



Thursday, May 31, 2018

From: Frank Gray

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To: Mayor Jennifer Green, Town Council and Town Manager, Dave Corliss

Town Manager | 100 N. Wilcox Street | Castle Rock | CO 80104

Mayor Green, Town Council and Mr. Corliss,

Murdoch's has submitted a request to the Town of Castle Rock requesting financial assistance in order to ensure the former King Sooper's location at the Milestones Center becomes their flagship location. The primary reason for their request is directly tied to the significant costs associated with retrofitting a 70,000SF former grocery store so that it can accommodate a second-generation multi-tenant opportunity. The request is designed to offset the significant upfront costs and support Murdoch's stabilization in the first few years of operations.

Background

The Town's Comprehensive Master Plan identifies four cornerstones of the community which include: Distinct Town Identity, Responsible Growth, Community Services and Thriving Economy. As the Town has grown, **Castle Rock's leadership has prioritized low tax rates for citizens** on residential property (1.3 Mils) and adopted a "growth pays for growth" strategy, this structure makes the Town heavily dependent on maximizing sales tax dollars as the major funding source of Town services (which include: public safety, water, roads, parks and recreation). The EDC's role in supporting the Town's vision is to grow the tax base and grow primary employment opportunities for Castle Rock. Town staff and the EDC believe that an agreement with Murdoch's is in line with three of the four major cornerstones of the Master Plan.

Town of Castle Rock's Economic Development Strategy

Economic vitality is a critical factor in ensuring Castle Rock's long-term success in achieving its vision of being a standalone community and creating a tax base adequate to support core Town services. Increasing regional competition makes it important for Castle Rock to consistently maintain a competitive business environment and support a strong retail economy. In this case, filling a vacant 70,000 sqft box.

Castle Rock Economic Development priorities include 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 Economic Development policies are designed to create jobs, expand the tax base, encourage



existing businesses to make capital investments, and spur new office, industrial, and retail expansion and development. It is critical that all incentive programs create net positive jobs and have positive fiscal impacts for the community.

The nature of retail is constantly evolving, due in part to the growth in internet sales, retail consolidation and consumer preferences. Therefore, the Town's reliance on retail means that it must constantly monitor and cultivate its retail market. To accomplish its vision, the Town must continue to take a proactive role in supporting retail development to ensure that Castle Rock residents have the goods and services they demand and the Town of Castle Rock captures local sales tax dollars and reduces retail sales leakage.

Solving a Declining Center

Castle Rock EDC understands that there may be some apprehension from Town Council and the Castle Rock community about additional retail deals, especially with the Promenade at Castle Rock agreement only a few years in the rear-view mirror. I think it is important to differentiate this request from a request for a new development. The Murdoch's deal is about being proactive in filling an existing vacant box, not building a new one. Castle Rock EDC view's a vacant box in our community much different than ground up retail and see's this agreement as a very strategic and surgical strike to solve a very specific challenge in our community that brings great economics and help existing businesses all against a backdrop of very few viable options.

History of King Soopers/Milestone

King Soopers moving to the Promenade was always a concern. As a result, Town Council directly addressed this issue in the PFA for the Promenade by removing any sales tax share to Alberta for existing Castle Rock retailers of 50,000sf or greater. The intent of that carve out was to discourage public incentives being used to relocate any of Castle Rocks existing retail anchors. Ultimately, King Soopers decided to execute a market deal with Alberta Development without the benefit of any sales tax sharing and closed the Milestone location in May of 2017. It is important to note that Alberta had incentives in their agreement for reaching total square footage thresholds and that the new King Soopers location did contribute in reaching those milestones.

One year later, the Milestone Center and the Town have begun to feel the effects of a vacant anchor. The Center has lost several tenants that include Massage Green, Mattress Firm, Le Peep and Starbucks. In addition, concerns have been expressed by Papa Murphy's and the Castle Pines Wine & Spirits specifying that the decline in traffic and revenues is unsustainable and is putting their businesses at risk. This was confirmed by the Town's Finance Department that reported a 11.4% year (2016) over year (2017) decline as of December 2017 in sales at Milestone center (accounting for only 7 months of the King Soopers vacancy). The downward spiral is expected to increase as Starbucks has only recently closed and other tenants may soon follow.

Some of the concerns that follow *any* center that experiences a loss of a grocery store is the loss of traffic to the center, limited second generation tenants to fill large vacant spaces (70,000 sf), loss of revenue/traffic for existing tenants, increased closures/vacancy and shrinking revenues for the existing property owner (limiting their ability to assist current tenants and invest in the reactivating/rebranding of the center). **Currently the Milestone Center is experiencing all the above.**

Over the last year of vacancy, the EDC and Kroger's broker have had a very limited amount of prospect activity interested in the site. This is not surprising, as the retail industry as a whole has experienced a retraction in large and junior box activity. Additionally, the Castle Rock market already includes many of the likely candidates to fill a vacant space of this size. The EDC has explored opportunities in the entertainment industry and has received feedback that the economics and lack of trade area population significantly challenges the feasibility. Murdoch's has actively pursued the Castle Rock market for well over 5 years and represents not only the highest and best use but is also a regional draw.

Request from Murdoch's

Murdoch's is requesting a 25% sales tax share not to exceed 4 years or \$300,000 (attached). The request is based on the significant costs associated with transitioning a grocery anchored shopping center to a second-generation use. Significant challenges include the following:

- Subdivision – Due to limited availability of tenant interest in 70,000sf, the property owner intends to subdivide the space to accommodate a 50,000sf user (Murdoch's) and a 20,000sf user (TBD).
- HVAC System – (\$600,000) The existing system needs a complete re-configuration, as grocery stores run their HVAC systems through the coolers and are not able to be retrofitted for non-grocery uses.
- Tenant Improvements – (\$2.5 Million).

Murdoch's has provided the EDC a confidential proforma for discussion and negotiation with Town Council. They have projected annual gross revenue for the Castle Rock store of \$11M in year one, equating to approximately \$240,000 of taxable revenue to the Town. The estimate includes a very conservative 25% cannibalization rate and the 25% sales tax share. The proforma estimates provided have been verified to be in line with other Murdoch's locations verified by Town of Castle Rock's Finance Department and Castle Rock's EDC third party industry contacts.

Feinberg Properties Contribution

Feinberg Properties, owner of the surrounding inline retail (does not own the former King Soopers 70,000sqft box), is extremely supportive of Murdoch's and understands the benefit of an anchor tenant to its surrounding retail center. They have agreed to assist with the removal of parking spaces, so Murdoch's can utilize the parking lot for



retail space. They will also coordinate the aesthetic/visual elements of the center, upgrade the monument signage to enhance the property's image and marketability as well as plan a "re-launch" event for the property once Murdoch's is ready to open.

Potential New Ownership

GDA Real Estate Services, LLC is closing on a series of properties as part of a larger national deal that includes the former King Soopers box (not the inline retail). They have indicated to the EDC and Town that without a Murdoch's lease in place they intend to carve out the Castle Rock location from the greater portfolio purchase, which would result in the box remaining with Kroger and likely remaining vacant. The Castle Rock purchase is strictly tied to their ability to have a national credit tenant in place prior to closing. GDA Real Estate Services have reduced their rent expectations from those of Kroger to be more in line with second generation space, making this potential agreement possible.

Negotiation and Recommendation

At the direction of Town Council, Castle Rock EDC with the support of Town Staff have negotiated a deal with Murdoch's that contains the following mutually agreed upon terms:

Murdoch's would receive a 25% sales tax share back off the revenues that Murdoch's generates not to exceed 4 years or \$300,000 whichever comes first. The agreement represents a conservative approach by the Town, factoring in a 25% sales transfer rate as Murdoch's presence may transfer a small amount of sales in Castle Rock's growing market.

The Town will take no financial risk. Murdoch's has agreed to sign a minimum of a 10-year lease agreement with the property owner which includes a 10% "claw back" provision should Murdoch's cease operations during the 10-year lease agreement. The agreement is exclusive to Murdoch's and is non-transferable. Additionally, the 70,000 sqft box would have no deed restrictions of any kind that could impede future redevelopment of the site.

Summary

Positives

- Sales tax share requires zero upfront dollars and only shares revenue not risk that would not otherwise be generated
- Secures a quality regional second-generation tenant in a vacant grocery anchored center limiting the potential for continued decline.



- Strong economics on relatively small investment (14.6 to 1 ROI) for the tax payers estimated at \$4.4 M total.
- Growing Castle Rock market minimizes the long-term impact of transfer of sales of existing retailers.
- No future Grocery deed restrictions on the property

Drawbacks

- Potential transfer of sales from existing retail
- Perception that all retail needs/receives assistance

One of the primary goals of Castle Rock EDC is secure a strong long-term tax base. It is our opinion that this agreement will help offset the very real challenges associated with retrofitting an old grocery store anchored site, will support our struggling local business owners in the Milestone Center, create jobs, stave off blight and bolster the tax payer's revenue to pay for core Town services. Ultimately, we believe this agreement has more positive impact than it has drawbacks and moves our community one step closer to realizing the Town's vision of Castle Rock.

Respectfully,

A handwritten signature in black ink, appearing to read 'Frank Gray', is written over a light gray horizontal line.

Frank Gray, President/CEO

