



KING & ASSOCIATES INC.
Market, Feasibility And Economic Analysis For The Real Estate Industry

SOUTH NEVADA AVENUE URBAN RENEWAL AREA MARKET AND VALUATION ANALYSIS

PREPARED FOR:
SOUTH NEVADA AVENUE
URBAN RENEWAL AREA

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EXECUTIVE SUMMARY

PROJECT SUMMARY

- The South Nevada Avenue Urban Renewal Area (URA) is located south of downtown Colorado Springs.
- There are four development subareas – termed silos – within the URA.
- Presently, planned development is focused in the Canyon Creek portion of the URA (Silo 2).
- Residential and commercial development is planned in Canyon Creek to include 27,388 square feet of commercial space (retail and office space, restaurants and 135 hotel rooms) and 144 residential townhomes and apartments units.
- The number of households in Colorado Springs is forecast to increase by 4,710 per year through 2025 or by a rate of 1.7% annually.
- Employment has increased steadily in Colorado Springs since 2010 and continued job growth is forecast at a rate of 2% annually through 2025.
- Office and retail commercial market segments in El Paso County have shown positive performance since 2012.
- This includes declining vacancies, increase lease rates (except office lease rates) and positive absorption.
- Hotel occupancy rates have increased from 2012 through 2016 (60.5% to 69.4%) along with average nightly room rates (\$89.35 to \$106.92).
- Residential development trends have been positive in Colorado Springs over the past several years with building permits for townhomes averaging 185 units per year from 2012 through 2016 and apartment permits averaging 819 units per year during the same period.

FINDINGS

- The office and retail commercial market segments in the trade area have posted positive performance since 2012.
- The trade area office market has registered positive gains over the last several years with low vacancies (4.8% - Q1 2017), increasing lease rates (\$11.75 per square foot year-end 2012 to \$12.82 per square foot in Q1 2017) and demand of approximately 17,000 square feet annually (2012 through Q1 2017).
- Office demand in the trade area is projected at 22,500 square feet annually through 2025.
- The retail market in the trade area is characterized by very low vacancies (2.8% Q1 - 2017), slightly decreased lease rates (\$15.61 per square foot at year-end 2012 to \$14.76 per square foot in Q1 2017) and positive absorption averaging 66,300 square feet per year from 2012 through Q1 2017.
- Trade area retail demand is projected at 52,500 square feet annually through 2025.
- Most of the residential land in the trade area and the southwest and western portions of Colorado Springs have seen limited new housing construction over the past several years.

ASSESSMENT AND
CONCLUSIONS

- The apartment market in the trade area has registered strong performance over the past several years and as of Q2 2017, the vacancy rate was just 3.8% and average rental rates stood at \$1,111 per unit.
- The South Nevada Avenue URA is poised for redevelopment given its excellent location and initial redevelopment activity in the area.
- The URA is located within a redeveloping area that is near downtown Colorado Springs, employment centers, major transportation routes, shopping and recreation areas.
- Initial projects in the area include renovation of the Ivywild School (not within the URA) with a brewery and restaurants.
- In Silo 3, a 15,000 square foot Natural Grocers store and 10,000 square feet of in-line and pad retail space was completed in 2017.
- Development potential has also been assessed in Silo 1 and Silo 4 in the URA.
 - In Silo 1 there is potential to redevelop existing commercial buildings along South Nevada Avenue, which include older restaurants and motels.
 - Potential new development would likely include a mix of motels, restaurants, retail and office space.
 - Existing development in Silo 4 includes smaller retail structures, restaurants and housing.
 - Near-term opportunities in Silo 4 include redevelopment of an existing neighborhood shopping center, new restaurant and retail pads as well as attached and multi-family housing.
- Planned development / redevelopment in Canyon Creek of the South Nevada Avenue Urban Redevelopment Area includes 27,388 square feet of commercial space, 135 hotel rooms and 144 residential units.
 - Absorption of residential units and commercial space planned in Canyon Creek is projected from 2018 through 2019 with detailed absorption information listed in the table on page 6.
 - Within the Canyon Creek (Silo 2) portion of the URA, development of the Canyon Creek Townhome project started in August 2017.
- Taxable market values (actual values) have been projected in relation to development planned in Canyon Creek of the URA.
 - In-line retail (retail and restaurants) – \$200 per square foot.
 - Office (renovation of existing building) – \$135 per square foot.
 - Restaurants (new construction and renovation of existing buildings) – \$315 per square foot (renovated space – Prime 25 and Rox Taco), \$350 per square foot (new construction – hotel restaurant).
 - Hotel- \$75,000 per room.
 - Apartments - \$180,000 per unit.
- King & Associates, Inc. has reviewed commercial and residential real estate market trends in Colorado Springs and the trade area and finds there are strong opportunities for redevelopment within the URA.
- King & Associates, Inc. has projected property tax market values pertaining to proposed development in the Canyon Creek (Silo 2) area of the South Nevada Avenue Urban Renewal Area.

- King & Associates, Inc. finds that planned development in Canyon Creek will provide a catalyst for further residential and commercial development within the URA as well as the surrounding area.
- King & Associates, Inc. has reviewed commercial and residential development planned in Canyon Creek and finds the timing and scale of the development program to be responsive to current market demand in the trade area as well as Colorado Springs and further concludes that the tax increment from planned redevelopment and renovation projects will exceed the value of these parcels given their existing condition.

INTRODUCTION

PURPOSE AND SCOPE

King & Associates, Inc. has been retained by the South Nevada Avenue Urban Renewal Authority (URA) to assess development feasibility, timing and valuation within the URA. The South Nevada Avenue URA is located in the City of Colorado Springs, Colorado. Section 2 of this report specifically discusses development feasibility in the Canyon Creek (Silo 2), area of the URA. Development feasibility within the overall URA has been assessed with respect to real estate market conditions in Colorado Springs and the geographic area surrounding the project area. Real estate demand and supply factors have been reviewed and include among others: demographic trends and forecasts as well as commercial and residential market performance trends (vacancy and lease rates, absorption and new construction).

DEVELOPMENT PLANS AND STATUS

There are four Silos – development areas – in the South Nevada Avenue Urban Renewal Area. The Silos are defined by ownership structure and development / redevelopment status and progress has been reviewed for each Silo. Development in Silo 3 has progress most quickly with a 15,000 square foot Natural Grocers store and approximately 10,000 square feet of in-line and pad retail space that was completed in 2017. Planned development in Silo 2 – Canyon Creek the URA totals 27,388 square feet of retail and office, a hotel (135 rooms) and residential housing (144 units). Initial residential construction in Canyon Creek began in 2017. Section 2 of this report specifically details the development program, status and feasibility for Canyon Creek. Development plans for Silos 1 and Silo 4 have not progressed to a point where property owners have announced the scope and timing of potential future projects. The following table highlights planned / completed development in the URA.

South Nevada Avenue Urban Renewal Area
Development Program

Silo 2 - Canyon Creek – planned development					
Residential	Townhomes	Apartments			Total
Project Name					
Canyon Creek	19				19
Site 2	24				24
Site 3	2				2
Apartments		99			99
Total	45	99			144
Commercial	Office	Restaurant	Retail	Hotel	Total
Project Name					
Rok Taco		5,000			5,000
Prime 25		7,000			7,000
Hotel Restaurant		4,000			4,000
Office	2,500				2,500
Ramona In-line			8,888		8,888
Hotel				135	135
Total	2,500	16,000	8,888	135	27,388
Silo 3 – development completed in 2017					
Commercial			Retail		Total
Project Name					
Natural Grocers			15,000		15,000
In-line			10,000		10,000
Total			25,000		25,000
Silo 1 and Silo 4					
Development programs to be announced.					

Source: South Nevada Avenue Urban Renewal Area.

Notes:

1. Table includes planned commercial and residential development for Silo 2 - Canyon Creek and completed Silo 3 development within the URA.
2. Existing Silo 2 - Canyon Creek commercial space includes restaurant space of 7,000 square feet (Prime 25 building), restaurant space of 4,000 square feet (Rok Taco) and 2,500 square feet of office space. The Rok Taco and office space involve renovation of one existing building with the restaurant located on two floors of the building and office space on the upper floor.

COLORADO SPRINGS AND TRADE AREA REAL ESATE MARKET TRENDS AND FORECASTS

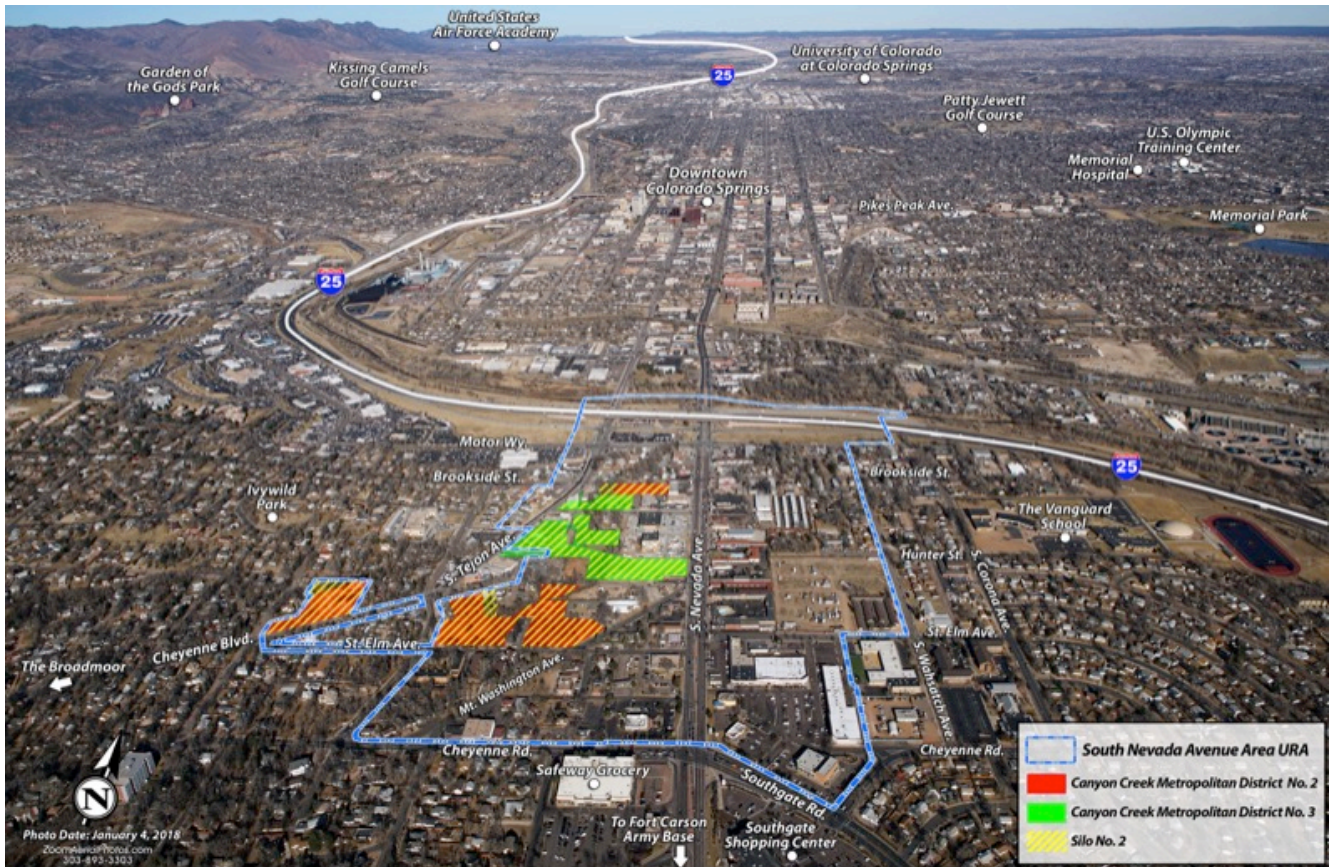
INTRODUCTION

This part of the report presents demographic as well as residential and commercial market trends and forecast within Colorado Springs and a defined trade area.

DEVELOPMENT AREA

The South Nevada Avenue URA is located southwest of downtown Colorado Springs. The boundaries of the URA include an irregularly shaped rectangle with the following approximate boundaries: I-25 on the north, east Cheyenne Road to the south, South Tejon Street to the west and South Corona Avenue to the east. There are four sub areas – termed Silos – in the URA. The following maps depicts the location of URA and the four Silo areas.

South Nevada Avenue Urban Renewal Area – Locator Map



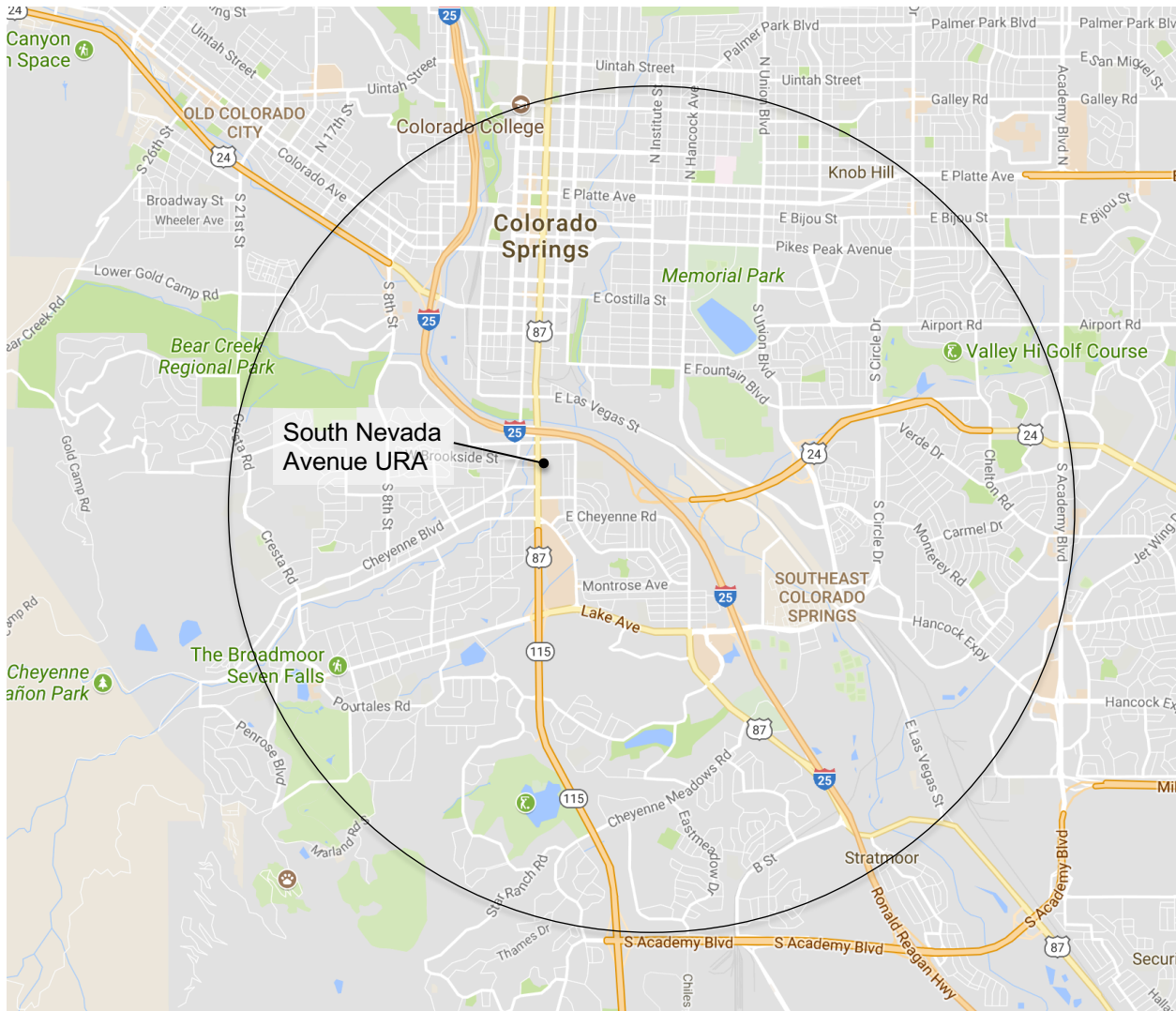
Source: South Nevada Avenue Urban Renewal Area.

Note: White dashed line represents URA boundary. Colored lines represent boundaries of URA sub area (Silos), which are discussed in detail within a subsequent section of this report.

PROJECT TRADE
AREA

A trade area has been identified to analyze market supply and demand factors that relate to forecast absorption in South Nevada Avenue Urban Renewal Area. The trade area includes a three-mile radius of the South Nevada Avenue URA. The trade area has been determined as the geographic areas from which the majority of homebuyers, employees, customers and clients are anticipated to locate, conduct business or purchase homes or commercial space in the South Nevada Avenue Urban Renewal Area currently reside.

South Nevada Avenue Urban Renewal Area Trade Area Map



Source: King & Associates, Inc.
Note: Trade area boundary is approximate as depicted on the map.

DEMOGRAPHICS

Demographic trends & forecasts are presented for El Paso County (Colorado Springs) as well as the trade area, including population, households and average household size information.

El Paso County Demographics

Population

- Population in El Paso County was 627,232 in 2010 and increased to 677,022 in 2015.
- Since 2010, population has increased by an average of 9,958 residents per year, reflecting a 1.5% annual growth rate.
- Population is forecast to reach approximately 790,000 residents by 2025, increasing by 11,257 residents per year and reflecting an average annual growth rate of 1.5%.

Households

- The number of households in El Paso County equaled 237,851 in 2010, and the current (2015) number of households is 256,525.
- From 2010 to 2015, households in El Paso County increased by 3,735 per year, reflecting a 1.5% average annual growth rate.
- The number of households is projected to increase by 3,735 per year by 2025, with total households reaching 303,626 and equaling a 1.7% average annual growth rate.

Household Size

- The average household size in El Paso County remained unchanged at 2.56 from 2000 to 2015.
- Average household size is forecast to decrease to 2.53 by 2025.
- The following table presents demographic trends and forecasts for El Paso County from 2010 through 2025.

El Paso County – Demographic Trends & Forecasts

Year	2010	2015	2025
Population	627,232	677,022	789,590
Households	237,851	256,525	303,626
Annual change		<u>2010 - 2015</u>	<u>2016 - 2025</u>
Population			
Numeric		9,958	11,257
Percent		1.5%	1.5%
Households			
Numeric		3,735	4,710
Percent		1.5%	1.7%
Household Size	2.56	2.56	2.53

Source: ESRI, King & Associates, Inc.

Trade Area Demographics

Population

- Population in the trade area was approximately 78,867 in 2000 and increased to 80,180 in 2010.
- Current population (2017) in the trade area is estimated at 85,394.
- Since 2010, population has increased by an average of 745 residents per year, reflecting a .9% annual growth rate.
- Trade area population is forecast to reach 92,469 by 2025, increasing by 884 residents per year and reflecting an average annual growth rate of 1%.

Households

- The number of households in the trade area increased from 33,505 in 2000 to 36,140 in 2010.
- From 2010 to 2017, trade area households increased to 38,779, reflecting growth of 377 households per year and a corresponding growth rate of 1% annually.
- The number of households in the trade area is projected to reach 42,662 by 2025, equaling growth of 485 households per year and a corresponding 1% average annual growth rate.

Household Size

- The average household size in the trade area has remained unchanged at 2.09 from 2010 to 2017.
- Average household size in the trade area is forecast to decrease to 2.08 by 2025.
- The following table presents demographic trends and forecasts for the trade area from 2000 through 2025.

Trade Area – Demographic Trends & Forecast

Year	2010	2017	2025
Population	80,180	85,394	92,469
Households	36,140	38,779	42,662
Annual change		<u>2010 - 2017</u>	<u>2018 - 2025</u>
Population			
Numeric		745	884
Percent		1.5%	0.9%
Households			
Numeric		377	485
Percent		2.1%	1.0%
Household Size	2.09	2.09	2.08

Source: State of Colorado Demographic Office, King & Associates, Inc.

EMPLOYMENT

Employment trends in the Colorado Springs, MSA (Metropolitan Statistical Area) have been reviewed over the past several years. This includes overall employment levels, job growth and unemployment rates. Employment trends and forecasts are both indicators of commercial and residential real estate demand.

Over the past five years, average annual employment levels have increased steadily in the Colorado Springs, MSA., with particularly strong growth during the past three years. In 2010, average annual employment totaled 245,800 and has increased to 279,100 through 2016. During the 2010 through 2016 period, 5,550 jobs have been added each year in the Colorado Springs, MSA, representing an average annual growth rate of 1.7%.

Employment has continued to increase in the region through the first seven months of the current year. As of July, 4,900 new jobs have been added in the Colorado Springs, MSA, comparing current (July) employment in 2017 (284,700) with same period employment in 2016 (279,800).

Unemployment Trends

The unemployment rate in the Colorado Springs, MSA, has declined steadily over the past several years. In 2010, unemployment was 9.3% and dropped to 3.8% at the end of 2016. The current (July 2017) unemployment rate stands at 3%. The following graphic presents unemployment trend data for the Colorado Springs, MSA.

Colorado Springs, MSA Employment Trends (in 000's)

Year	Employment	Prior Period Change		Unemployment Rate
		Numeric	Percent	
2010	245.8			9.3%
2011	249.0	3.2	1.3%	9.1%
2012	251.5	2.5	1.0%	8.8%
2013	257.3	5.7	2.3%	7.9%
2014	262.9	5.6	2.2%	6.0%
2015	271.5	8.6	3.3%	4.6%
2016	279.1	7.7	2.8%	3.8%
2017	284.7	4.9	1.8%	3.0%

Source: Colorado Division of Labor, King & Associates, Inc.
Note: * 2017 employment through July.

Employment Forecasts

The Colorado Division of Labor and Employment regularly completes employment forecasts for counties and statistical areas in the State of Colorado. The most recent forecast for the Colorado Springs, MSA extends from 2016 through 2026, during which time employment is projected to increase from approximately 298,000 to 363,000. During the ten-year forecast period, employment is projected to increase by 6,540 per year or by a rate of 2% annually. The following table presents forecast employment for the Colorado Springs, MSA from 2016 to 2026.

Colorado Springs, MSA – Employment Trends & Forecasts

Year / Location	2016	2026
Employment	297,911	363,309
<i>Annual change</i>		
Numeric		6,540
Percent		2.00%

Source: Colorado Division of Labor, King & Associates, Inc.

Note: The forecast reflects total employment, which is higher than wage and salary employment data presented in the previous table.

COLORADO SPRINGS
COMMERCIAL
MARKET TRENDS

This part of the report discusses market supply and demand trends for the Colorado Springs commercial real estate market. This includes office and retail submarkets. Additionally, market trends pertaining to the hotel industry are also presented. Information presented focuses on vacancies, lease rates and absorption.

Office Market

The Colorado Springs office market includes 28.7 million square feet of leasable space and market performance trends been positive since 2012.

Vacancy

- The office vacancy rate in Colorado Springs has declined from 14.3% at the end of 2012 to 11.9% at year-end 2016.
- The current (Q1 2017) vacancy rate stands at 11.6%.

Lease Rates

- Lease rates in the Colorado Springs office market have varied since 2012.
- At the end of 2012, average lease rates were \$17.18 per square foot.
- At the end of 2013 the average lease rate was \$16.94 per square foot and lease rates increased very slightly to an average of \$16.98 per square foot at the end of 2014 and \$17.06 per square foot at year-end 2015.
- Since the end of 2015, average lease rates have decreased to \$16.64 per square foot at the end of 2016 and \$15.87 per square foot as of Q1 2017.

Absorption

- Absorption (demand) in the Colorado Springs office market has averaged approximately 210,000 square feet per year since 2012.
- From 2012 through Q1 2017, absorption has ranged from a high of 425,000 square feet in 2015 to negative absorption of -6,000 square feet in 2014.
- Current year (Q1 2017) demand in Colorado Springs has been strong and marked by absorption of 85,000 square feet of office space.

Construction

- Office construction in Colorado Springs has average nearly 60,000 square feet per year from 2012 through Q1 of 2017.
- Construction was highest in 2012 with 134,000 square feet of new space and lowest in 2016 with just 28,000 square feet of office inventory added in Colorado Springs.
- No new space was constructed in the first quarter of 2017.
- The following table details Colorado Springs office market trends.

Colorado Springs – Office Market Trends (000's)

Year	2012	2013	2014	2015	2016	Q1 2017
Vacancy	14.3%	13.0%	13.1%	12.5%	11.9%	11.6%
Absorption	233	425	-6	207	150	85
Construction	134	70	46	33	28	0
Rental Rates	\$17.18	\$16.94	\$16.98	\$17.06	\$16.64	\$15.87
Inventory	28,618	28,688	28,722	28,748	28,740	28,740

Source: CoStar Group, King & Associates, Inc.

Retail Market

The Colorado Springs retail market includes 40.7 million square feet of leasable space and as with office market trends, performance within the Colorado Springs retail market has been positive since year-end 2012.

Vacancy

- Since 2012, the retail vacancy rate in Colorado Springs has decreased each successive year.
- During the 2012 through 2016 period, the retail vacancy rate declined in Colorado Springs from 7% at the end of 2012 to 5.3% at year-end 2016.
- The current vacancy rate has increased to 6.3% as of first quarter of 2017.

Lease Rates

- Aside from a small dip in 2013, retail lease rates in Colorado Springs have been increasing steadily.
- From the end of 2012 through first quarter 2017, lease rates have increased from \$11.20 to \$12.60 per square foot.
- Lease rates have increased most noticeably (17%) from \$10.80 to \$12.60 per square foot during the 2014 through Q1 2017 period.

Absorption

- Absorption (demand) in the Colorado Springs retail market has averaged approximately 275,000 square feet per year since year-end 2012.
- Since 2012, absorption has ranged from a high of 445,000 square feet in 2016 to 80,000 square feet in 2015.
- During the first quarter of the current year (2017), retail demand has been weak in Colorado Springs with negative absorption of -31,000 square feet of retail space.

Construction

- Retail construction in Colorado Springs has average nearly 150,000 square feet per year from 2012 through Q1 of 2017.

- Construction was highest in 2013 with 330,000 square feet of new space and lowest in 2015 with just 35,000 square feet of retail inventory added in Colorado Springs.
- During the first quarter of 2017 there has been 150,000 square feet of retail space built in Colorado Springs.
- The following table details Colorado Springs retail market trends.

Colorado Springs – Retail Market Trends

Year	2012	2013	2014	2015	2016	Q1 2017
Vacancy	7.0%	6.4%	5.7%	5.5%	5.3%	6.3%
Absorption	275	327	340	80	445	-31
Construction	130	330	95	35	40	150
Rental Rates	\$11.20	\$10.80	\$11.00	\$11.50	\$12.15	\$12.60
Inventory	39,664	40,080	40,176	n/a	40,670	40,753

Source: CoStar Group and King & Associates, Inc.

Hotel Market

Tourism and business travelers influence the Colorado Springs hotel market. There are approximately 5.2 million annual overnight visitors each year in Colorado Springs and the hotel market includes 14,500 rooms. Business travelers also provide demand for hotel rooms in Colorado Springs and with business and economic growth, hotel occupancy and rooms rates have increased.

Occupancy

- Colorado Springs hotel occupancy rates have varied since 2010.
- In 2010, the average annual hotel occupancy rate was nearly 61%.
- In 2016 the annual occupancy rate had increased markedly to 69%.
- During the 2010 through 2016 period, occupancy rates were highest at 69% in 2016 and lowest at 59% in 2013.
- Average occupancy through May of 2017 equaled 63.4%.
- However, the average hotel occupancy during the first five months of 2017 does not take into account the summer tourist season, which results in increased annual occupancy rates.

Average Daily Room Rates

- Average daily room rate trends for Colorado Springs have shown steady increases since 2010.
- Average nightly hotel rates in Colorado Springs have increased by 27% from 2010 through 2016.
- In 2010, the average daily room rate equaled \$84.39.
- By the end of 2016, room rates had increased to an average of nearly \$107 per night.
- The following table presents hotel occupancy and room rates trends in Colorado Springs.

Colorado Springs Hotel Trends

Measure / Year	2010	2011	2012	2013	2014	2015	2016
Occupancy	60.9%	62.1%	60.5%	59.1%	62.0%	64.8%	69.4%
Room Rate	\$84.39	\$87.02	\$89.35	\$91.00	\$93.51	\$100.05	\$106.92

Source: Rocky Mountain Lodging Report.

COLORADO SPRINGS RESIDENTIAL MARKET TRENDS

Residential (apartment and townhome) market trends for El Paso County are presented. Building permit information is presented along with apartment market performance measures (vacancy and lease rates as well as absorption and new units).

Apartment Market Characteristics and Trends

Apartment Market Characteristics

The apartment market in the Colorado Springs region (El Paso County) has registered strong performance during the past five to seven years. New unit demand has been very strong and an average of 739 new units per year have been added in Colorado Springs since 2012. Further, rental rates have increased by nearly 9% per year from 2012 through midyear 2017.

Apartment Market Trends

- Comparable with most cities in the State of Colorado, the Colorado Springs apartment market has registered very strong performance during the past several years.
- As of second quarter of 2017 there were 48,509 rental apartment units in the Colorado Springs market area, with market conditions characterized by falling vacancies, increasing rental rates, strong demand and new project construction.
- Apartment vacancies have declined steadily the past several years, dropping from 7.1% at year-end of 2012 to 6.8% at the end of 2016.
- Apartment vacancies have continued to decrease during the current year with the vacancy rate dropping to 6.4% as of second quarter 2017.
- Rental rates have increased substantially during the past several years in Colorado Springs, rising from a year-end average of \$766 per unit in 2012 to \$1,002 per unit at year-end 2016 and reflecting an average increase of 7% annually.
- Rental rates have continued to increase during the current year (Q2 2017) reaching an average of \$1,123 per unit and reflecting an increase of nearly 12% from year-end rental rates (\$1,102) in 2016.
- Apartment unit absorption (demand) in Colorado Springs has averaged 724 units per year from 2012 through Q2 2017.
- During this period, demand (absorption) was highest in 2014 with absorption of 1,528 units and lowest in 2013 when -342 units were absorbed.

- Absorption has totaled 956 units through midyear 2017.
- New apartment construction in Colorado Springs has been very strong during the past several years with building permits averaging 567 units per year from 2012 through 2016.
- New project development has continued during the current year with 419 apartment permits issued through November of 2017.
- The following table details Colorado Springs apartment market trends.

Colorado Springs – Apartment Market Trends

Year	2012	2013	2014	2015	2016	2017
Rental rates	766	769	819	922	1,002	1,123
Vacancy	7.1%	7.1%	5.3%	5.0%	6.8%	6.4%
Inventory	45,174	45,742	46,458	47,211	47,739	48,509
Absorption	870	568	1528	831	-342	956
New units	732	568	716	753	528	770

Source: State of Colorado Division of Housing

Townhome Building Trends

- As with overall housing conditions in Colorado Springs, the market for newly constructed townhomes dropped sharply due the recession and housing market crash that lasted from 2008 through 2010.
- As the residential housing market has recovered, development of new townhomes has lagged the strong pace of new construction within the single-family detached and apartment market segments.
- New townhome construction has varied in Colorado Springs since 2012.
- From 2012 - 2016, the number of townhome building permits issued in Colorado Springs has averaged 185 units per year.
- In 2016, building permits increased to 277 units and market the highest level of townhome building activity during the 2012 through 2016 period.
- Current year (2017) permits total 140 units through August, which is below the 223 townhome units permitted through August of 2016.
- The following table presents townhome building permit trends for Colorado Springs from 2012 through August of 2017.

Colorado Springs - Townhome Building Permit Trends

Year	2012	2013	2014	2015	2016	Aug 2017
Townhomes	166	135	151	196	277	140

Source: Pike Peak Regional Building Department.
Note: 2017 building permits through August.

COLORADO SPRINGS
AND DEMAND
FORECASTS

Commercial and housing demand forecasts for the Colorado Springs region presented in the part of the report. Commercial office and retail demand forecasts for have been completed from 2016 through 2025 using forecast methods that consider either employment or household growth as well as demand trends (absorption) in the region. Housing demand has been projected based on household growth forecasts for El Paso County.

Office Demand Forecast

Forecast Methods

- Two methods have been used to forecast office demand in Colorado Springs, including demand trends (absorption) and employment growth.

Demand trends forecast method

- Demand trends (office absorption trends) have been used as the first method to forecast office demand.
- Since 2012, office absorption (demand) has ranged from 28,000 square feet in 2016 to 425,000 square feet in 2013, with average absorption of approximately 210,000 square feet annually.
- Recent trends provide an indication of future office demand and based on past absorption, office demand in the Colorado Springs region of is forecast at approximately 200,000 square feet annually.

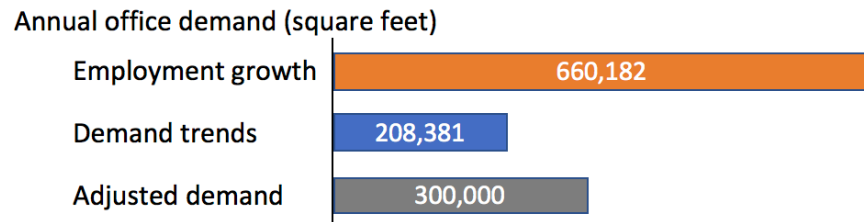
Employment growth forecast method

- Employment growth is the second method used to forecast office demand in the Colorado Springs region.
- Office inventory (Q1 2017), in Colorado Springs totals 28.7 million square feet and regional employment stands at 284,700.
- An office demand generation rate for Colorado Springs has been calculated by dividing office supply (28.7 million square feet) by employment (284,700), resulting in demand of 101 square feet of office space per employee.
- Employment in the El Paso County is anticipated to increase by 6,540 per year.
- Office demand has been forecast by multiplying the office generation rate (101 square feet per employee) by forecast annual employment growth (6,540 annual growth) resulting in demand of approximately 660,000 square feet per year during the next ten-year period (2016 – 2025).

Office Demand Summary

- Based on absorption trends, Colorado Springs office demand is projected to equal approximately 200,000 square feet annually.
- The second forecast method, based on employment growth, results in projected annual demand of approximately 660,000 square feet.
- In review of the two forecasts methods, Colorado Springs office demand is projected at 300,000 square feet per year during the 2016 through 2025 forecast period as presented in the following table.

Colorado Springs
Office Demand Forecast – 2016 - 2025 (annual square feet)



Forecast Method:

Employment growth

Office inventory	28,740,000
Employment	284,700
Demand generation rate	101
Forecast annual employment growth	6,540
Forecast annual demand	660,182

Demand trends

Average annual absorption	208,381
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Adjusted annual office demand	300,000
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Source: King & Associates, Inc.

Retail Demand Forecast

Forecast Methods

- Two methods have been used to forecast Colorado Springs retail demand; demand trends (absorption) and household growth.

Demand trends forecast method

- Absorption trends have been used as the first method to forecast retail demand.
- Since 2012, retail absorption (demand) has ranged from 80,000 square feet in 2015 to 445,000 square feet in 2016, with average absorption of 273,500 square feet annually.
- Recent demand trends provide an indication of future retail demand at a rate of 275,000,000 square feet per year in Colorado Springs.

Household growth forecast method

- Household growth is the second method used to forecast retail demand in the Colorado Springs region.
- Correlated data for 2015 place Colorado Springs retail inventory at approximately 40.5 million square feet and the number of households at 256,525.
- The retail demand generation rate for Colorado Springs has been

calculated by dividing retail supply (40.5 million square feet) by households (256,525), resulting in demand of 158 square feet of retail space per household.

- The number of households in Colorado Springs has been forecast to increase by 4,710 per year.
- Retail demand has been forecast by multiplying the retail generation rate (158 square feet per household) by forecast annual household growth (4,710 annual growth) resulting in demand of approximately 745,000 square feet per year from 2016 through 2025.

Retail Demand Summary

- Based on absorption trends, Colorado Springs retail demand is projected to equal approximately 275,000 square feet annually.
- The second forecast method, based on household growth, results in projected annual demand of approximately 745,000 square feet.
- In consideration of the variation between the two forecasts, retail demand has been adjusted to 350,000 square feet annually during the 2016 through 2025 forecast period.
- The lower adjusted demand rate of 350,000 square feet per year compares more closely with recent average retail demand in the region than retail demand forecast using the household growth forecast method (745,000 square feet per year).
- The following table presents the retail demand forecast.

Colorado Springs
Retail Demand Forecast – 2016 - 2025 (annual square feet)

Annual retail demand (square feet)	
Employment growth	743,628
Demand trends	275,000
Adjusted demand	350,000

Forecast Method:

Household growth

Retail inventory	40,500,000
Households	256,525
Demand generation rate	158
Forecast annual household growth	4,710
Forecast annual demand	743,628

Demand trends

Average annual absorption	275,000
Adjusted annual office demand	350,000

Source: King & Associates, Inc.

Hotel Demand Forecast

- Hotel demand is influenced by tourism and business travel trends.
- Tourists and business travelers impact demand for hotel rooms and on a larger scale, demand for new hotel properties.
- The Colorado Springs region is major tourist destination within the State.
- Dean Runyon Associates completes an annual survey and report of Colorado travel trends.
- Tourism statistics (Longwood International) show a 4.5% annual increase in overnight trips throughout the state of Colorado from 2010 through 2016.
- Business travelers also stay overnight in Colorado Springs hotel.
- Hotel occupancy trends provide a strong indicator of hotel demand and first quarter occupancy rates in Colorado Springs increased from an average of 50.4% in 2016 to 58.8% in 2017.
- Colorado Springs hotel demand has been forecast based on recent construction trends.
- One new hotel has been constructed in Colorado Springs since 2015 and two others are under construction and is anticipated for completion in late 2017 or early 2018.
 - Great Wolf Lodge, I-25 / Interquest Pkwy, 311 rooms, 2015 construction.
 - Hilton Garden Inn, Cascade / Bijou, 165 rooms, under construction, completion late 2017.
 - Fillmore Inn, I-25 / Fillmore, 100 rooms, 2017 (fall) under construction, completion early 2018.
- Overall, the three projects total 576 rooms.
- Recent construction trends suggest demand for approximately one hotel per year.
- This equals average demand of 200 rooms annually or approximately 1 hotel per year, assuming 150 rooms per project.
- The following table presents Colorado Springs hotel demand through 2025.

Colorado Springs
Hotel Demand Forecast – 2016 – 2025

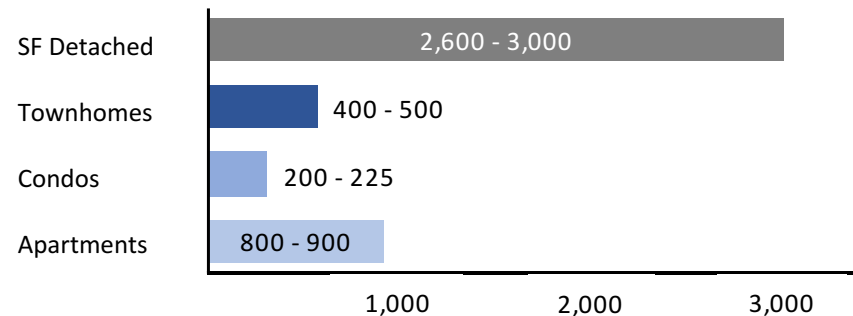
Project	Rooms
Great Wolf Lodge (2015)	311
Hilton Garden Inn (2017)	165
Fillmore Inn (2018)	100
Total	576
Average per year	192
Colorado Springs - average annual hotel demand	
Rooms	576
Hotels (based on 150 rooms / project)	1.28

Source: King & Associates, Inc.

Residential (Apartment and Townhome) Demand

- Housing demand has been forecast based on the assumption that each new household in the region will create equivalent demand for new housing units.
- Previously, demographic trends and forecasts were presented for Colorado Springs and growth equaling approximately 4,710 households per year was projected in the region from 2017 through 2025.
- Assuming that each new household formed will create equivalent demand for new housing units, demand is projected to equal 4,700 units annually in the Colorado Springs metro area.
- However, King & Associates, Inc. has adjusted the housing demand forecast downward to 4,000 to 4,500 units per year to compare more closely with recent building permit trends.
- In addition to overall demand, segmented demand has been projected based on single-family detached, attached (townhomes and condos) and multi-family unit types.
- Apartment demand is projected to range from 800 to 900 units per year with the demand for townhomes equaling 400 to 500 units annually through 2025.
- The demand allocation is based on previously presented building permit trend averages over the past several years as well as characteristics of housing stock in the region.
- Colorado Springs annual housing demand from 2017 through 2025 is presented in the following table.

Colorado Springs – Residential Housing Demand (units)



Source: King & Associates, Inc.

TRADE AREA
MARKET TRENDS

This section presents commercial and residential market trend information for the trade area. As with the previous report section that addressed Colorado Springs trends, information pertaining to vacancies, lease rates and absorption is presented.

Trade Area Office Market

Characteristics

- The trade area office market includes 1.3 million square feet of leasable space and market performance trends have generally been positive since 2012.
- With a limited amount of space, the trade area accounts for just 4.5% of total office inventory in Colorado Springs.
- The majority of office space is located in older, low-rise (less than 5 stories) buildings and there has been marginal new construction (20,000 square feet) since 2012.

Office Market Trends

- Since 2012, the trade area office vacancy rate has ranged from a low of 8.4% (2013) to a high of 13.1% (2014).
- The current vacancy rate in the trade area has dropped to 4.8% as of first quarter of 2017, significantly lower when compared with the 11.9% vacancy rate at year-end 2016.
- As with vacancy rates, trade area office lease rates have varied, with average rates as low as \$11.40 per square foot at the end of 2014 and high as \$13.49 per square foot at year-end 2016.
- As of Q1 2017, office lease rates dropped to \$12.82 per square foot from \$13.49 per square foot at year-end 2016.
- Office absorption (demand) in the trade area has averaged nearly 17,000 square feet per year from 2012 through Q1 2017.
- Demand was highest in 2016 with absorption equaling 27,000 square feet and lowest in 2014 with negative absorption of -2,000 square feet.
- Office construction in the trade area has been marginal with just 20,000 square feet of new space built since 2012.
- The following table details trade area office market trends.

Trade Area – Office Market Trends (000's)

Year	2012	2013	2014	2015	2016	Q1 2017
Vacancy	10.3%	8.4%	13.1%	12.5%	11.9%	4.8%
Absorption	1	21	-2	20	27	21
Construction	0	0	0	20	0	0
Rental Rates	\$11.75	\$11.65	\$11.40	\$12.02	\$13.49	\$12.82
Inventory	1,256	1,256	1,277	1,277	1,277	1,277

Source: CoStar Group, King & Associates, Inc.

Note: Due to its small size (1.3 million square feet), the trade area vacancy rate can vary widely and is subject to the amount of space that is occupied and vacated during any given time period.

Trade Area Retail Market

Characteristics

- The trade area retail market includes nearly 5 million square feet of leasable space and market performance trends have been positive since 2012.
- The trade area accounts for 12% of total retail inventory in Colorado Springs market.
- There is a wide array of retail space in the trade area, including newer strip and community centers that are anchored by big box retail and grocery stores.
- There is also older retail space in the trade area, consisting primarily of single retail stores, restaurants and small strip retail centers.
- Within the URA, a new retail center is currently under construction (Silo 3) with a Natural Grocers store and in-line retail space.
- This center is anticipated for completion by the end of 2017.

Retail Market Trends

- The retail vacancy rate in trade area has varied slightly over the past several years but has consistently remained very low (below 3%).
- During the past five full years, the vacancy rate has been as low as 1.7% in 2013 and high as 2.7% in 2016.
- The current vacancy rate in the trade area is 2.8%.
- At rates below 3%, retail space in the trade area is effectively fully leased.
- As with vacancy rates, trade area retail lease rates have also varied with average lease rates lowest at \$13.91 per square foot in 2014 and highest at \$15.27 per square foot in 2015.
- The current (Q1 2017) average lease rate in the trade area is \$14.76 per square foot, up slightly from \$14.29 per square foot at the end of 2016.
- Retail absorption (demand) in the trade area has averaged 66,000 square feet per year since 2012.
- During this period (2012 – Q1 2017), absorption was highest at 262,000 square feet in 2015 and lowest when -7,000 (negative) square feet was absorbed during the first quarter of 2017.
- Approximately 320,000 square feet of retail space has been constructed in the trade area since 2012.
- Nearly all (297,000 square feet) of this space was built in 2015 with construction of the South Academy Highlands project (Walmart and Sam's Club) located at the northwest corner of Academy Boulevard and I-25.
- The following table details trade area retail market trends.

Trade Area – Retail Market Trends (000's)

Year	2012	2013	2014	2015	2016	Q1 2017
Vacancy	1.8%	1.7%	1.8%	2.5%	2.7%	2.8%
Absorption	45	10	7	262	31	-7
Construction	0	0	17	6	297	0
Rental Rates	\$15.61	\$15.42	\$13.91	\$15.27	\$14.29	\$14.76
Inventory	4,584	4,584	4,604	4,908	4,946	4,946

Source: CoStar Group, King & Associates, Inc.

Trade Area Residential Market

Characteristics

- The trade area residential market includes a wide range of single-family and multi-family homes.
- There is a vast range of single-family home values in the trade area, particularly near the South Nevada Avenue URA.
- Most of the single-family homes in the URA are smaller and older structures that are under 1,500 square feet in size.
- Apartments in the URA also include smaller, older projects with few amenities.
- Contrasting the housing stock in the URA are the up-scale homes in the Broadmoor portion of the trade area.

Single-family Market Trends

- Since most of the residential land has been developed, there has been relatively little single-family home construction near the URA as well as the trade area.

Multi-family Market Trends

- The majority of multi-family apartments in the trade area include smaller, older projects.
- Apartment vacancy rates in the trade area have remained very low over the past several years.
- At year-end 2012, the apartment vacancy rate in the trade area was 4.7% and by the end of 2016, the vacancy rate stood at 4.5%.
- The current (Q2 2017) vacancy rate in the trade area is 3.9%.
- Average apartment rental rates in the trade area (Southwest submarket) were \$1,111 per unit as of Q2 2017.
- Apartment rental rates have risen steadily over the past several years throughout Colorado Springs and rental rates in the trade area have increased from an average of \$808 in 2012 to \$1,111 per unit as of Q2 2017.

TRADE AREA
DEMAND FORECASTS

Residential (apartment and townhome) and commercial (retail, office and hotel) demand forecasts for Colorado Springs were presented previously in this report. Residential apartment and townhome demand is presented in this report section based on forecast household growth. Commercial retail and office demand forecasts have been completed for the trade area using a market share forecast methodology.

Housing Demand

Demand forecast for apartments and townhomes have been completed based on projected trade area household growth.

Apartment Demand

- Apartment demand has been forecast using household growth projections in the trade area.
- As presented, the number of households in the trade area is forecast to increase by 485 per year.
- Assuming that each household generates equivalent housing demand, the number of residential units demanded in the trade area is projected to range from 400 to 500 units per year from 2017 through 2025.
- The housing demand forecast assumed that apartments will comprise 20% of overall demand due to housing and population density in the trade area.
- Using these assumptions, trade area apartment demand is projected to equal 120 to 150 units per year from 2017 – 2025.

Townhome Demand

- Townhome demand has been forecast using household growth projections in the trade area, the same as forecast apartment demand.
- Trade area household growth is forecast at 400 to 500 units per year and it is assumed that townhomes will comprise 25% of overall housing demand in the trade area.
- Using these assumptions, trade area townhome demand is forecast at 100 to 125 units per year from 2017 through 2025.
- The following table details trade area townhome and apartment demand.

Trade Area Housing Demand Forecast

Trade area:		
Annual household growth		485
Annual household demand range	400	500
Apartment demand:		
Apartment share of demand		30%
Apartment units demanded	120	150
Townhome demand:		
Townhome share of demand		25%
Townhome units demanded	100	125

Source: King & Associates, Inc.

Commercial Demand

Trade area commercial demand forecast have been completed using a market share forecast methodology. This approach assumes the trade area will capture a share of the office and retail demand forecasts that were previously presented for the Colorado Springs region.

Trade Area Office Demand

- Office demand has been forecast using a market share methodology, which is based on the assumption the trade area will capture a specified share (market share) of office demand in the Colorado Springs region.
- The trade area currently accounts for 4.4% of total office inventory in the Colorado Springs region.
- As of first quarter of 2017, there was approximately 28.7 million square feet of office space in Colorado Springs and 1.3 million square feet in the trade area.
- Colorado Springs office demand is forecast to equal 300,000 square feet per year from 2017 through 2025.
- It is anticipated the trade area's office market share rate will increase to 7.5% of total Colorado Springs office demand.
- Increased market share is anticipated with renewed demand downtown and areas immediately outside of the core city.
- Based on a 7.5% market share rate, trade area office demand is forecast at 22,500 square feet per year from 2017 through 2025.
- The following table presents forecast trade area office demand from 2017 through 2025.

Colorado Springs – Office Demand Forecast (annual square feet)

Colorado Springs office inventory	28,740,000
Trade area office inventory	1,277,000
Trade area market share	4.4%
Colorado Spring forecast annual office demand	300,000
Projected trade area office market share rate	7.5%
Trade area forecast annual office demand	22,500

Source: King & Associates, Inc.

Trade Area Retail Demand

- Trade area retail demand has also been forecast using a market share methodology.
- As with the office demand forecast, demand for retail space in the trade area has been forecast based on the assumption that it will capture a specified share of forecast retail demand in the Colorado Springs region.
- The trade area currently accounts for 12% of total retail inventory in the Colorado Springs region.
- As of first quarter of 2017, there was approximately 40.7 million square feet of retail space in Colorado Springs and 5 million square feet in the trade area.
- Trade area retail demand is forecast at 52,500 square feet per year based on a 15% market share rate of forecast Colorado Springs retail demand, which is forecast at 350,000 square feet per year.
- As with the office demand forecast, the trade area's retail market share rate is expected to increase (increasing to 15%) and reflect higher demand due to increased housing construction and redevelopment in the central city area.
- The following graphic details projected retail demand in the trade area from 2017 through 2025.

Trade Area – Retail Demand Forecast (annual square feet)

Colorado Springs retail inventory	40,753,000
Trade area retail inventory	4,946,000
Trade area market share	12.1%
Colorado Spring forecast annual retail demand	350,000
Projected trade area retail market share rate	15.0%
Trade area forecast annual retail demand	52,500

Source: King & Associates, Inc.

Trade Area Hotel Demand

- Hotel demand has not been forecast for the trade area.
- In smaller cities, such as Colorado Springs, forecasting hotel demand within geographic submarkets is difficult due to numerous hotel demand factors.

SOUTH NEVADA AVENUE URBAN RENEWAL AREA OVERVIEW

INTRODUCTION

This part of the report represents URA characteristics, redevelopment potential and valuation information.

SOUTH NEVADA AVENUE URA CHARACTERISTICS

The URA is located south of downtown Colorado Springs and south of the I-25 and South Nevada Avenue highway interchange. The URA is within a transitioning area where new project development / redevelopment is beginning. The majority of housing stock in the URA consists of small, older homes and apartment buildings. Approximately 36% of all developed square footage in the URA consists of residential parcels. As with residential development in the URA, commercial buildings in the URA generally consist of small, older retail structures along South Nevada Avenue and South Tejon Street. Retail structures make up approximately 25% of all parcels in the URA. Remaining commercial development in the URA consists of storage / warehouse development, motels, office buildings, restaurants and automotive service facilities.

The URA is well located in the Colorado Springs region and provides an excellent area for new development as well as redevelopment of existing structures. The URA is located near higher end homes in the Broadmoor area (Broadmoor Hotel and surrounding residential neighborhood), which provides an existing base of higher income households and visitors to support commercial development / redevelopment in the URA. Initial redevelopment activity in the area includes the Ivywild school that has been redeveloped with a brewery and restaurants. Additionally, residential and commercial development underway in the URA is discussed further in this report section.

There are four development areas – termed Silos – within the South Nevada Avenue URA that have been defined based on ownership structure. The four Silos total approximately 98 acres. The previous map outlines the Silo areas within the URA. Development / redevelopment plans exist for two of the four Silos and consist of a combination of residential homes and commercial space. The following table and map summarize and depict land area in the URA by Silo.

South Nevada Avenue URA Development Area by Silo,

Silo	Building Structure Square Feet	Land Acres	% of URA Land Area
Silo 1	334,557	35.39	36%
Canyon Creek	122,279	22.83	23%
Silo 3	79,026	1.55	2%
Silo 4	356,961	38.26	39%
	892,823	98.03	100%

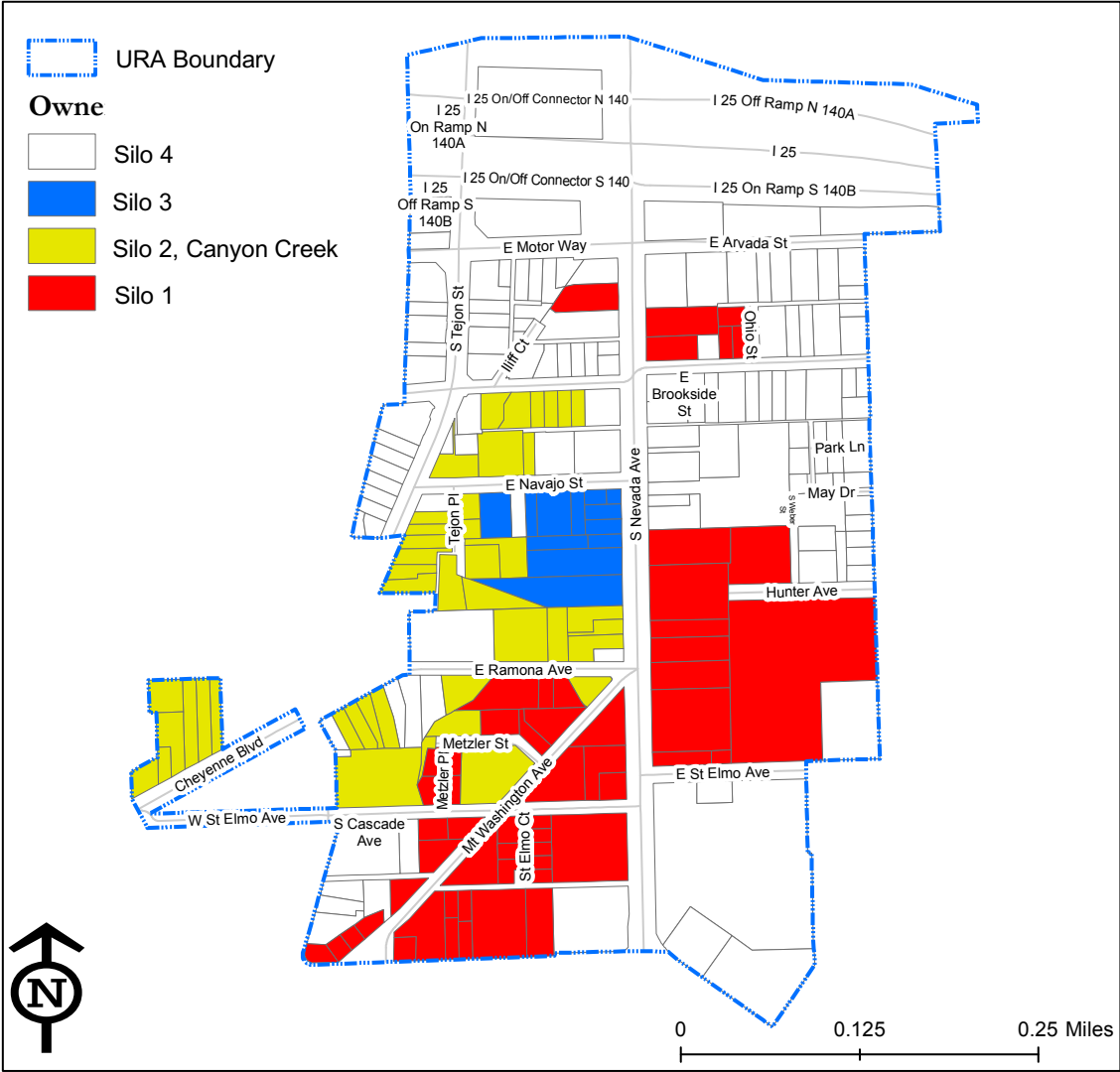
Source: El Paso County Assessor's Office, King & Associates, Inc.

Notes:

1. Silo 4 includes land area not in Silos 1-3 with multiple property owners.

- 2. Ownership of Silos; Silo 1 - SNA Development, LLC, Silo 2 - Ivywild Development 1, LLC, Silo 3 - EVC-HD Nevada South, LLC.

South Nevada Avenue URA – Boundary and Silo Locator Map



Source: South Nevada Avenue URA, King & Associates, Inc.

SOUTH NEVADA
AVENUE URA
DEVELOPMENT
POTENTIAL

SOUTH NEVADA
AVENUE URA
DEVELOPMENT
POTENTIAL

Silo 1 – Development / Redevelopment Potential (SNA Development, LLC)

- Silo 1 development plans have not been fully determined and the property owner is refining development options.
- Development plans for Silos 1 have not progressed to a point where the property owner has announced the scope and timing of potential future projects.
- Many of the parcels in Silo 1 are adjacent to the S. Nevada Avenue right-of-way, which is a major arterial roadway in the area.
- Existing parcels along South Nevada Avenue in Silo 1 include the following categorized development: restaurant, lodging, commercial, banks, auto uses, apartments.
- Potential redevelopment in Silo 1 includes retail shopping centers, pad retail shops and restaurants, office space, lodging and residential units.

Silo 2, Canyon Creek – Development / Redevelopment Potential (Ivywild Core Development, LLC)

- There is a defined redevelopment plan for parcels in Canyon Creek that include both residential and commercial projects.
- Planned residential development includes 45 townhomes and 99 apartments.
- Construction has started on the Canyon Creek townhome project, which is planned for 19 units.
- Planned commercial development includes a hotel (135 rooms), retail space (8,888 s.f.), restaurants (hotel restaurant 4,000 s.f., taco restaurant 4,000 s.f. and 7,000 s.f. up-scale restaurant) and office space (2,500 s.f.).
- Much of the land for commercial development in Canyon Creek has been cleared of existing building structures.

Silo 3 – Development / Redevelopment Potential (EVC-HD Nevada South, LLC)

- Silo 3 is the smallest of the four Silos in the URA with 1.55 acres.
- Construction a Natural Grocers store of approximately 15,000 square feet is currently underway in Silo 3 and will be completed by the end of 2017.
- In-line retail space is also planned in Silo 3 with approximately 10,000 square feet anticipated for completion in 2018.

Silo 4 – Development / Redevelopment Potential Silo 4 contains the remaining land in the URA, totaling approximately 40 acres and nearly 357,000 square feet of existing building area.

- Currently, development in Silo 4 is split among two broad land use categories; residential (49%) and commercial (44%).
- Potential redevelopment in Silo 4 includes in-line or pad retail shops and restaurants, office space and redevelopment of an existing neighborhood shopping center.
- The following table and map present existing, planned and development / redevelopment potential in the South Nevada Avenue URA.

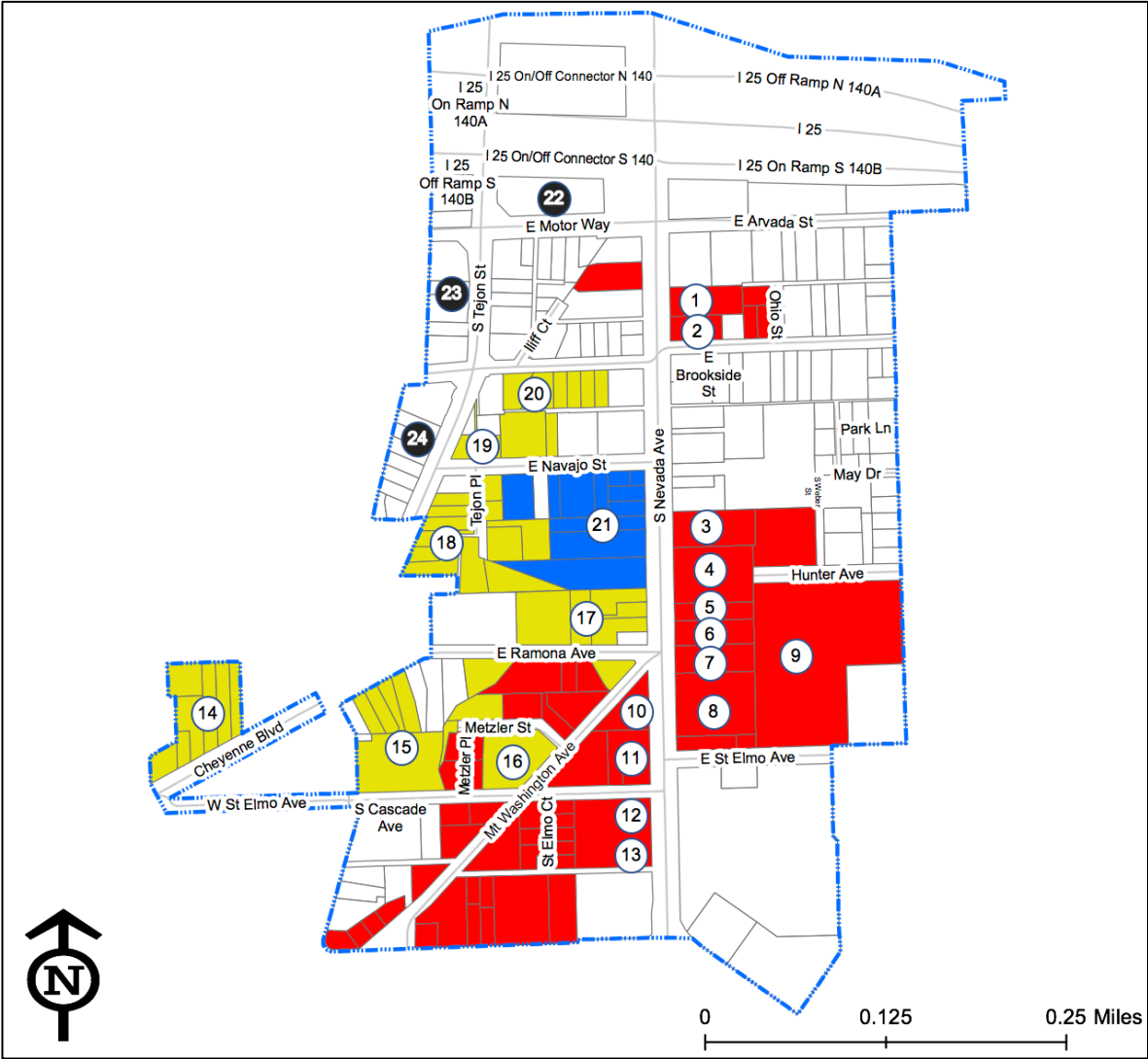
South Nevada Avenue URA – Existing and Potential Parcel Development

Key	Land Use	Business Name	Development Potential
Silo 1 - SNA Development, LLC			
1	Restaurant	Taco Express	Retail
2	Lodging	Sun Springs Motel	Retail, office, lodging
3	Auto Use	Big O Tires	Remodel existing, retail, office
4	Commercial	Metro PCS	Retail
5	Lodging	Roadway Inn	Retail, lodging, mixed use
6	Lodging	Circle S Motel	Retail, lodging, mixed use
7	Lodging	Stage Coach Motel	Retail, lodging, mixed use
8	Lodging	Travel Star Inn & Suites	Retail, lodging, mixed use
9	Residential	Aspen Mobile Home Park	Retail, office, mixed use
10	Commercial	First State Bank	Retail, office, mixed use
11	Apartments	Apartments	Retail, office, mixed use
12	Convenience Store	Corner Store	Retail, office, mixed use
13	Bank	Wells Fargo	Retail, office, mixed use
Silo 2, Canyon Creek – Ivywild Core Development, Inc.			
14	Residential	Residential SF	19 townhomes, under construction
15	Residential, Vac Land	Res. SF, Vac. Land	24 townhomes
16	Residential	Res. SF, MF	49 apartments, 2 townhomes
17	Comm., Vac Land	Comm., Vac. Land	Retail - 8,888 s.f.
18	Residential, Vac Land	Res. SF, Vac. Land	Hotel - 135 rms, hotel rest. 4,000 s.f.
19	Office	Office	Office and restaurant
20	Residential	Residential SF	50 apartment units
Silo 3 - EVC-HD Development, LLC			
21	Retail	Natural grocers, Zoes Kitchen	Completed grocery and in-line retail
Silo 4 - Multiple Owners			
22	Auto Use	Lakeside Auto Brokers	Retail, highway commercial
23	Commercial	Various retailers	In-line retail, office
24	Commercial	Retail and office tenants	In-line retail, office
25	Commercial	Southern Cross Shopping Center	Redevelopment of neighborhood shopping center

Source: King & Associates, Inc.

Note: Development / redevelopment information listed in the table addresses select parcels in the URA and various Silos. There are additional developed areas in the URA, with longer term redevelopment potential, that are not presented in the above table.

South Nevada Avenue URA Development Potential Map



Source: King & Associates, Inc.

Notes:

1. Blue line South Nevada Avenue URA boundary; Silo 1 (red area) – SNA Development LLC, Canyon Creek yellow area) – Ivywild Core Development Inc., Silo 3 (blue area) – EVC-HD South Nevada LLC, Silo 4 (white area) various owners.
2. White circles represent potential redevelopment parcels as listed in the table on preceding page.

SOUTH NEVADA
AVENUE URA
VALUATION
INFORMATION

There are four silo areas in the South Nevada Avenue URA. The following presents information for the URA as a whole, as well as detailed information by Silo area. Discussion includes market value, primary land use, and existing improvements for each parcel.

South Nevada Avenue URA Summary

Primary Land Use

- There are an estimated 246 parcels within the South Nevada Avenue URA with a total land area of 98.03 acres.
- Vacant unimproved land totals 18.96 acres.
- Special purpose property comprises 14.75 acres.
- This includes restaurants, banks, used car lots, veterinary hospital, and other small non-retail businesses.
- Merchandising/retail space (17.33 acres) and lodging (7.24 acres) make up 25% of the total land area.
- Residential housing (11.98 acres) and multi-unit dwellings (16.86) account for over 28 acres, or 29% of the area within the URA.

Current property improvements

- Of the estimated 246 parcels, 24% is vacant with no improvements.
- A total of 74 residential structures have an average square footage of approximately 1,150 square feet.
- There are 31 retail stores located in 6 neighborhood shopping centers.
- Neighborhood shopping centers account for 77,000 square feet and 40% of retail space.
- There are 7 motel parcels with a total of 99,000 square feet.
- The total URA has 12 restaurants, including 5 fast food establishments.
- The following table details development status within the URA.

URA Land Use Data – Total Development by Primary Use

Land Use	Building Area Square Feet	Percent
Rental Housing	227,500	27.5%
Commercial	210,389	25.5%
Motel	99,358	12.0%
Storage / Warehouse	77,590	9.4%
Residential	75,657	9.2%
Office	49,604	6.0%
Garage / Auto	26,487	3.2%
Restaurant	22,776	2.8%
Misc.	10,383	1.3%
Total	799,744	100.0%

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

Valuation

- El Paso County Assessor records for tax collection year 2018 were reviewed for the South Nevada Urban Renew Area.¹
- Total URA market value of all parcels equals \$66.8 million.
- Assessed value per Silo:
 - Silo 1 - \$4.8 million / 36% of total assessed value.
 - Canyon Creek - \$2.6 million / 20% of total assessed value.
 - Silo 3 - \$128,000 / 1% of total assessed value.
 - Silo 4 - \$5.6 million / 43% of total assessed value.
- The following table summarizes the market value of categorized parcels in the URA.

URA Summary – Market and Assessed Value

Silo	Square Feet	Market Value	Assessed Value	Percent Assessed
Silo 1	334,557	\$23,836,188	\$4,763,030	36%
Silo 2	122,279	\$12,376,923	\$2,573,440	20%
Silo 3	79,026	\$488,099	\$128,020	1%
Silo 4	356,961	\$30,155,117	\$5,636,320	43%
	892,823	\$66,856,327	\$13,100,810	100%

Source: El Paso County Assessors Office, King & Associates, Inc.
Note: Square feet refers to square footage of constructed buildings.

Categorized Valuation

- Categorized assessed value in the URA by major type of development has also been reviewed:
 - Commercial - \$10.6 million / 81% of total assessed value.
 - Residential - \$2 million / 15% of total assessed value.
 - Land - \$454,000 / 3% of total assessed value.

URA Summary – Market and Assessed Value

Development Type	Market Value	Assessed Value	Percent Assessed
Commercial	\$37,645,868	\$10,624,690	81%
Residential	\$26,701,137	\$2,021,960	15%
Land	\$1,566,068	\$454,160	3%
State Assessed	\$943,254	\$0	0%
Total	\$66,856,327	\$13,100,810	100%

Source: El Paso County Assessors Office, King & Associates, Inc.

¹ Property tax records pertaining to parcels located in the South Nevada Urban Renewal Area were reviewed and refer to collection year 2018. Some valuation changes may have occurred since parcel records were reviewed in fall of 2017.

Silo 1 – SNA Development LLC

Primary Land Use Silo 1

- Contains 35.4 acres and 36% of the total URA.
- Approximately 1/3 of the land area includes commercial development with a market value of \$7.1 million.
- 2.7 acres of vacant land
- 2 acres of residential housing with primary structures comprised of one story ranches.
- Motels account for 85,000 square feet of existing structures in Silo 1 along with approximately 6 acres of unimproved vacant land.

Current property improvements Silo 1

- Of the 66 parcels, 7% is vacant with no improvements.
- A total of 15 residential structures have an average square footage of approximately 1,300 square feet.
- Commercial space is made up by 24,000 feet of office space, as well as 6 retail stores, 3 banks and 3 restaurants.
- 15 buildings, either apartments or duplexes are utilized as rental properties.
- There are 6 motel parcels.
- Garage/Auto uses involve 3 used car lots.
- The following table summarizes existing development in Silo 1.

Silo 1 Total Building Square Footage by Primary Land Use

Land Use	Square Feet	Percent
Storage / Warehouse	60,639	18.1%
Residential	19,373	5.8%
Rental Housing	81,845	24.5%
Motel	85,676	25.6%
Garage / Auto	6,338	1.9%
Commercial	80,686	24.1%
Total	334,557	100.0%

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

Notes:

1. Table does not include square feet of vacant land parcels.
2. Square feet refers to square footage of constructed buildings.

Valuation of Silo 1

- Total assessed value of all parcels in Silo 1 amounts to \$4.8 million for collection year 2018.
- Residential properties make up approximately \$685,000 of total assessed value with commercial parcels totaling \$4 million.
- The following table details assessed value for Silo 1.

Silo 1 Valuation Summary

Development Type	Market Value	Assessed Value	Percent Assessed
<i>Residential</i>			
Single Family	\$2,319,186	\$167,000	4%
Multi-Family	\$5,911,644	\$440,900	9%
Mobile Home Park	\$1,801,620	\$522,450	11%
<i>Commercial</i>			
Lodging	\$1,077,125	\$77,550	2%
Manufacturing	\$3,826,936	\$993,220	21%
Merchandising	\$131,709	\$38,200	1%
Offices	\$1,387,151	\$402,280	9%
Special Purpose	\$4,343,108	\$1,259,500	27%
Warehouse / Storage	\$2,871,270	\$814,610	17%
Land	\$166,439	\$47,320	1%
Total	\$23,836,188	\$4,763,030	100%

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

Note: Special Purpose categorized development includes land uses such as: fast food restaurants, convenience stores, banks, service garages, etc.

Silo 2 – Canyon Creek – Ivywild Core Development, Inc.

Primary Land Use Canyon Creek

- Silo 2 - Canyon Creek contains 22.8 acres and 23% of the total URA.
- Almost ½ of the area is vacant land with a market value of \$1.3 million.
- 3.72 acres is comprised of residential housing.

Current property improvements Silo 2 - Canyon Creek

- Of the 83 parcels, 45% is vacant with no improvements.
- A total of 14 residential structures have an average square footage of approximately 1,028 square feet.
- Commercial space totals 64,568 square feet and includes one office parcel, 5 retail stores, and 2 restaurants and 2 neighborhood shopping centers.
- 7 buildings, either apartments or duplexes are utilized as rental properties.
- There is one motel parcel in the silo totaling nearly 14,000 square feet.

Silo 2 – Canyon Creek
Total Square Footage by Primary Land Use

Land Use	Square Feet	Percent
Storage / Warehouse	1,858	0.6%
Residential	20,639	6.2%
Rental Housing	16,555	4.9%
Motel	13,682	4.1%
Garage / Auto	2,673	0.8%
Commercial	64,568	19.3%
Msc.	2,304	0.7%
Total	122,279	36.5%

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

Notes:

1. Table does not include square feet of vacant land parcels.
2. Square feet refers to square footage of constructed buildings.

Valuation of Silo 2 - Canyon Creek

- Total assessed value of all parcels in Silo 2 - Canyon Creek amounts to \$2.6 million for collection year 2018.
- Residential properties make up approximately \$403,000 of total assessed value with commercial parcels totaling \$1.8 million.
- The following table details assessed value for Canyon Creek.

Silo 2 - Canyon Creek Valuation Summary

Development Type	Market Value	Assessed Value	Percent Assessed
Residential			
Single Family	\$2,693,230	\$224,920	9%
Multi-Family	\$2,052,532	\$178,590	7%
Mobile Home Park	\$0	\$0	0%
Commercial			
Lodging	\$0	\$0	0%
Manufacturing	\$0	\$0	0%
Merchandising	\$2,073,650	\$559,290	29%
Mobile Home Park	\$160,218	\$46,460	2%
Offices	\$0	\$0	0%
Special Purpose	\$1,441,181	\$417,960	22%
Land	\$1,355,073	\$391,930	15%
Total	\$12,376,923	\$2,573,440	100%

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

Note: Special Purpose categorized development includes land uses such as: fast food restaurants, convenience stores, banks, service garages, etc.

Silo 3 – EVC-HD South Nevada Avenue LLC

- Smallest of the four silos at a total area of 1.55 acres in 2 parcels with a total assessed value of \$128,000 for collection year 2018.
 - Parcel 1 is a vacant lot of .19 acres and an assessed value of \$7,420
 - Parcel 2 is categorized as special purpose with an assessed value of \$120,600
- Existing structures have been removed in Silo 3 and construction of a Natural Grocers stores and in-line retail space is underway.
- The following table details assessed value for Silo 3.

Silo 3 Valuation Summary

Development Type	Market Value	Assessed Value	Percent Assessed
Residential			
Single Family	\$0	\$0	0%
Multi-Family	\$0	\$0	0%
Mobile Home Park	\$0	\$0	0%
Commercial			
Lodging	\$0	\$0	0%
Manufacturing	\$0	\$0	0%
Merchandising	\$0	\$0	0%
Mobile Home Park	\$0	\$0	0%
Offices	\$0	\$0	0%
Special Purpose	\$462,522	\$120,600	94%
Land	\$25,577	\$7,420	6%
Total	\$488,099	\$128,020	100%

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

Note: Special Purpose categorized development includes land uses such as: fast food restaurants, convenience stores, banks, service garages, etc.

Silo 4 – Various Owners

Primary Land Use Silo 4

- Contains 38.26 acres and 40% of the total URA.
- Approximately 38% of the land area is commercial with a market value of \$14.6 million.
- Rental Housing utilizes 6.55 acres of the total land area.

Current property improvements Silo 4

- Of the 97 parcels, commercial square footage equates to almost 50% of the total square footage for the Silo.
- A total of 35 residential structures have an average square footage of approximately 988 square feet.
- There are 7.45 acres of vacant land.
- Three neighborhood shopping centers are located in Silo 4 with approximately 62,000 square feet of space.
- Rental Housing totals 25 structures with 136,000 square feet.
- The following table details development in Silo 4.

Silo 4 Total Square Footage by Primary Land Use

Land Use	Square Feet	Percent
Storage / Warehouse	15,093	4.2%
Restaurant	1,920	0.5%
Residential	38,873	10.9%
Rental Housing	137,759	38.6%
Garage / Auto	2,928	0.8%
Commercial	156,864	43.9%
Msc.	3,524	1.0%
Total	356,961	100.0%

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

1. Table does not include square feet of vacant land parcels.
2. Square feet refers to square footage of constructed buildings.

Valuation of Silo 4

- Total assessed value of all parcels in Silo 4 equals to \$5.6 million for collection year 2018.
- Residential properties make up approximately \$933,000 of total assessed value with commercial parcels totaling \$4.7 million.
- The following table details assessed value for Silo 4.

Silo 4 Valuation Summary

Development Type	Market Value	Assessed Value	Percent Assessed
Residential			
Single Family	\$4,748,280	\$364,290	6%
Multi-Family	\$7,899,140	\$568,710	10%
Mobile Home Park	\$0	\$0	0%
Commercial			
Lodging	\$0	\$0	0%
Manufacturing	\$0	\$0	0%
Merchandising	\$11,397,474	\$3,209,020	57%
Offices	\$557,177	\$161,580	3%
Special Purpose	\$3,775,496	\$1,090,780	19%
Warehouse / Storage	\$709,308	\$205,690	4%
Land	\$124,988	\$36,250	1%
State Assessed	\$943,254	\$0	0%
Total	\$30,155,117	\$5,636,320	100%

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

Note: Special Purpose categorized development includes land uses such as: fast food restaurants, convenience stores, banks, service garages, etc.

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.

SUMMARY, FINDINGS & PROJECT ASSESSMENT

SUMMARY

- The South Nevada Avenue Urban Renewal Area (URA) is located south of downtown Colorado Springs.
- There are four development subareas – termed silos – within the URA.
- Residential and commercial development is planned in the Canyon Creek (Silo 2) area of the URA to include 27,388 square feet of commercial space (retail and office space, restaurants and 135 hotel rooms) and 144 residential townhomes and apartments units.
- The number of households in Colorado Springs is forecast to increase by 4,710 per year through 2025 or by a rate of 1.7% annually.
- Employment has increased steadily in Colorado Springs since 2010 and continued job growth is forecast at a rate of 2% annually through 2025.
- Office and retail commercial market segments in El Paso County have shown positive performance since 2012.
- This includes declining vacancies, increase lease rates (except office lease rates) and positive absorption.
- Hotel occupancy rates have increased from 2012 through 2016 (60.5% to 69.4%) along with average nightly room rates (\$89.35 to \$106.92).
- Residential development trends have been positive in Colorado Springs over the past several years with townhome building permits averaging 185 units per year from 2012 through 2016 and apartment permits averaging 819 units annually during the same period.

FINDINGS

- The office and retail commercial market segments in the trade area have posted positive performance since 2012.
- The trade area office market has registered positive gains over the last several years with low vacancies (4.8% - Q1 2017), increasing lease rates (\$11.75 per square foot year-end 2012 to \$12.82 per square foot in Q1 2017) and demand of approximately 17,000 square feet annually (2012 through Q1 2017).
- Office demand in the trade area is projected at 22,500 square feet annually through 2025.
- The retail market in the trade area is characterized by very low vacancies (2.8% Q1 - 2017), slightly decreased lease rates (\$15.61 per square foot at year-end 2012 to \$14.76 per square foot in Q1 2017) and positive absorption averaging 66,300 square feet per year from 2012 through Q1 2017.
- Trade area retail demand is projected at 52,500 square feet annually through 2025.
- Most residential land in the trade area as well as the southwest and western portions of Colorado Springs have seen limited new housing construction over the past several years.
- The apartment market in the trade area has registered strong performance over the past several years and as of Q2 2017, the

vacancy rate was just 3.8% and average rental rates stood at \$1,111 per unit.

PROJECT ASSESSMENT

- The URA is located within a redeveloping area that is near downtown Colorado Springs, employment centers, major transportation routes, shopping and recreation area.
- The South Nevada Avenue URA is poised for redevelopment given its excellent location and initial redevelopment activity in the area.
 - Initial projects in the area include renovation of the Ivywild School (not within the URA) with a brewery and restaurants.
- Planned development / redevelopment in Canyon Creek of the South Nevada Avenue Urban Redevelopment Area includes 27,388 square feet of commercial space, 135 hotel rooms and 144 residential units.
 - Absorption of residential units and commercial space planned in Canyon Creek (Silo 2) is projected from 2018 through 2019 with detailed absorption information listed in the table on page 6.
 - Within Canyon Creek of the URA, development of the Canyon Creek Townhome project started in August.
- Canyon Creek projected real property valuation:
 - In-line retail (retail and restaurants) – \$200 per square foot.
 - Office (renovation of existing building) – \$135 per square foot.
 - Restaurants (new construction and renovation of existing buildings) – \$315 per square foot (renovated space), \$350 per square foot (new construction).
 - Hotel- \$75,000 per room.
 - Apartments - \$180,000 per unit.
 - Townhomes – 43 units at \$425,000 per unit
 - Townhomes – 2 units at \$750,000 per unit.
- King & Associates, Inc. has reviewed commercial and residential real estate market trends in Colorado Springs and the trade area and finds there are strong opportunities for redevelopment within the URA.
- King & Associates, Inc. has projected market values (property taxes) and retail sales performance estimates pertaining to proposed development in the Canyon Creek area of the South Nevada Avenue Urban Renewal Area.
- King & Associates, Inc. finds that planned development in Canyon Creek will provide a catalyst for further residential and commercial development within the URA as well as the surrounding area.
- King & Associates, Inc. has reviewed commercial and residential development planned in Canyon Creek of the URA and finds the timing and scale of the development program to be responsive to current market demand in the trade area as well as Colorado Springs and further concludes that the tax increment from planned redevelopment and renovation projects will exceed the value of these parcels given their existing condition.

DISCLAIMER

King & Associates, Inc. has reviewed real estate market conditions in Colorado Springs and El Paso County to assess and forecast absorption and valuation of planned commercial development in South Nevada Avenue Urban Renewal Area. Readers of this report should understand that real estate market conditions are dynamic and that unforeseen factors can have a negative impact, sometimes materially, on market conditions in the region, trade area and the URA. The findings and conclusion put forth within this report are based on information and market conditions as of its date and should not be interpreted as a guarantee of performance within the District. Further, King & Associates, Inc. has based its assessment and conclusions pertaining to projected development plans and actions provided by the District and the project developer. To the degree that development plans in the District change, projected absorption timing and rates may also be impacted as well.