

2019 Annual Report

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

Re: Castle Rock EDC Annual Report to Investors

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

2019 Economic Overview and 2020 Forecast

National

The United States is currently in its longest expansionary period since 1945, representing 10 consecutive years of positive economic growth. However, the pace of economic activity has slowed with real GDP declining from 3.1% in Q1, 2% in Q2 and 1.9% in Q3. Despite the decline, 2020 is projected to remain positive at 1.8%. The tapering of the economy is largely attributed to uncertain international trade markets, tight US labor markets and waning business investment.

State

Colorado continues to out-pace the national economy having experienced real GDP Growth of 3.4% in Q1 of 2019 which ranks Colorado 7th among all 50 states. With that said, CU Leeds School of Business is projecting a tapering in multiple sectors including:

- GDP
 - Real GDP 2.4% in 2016
 - 4.0% in 2017
 - 3.5% in 2018
 - 3.4% through Q1 2019
- Job Growth
 - 2.4% in 2018 or 69,900 jobs
 - 1.9% in 2019 or 51,100 jobs
 - 1.4% in 2020 or 40,000 jobs (projected)
- Home Price
 - 2019 home price growth continued to be positive but also slowed to 5.5%, the smallest increase since 2013
- Net In-Migration/Net Population Increase
 - 1.4% increase in 2019
 - 58,500 in 2016
 - 46,100 in 2017
 - 52,200 in 2018
 - 52,400 in 2019
 - 49,400 projected in 2020 (1.3% increase)

Castle Rock

The Castle Rock Market continues to remain steady in nearly all categories of economic activity; sales tax, primary employment, commercial vacancy, lease rates, population growth, and permit activity.

Sales Tax - In what was projected to be a volatile retail market, Castle Rock retail sales remained strong, reporting 6% growth in 2019. This demonstrates that Castle Rock continues to benefit from its position as a regional shopping destination outpacing the State of Colorado's 4.7%. The trade areas with the largest percentage of growth were the Wolfensberger retail corridor (+44.3%) followed by The Promenade at Castle Rock (+20.4%) and The Meadows (+19.7%). The Outlets at Castle Rock, the third largest sales tax generator, reported a 10% decline. The decline is largely attributed to the increase in outlet competition along the Front Range.

Primary Employment – A significant amount of Castle Rock primary employers reported positive employment growth in 2019, highlighted by: Dorsey Pictures, Hollis + Miller, Smarter Chaos, Infinity Labs, Clear Connect, Innovative Business Solutions, Tecobi, Intterra, SRP Companies, Milestone Tech, and HEI Civil.

Commercial Vacancy/Lease Rates – 2019 experienced strong commercial real estate activity.

- Vacancy Rates
 - Retail 3.7% in 2018 to 2.6% in 2019
 - Office 8.4% in 2018 to 4.1% in 2019
 - Industrial 6.2% in 2018 to 14.1% in 2019 *largely attributed to a single 80,000 SF vacancy
- Lease Rates
 - Retail \$20.55NNN in 2018 to \$21.66NNN in 2019
 - Office \$21.35NNN in 2018 to \$28.05NNN in 2019
 - Industrial \$13.06NNN in 2018 to \$14.84NNN in 2019

Population – Castle Rock's population increased by 2,831 residents from 2018 to 2019.

Permit Activity –

- Single Family permits, while still strong, experienced a mild decline from 1,029 in 2018 to 901 in 2019.
- New commercial permits dropped from 58 in 2018 to 44 in 2019.

Project of Economic Significance

The Sturm Collaboration Campus

The Sturm Collaboration Campus represents a first of its kind higher education facility, located in the Meadows just north of the Castle Rock Adventist Health Campus. The Campus includes a partnership between Arapahoe Community College, Colorado State University, Douglas County School District and the Town of Castle Rock. At



completion the development will consist of two 50,000 SF buildings. The Campus provides the opportunity to educate, recruit and retain a Castle Rock workforce.

2019 year-to-date update

- Gifted \$10MM from the Sturm Foundation; this gift is the largest private gift in the history of the Colorado Community College System
- Sturm Collaboration Campus opened with 650 students in August 2019.
- Sturm CC hosted 100 events from August-December.
 - Events included:
 - The inaugural State of the Town Address for Castle Rock.
 - ReWork America Task Force, which hosted 20 fortune 50 companies and national leaders around workforce reform.

Arapahoe Community College

- ACC will offer degrees in:
 - Cyber Security
 - Secure Software
 - Computer Science
 - Business
 - Pre Req's for Pre-Nursing & Pre-Med
 - AA & AS General
 - Certified Nursing Assistant
 - Physical Therapy Assistant
- ACC will offer apprenticeships in:
 - Water Operator with the Town Castle Rock Water Department (first ever in the State of Colorado)
 - Medical Assisting with Centura Health and Health One
 - Property Management (Launching March 2020)
- ACC was awarded 4 Apprenticeship Excellence Awards in December 2019 Colorado Workforce Development Council

Colorado State University

- CSU is offering degree completion in:
 - Accounting
 - BS in Computer Information Systems with a concentration in Cybersecurity
- CSU R.A.M. Camp completed its second year partnering with the Town of Castle Rock's Parks & Recreation Department running youth summer camps at Miller Activity Complex
- Talent Pipeline Douglas County (Castle Rock Chamber of Commerce) formed to address workforce issues and participated in a tour of Gilbert, AZ to identify best practices in talent pipeline development
- Little Shop of Physics outreach program provided hands on experiments for youth at Pedal the Moon
- Partnership formed with Cherokee Ranch & Castle's Youth Leadership Summit
- CSU Global is offering graduate level math and English courses to DCSD teachers who are interested in becoming qualified to teach concurrent enrollment classes for ACC

Douglas County School District

- 75 students have been approved to take a total of 368 credits in Fall 2019
- 20 students are registered for HPR 123 (Centura Health Pre-Apprenticeship Fall class)

The Move – 202 6th Street

In May of 2015 the Town/DDA/EDC approved a loan to support the development of the Move Building, and to assist in the retention of several expanding tech businesses in Castle Rock. The \$900,000 variable rate loan was made to facilitate the financing of a 50,000 SF tech-oriented office building in Downtown Castle Rock. The project received their Certificate of Occupancy at the end of 2016, the loan was made shortly thereafter, and the project began leasing up. In 2019, the project reached 100% occupancy, and roughly 210 people are employed in the Move building. This project was successfully capped off when the Move, LLC retired their loan in late 2019. This project was a pioneer on the north end of Downtown, helping to spur additional investment such as the Wild Blue Yonder Brewery and is an example of the value of public private partnerships.

2019 Development Projects & Business Updates

HEI Civil announced their intent to construct a 16,000 SF Class A office building adjacent to their current Headquarters at 5460 Montana Vista Way. Construction is expected to begin in early 2020. HEI Civil has officed in Castle Rock for over 46 years. Their core services include civil general contracting, utility construction and earthmoving. HEI Civil currently employs over 500 people with 43 full-time employees located in Castle Rock. As part of the new development, HEI Civil plans to occupy 8,000 SF of the new building, hire an addition 10 employees and deliver 8,000 SF of unoccupied Class A office product to the market.

Compounder's International Analytical Laboratories (CIAL) purchased 4760 Castleton Way as part of a 2019 corporate expansion. CIAL is a national compound testing facility that provides potency and sterility testing on customized medication throughout the US, Canada and Mexico. The company currently employs 28 full-time employees. This move supports their intent to add capacity and hire an additional 10 employees over the next two years.

Miller's Landing is a 65-acre site that is situated on the north-west corner of Plum Creek and I-25. It boasts tremendous visibility and access to I-25. In 2012, the Town of Castle Rock and the EDC reached an agreement with the existing taxing entities to create a URA designation to mitigate the challenges associated with the former municipal landfill.

In 2017, P3 Advisors assembled the property and entered into a Public Finance Agreement (PFA) with the Town of Castle Rock and the Castle Rock Urban Renewal Authority to support the development of public infrastructure and the full remediation of the landfill. A requirement of the PFA mandates a 250-room (minimum), full-service hotel and conference center. The project is designed to accommodate 450,000 SF of office and up to 200,000 SF of retail.

2019 update

- Performed extensive pre-construction site planning and design of public improvements for Miller's Landing with the objective of providing excellent connectivity between Philip S. Miller Park and Downtown Castle Rock.
- As an initial step in the development, P3 Advisors and Iron Woman Construction completed the remediation of the landfill in April of 2019. The remediation was handled under a Voluntary Cleanup Plan approved by the EPA and Colorado Department of Public Health and the Environment (CDPHE).
- CDPHE issued a "No Action Determination" letter certifying that no additional cleanup will be required, and that environmental liability has been removed for property transfers in June 2019.
- The first phase of infrastructure is underway, the product of a design-build collaboration between PCL Construction, Shears Atkins Rockmore, CORE Engineering and Norris Design.
- Pad sites anticipated for delivery in the fall of 2020.

Promenade at Castle Rock is a 200-acre site located between I-25 and Highway 85. Upon completion, this master developed site will bring a combined 900,000 SF of large-format retail, service and restaurant space oriented within four distinct districts. The Town has agreed to share 1.1% of the Town's 4% sales tax for up to 25 years or until the \$24.48MM (13% of the project costs) in infrastructure bonds have been paid off. Alberta Development Partners purchased the site in October of 2014 and anticipate stabilization to occur in 2021. It is estimated that at completion, the project will generate \$3MM to \$5MM of annual revenue to the Town.

2019 year-to-date update

- 715,069 SF built and/or under construction
- Whole Foods expected to open in early 2020
- 97% Leased (built or under construction)

Tenants Recently Opened

- | | |
|------------------------|-------------------|
| ○ Fuzzy Taco | ○ 7-11 |
| ○ Starbucks | ○ Chick Fil A |
| ○ Cuba Cuba | ○ Del Taco |
| ○ Premier Credit Union | ○ AFT Urgent Care |
| ○ Black Rock Coffee | |

Tenants Under Construction

- | | |
|---------------|-----------------|
| ○ Whole Foods | ○ Lenscrafters |
| ○ La Loma | ○ Panda Express |
| ○ Xfinity | ○ Sleep Number |

Meadow's Town Center is located off of Meadows Blvd. and adjacent to the Castle Rock Adventist Health Campus. The concept was originally created in 2003 by Castle Rock Development Company and designed to become the focal point of the community. Meadows Town Center will provide residents with a walkable, urban, mixed-use marketplace.

2019 year-to-date update

- Meadow's Town Center Building III
 - Under Construction; anticipated opening spring 2020
 - 21,400 SF of mixed-use office and retail

2275 Manatt Ct. – Castle Rock Flex Project is a 12,205 SF flex building located south of Downtown Castle Rock that boasts great visibility and access to I-25. The flexibility of this development will allow uses that include office, retail, warehouse, manufacturing and distribution. Each of the 4 units consists of 2,091 SF on the main floor and up to 3,051 SF with the addition of mezzanine space.

2019 year-to-date update

- Core & Shell complete, currently available for tenant improvements
- Ninja Nation will occupy the entire building

Downtown Development Authority (DDA) is a governmental entity that functions as an extension of the Town guided by a seven-member board that is appointed by Town Council. The 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 on the mission of the DDA and encourages the DDA to pursue “development projects” which include projects to beautify Downtown, increase commerce in Downtown and development projects which bring physical construction of buildings to Downtown.

2019 year-to-date updates

- Riverwalk Residential
 - 159 Leases Signed (70% leased, roughly a month ahead of schedule)
 - First move-ins occurred on 4/1/19
- Riverwalk Commercial
 - Commercial space 100% leased

Tenants Recently Opened	Signed Tenants Under Construction
○ Glacier Home Made Ice Cream & Gelato	○ Great Divide Brewery & T Street Roadhouse
○ Craft Coworking	○ Tribe at Riverwalk
○ Mod Mountain Boutique	○ Rocket Fizz
○ Riverwalk Dental Arts	
○ Hollis + Miller Architects	
- Festival Park – Received recognition across the State
 - Awarded *DRCOG Metro Vision Award*
 - Awarded *Colorado Lottery Starburst Award*
 - Top 3 finalist for an *Urban Land Institute (ULI) Impact Award*
 - Nominated for *Best Use of Public Space* Downtown Colorado Inc. Governor's Award for Downtown Excellence
- Encore – Currently under construction; 72,000 sf mixed use development that will include:
 - 124 for-sale residential condominiums
 - 29,000 sf of ground-floor commercial
 - 601 parking spaces (300 public spaces and 301 private spaces)

- Expected completion of Fall 2021

Work Session with Town Council & Incentive Update

The Town of Castle Rock and Castle Rock Economic Development Council (EDC) executed an **Economic Development Strategic Plan** with the assistance of Economic Planning Systems (EPS), which summarized a vision for growing the Town's economy and providing a set of guiding principles based on the Town's economic strengths and weaknesses. The analysis identified three major initiatives and presented notable findings.

Major Initiatives

1. Continue to focus on attraction and growth of primary employment within the EDC's target industries.
2. Improve the market position of office development in Castle Rock and continue to incentivize office development in the Town.
3. Increase the number of people that live and work in Castle Rock

Notable Findings

- 80% of Castle Rock residents are employed outside of the community.
- Castle Rock has the lowest office square footage per capita of the 10 aspirational communities compared.
- Castle Rock has the lowest percentage of primary employment out of the 10 aspirational communities examined.
- Castle Rock office development includes additional risks that are unique to Castle Rock.
 - Slower lease up times
 - Smaller tenant make-up
 - Higher than average commercial land cost, compared to Lone Tree, Parker and Centennial
 - Higher development fees for large office and medical office than the competitive set of peers, Lone Tree, Parker and Centennial.

On March 5th the EDC and Town Council participated in a work session that directed staff and the EDC to propose amendments to the Town's Economic Development Policies that address the limited office supply and desire to grow primary employment. The proposed changes to the Castle Rock Business and Development Incentive Program incorporates two significant additions to the existing program, the *Office Loan Program* and the *Office Lease Program*. These concepts were presented to Town Council on May 7th and adopted into the existing Economic Development Policies.

Office Loan and Lease Programs

The Office Loan and Lease Programs are designed to mitigate risk, encourage office development and attract primary employment. The projects would need to meet the criteria of a Catalytic Project of Economic Significance as defined in the Castle Rock Business and Development Incentive Program. Town Council approval would be required on a project by project basis.

Office Loan Program

- **Objective** – Attract primary employment by investing in new office development.
- **Proposed Incentive** – Economic Development Fund would loan a qualifying project up to 10% of the office project's cost not to exceed \$1 Million.
- **Loan Terms** – 1% Interest only for years 1-3 or until the project is 75% leased (whichever comes first). After year 3 (or 75% leased), the loan would convert from interest only to prime + 1% for one year, prime + 2% for the second year, and prime + 3% for all remaining years.
- **Minimum Criteria** – 40,000SF office building, site that can accommodate at least two 40,000SF office buildings, 25% of the building preleased to a primary employer with a minimum of 25 employees, average wage needs to meet or exceed the County average.
- **Comparative Criteria** – If two or more proposals are being considered, projects will be evaluated based on: number of primary jobs that are a part of the project, type of jobs that are being proposed, average wages, the ability to attract additional primary employers, size (SF) of the project, financial strength of the applicant, strength of the site and its capacity (size and infrastructure) to handle additional primary office projects.

Office Lease Program

- **Objective** – Attract Primary Employment by supporting and mitigating risk to new office development.
- **Proposed Incentive** – For qualifying projects, the Town would lease the lesser of 10,000SF or 25% of the project. The rate would be determined based on market study and would reflect the fact that the space will remain unoccupied (core and shell). Lease term would be limited to 5 years and would phase out (accelerate) proportionately to any lease signed that would bring the project above 75% occupancy.
- **Minimum Criteria** – 40,000SF office building, 50% of the building preleased to a primary employer with a minimum of 40 employees, site that can accommodate at least two 40,000SF office buildings, average wage needs to meet or exceed the County average.
- **Comparative Criteria** – If two or more proposals are being considered, projects will be evaluated based on the size of the project, the number of primary jobs, type of jobs that are being proposed the financial strength of the applicant.

*office program was marketed through the Business Attraction Team (BAT) as mentioned below.

Local Business Recognition

Colorado Companies to Watch Gala Awards Dinner recognized two Castle Rock companies. With over 1,100 submittals **Infinity Labs** was awarded a Colorado Companies to Watch and **SmarterChaos** made the Top 100 Finalist's List.

Colorado Companies to Watch is a yearlong program that energizes our state by recognizing second-stage companies that are developing valuable products, services, creating jobs, enriching communities, and creating new industries. The winners join a select group of companies that are associated with the prestigious award developed by the Edward Lowe Foundation and supported by the Colorado Office of Economic Development and International Trade (OEDIT). Now in its 11th year, the Colorado Companies to Watch program's 550 winners have created more than 20,000 full-time equivalent jobs and generated nearly \$5 billion in revenue.

Business Attraction Team (BAT)

The Castle Rock Business Attraction Team oversees one of the core services of the Castle Rock EDC, attracting new primary employers to Castle Rock. BAT meets monthly and consists of private sector volunteers with expertise in business development, real estate, construction, land planning, title work and marketing. BAT focuses on both direct and indirect marketing strategies for attracting primary employment. Additionally, BAT fosters relationships with developers to encourage office development in the Castle Rock market. BAT hosts a series of events that seek to promote, educate and encourage the creation of primary employment opportunities in the Castle Rock Market.

2019 year-to-date update

- 2019 Incentive Update
- Contributed to the content associated with the Council Work Session
- Hosted two signature Broker/Developer Events
- Presented the new Office Lease/Loan Program to 25 Brokerage/Development Firms across the Front Range
- Participated in a panel discussion at the fall CREW Luncheon that showcased Downtown Castle Rock, Confluence Development, Miller's Landing and The Meadows. The event was followed up with a bus tour of Castle Rock.

Business Retention Expansion (BRE)

One of the signature objectives of the EDC is to help grow the tax base and create a quality business climate. By establishing a Business Retention and Expansion (BRE) Task Force, the EDC and Town leverage a wide range of professional expertise that provide value to Castle Rock based businesses. Each month members of the BRE Task Force meet with local businesses to discuss strategies for expansion, address challenges in the marketplace and establish the necessary methods to follow-up. The objective is to ensure that each business in Castle Rock understands the value they provide to the community and the commitment of the Town and the EDC to support their goals and encourage their growth. As an extension of BRE, the EDC hosts a **Primary Employer Roundtable** and **Development Roundtable**.

Business Retention Visits

- Task Force Meetings – The BRE Task Force has conducted 10 monthly meetings with a variety of local companies and has expanded its reach by partnering with Innosphere to meet with client companies located in and around Castle Rock and the S. Metro area.
- Onsite Meetings – Members of the BRE Task Force joined EDC staff to formally and informally visit with approximately 45 local companies to discuss strategies for expansion, address challenges and celebrate success.

Primary Employer Roundtable exists to provide a forum for Castle Rock Primary Employment Leaders to exchange ideas, best practices, and to develop strategic relationships. Membership is open to any primary employer in Castle Rock and the group is inspired to give back to our community and to promote economic growth both locally and regionally.

2019 year-to-date discussion items

- Tight labor market
- Attainable Housing Challenges for Employees

- Transportation Challenges
- Charitable community engagement

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

2019 discussion items

- | | |
|--|---|
| • Code Adoption | • Title 17 Code Amendment Changes |
| • Residential Growth Projections | • Process Change PPA to PPI |
| • Downtown Mobility Study | • Development Services Color Ratings Update |
| • Temporary Erosion & Sediment Control (TESC) Manual | • Water Usage for HOA's |
| • Water Main Connection/Services Residential | • TESC Permitting Process Changes |
| • 2020 Castle Rock Water Rates & Fees | • 2020 Budget & Amendment to Impact Fees |

Innosphere is a Science and Technology Incubator that was founded in 1999. Headquartered in Fort Collins, Innosphere provides support to entrepreneurs, building high-growth companies in the industries of natural & organic foods, health innovation, life sciences, software & hardware, and energy & advanced materials.

Based in large part to the early work of the 104 Initiative and the Sturm Collaboration Campus, Innosphere selected Castle Rock as a location for one of its 2018 satellite expansions. Innosphere-Castle Rock offers support to start-up and early stage companies increasing the exposure of Castle Rock to the tech start-up industry.

Castle Rock EDC values our partnership with the Town of Castle Rock and our Private Sector Investors. The EDC remains committed to the vision of being a premier stand-alone community.

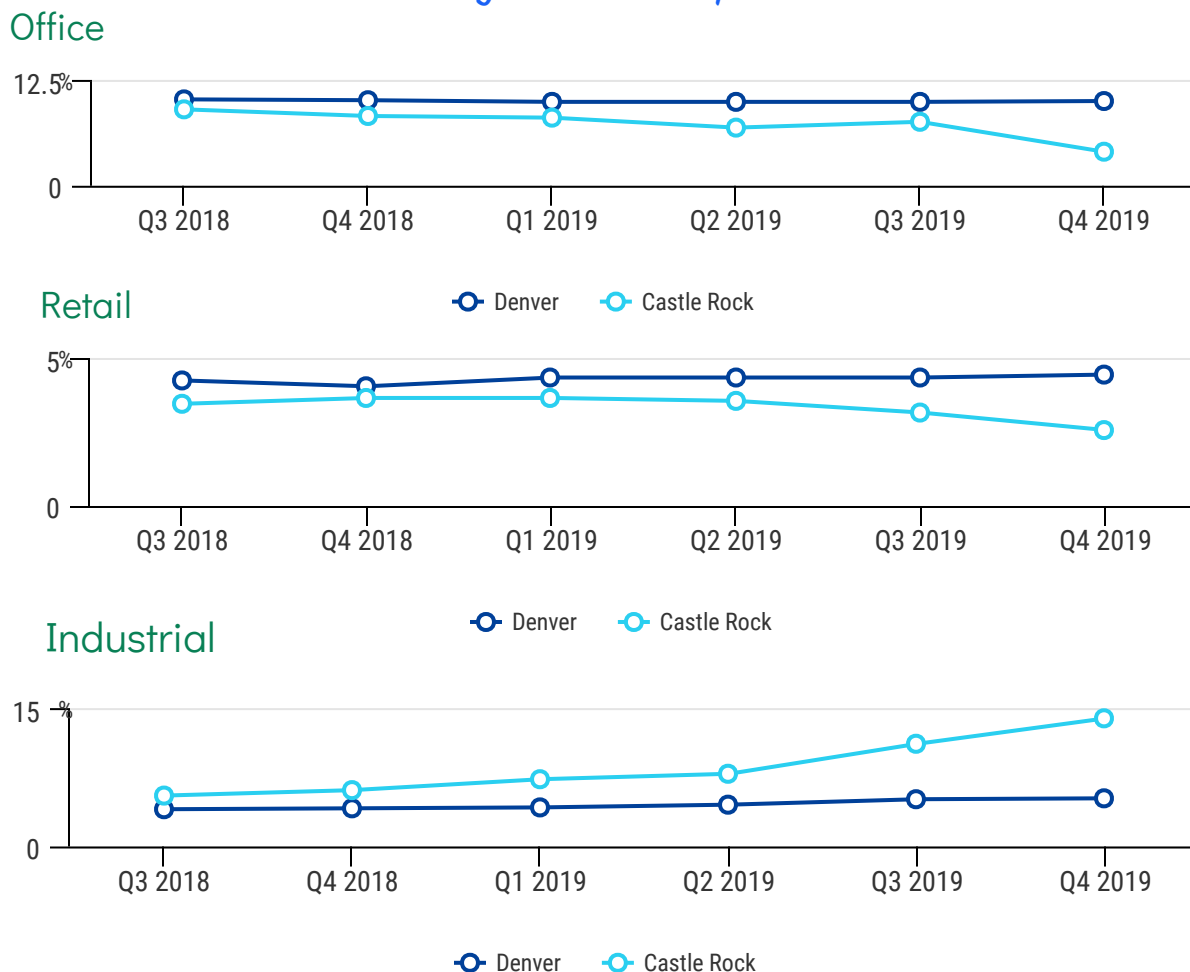
Respectfully,



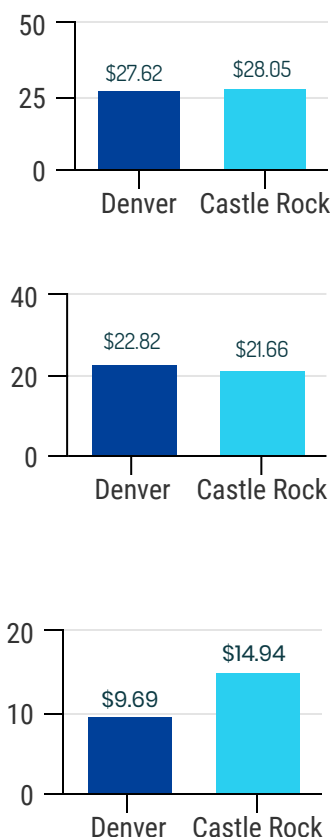
Frank Gray
President & CEO

2019 Annual Report

Vacancy Rate Comparison *



Lease Rate Comparison Q4 2019*



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

Unemployment Comparison



2018

2019 -Through Nov.

3.3%

2.3%

3.6%

2.4%

3.8%

2.5%

3.7%

3.3%

Castle Rock

Denver

State of CO

National

-Not Seasonally Adjusted, US Bureau of Labor Statistics

Promenade Progress

Under Construction

Whole Foods
La Loma
Xfinity
Lenscrafters
Panda Express
Sleep Number

Now Open

AFC Urgent Care
Cuba Cuba
Premier Credit Union
7-11

715,069 SF Built / Under Construction

94% Leased



Castle Rock Sales Tax Comparison

2018

+6%

2019

+6%



Colorado Companies To Watch Awards

~ 2019 Award Winners ~



CCTW Award
Infinity Labs

Top 100
Smarter Chaos

2019 Annual Report

Castle Rock Development Highlights

Miller's Landing

- Landfill Remediation Completed April 2019

Meadows Town Center Bldg. III

- Under Construction
- Completion Spring 2020
- Mixed Use Office/Retail
- 21,400 SF

2275 Manatt Ct. Flex Project

- Core & Shell Complete
- 12,205 SF Light Industrial Flex

Riverwalk Residential

- 159 Leases Signed (70% leased)

Riverwalk Commercial

- Glacier Home Made Ice Cream & Gelato
- Craft Coworking
- Mod Mountain Boutique
- Riverwalk Dental Arts
- Hollis + Miller Architects

Riverwalk Commercial - Coming Soon

- Great Divide Brewery & Roadhouse
- Tribe at Riverwalk
- Rocket Fiz

Encore

- Under Construction
- Mixed-Use Project
- 124 For-Sale Condos
- 29,000 SF Commercial Space
- 601 Total Parking Spaces
 - 300 Public Spaces
 - 301 Private Spaces

Festival Park

- Awarded DRCOG Metro Vision Award
- Awarded Colorado Lottery Starburst Award
- Top 3 finalist for an Urban Land Institute (ULI) Impact Award
- Nominated for Best Use of Public Space
- Downtown Colorado Inc. Governor's Award for Downtown Excellence

Project of Significance

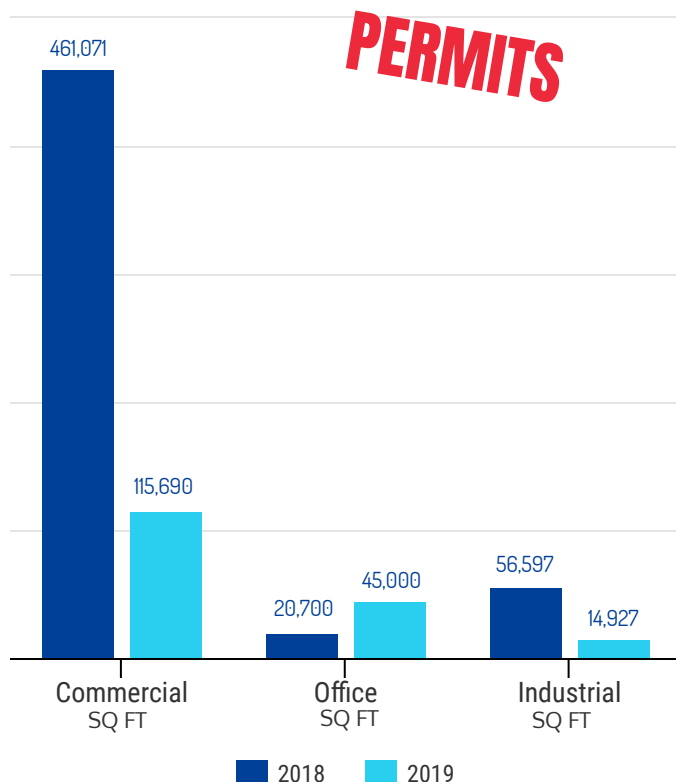
Sturm Collaboration Campus

ACC . CSU . DCSD

Awarded largest private gift in the history of CO Community College System
Opened with 650 Students in August 2019



NEW Construction



Development Prospects

