

Cherry Creek Shopping District Development Study
Performed by KHO Consulting on behalf of the City of Denver Planning Department
Final Report – February 13, 2012

Executive Summary

KHO Consulting (KHO) was engaged by the City and County of Denver (City) Community Planning and Development Department (CPD) to perform a development feasibility analysis to answer the following questions as they relate to the Cherry Creek North (CCN) study area:

- To what extent does unused development capacity exist within existing C-CCN zoning and why has it not been utilized fully?
- Given the cost of land in Cherry Creek, does development capacity have to increase to make projects feasible from a real estate development perspective?
- What would be the effects (in terms of development feasibility, residential and employment density, and quality of the built environment) of adjusting maximum building heights and building form in CCN, as proposed in the preliminary area plan concepts? Is there a set of “optimal” building heights in Cherry Creek North on 2nd and 3rd Avenues for encouraging feasible investment while also maintaining transitions into the residential neighborhood to the north?
- What market exists for additional hotels, types of hotels, and what types of locations make sense for new hotels?

The answers to these questions can help guide the City as to whether current public policy serves to support or impede reinvestment in Cherry Creek North. When combined with an agreed upon vision for CCN, the feasibility models can also provide insight into which public policy strategies will best bring that vision to fruition.

Development Study Methodology

KHO utilized stakeholder interviews as well as interviews with 3rd party experts to gather information regarding market lease rates, construction costs, community and end user desires, and other relevant details regarding development and redevelopment opportunities in CCN. KHO utilized data gathered from stakeholder interviews and industry background data to develop pro forma models for a series of prototypical development scenarios. KHO worked with CPD staff and key CCN stakeholders to create conceptual development scenarios based on typical parcel sizes, physical conditions, land costs, zoning regulations, real estate products and market assumptions.

Development Study Results

The stakeholder interviews resulted in the following common themes echoed by all stakeholders :

- 3rd Avenue is a buffer between the commercial and residential neighborhood in CCN.
- CCN’s unique character is a result of its high quality design and pedestrian environment. Continued high quality design is important to retain and promote CCN’s unique character.
- Floor Area Ratio (FAR) is a key feature of the current zoning, serving to govern building height and mass in the Study Area.
- Existing minimum parking requirements are a limiting factor to reinvestment, especially for small lots.

The results of the development pro forma analysis supported the following conclusions:

- Buildings do not achieve maximum allowable heights and building Floor Area Ratios (FARs) because the combination of FAR limitations and minimum parking requirements limit economic feasibility under current market conditions.
- While land price is an important variable in overall economics, the parking ratios and FAR in the current CCN zoning are more of an economic restriction on development than land prices.
- Development feasibility would be positively impacted by increasing the achievable FAR above the current 1.5 CCN zoning limit; adjusting maximum building heights above the current 55' CCN zoning limit; and adjusting parking ratios below the current CCN zoning to reflect current Denver Zoning Code parking minimums in the Urban Center Context districts to more closely match current market parking ratios.
- While there is not a direct correlation between building height limits and FAR, it is generally true that higher allowed building heights will increase FAR. Given the assumptions in the model, an FAR of 3.0 or greater results in potentially feasible projects. This FAR correlates with a project which uses at least 50% of the project land area to build to a height of at least 5 stories. Future zoning or CCN design guidelines can be modified to ensure that projects maintain and enhance the pedestrian environment should more flexible FAR and building height limitations be considered.
- Developments of 5 – 8 stories will deliver additional economic benefit to the investor, greater likelihood of Class A office space development, and additional development of residential units. Achieving high residential for sale product prices that have historically existed in CCN is an important factor to the economic feasibility of such higher density projects. .
- Reinvestment under the current CCN zoning is not likely under current economic conditions on the north side of 3rd Avenue, except for rehabilitation of existing properties and new construction of “owner occupied” mixed use projects.

Hotel Study Methodology and Results

Hotel recommendations are based on the series of stakeholder interviews and on a review of hotel economics and area specific hotel operating parameters.

Hotel Study Results

- Based on the hotel study there appears to be a relatively strong demand for additional hotel rooms to be built in the Study Area in several hotel product categories including:
 - Upscale to luxury full-service hotel
 - Boutique Hotel (full or limited-service)
 - Upscale focused-service hotel
- Interviews with stakeholders and hotel industry operators indicate that the likely location for a full-service hotel would be within a half block or less of 1st Avenue. This could be on either side of 1st/Steele within the study area.
- The 1st Avenue location for a full service hotel is critical for the visibility while driving on main arterials in CCN and to allow an intuitively obvious and easy access from 1st and/or Steele to the hotel main entry.
- A boutique or upscale focused-service hotel would benefit from a 1st Avenue location, but could be successful in a location between 2nd and 3rd Avenue in CCN.
- The economic feasibility of constructing a boutique or focused-service hotel in a location between 2nd and 3rd Avenue will likely require a minimum of a quarter to a half of a full CCN block with a combination of 3 to 5 story height, and an FAR greater than 1.5.
- New hotel development in the CCN will result in both positive and negative impacts; changes to traffic patterns related to guest, employee and hotel service impacts could be viewed as negative consequences of such a development. Generally, the amount of meeting space in a hotel is directly related to the number of trips generated, meaning that full service hotels will generate more trips than limited-service hotels, etc.
- New hotel development in the CCN would result in making CCN a more attractive location for future redevelopment of office, retail, and residential units.

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Development Study Scope & Methodology

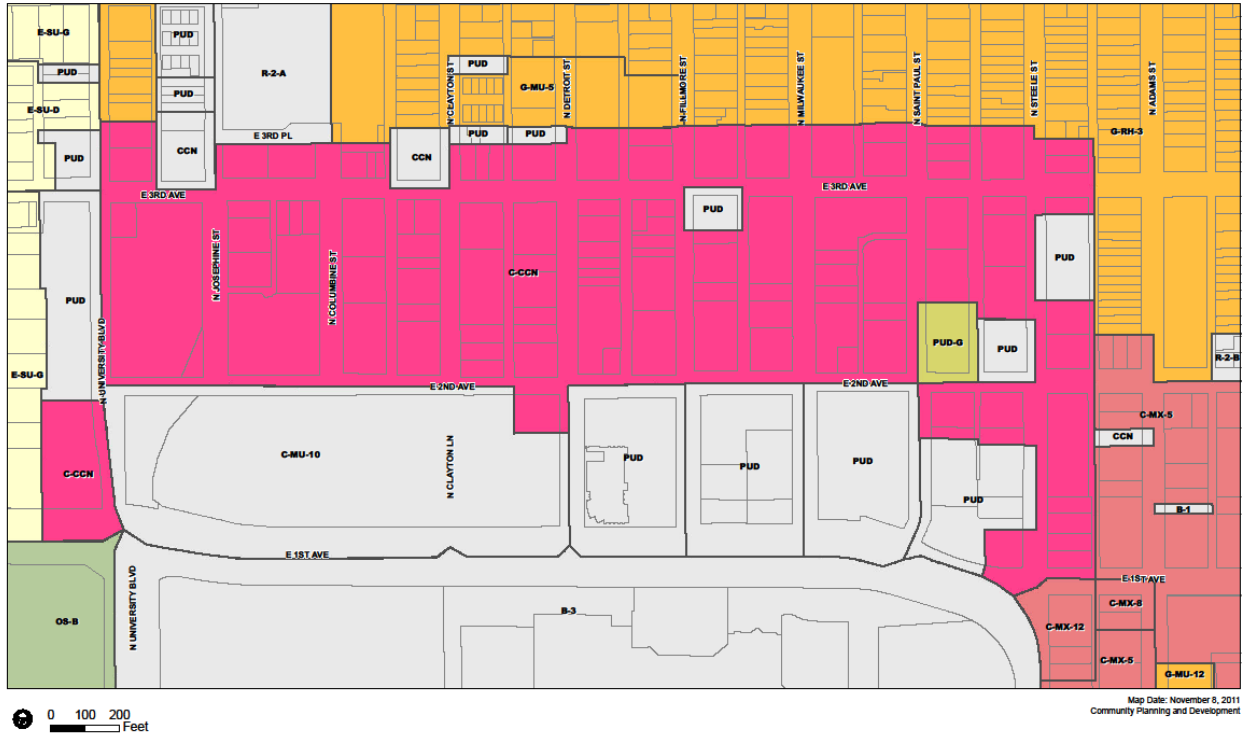
KHO Consulting (KHO) was engaged by the City and County of Denver (City) Community Planning and Development Department (CPD) to perform a development feasibility analysis on the City's behalf in order to answer specific questions relating to development in the Cherry Creek North Study Area. KHO engaged the services of Rick Wells of REGen, LLC to assist in conducting interviews, developing modeling assumptions, analyzing land sales data in the Study Area, creating development pro formas, creating report graphics, and report writing.

The CCN study specifically asks the following questions:

- To what extent does unused development capacity exist within existing C-CCN zoning and why has it not been utilized fully?
- Given the cost of land in Cherry Creek, does development capacity have to increase to make projects feasible from a real estate development perspective?
- What would be the effects (in terms of development feasibility, residential and employment density, and quality of the built environment) of adjusting maximum building heights and building form in CCN, as proposed in the preliminary area plan concepts? Is there a set of "optimal" building heights in Cherry Creek North on 2nd and 3rd Avenues for encouraging feasible investment while also maintaining transitions into the residential neighborhood to the north?
- What market exists for additional hotels, types of hotels, and what types of locations make sense for new hotels?

The Cherry Creek North (CCN) Study Area is generally bounded by Third Avenue on the north, Josephine Street on the west, First Avenue to the south and Steele Street to the east (collectively, the Study Area).

Cherry Creek North Area Zoning



KHO utilized stakeholder interviews as well as interviews with 3rd party experts to gather information regarding market lease rates, construction costs, community and end user desires, and other relevant details regarding development and redevelopment opportunities in Cherry Creek North. To help answer Questions 1-3 above, KHO utilized data gathered from stakeholder interviews to develop pro forma models for a series of prototypical development scenarios. The models utilized general “rule of thumb” assumptions regarding costs, revenues and capital structure. KHO worked with CPD staff and key CCN stakeholders to create conceptual development scenarios based on typical parcel sizes, physical conditions, land costs, zoning regulations, real estate products and market assumptions. For each development scenario KHO compared the economics of what would be possible under existing C-CCN zoning and what could be built under an alternative zoning scenario with higher FAR and height limitation and lower parking requirements. This zoning is similar to some existing zone districts within the Denver Zoning Code, and reflects some of the building forms currently under consideration as part of the Cherry Creek Area Plan (CCAP).

The scenarios described in more detail later in this report were analyzed based on prototypical parcels, rather than actual ones to provide insights into redevelopment drivers without singling out a specific location or property. Generally the prototypical development parcels evaluated were:

- A representative property that illustrates a typical building and parcel with frontage on either the north or south side of 3rd Avenue.

- A representative property that illustrates a development parcel available between 2nd and 3rd Avenues with building heights from 3-5 stories.
- A representative property that illustrates a ¼ block development parcel available between 2nd and 3rd Avenues with building heights from 5-8 stories.

For each of these prototypical development parcels, KHO worked with CPD staff and CCN stakeholders to create development assumptions using C-CCN zoning and an alternative zoning approach. Parking ratios in the alternative zoning were chosen based on what KHO heard was minimally acceptable to the marketplace.

The following table briefly summarizes the relevant features of the C- CCN (Urban Center-Cherry Creek North) zoning and how they compare with the assumptions utilized in the alternative zoning approach.

Figure A: Comparison of C-CCN to Alternative Zoning

<u>Parameter</u>	<u>C-CCN</u>	<u>“Alternative” CCN</u>
Height Limit	55’	45’, 70’ or 110’
Stories	N/A	3, 5 or 8
FAR	1.0	N/A
FAR Bonus	Up to 0.5 for underground parking, residential uses, open space	N/A
Uses	Mixed-Use	Mixed-Use
Parking – Retail	3.33 : 1000 sf	1.25 : 1000 sf
Parking – Office	3.33 : 1000 sf	2 : 1000 sf
Parking – Residential	2 : D.U.	1.5-2 : D.U.
Parking – Restaurant	3.33 : 1000 sf	2.5 : 1000 sf

Summary of Prototypical Development Scenarios

The following figure shows a summary of the prototypical development scenarios utilized in the study. The figure highlights the variances between the various scenarios.

Figure B: Summary of Prototypical Development Scenarios

Parameter	3rd Avenue Frontage	3rd Avenue Frontage	2nd to 3rd Avenue	2nd to 3rd Avenue
	C-CCN Zoning	Alternative Zoning	C-CCN Zoning	Alternative Zoning
Parcel Size	18,750 s.f.	18,750 s.f.	31,250 s.f.	31,250 s.f.
Parcel Frontage	125' x 150'	125' x 150'	125' x 250'	125' x 250'
Height Limit	55'	Form Standards	55'	Form Standards
Stories	3 and 4	3	3 and 4	3, 5 and 8
Maximum FAR	1.5	N/A	1.5	N/A
Modeled FAR	1.3 - 1.5	2.3	1.5	3.2 - 4.8
Uses	Mixed-Use, no hotels	Mixed-Use	Mixed-Use, no hotels	Mixed-Use
Parking – Retail	3.33 : 1000 s.f.	1.25 : 1000 s.f.	3.33 : 1000 s.f.	1.25 : 1000 s.f.
Parking – Office	3.33 : 1000 s.f.	2 : 1000 s.f.	3.33 : 1000 s.f.	2 : 1000 s.f.
Parking – Residential	2 : D.U.	1.5-2 : D.U.	2 : D.U.	1.5-2 : D.U.
Parking – Restaurant	3.33 : 1000 s.f.	2.5 : 1000 s.f.	3.33 : 1000 s.f.	2.5 : 1000 s.f.

Hotels

Question #4 specifically seeks to explore the viability and impact of hospitality uses within the Study Area. Currently, hotels are an allowable use in Denver’s mixed use and main street zone districts, but they are not an allowable use in C-CCN district. KHO was asked by CPD to generally evaluate the demand for hotels in the Study Area. The intent was not to perform a comprehensive market study, but rather identify the potential demand for hotel uses in CCN and, if so, identify the typical characteristics of those hotel uses.

Specific tasks included:

- Analyze the market for additional hotels in Cherry Creek, including type of hotels.
- Describe the attributes and characteristics of locations considered appropriate for a hotel within Cherry Creek. Consider large hotels versus small, boutique hotels.
- Identify the potential impacts of hotels in a place like Cherry Creek on traffic, shopping and dining revenue and, if possible, associate those impacts with the type of hotels identified in task #1 above.

Because the hospitality industry is a very specific subset of the real estate industry as a whole, KHO engaged a hospitality expert Robert S. Benton & Associates to develop this section of the report.

General and Limiting Conditions

The feedback expressed in this report assumes market conditions favorable to development and assumptions current as of December 2011, and other information gleaned by KHO Consulting, LLC (KHO) based on its independent research, general knowledge of the industry and information provided to KHO through consultation with neighborhood stakeholders and Client representatives a list of which is included in the Appendix. The report will not focus on site-specific technical issues such as traffic conditions, geotechnical issues or ownership structure since that is outside the scope of the project and such conditions will vary widely throughout the Study Area. Because future events and circumstances not known as of the date of this report may have a material impact on the feasibility of the following

development concepts, no warranty or representation is made by KHO that any of the projected results will actually be achieved.

INTERVIEW SUMMARY FINDINGS

The following summarizes the findings from KHO's CCN stakeholder interviews. In order to encourage candor, stakeholders were promised anonymity. The following reflects what we heard; statements have not been reviewed for accuracy. Statements should not be assumed to reflect consensus, unless specifically identified as such. Since the focus of this study was on development feasibility, the intent of the interviews was to gather information relevant to pricing, market viability and uses. That said we heard additional feedback about CCN in general summarized below. The following summarizes points for which there was broad consensus:

- **3rd Avenue is a buffer between the commercial and residential neighborhood in CCN** – 3rd Avenue was universally recognized as an important buffer between the commercial and residential areas within CCN. It is on this edge that transitions must be most sensitive to surrounding uses and scale. Stakeholders agreed that increased development intensity would be more desirable as one moves south toward 2nd and 3rd Avenues. The amount of development intensity, building heights and specifically where height can increase was not agreed upon.
- **Desire for high quality design and construction quality** - each stakeholder recognized that the unique environment that exists in CCN contributes to its economic vitality. Regardless of building height and uses, high quality design and construction was desired by all in order to maintain that vitality and character.
- **FAR is a key feature of the current zoning** – The current C-CCN FAR limitations are a critical feature of the current zoning. Whether stakeholders were in support or against the current underlying zone district, both sides recognized the FAR limitations currently govern building height and mass in the Study Area.
- **Existing minimum parking requirement is a limiting factor, especially for small lots** – Parking requirements in the C-CCN zoning have also been an important determining factor in the type of development found in CCN. The preponderance of buildings with below grade retail or office space is directly attributable to that space not being counted against FAR and parking limitations. For smaller lots, the inefficiency and cost of underground parking can be a challenge to denser redevelopment.

The remainder of the interview findings will focus on the assumptions utilized in the development pro forma.

ASSUMPTIONS

KHO utilized data gathered from stakeholder interviews to develop pro forma models for a series of prototypical development scenarios. The models utilized current construction cost and market based “rule of thumb” assumptions regarding costs, revenues and capital structure. The key assumptions used as inputs to the development pro forma’s are shown in the following Figure C.

Figure C: Pro Forma Model Input Assumptions

Zoning and Market Based Parking Ratios			
Description	CCN Zoning	Market Based	Unit
Parking Requirements - Retail	3.33	1.25	per 1,000 s.f.
Parking Requirements - Restaurant	3.33	2.50	per 1,000 s.f.
Parking Requirements - Office	3.33	2 - 3	per 1,000 s.f.
Parking Requirements - Residential	2	1.5 - 2	per d.u.

Lease Rates, CAM, and Tenant Improvement Allowance			
Description	North Side of 3rd Avenue per s.f.	3-5 Story 2nd to 3rd per s.f.	5-8 Story 2nd to 3rd per s.f.
Ground Floor Retail NNN Rent	\$ 30.00	\$ 35.00	\$ 40.00
Ground Floor Retail CAM	\$ 10.00	\$ 10.00	\$ 10.00
Ground Floor Retail T.I. Allowance	\$ 30.00	\$ 50.00	\$ 75.00
Restaurant T.I. Allowance	\$ 50.00	\$ 100.00	\$ 150.00
Office NNN rent	\$ 25.00	\$ 27.50	\$ 30.00
Office CAM	\$ 10.00	\$ 10.00	\$ 10.00
Office T.I. Allowance	\$ 30.00	\$ 40.00	\$ 50.00
Underground Office Parking Revenue per month	\$ 100.00	\$ 100.00	\$ 100.00

Project Construction Hard Costs			
Description	North Side of 3rd Avenue	3-5 Story 2nd to 3rd	5-8 Story 2nd to 3rd
Land Purchase Price (land s.f.)	\$ 150.00	\$ 225.00	\$ 225.00
Demolition (Building s.f.)	\$ 7.00	\$ 7.00	\$ 7.00
Retail and Office (Building s.f.)	\$ 100 - \$ 150	\$ 175.00	\$ 195.00
Residential Space (Building s.f.)	\$ 175.00	\$ 250.00	\$ 300.00
Lobby and Common Area (Building s.f.)	\$ 175.00	\$ 275.00	\$ 275.00
Parking - Surface (\$ per space)	\$ 5,000.00	\$ 5,000.00	\$ 5,000.00
Parking - Above Grade (\$ per space)	n/a	\$ 15,000.00	\$ 15,000.00
Parking - Below Grade (\$ per space)	\$ 30,000.00	\$ 25,000.00	\$ 25,000.00

Residential Sales Assumptions			
Description	North Side of 3rd Avenue	3-5 Story 2nd to 3rd	5-8 Story 2nd to 3rd
Residential Sale Price	\$ 450.00	\$ 600.00	\$ 750.00
Presale Requirement	100%	50%	50%
Absorption (Units per year)	N/A	4	4

Financial Assumptions			
Description	North Side of 3rd Avenue	3-5 Story 2nd to 3rd	5-8 Story 2nd to 3rd
Cap Rate Applied to 3rd year NOI	10%	8%	8%
Interest Rate	7%	6%	6%
Loan to Cost Ratio	0 - 50%	80%	80%

A brief discussion of the key variables follows:

Parking Ratios – The C-CCN zoning carries off-street parking requirements for all lots greater than 15,000 s.f. as indicated in Figure A and Figure C. Smaller lots have reduced parking requirements under the CCN zoning. The parking ratios which were used in creating the alternative zoning pro forma's are a combination of the City of Denver "urban center" parking ratios for retail and restaurants, and a higher market-based ratio for office and residential uses. As will be seen in the pro forma results, parking ratios are a key driver in defining the form and economics of redevelopment projects which can be built under the C-CCN zoning.

Floor Area Ratio (FAR) – FAR refers to the relationship between the amount of surface floor area in a building compared to the size of the lot the building sits on. For example, a 40,000 s.f. building on a 40,000 s.f. lot would have an FAR of 1.0 (40,000/40,000), while a 60,000 s.f. building on that same lot would have an FAR of 1.5 (60,000/40,000). The surface floor area counts all the floors in a building, so a two story building with a 15,000 s.f. floor plate will have a total surface floor area of 30,000 s.f.. FAR can be a tool used to control the density of development as well as the height of a development. As an example, if the maximum FAR on a 10,000 s.f. lot is 1.0, a developer could build a one-story, 10,000 building (assuming parking requirements are addressed underground), or the developer could develop a two-story 5,000 floor plate building which would leave 5,000 s.f. of the lot uncovered by building. The FAR limit means buildings could get higher and higher but would require smaller and smaller floor plates.

Lease Rates, Common Area Maintenance ("CAM"), and Tenant Improvement ("TI") Allowance—All redevelopment scenarios modeled assume a mix of uses including ground floor restaurant and retail; upper floor offices; and upper floor residential. Lease rates for each type of space were based on research provided from stakeholder interviews and from broker reports focused on current asking rates in the Study Area. Given that redevelopment will create new, Class A space, the models assumed lease rates at the higher end of market ranges. TI allowances are the investment the developer makes in improvements to a tenant space over the existing core and shell. TI allowances tend to be higher for newly built space, Class A space and restaurant spaces, as such; the assumed TI allowances in the model were again at the high end of market ranges. CAM represents developer costs related to operating expenses for un-leased space and common areas that are not specifically allocated to and reimbursed by a tenant (e.g., hallways, lobbies, etc.). The model assumes an optimistic vacancy factor of 5%, given that current CCN vacancy rates are in the mid to high teens.

Land Purchase Price - The land prices assumed in the models are based on historical data from all of the Study Area land sales from the last decade. The data used for this analysis is shown in Appendix B. The data was sorted based on age and location and was also filtered to eliminate "outlier" sales which were clearly outside the normal range of resulting purchase price per s.f. of land. The ratio of the assessed building value to the purchase price was examined to determine if the purchase was likely a land acquisition or whether the building was a valuable part of the acquisition. The resulting purchase price assumption per land s.f. was then tested with stakeholders and against industry standards to ensure that they were a reasonable estimate of current land costs in the Study Area.

Project Construction Hard Costs – These cost assumptions were based on research provided from stakeholder interviews, general cost rules of thumb, and from builders and architects with recent construction experience in the Study Area. The underlying assumption is that any 3-story product built in the area will be a concrete and steel frame base on the first floor above a concrete below grade parking structure with wood or steel frame construction on the 2nd and 3rd stories. Any 3-5 or 5-8 story

product built in the area will be a concrete and steel frame structure above a 2 story concrete below grade parking structure. Below grade parking costs increase significantly as the lot size is reduced and the amount of space required per parked car increases due to the inefficiencies of building ramps to below grade parking on smaller lots. 5-8 story building code requirements also result in higher constructions cost relative to 3 story buildings. Higher residential construction costs were assumed for the 3-5 and 5-8 stories pro forma's because higher end finishes were assumed to justify the higher residential prices described below.

Residential Sale Assumptions – Residential sales in the Study Area during the recent economic downturn have been very slow resulting in a lack of comparable data. The residential sales price per s.f. and absorption rates were based on information received from developers currently evaluating projects in the Study Area and from a sample of residential sales in the area over the last decade. Rather than taking current distressed pricing, sales price assumptions were based on a “return to normal” scenario, assuming a developer will not proceed with a project of this type until pricing justifies development. Since residential sales return capital to investors quickly relative to leased space, residential sales prices and timing are a critical assumptions in the higher density pro formas. Residential condominium sales contribute significantly to the financial returns of these scenarios, further necessitating the “return to normal” assumption.

Financial Assumptions –All of the pro forma's made the same “project exit” assumption that the project will be sold to a third party at market rates in year 5 of the project after full occupancy is achieved. Debt is only applied in cases in which the use of debt is accretive to project economics. In these cases, debt is applied at current, commercially available rates and ratios. Residual value for the property is calculated using a standard income-capitalization approach in which the annual net operating income (“NOI”) generated by the project is capitalized by an interest rate representing the buyers expected yield on the project (the “Cap Rate”). Lower Cap Rates translate to higher purchase prices (i.e., an investor is willing to accept a lower yield based on a given level of NOI. Cap Rates for the larger projects are lower, reflecting a higher quality of construction, higher tenant credit quality, and greater institutional investor appeal. The lower interest rates and higher loan to cost ratios apply to the denser projects for the same reasons.

PRO FORMA PROCESS AND STRUCTURE

KHO utilized data gathered from stakeholder interviews and industry background data to develop pro forma models for a series of prototypical development scenarios. KHO worked with CPD staff and key CCN stakeholders to create conceptual development scenarios based on typical parcel sizes, physical conditions, land costs, zoning regulations, real estate products and market assumptions. The results of those pro forma's along with a sketch-up representation of the resulting project are shown below. The sketch-up models are not intended to portray an actual building design, but are rather intended to convey massing and scale of possible buildings on the development parcel. The assumptions used in the pro forma for sales rates and lease rates are at the upper end of the reasonable range based on the current and past market rates. This bias was imbedded in the analysis to compensate for the relatively depressed economic and real estate market conditions that currently exist in CCN, Denver and across the country.

Mix of Uses – For all of the development scenarios in this study, the mix of uses was presumed to be a ground floor retail use (restaurant and/or general retail). The upper floors are assumed to be a

combination of commercial office space and residential units. The study results are not sensitive to the size of the individual retail, restaurant, or office spaces except to the extent that market rate parking requirements for the different uses differ slightly as described below. The size of the residential units varies between the development scenarios primarily due to the need to limit the number of parking spaces required for the residential space, while still maintaining marketable unit sizes.

General Building Assumptions – The development scenarios and related pro forma’s do not attempt to describe an actual building type. The footprint of the pro forma building is adjusted to meet the current CCN setbacks and the need for surface parking, open space, and sub-grade parking access as dictated by the scenario constraints. Below grade parking is assumed to be accessed via a single two-way ramp and the sizing of the parking spaces in each scenario are adjusted to account for drive aisles and lot size. Typical allocations are applied to each floor of the pro forma buildings to account for elevators, stairs, common area hallways, and lobby areas as non-sellable or non-leasable space. All buildings are assumed to have elevators. The upper floor sizing is adjusted to be realistic and representative of real building forms including setbacks and allowances for balconies, patios, and open space. The footprint and upper floor plates are adjusted to maximize the project financial results within the scenario constraints while maintaining realistic building forms.

Development Pro Forma Structure – For all of the development scenarios, the following financial modeling assumptions were used:

- The development scenario was analyzed using a quarterly cash flow model with sources and uses of funds modeled to reflect typical cash flows for real estate development projects in the Study Area.
- The pro forma was constructed assuming that the developer purchases a parcel with an existing under-utilized building on the parcel.
- Costs include the estimated cost to demolish and remove an existing structure.
- Construction periods vary by assumed building type and size.
- After completion of construction, the pro forma assumes that a third party leasing agent with typical commissions is used to lease the commercial spaces.
- A vacancy factor of 5% is applied to the project as being representative of long-term vacancy rates in the area.
- The pro forma assumes that the project achieves stabilized leasing in Year 3 and that the project is sold 5 years after initial purchase.
- Sales expenses assume the project is sold using commercial brokers with typical commissions.
- The sales price for the project is determined based on the modeled stabilized net operating income and the assumed capitalization rates as described above for each scenario.
- Where debt financing can be applied to a project at current typical interest rates and provide an accretive impact on the project economics, it is assumed that debt is used during the construction period and then paid down using the proceeds of lease income, residential sales, or the sale of the project until the debt is paid off.
- All remaining funds are distributed to the equity investor and represent either the return of invested capital or return on invested capital.
- In addition to the assumed hard construction costs (i.e. materials and labor) project soft costs are added based on industry standard percentages and rates.

- Soft costs include costs for legal, permitting, entitlements, architecture, engineering, contracting costs, permitting, developer fees, construction management, bonding, and marketing.
- For residential product the pre-sold units close the quarter after completion of construction with remaining units sold at the assumed absorption rate using a residential broker with typical commissions.

Ownership and Investment Structure – The development pro formas project the economic performance of the development scenario regardless of ownership structure. KHO recognizes that ownership structure and risk tolerance matters when evaluating the attractiveness of a real estate investment. If the investor is an “owner-occupant” they could conceivably mitigate their investment risk by occupying either or both the residential or the retail product in the project. This type of investor is looking to fix operating costs for their professional business (lawyers, architects, etc.) by owning their own work space and/or offsetting the costs and risk of developing residential units by occupying one of the residential units in the project. A reasonable return on the un-owned portion of the investment is important, but not as critical as maintaining positive cash flow to cover any personal project related debt. There are several successful examples of this type of project development in the study area and this type of development should be encouraged as it tends to stabilize existing neighborhoods due to the longer term view of the owner occupier. That said, the size and scale of a typical “owner-occupier” project would be limited by the owner’s personal or corporate balance sheet.

Third party developers and investors who rely on institutional capital can have a different risk and return profile. This type of investor will be capable of undertaking larger scale and higher cost projects due to their ability to attract capital from investment funds, high net worth investors, institutional investors, and debt placed with large commercial lenders. These institutional investors demand higher returns and shorter investment periods to achieve the returns demanded by their investors. This type of investor will be attracted to projects in the study area due to the success of the Cherry Creek Mall, the exceptionally strong demographics in the area, and the area’s history of successful development projects. These developers will, however, also be comparing development projects in the study area to investment alternatives throughout the Denver metro area and on a national and international scale. As such, the economics of the projects must meet return standards set by the real estate industry in general, not project or location specific economics. This type of development should be encouraged if the intent is to increase the amount of Class A office and residential product in the study area, as only this type of developer will likely have the financial capacity necessary to successfully complete such projects.

Pro Forma Financial Results – The results of the pro forma model are conveyed using several standard real estate investment measures.

- **Project IRR** represents the internal rate of return that is achieved by the equity investor in the project. The IRR is measured using the quarterly cash flow of the equity investor with outflows for project costs and inflows for lease revenue and sale of residential units and the final exit sale of the project. Typical target IRR for this type of real estate investment range from 12 – 25% depending on real estate and general investment risk and metrics.
- **Project Profit/ (Loss)** represents the absolute net amount of profit or loss achieved by the project, a positive number indicating a profit. This metric does not take into account the time value of money.
- **Project Multiple** is determined by dividing the total project cash returned to the investor by the total project cash outlay by the investor. A 1.0 project multiple reflects a project that breaks

even by returning an investors original cost basis. Typical target Project Multiples for equity investments of this type range from 1.5 to 2.5.

- **NPV @ 20%** represents the Net Present Value of the equity investment with cash flows discounted to present value using a discount rate of 20%. This measure takes into account the return to the investor over the life of the project as compared to a target return of 20%. A positive number represents a return rate of greater than 20%, while a negative number indicates the project is returning less than the target return of 20% to the investor.
- **Year 3 Cash on Investment** represents the annual cash flow return to the investor after the project is leased and stabilized as a percentage of the total project investment. A typical target cash on investment return rate ranges from 6% for a low risk investment to 12% or greater for high risk investment.
- **Stabilized Cash on Cash Return** represents the annual cash flow return to the investor after the project is leased and stabilized as a percentage of the actual cash invested by the investor. This accounts for the impact of debt applied to the project. A typical “Cash on Cash” return ranges from 6% for a low risk investment to 15% or greater for high risk investments.
- **NOI** represents the Net Operating Income being produced by the commercial product in the project. This is essentially the net of lease revenues minus leasing expenses such as utilities, insurance, cleaning, etc., but not including the cost of financing.
- **Cap Rate** is the Capitalization Rate applied to the NOI of the project to determine the project exit sales price. The Cap Rate is a proxy for the income yield an investor would expect to achieve from the project after rent stabilization. The higher the expected yield (Cap Rate) applied to a given NOI would result in a lower purchase price and vice versa, a lower expected yield would allow the buyer to pay a higher purchase price for a given NOI cash flow stream.

DEVELOPMENT SCENARIO SUMMARY

The following scenarios were evaluated:

3rd Avenue Frontage Scenarios on an 18,750 s.f. lot

- C-CCN 3-Story
- C-CCN 4-Story
- Market Based 3-Story

South of 3rd Avenue and North of 2nd Avenue Scenarios on a 31,250 s.f. lot

- C-CCN 3-Story
- C-CCN 4-Story
- Market-Based 3-5 Story
- Market-Based 5-8 Story

PRO FORMA ANALYSIS RESULTS AND OBSERVATIONS

Representative Property on 3rd Avenue - The representative development parcel on 3rd Avenue was modeled as a corner lot measuring 125' by 150' (18,750 total s.f.) which could be on either the north or south side of 3rd Avenue. The 125' side of the lot represents the standard lot frontage from the mid-block alley to the corner of a named street (i.e. Fillmore Street) with the longer frontage of the site running along the named street with vehicular access to the site from either the alley or the named street. There are a significant number of lots with exactly this configuration in the Study Area.

Development that maxes out C-CCN Zoning – 3-Story

Description – This development scenario is designed to maximize the amount of development on the prototypical lot using the current C-CCN zoning. This pro forma contemplates a 3-story building with one level of below grade parking, ground floor retail, second floor office, and third floor residential. Using several iterations of various product mixes attempting to maximize project return and density on the 3 story building with C-CCN zoning, the resulting FAR of 1.3 was not able to reach the maximum allowable FAR of 1.5.



Financial Results – The pro forma results for this development scenario indicate a very low IRR, a small project gain, a project multiple of 1.05, and a negative NPV20; all indicators that the project would not be economic for a typical real estate investor. No debt could be applied to the project due to the low project returns relative to the cost of debt. The stabilized cash-on-cash return of 6.8% is too low for a typical real estate investor with the level of project risk inherent in this type of project. The cash return may however be attractive to an investor who could minimize the risk of the project by occupying or pre-selling both residential units and who might also utilize some of the retail or commercial office space for their own business operations, i.e. an “owner-occupied” project.

Cherry Creek North Development Pro Forma
Representative 3rd Avenue Property - Surface and Below Grade Parking
CCN Zoning - 3 Story, mixed use

Example Lot Description, FAR, Building Parameters		
Lot Size (Land s.f.)		18,750
Allowable Building Footprint (Land s.f.)		17,400
Maximum Bldg. Footprint (Land s.f.)		11,400
FAR Premium for Parking (FAR #)	0.3	5,625
FAR Premium for Open Space (s.f.)	800.00	1,600.0
FAR Premium for Residential Units (s.f.)	5600.00	4,687.5
Total Allowed Bldg. s.f. with FAR Premiums		28,125
Residential Unit s.f. based on (# Units per floor)	2	2,520.0
Construction Period (months)		18

Parking Requirements, Revenue, and Parking Plan		
Monthly Parking Revenue per space	\$	100
Parking Requirements - Retail	3.33	per 1,000 s.f.
Parking Requirements - Restaurant	3.33	per 1,000 s.f.
Parking Requirements - Office	3.33	per 1,000 s.f.
Parking Requirements - Residential	2	per d.u.
Average Parking Space s.f.	350	
Parking Plan		S.F.
Surface Parking	13	4,550
Below Grade Level 1	53	18,550
Below Grade Level 2	0	-
Above Grade Level 1	0	-
Above Grade Level 2	0	-
Total Parking	66	23,100

Development Plan				
Description	Gross Bldg. Area (s.f.)	Loss % for Core	Rentable Area (s.f.)	Off-Street Parking
Ground Floor Retail				
Tenant 1 - Restaurant	4,000	15%	3,400	13
Tenant 2	3,700	15%	3,145	12
Tenant 3	3,000	15%	2,550	10
Subtotal Retail	10,700		9,095	35
Upper Floor Office				
2nd Floor	8,000	10%	7,200	27
3rd Floor	-	10%	-	0
4th Floor	-	10%	-	0
5th Floor	-	10%	-	0
6th Floor	-	10%	-	0
7th Floor	-	10%	-	0
8th Floor	-	10%	-	0
Subtotal Upper Floor Office	8,000		7,200	27
Upper Floor Residential				
2nd Floor	-	10%	0	0
3rd Floor	5,600	10%	5,040	4
4th Floor	-	10%	0	0
5th Floor	-	10%	0	0
6th Floor	-	10%	0	0
7th Floor	-	10%	0	0
8th Floor	-	10%	0	0
Subtotal Upper Floor Residential	5,600		5,040	4
Total Building	24,300		21,335	66

Retail and Office Rents, CAM Charges, and Tenant Improvement Allowance	
Ground Floor Retail NNN Rent per s.f.	\$ 30.00
Ground Floor Retail CAM per s.f.	\$ 10.00
Ground Floor Retail T.I. Allowance per s.f.	\$ 30.00
Office NNN rent per s.f.	\$ 25.00
Office CAM per s.f.	\$ 10.00
Office T.I. Allowance per s.f.	\$ 30.00
First Quarter with Rents	9/30/2013

Project Construction Hard Costs			
Description	Units	Cost per Unit	Total Cost
Land Purchase Price (land s.f.)	18,750	\$ 150.00	\$ 2,812,500
Demolition (Building s.f.)	15,000	\$ 7	105,000
Retail and Office (Building s.f.)	16,295	\$ 100	1,629,500
Residential Space (Building s.f.)	5,040	\$ 175	882,000
Common Areas/Lobbies (Building s.f.)	2,965	\$ 150	444,750
Parking - Surface (# of spaces)	13	\$ 5,000	\$ 65,000
Parking - Above Grade (# of spaces)	-	\$ 20,000	-
Parking - Below Grade (# of spaces)	53	\$ 30,000	\$ 1,590,000

Sales Assumptions for Residential Units	
Residential Sale Price per s.f.	\$ 450.00
Sales price per Unit	\$ 1,134,000
Number of Residential Units	2
Number of Pre-Sale Units	100%
Absorption Rate - Unsold Units (units per year)	N/A
Date of Closing for Pre-Sales	9/30/2013

Sale Assumption for Retail and Office Project	
Year 3 Net Operating Income	\$ 615,790
Cap Rate Applied to NOI	10%
Estimated Gross Sale Amount	\$ 6,157,900
Sale Date for Project	3/31/2017

Financing Assumptions	
Interest Rate	7%
Loan to Cost Ratio	0%
Loan Fees	1.5%

Economic Model Results	
Resulting Actual FAR	1.30
Total Project Costs Including Land	\$ 9,108,565
Maximum Equity Invested	\$ 9,108,565
Project IRR	1.41%
Project Profit/(Loss)	\$ 468,633
Project Multiple	1.05x
NPV @ 20%	(\$3,722,135)
Year 3 Cash on Investment	6.8%
Year 3 Cash Return on Cash Invested	6.8%
Sales Price per Land s.f.	\$ 328
All in Construction Costs per Building s.f.	\$ 227

Issues and Observations – This redevelopment scenario could not reach the maximum 1.5 FAR allowed under C-CCN zoning with bonuses. This lower FAR causes the project to be uneconomical to a typical real estate investor. The FAR was limited by the amount of parking spaces that could reasonably fit in one level of below-grade parking on this lot. Utilizing the entire footprint of the lot as underground parking limits the underground spaces to 53 per level with room on the surface for only an additional 13 spaces, allowing a maximum of 66 spaces. With the relatively high parking ratios required under the current C-CCN zoning, the limitation on parking capacity therefore limits the buildable s.f. for the project, negatively impacting the project economics. The additional cost to create a second level of below grade parking is not justified to reach the maximum allowed FAR of 1.5. The pro forma is not particularly sensitive to land cost as the parking ratio limitations create an uneconomic project at virtually any land cost.

Development that maxes out C-CCN Zoning – 4 Story

Description – This development scenario is designed to maximize the amount of development on the prototypical 3rd Avenue lot using the current C-CCN zoning. The pro forma contemplates a 4 story building that fits within the C-CCN height limit of 55’ with one level of below grade parking, ground floor retail, two levels of commercial office space, and one level of residential units. The 4 story project is able to achieve the maximum allowable FAR of 1.5 utilizing a combination of bonuses for open space, below grade parking, and residential units. As compared to the previous 3 story case, the total parking spaces under this scenario has increased from 68 to 78 by virtue of having a smaller building foot print and more surface space available for parking.



Financial Results – The pro forma results for this development scenario have a very low positive project IRR, a small net profit, a low project multiple, and a negative NPV20; all measures indicating that the project would not be economic for a typical real estate investor. No debt could be applied to the project due to the low project returns relative to the cost of debt. The stabilized cash on cash return of 6.7% is too low for a typical real estate investor with the level of project risk inherent in this type of project. The cash return may however be attractive to an investor who could minimize the risk of the project by occupying or pre-selling the residential units and who might also utilize some of the retail or commercial office space for their own business operations, i.e. an “owner occupied” project.

Cherry Creek North Development Pro Forma
Representative 3rd Avenue Property - Surface and Below Grade Parking
CCN Zoning - 4 Story, mixed use

Example Lot Description, FAR, Building Parameters		
Lot Size (Land s.f.)		18,750
Allowable Building Footprint (Land s.f.)		17,400
Maximum Bldg. Footprint (Land s.f.)		11,400
FAR Premium for Parking (FAR #)	0.3	5,625
FAR Premium for Open Space (s.f.)	800.00	1,600.0
FAR Premium for Residential Units (s.f.)	6125.00	4,687.5
Total Allowed Bldg. s.f. with FAR Premiums		28,125
Residential Unit s.f. based on (# Units per floor)	3	1,837.5
Construction Period (months)		18

Parking Requirements, Revenue, and Parking Plan		
Monthly Parking Revenue per space	\$	100
Parking Requirements - Retail	3.33	per 1,000 s.f.
Parking Requirements - Restaurant	3.33	per 1,000 s.f.
Parking Requirements - Office	3.33	per 1,000 s.f.
Parking Requirements - Residential	2	per d.u.
Average Parking Space s.f.	350	
Parking Plan		S.F.
Surface Parking	25	8,750
Below Grade Level 1	53	18,550
Below Grade Level 2	0	-
Above Grade Level 1	0	-
Above Grade Level 2	0	-
Total Parking	78	27,300

Development Plan				
Description	Gross Bldg. Area (s.f.)	Loss % for Core	Rentable Area (s.f.)	Off-Street Parking
Ground Floor Retail				
Tenant 1 - Restaurant	4,000	15%	3,400	13
Tenant 2	4,000	15%	3,400	13
Tenant 3	-	15%	-	0
Subtotal Retail	8,000		6,800	26
Upper Floor Office				
2nd Floor	7,000	10%	6,300	23
3rd Floor	7,000	10%	6,300	23
4th Floor	-	10%	-	0
5th Floor	-	10%	-	0
6th Floor	-	10%	-	0
7th Floor	-	10%	-	0
8th Floor	-	10%	-	0
Subtotal Upper Floor Office	14,000		12,600	46
Upper Floor Residential				
2nd Floor	-	10%	0	0
3rd Floor	-	10%	0	0
4th Floor	6,125	10%	5,512.5	6
5th Floor	-	10%	0	0
6th Floor	-	10%	0	0
7th Floor	-	10%	0	0
8th Floor	-	10%	0	0
Subtotal Upper Floor Residential	6,125		5,513	6
Total Building	28,125		24,913	78

Retail and Office Rents, CAM Charges, and Tenant Improvement Allowance	
Ground Floor Retail NNN Rent per s.f.	\$ 30.00
Ground Floor Retail CAM per s.f.	\$ 10.00
Ground Floor Retail T.I. Allowance per s.f.	\$ 30.00
Office NNN rent per s.f.	\$ 25.00
Office CAM per s.f.	\$ 10.00
Office T.I. Allowance per s.f.	\$ 30.00
First Quarter with Rents	9/30/2013

Project Construction Hard Costs			
Description	Units	Cost per Unit	Total Cost
Land Purchase Price (land s.f.)	18,750	\$ 150.00	\$ 2,812,500
Demolition (Building s.f.)	15,000	\$ 7	105,000
Retail and Office (Building s.f.)	19,400	\$ 150	2,910,000
Residential Space (Building s.f.)	5,513	\$ 175	964,688
Common Areas/Lobbies (Building s.f.)	3,213	\$ 150	481,875
Parking - Surface (# of spaces)	25	\$ 5,000	\$ 125,000
Parking - Above Grade (# of spaces)	-	\$ 20,000	-
Parking - Below Grade (# of spaces)	53	\$ 30,000	\$ 1,590,000

Sales Assumptions for Residential Units	
Residential Sale Price per s.f.	\$ 450.00
Sales price per Unit	\$ 826,875
Number of Residential Units	3
Number of Pre-Sale Units	100%
Absorption Rate - Unsold Units (units per year)	N/A
Date of Closing for Pre-Sales	9/30/2013

Sale Assumption for Retail and Office Project	
Year 3 Net Operating Income	\$ 729,790
Cap Rate Applied to NOI	10%
Estimated Gross Sale Amount	\$ 7,297,900
Sale Date for Project	3/31/2017

Financing Assumptions	
Interest Rate	7%
Loan to Cost Ratio	0%
Loan Fees	1.5%

Economic Model Results	
Resulting Actual FAR	1.50
Total Project Cost Including Land	\$ 10,895,047
Maximum Equity Invested	\$ 10,895,047
Project IRR	0.65%
Project Profit/(Loss)	\$ 256,427
Project Multiple	1.02x
NPV @ 20%	(\$4,538,128)
Year 3 Cash on Investment	6.7%
Year 3 Cash Return on Cash Invested	6.7%
Sales Price per Land s.f.	\$ 389
All In Construction Costs per Building s.f.	\$ 287

Issues and Observations – The additional story and smaller building floor plate allow this development scenario to achieve the maximum 1.5 FAR allowable under C-CCN zoning. Even at this density however, the project does not generate sufficient return for a typical real estate investor to pursue the development. The land cost under this development scenario would have to be less than \$50 per land s.f. for the pro forma to reach even a minimal threshold IRR over 10%. Land prices in the Study Area are not likely to be below \$50 per s.f. based on current pricing and market economics.

Development that maxes out “Market Based 3 Story”

Description – This development scenario is designed to maximize the economic return and density on the prototypical 3rd Avenue lot using a 3 story height limit and market-based parking ratios described in Figure A. In this scenario, there was no limit on FAR other than the 3-story height limits and alternative zoning limitations on massing. The resulting building has the largest ground floor footprint with upper floors increased in size also, compared to the two previous CCN zoning based cases. The scenario assumes one level of below grade parking, ground floor retail with multiple tenants including a restaurant use, second floor office, and third floor residential units.



Financial Results – The pro forma results for this scenario are clearly the best of the 3rd Avenue development scenarios. The IRR of 10.9%, the project profit and the project multiple of 1.6 are low, but may be sufficient to justify an investment by a typical real estate investor, if the risks of tenant leasing and residential sales are significantly mitigated. Debt can be applied to the project which adds approximately 2 % points to the IRR of the project. The leveraged stabilized cash on cash return of 28.8% is sufficient to attract a typical real estate investor with the level of project risk inherent in this type of project. The cash return coupled with an overall project profit would be attractive to an investor who could minimize the risk of the project by occupying or pre-selling the residential units and who might also utilize some of the retail or commercial office space for their own business operations, i.e. an “owner occupied” project.

Cherry Creek North Development Pro Forma
Representative 3rd Avenue Property - Below Grade Parking
Corner Lot - 3 story, mixed use, no FAR limit, market based parking ratios

Example Lot Description, FAR, Building Parameters			
Lot Size (Land s.f.)			18,750
Allowable Building Footprint (Land s.f.)			17,400
Ground Floor Rentable Space (Land s.f.)			15,000
FAR Premium for Parking (FAR #)	N/A	N/A	
FAR Premium for Open Space (s.f.)	800.00	N/A	
FAR Premium for Residential Units (s.f.)	N/A	N/A	
Total Allowed Bldg. s.f. with FAR Premiums			1,957.5
Residential Unit s.f. based on (# Units per floor)	6		
Construction Period (months)	18		

Parking Requirements, Revenue, and Parking Plan			
Monthly Parking Revenue	\$	100	per space
Parking Requirements - Retail	1.25		per 1,000 s.f.
Parking Requirements - Restaurant	2.50		per 1,000 s.f.
Parking Requirements - Office	1.25		per 1,000 s.f.
Parking Requirements - Residential	1.5		per d.u.
Average Parking Space s.f.	350		per space
Parking Plan		# of spaces	% of Total
Surface Parking		0	0%
Below Grade Level 1		53	100%
Below Grade Level 2		0	0%
Above Grade Level 1		0	0%
Above Grade Level 2		0	0%
Total Parking		53	18,550

Development Plan				
Description	Gross Bldg. Area (s.f.)	Loss % for Core	Rentable Area (s.f.)	Off-Street Parking
Ground Floor Retail				
Tenant 1 - Restaurant	6,000	15%	5,100	15
Tenant 2 - Retail	5,000	15%	4,250	6
Tenant 3 - Retail	4,000	15%	3,400	5
Subtotal Retail	15,000		12,750	26
Upper Floor Office				
2nd Floor	14,500	12%	12,760	18
3rd Floor	-	12%	-	0
4th Floor	-	12%	-	0
5th Floor	-	12%	-	0
6th Floor	-	12%	-	0
7th Floor	-	12%	-	0
8th Floor	-	12%	-	0
Subtotal Upper Floor Office	14,500		12,760	18
Upper Floor Residential				
2nd Floor	-	10%	0	0
3rd Floor	13,050	10%	11,745	9
4th Floor	-	10%	0	0
5th Floor	-	10%	0	0
6th Floor	-	10%	0	0
7th Floor	-	10%	0	0
8th Floor	-	10%	0	0
Subtotal Upper Floor Residential	13,050		11,745	9
Total Building	42,550		37,255	53

Retail and Office Rents, CAM Charges, and Tenant Improvement Allowance	
Ground Floor Retail NNN Rent per s.f.	\$ 30.00
Ground Floor Retail CAM per s.f.	\$ 10.00
Ground Floor Retail T.I. Allowance per s.f.	\$ 30.00
Office NNN rent per s.f.	\$ 25.00
Office CAM per s.f.	\$ 10.00
Office T.I. Allowance per s.f.	\$ 30.00
First Quarter with Rents	9/30/2013

Project Construction Hard Costs			
Description	Units	Cost per Unit	Total Cost
Land Purchase Price (land s.f.)	18,750	\$ 150.00	\$ 2,812,500
Demolition (Building s.f.)	15,000	\$ 7	105,000
Retail and Office (Building s.f.)	25,510	\$ 100	2,551,000
Residential Space (Building s.f.)	11,745	\$ 175	2,055,375
Common Areas/Lobbies (Building s.f.)	5,295	\$ 150	794,250
Parking - Surface (# of spaces)	0	\$ 5,000	\$ -
Parking - Above Grade (# of spaces)	-	\$ 20,000	\$ -
Parking - Below Grade (# of spaces)	53	\$ 30,000	\$ 1,590,000

Sales Assumptions for Residential Units	
Residential Sale Price per s.f.	\$ 450.00
Sales price per Unit	\$ 880,875
Number of Residential Units	6
Number of Pre-Sale Units	3
Absorption Rate - Unsold Units (units per year)	2.0
Date of Closing for Pre-Sales	9/30/2013

Sale Assumption for Retail and Office Project	
Year 3 Net Operating Income	\$ 929,290
Cap Rate Applied to NOI	10%
Estimated Gross Sale Amount	\$ 9,292,900
Sale Date for Project	3/31/2017

Financing Assumptions	
Interest Rate	7%
Loan to Cost Ratio	75%
Loan Fees	1.5%

Economic Model Results	
Resulting Actual FAR	2.3
Total Project Cost Including Land	\$ 12,201,864
Maximum Equity Invested	\$ 3,222,588
Project IRR	10.9%
Project Profit/(Loss)	\$ 1,955,413
Project Multiple	1.61x
NPV @ 20%	(\$971,433)
Year 3 Cash Return on Total Investment	7.6%
Year 3 Cash Return on Cash Invested	28.8%
Sales Price per Land s.f.	\$ 496
All In Construction Costs per Building s.f.	\$ 221

Issues and Observations – Compared to the two C-CCN based scenario's, this development scenario clearly shows the positive economic impact of reducing parking ratios to more market-based levels and removing the C-CCN FAR limit of 1.5. The size of the project is limited in this case by the number of cars that can be parked in the below grade parking garage which covers the entire lot size. With the overall increase in density and the commensurate increase in residential product, the pro forma return also becomes very sensitive to the residential sales price per s.f. indicating that an improved residential market could possibly make this development scenario more economic. Conversely, deterioration in the residential market that would lower residential sales prices would negatively impact the project. Comparison of the three 3rd Avenue pro forma's indicates that developments are not likely to reach 4 stories and 55' heights along 3rd Avenue. The relatively high minimum parking ratios and the current 1.5 FAR limit prevent this type of development from being economically viable, hence the dominant development pattern is of small, one or two story buildings with adjacent surface parking.

Representative Property on 2nd Avenue - The representative development parcel on 2nd Avenue was modeled as a lot measuring 125' by 250' (31,250 total s.f.). The lot could be either a corner lot fronting either 2nd or 3rd Avenues or a mid-block lot on a named street. The 125' side of the lot represents the standard width between the alley and the named streets in the Study Area with the longer frontage of the site running along the named street. Vehicular access to the site could be from either the alley or the named street. Lots in the Study Area range from 3,500 s.f. to more than 50,000 s.f. The prototypical pro forma lot size of 31,250 was chosen as a reasonable representation of existing lots as there are several lots in the Study Area with exactly this configuration and several smaller lots could be assembled to get to an economically feasible development lot of this size.

Development that maxes out C-CCN Zoning

Description – This development scenario is designed to maximize the amount of development on the prototypical lot between 2nd and 3rd Avenues using the current C-CCN zoning. The pro forma contemplates a 3 or 4 story building with one or two levels of below grade parking, ground floor retail, second floor office, and one or two floors of residential units. Unlike the smaller lot assumed in the previous development scenarios, the larger lot size allows for more efficient ramping and parking lay out. This efficiency makes a 2nd level of underground parking economical under the right conditions. With this additional parking capacity the project easily meets the maximum allowed FAR of 1.5 utilizing bonuses for open space, below grade parking, and residential units.

3-Story C-CCN Zoning



4-Story C-CCN Zoning



Financial Results – The project size increases substantially with the larger lot size and two levels of below grade parking with the total project costs for these scenarios estimated at over \$ 23 million. The pro forma results for these scenarios have a very low project IRR, a small net profit, a low project multiple, and a negative NPV20; all indicators that the project would not be economic for a typical real estate investor. No debt could be applied to the project due to the low project returns relative to the cost of debt. The cash-on-cash returns of 4.2 – 5.1% are too low for a typical real estate investor with the level of project risk inherent in this type of project. The larger project cost and low cash returns do not make this scenario reasonable for an “owner occupied” project.

Cherry Creek North Development Pro Forma
Quarter Block between 2nd and 3rd - Surface and Below Grade Parking
CCN Zoning - 3 story, mixed use

Example Lot Description, FAR, Building Parameters		
Lot Size (Land s.f.)		31,250
Allowable Building Footprint (Land s.f.)		29,400
Max. Ground Floor Gross Footprint (Land s.f.)		22,475
FAR Premium for Parking (FAR #)	0.3	9,375
FAR Premium for Open Space (s.f.)	800.00	1,600.0
FAR Premium for Residential Units (s.f.)	13875.00	7,812.5
Total Allowed Bldg. s.f. with FAR Premiums		46,875
Residential Unit s.f. based on (# Units per floor)	8	1,560.9
Construction Period (months)	18	

Parking Requirements, Revenue, and Parking Plan			
Monthly Parking Revenue	\$	100	per space
Parking Requirements - Retail	3.33		per 1,000 s.f.
Parking Requirements - Restaurant	3.33		per 1,000 s.f.
Parking Requirements - Office	3.33		per 1,000 s.f.
Parking Requirements - Residential	2		per d.u.
Average Parking Space s.f.	300		per space
Parking Plan		# of spaces	% of Total
Surface Parking		13	10%
Below Grade Level 1		57	45%
Below Grade Level 2		56	44%
Above Grade Level 1		0	0%
Above Grade Level 2		0	0%
Total Parking		126	37,800

Development Plan				
Description	Gross Bldg. Area (s.f.)	Loss % for Core	Rentable Area (s.f.)	Off-Street Parking
Ground Floor Retail				
Tenant 1 - Restaurant	6,000	15%	5,100	20
Tenant 2 - Retail	6,000	15%	5,100	20
Tenant 3 - Retail	6,000	15%	5,100	20
Subtotal Retail	18,000		15,300	60
Upper Floor Office				
2nd Floor	15,000	12%	13,200	50
3rd Floor	-	12%	-	0
4th Floor	-	12%	-	0
5th Floor	-	12%	-	0
6th Floor	-	12%	-	0
7th Floor	-	12%	-	0
8th Floor	-	12%	-	0
Subtotal Upper Floor Office	15,000		13,200	50
Upper Floor Residential				
2nd Floor	-	10%	0	0
3rd Floor	13,875	10%	12,487.5	16
4th Floor	-	10%	0	0
5th Floor	-	10%	0	0
6th Floor	-	10%	0	0
7th Floor	-	10%	0	0
8th Floor	-	10%	0	0
Subtotal Upper Floor Residential	13,875		12,488	16
Total Building	46,875		40,988	126

Retail and Office Rents, CAM Charges, and Tenant Improvement Allowance	
Ground Floor Retail NNN Rent per s.f.	\$ 35.00
Ground Floor Retail CAM per s.f.	\$ 10.00
Ground Floor Retail T.I. Allowance per s.f.	\$ 50.00
Office NNN rent per s.f.	\$ 27.50
Office CAM per s.f.	\$ 10.00
Office T.I. Allowance per s.f.	\$ 40.00
First Quarter with Rents	9/30/2013

Project Construction Hard Costs			
Description	Units	Cost per Unit	Total Cost
Land Purchase Price (land s.f.)	31,250	\$ 225.00	\$ 7,031,250
Demolition (Building s.f.)	46,875	\$ 7	328,125
Retail and Office (Building s.f.)	28,500	\$ 175	4,987,500
Residential Space (Building s.f.)	12,488	\$ 250	3,121,875
Common Areas/Lobbies (Building s.f.)	5,888	\$ 175	1,030,313
Parking - Surface (# of spaces)	13	\$ 5,000	\$ 65,000
Parking - Above Grade (# of spaces)	-	\$ 17,500	-
Parking - Below Grade (# of spaces)	113	\$ 25,000	\$ 2,825,000

Sales Assumptions for Residential Units	
Residential Sale Price per s.f.	\$ 600.00
Sales price per Unit	\$ 936,563
Number of Residential Units	8
Number of Pre-Sale Units	50%
Absorption Rate - Unsold Units (units per year)	4.0
Date of Closing for Pre-Sales	9/30/2013

Sale Assumption for Retail and Office Project	
Year 3 Net Operating Income	\$ 1,181,325
Cap Rate Applied to NOI	8%
Estimated Gross Sale Amount	\$ 14,766,563
Sale Date for Project	3/31/2017

Financing Assumptions	
Interest Rate	6%
Loan to Cost Ratio	0%
Loan Fees	1.5%

Economic Model Results	
Resulting Actual FAR	1.50
Total Project Cost Including Land	\$ 23,254,934
Maximum Equity Invested	\$ 23,254,934
Project IRR	1.31%
Project Profit/(Loss)	\$ 1,070,819
Project Multiple	1.05x
NPV @ 20%	(\$9,209,618)
Year 3 Cash Return on Total Investment	5.1%
Year 3 Cash Return on Cash Invested	5.1%
Sales Price per Land s.f.	\$ 473
All In Construction Costs per Building s.f.	\$ 346

Cherry Creek North Development Pro Forma
Quarter Block between 2nd and 3rd - Surface and Below Grade Parking
CCN Zoning - 4 story, mixed use

Example Lot Description, FAR, Building Parameters		
Lot Size (Land s.f.)		31,250
Allowable Building Footprint (Land s.f.)		29,400
Max. Ground Floor Gross Footprint (Land s.f.)		22,475
FAR Premium for Parking (FAR #)	0.3	9,375
FAR Premium for Open Space (s.f.)	800.00	1,600.0
FAR Premium for Residential Units (s.f.)	20000.00	7,812.5
Total Allowed Bldg. s.f. with FAR Premiums		46,875
Residential Unit s.f. based on (# Units per floor)	12	1,500.0
Construction Period (months)	18	

Parking Requirements, Revenue, and Parking Plan			
Monthly Parking Revenue	\$	100	per space
Parking Requirements - Retail	3.33		per 1,000 s.f.
Parking Requirements - Restaurant	3.33		per 1,000 s.f.
Parking Requirements - Office	3.33		per 1,000 s.f.
Parking Requirements - Residential	2		per d.u.
Average Parking Space s.f.	305		per space
Parking Plan		# of spaces	% of Total
Surface Parking		13	11%
Below Grade Level 1		102	89%
Below Grade Level 2		0	0%
Above Grade Level 1		0	0%
Above Grade Level 2		0	0%
Total Parking		115	35,075

Development Plan				
Description	Gross Bldg. Area (s.f.)	Loss % for Core	Rentable Area (s.f.)	Off-Street Parking
Ground Floor Retail				
Tenant 1 - Restaurant	5,000	15%	4,250	17
Tenant 2 - Retail	5,000	15%	4,250	17
Tenant 3 - Retail	5,000	15%	4,250	17
Subtotal Retail	15,000		12,750	51
Upper Floor Office				
2nd Floor	11,875	12%	10,450	40
3rd Floor	-	12%	-	0
4th Floor	-	12%	-	0
5th Floor	-	12%	-	0
6th Floor	-	12%	-	0
7th Floor	-	12%	-	0
8th Floor	-	12%	-	0
Subtotal Upper Floor Office	11,875		10,450	40
Upper Floor Residential				
2nd Floor	-	10%	0	0
3rd Floor	10,000	10%	9000	12
4th Floor	10,000	10%	9000	12
5th Floor	-	10%	0	0
6th Floor	-	10%	0	0
7th Floor	-	10%	0	0
8th Floor	-	10%	0	0
Subtotal Upper Floor Residential	20,000		18,000	24
Total Building	46,875		41,200	115

Retail and Office Rents, CAM Charges, and Tenant Improvement Allowance	
Ground Floor Retail NNN Rent per s.f.	\$ 35.00
Ground Floor Retail CAM per s.f.	\$ 10.00
Ground Floor Retail T.I. Allowance per s.f.	\$ 50.00
Office NNN rent per s.f.	\$ 27.50
Office CAM per s.f.	\$ 10.00
Office T.I. Allowance per s.f.	\$ 40.00
First Quarter with Rents	9/30/2013

Project Construction Hard Costs			
Description	Units	Cost per Unit	Total Cost
Land Purchase Price (land s.f.)	31,250	\$ 225.00	\$ 7,031,250
Demolition (Building s.f.)	46,875	\$ 7	328,125
Retail and Office (Building s.f.)	23,200	\$ 175	4,060,000
Residential Space (Building s.f.)	18,000	\$ 250	4,500,000
Common Areas/Lobbies (Building s.f.)	5,675	\$ 175	993,125
Parking - Surface (# of spaces)	13	\$ 5,000	\$ 65,000
Parking - Above Grade (# of spaces)	-	\$ 17,500	-
Parking - Below Grade (# of spaces)	102	\$ 25,000	\$ 2,550,000

Sales Assumptions for Residential Units	
Residential Sale Price per s.f.	\$ 600.00
Sales price per Unit	\$ 900,000
Number of Residential Units	12
Number of Pre-Sale Units	50%
Absorption Rate - Unsold Units (units per year)	4.0
Date of Closing for Pre-Sales	9/30/2013

Sale Assumption for Retail and Office Project	
Year 3 Net Operating Income	\$ 962,944
Cap Rate Applied to NOI	8%
Estimated Gross Sale Amount	\$ 12,036,797
Sale Date for Project	3/31/2017

Financing Assumptions	
Interest Rate	6%
Loan to Cost Ratio	0%
Loan Fees	1.5%

Economic Model Results	
Resulting Actual FAR	1.50
Total Project Cost Including Land	\$ 23,092,138
Maximum Equity Invested	\$ 23,092,138
Project IRR	1.75%
Project Profit/(Loss)	\$ 1,289,380
Project Multiple	1.06x
NPV @ 20%	(\$8,277,863)
Year 3 Cash Return on Total Investment	4.2%
Year 3 Cash Return on Cash Invested	4.2%
Sales Price per Land s.f.	\$ 385
All In Construction Costs per Building s.f.	\$ 343

Issues and Observations – Even with higher lease rates, higher residential sales prices, and the ability to get to the maximum 1.5 FAR, these projects do not generate sufficient return for a typical real estate investor to pursue the development. The land cost under this development scenario would have to be less than \$50 per land s.f. for the pro forma to reach even a minimal threshold IRR over 10%. Land prices in the Study Area are not likely to be below \$50 per s.f. based on current pricing and market economics. While the higher than market parking ratios of the current C-CCN zoning drive higher parking construction costs, the limiting factor for this larger lot size is the maximum FAR of 1.5. The 3 or the 4 story scenarios are essentially equivalent from a pro forma perspective with the 4 story case having slightly, but not significantly better economics. Lower market based parking ratios would improve the economics of either case, as well, but not sufficiently to overcome the negative impact of the 1.5 FAR.

Development that maxes out “Market Based 5 Story”

Description – This development scenario was designed to maximize the development capacity of an alternative zone district with a height limitation of 5 stories and no FAR limitation. The pro forma contemplates a building with two levels of below grade parking, ground floor retail with both restaurant and general retail space, two floors of office use with the same floor plate as the ground floor, and two floors of residential units with a smaller floor plate. The smaller 4th and 5th floor building floor plates are intended to incorporate alternative zoning height limitations of 3 stories for the portion of the lot fronting 3rd Avenue. Increased density could be accommodated within the parking spaces provided by 2 stories of underground parking. The resulting FAR for this project is 3.2 with the possibility of project FAR’s for this type of project to approach 4.0.



Financial Results – With the larger lot size and higher density, this project’s total cost including land is estimated at over \$41 million. A project of this size is likely to be pursued only by an experienced real estate developer with significant financial capacity. The project economics for this scenario are sufficient to attract investors of this type to pursue the development. The project IRR of 13.8% is adequate, but not robust; the project generates a significant profit; the project multiple of 1.8 is adequate, but not robust; and the NPV20 is negative, but not large compared to the project size. The project benefits from the ability to put market priced debt on the project at an assumed 80% of loan to cost ratio. The ability to put construction and permanent debt on the project in order to minimize the equity investment is critical to attract the size of investor that would pursue this project. The returns are adequate to allow such an investor to acquire institutional debt and equity capital. The ability to put leverage on the project also significantly boosts the cash on invested equity to over 25%.

Cherry Creek North Development Pro Forma
Quarter Block between 2nd and 3rd - Surface and Below Grade Parking
3-5 story, mixed use, no FAR limit, market based parking ratios

Example Lot Description, FAR, Building Parameters			
Lot Size (Land s.f.)			31,250
Allowable Building Footprint (Land s.f.)			29,400
Ground Floor Gross Footprint (Land s.f.)			21,775
FAR Premium for Parking (FAR #)	N/A	N/A	
FAR Premium for Open Space (s.f.)	1500.00	N/A	
FAR Premium for Residential Units (s.f.)	N/A	N/A	
Total Allowed Bldg. s.f. with FAR Premiums			N/A
Residential Unit s.f. based on (# Units per floor)	20		1,575.0
Construction Period (months)	18		

Parking Requirements, Revenue, and Parking Plan			
Monthly Parking Revenue	\$	100	per space
Parking Requirements - Retail	1.25		per 1,000 s.f.
Parking Requirements - Restaurant	2.50		per 1,000 s.f.
Parking Requirements - Office	2.00		per 1,000 s.f.
Parking Requirements - Residential	2		per d.u.
Average Parking Space s.f.	300		per space

Parking Plan	# of spaces	% of Total	S.F.
Surface Parking	6	4%	1,800
Below Grade Level 1	80	48%	23,850
Below Grade Level 2	80	48%	23,850
Above Grade Level 1	0	0%	-
Above Grade Level 2	0	0%	-
Total Parking	165		49,500

Development Plan				
Description	Gross Bldg. Area (s.f.)	Loss % for Core	Rentable Area (s.f.)	Off-Street Parking
Ground Floor Retail				
Tenant 1 - Restaurant	7,000	15%	5,950	18
Tenant 2 - Retail	7,000	15%	5,950	9
Tenant 3 - Retail	7,775	15%	6,609	10
Subtotal Retail	21,775		18,509	37
Upper Floor Office				
2nd Floor	21,775	12%	19,162	44
3rd Floor	21,775	12%	19,162	44
4th Floor	-	12%	-	0
5th Floor	-	12%	-	0
6th Floor	-	12%	-	0
7th Floor	-	12%	-	0
8th Floor	-	12%	-	0
Subtotal Upper Floor Office	43,550		38,324	88
Upper Floor Residential				
2nd Floor	-	10%	0	0
3rd Floor	-	10%	0	0
4th Floor	17,500	10%	15,750	20
5th Floor	17,500	10%	15,750	20
6th Floor	-	10%	0	0
7th Floor	-	10%	0	0
8th Floor	-	10%	0	0
Subtotal Upper Floor Residential	35,000		31,500	40
Total Building	100,325		88,333	165

Retail and Office Rents, CAM Charges, and Tenant Improvement Allowance	
Ground Floor Retail NNN Rent per s.f.	\$ 35.00
Ground Floor Retail CAM per s.f.	\$ 10.00
Ground Floor Retail T.I. Allowance per s.f.	\$ 50.00
Office NNN rent per s.f.	\$ 27.50
Office CAM per s.f.	\$ 10.00
Office T.I. Allowance per s.f.	\$ 40.00
First Quarter with Rents	9/30/2013

Project Construction Hard Costs			
Description	Units	Cost per Unit	Total Cost
Land Purchase Price (land s.f.)	31,250	\$ 225.00	\$ 7,031,250
Demolition (Building s.f.)	46,875	\$ 7	\$ 328,125
Retail and Office (Building s.f.)	56,833	\$ 175	\$ 9,945,731
Residential Space (Building s.f.)	31,500	\$ 250	\$ 7,875,000
Common Areas/Lobbies (Building s.f.)	11,992	\$ 175	\$ 2,098,644
Parking - Surface (# of spaces)	6	\$ 5,000	\$ 30,000
Parking - Above Grade (# of spaces)	-	\$ 20,000	-
Parking - Below Grade (# of spaces)	159	\$ 25,000	\$ 3,975,000

Sales Assumptions for Residential Units	
Residential Sale Price per s.f.	\$ 600.00
Sales price per Unit	\$ 945,000
Number of Residential Units	20
Number of Pre-Sale Units	50%
Absorption Rate - Unsold Units (units per year)	4.0
Date of Closing for Pre-Sales	9/30/2013

Sale Assumption for Retail and Office Project	
Year 3 Net Operating Income	\$ 2,256,862
Cap Rate Applied to NOI	8.0%
Estimated Gross Sale Amount	\$ 28,210,770
Sale Date for Project	3/31/2017

Financing Assumptions	
Interest Rate	6%
Loan to Cost Ratio	80%
Loan Fees	1.5%

Economic Model Results	
Resulting Actual FAR	3.2
Total Project Cost Including Land	\$ 41,167,135
Maximum Equity Invested	\$ 8,069,890
Project IRR	13.8%
Project Profit/(Loss)	\$ 6,455,274
Project Multiple	1.80x
NPV @ 20%	(\$1,806,881)
Year 3 Cash Return on Total Investment	5.5%
Year 3 Cash Return on Cash Invested	28.0%
Sales Price per Land s.f.	\$ 903
All In Construction Costs per Building s.f.	\$ 318

Issues and Observations – This scenario demonstrates why redevelopments between 1st and 2nd Avenue in the Study Area have required rezoning with building heights greater than 55 feet and higher FAR allowances. The market-based parking ratio, larger lot size, and higher density all contribute to the positive project economics. Limiting the height to 3 stories even with higher FAR’s would not provide adequate project economics to promote development. A key to the economics of this pro forma is the ability to include high value residential product on the upper floors. These “view” units command the higher sales prices that make the project economic. This height/value premium for residential product combined with the higher density provided by allowing 5 story development indicate that an “optimum” development envelope would allow at least 50% of this 2nd to 3rd Avenue lot to be 5 stories. Going to two levels of below grade parking combined with the use of market based parking ratios allows the below grade parking to be built completely within the ground floor foot print and allows the ramping to occur outside the garage footprint. This and the larger lot size allows for lower costs for below grade parking, improving project economics.

Development that maxes out “Market Based 8 Story”

Description – This development scenario was designed to maximize the development capacity of a theoretical new alternative zoning with bulk plane limitations, a height limitation of 8 stories, and no FAR limitation. The pro forma contemplates a building with two levels of below grade parking, ground floor retail with both restaurant and general retail space, three floors of office use, and four floors of residential units with a smaller floor plate and smaller yet 8th floor penthouse which assumes generous setbacks and outdoor living spaces. The smaller 5th thru 8th floor building floor plates are intended to test an alternative zoning with an 8 story height limitation for a portion of the lot. Second floor above grade parking is an economic alternative in this configuration, but would then limit the higher value commercial office space or residential units. The resulting FAR for this project was 4.8; however, higher density could be achieved within these height limits.



Financial Results – With the larger lot size and higher density, this development scenario’s total cost including land is estimated at over \$59 million. A project of this size is likely to be pursued only by an experienced real estate developer with significant financial capacity. The project economics for this scenario are sufficient to attract investors of this type to pursue the development. The project IRR of 23.3% is good; the project generates a significant profit; the project multiple of 2.48 is good; and the NPV20 is slightly positive. The project benefits from the ability to put market priced debt on the project at an assumed 80% of loan to cost ratio. The ability to put construction and long term debt on the project is critical to attract the size of investor that would pursue this project. The returns are adequate to allow such an investor to acquire institutional debt and equity capital. The use of debt significantly boosts the stabilized cash on cash return to over 25%.

Cherry Creek North Development Pro Forma
Quarter Block between 2nd and 3rd - Surface and Structured Parking
5-8 story, mixed use, no FAR limit, market based parking ratios

Example Lot Description, FAR, Building Parameters			
Lot Size (Land s.f.)			31,250
Allowable Building Footprint (Land s.f.)			29,400
Maximum Ground Floor Gross Footprint (Land s.f.)			20,150
FAR Premium for Parking (FAR #)	N/A		N/A
FAR Premium for Open Space (s.f.)	3125.00		N/A
FAR Premium for Residential Units (s.f.)	N/A		N/A
Total Allowed Bldg. s.f. with FAR Premiums			N/A
Residential Unit s.f. based on (# Units per floor)	22		2,536.4
Construction Period (months)	24		

Parking Requirements, Revenue, and Parking Plan			
Monthly Parking Revenue	\$	100	per space
Parking Requirements - Retail		1.25	per 1,000 s.f.
Parking Requirements - Restaurant		2.50	per 1,000 s.f.
Parking Requirements - Office		2.00	per 1,000 s.f.
Parking Requirements - Residential		2	per d.u.
Average Parking Space s.f.		300	per space
Parking Plan			
	# of spaces	% of Total	S.F.
Surface Parking	6	3%	1,800
Below Grade Level 1	104	49%	31,050
Below Grade Level 2	104	49%	31,050
Above Grade Level 1	0	0%	-
Above Grade Level 2	0	0%	-
Total Parking	213		63,900

Development Plan				
Description	Gross Bldg. Area (s.f.)	Loss % for Core	Rentable Area (s.f.)	Off-Street Parking
Ground Floor Retail				
Tenant 1 - Restaurant	7,000	15%	5,950	18
Tenant 2 - Retail	7,000	15%	5,950	9
Tenant 3 - Retail	7,775	15%	6,609	10
Subtotal Retail	21,775		18,509	37
Upper Floor Office				
2nd Floor	21,775	13%	19,053	44
3rd Floor	21,775	13%	19,053	44
4th Floor	21,775	13%	19,053	44
5th Floor	-	13%	-	0
6th Floor	-	13%	-	0
7th Floor	-	13%	-	0
8th Floor	-	13%	-	0
Subtotal Upper Floor Office	65,325		57,159	132
Upper Floor Residential				
2nd Floor	-	10%	0	0
3rd Floor	-	10%	0	0
4th Floor	-	10%	0	0
5th Floor	16,000	10%	14,400	11
6th Floor	16,000	10%	14,400	11
7th Floor	16,000	10%	14,400	11
8th Floor	14,000	10%	12,600	11
Subtotal Upper Floor Residential	62,000		55,800	44
Total Building	149,100		131,468	213

Retail and Office Rents, CAM Charges, and Tenant Improvement Allowance	
Ground Floor Retail NNN Rent per s.f.	\$ 40.00
Ground Floor Retail CAM per s.f.	\$ 10.00
Ground Floor Retail T.I. Allowance per s.f.	\$ 75.00
Office NNN rent per s.f.	\$ 30.00
Office CAM per s.f.	\$ 10.00
Office T.I. Allowance per s.f.	\$ 50.00
First Quarter with Rents	3/31/2014

Project Construction Hard Costs			
Description	Units	Cost per Unit	Total Cost
Land Purchase Price (land s.f.)	31,250	\$ 225.00	\$ 7,031,250
Demolition (Building s.f.)	46,875	\$ 7	\$ 328,125
Retail and Office (Building s.f.)	75,668	\$ 195	\$ 14,755,284
Residential Space (Building s.f.)	55,800	\$ 300	\$ 16,740,000
Common Areas/Lobbies (Building s.f.)	17,632	\$ 175	\$ 3,085,578
Parking - Surface (# of spaces)	6	\$ 5,000	\$ 30,000
Parking - Above Grade (# of spaces)	-	\$ 15,000	-
Parking - Below Grade (# of spaces)	207	\$ 25,000	\$ 5,175,000

Sales Assumptions for Residential Units	
Residential Sale Price per s.f.	\$ 750.00
Average Sales price per Unit	\$ 1,902,273
Number of Residential Units	22
Number of Pre-Sale Units	11
Absorption Rate - Unsold Units (units per year)	4.0
Date of Closing for Pre-Sales	3/31/2014

Sale Assumption for Retail and Office Project	
Year 3 Net Operating Income	\$ 3,201,702
Cap Rate Applied to NOI	8.0%
Estimated Gross Sale Amount	\$ 40,021,273
Sale Date for Project	3/31/2017

Financing Assumptions	
Interest Rate	6.0%
Loan to Cost Ratio	80%
Loan Fees	1.5%

Economic Model Results	
Resulting Actual FAR	4.8
Total Project Cost Including Land	\$ 59,140,567
Maximum Equity Invested	\$ 12,588,026
Project IRR	23.3%
Project Profit/(Loss)	\$ 18,584,098
Project Multiple	2.48x
NPV @ 20%	\$696,688
Year 3 Cash Return on Total Investment	5.4%
Year 3 Cash Return on Cash Invested	25.4%
Sales Price per Land s.f.	\$ 1,281
All In Construction Costs per Building s.f.	\$ 355

Issues and Observations – The market based parking ratio, larger lot size, and higher density all contribute to the positive project economics. The pro forma indicates that a mixed height limit of up to 8 stories would allow for economic development. A key to the economics of this development scenario is the ability to include high value residential product on the upper floors. These “view” units command the higher sales prices that make the project economic. The higher costs associated with this type of construction require higher residential sales rates and lease rates. The building would need to be a Class A building in every regard to command these market premiums. The height/value premium for residential product is critical at these residential sales rates that are at the high end in the Denver area. While it is not critical to project economics to go to 8 stories, having this flexibility should result in a higher quality of product with higher likelihood of economic success due to the flexibility to increase density and the ability to go to a two tower configuration and to segregate office from residential building forms. An 8 story height limit appears to be adequate for this type of redevelopment to be successful.

Summary and Conclusions - Development Pro Forma's and Zoning

Following is a table summarizing the development pro forma results for each of the scenarios.

Cherry Creek North Development Pro Forma Comparison of Study Pro Forma Results

Description	3rd Avenue Prototypical Lot			2nd to 3rd Avenue Prototypical Lot			
	Current C-CCN Zoning - 3 Story	Current C-CCN Zoning - 4 Story	"C-CCN-3" Alternative Zoning	Current C-CCN Zoning - 3 Story	Current C-CCN Zoning - 4 Story	"C-CCN-5" Alternative Zoning	"C-CCN-8" Alternative Zoning
Lot Size (Land s.f.)	18,750	18,750	18,750	31,250	31,250	31,250	31,250
Resulting Actual FAR	1.3	1.5	2.3	1.5	1.5	3.2	4.8
Parking Spaces - Total	66	78	53	126	115	165	213
Parking Spaces per 1,000 Bldg. S.F.	2.7	2.8	1.2	2.7	2.5	1.6	1.4
Total Project Cost Including Land	\$ 9,108,565	\$ 10,895,047	\$ 12,201,864	\$ 23,254,934	\$ 23,092,138	\$ 41,167,135	\$ 59,140,567
Maximum Equity Invested	\$ 9,108,565	\$ 10,895,047	\$ 3,222,588	\$ 23,254,934	\$ 23,092,138	\$ 8,069,890	\$ 12,588,026
Project IRR	1.41%	0.65%	10.90%	1.31%	1.75%	13.80%	23.30%
Project Profit/(Loss)	\$ 468,633	\$ 256,427	\$ 1,955,413	\$ 1,070,819	\$ 1,289,380	\$ 6,455,274	\$ 18,584,098
Project Multiple	1.05x	1.02x	1.61x	1.05x	1.06x	1.80x	2.48x
NPV @ 20%	(\$3,722,135)	(\$4,538,128)	(\$971,433)	(\$9,209,618)	(\$8,277,863)	(\$1,806,881)	\$696,688
Year 3 Cash Return on Total Investment	6.8%	6.7%	7.6%	5.1%	4.2%	5.5%	5.4%
Year 3 Cash Return on Cash Invested	6.8%	6.7%	28.8%	5.1%	4.2%	28.0%	25.4%
All In Construction Costs per Building s.f.	\$ 227	\$ 287	\$ 221	\$ 346	\$ 343	\$ 318	\$ 355

The results of the development pro forma analysis supported the following conclusions:

- Buildings do not achieve maximum allowable heights and building Floor Area Ratios (FARs) because the combination of FAR limitations and minimum parking requirements limit economic feasibility under current market conditions.
- While land price is an important variable in overall economics, the parking ratios and FAR in the current CCN zoning are more of an economic restriction on development than land prices.
- Development feasibility would be positively impacted by adjusting the maximum allowed FAR above the current 1.5 CCN zoning limit; adjusting maximum building heights above the current 55' CCN zoning limit; and adjusting parking ratios below the current CCN zoning to reflect current CCD limits in other zoning categories and more closely match current market parking ratios.
- While there is not a direct correlation between building height limits and FAR, it is generally true that higher allowed building heights will increase FAR. FAR limits in the range of 3.0 or higher will result in encouraging feasible development investment. This FAR correlates with a project which has at least 50% of the land area covered by building to a height of at least 5 stories but other building forms can achieve this FAR as well. The CCN design guidelines can be integrated into more flexible FAR and building height limitations to ensure that projects maintain and enhance the pedestrian environment.
- Developments of 5 – 8 stories will deliver additional economic benefit to the investor, greater likelihood of Class A office space development, and additional development of residential units. The economic feasibility of such higher density projects is very sensitive to achieving high residential for sale product prices that have historically existed in CCN.

- Reinvestment under the current CCN zoning is not likely under current economic conditions on the north side of 3rd Avenue, except for re-habilitation of existing properties and new construction of “owner occupied” mixed use projects.

Hotels

NATIONAL LODGING MARKET CONDITIONS

According to Smith Travel Research, the U.S. lodging market achieved a 57.6 percent occupancy rate and a \$98.08 average daily rate during 2010. RevPAR (Revenue per Available Room), which is calculated by multiplying occupancy and average daily rate, is a measurement tool that hotel managers use to analyze the impact of various pricing strategies on hotel room revenues. Market observers use RevPAR to assess the overall health of a market in comparison to its past, as well as to other markets. The following table summarizes occupancy, average daily rate and RevPAR trends in the Denver Metropolitan Area (DMA) lodging market for the period 2000 through 2010, as well as for the first ten months of 2011 compared to a similar period in 2010, as reported by *The Rocky Mountain Lodging Report*, Denver Edition.

HISTORICAL LODGING TRENDS - DENVER METROPOLITAN AREA			
Year	Occupancy Percent	Average Daily Rate	REVPAR
2011 YTD ¹	69.3%	\$111.24	\$77.10
2010 YTD ¹	66.7%	\$108.23	\$72.14
2010	64.6%	\$107.77	\$69.39
2009	59.0%	\$106.85	\$63.09
2008	65.0%	\$118.27	\$76.88
2007	67.0%	\$111.21	\$74.51
2006	66.4%	\$101.54	\$67.46
2005	64.1%	\$91.10	\$58.40
2004	61.9%	\$84.42	\$52.26
2003	59.5%	\$84.79	\$50.45
2002	60.3%	\$86.05	\$51.89
2001	62.5%	\$88.52	\$55.32
2000	68.6%	\$89.57	\$61.44

(1) Year-to-date through October

Source: Rocky Mountain Lodging Report (2000-2011)

After a period of economic weakness during the period 2001 and 2003, lodging market conditions in the DMA began to improve in 2004, a trend that continued through 2007. During 2008, DMA hotels

achieved an occupancy rate of 65.0 percent and an average daily rate of \$118.27. Lodging market conditions in the DMA remained strong through September 2008, and then declined dramatically during the fourth quarter of the year reflecting the impact of the financial crisis on business and travel. Market conditions continued to weaken in 2009 due to the deterioration of national and regional economic conditions.

Lodging market conditions in the DMA began to stabilize during the fourth quarter of 2009, and then began to improve during 2010. Occupancy rates increased by 5.4 percentage points in 2010 to 64.4 percent, from 59.0 percent during 2009. Average daily rates increased 0.9 percent during 2010 to \$107.77, from \$106.85 during 2009. With increases in occupancy and average daily rate, RevPAR increased ten percent to \$69.37 from \$63.09.

Lodging market conditions continued to improve during the first ten months of 2011. RevPAR in the DMA increased 6.9 percent to \$77.10 through October 2011, compared to \$72.14 during the first ten months of 2010. Occupancy rates increased by 2.6 percentage points during the first ten months of 2011 to 69.3 percent, from 66.7 percent during a similar period in 2010. During the first ten months of 2011, average daily rates increased 2.8 percent to \$111.24, from \$108.23 during a similar period in 2010.

Despite slowing in the national and regional economy during mid 2011, the DMA lodging market continued to strengthen. Assuming that national and regional economic conditions don't decline further in 2012, lodging market conditions should continue to strengthen into 2012. It is anticipated that occupancy rates in the DMA during 2011 will end the year between 67 and 68 percent. During 2012, occupancy rates are likely to be flat in comparison to 2011, assuming stable or improving economic conditions. While the number of conventions booked is strong, they are smaller in number of attendees and downtown hotels are expected to push less business to the surrounding sub-markets due to capacity constraints. Average daily rates in the DMA are likely to range between \$109 and \$110 in 2011 and then increase at or slightly above inflation during 2012.

Under normal economic conditions, when market occupancy rates reach the mid to upper 60's, average daily rates typically increase at a significantly faster rate of growth. During this recovery, we have not seen this occur as travelers remain sensitive to room rate increases and hotel operators are hesitant to push room rates. In addition, there would typically be a surge of new hotel development occurring when occupancy reaches the mid 60's. As of October 2011, there were five hotels with 620 guestrooms under construction in the DMA. As economic conditions improve, it is anticipated that hotel operators will become more aggressive in pushing room rate increases and average daily rates will begin to rise at a faster rate than anticipated inflation. New additions to the lodging supply will also occur, although it will take several years for new additions to impact the market.

DENVER SOUTH LODGING SUB-MARKET

Hotels in the Cherry Creek North Shopping district are included in the Denver South Lodging Sub-Market, as reported by The Rocky Mountain Lodging Report, Denver Edition. The Denver South Lodging Sub-Market is generally bounded by Sixth Avenue on the north, University Boulevard on the west, Hampden Avenue on the south and Quebec Street on the east. The following table summarizes occupancy, average daily rate and RevPAR trends in the Denver South Lodging Sub-Market for the period 2000 through 2010, as well as for the first ten months of 2011 compared to a similar period in 2010.

HISTORICAL LODGING TRENDS - DENVER SOUTH LODGING SUB-MARKET			
Year	Occupancy Percent	Average Daily Rate	REVPAR
2011 YTD ¹	69.7%	\$119.92	\$83.58
2010 YTD ¹	67.4%	\$113.48	\$76.47
2010	65.7%	\$113.93	\$74.85
2009	58.0%	\$107.10	\$62.10
2008	64.7%	\$116.63	\$75.44
2007	68.1%	\$111.18	\$75.68
2006	68.2%	\$99.81	\$68.06
2005	63.1%	\$89.77	\$56.64
2004	56.2%	\$78.26	\$43.98
2003	55.9%	\$74.05	\$41.39
2002	53.3%	\$77.19	\$41.14
2001	54.8%	\$80.16	\$43.92
2000	65.8%	\$80.46	\$52.94

(1) Year-to-date through October

Source: Rocky Mountain Lodging Report (2000-2011)

The Denver South Lodging Sub-Market has experienced significant changes over the last decade with two older hotels closing, several new hotels opening and others completing renovations. In 2002, the 182-room Quality Inn that was located in the southeast quadrant of I-25 and Hampden Avenue closed, while the 595-room former Marriott Hotel in the northeast quadrant of this interchange closed in 2009. New hotels in this sub-market include the 196-room JW Marriott, which opened in 2004 and was the first hotel to open in the Cherry Creek North Shopping District. The 37-room Inn at Cherry Creek opened in 2005 in the Cherry Creek North Shopping District. Two significant hotel renovations occurred along South Colorado Boulevard. The 240-room Courtyard by Marriott opened in 2007 after a significant renovation of an older property, while the 210-room Hilton Garden Inn opened in 2009 after a renovation of an older hotel. Due to the changes in supply that has occurred since 2000, the Denver South Lodging Sub-Market experienced significantly greater improvement in RevPAR during the period 2000 through 2010 than the overall DMA. RevPAR at hotels in the Denver South Lodging Sub-Market

improved at a 3.5 percent compound annual rate during the period 2000 through 2010, from \$52.94 in 2000 to \$74.85 in 2010. In comparison, RevPAR at hotels in the DMA increased at a 1.2 percent compound annual rate, from \$61.11 in 2000, to \$69.39 in 2010.

As the economic conditions nationally and in the DMA improve, lodging demand in the Denver South Lodging Sub-Market is expected to increase, enhancing the feasibility of future hotel projects. As of November 2011, one hotel is currently under construction in the Denver South Lodging Sub-Market. A 135-room Residence Inn is under construction in the southeast quadrant of Colorado Boulevard and South Cherry Creek Drive, just east of the Hilton Garden Inn. This hotel is part of the CitySet project, which is a cornerstone in the City of Glendale's planned Riverwalk development just east of Cherry Creek. The Residence Inn is expected to open in early 2013.

The Denver South Lodging Sub-Market is a relatively established area, with limited vacant land available for future hotel development. Colorado Boulevard and Hampden Avenue are the primary arteries in this market where hotels have historically located. There are relatively few sites along these arterials that could be utilized for hotel development. The site of the former Marriott in the northeast quadrant of I-25 and Hampden Avenue is vacant, and a hotel that is smaller than the previous hotel may be a viable use, as part of a mixed-use project. However, recent activity indicates that hotel developers would prefer to be closer to Cherry Creek. The City of Glendale would like additional hotel development to occur within the Riverwalk development, where the Residence Inn is currently under construction. Hotel development in Cherry Creek may also be feasible. This will be discussed in greater detail in the following section.

Cherry Creek Lodging Market

The Cherry Creek area currently offers two hotels, the 196-room JW Marriott and the 37-room Inn at Cherry Creek. As previously discussed, the JW Marriott opened in 2004 and the Inn at Cherry Creek opened in 2005. Both hotels were absorbed quickly by the market reflecting the interest that visitors to the DMA have in lodging in the Cherry Creek area. Reportedly, both hotels achieve RevPAR's significantly above the DMA and South Denver Lodging Sub-Market. The above market RevPAR is primarily attributed to average daily rates that are well above the market average.

Based on our analysis and knowledge of the market, Cherry Creek is a desirable lodging destination in the DMA. In our opinion, the combination of shopping, dining and entertainment is attractive to visitors to the area. The hotels located along South Colorado Boulevard identify themselves as being in the Denver-Cherry Creek area. Utilizing Cherry Creek in the hotel's formal name not only identifies a location in the DMA, but also provides these hotels with a way to project an upscale image.

Demand for lodging within a metropolitan area typically emanates from three general market segments: business travelers, leisure travelers and group/conference attendees. In all lodging markets, there needs to be a healthy balance between demand generators, such as office space and area support amenities such as restaurants, retail and other services. However, the quality level of a neighborhood's amenities can attract business visitors who may be visiting companies in other parts of the DMA, as well as leisure visitors who may be visiting various neighborhoods in the DMA. With meetings, conventions and social events, having the right facilities available are critical to attracting the meeting and its attendees to a specific market. The quality level and amenities available in the surrounding neighborhood adds to the success a hotel would have in attracting group business.

In evaluating lodging needs in a market, demand that is actually accommodated can be measured by utilizing occupancy rates at the hotels in a market to determine the number of room nights captured. Guests currently staying at the JW Marriott and Inn at Cherry Creek are considered accommodated demand. However, a market may not be capturing all of the potential demand available to it. Lodging demand that is not being accommodated in a lodging market can occur for a variety of reasons, including capacity constraints at existing hotels, limited facilities at hotels in the market (meeting space that cannot accommodate certain size groups), as well as the quality level and price level of existing hotels. In addition, more intensive marketing efforts by public entities, as well as by individual hotels, can attract additional lodging demand to a market.

While an in-depth analysis of future lodging demand in the Cherry Creek District is beyond the scope of this assignment, it is our opinion that significant un-accommodated lodging demand exists in this market. From a market feasibility perspective, we believe that additional hotels could be supported in the Cherry Creek Area. However, we are uncertain about the financial feasibility of new projects in Cherry Creek given the cost of land and current zoning ordinances. In addition, providing underground parking is a significant cost that may not be recovered in a hotel development.

In evaluating the characteristics of the Cherry Creek area, we believe that there are three potential types of hotels that could potentially be viable in the Cherry Creek District, including:

- Upscale to luxury full-service hotel
- Boutique Hotel (full or limited-service)
- Upscale focused-service hotel

The following paragraphs describe hotel attributes and characteristics of a site that might be appropriate for each hotel. It should be noted that land cost for a hotel development typically range from ten to twenty percent of total project cost.

Upscale to Luxury Full-Service Hotel

This type of hotel would be similar in quality, amenities and services to the JW Marriott. In our opinion, this hotel would likely offer between 175 to 250 guestrooms and would offer full food and beverage services, including extensive meeting and banquet space. Other potential amenities that the hotel could potentially offer include a full-service exercise facility and/or health spa, as well as retail space on the first floor. The type of traveler staying at this hotel will have a high disposable income and would utilize local restaurants and services, and shop in local retail outlets.

In our opinion, the group/conference market segment would likely be a significant source of lodging demand for this hotel. This property should offer more extensive meeting & banquet space than the JW Marriott, which offers approximately 6,000 square feet of meeting space. Based on our knowledge of Cherry Creek and the DMA lodging market, this hotel should attract a significant amount of un-accommodated group/conference business to the Cherry Creek market. While this hotel would compete with the JW Marriott for commercial and leisure travelers, this hotel is also expected to attract un-accommodated commercial and leisure demand to Cherry Creek due to its anticipated franchise affiliation and marketing efforts.

An upscale to luxury full-service hotel with 175 to 250 guestrooms would be a high density development, a minimum of eight stories in height. In addition, this hotel would likely offer underground parking for guests. The building area for a hotel of this size and quality level offering 175 to 250 guestrooms would likely range from 140,000 to 175,000 square feet, excluding an underground parking garage. Utilizing the maximum Cherry Creek North floor-area-ratio of 1.5, this type of hotel would require a minimum parcel of approximately 95,000 to 116,000 square feet. Increasing the FAR in the study area to 3.0 would reduce the required lot size to a more reasonable 40,000 to 60,000 square feet.

Given the height and density required for an upscale to luxury full-service hotel, this type of hotel should be located along First Avenue. Accessibility to a large number of visitors will be an important consideration in developing this type of hotel. While many of this hotel's guests are expected to fly to Denver and use transportation services to get to the subject property from Denver International Airport, this hotel will also attract a significant number of regional residents to its restaurant and meeting/event space. Regional guests will arrive by automobile. By locating along First Avenue, traffic impacts on the North Cherry Creek District will be minimized, as the majority of traffic would likely be contained on First Avenue, University Avenue and Colorado Boulevard. It is not critical that the hotel be located north of 1st Avenue as the same results would be achieved by a project located either north or south of 1st Avenue, or on either side of 1st Avenue as it turns south into Steele Street on the east edge of the Cherry Creek Mall.

Boutique Hotel (full or limited-service)

This type of hotel would be a luxury-level hotel with a limited number of guestrooms, offering guests a very unique and intimate experience. While similar in quality to the JW Marriott, it would offer a lower room count and more personal service. In order to provide an intimate experience, the room count would likely be less than 100 guestrooms. The Boutique Hotel may be similar to, or superior in quality to The Inn at Cherry Creek. Food and beverage service may range from an upscale complementary menu that is available only to guests to an upscale sit-down restaurant that is open to the public. Meeting space would likely be limited in size and oriented toward very small groups. Amenities at this hotel would include a fitness center. Retail space would be incorporated onto the ground level, and be affiliated with the hotel. Potential uses include a restaurant, health spa or upscale retail shop. This type of hotel could be operated as an independent hotel or affiliated with a brand such as Edition Hotels by Marriott, Conrad Hotels by Hilton, Avia Hotels by Hyatt or St. Regis Hotels by Starwood. Similar to the Upscale to Luxury Full-Service Hotel, the traveler staying at a Boutique Hotel in Cherry Creek North would have a high disposable income and will utilize local restaurants and services, and shop in local retail stores.

Based on the market characteristics of Cherry Creek, we would estimate that a Boutique Hotel would offer 70 to 90 guestrooms, and would be situated between Second and Third Avenue. The building area for this type of hotel would likely range between 650 and 750 square feet per guestroom, excluding parking area, depending upon uses incorporated into the first floor of the building. The hotel would likely be four stories and have a foot print of 13,000 to 15,000 square feet.

Traffic impacts from a Boutique Hotel would be significantly less than a full-service hotel and Upscale Focused-Service Hotel due to the lower room count and limited meeting space. This hotel is expected to generate limited automobile traffic during a guests stay in the area, although the amount of traffic will vary by the type of guest. Commercial guests with automobiles are expected to leave the hotel in the morning before activity in the neighborhood picks up and return in the late afternoon or evening as

activity slows in the neighborhood. Leisure guests are expected to drive less frequently, spending more time in the Cherry Creek district.

Upscale Focused-Service Hotel

An Upscale Focused-Service Hotel is defined as a property that combines aspects of full and limited-service hotels. While offering a food & beverage service, this outlet is primarily oriented toward hotel guests and is generally not aggressively marketed to the general public. These types of hotels may offer a restaurant with defined seating or an open seating lounge where guests can order a variety of food and beverage items. An Upscale Focused-Service Hotel typically offers limited meeting and banquet space, which is primarily oriented toward smaller corporate meetings. Due to the limited meeting space, this type of hotel is primarily oriented toward commercial and leisure travelers. Other amenities typically incorporated into an Upscale Focused-Service Hotel would include a fitness center, swimming pool and hot tub. A developer of this type of hotel in Cherry Creek would likely attempt to incorporate retail space into the project on the main level of the hotel, with guestrooms on the upper level floors. Lodging brands that are considered Upscale Focused-Service Hotels include Courtyard by Marriott, Hilton Garden Inn, HyattPlace and Aloft. Although the traveler staying at this type of hotel is not expected to have as high an income level as guests staying at the Upscale to Luxury Full-Service Hotel or Boutique Hotel, this guest will utilize area restaurants, shops and services.

As previously mentioned, this type of hotel would cater primarily to commercial and leisure travelers, and secondarily to small corporate and social groups. In our opinion, an Upscale Focused-Service Hotel would compete with the higher quality properties located along Colorado Boulevard for commercial and leisure travelers who would prefer to be in Cherry Creek due to the support amenities available, but do not want to pay the higher rates currently charged by existing hotels in the market. In addition, we believe that the development of an Upscale Focused-Service Hotel would attract un-accommodated leisure and commercial travelers to the Cherry Creek area from other parts of the DMA due to the reputation of the area and support amenities available in market.

Taking into consideration the market characteristics of Cherry Creek, this hotel would likely offer between 100 and 125 guestrooms, and would range from four to six stories in height. The building area for an Upscale Focused-Service Hotel would likely range from 525 to 625 per guestroom, or 55,000 to 70,000 square feet of area. We have not reflected building area for a parking garage in this estimate. The building foot print would vary depending on the number of floors constructed, but would likely range from 13,000 to 18,000 square feet.

From a market perspective, an Upscale Focused-Service Hotel should be located between Second and Third Avenues. Automobile traffic generated by this type of hotel would be significantly less than a full-service hotel, as this type of hotel does not offer a restaurant marketed to the public or significant meeting space, which attract local residents to the area. This type of hotel would likely generate more automobile traffic than the Boutique Hotel due to a higher room count. Similar to the Boutique Hotel, the Upscale Focused-Service Hotel is expected to generate limited automobile traffic during a guests stay in the area, although the amount of traffic will vary by the type of guest. Commercial guests with automobiles are expected to leave the hotel in the morning before activity in the neighborhood picks up and return in the later afternoon or evening as activity slows in the neighborhood. Leisure guests are expected to drive less frequently, spending more time in the Cherry Creek district.

IMPACT OF HOTEL DEVELOPMENT

Hotel development can have various impacts on a community, both positive and negative. In the following paragraphs, we will explore the various impacts of hotel development on a community.

Economic Impact

Dean Runyon Associates completed a report for the Colorado Tourism Office in September 2011 entitled "The Economic Impact of Travel on Colorado 1996-2010." The report analyzes the economic impact of travel on the state, various tourism districts in the state, as well as by county. For purposes of this analysis, we have presented data for the Denver District, which includes Adams, Arapahoe, Boulder, Broomfield, Denver, Douglas and Jefferson counties. According to Dean Runyon's report, travelers spent almost \$5.4 billion in the Denver Metro Area during 2010. The breakdown of travel expenditures is shown in the following table. It should be noted that these figures reflect expenditures for travelers staying in hotels, as well as with friends and family.

VISITOR SPENDING-DENVER DISTRICT 2010		
	Estimated Spending	Percent of
Accommodations	\$936.0	17.3%
Food Service	931.0	17.3%
Food Stores	176.0	3.3%
Local Transportation/Gas	906.0	16.8%
Arts, Ent. & Rec	525.0	9.7%
Retail Sales	662.0	12.3%
Visitor Air Transportation	1,258.0	23.3%
Total	\$5,395.0	100.0%

Source: Dean Runyon Associates

As shown in the previous table, Accommodations and Food Service are a significant expenditure for all visitors to the Denver area, accounting for 34.6 percent of total visitor expenditures. While a new hotel in the Cherry Creek District will capture the traveler's accommodation expenditure, as well as a portion of the Food Service expenditure, hotel guests are likely to visit numerous restaurants in Cherry Creek North. As a result, restaurateurs are likely to benefit from hotel development in the Cherry Creek District. Given the retail and arts base in Cherry Creek, Retail Sales and Arts, Entertainment & Recreation are important considerations in evaluating hotel development impacts. Combined, these categories comprise 22.0 percent of visitor spending in the Denver District. Given the higher level of

disposable income of visitors likely to lodge in Cherry Creek, hotel development will likely have a significant impact positive impact on expenditures in this neighborhood.

Travel has a significant impact on employment. According to Dean Runyon Associates, employment generated by travel spending in the Denver District was estimated to be 51,400 jobs in 2010. The following table shows the breakdown in employment attributable to travel during 2010 in the Denver District.

EMPLOYMENT GENERATED BY TRAVEL DURING 2010 DENVER DISTRICT		
Employment Category	Number of Jobs	Percent of Total
Accommodations & Food Service	25,200	49.0%
Arts, Ent. & Rec	8,400	16.3%
Retail	4,200	8.2%
Ground Transportation	2,200	4.3%
Visitor Air Transportation	5,000	9.7%
Other Travel*	6,400	12.5%
Total	51,400	100.0%

* Includes resident air travel and travel agencies

Source: Dean Runyon Associates

The opening of new hotels in the Cherry Creek North District should have a positive impact on employment in the area. Not only will hotels hire employees, local restaurants, shops and service providers will also hire new employees to provide services to additional visitors. An increase in visitor traffic generated by hotels should provide existing businesses in the Cherry Creek North District with new customers. In addition, an increase in traffic will likely attract additional businesses to the Cherry Creek North District, which will hire employees.

It should also be noted that the building of a new hotel will generate construction employment prior to the opening of a hotel.

Local governments also benefit from new hotel development. Not only will the hotel generate sales tax revenue, visitors staying at the hotel will also pay sales taxes when making purchases at local shops. According to Dean Runyon Associates, travel spending generated \$186.0 million in local tax receipts and \$141.0 million in state tax receipts in the Denver District during 2010. A Hotel development should also

improve the value of an existing property in the Cherry Creek North District, resulting in increased property taxes.

Non-Economic Impact

New hotels can have other impacts on neighborhoods that are not necessarily economic, but positively impact a community. These impacts are listed below:

Positive Impacts

- Hotels are typically a very public building in a neighborhood as they are gathering places, and can be a point of pride for a community.
- The development of a hotel and the visitation it generates may result in other property owners making improvements to their property.
- The development of a hotel may enhance visitor counts to a nearby cultural attraction or event due to its proximity to the hotel.

Adverse Impacts

Hotel development can have adverse impacts on a community, although the impact could be mitigated or reduced through proper planning. Potential adverse impacts are listed below:

Traffic congestion – hotels, especially those with significant amounts of conference and meeting space often create vehicular trips beyond those from hotel guests. Because of the uneven timing of these events, the associated trips can happen during peak commute hours as well as throughout the day and night and can cause spikes in trips that can briefly stress road infrastructure.

Environmental impacts, including air and noise pollution – similarly, the event-related traffic can create air and noise pollution related to traffic congestion and/or the event itself. Increased stress on public services such as police, fire and emergency health services can occur simply related to having more people in the neighborhood or city. Higher end hotels tend to have lower incidents requiring public services. For the most part, the incremental stress on public services is more than compensated for by the additional tax revenue generated by the hotel.

Appendix A: List of Stakeholder Interviews

The following is an alphabetical list of stakeholder interviews performed by KHO in the data gathering process. KHO wishes to thank each of the stakeholders for their time and candor:

Julie Bender, Cherry Creek North BID

Brad Buchanan, RNL Design

Eric Bush, Bush Development

Mike Case, JW Marriot

Pat Dawe, RNL Design

Chris Dunn, Dunn + Kiley

Steven Markey, CBRE

Bob Mattucci, Sturm Group

Pat McHenry, Larimer Associates

Bill Reynolds, WW Reynolds

Martin Roth, CBRE

Jonathan Saiber, Saiber Saiber Inc.

David Steele, Western Development

APPENDIX B: LAND SALE COMPARABLES

Cherry Creek North Planning Study

Land Sales Comparison Analysis

Sources: City of Denver Public Records and CBRE Sales Data

Description	Location	Property Type	Sales Price	Most Recent Sales Date	Actual Property Valuation		Lot Size or Building S.F.		Sales Price per Land s.f.
					Land	Building	Lot	Building	
3rd Avenue Frontage									
Sales made prior to 2001									
3113 E. 3rd Ave. (Angel Lou Inv.)	NE corner; 3rd and St. Paul	Commercial - Retail	\$ 1,000,000	1/21/1999	\$ 853,100	\$ 198,800	6,250	4,950	\$ 160.00
270 St. Paul (270 St. Paul Office Partners)	SE corner; 3rd and St. Paul	Commercial - Office Building	\$ 950,000	2/10/1999	\$ 3,281,300	\$ 1,062,000	18,750	20,757	\$ 50.67
2615 E. 3rd Ave.	NE corner 3rd and Columbine	Commercial - Retail	\$ 1,100,000	11/30/1999	\$ 834,200	\$ 135,700	8,425	3,032	\$ 130.56
Sales made 2001 and After									
2619 E. 3rd Ave. (Angel Lou)	3rd mid-block north side	Commercial - Retail	\$ 300,000	4/2/2002	\$ 177,500	\$ 270,400	1,950	1,422	\$ 153.85
300 Fillmore St.	NE corner; 3rd and Fillmore	Commercial - Restaurant	\$ 3,000,000	8/5/2005	\$ 2,843,800	\$ 1,000	18,750	9,365	\$ 160.00
3003 E. 3rd Ave. (3003 East 3rd Ave, LLC)	Paul	???	\$ 3,000,000	3/1/2007	\$ 2,843,800	\$ -	18,750	-	\$ 160.00
278 University Blvd.	SE corner; 3rd and University	Commercial - Financial Bldg.	\$ 569,000	4/4/2007	\$ 956,300	\$ 568,700	7,500	6,356	\$ 75.87
314 Columbine (Kayi, LLC)	Columbine Frontage, N of 3rd	Commercial - Retail	\$ 560,000	1/9/2008	\$ 284,400	\$ 39,200	3,125	1,157	\$ 179.20
Average of Sales After 2001									\$ 148.36
Core CCN 2nd to 3rd									
Sales made prior to 2001									
240 St. Paul St.	St. Paul; 2nd to 3rd	Commercial - Office Building	\$ 685,000	10/15/1993	\$ 2,812,500	\$ 1,000	18,750	23,274	\$ 36.53
201 Steele St. (201 Steele Investments, LLC)	NW corner; 2nd and Steele	Commercial - Retail	\$ 2,313,335	12/15/1995	\$ 3,281,300	\$ 1,000	18,750	26,402	\$ 123.38
257 Fillmore St. (WS West, Ltd.)	West side, mid-block; 2nd to 3rd	Commercial - Retail	\$ 334,000	2/21/1997	\$ 367,500	\$ 137,600	3,500	2,276	\$ 95.43
3023 E. 2nd Ave.	NW Corner; 2nd and St. Paul	Commercial - Office Building	\$ 1,410,000	9/2/1998	\$ 3,046,900	\$ 2,000	18,750	12,258	\$ 75.20
3023 E. 2nd Ave. (DBC Properties)	NW Corner; 2nd and St. Paul	Commercial - Office Building	\$ 1,410,000	9/2/1998	\$ 3,046,900	\$ 2,000	18,750	12,258	\$ 75.20
3250 E. 2nd Ave. (Adams & Second, LLC)	SW corner; 2nd and Adams	Commercial - Office Building	\$ 325,000	2/2/2000	\$ 656,300	\$ 660,300	6,250	7,463	\$ 52.00
222 Detroit St. (ALMJ Properties)	NE Corner; 2nd and Detroit	Commercial - Retail	\$ 3,656,675	2/17/2000	\$ 4,481,300	\$ 1,000	27,500	21,164	\$ 132.97
Sales made 2001 and After									
255-259 Clayton St. (Saiber)	Clayton between 2nd and 3rd	Commercial - Office	\$ 1,225,000	10/23/2001			8,276		\$ 148.02
299 Milwaukee St. (Gart)	3rd and Milwaukee	Commercial - Office Building	\$ 8,700,000	6/2/2004			31,363		\$ 277.40
200 Fillmore Street (Fillmore St. Assoc.)	NE corner; 2nd and Fillmore	Commercial - Office Building	\$ 6,000,000	11/5/2004	\$ 4,218,800	\$ 2,331,900	25,000	31,872	\$ 240.00
200 Josephine (CharMar, LLC)	2nd between Josephine and Columbine	Commercial - Retail	\$ 37,250,000	4/20/2005			185,566		\$ 200.74
216 Clayton St.	Clayton and 2nd	Commercial - Office	\$ 1,300,000	7/26/2005			4,792		\$ 271.29
2600 E. 3rd Ave. (Western Develop.)	Columbine between 2nd and 3rd	Commercial - Office Building	\$ 4,100,000	11/3/2006	\$ 3,555,200	\$ 1,000	20,619	24,413	\$ 198.85
235 Fillmore Street (235 Fillmore St. Assoc.)	West side, mid-block; 2nd to 3rd	Commercial - Retail	\$ 5,500,000	11/3/2006	\$ 2,849,900	\$ 1,482,600	18,999	20,713	\$ 289.49
3225 E. 2nd Ave. (Robert Fuller)	mid-block north side 2nd; Steele to Adams	Commercial - Office Building	\$ 740,000	5/14/2007	\$ 291,700	\$ 77,100	4,167	1,791	\$ 177.59
255 Detroit St. (EB Holdings, LLC)	West side, mid-block; 2nd to 3rd	Commercial - Office Building	\$ 2,100,000	11/8/2007	\$ 796,900	\$ 578,400	6,250	6,775	\$ 336.00
180 Adams St. (Adams Street Properties)	SE corner; 2nd and Adams	Commercial - Medical Building	\$ 2,105,000	12/1/2007	\$ 819,000	\$ 925,000	7,800	7,940	\$ 269.87
234 Columbine (Western Develop.)	Columbine between 2nd and 3rd	Commercial - Office Building	\$ 4,130,747	12/11/2007	\$ 2,505,000	\$ 1,057,600	16,700	25,056	\$ 247.35
3000 E. 3rd Ave. (DGV Investments)	Purchase of Operating Property	Commercial - Retail	\$ 18,000,000	4/3/2008	\$ 8,191,000	\$ 182,000	51,481	35,384	\$ 349.64
261 Fillmore St. (Angel Lou Fillmore, LLC)	West side, mid-block; 2nd to 3rd	Commercial - Retail	\$ 1,300,000	4/15/2008	\$ 492,200	\$ 289,900	4,688	3,008	\$ 277.30
200 Columbine (Western Develop.)	Columbine between 2nd and 3rd	Commercial - Retail	\$ 6,250,000	12/31/2008	\$ 4,218,800	\$ 1,000	25,000	13,004	\$ 250.00
264-268 Detroit St. (Max Squared, LLC)	East side, mid-block; 2nd to 3rd	Commercial - Retail	\$ 2,600,000	6/25/2010	\$ 1,265,600	\$ 237,200	9,375	6,214	\$ 277.33
210 St. Paul St. (EDLCT, LLC)	NE corner; 2nd and St. Paul	Commercial - Retail	\$ 2,300,000	8/24/2010	\$ 4,218,800	\$ 1,000	25,000	19,030	\$ 92.00
231 Detroit St. (Diamond Prop Group)	West side, mid-block; 2nd to 3rd	Commercial - Retail	\$ 1,700,000	2/25/2011	\$ 796,900	\$ 1,409,800	6,250	8,868	\$ 272.00
Average of Sales After 2001									\$ 233.31

Sales in the Study Area Not Considered**Reason for Exclusion**

2819 E. 2nd Ave. (Injans Properties, LLC)	Purchase of Operating Property	Commercial - Retail	\$ 2,200,000	1/5/2005	\$ 337,600	\$ 1,032,100	3,751	6,657	\$ 586.51
265-299 Detroit Street (Simon David Trust)	Purchase of Operating Property	Commercial - Retail	\$ 7,000,000	11/13/2006	\$ 3,281,300	\$ 1,468,700	18,750	23,735	\$ 373.33
2630 East 3rd Ave. (Dwyer fam., corner lot on 3rd)	Purchase of Operating Property	Commercial - Retail	\$ 4,000,000	7/28/2008	\$ 1,181,300	\$ 1,303,500	7,500	9,157	\$ 533.33
2659 E. 2nd Ave. (Cherry Cricket Land II, LLC)	Purchase of Operating Property	Commercial - Restaurant	\$ 1,125,000	5/11/2009	\$ 499,500	\$ 1,000	2,852	1,130	\$ 394.46
2625-35 E. 3rd Ave. (Pro-Dance)	Purchase of Operating Property	Commercial - Retail	\$ 4,957,500	6/3/2009	\$ 2,925,000	\$ 1,000	18,750	10,510	\$ 264.40
2719-21 E. 3rd Ave. (IWP - Bolderdash)	Purchase of Operating Property	Commercial - Retail	\$ 1,590,000	5/5/2011	\$ 375,600	\$ 967,400	4,127	4,849	\$ 385.27

Sales Between 1st and 2nd**Adams between 1st and 2nd**

167-169 Adams St. (Western Realty Capital, LLC)	Adams between 1st and 2nd	Commercial - Office Building	\$ 430,000	12/7/2010	\$ 531,399	\$ 1,000	6,250	2,153	\$ 68.80
159 Adams (Viski-Hanka, Tamas)	Adams between 1st and 2nd	Commercial - Retail	\$ 300,000	11/24/1997	\$ 690,600	\$ 1,000	6,250	1,462	\$ 48.00
153 Adams (Steele Street Ventures)	Adams between 1st and 2nd	Vacant Land	\$ 1,150,000	10/1/1993	\$ 750,000	\$ 1,000	12,500	-	\$ 92.00
128 Adams (ID One, LLC)	Adams between 1st and 2nd	Commercial - Office Building	\$ 220,000	7/30/1997	\$ 892,200	\$ 672,500	9,913	8,576	\$ 22.19

Steele St. between 1st and 2nd

165 Steele St.	Steele between 1st and 2nd	Commercial - Restaurant	\$ 850,000	8/4/2006	\$ 531,300	\$ 207,700	6,250	2,856	\$ 136.00
100 Steele St.	Steele between 1st and 2nd	Vacant Land	\$ 125,000	7/10/1995	\$ 853,100	-	6,250	-	\$ 20.00
114 Steele St. (Plada LLC)	Steele between 1st and 2nd	Parking Lot	\$ 1,700,000	2/11/2009					\$ 260.00

Steel St. south of 1st

88 Steele St.			\$ 5,450,000				18,787		\$ 290.09
56 Steele St.			\$ 1,350,000				6,262		\$ 215.59
48 Steele St.			\$ 2,775,000				6,262		\$ 443.15

University Boulevard

210 University (Offices at Univ. - U.S. Bank)			\$ 38,790,000				119,790		\$ 323.82
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Josephine

Hillstone Restaurant	2nd between Univ. and Josephine	Commercial - Restaurant	\$ 5,000,000	8/10/2006			25,000		\$ 200.00
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Full Block - 1st to 2nd; Fillmore to Milwaukee

100 - 158 Fillmore St. (SE Fillmore Place, LLC)	Full Block Commercial E of Fillmore	Commercial - Office Building	\$ 36,250,000	1/4/2000	\$ 9,500,800	\$ 21,808,500	89,111	191,384	\$ 406.80
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Full Block - 1st to 2nd; Milwaukee to St. Paul

3033 E. 1st Ave. (SE BCC Building, LLC)	1st to 2nd; Milw. To St. Paul	Commercial - Office Building	\$ 23,699,000	4/19/2000	\$ 10,191,100	\$ 16,966,200	99,345	160,436	\$ 238.55
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151 Detroit St. (151 Detroit St. CF, LLC - Janus)	West side of Detroit; 1st to 2nd	Commercial - Office Building	\$ 64,000,000	1/11/2007	\$ 10,196,500	\$ 32,906,600	108,967	162,540	\$ 587.33
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