

CANYON CREEK (SILO 2) FEASIBILITY AND VALUATION ASSESSMENT

INTRODUCTION

This part of the report addresses the timing and intensity of commercial development (absorption) planned within Canyon Creek of the South Nevada Avenue URA. Capture rates pertaining to planned development in Canyon Creek have been calculated and are presented in relation to categorized demand forecasts for Colorado Springs.

ABSORPTION ASSESSMENT

Residential Capture Rate Assessment

Residential townhomes and apartments are planned for development in the South Nevada Avenue URA over a two-year period from 2018 through 2019. Capture rates have been calculated for townhomes and apartments.

Townhomes

- Townhomes planned in Canyon Creek total 45 units with average annual absorption equaling approximately 23 units per year during the two-year residential absorption period.
- To assess development timing, intensity and feasibility, average annual townhome absorption in Canyon Creek has been compared with forecast townhome demand in Colorado Springs.
- The relationship between absorption of Canyon Creek townhomes and corresponding regional demand results in a capture rate and reflects the share of development attributable to the Canyon Creek project area in relation to demand in Colorado Springs.
- Generally, a high capture rate suggests a more aggressive development schedule for the proposed project.
- The calculated capture rate for Canyon Creek townhomes equal 18% to 23% of forecast trade area townhome demand.
- The townhome capture rate for the URA is reasonable due to the trade area's smaller geographic area where there is currently limited new unit development.
- There are 2 upper-end townhomes planned in Canyon Creek that will be priced at \$750,000 per unit.
- This is significantly higher than the \$425,000 per unit average price of 43 townhomes planned for development in Canyon Creek.
- The 2 upper-end townhome units will be located next to a creek that runs through a portion of the Canyon Creek project area and will also be located near larger, attractive older homes in the immediate neighborhood.
- The developer anticipates marketing these upper-end units to existing homeowners in the Broadmoor area (existing high-end neighborhood near the site) that may be looking to downsize.
- Because of these factors, positive absorption potential is anticipated for the two, \$750,000 per unit townhomes planned for development in Canyon Creek.

Apartments

- Apartments planned in the Canyon Creek area of the URA total 99 units with average annual absorption equaling approximately 50 units per year during the two-year residential absorption period.
- The calculated capture rate for Canyon Creek apartments equal 33% to 41% of annual forecast trade area apartment demand.
- The capture rate for apartments planned in Canyon Creek is moderate compared to forecast annual trade area apartment demand of 120 to 150 units per year.
- Absorption of the apartment units in Canyon Creek will occur over a discreet two-year time period
- The following table details townhome and apartment capture rates for Canyon Creek.

Canyon Creek, South Nevada Avenue URA
Residential Capture Rates

| | | |
|--|--------------|---------------|
| Trade Area Forecast Annual Demand Range: | <u>Lower</u> | <u>Higher</u> |
| Townhomes | 100 | 125 |
| Apartments | 120 | 150 |
| Canyon Creek – Forecast Annual Absorption: | | |
| Townhomes | | 22.5 |
| Apartments | | 49.5 |
| Canyon Creek – Capture Rate Range: | <u>Lower</u> | <u>Higher</u> |
| Townhomes | 18% | 23% |
| Apartments | 33% | 41% |

Source: King & Associates, Inc.

Commercial Capture Rate Assessment

Office and retail space is planned for development in the Canyon Creek area of the South Nevada Avenue URA over a two-year period from 2018 through 2019. Capture rates have been calculated for the office and retail space.

Office Space

- Planned office development in Canyon Creek is anticipated to absorb over a two-year period from 2018 through 2019, with average absorption equaling 1,250 square feet per year.
- Average annual office absorption in Canyon Creek (1,250 square feet annually) has been compared with annual forecast office demand in the trade area (22,500 square feet annually).
- The relationship between anticipated office space absorbed in Canyon Creek and corresponding demand results in a capture rate and reflects the share of development attributable to Canyon Creek in relation to total forecast trade area office demand.
- The resulting capture rate for planned office development in Canyon Creek is 11% and represents a small percent of annual office demand (22,500 sq. ft. annually) forecast in the trade area.

Retail Space

- Development of retail space planned in Canyon Creek is also anticipated over a two-year period from 2018 through 2019, with average absorption of approximately 12,444 square feet per year.
- Average annual retail absorption in Canyon Creek (12,444 square feet annually) has been compared with forecast retail demand in the trade area (52,500 square feet annually).
- The resulting capture rate for planned Canyon Creek retail development is 24% of annual retail demand (52,500 sq. ft. annually) forecast in the trade area.
- At 24%, the Canyon Creek capture rate of trade area retail demand is low.
- The following table presents the calculated office and retail capture rates for Canyon Creek.

Canyon Creek, South Nevada Avenue URA
Office and Retail Capture Rates

| | |
|---|--------|
| Trade Area Forecast Annual Demand Range: | |
| Office | 22,500 |
| Retail | 52,500 |
| South Nevada Avenue URA Forecast Annual Absorption: | |
| Office | 1,250 |
| Retail | 12,444 |
| Capture Rate Range: | |
| Office | 11% |
| Retail | 24% |

Source: King & Associates, Inc.

PROPERTY
VALUATION
ESTIMATES

Property Valuation

Valuation – South Nevada Avenue URA

- The El Paso County Assessor makes a determination of “Actual Value” (market value) pertaining to all parcels (and parcels throughout the County) in the URA for property taxation purposes.
- Property taxes are calculated from a parcel’s “Actual Value”, which is set every two years (biennially) based on “reappraisal”.
- The Actual Value of planned development in Canyon Creek has been projected given review of property records pertaining to comparable parcels in El Paso County.

Comparable Project Values

- The actual value (market value) of existing commercial and residential projects that have been determined as comparable to planned development in the URA has been researched.
- Selected projects provide a gauge as to the likely actual taxable value of planned development within the URA.
- The focus of this section involves the actual value of comparable projects to development / renovation planned in Canyon Creek of the URA.

In-line Retail

- In line space planned in Canyon Creek totals 8,888 square feet.
- The developer anticipates Canyon Creek tenants to include Tokyo Joes and Smash Burger restaurants as well as a day spa and waxing salon.
- Recently developed in-line space in Copper Ridge Metropolitan District (northern Colorado Springs) has been used to project the value (taxable actual value) of development in Canyon Creek and Silo 3.
- Additionally, another recently constructed retail center, located in the east area of Colorado Springs has been used as a comparable to Canyon Creek and Silo 3 in-line space.
- The following information summarizes comparable projects.
 - Buildings reviewed were constructed between 2007 and 2016.
 - Buildings ranged from approximately 11,000 to 16,000 square feet in size.
 - Comparable strip / in-line retail development values ranged from \$158 to \$234 per square foot.
 - Average value of the comparable projects is \$180 per square foot.
- King & Associates, Inc. has projected the market value for in-line retail space planned in Canyon Creek at \$200 per square foot.

Hotels

- A full-service hotel is planned for construction in Canyon Creek to include 135 rooms and a 4,000 square foot restaurant (value discussed on next page).
- Existing hotels within the URA are several years old and more recently constructed hotels in northern Colorado Springs serve as better comparable projects for the planned hotel in Canyon Creek.

- The value of hotels in northern Colorado Springs area have been reviewed since this area has been the focus of limited new lodging development in the city during the past few years.
- A Drury Inn was constructed in 2014 in the northern area of Colorado Springs and valued at approximately \$56,000 per room.
- A Great Wolf Lodge was completed in 2015 and has a value of nearly \$81,000 per room.
- Great Wolf Lodge is part of a theme development that includes an indoor water park and is less comparable due to its size and resort focus.
- Hotels in northern Colorado Springs range in value from approximately \$45,000 to \$81,000 per room, with an average value of nearly \$68,000 per room.
- King & Associates, Inc. projects the market value for the planned hotel in Canyon Creek at \$75,000 per room to reflect new construction and upper-scale focus of the project.

Office development

- A very limited amount (2,500 square feet) of office space is planned in Canyon Creek of the URA.
- Planned office space in Canyon Creek involves renovation of a smaller, existing office building to include mixed uses; office space (2,5000 square feet) and a restaurant (5,000 square feet).
- There are several renovated office buildings on South Nevada Avenue near downtown Colorado Springs that serve as comparable projects to the office building renovation planned in Canyon Creek.
- The average value of comparable office buildings reviewed is approximately \$115 per square foot.
- King & Associates, Inc. projects the actual value for the renovated office building in Canyon Creek at \$135 per square to reflect updated condition of the building structure.

Restaurants

- Three restaurants are planned in Canyon Creek of the URA.
- A 4,000 square foot restaurant will be developed on the hotel parcel in Canyon Creek.
- Additional renovation of the 7,000 square foot Prime 25 restaurant is building is anticipated and a 5,000 square foot Rok Taco restaurant is planned on two floors of an existing office building in Canyon Creek (the third floor of the building will be used as office space).
- The value of recently constructed pad restaurants have been reviewed in Colorado Springs.
- Pad restaurants reviewed were constructed between 2008 and 2016, range in value from \$292 to \$472 per square foot and have an average value of \$378 per square foot.
- King & Associates, Inc. projects the actual value for the renovated Prime 25 and Rok Taco restaurants at \$315 per square foot, reflecting average value of all restaurants reviewed, including existing restaurants in the URA, and considering that the restaurants involve renovation of existing buildings and not new construction.

- The value of the 4,000 square foot hotel restaurant is projected at \$350 per square foot to reflect new construction on a parcel that is not on a prime retail corner or within a retail focused development project (which results in higher value).

Apartments

- Development plans in Canyon Creek involve two apartment projects with a total of 99 units.
- There is only one recently constructed apartment project located near the URA.
 - This project was completed in 2015, includes 33 units and is located south of downtown Colorado Springs in area that has been the focus of several recent non-residential redevelopment projects.
 - This comparable apartment project has an average value of approximately \$150,000 per unit.
- Several comparable apartment projects are located in northern Colorado Springs with an average value of \$167,500 per unit.
- The value of several recently constructed apartment projects (2015 and newer) in Colorado Springs have not yet been fully assessed by the El Paso County Assessor and could not serve as comparable projects.
- King & Associates, Inc. has projected the market value of planned Canyon Creek apartments at \$180,000 per unit to reflect new construction and base value of the most comparable apartment project that is located south of downtown Colorado Springs near the URA.

Townhomes

- Development plans in Canyon Creek involve 45 townhomes.
- There has been increased development activity involving attached housing in the Colorado Springs housing market over the past five years.
- From 2012 through 2016, townhome building permits have averaged 185 units per year and 277 attached permits were issued in 2016.
- The price range of new townhomes currently offered in Colorado Springs ranges from approximately \$230,000 to \$560,000 per unit.
- The URA provides an excellent location for new townhomes, particularly upper-end units.
- There is an existing base of high-end housing in the Broadmoor area west of the URA.
- An average price of \$425,000 per unit has been projected for attached townhomes planned in Canyon Creek.

Projected values

- Given review of comparable projects near the URA as well as other locations in Colorado Springs, projected “Actual Value” for planned development in the URA has been completed.
- The following table details projected values for planned development in Canyon Creek.

South Nevada Avenue URA – Projected Actual (Market) Values

| Development Type | Projected Value |
|----------------------|-----------------|
| Office | \$135 |
| In-line | \$200 |
| Restaurants | |
| Rok Taco | \$315 |
| Prime 25 | \$315 |
| Hotel Restaurant | \$350 |
| Hotel (per room) | \$75,000 |
| Residential | |
| Townhomes (43 units) | \$425,000 |
| Townhomes (2 units) | \$750,000 |
| Apartments | \$180,000 |

Source: El Paso County Assessor, King & Associates, Inc.

The following table presents projected property valuation in the Canyon Creek portion of the South Nevada Avenue URA. The table also provides an absorption forecast for planned development / renovation in Canyon Creek.

South Nevada Avenue URA
Canyon Creek Absorption and Valuation Projection

| Type of Development | Units / SF / Rooms | Value Unit / Sq Ft | Absorption | | |
|---------------------|--------------------|--------------------|--------------|---------------|--------------|
| | | | Existing | 2018 | 2019 |
| Canyon Creek | | | | | |
| Residential | | | | | |
| Canyon Creek TH | 19 | \$425,000 | | 19 | |
| TH Site 2 | 24 | \$425,000 | | 12 | 12 |
| TH Site 3 | 2 | \$750,000 | | | 2 |
| Apartments | 99 | \$180,000 | | 50 | 49 |
| Total | 144 | | | 81 | 63 |
| Commercial | | | | | |
| Ramona In-line | 8,888 | \$200 | | 8,888 | |
| Hotel Restaurant | 4,000 | \$350 | | | 4,000 |
| Rok Taco | 5,000 | \$315 | | 5,000 | |
| Prime 25 | 7,000 | \$315 | 7,000 | | |
| Office | 2,500 | \$135 | | 2,500 | |
| Hotel | 135 | \$75,000 | | | 135 |
| Total | 27,388 | | 7,000 | 16,388 | 4,000 |

Source: King & Associates, Inc.

Notes:

1. Property valuation per square foot.
2. Rok Taco and Office planned development involve renovation of an existing office building in the Canyon Creek.