development in the Castle Rock market.

BRE recognizes that 70% of job growth in a community occurs from existing businesses. The BRE Task Force supports existing businesses by leveraging a wide range of professional expertise from within the committee to provide resources with the intent to facilitate growth.

Throughout the first half of 2023, Castle Rock EDC worked with 43 prospective business and development prospects, many of which are Castle Rock businesses exploring expansion opportunities.

2023 Strategic Attraction Initiatives (BAT)

Douglas County Economic Collaborative (The Collaborative)- Alongside the leadership of the Douglas County Commissioners, Castle Rock EDC has been working with private sector consultants to research, craft, and execute a strategic business attraction plan for Douglas County. The group was established in late 2022 and received funding from the County in June of 2023. The Collaborative meets quarterly with key staff and elected officials from each community and will provide Castle Rock an additional opportunity to collaborate regionally and leverage resources and gain additional exposure to strategic targeted industries.

Castle Rock Targeted Industry (Aerospace):

The pursuit of primary employment continues to remain challenging (in 2023), as employers report that they are hesitant to invest in new office products/relocations while at the same time navigating the recent remote work force trends and resistance to the back to the office movements. In response, Castle Rock EDC has shifted its targeted industry pursuits to prioritize industries that mandate traditional office use. One industry that has risen to the top is Aerospace. The Aerospace industry is currently in expansion mode. They are also responding to cyber security concerns by bringing employees and consultants back to the office. Early discussions support Castle Rock's pursuit, as we are geographically well positioned and already have an established workforce within our trade area.

In response to this initiative, Castle Rock EDC has:

- Joined the state's Aerospace Sector Partnership Committee
- Hosted several luncheons that include industry partners from Lockheed, Boeing, United Launch Alliance, Colorado Space Business Roundtable, and Aerospace Industry Brokers
- Worked with the Sturm Collaboration Campus to develop partnerships and programming to support the aerospace industry as part of phase two of the campus.
- Attended a Metro Denver EDC Aerospace recruitment event in Florida.

Economic Development Fund Report

Economic vitality is a critical factor in ensuring Castle Rock's long-term success in achieving its vision of being a self-sufficient community; a community in which residents can live, work, play and purchase the goods and services they need; and to create a tax base adequate to support provision of core Town services.

With increasing regional competition, the Town of Castle Rock established an Economic Development Fund (2011) along with a set of policies designed to strengthen the local economy and prepare for the economic impacts associated with the Town's expected growth. The fund is sustained through the collection of commercial use tax ensuring that commercial development supports the Town's development objectives, which is to actively seek out the highest and best commercial uses, as defined in the Town's 2030 masterplan.

The program includes elements to support core Castle Rock's economic development priorities including the attraction and expansion of primary employers, attraction and expansion of targeted retail and investments in projects of economic significance or serving as economic catalysts. The program is designed to create jobs, expand the tax base, encourage existing businesses to make capital investments, spur new office, industrial, and retail expansions and developments. It is critical that all incentive programs create a net positive job or economic impact on the community.

The following is a list of economic development incentive projects finalized in the first half of 2023:

- Brinkerhoff (Hummingbird Events Center)
- Centura Medical Office Building #3
- Infinity Labs HQ
- Castle Rock Microwave (First Amendment)

Prospect Challenges Persist

While the qualified prospects and expansions present great opportunities they also expose one of our major challenges to primary employment in the community, the lack of office space. While low vacancies are great for our existing building owners, the lack of available office space works against both the retention and attraction of primary employment in Castle Rock. All these factors put Castle Rock in a very difficult position to attract and retain primary employers.

2023 Project Updates

Castle Rock Industrial in the Meadows (Update) is a collaboration between Saunders Commercial Development Company, Colorado Powerline Inc., and Lakewood Electric Company, Inc. Together, they purchased a 15.5-acre site within the Meadow COI ground (Lot 19) to construct two 80,000 SF industrial buildings. The first phase of the development has been completed and Colorado Powerline Inc. (CPI) and Lakewood Electric have both relocated their company headquarters. CPI and Lakewood Electric have relocated all their full-time employees to Castle Rock. Building two should be completed in early fall 2023. The EDC is in conversation with several users on these two buildings. In addition, Ulysses development broke ground on a senior affordable housing project.

Moore Lumber & Hardware (Update) is a 75-year-old family-owned company headquartered in Castle Rock, with six Front Range stores. The company employs 23 full-time positions in Castle Rock. Their core services are based around providing quality lumber and home building materials to both professional builders and homeowners. Moore intends to continue operating Moore Lumber & Hardware at 1335 Park Street and is currently transitioning their Benjamin Moore and Marvin Windows product lines to their new 16,880 SF facility. They are projecting a fully functional facility up and running by September of 2023.

Castle Rock Microwave (Update) (CRM) was founded in 2014. CRM is a regional wireless systems integrator, bridging the digital divide. CRM's customer base falls into four major categories rural broadband (TELCOs, ISP's and Tribes), public safety (municipalities and School Districts), Utilities (water, electric, oil & gas) and transportation (rail & airports). Currently, 85% of CRM's business is contracted out of Douglas County. CRM has added 2,400 SF of office which will allow them to hire an additional 8 employees by the end of 2024, they continue to grow and are hitting their projections.

Owen Ames Kimball (O-A-K) Construction is a 130-year-old commercial construction company with approximately 100 employees. They specialize in K-12, higher education, civic and municipal construction projects. O-A-K leases 4,500 SF of office space at 202 6th Street in Downtown Castle Rock (The Move) and is currently at 8 employees in Castle Rock and intends to grow the company by an additional 30 within the next 4 years. Sales for 2023 are trending upward and expected to exceed projected numbers.

Employment Centric Developments (Overview & Updates)

Montana Vista (Office/Commercial) – Montana Vista, located off Founders Blvd is home to the headquarters of HEI Civil. HEI Civil's second office building and is currently 100% leased. The EDC is currently working with a strong higher-end retail user to take advantage of the views and develop the balance of the site.

Brickyard (Redevelopment/Reuse) - In 2018 the ACME Brick factory announced that they would be closing their Castle Rock operation which opened in the early 1900's. The site was acquired by Confluence Companies in 2020. The team at Confluence has been working with the EDC and the Town to reimagine the site for a redevelopment and reuse project that will revitalize, activate, and connect the site to the community while simultaneously honoring the historical role of ACME in the Castle Rock Community. While the final vision for the project is still being crafted, they have begun demolition of the site and have increased the amount of office space being offered on the site. The project will bring a variety of local and regional restaurants and retailers, including a proposed state-of-the-art community recreation center.

Dawson Trails (Commercial/Retail/Residential) - The Dawson Trail project is in the southwest quadrant of Castle Rock on the west side of I-25. The property is owned by Westside Development. The project was originally entitled for 7,900 single family homes and has sat dormant (under suspension agreement) for the past 30 years for a variety of different challenges that encumber the site. In early 2023, Westside and the Town of Castle Rock agreed to a plan that includes increased open space, a reduction in housing units down to 5,800 and includes \$50M of private bond funding for the Crystal Valley Interchange (CVI). In addition, agreements have been reached with COSTCO and Health One to occupy a significant portion of the 3.2 Million SF of available commercial ground. The project continues to move aggressively forward with a strong mix of office, retail, and industrial zoned development. The Interchange is currently anticipated for opening in 2025/2026.

Miller's Landing (Mixed Use/Management Change) – Is a 65-acre site situated between Philip S. Miller Park and Downtown Castle Rock at the northwest corner of Plum Creek and I-25 with excellent access and visibility from the interstate. The Town of Castle Rock and the EDC originally created an Urban Renewal Authority (URA) with the existing taxing entities at the site in 2012 to help attract a private developer, create a higher and better use at one of the Town's major interchanges, and mitigate the challenges associated with the municipal landfill, which occupied the property.

P3 Advisors removed the landfill in 2019 and have fully remediated the site. In 2023 Crown Community Development (CCD) has taken the lead on the property's development. The team at CCD are currently in the process of reassessing the site and evaluating potential partnerships. It is expected that a new direction will be presented by fall of 2023.

Downtown Castle Rock – The Downtown Development Authority (DDA) is charged with furthering development and place-making in Downtown Castle Rock using Tax Increment Financing (TIF) and is guided by a Plan of Development. The Plan of Development provides guidance from Town Council to pursue development projects, beautification and increase commerce. The success of recent redevelopment projects combined with the Town's and DDA's investment in Festival Park has driven some exciting new concepts to Downtown.

- The View, consisting of 14,000 SF of office space, 5,000 of restaurant space, 221 residential apartments, 399 parking spaces of which 100 will be dedicated to the public, continues progress on construction and has an expected completion of winter 2024.
- Douglas County Libraries broke ground on the Philip S. Miller Library in May of 2022. The project is two stories, 62,000 SF, includes 218 parking spaces and will be home to the administrative headquarters and is scheduled to open August 26th, 2023.

- 221 Wilcox, located at the corner of 3rd and Wilcox St. is a mixed-use project that will include 28 residential apartments, 11,257 SF of office space, 8,353 SF of retail space, 28 subsurface and 27 offsite parking spaces. Construction has made steady progress and as of July of 2023, the foundation and most of the wood framing is complete, the project is expected in the fall of 2024.
- Parking continues to be a top priority for the DDA as well as the Town. Recently, an agreement was reached with Douglas County School District, to lease 55 parking spaces for public parking to ease parking stress on the north side of downtown.
- The ownership of the historic City Hotel property at 415 Perry Street has proposed redevelopment, which includes stabilizing the historic existing building and transforming it into an upscale lounge. The historic building will be wrapped by a new 4-story development which includes first floor retail, a 24 room boutique hotel and a rooftop bar. The project is expected to be presented to the DDA Board in the fall of 2023.
- The Perry Street Social District project continues to pursue redevelopment. This project proposes a full redesign, redevelopment, and adaptive reuse project at 404 Perry Street. The site consisting of the historic Whittier House at the corner of 4th and Jerry Street, the concrete block building, the white Sprung Structure canopy and the residence on the north side of the site are proposed for a mix of demolition, preservation, face lift and new uses including 3 new dining concepts and a beer garden in the center.

Promenade (Retail/Mixed-Use) – The Promenade is a 200-acre site located between I-25 and Highway 85. Upon completion, the master developed site will bring a combined 900,000 SF of large-format retail, service, and restaurant space. Alberta Development Partners purchased the site in October of 2014 and is close to stabilization with approximately 800,000 SF that has been delivered to the market. Currently under construction on Block 3A is an independent Mexican restaurant and brewery concept, Los Dos Potrillos. Additionally, the EDC is working with Alberta to bring a unique first in market restaurant concepts to the development.

The Outlets at Castle Rock (Retail) – The Outlets at Castle Rock are located west of I-25 between Castle Rock Parkway and Meadows Parkway. The Outlets are the largest open-air outlet center in the State of Colorado and continue to be the economic engine of sales tax generation for the Town, attracting visitors from around the region, which fuels critical services of the Town. Town and EDC staff have been in several meetings with Craig Realty group discussing the potential for increased investment of pad site development on the property.

Development Roundtable

The Development Roundtable was established with the objective to bring Town staff and the development community together. To build trust, relationships, to improve communication and create best practices in the development of our community. The group meets quarterly under the principals of **YUMUTSU** (*Your Undersnding, My Understanding, The Same Understanding*) for updates and discussion on topics impacting the development process.

2023 Discussion Items & Updates

- Castle Rock Economic Incentive Policy Updates
- Proposed New Industrial/Employment Zoning
- Development Plan Review Staffing Challenges
- Time and Materials Permit Process

- Residential Turf Program
- 0.8 gallon per flush toilets & hot water recirculation systems.
- Multifamily Parking Requirements - Potential Code Update
- Residential Permit Number changes
- Weekend Enforcement of Sign Code

Sub-Committee Breakout Meetings

Water - Subcommittee has continued to meet monthly and has discussed major updates to the code and master plan. This sub-committee is led by the Town of Castle Rock Water Department and the private sector. The following topics have been discussed:

1. CAD details for CRW
2. Time & Materials Permit
3. Landscape Criteria Guidelines – flexibility in ColoradoScape
4. .08 GPF Flush Toilet Ordinance
5. New “No Turf” Ordinance

Development Process - Subcommittee meets monthly and led by the Town of Castle Rock Development Services Department and the private sector. The following topics have been discussed thus far:

1. SIA/DA Process Improvements
2. Dry Utility CD Review Process
3. Development Procedure Manual
4. Project Track Dashboards
5. Online Submittals for FCOs

2023 Mid-Year Summary

The first two quarters of 2023 in Castle Rock have moved forward with mixed signals. Interest rate hikes from the Fed in late '22 and early '23 have clearly slowed down the residential market across the Front Range and in Castle Rock, currently averaging 30 SFD month. In addition, inflation has taken its toll on consumer spending as the robust sales tax growth while continuing its positive trend has slowed to 2.7% YTD, has been waning over the past six months. Encouraging signs are that many existing projects are still attracting strong attention, project quality (highest and best use) has been very strong, and volume remains on par. Castle Rock will need to stay increasingly diligent and patient with limited remaining development opportunities going forward, which should include a strong focus on long term sustainability and quality. Dawson Trails, The Brickyard, and the Meadows developments have all made significant investments in Castle Rock and strong positive gains with employers in 2023. The EDC remains optimistic that Castle Rock is in a great position, but larger national economic forces will be hard to ward off. Castle Rock EDC has seen early positive momentum in pursuing aerospace as part of our target industry focus for 2023 and we are encouraged by the initial conversations with that industry sector.

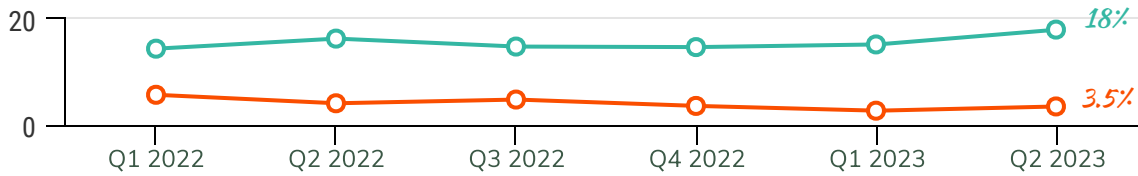
Respectfully,

A handwritten signature in black ink, appearing to read "Frank Gray".

Frank Gray; Castle Rock EDC CEO

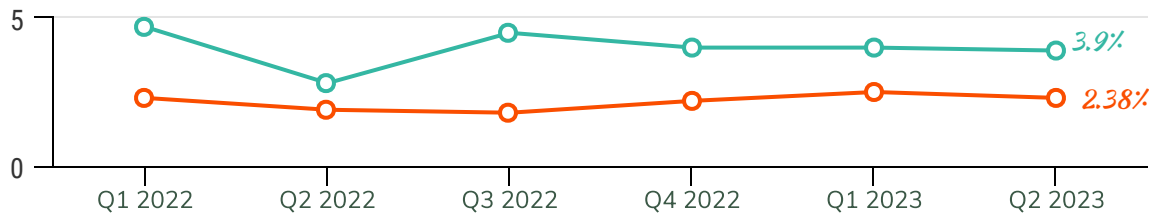
Vacancy Rate Percentages

Office



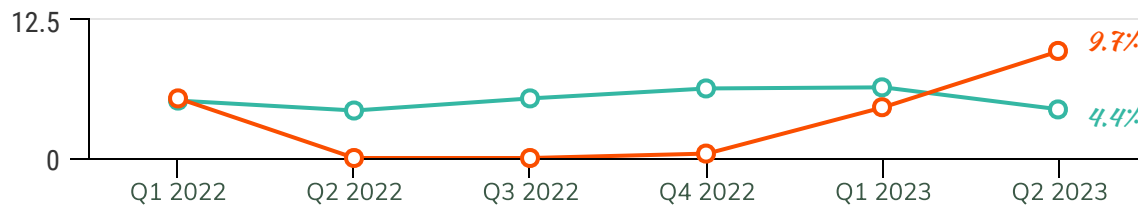
Retail

—○— Denver —○— Castle Rock



Industrial & Flex

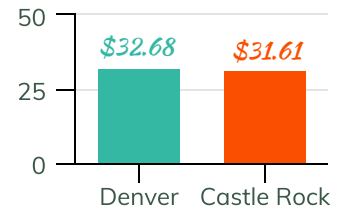
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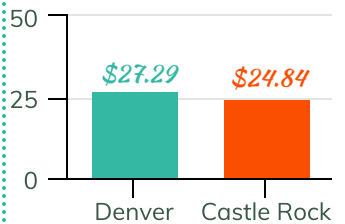
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Lease Rates

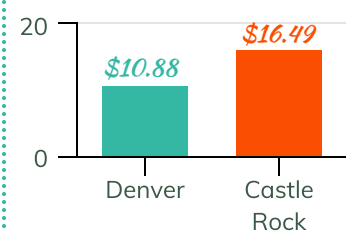
Office



Retail



Industrial & Flex



* Data provided by NavPoint Real Estate Group; NNN Lease Rates

Unemployment Rate Comparison

	May 2020	May 2021	May 2022	May 2023
 Castle Rock	9.4%	4.3%	2.4%	2.6%
Denver	12.2%	5.8%	2.7%	2.8%
State of CO	11.7%	5.8%	2.7%	2.8%
National	13.0%	5.5%	3.4%	3.4%

-Not Seasonally Adjusted, US Bureau of Labor Statistics



YOY Comparison

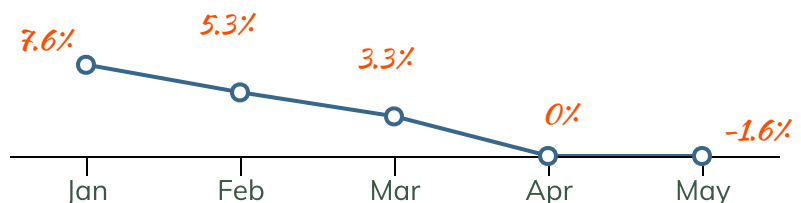
Sales Tax

YOY Monthly Change



2022
+13.2%

2023
+2.7%



*Data Provided by the Town of Castle Rock, through May



Recent Development Activity

The View

- Under Construction
- 14,232 SF of Office Space
- 5,000 SF of Restaurant Space
- 221 Residential Apartments
- 399 Parking Spaces
- 100 of the 399 are Public

221 Wilcox

- Under Construction
- 28 Residential Apartments
- 28 Subsurface Parking Spaces
- 27 Offsite Parking Spaces
- 11,257 SF Office
- 8,353 SF Retail

Meadows

- COI Ground - Two, 80,000 SF Industrial Flex Buildings Under Construction
- HQ Relocation - Colorado Power Line Inc.
- Castle Rock Adventist - MOB 3 Completed
- Cancer Services Agreement

Dawson Trails

- Approved Master Planned Development
- 5,850 Residential Units
- 748 Acres of Open Space
- 3.2 Million SF of Commercial, Industrial & Retail
- Health One Campus Agreement

The Brickyard

- Proposed Redevelopment Project
- Mixed Use Development
- Proposed Rec Center
- Proposed Boutique Hotel

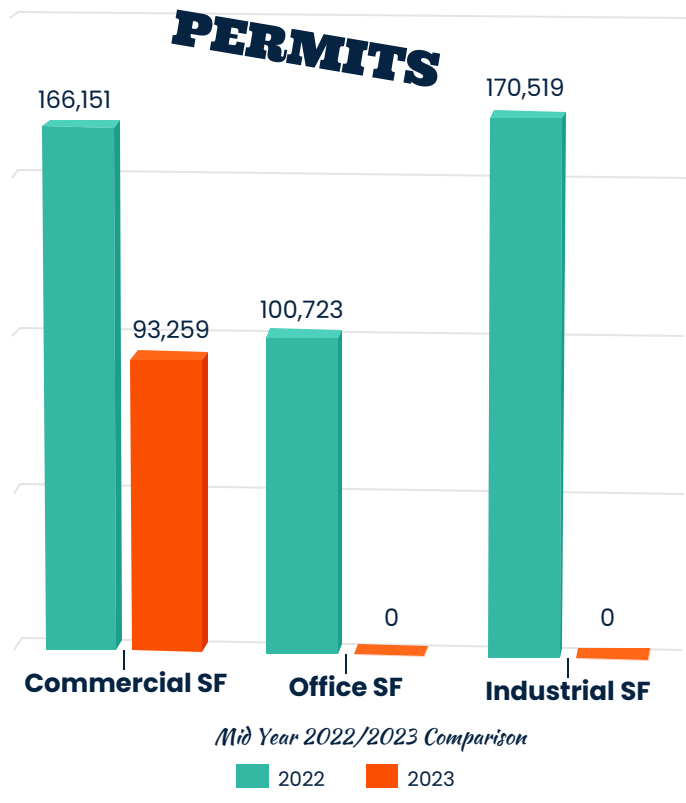
PSM Library

- Two Story 62,000 SF, 218 parking spaces
- Douglas County Library Headquarters
- Opening August 2023

Miller's Landing

- Strategic Site Evaluation

NEW Construction



Development Prospects

