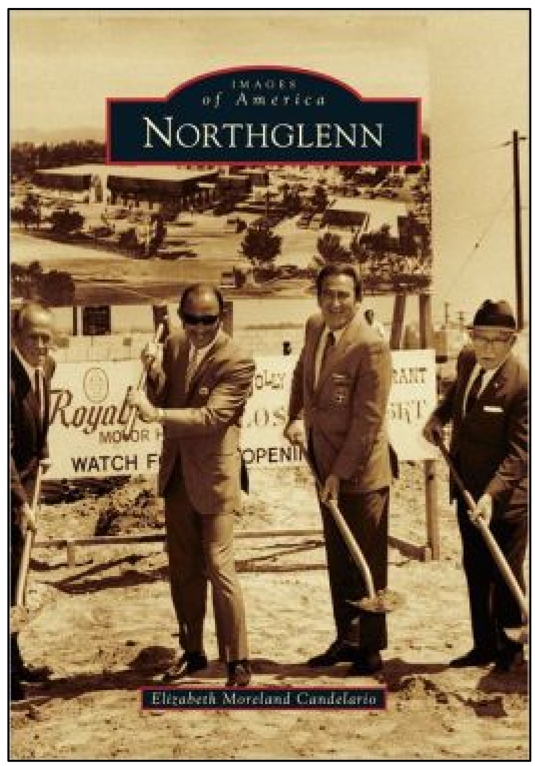
# Webster Lake Phase 2
# Market & Economic Analysis

**Prepared for:**
City of Northglenn, Colorado
Northglenn Urban Renewal Authority

**April 24, 2014**

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## STUDY PURPOSE

This market evaluation is intended to provide an analysis about current real estate market conditions impacting two properties at the southwest quadrant of Interstate-25 and 120$^{th}$ Avenue. "Parcel 1" is a 5.8 acre parcel located on the east side of Grant Street about 500 feet south of 120$^{th}$ Avenue and is the current site of City Hall. "Parcel" 2 is an 11 acre vacant parcel located on the west side of Community Center Drive about 1,800 feet south of 120$^{th}$ Avenue. Both properties are owned by the City of Northglenn and are within a small district primarily characterized by municipal uses with commercial uses along 120$^{th}$ Avenue.

Economic conditions are improving throughout the metro Denver region following the end of the "Great Recession" and subsequently the market is experiencing a slow and steady recovery. The metro Denver real estate market has seen positive gains in all sectors of the real estate market. The City of Northglenn has several opportunities that are converging around an aging City Hall, a desire to upgrade the adjacent Community Center, and has received several unsolicited proposals to develop Parcel 1 and Parcel 2.

# EXECUTIVE SUMMARY

The goal of this study is to: (1) analyze market conditions to establish baseline market conditions “for the parcels; (2) evaluate “highest and best use”; and (3) provide analysis and recommendations regarding four proposed development projects.

An efficient market will develop properties in response to physical, legal, locational, economic, and financial considerations. Parcel 1 is of sufficient size to support residential, retail, office, industrial, lodging, public purpose, or special purpose/build-to-suit uses, and the current PUD zoning would not preclude any of these uses. The following discussion describes the current, baseline market conditions:

**Industrial Market Opportunities.** Industrial development would not conform to surrounding uses and potential commercial and truck traffic would likely conflict with surrounding residential and public uses. Industrial development is not considered appropriate for this general location.

**Residential Market Opportunities.** Given Parcel 1’s relatively small dimensions and setting, neither single- or multi-family development would be appropriate. However, multi-family development might be successful on Parcel 2 given the adjacent multi-family development. This would require relocating City Hall and replacing it with housing that may significantly increase the cost of providing municipal public services plus, construction (or leasing) costs of a new city hall.

**Retail Market Opportunities.** The Northglenn market has faced fierce competition from new power centers and lifestyle centers in surrounding communities, which has drained consumer demand from Northglenn’s aging strip centers. Northglenn is capturing around 58% of its own local consumer spending compared to around 70% to 80% typically captured in other communities. New retail development on Parcel 1 would likely further divide market share rather than increase the overall market. Under these conditions, adding additional retail space to the market may have the unintended result of competing with nearby aging centers and pushing them into further decline. Overall, retail construction is not recommended; the best investment opportunities will be in renovating and redeveloping existing and aging retail centers.

**Lodging Market Opportunities.** The lodging market was hard hit by the Great Recession, but is improving, and the outlook is positive, but it may be several years before development is feasible. The Northglenn sub-market has a variety of lodging options available; however there is a limited number of good quality suite-style hotel rooms. A hotel catering to this market may be successful with the right operator. There is significant risk due to the large number of competing rooms and success will be dependent on maintaining a strong flag and guest loyalty. While the lodging market is improving and the outlook is positive, it may be several years before development is feasible at market rates.

**Office Market Opportunities.** Office development would conform to the commercial corridor and complement, and compete with, the existing office property on the north. The north market office market is gaining strength and the outlook is positive. However, it is estimated that it may be 5 or 6 years for the market to recover to the point that development would be feasible at market rates. Alternatively, a special purpose office-type use with a strong destination identity may find success at this location, such as a medical, education facility, or business incubator/open-office facility. Speculative office development would not be feasible in today’s market.

**Special-Purpose and Build-to-Suit Market Opportunities.** A special-purpose property is one that is appropriate for a specific type, and often a unique user. Related, a build-to-suit property is constructed to the specifications of a particular user, which may or may not be a unique type of tenant. This could include retailers or an array of commercial and industrial uses. Generally, commercial build-to-suit users are driven by demand for their products or service, or other locational factors other than of space availability. The most active special purpose users in today's market are medical and health facilities, whose feasibility is driven as by their business model rather than speculative development.

## Highest and Best Use Analysis

### *Parcel 1*

From a real estate investment perspective, highest and best use is that use which is physically possible, legally permissible, financially feasible, and provides the highest rate of return to the developer. Parcel 1 is considered to be a commercial or civic use site.

The site is not well suited for retail development and the current market for general office development is speculative at best; these property types have not been further evaluated.

Health and medical demand is expanding due to the industry's anticipation of a surge in the number of insured persons accessing the care health system, changes in health care delivery systems, and organizational restructuring. Hospitals are finding cost economies in supporting the development of local office medical buildings and ambulatory surgery centers in neighborhood locations to better serve the population and create a draw to the hospital should specialized services or hospitalization be required.

The Interstate-25 and 120$^{th}$ Avenue location is becoming a well-established lodging node serving the nearby business parks and properties in Westminster, Thornton, Northglenn, and an alternative to more expensive downtown hotels. Also, there is notable residential growth north and east of Northglenn adding to lodging demand. The hotel market is in the midst of a recovery region wide and has some potential given the expected economic growth.

The highest and best commercial use of the site is not for speculative development today, but to hold as an investment property until an appropriate build-to-suit opportunity arises or until market conditions warrant development.

### *Parcel 1 Development Proposals*

The City of Northglenn has received three unsolicited proposals for development; all are build-to-suit proposals:

1. An 80-room **Marriott Residence Inn** on 2.5 acres is being proposed by an individual who will be the property owner and hotel operator.

2. A 40,000 square foot **Ambulatory Outpatient Facility** including 9,000 of office space, being proposed on 3 acres, in partnership with a major health service and hospital care provider, possibly with financial investment by physicians and other health professionals who will office in the facility.

3. A 40,000 square foot **medical office building** on 3 acres, presumably financed, at least in part, by physicians and other health professionals who will invest in and occupy the facility.

An evaluation of the proposed uses is summarized below:

| Use | Lodging | Ambulatory Outpatient | Medical Office |
|---|---|---|---|
| Current Market Conditions* | Fair | Good | Good |
| Site Suitability* | Good | Good | Good |
| Relative Current Market Risk** | High | Low | Moderate |
| Future market risk** | High | Low | Moderate |
| Potential Funding Gap | $600,000 | None | $1,400,000 |
| Market Timing*** | 3-4 years | Now | 2-3 years |
| Potential Employees | 31 | 60 | 127 |
| Wages (current dollars) | $26,419 | $61,872 | $70,240 |
| Incremental Property Tax (annual) | $29,449 | $50,854 | $23,374 |
| Net Fiscal Impact to General Fund | $42,697 | $113,246 | $56,234 |
| NURA Increment (from all sources) | $458,251 | $571,951 | $278,121 |

*Rated as poor, fair, or good; **Rated as low, moderate, or high; ***Years until market is anticipated to be in full recovery

## *The Role of Public Benefits*

Rather than wait for the market to support other development, the build-to-suit proposals provide an opportunity to convert Parcel 1 into cash, create an ongoing revenue stream, and invite development that would bolster Northglenn's image and economy. Liquidating the holding and putting cash and annual revenue in the City's coffers may enable improvements or replacement of City Hall and other capital investments. Also NURA will receive the TIF revenue if a private sector development occurs on Parcel 1.

Medical office use would be positive from a community image, job creation, and long-term risk standpoint. However, medical office market conditions are still soft for speculative development. Based on market analysis, speculative medical office construction would require notable public investment at this location. To be feasible, this property would need to be a build-to-suit with equity funding by health professional owner-occupants. The investment terms and amount of incentives requested, if any, are unknown at this time. Without additional information it would appear that a medical office building would not be a preferred investment at this time; however this may change as the terms are revealed.

Lodging and ambulatory outpatient facility scenarios both offer job creation and result in a positive cash flow to the city. Lodging development and long-term outlook is relatively risky, given the number of competing rooms and new hotel development around the north metro market.

An ambulatory outpatient facility will bring notably more jobs, higher wages, and revenues to the City, without any incentives. This use is also anticipated to generate the highest increment to NURA, without requiring incentives.

## *Conclusion: Parcel 1*

Based on the analysis of the market and proposed development, it would be in the best interest of the City of Northglenn to prioritize the ambulatory outpatient facility as the highest priority, with hotel development as a second priority.

These two properties are seeking a combined acreage of 5.5 acres. With appropriate site design it may be possible to accommodate both ambulatory outpatient and lodging development.

## Parcel 2

### *Parcel 1 Development Proposal: Retail*

A proposal has been made to the City of Northglenn for the construction of an 85,000 square foot retail use. Parcel 2 backs to Interstate-25 and provides visibility; however the site has a somewhat indirect access from the interstate. The site has the size to support a build-to-suit big box retailer with a strong destination identity. However, the site is in an isolated retail location, in a market where there are competing sites available near other destination retailers at power centers and lifestyle centers, or building pads with direct frontage. It may be challenging to find a high profile retailer who seeks a somewhat hidden and isolated site.

Overall, retail construction is not recommended for the Parcel 1 site; the best investment opportunities will be in renovating and redeveloping existing and aging retail centers rather than further dividing retail market share between even more retailers. Uses that would drive traffic to existing retailers in the 120th Avenue corridor would be beneficial to the overall market.

### *Civic Campus Development Alternative*

There is a need to expand and reconfigure the City Hall building, as well as to upgrade obsolescing structural, mechanical, electrical, and safety systems. Several options are being evaluated including:

- Expanding and renovating the existing City Hall building on its current location on Parcel 2;
- Demolishing and rebuilding City Hall on its current location on Parcel 2; or
- Rebuilding City Hall on Parcel 1

These options are compared side-by-side in the following table:

**CIVIC CAMPUS OPTIONS**

| | Relocate City Hall | Expand & Renovate City Hall | Replace City Hall on Site |
|---|---|---|---|
| Cost to Upgrade City Hall Structures and Systems | $0 | $1,000,000 | $0 |
| Cost to expand City Hall | $0 | $5,900,000 | $0 |
| Demolition | $83,250 | $0 | $83,250 |
| Cost to Replace City Hall | $8,300,000 | $0 | $8,300,000 |
| Temporary space rent | $1,020,000 | $680,000 | $1,020,000 |
| Relocation Costs | $50,000 | $50,000 | $50,000 |
| Opportunity cost of 6 acre parcel - Land Value | $1,600,000 | $0 | $0 |
| Opportunity cost, Parcel 1 - Direct Net Fiscal Benefit of Highest Best Use | $113,000 | $0 | $0 |
| Financing Cost (for construction & demolition) | $4,149,709 | $3,456,709 | $4,149,709 |
| **TOTAL COST** | **$15,315,959** | **$11,086,709** | **$13,602,959** |

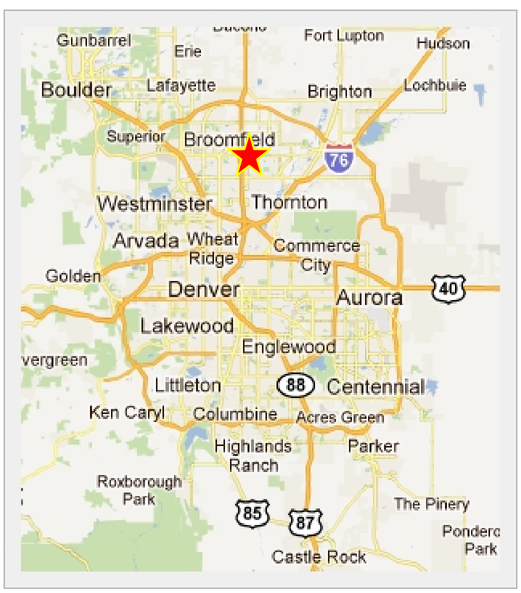
### *Conclusion: Parcel 2*

It is recommended that City Hall be either: (1) renovated/expanded on site; or (2) razed and completely rebuilt on site with Parcel 1 sold for commercial development. Parcel 1 is expected to yield a price of $6 per square foot, or $1.6 million plus annual tax revenues from new development. Making this parcel available for private sector development has a benefit of bringing new jobs to Northglenn and bolstering its economic and retail environment, and retaining the liquidated value of the land.

# AREA AND SITE DESCRIPTION

**PROPERTY DESCRIPTION**

| Characteristic | Parcel 1 | Parcel 2 |
|---|---|---|
| Address: | East side of Grant Street, south of 120th Avenue | 11701 Community Center Drive, Northglenn, CO |
| Ownership: | City of Northglenn | City of Northglenn |
| Assessor's Parcel Number: | 0171903100026 | Part of 0171903214004 |
| Acquired: | 11/25/2002 from Wells Fargo Bank Minnesota by Special Warranty Deed for $1,131,000 | Unknown; not in public record |
| Zoning: | PUD allows for a variety of uses on an as-approved basis | PUD allows for a variety of uses on an as-approved basis |
| Size & Shape: | 5.769 acres<br>Irregular trapezoid in shape<br>useable dimensions about 400' X 500'<br>Sufficient dimensions to support typical commercial development | 11.0 acres<br>Irregular trapezoid in shape<br>Sufficient dimensions to support typical commercial development |
| Topography: | Flat; bordered by the Highline Canal on south and east | Flat; fronts to Community Center drive on east, I-25 on west, Northglenn Community Center on north, and multi-family housing on south. |
| Utilities: | All utilities available to the site including water, sewer, electricity, natural gas, telecommunication | All utilities available to the site including water, sewer, electricity, natural gas, telecommunication |
| Site improvements: | Vacant | Northglenn City Hall |
| Environmental Conditions | None noted or reported | None noted or reported |




Subject parcels

## Location

The City of Northglenn:

- Is a first-ring suburban community in the metro Denver area and located in the northern growth edge of the metro Denver region;
- Covers approximately 7.4 square miles;
- Straddles I-25 with interchanges at 104$^{th}$ Avenue and 120$^{th}$ Avenue;
- Is bordered to the north, east, south, and, southwest by the City of Thornton, and bordered by the City of Westminster on the northwest.

Parcel 1 and Parcel 2 are both located just east of I-25, and just south of 120$^{th}$ Avenue and about a half-mile west of Washington Street. 120$^{th}$ Avenue is Northglenn's northern border with the City of Thornton.

- **Interstate-25**
  North/south freeway traversing Colorado and providing primary access across downtown Denver and the metro region. Approximate Traffic Counts: 155,000 vehicles daily north of 104th Ave.
- **120th Avenue**
  East/west collector street. Approximate Traffic counts: 58,000 vehicles daily west of Grant St.; 50,000 daily east of Grant St.
- **Washington Street**
  North/south collector street. Approximate Traffic Counts: 19,000 vehicles daily Ave. north of 120$^{th}$ Avenue.

## Setting

- The southeast quadrant of I-25 and 120th Avenue has a mix of, community, and commercial uses including:
  - Municipal uses - City Hall, Northglenn Community Center, E.B. Rains Jr. Memorial Park and Webster Lake;
  - Commercial uses - fronting 120$^{th}$ Avenue from west to east include the Ramada Plaza Hotel (built 1980), Damon Restaurant (built 2013), the newly developed Webster Lake Promenade restaurant-oriented retail plaza (built 2014), and the 86,000 square foot Metro North office building (built 1983).
  - Nearby residential development in the quadrant includes single-family neighborhoods and multi-family apartments (new units are being constructed north of Malley Drive between Community Center Drive and I-25). Multi-family units east of the site along Sylvia Drive date to the 1970s.

- The City of Thornton is on the north side of 120th Avenue. The northeast quadrant of I-25 and 120th Avenue is characterized primarily by hotel development at 120th Avenue and I-25 and fronting the Northview Business Park, a suburban style business Park approximately 50% built out with office and commercial buildings.

- Several hotel and commercial properties are situated at the northwest quadrant of I-25 and 120th Avenue.

- One of the largest and well-utilized RTD Park-and Ride transit stations is located at the southwest quadrant of I-25 and 120th Avenue.

- Frontage along 120th Avenue from I-25 to Washington Street is lined with commercial development, and is Northglenn's northern boundary with the City of Thornton. The intersection of Washington and 120th is a significant retail node with retail and commercial buildings, with strip centers dating from the 1960s to the current decade.

- Just a half mile west of I-25, 120th Avenue connects the City of Westminster and is developed with modern suburban office park development including the Avaya facility (Digital Globe), Park Centre Office Park, supporting retail and restaurant uses, and the almost 300,000 square foot speculative Park 12 Hundred office property at Huron Street.

## Demographics

Demographically, Northglenn's population is comprised of:

**Population by Race**
**City of Northglenn 2012**

| | |
|---|---|
| Total population | 35,958 |
| White | 84.1% |
| Black or African American | 1.7% |
| American Indian and Alaska Native | 1.0% |
| Asian | 4.9% |
| Native Hawaiian and Other Pacific Islander | 0.2% |
| Some other race | 4.7% |
| Two or more races | 3.5% |
| Hispanic or Latino (of any race) | 30.7% |

Source: American Community Survey

The City of Northglenn has a total population of 35,958 persons with a median age of 33 years according to the U.S. Census, as detailed below:

**Age Cohorts**
**City of Northglenn 2012**

| | |
|---|---|
| Under 5 years | 7.0% |
| 5 to 9 years | 6.3% |
| 10 to 14 years | 5.4% |
| 15 to 19 years | 8.7% |
| 20 to 24 years | 8.7% |
| 25 to 34 years | 16.2% |
| 35 to 44 years | 14.3% |
| 45 to 54 years | 13.3% |
| 55 to 59 years | 5.2% |
| 60 to 64 years | 4.1% |
| 65 to 74 years | 5.6% |
| 75 to 84 years | 4.2% |
| 85 years and over | 0.9% |

Source: American Community Survey

Northglenn's population is described as:

**Characteristics of the Population**
**City of Northglenn 2012**

| | Northglenn | Colorado |
|---|---|---|
| Living in same house, 1 year or more | 83.0% | 80.8% |
| High school graduate or higher, percent of persons age 25+, 2008-2012 | 84.4% | 89.9% |
| Bachelor's degree or higher, percent of persons age 25+, 2008-2012 | 16.3% | 36.7% |
| Homeownership rate, 2008-2012 | 58.4% | 65.9% |
| Housing units in multi-unit structures, percent, 2008-2012 | 31.4% | 25.8% |
| Median value of owner-occupied housing units, 2008-2012 | $185,600 | $236,800 |
| Median household income, 2008-2012 | $52,149 | $58,244 |
| Persons below poverty level, percent, 2008-2012 | 16.0% | 12.9% |

Source U.S. Census Bureau

## MARKET BASELINE:
## SOUTHEAST QUADRANT I-25 & 120$^{TH}$ AVENUE

Both Parcel 1 and Parcel 2 are of sufficient size to support residential, retail, office, industrial, lodging, public purpose, or special purpose/build-to-suit uses and current PUD zoning would not preclude any of these uses. The following discussion evaluates current market conditions

### Industrial Market Opportunities

Industrial development would not conform to surrounding uses and potential commercial and truck traffic may conflict with surrounding residential and public uses. Depending on design and architecture, industrial uses may visually detract from nearby commercial, lodging, and community users.

### Residential Market Opportunities

Metro Denver's household formation rate has been increasing at a faster pace than the number of housing units since 2007. This indicates a positive demand for new residential construction. The inventory of for-sale homes on the market remained low in 2013 and constrained choices for potential homebuyers, and as a result single-family home prices increased.

Across metro Denver, the number of permits for multi-family units was up 30.8 percent between 2012 and 2013. Metro-wide apartment vacancy was 4.4 percent through the third quarter prompting developers to build new apartments. Condominium and townhome permits increased 36.6 percent during the period, while single-family permits were up nearly 23 percent. Low apartment inventory combined with low vacancy rates should keep demand high for new residential construction in 2014, with the total number of permits expected to increase by nearly 22 percent.

The southeast quadrant of I-25 and 120$^{th}$ Avenue may support residential development given proximity to shopping, restaurants, park space and the nearby park-and-ride station. Given Parcel 1's relatively small dimensions and setting, neither single- or multi-family development would be appropriate. However, multi-family development might be successful on Parcel 2 particularly given the adjacent multi-family development. This would require relocating City Hall and completely vacating the parcel.

Residential development could be physically possible on Parcel 1. The site's proximity to both 120$^{th}$ and I-25 would suggest that residential development would target mid- or lower-rent occupants. However, the Northglenn housing market is well saturated in low- and mid-rent units. Because of its small size, there may be construction cost issues with reaching economies of scale.

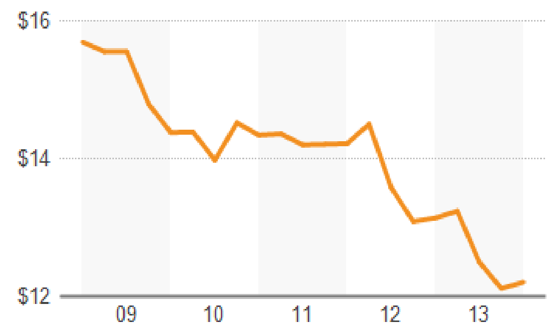
A non-residential use on Parcel 1 would best align with existing 120$^{th}$ Avenue commercial corridor uses and argues for non-residential development of the site.

## Retail Market Opportunities

The metro Denver retail market is stabilizing and finding balance between steadily growing demand, absorption of existing space, and new construction. Consumer sales were 3.6 percent higher through the first 10 months of 2013 than reported in the same period 2012. In response, retail occupancy is also growing across the metro Denver regional market. According to CoStar, the direct vacancy stood at 5.9% as of the first quarter 2014 compared to 6.5% one year ago. This improved occupancy was accompanied by an increase in rental rates from the previous year's $14.81 per square foot to $15.07 in second quarter 2014.

The underlying stability of the market is notable given that 1.2 million square feet of new construction was completed in 2013 during which time, according to Newmark Grubb Knight Frank (NGKF), the Denver retail market absorbed almost 1.5 million square feet. Absorption in 2013 surpassed 2012 levels of 1.1 million square feet, with retail vacancy falling to its lowest level since 2007. NGKF reports relatively stable rental rates for the properties they track. Market signs point to a fairly balanced supply of retail space with new construction keeping up with increasing demand. Pent up demand from national retailers interested in entering the metro Denver market have flooded new high-end retail projects and may impart some risk of speculative over-development in the near future.

**Retail Rental Rates NNN per square foot**
**1-mile radius**




Source: CoStar

1& 2

### *The North Metro Submarket*

NGKF reports that the North Submarket (encompassing the I-25 corridor north of downtown Denver) had a fourth quarter 2013 vacancy of 9.9% and median rental rates of $13.75 to $15.50 across all retail center types. NGKF data further indicates the North Submarket absorbed 172,699 square feet as of year-end 2013 (including a 90,000 square foot Cabela's store) and vacancy fell to 9.9% from 10.6% 12 months earlier.

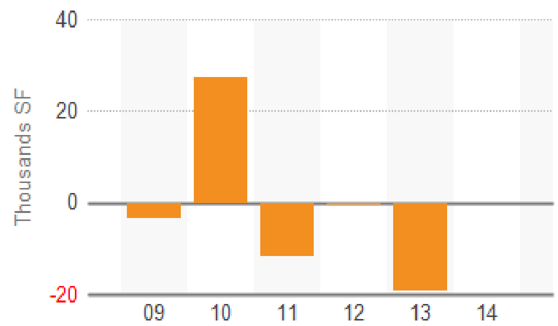
**Retail Vacancy Rates**
**1-mile radius**


Source: CoStar

Based on CoStar data, as of the first quarter 2014 retail properties in a one-mile radius of Grant Street and 120th Avenue, totaling around 1.2 million square feet, still have a relatively high average occupancy of 11.4% with asking rents from $9.30 to $16.00. A one-mile radius incorporates a range of retail properties ranging from 1960s shopping centers to new power centers, to master-planned lifestyle destination centers.

In contrast to positive metro-wide trends, rental rates in the one mile radius fell steadily between 2009 and 2013 along with both absorption and occupancy. Submarket softness can be attributed to the opening of new community, power- and life-style centers in the north market, and associated market churn.

**Retail Absorption**
**1-mile radius**




Source: CoStar

Centers oriented to big box and free-standing build-to-suits, with limited in-line satellite space has been a characteristic of retail development the past few years. The Orchard lifestyle center at I-25 and 144th typifies the modern large scale high-credit tenant, big-box anchored center complemented by pedestrian-scale national small retailers and restaurant space, and carries little or no vacancy. The Northglenn Marketplace Center at the northwest quadrant of 104th Avenue and I-25 is carrying a relatively high vacancy in its in-line satellite space between its big box anchors, highlighting the current state of the market and lack of new construction of speculative multi-tenant space.

Webster Lake Promenade phase I (WLP1) is under construction just to the west of Parcel 1. Buildings are leasing for between $20 and $25 per square. The sites at WLP1 have been leased to restaurant chain restaurants that have specific architectural and design standards specific to their brand. In other words, these are build-to-suit properties which are built to custom specifications then leased back to the tenant; rental rates reflect the amortization of construction costs over the term of the lease and are closer in nature to repayment of a construction loan than to property market rent. Additionally, pad sites are typically footprints that share common parking and maintenance with each other, and these shared cost savings are also reflected in the rental rate. Lease rates for development on Parcel 1 may reach these levels if the site is developed as a build to suit project, but does not reflect market rent for the area.

## *Competitive Market Set*

A more targeted look at the 120th Avenue corridor between Pecos and Irma, encompassing around 455,000 square feet, has an even higher 12.4% vacancy with rental rates ranging from $12 to $16 triple net for the same period.

Immediately to the east of Parcel 1 along 120th Street is the Albertson's anchored Washington Point Center. The center is relatively well occupied with local and low-overhead retailers. There is an empty anchor store estimated at around 25,000 square feet and there are several vacant satellite bays. Overall vacancy is estimated around 15% and concentrated in the least visible portions of the center (under separate ownership). According to the leasing agent, asking rates are around $8 per square foot triple net.

Similarly the Washington Center is 1960s/70s era retail development in the southeast quadrant of 120th Avenue and Washington Street. Occupancy is estimated at 80% for this center with asking rates very negotiable starting at a suggested $12 per square foot.

Newer, well-maintained, and well-occupied retail buildings, including single tenant pad sites, line 120th Avenue and Washington Street near its intersection with 120th. A relatively new big box power center, the Thorncreek Center, has been developed on the northeast quadrant of 120th Avenue and Washington Street and has little to no vacancy. Overall, while 120th Avenue frontage properties are performing well, there is a distinct lack of new investment in retail centers behind the frontage.

The addition of new retail space to the 120th Avenue commercial corridor would compete with these older centers and divide the consumer market into even smaller market shares. Northglenn is capturing around 58% of its own local consumer spending compared to around 70% to 80% typically captured in other communities. New retail development on Parcel 1 would likely cannibalize existing market share and as a result, limit the ability of landlords to make capital improvements to their older properties. Retail development is not recommended for Parcel 1.

## Lodging Market Opportunities

The metro Denver lodging market has continued to strengthen over the past 5 years as the national recession ended mid-year 2009. Both metro Denver and the north lodging market saw steady growth in both occupancy and average daily rates since this time and, according to data reported by the Rocky Mountain Lodging Report, have hit their highest level since 2009.

**Average Daily Rate & Occupancy**
**Metro Denver Lodging Market**

| **Market Area** | **North Metro*** | | **Metro Denver** | |
|---|---|---|---|---|
| Indicator | Occupancy | Average Daily Rate | Occupancy | Average Daily Rate |
| 2013 | 63.7% | $76.79 | 70.8% | $115.09 |
| 2012 | 59.0% | $69.29 | 68.0% | $111.78 |
| 2011 | 58.4% | $60.58 | 66.8% | $109.94 |
| 2010 | 52.1% | $60.81 | 64.4% | $107.77 |
| 2009 | 43.1% | $70.00 | 59.0% | $106.85 |

*Source: Rocky Mountain Lodging report*
**North Denver – I-25 from 84th on the south to 120th on the north*

Lodging properties in the immediate vicinity of Parcel 1 are used to characterize the competitive market set. As with all lodging markets, room rates vary throughout the year based on seasonality, availability at the time of booking, and other negotiable variables. Highest occupancies in the metro Denver market tend to be during the summer months and lowest occupancies are in December and January. Based on surveys conducted through online booking agencies, rack room rates in the Subject Parcel's competitive location range from about $65 to $145 per night, with a median of about $104 and average of about $98. Anecdotally, overall occupancy in the market area is reported to be in the 60% to 70% range over the past year.

**Rack Rates**
**North Denver Lodging Market***

| Property | Rooms | Site Size | Year Built/Renovated | Hotels.com Rating | Asking Rates (July/December/Last-Minute) |
|---|---|---|---|---|---|
| Doubletree (& Suites) | 135 | 6.71 ac | 1984/1999 | 4.6 | $na/$104/$113 |
| Holiday Inn Express | 80 | 2.35 ac | 2013 | 4.5 | $126/$106/$80 |
| Fairfield Inn | 82 | 2.09 ac | 2000 | 4.4 | $130/$110/$119 |
| Hampton Inn | 79 | 1.53 ac | 1996 | 4.1 | $119/$89/$76 |
| La Quinta Inn | 131 | 2.00 ac | 1986 | 3.9 | $95/$85/$72 |
| Ramada Plaza | 235 | 6.16 ac | 1980 | 3.8 | $125/$93/$74 |
| Comfort Suites | 78 | 2.02 ac | 1997 | 3.7 | $143/$91/$67 |
| Econo Lodge | 100 | 1.67 ac | 1998 | 2.2 | $91/$85/$65 |

*Source: Rocky Mountain Lodging report; hotels.com; Adams County Assessor; Development Research Partners, Inc.*

## *Hotel Product Configuration*

Lodging product-tier classifications are based on service, features, and amenities. The most widely used hotel categorization was developed by Smith Travel Research (STR), which defines chain scale segments as luxury, upper-upscale, upscale, midscale with food and beverage facilities, midscale without food and beverage. Given the market travelers served in this competitive set, a midscale facility would be appropriate.

There is notable new restaurant development adjacent to Parcel 1 and other nearby restaurants, which may preclude the necessity of having extensive food and beverage service. Typical to midscale business hotels, guests will likely expect included breakfast service and there may be an opportunity to provide lobby bar service in the evenings.

Room configurations typically expected by this guest market are standard hotel rooms and suites. Suites offer multiple and/or larger rooms, with more space and furniture than a standard hotel room. In addition, a suite usually includes a living room or sitting area; executive desks and kitchen appliances may be included. Suites are particularly marketed to business travelers for two or three night stays. According to the Colorado Hotel & Lodging Association, suite hotels offered in the metro Denver market include: Burnsley All Suite Hotel, Residence Inn Denver City Center, and the Magnolia Hotel downtown; Quality Inn & Suites, Residence Inn by Marriott, and Spring Hill Suites in the airport market; and Residence Inn Highlands Ranch and Staybridge Suites Denver Tech Center serving the south metro markets. The competitive market set has few suite options particularly in newer the newer midscale properties.

Another configuration is an extended-stay business model which focuses on attracting budget-minded hotel guests for extended periods of time, typically 5 or more consecutive nights. There is a variety of options in the competitive market set for economy travelers.

While there are 920 lodging rooms in the competitive market set, there are a limited number of hotel suite options offered. A higher quality midscale suite hotel would complement the existing inventory.

*Average Daily Rate*

The following points are considered in developing Average Daily Room Rate assumptions regarding hotel development on the Parcel 1:

- Average daily room rates throughout the metro Denver market have been increasing steadily the past several years; occupancy rates in the North Denver market have been similarly growing.
- The Rocky Mountain Lodging Report shows 2013 average lodging occupancy in the North Market (63.7%) underperforming the Denver market (70.8%). Since 2009, this occupancy gap between the north market and metro market has shown a decreasing trend since 2011.

| Year | Room Rate Differential North vs Metro Market |
|---|---|
| 2009 | $38.30 |
| 2010 | $42.49 |
| 2011 | $49.36 |
| 2012 | $46.96 |
| 2013 | $36.85 |

- The Rocky Mountain Lodging Report shows 2013 average daily rates in the north metro Denver market at $76.79.
- Rack rates amongst the Subject Parcel's competitive set range from $65 to $145, with an average of $98 and median of $104. Rack rates do not consider discounts and dynamic pricing, and therefore represents an upper.
- Room rates are not generally differentiated in the market by traditional room versus suite configuration, and room pricing would competitive across both market segments.

Based on the above discussion, it assumed that a new room hotel would open to the market with a competitive market rate to build loyalty. New construction of a midscale product targeted for the business traveler, is assumed to enter the market with a average daily rate of $90 its first year and stabilize at $115 in its fourth year of operation.

*Occupancy*

The following points are considered in developing occupancy assumptions regarding hotel development on the subject Parcel:

- Occupancy rates throughout the metro Denver market have been increasing since 2009; occupancy rates in the North Denver market have been similarly growing.
- The Rocky Mountain Lodging Report shows 2013 average lodging occupancy in the North Market (63.7%) underperforming the Denver market (70.8%). Since 2009, this occupancy gap between the north market and metro market has shown a decreasing trend.

| Year | Occupancy Differential North vs Metro Market |
|---|---|
| 2009 | 15.9% |
| 2010 | 12.3% |
| 2011 | 8.4% |
| 2012 | 9.0% |
| 2013 | 7.1% |

Positive occupancy trends are attributable to general residential and economic growth of the northern metro region which is anticipated to continue to both business-related overnight stays and friends and family overnight stays in the market.

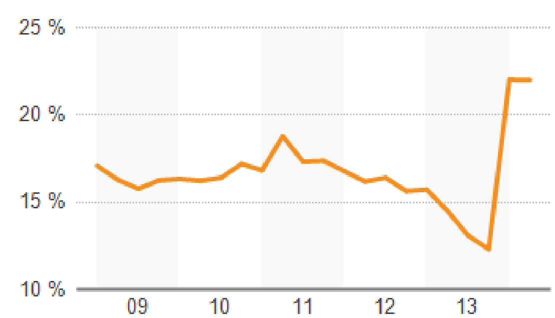
## Office Market Opportunities

The metro Denver office market improved over 2013 as vacancy rates fell and average lease rates increased. According to CoStar, the vacancy rate fell to 11.1%, the lowest rate since the fourth quarter of 2001. The fall in the vacancy rate was accompanied by an increase in the average lease rate, which was up to $21.91 per square foot. By the end of 2013, 950,000 square feet of new office space was completed, a 9.2 percent increase compared with 2012. Employment growth is strong in traditional metro Denver office tenant sectors including professional services and energy resources, and continued growth is anticipated into 2014 from both large and small tenants. The strongest performing properties are expected to be new and updated properties.

### *The North Metro Submarket*

According to data tracked by CBRE, Parcel 1's north submarket lagged the overall market with a relatively high vacancy of 21.1% and relatively low average office rental rates of $14.70 per square foot. The north submarket is characterized as a suburban Class B office market (although properties ranging from Class C to A- can be found). Newmark Grubb Knight Frank reports that going into the fourth quarter 2013, the metro Denver market Class A office space had the highest absorption (520,000 SF) and lowest vacancy (14%) compared to Class B (452,000 SF absorbed; 20% vacancy) and Class C properties (70,000 SF absorbed; 20 % vacancy). Metro-wide, NGKF reports class B properties to commend rent of $17.95 per square foot full service, with $17.00 in the northwest submarket and $16.30 in the northeast submarket.

**Office Vacancy Rates**
**1-mile radius**




Source: CoStar

According to CoStar data, vacancy rates in a mile-radius of Parcel 1 is 22%, higher than the 16.4% five-year average; rental rates are $18.58 per square foot gross just slightly above the five-year average of $17.67. Absorption has been relatively strong in 2012 and 2013 with 87,487 square feet absorbed over the past 12 months, about 3.5% of the market. Despite positive absorption, vacancy has increased somewhat as 30,000 square feet was built in Westminster during 2008 and 2009, and 297,000 square feet at 120$^{th}$ Avenue and Huron

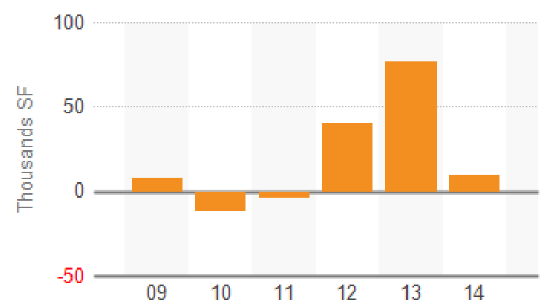
Street being redeveloped at the Park 12-Hundred building.

## *Competitive Market Set*

**Office Rental Rates gross per square foot 1-mile radius**


Source: CoStar

**Office Absorption 1-mile radius**




Source: CoStar

Adjacent to Parcel 1 on the north is an 86,000 square foot suburban style 1983 office building, the Metro North building, has a vacancy rate of about 16% with asking rates of $17-$18 per square foot gross. There are several business parks near Parcel 1 including the Northview Business Park in Thornton, just north of the site on the north side of 120th Avenue, and the Park Centre office park about 1 mile west of I-25 on 120th St and Pecos. Additionally, there are various free standing office buildings in proximity to the subject along 120th Avenue around I-25 to Washington Street; the Bank of the West Building is about 94% occupied with asking rates of $17 per square foot gross. Across 120th Avenue on the north side is a former Dex Telecom building with less than 50% occupancy, although this high rate could be attributed to the space being demised for a data center tenant rather than general office.

The submarket is stabilizing with office rents on the rise. New construction has bumped up vacancy rates moving into 2014 but absorption has been positive. While the outlook is for an improving market, the tenuous balance of available space will likely mean that older and not-as-well located properties will face the hardest challenge to capture tenants.

Today's market requires around $25 per square foot office rent to make construction of new class B suburban office space feasible. As the north edge of metro Denver, including Northglenn, begins to infill it is anticipated that vacancies will fall and market rents will move towards an equilibrium market rent of around $25 per square foot gross over the next five to seven years.

Office development would be appropriate for Parcel 1 but is not feasible under current market conditions, but perhaps a future opportunity.

## Special-Purpose and Build-to-Suit Market Opportunities

A special-purpose property is one that is appropriate for a specific type, and often a unique user. Special-purpose development generally includes public facilities, quasi-public facilities, and specialized facilities that may range from institutional to office-style development. These could include community centers, auditoriums, civic space, schools, or medical or health facilities.

Similarly, a build-to-suit property is constructed to the specifications of a particular user, which may or may not be a unique type of tenant. This could include retailers or an array of commercial and industrial uses. Generally, commercial build-to-suit users are driven by demand for their products or service, or other locational factors other than of space availability.

In today's market, the most active build-to-suit and special purpose users are consumer goods retail or health services; big-box retailers, grocers, chain restaurants, and medical/health care facilities. Retail is not considered ideal for Parcel 1 because of limited buildable area and a location with somewhat poor visibility from the 120th Avenue corridor.

While retail development may not be appropriate for Parcel 1, destination medical and health care could work in this location.

### *Medical and Health Care Special Purpose*

Nationally and in metro Denver the health industry is undergoing an expansion. Grant and 120th may provide a location opportunity for development of a medical or health care facility. The modernization of health service delivery due to medical advances, technology improvements, improvements in medical treatment protocols, and organizational restructuring have been changing the nature of hospital visits and tilting towards in-patient versus over-night procedure. Positive impacts are anticipated from a variety of sources including greater utilization of electronic medical records, more focus on patient experience, and quality improvements. Demographics of an aging population and an anticipated increase in insured patients due to the Affordable Care Act also favor a growing need for medical facilities. Additionally, there is an expectation that demand for concierge health care services, primarily for more affluent patients, will increase expanding the need for multi-tenant, physician-affiliated medical office space.

The development of free-standing urgent care centers, many integrated into physician-occupied medical office buildings, are being seen in retail locations as a means of providing easy patient access, but to also direct patients into a particular health care brand. Ambulatory Surgery Centers, facilities for outpatient surgery which may or may not be part of a medical office building, have also been trending strong. Interior finishes and quality are generally higher than medical office space given the specialized utility and environmental controls required. Ambulatory Surgery Centers are somewhat more specialized facilities used to perform outpatient or single-overnight procedures which do not require hospitalization and have at least one operating room. Over the last several years there has been an increase in the design of multi-story facilities with first floor surgery space and subsequent floors dedicated to medical office space.

A 2013 Newmark Grubb Knight Frank survey of developers indicate a nationwide need for new facilities including medical office buildings to house specialists and for outpatient surgery centers. This decentralization of health care delivery is ultimately being driven by the need to reduce costs and provide more convenient access for patients. Steady growth in the sector can be attributed to health care being an essential human need and subsidized by the government. It is worth noting that continued growth in the health care demand is anticipated to also translate into demand for supporting general office space.

Hospitals are supporting the development of local office medical buildings and ambulatory surgery centers in neighborhood locations to better serve the population and create a draw to the hospital should specialized services or hospitalization be required. Nationally, the leasing market for Medical Office Buildings continued to slowly tighten during 2013 with lower vacancies according to Newmark Grubb Knight Frank. Some Medical Office Building typologies have been outperforming others, specifically quality on-campus properties have generally been performing better than older off-campus properties. In terms of property transactions, Medical Office Buildings have been seeing sales prices per square feet higher than standard suburban office buildings.

Medical and health care related development should be considered for Parcel 1.

## HIGHEST AND BEST USE: PARCEL 1

The site is 5.8 acres, with a flat rectangular buildable area of about 200,000 square feet (400' by 500'), plus an additional 1.3 irregularly shaped acres to accommodate building design, landscaping, parking, retention/drainage, outbuilding or other supportive use. All utilities necessary to support development are installed in the adjacent utility corridor. Grant Street is adjacent to the site providing construction access and some staging area. Local access via 120th Avenue is good at the nearby signalized Grant Street intersection and access to north- and south-bound Interstate I-25 is good from 120th Avenue about a quarter mile to the west. A potential downside to the site is the close proximity of the Grant Street/120th Avenue intersection to Interstate-25, which can be subject to traffic congestion. Physically, the site could accommodate all types of residential, commercial or industrial uses; and the site's PUD zoning does not preclude development.

An important consideration in evaluating highest and best use is one of contribution: how can a site contribute to its surrounding land uses and property values. Concepts of conformity and balance are important in identifying uses that complement and synergize with surrounding uses. The site primarily orients best in relationship to the 120th Street Commercial corridor.

The site is located behind the 120th Avenue commercial corridor lined with lodging properties, neighborhood-serving retail centers, and several free-standing low-rise commercial buildings. Uses immediately surrounding the site starting on the north and going clockwise include: a single free-standing office building on the north (that fronts 120th Avenue); an aging Albertson's anchored strip retail center on the northeast, single- and multi-family homes to the southwest; municipal, community, and park uses adjacent to the south and extending southeast; and Webster Lake Promenade Phase I, the Ramada Plaza hotel, and Damon's restaurant.

Street edges directly fronting the 120$^{th}$ Avenue corridor are starting to revitalize, while uses behind this frontage are languishing. New development on Parcel 1 may begin to pioneer the concept of capital investment in the back parcels and catalyze an uptick in value for the entire corridor. Development types that can work in this location include:

<u>Retail development</u> would conform to existing uses in the commercial corridor, although it would face challenges from a lack of frontage and exposure, and lacking a critical mass of nearby development to drive customer traffic. The competitive market is being challenged form newer retail centers and oversupply of small-tenant space. Under these conditions, adding additional retail space to the market may have the unintended result of competing with nearby aging centers pushing into further decline.

The site is not likely to be attractive to multi-tenant speculative retail development. A high profile destination retailer may be successful at this location; however there is a long-term risk of that particular retailer failing and leaving behind an empty building. Retail development would be difficult to attract without incentives and would be risky, and not likely the best strategic fit in regard to the overall market.

Parcel 1 is not an ideal retail location in today's market. It does not have the size to support a large scale retail project and would be seeking a smaller build-to-suit tenant with a strong destination identity. The site is in an isolated retail location, in a market where there are competing sites available near other destination retailers at power centers and lifestyle centers, or building pads with direct frontage. The greatest risk in this site as a retail location is finding a high profile retailer who seeks a somewhat hidden and isolated site. There is long term risk should an initial retailer fail in this location. Overall, retail construction is not recommended for the Parcel 1 site; the best investment opportunities will be in renovating and redeveloping existing and aging retail centers.

Office development would conform to the commercial corridor and complement, and compete with, the existing office property on the north. The north market office market is gaining strength and the outlook is positive. However, it is estimated that it may be 5 or 6 years for the market to recover to the point that development would be feasible without public incentives or a degree of guaranteed leasing. Leasing space for public use may improve pre-leasing position, such as temporary or permanent space for city administration.

The speculative nature of general office development can be counteracted with initial below-market rent and/or significant pre-leasing (which may include a single large user such as the City of Northglenn that is contemplating relocating City Hall). Alternatively, a special purpose office-type use with a strong destination identity may find success at this location, such as a medical, education facility, or even business incubator space.

Lodging development would complement the nearby I-25 interchange and conform to other nearby hotel properties. With a number of new hotel properties in the vicinity, the question of balance and market share becomes critical. There is a scarcity of good quality suite-style hotel rooms in the competitive market set, but there is significant risk due to the large number of competing rooms and success will be dependent on maintaining a strong flag and guest loyalty. Potential hotel development could be possible with the right operator. Although the lodging market is improving and the outlook is positive, it may be several years before development is feasible without a public incentive.

- Parcel 1's location provides reasonable access to metro Denver destinations such as Dick's Sporting Goods Field, Coors field, Mile High Stadium, the Pepsi Center, as well as a variety of retailers, and offering room rates at a significant discount to downtown Denver accommodations.
- It is anticipated that a new hotel offering mid-scale amenities for primarily business travelers will be well accepted in the market, particularly if associated with a business-oriented brand with reservations system and loyalty program.

Overall, the location is in an established lodging node with good access to north I-25 businesses and Downtown Denver. The overall lodging market is gaining strength and there is a scarcity of good quality suite-style hotel rooms in the competitive market set. A well-managed, higher quality suite hotel catering to multi-night business travel stays benefiting from a strong brand, loyalty program, and reservation system would round out lodging options in the competitive set. A hotel property located at Parcel 1 would benefit from its proximity to restaurant services at the Webster Lake Promenade. Proximity to the community center may be attractive to fitness minded hotel guests. There are challenges however; there is significant risk due to the large number of competing rooms and success will be dependent on maintaining a strong flag and guest loyalty.

Currently, hotel rates would need to be about $100 per night to make development feasible on its own; market rates are estimated at $90 today. Given still soft market conditions, feasibility will likely require public incentives in an already well-served location.

Non-retail special purpose and build-to-suit commercial development generally specialized facilities that may range from institutional to office-style development. These could include community centers, auditoriums, civic space, schools, or medical or health facilities. There have been unsolicited development proposals health care uses including an ambulatory surgery center and medical office building. These markets are being driven by changes in the health industry and trends are positive for both. Market risks are hedged somewhat in that occupancy is driven by the need for health care, not by demand for real estate. Additionally, health facilities could physically be adaptively reused for general office space or other uses should that become need in the future.

Demand for ambulatory surgery centers and medical office buildings are a specialty-use driven by demand for health care and need for health service systems to diversify their product and locations, and not as dependent on the overall real estate market. They are typically supported by investment from health care systems as part of a larger system of health care services and not dependent on property rental income.

Similarly, demand for medical office space is driven by physicians seeking to invest in a location for private practice and a long-term buy versus lease decision for their businesses. Although many medical office buildings incorporate speculative vacancy, these property types are often take a long-term investment view and are less dependent on property rental income alone. Currently, hotel medical office rental rates would need to be about $30 per square foot to make development feasible on its own; market rates are estimated at $24 today in a strengthening market. While still only marginally feasible, given anticipated market growth, medical office development should be able to provide sufficient long-term return on investment in the near future.

Overall trends in health care markets suggest an up-and-coming market for new health facility construction. Special purpose uses that should be given strong consideration as include an ambulatory surgical center, medical office building, and/or civic use. Civic use will be evaluated herein as part of Parcel 2 analysis.

## *Highest and Best Use of Parcel 1*

| **Use** | **Lodging** | **Ambulatory Outpatient** | **Medical Office** |
|---|---|---|---|
| Current Market Conditions* | Fair | Good | Good |
| Site Suitability* | Good | Good | Good |
| Relative Current Market Risk** | High | Low | Moderate |
| Future market risk** | High | Low | Moderate |
| Potential Funding Gap | $600,000 | None | $1,400,000 |
| Market Timing*** | 3-4 years | Now | 2-3 years |
| Potential Employees | 31 | 60 | 127 |
| Wages (current dollars) | $26,419 | $61,872 | $70,240 |
| Incremental Property Tax (annual) | $29,449 | $50,854 | $23,374 |
| Net Fiscal Impact to General Fund | $42,697 | $113,246 | $56,234 |
| NURA Increment (from all sources) | $458,251 | $571,951 | $278,121 |

*Rated as poor, fair, or good; **Rated as low, moderate, or high; ***Years until market is anticipated to be in full recovery

## HIGHEST AND BEST USE: PARCEL 2

Parcel 2 is 11 acres in size, flat and fully buildable dimensions to support buildings, landscaping, parking, retention/drainage, outbuilding or other supportive use. All utilities necessary to support development are installed onto the site. Community Center Drive is adjacent to the site providing street access and construction staging area. Local access via 120th Avenue is good at the nearby signalized Grant Street intersection and access to north- and south-bound Interstate I-25 is good from 120th Avenue about a quarter mile to the west. As with Parcel 1, a potential downside to the site is the close proximity of the Grant Street/120th Avenue intersection to Interstate-25, which can be subject to traffic congestion. Physically, the site could accommodate all types of residential, commercial or industrial uses; and the site's PUD zoning does not preclude development.

The site backs to Interstate-25 and provides visibility; however the site has a somewhat indirect access from the interstate. The site is more than a quarter mile south of $120^{th}$ Avenue along Community Center Drive and is situated south of (and behind) the Northglenn Community Center, somewhat isolated from the $120^{th}$ Avenue commercial corridor. As a stand-alone parcel isolated from the commercial corridor, it would not be an attractive site for commercial uses. Industrial uses would not provide balance or contribution to surrounding properties and not likely to be desirable for industrial development.

The site is currently improved with the Northglenn's City Hall and is adjacent to multi-family housing on the south. Its location orients well with the community center on the north and E.B. Rains Park to the east. If the site were vacant, it could be incorporated into adjacent residential uses to the south and complement neighborhoods. At 11 acres and an estimated density of 16 units per acre, the site could support up to 176 units. If residential development were to be considered for Parcel 2, it would necessitate relocating City Hall and replacing it with housing that may significantly increase the cost of providing municipal public services plus, construction (or leasing) costs of a new city hall.

# ECONOMIC ANALYSIS – PROPOSED DEVELOPMENT SCENARIOS

## Parcel 1

### *AMBULATORY OUTPATIENT FACILITY DEVELOPMENT*

Construction of an ambulatory surgery center has been proposed for Parcel 1. Ambulatory surgery centers and medical office space are components of the larger emerging health care delivery business model. Given the nature of this type of investment, real estate investment decisions tend to be based more on return on business cost structure and not as much on return on property investment. Because property value is dependent on the returns to a particular investor group for a specialized use, a market-based pro-forma is difficult to develop, may be misleading, and therefore was not prepared for this property type.

Based on the evaluation of the health care property market presented herein the following assumptions are used to evaluate market performance and fiscal impacts:

- Because it is a special purpose property, it is assumed to be assessed for tax purposes based on total cost of construction of $4.5 million
- 45 FTE employees working in the ambulatory surgery center plus 15 FTE employees occupying the 9,000 square feet of medical office space
- Patients and business visitors to the facility will be local and very few new visitors will be generated by the proposed use

**Project Assumptions Summary**

| **Ambulatory Outpatient Facility** | **Stabilized Operations** |
|---|---|
| **Property** | |
| Square Feet Outpatient | 40,000 |
| Site | 3 acres |
| | |
| **Market Values** | |
| Real Estate Market Value | $14,500,000 |
| Furniture & Fixtures | $437,500 |
| Computer Equipment | $333,333 |
| Medical Equipment | $634,375 |
| | |
| **Employees** | |
| FTE Employees | 60 |
| Total Annual Payroll | $3,712,320 |
| Annual Wages | $61,872 |

**AMBULATORY OUTPATIENT FACILITY DEVELOPMENT**

| Fiscal Impacts to General Fund | | |
|---|---|---|
| **Ambulatory Outpatient Facility** | | **Stabilized** |
| | **Construction** | **Operations** |
| **Property Tax** | | |
| Real Estate | $2,637 | $48,765 |
| Business Personal Property | $0 | $4,726 |
| **Sales and Use Tax** | | |
| Generated from Construction | $262,184 | $0 |
| Generated from Business Operations | $0 | $72,792 |
| **Other Tax Revenue** | | |
| Water/Sewer Stormwater Fees | $90,828 | $0 |
| Impact Fees | $81,524 | $0 |
| **Other Revenues** | | |
| Local Employees-Residential Property Tax | $0 | $1,188 |
| Local Employees-Sales Tax on Local Purchases | $0 | $2,026 |
| Miscellaneous Revenue* | $60 | $13,834 |
| **Total Local Government Revenues** | **$437,233** | **$143,331** |
| **Total Local Government Costs**** | **$250,000** | **$29,265** |
| **Net Fiscal Benefit (Cost)** | **$187,233** | **$114,066** |
| **NURA Incremental Tax Revenue From All Taxing Districts***** | | |
| **NURA Incremental Tax Revenue** | | **$571,951** |

* Incidental revenues anticipated including miscellaneous licenses. permits, fees, intergovernmental revenue, charges for services, fines & forfeitures, and other miscellaneous revenue

** City of Northglenn contribution to road upgrades during construction year; all governmental costs to service new development

*** Real property, Business Personal Property, 124 mils

## *MEDICAL OFFICE BUILDING DEVELOPMENT*

A medical office building has been proposed for Parcel 1. According to CoStar data, medical office buildings within 3-miles of Parcel 1, rental rates average $23.08 per square foot gross. Current rates are above the five-year average rate of $22.17 and significantly above general office rents of $18. Vacancy in medical office buildings within the three-mile radius is 7.8%, below the five-year average of 9.6%; and significantly below the general office vacancy rate of 22%.for medical office buildings within a one-mile radius.

Current medical office market rents are about $24 per square foot gross, rent required to support new construction is estimated at about $30 for speculative properties. Medical office properties generally are not speculative but typically occupied, at least partially, by owner occupants which skews feasibility to a more favorable position. Current rents of $24 in a tightening market are considered to be at sufficient levels to spark new construction, and market rent is currently stabilized. It is assumed that new medical office construction at Parcel 1 would open with 70% pre-leasing and owner-occupancy, with 30% speculative space for expansion, and lease up over the next couple of years. Market trends suggest a 2-year lease up period to full occupancy of 95%.

| | North Market | Parcel 1 Med Office Building | |
|---|---|---|---|
| **Operating Year** | **Market Rent*** | **Market Rent** | **Occupancy** |
| 1 (opening) | $24 | $24.00 | 70% |
| 2 | $26 | $26.00 | 90% |
| 3 | $28 | $28.00 | 95% |
| 4 (stabilized) | $30 | $30 | 95% |

*full service gross

Based on the evaluation of the medical office market presented herein, the following assumptions are used to evaluate market performance and fiscal impacts:

**Project Assumptions Summary**

| **Medical Office Building** | **Stabilized Operations** |
|---|---|
| **Property** | |
| Square Feet Outpatient | 31,000 |
| Square Feet General Office | 9,000 |
| Site | 3 acres |
| **Market Values** | |
| Real Estate Market Value | $6,700,000 |
| Furniture & Fixtures | $370,985 |
| Computer Equipment | $282,655 |
| Medical Equipment | $86,367 |
| **Employees** | |
| FTE Employees | 127 |
| Total Annual Payroll | $8,920,500 |
| Annual Wages | $70,240 |

## MEDICAL OFFICE BUILDING DEVELOPMENT

| Medical Office | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Proforma Assumptions** | | | | | | | | | | | | | |
| Rentable SF | | 40,000 | | | | | | | | | | | |
| YEAR | | | Construct | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| Annual Rate Growth Rate | | 3% | | | | | | | | | | | |
| Rental Rate | | | | $24.00 | $26.00 | $28.00 | $30.00 | $30.90 | $31.83 | $32.78 | $33.77 | $34.78 | $35.82 |
| Occupancy Rate | | | | 70% | 90% | 95% | 95% | 95% | 95% | 95% | 95% | 95% | 95% |
| **NOI Projections** | | | | | | | | | | | | | |
| YEAR | | | Construction | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| **Rental Revenue** | | | | **$672,000** | **$880,000** | **$936,000** | **$1,004,000** | **$1,060,733** | **$1,110,298** | **$1,155,435** | **$1,197,983** | **$1,239,180** | **$1,279,860** |
| Operating Expenses | $8.50 | | | $340,000 | $350,200 | $360,706 | $371,527 | $382,673 | $394,153 | $405,978 | $418,157 | $430,702 | $443,623 |
| Leasing Expenses | 1.0% | | | $6,720 | $8,800 | $9,360 | $10,040 | $10,607 | $11,103 | $11,554 | $11,980 | $12,392 | $12,799 |
| **Total Operating Expenses** | | | | **$346,720** | **$359,000** | **$370,066** | **$381,567** | **$393,280** | **$405,256** | **$417,532** | **$430,137** | **$443,094** | **$456,421** |
| Capital Reserves | 1.0% | | | $6,720 | $8,800 | $9,360 | $10,040 | $10,607 | $11,103 | $11,554 | $11,980 | $12,392 | $12,799 |
| **Net Operating Income** | | | | **$318,560** | **$512,200** | **$556,574** | **$612,393** | **$656,846** | **$693,938** | **$726,348** | **$755,866** | **$783,694** | **$810,639** |

Based on current market conditions, medical office development should provide a 8.9% internal rate of return on investment which is marginal compared with the 9% to10 % required by medical office investors.

**MEDICAL OFFICE BUILDING DEVELOPMENT**

| Fiscal Impacts to General Fund | | |
|---|---|---|
| **Medical Office Building** | **Construction** | **Stabilized Operations** |
| **Property Tax** | | |
| Real Estate | $2,637 | $22,633 |
| Business Personal Property | $0 | $3,378 |
| **Sales and Use Tax** | | |
| Generated from Construction | $185,546 | $0 |
| Generated from Business Operations | $0 | $57,812 |
| **Other Tax Revenue** | | |
| Water/Sewer Stormwater Fees | $90,828 | $0 |
| Impact Fees | $58,639 | $0 |
| **Other Revenues** | | |
| Local Employees-Residential Property Tax | $0 | $2,856 |
| Local Employees-Sales Tax on Local Purchases | $0 | $4,868 |
| Miscellaneous Revenue* | $0 | $29,139 |
| **Total Local Government Revenues** | **$337,650** | **$120,686** |
| **Total Local Government Costs**** | **$250,000** | **$61,782** |
| **Net Fiscal Benefit (Cost)** | **$87,650** | **$58,904** |
| **NURA Incremental Tax Revenue From All Taxing Districts***** | | |
| **NURA Incremental Tax Revenue** | | **$278,121** |

* Incidental revenues anticipated including miscellaneous licenses. permits, fees, intergovernmental revenue, charges for services, fines & forfeitures, and other miscellaneous revenue

** City of Northglenn contribution to road upgrades during construction year; all governmental costs to service new development

*** Real property, Business Personal Property, 124 mils

## *SUITE HOTEL LODGING PROPERTY DEVELOPMENT*

A hotel Marriott Residence Inn has been proposed for construction on Parcel 1. Based on the Subject Parcel's competitive set, we assume new construction to be a midscale hotel in either a plus-suites or all-suites format.

- There are currently 920 rooms in the competitive market set operating at an estimated 65% occupancy. The addition of 40 rooms would increase room supply by 4.3% which would, would drop occupancy levels to 62%; the addition of 80 rooms would drop the occupancy level to 59%.
- As a new entry to the market, it would be expected that the hotel would operate at a lower-than market occupancy for the first few years before a stabilized competitive occupancy is attained, estimated at 70%.

Based on the above discussion, it assumed that a new 80 room hotel will likely depress overall occupancy in the competitive market set and is assumed to open to the market with a 40% occupancy its first year, 50% year two, 60% year three, 65% year four, and stabilizing close to the metro Denver rate of 70% in year five. The hotel Is projected to perform as follows:

| **Operating Year** | **80 Rooms Occupancy** | **Average Daily Rate** |
|---|---|---|
| 1 (opening) | 40% | $90 |
| 2 | 50% | $100 |
| 3 | 60% | $110 |
| 4 | 65% | $115 |
| 5 | 70% (stabilized) | |

Based on the evaluation of the medical office market presented herein, the following assumptions are used to evaluate market performance and fiscal impacts:

**Project Assumptions Summary**

| **Hotel - 80 Rm** | **Stabilized Operations** |
|---|---|
| **Property** | |
| Square feet | 60,335 |
| Lodging Rooms | 80 |
| Site | 2.5 acres |
| | |
| **Market Values** | |
| Real Estate Market Value | $11,076,615 |
| Furniture & Fixtures | $1,641,243 |
| Computer Equipment | $25,520 |
| | |
| **Employees** | |
| FTE Employees | 31 |
| Total Annual Payroll | $817,187 |
| Annual Wages | $26,419 |

## SUITE HOTEL LODGING PROPERTY DEVELOPMENT

| 80 Room Hotel | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Proforma Assumptions** | | | | | | | | | | | | |
| Rooms | 80 | | | | | | | | | | | |
| YEAR | | Construct | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| Annual Rate Growth Rate | 3% | | | | | | | | | | | |
| Room Rates | | | $90.00 | $100.00 | $110.00 | $115.00 | $118.45 | $122.00 | $125.66 | $129.43 | $133.32 | $137.32 |
| Occupancy Rate | | | 40% | 50% | 60% | 65% | 70% | 70% | 70% | 70% | 70% | 70% |
| **NOI Projections** | | | | | | | | | | | | |
| YEAR | % Room Revenue | Construction | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| **Room Revenue** | -- | | **$1,051,200** | **$1,460,000** | **$1,927,200** | **$2,182,700** | **$2,421,118** | **$2,493,752** | **$2,568,564** | **$2,645,621** | **$2,724,990** | **$2,806,739** |
| Departmental Expenses | 25.1% | | $263,851 | $366,460 | $483,727 | $547,858 | $607,701 | $625,932 | $644,710 | $664,051 | $683,972 | $704,492 |
| Undistributed Expenses | 32.4% | | $340,589 | $473,040 | $624,413 | $707,195 | $784,442 | $807,975 | $832,215 | $857,181 | $882,897 | $909,384 |
| Management Fees | 3.5% | | $36,792 | $51,100 | $67,452 | $76,395 | $84,739 | $87,281 | $89,900 | $92,597 | $95,375 | $98,236 |
| Taxes & Insurance | 0.9% | | $9,461 | $13,140 | $17,345 | $19,644 | $21,790 | $22,444 | $23,117 | $23,811 | $24,525 | $25,261 |
| **Total Operating Expenses** | 61.9% | | **$650,693** | **$903,740** | **$1,192,937** | **$1,351,091** | **$1,498,672** | **$1,543,632** | **$1,589,941** | **$1,637,639** | **$1,686,769** | **$1,737,372** |
| Capital Reserves | 1.5% | | $15,768 | $21,900 | $28,908 | $32,741 | $36,317 | $37,406 | $38,528 | $39,684 | $40,875 | $42,101 |
| **Net Operating Income** | | | **$384,739** | **$534,360** | **$705,355** | **$798,868** | **$886,129** | **$912,713** | **$940,094** | **$968,297** | **$997,346** | **$1,027,267** |

Based on current market conditions, hotel development should provide a 10.5% internal rate of return on investment which is feasible compared with the 10% to11 % required by medical office investors. It should be noted that this forecast is of somewhat high risk in that there is many competitors in the submarket and business performance is subject to successful market differentiation, management, and marketing.

## SUITE HOTEL LODGING PROPERTY DEVELOPMENT

| Fiscal Impacts to General Fund | | |
|---|---|---|
| **Hotel - 80 Rm** | **Construction** | **Stabilized Operations** |
| **Property Tax** | | |
| Real Estate | $2,197 | $37,252 |
| Business Personal Property | $0 | $5,606 |
| **Sales and Use Tax:** | | |
| Generated from Construction | $227,898 | $0 |
| Generated from Business Operations | $0 | $11,735 |
| Generated from Visitors | $0 | $46,757 |
| **Other Tax Revenues** | | |
| Lodging Tax | $0 | $117,530 |
| Water/Sewer Stormwater Fees | $90,828 | $0 |
| Impact Fees | $71,286 | $0 |
| **Other Revenues** | | |
| Local Employees-Residential Property Tax | $0 | $262 |
| Local Employees-Sales Tax on Local Purchases | $0 | $446 |
| Miscellaneous Revenue* | $50 | $7,151 |
| **Total Local Government Revenues** | **$392,260** | **$226,738** |
| **Total Local Government Services Costs** | **$250,000** | **$15,087** |
| **Net Fiscal Impact** | **$142,260** | **$211,651** |
| **NURA Incremental Tax Revenue From All Taxing Districts*** ** | | |
| **NURA Incremental Tax Revenue** | | **$458,251** |

* Incidental revenues anticipated including miscellaneous licenses. permits, fees, intergovernmental revenue, charges for services, fines & forfeitures, and other miscellaneous

** City of Northglenn contribution to road upgrades during construction year; all governmental costs to service new development

*** Real property, Business Personal Property, 124 mils

## ***PARCEL 2***

### *RETAIL DEVELOPMENT*

There is a proposal to develop an 85,000 square foot big box retailer on this site.

Parcel 2 backs to Interstate-25 and provides visibility; however the site has a somewhat indirect access from the interstate. The site is more than a quarter mile south of 120th Avenue along Community Center Drive and is situated south of (and behind) the Northglenn Community Center, somewhat isolated from the 120th Avenue commercial corridor. The site is not likely to be attractive to multi-tenant speculative retail development. A high profile destination retailer may be successful at this location.

The site has the size to support a build-to-suit big box retailer with a strong destination identity. However, the site is in an isolated retail location, in a market where there are competing sites available near other destination retailers at power centers and lifestyle centers, or building pads with direct frontage. It may be challenging to find a high profile retailer who seeks a somewhat hidden and isolated site.

Overall, retail construction is not recommended for the Parcel 1 site; the best investment opportunities will be in renovating and redeveloping existing and aging retail centers rather than further dividing retail market share between even more retailers. Uses that would drive traffic to existing retailers in the 120th Avenue corridor would be beneficial to the overall market.

### *CIVIC CAMPUS DEVELOPMENT*

There is a need to expand and reconfigure the City Hall building, as well as to upgrade obsolescing structural, mechanical, electrical, and safety systems. Several options were being evaluated including:

- Expanding and renovating the existing City Hall building on its current location on Parcel 2;
- Demolishing and rebuilding City Hall on its current location on Parcel 2; or
- Rebuilding City Hall on Parcel 1.

The following assumptions are made in evaluating these options:

- City Hall can occupy a 4 to 6 acre site depending on parking, site storage, and landscaping needs;
- Surplus acreage at Parcel 2 can be utilized by the adjacent Community Center facility. A 2007 study identified $20 million in priority expansion and renovation upgrades at the Community Center and $3 million in secondary priority upgrades;
- The current City Hall building will be demolished to rebuild a new building on site or if City Hall moves to Parcel 1;
- There is no asbestos or other environmental hazard encountered in demolition;
- City administration will relocate to a temporary location for up to 12 months in all three scenarios; and
- There will be an opportunity cost of moving City Hall to Parcel 1 arising from the lost commercial potential of the parcel.

**CIVIC CAMPUS OPTIONS**

| | Relocate City Hall | Expand & Renovate City Hall | Replace City Hall on Site |
|---|---|---|---|
| Cost to Upgrade City Hall Structures and Systems | $0 | $1,000,000 | $0 |
| Cost to expand City Hall | $0 | $5,900,000 | $0 |
| Demolition | $83,250 | $0 | $83,250 |
| Cost to Replace City Hall | $8,300,000 | $0 | $8,300,000 |
| Temporary space rent | $1,020,000 | $680,000 | $1,020,000 |
| Relocation Costs | $50,000 | $50,000 | $50,000 |
| Opportunity cost of 6 acre parcel - Land Value | $1,600,000 | $0 | $0 |
| Opportunity cost, Parcel 1 - Direct Net Fiscal Benefit of Highest Best Use | $113,000 | $0 | $0 |
| Financing Cost (for construction & demolition) | $4,149,709 | $3,456,709 | $4,149,709 |
| **TOTAL COST** | **$15,315,959** | **$11,086,709** | **$13,602,959** |

Based on the above comparison, the most cost effective option is to expand and renovate City Hall at its current location.

Completely rebuilding City Hall at its current location is estimated at about $13.06 million or about $2.5 million more, about 23% higher. This cost may increase if asbestos is found and/or demolition costs are higher than anticipated. An advantage of renovating or rebuilding City Hall on site is the ability to maintain a civic campus with the Community Center and reconfigure and improve the overall site layout. This may also provide the opportunity to expand Community Center amenities as part of the City Hall work, thereby yielding overall savings. Rebuilding carries added benefits of improving the overall site utility and image, incorporating the modern building amenities and features.

It is recommended that City Hall be either renovated/expanded on site or completely razed and rebuilt, and Parcel 1 sold for commercial development. Parcel 1 is expected to yield a price of $6 per square foot, or $1.6 million. Making this parcel available for private sector development has a benefit of bringing new jobs to Northglenn and bolstering its economic and retail environment, and retaining the liquidated value of the land.

# CONCLUDING ANALYSIS

## Parcel 1

From a real estate investment perspective, highest and best use is that use which is physically possible, legally permissible, financially feasible, and provides the highest rate of return to the developer. Parcel 1 is considered to be a commercial or civic use site, but not well suited for residential development.

The site is not well suited for retail development and the current market for general office development is speculative at best; these property types have not been further evaluated.

Health and medical demand is expanding due to the industry's anticipation of a surge in the number of insured persons accessing the care health system, changes in health care delivery systems, and organizational restructuring. Hospitals are finding cost economies in supporting the development of local office medical buildings and ambulatory surgery centers in neighborhood locations to better serve the population and create a draw to the hospital should specialized services or hospitalization be required.

The Interstate-25 and 120th Avenue location is becoming a well-established lodging node serving the nearby business parks and properties in Westminster, Thornton, Northglenn, and an alternative to more expensive downtown hotels. Additionally, there is notable residential growth north and east of Northglenn adding to lodging demand. The hotel market is in the midst of a recovery region wide and has some potential given the expected economic growth.

The highest and best commercial use of the site is not for speculative development today, but to hold as an investment property until an appropriate build-to-suit opportunity arises or until market conditions warrant development.

### *Parcel 1 Development Proposals*

The City of Northglenn has received three unsolicited proposals for development; all are build-to-suit proposals:

4. An 80-room **Marriott Residence Inn** on 2.5 acres is being proposed by a an individual who will be the property owner and hotel operator

5. A 40,000 square foot **Ambulatory Outpatient Facility** including 9,000 of office space, being proposed on 3 acres, in partnership with a major health service and hospital care provider, possibly with financial investment by physicians and other health professionals who will office in the facility.

6. A 40,000 square foot **medical office building** on 3 acres, presumably financed, at least in part, by physicians and other health professionals who will invest and office in the facility.

An evaluation of the proposed uses is summarized below:

| Use | Lodging | Ambulatory Outpatient | Medical Office |
|---|---|---|---|
| Current Market Conditions* | Fair | Good | Good |
| Site Suitability* | Good | Good | Good |
| Relative Current Market Risk** | High | Low | Moderate |
| Future market risk** | High | Low | Moderate |
| Potential Funding Gap | $600,000 | None | $1,400,000 |
| Market Timing*** | 3-4 years | Now | 2-3 years |
| Potential Employees | 31 | 60 | 127 |
| Wages (current dollars) | $26,419 | $61,872 | $70,240 |
| Incremental Property Tax (annual) | $29,449 | $50,854 | $23,374 |
| Net Fiscal Impact to General Fund | $42,697 | $113,246 | $56,234 |
| NURA Increment (from all sources) | $458,251 | $571,951 | $278,121 |

*Rated as poor, fair, or good; **Rated as low, moderate, or high; ***Years until market is anticipated to be in full recovery

### *The Role of Public Benefits*

Rather than wait for the market to support other development, the build-to-suit proposals provide an opportunity to convert Parcel 1 into cash, create an ongoing revenue stream, and invite development that would bolster Northglenn's image and economy. Liquidating the holding and putting cash and annual revenue in the City's coffers may enable improvements or replacement of City Hall and other capital investments. Also NURA will receive the TIF revenue if a private sector development occurs on Parcel 1.

From a public purpose standpoint, things to consider in selecting an appropriate development proposal to approve should take into account several considerations:

1. The ability of the development to contribute to, and improve, Northglenn's existing land uses image as a place to live and do business.
2. Market risk and potential for long-term success; the alternative outcome is a vacant building looking for a new tenants.
3. The level of City incentives that may be requested to cover financing gaps. Because build-to-suit investments are often based on the investor's business models and not necessarily typical real estate criteria, the financing gap estimated herein may be more than what will be requested.
4. The amount of property taxes and TIF revenues that is anticipated to be generated.
5. Interest payments on bonds to be issued for possible financing gaps (potential city investments at 3.3% annually)
6. Return on investment on publicly invested incentives; total projected tax revenues from all sources as an annual return against incentives requested (net fiscal impact divided by potential incentives requested)
7. The amount of annual net revenue that is anticipated to be generated (net fiscal impact less TIF interest payments on incentives bonded).
8. The ability to create local good paying jobs.

9. The ability to drive traffic to the 120th Avenue commercial corridor and bring in new consumers to Northglenn's retailers

| Evaluation Factor | Lodging | Ambulatory Outpatient | Medical Office |
|---|---|---|---|
| 1. General contribution to the City | Good, but more of the same | Good, increases professional image | Good, increases professional image |
| 2. Potential for long-term market risk* | High | Low | Moderate |
| 3. Potential city incentives requested | $600,000 | None | $1,400,000 |
| 4. Property tax increment anticipated | $29,449 | $50,854 | $23,374 |
| 5. Interest payment on TIF bonds | $19,800 | $0 | $46,200 |
| 6. Return on public investment | 7.1% | na | 4.0% |
| 7. Net revenue after TIF interest | $22,897 | $113,246 | ($13,340) |
| 8. # jobs/annual wages | 31/$26,419 | 60/$61,872 | 127/$70,240 |
| 9. Consumer traffic generation** | Fair | Fair | Good |

*Rated as low, moderate, or high; *Rated as poor, fair, or good

Medical office use would be positive from a community image, job creation, and long-term risk standpoint. However, the medical office market conditions are still soft for speculative development. Based on market data, speculative medical office construction would require notable public investment at this location. To be feasible, this property would need to be a build-to-suit with equity funding by health professional owner-occupants. The investment terms and amount of incentives requested, if any, are unknown at this time. Without additional information it would appear that a medical office building would not be a preferred investment at this time; however this may change if requested incentives are significantly less than anticipated.

Lodging and ambulatory outpatient facility scenarios both offer job creation and result in a positive cash flow to the city. Lodging development and long-term outlook is relatively risky, given the number of competing rooms and new hotel development around the north metro market.

An ambulatory outpatient facility will bring notably more jobs, higher wages, and revenues to the City, without any incentives. This use is also anticipated to generate the highest increment to NURA, without requiring incentives.

### *Conclusion: Parcel 1*

Based on the analysis of the market and proposed development, it would be in the best interest of the City of Northglenn to prioritize the ambulatory outpatient facility as the highest priority, with hotel development as a second priority.

These two properties are seeking a combined acreage of 5.5 acres. With appropriate site design it may be possible to accommodate both ambulatory outpatient and lodging development.

## Parcel 2

### *Parcel 2 Development Proposal*

An unsolicited proposal was submitted to construct 85,000 square feet of retail on Parcel 2. Parcel 2 backs to Interstate-25 and provides visibility; however the site has a somewhat indirect access from the interstate. The site has the size to support a build-to-suit big box retailer with a strong destination identity. However, the site is in an isolated retail location, in a market where there are competing sites available near other destination retailers at power centers and lifestyle centers, or building pads with direct frontage. It may be challenging to find a high profile retailer who seeks a somewhat hidden and isolated site.

Overall, retail construction is not recommended for the Parcel 2 site; the best investment opportunities will be in renovating and redeveloping existing and aging retail centers rather than further dividing retail market share between even more retailers. Uses that would drive traffic to existing retailers in the 120$^{th}$ Avenue corridor would be beneficial to the overall market.

### *Civic Campus Development*

There is a need to expand and reconfigure the City Hall building, as well as to upgrade obsolescing structural, mechanical, electrical, and safety systems. Several options were being evaluated including:

- Expanding and renovating the existing City Hall building on its current location on Parcel 2;
- Demolishing and rebuilding City Hall on its current location on Parcel 2; or
- Rebuilding City Hall on Parcel 1

These options are compared side-by-side in the following table:

**CIVIC CAMPUS OPTIONS**

| | **Relocate City Hall** | **Expand & Renovate City Hall** | **Replace City Hall on Site** |
|---|---|---|---|
| Cost to Upgrade City Hall Structures and Systems | $0 | $1,000,000 | $0 |
| Cost to expand City Hall | $0 | $5,900,000 | $0 |
| Demolition | $83,250 | $0 | $83,250 |
| Cost to Replace City Hall | $8,300,000 | $0 | $8,300,000 |
| Temporary space rent | $1,020,000 | $680,000 | $1,020,000 |
| Relocation Costs | $50,000 | $50,000 | $50,000 |
| Opportunity cost of 6 acre parcel - Land Value | $1,600,000 | $0 | $0 |
| Opportunity cost, Parcel 1 - Direct Net Fiscal Benefit of Highest Best Use | $113,000 | $0 | $0 |
| Financing Cost (for construction & demolition) | $4,149,709 | $3,456,709 | $4,149,709 |
| **TOTAL COST** | **$15,315,959** | **$11,086,709** | **$13,602,959** |

### *Conclusion: Parcel 2*

It is recommended that City Hall be either renovated/expanded on site or razed and completely rebuilt, with Parcel 1 being sold for commercial development.  Parcel 1 is expected to yield a price of $6 per square foot, or $1.6 million and commercial development would bring additional annual revenues to the City.  Making this parcel available for private sector development has a benefit of bringing new jobs to Northglenn and bolstering its economic and retail environment.

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