



2022 Mid-Year Report

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

Re: Castle Rock EDC Mid-Year Report to Investors

National Regional and Local Economic Update - Are the Headwinds too Great?

Exiting 2021, optimism was surging. U.S. real GDP grew at the fastest rate in nearly four decades, increasing 5.7% for the year, the nation was adding back an average of 562,000 jobs per month, and America was quickly building wealth through the equity indices, crypto, and real estate. This optimism soured in 2022 as inflation spiked to levels reminiscent of the early 1980s and led to swift and aggressive action by the Fed—three rate increases in the first half of the year totaling 150 basis points to tamp down inflation, and expectations of up to a 1% increase at the next meeting.

While there are still plenty points of optimism—rising employment, strong consumption, new startups, increasing income, positive expectations on manufacturing and services, strong industrial production and capacity utilization, and so on, there are also a number of concerning headwinds, including the aforementioned inflation (energy costs specifically) and interest rates, but also supply chain disruptions, worker shortages, and the greatest pessimism reported from small businesses in the 48-year history of the National Federation of Independent Business (NFIB) survey. The headwinds look too great to stave off a downturn, and recession expectations are on the rise.

Colorado has outperformed, as it has done for the past 15 years. Colorado's employment recovery from the recession ranks 10th with the state 1.3% above the prior peak (one of just 15 states with employment above the pre-recession levels). Through June, job growth has continued to surge in the state, up 111,700 jobs (4.1%) year-over-year. The state outperformed expectations—annual job growth is now projected at 104,000 for 2022. Year-over-year job growth is projected to slow in Q3 and flatten in Q4—a reflection of the overall slowdown. New business filings are up in the state, but so are business delinquencies and dissolutions. Colorado's population is coming off the slowest growth year since 1990, a product of the slowdown in both net migration and the natural increase. Growth in population has been partially responsible for the growth in the state's economy; slower population growth will impact the trajectory.

For Douglas County, population and employment growth have outpaced the nation, Colorado, and the Denver metropolitan statistical area; and the same is true for gross domestic product—the value of goods and services produced within the county. Douglas County's unemployment rate in June 2022 was 2.7%; for comparison, the unadjusted rate in February 2020 was 2.5%, in June 2018 it was 2.8%, and in June 2019, 2.3%. The labor force in the county reached a record 209,000 in June, and household employment topped a record 203,400. Castle Rock's unemployment rate in June 2022 (2.6%) matched February 2020, and employment and labor force were at record highs.

While Colorado is not immune to a slowdown, population growth, industry composition, and the natural amenities of state make Colorado poised to outperform even during a downturn. The local economy has notable expertise in Construction; Retail; Information; Finance; Professional, Scientific, and Technical Services; Company HQs; and Arts, Entertainment, and Recreation. An economic slowdown will disproportionately impact some of these local industries (e.g., financial activities, construction). Despite this, Douglas County is still on a growth trajectory, increasing population, employment, and housing so far in 2022.

Castle Rock has outperformed expectations, highlighted by 12.7% year-to-date sales tax growth and an 8.6% increase year-over-year. Downtown Castle Rocks is thriving, The Meadow's Commercial Office Industrial (COI) ground is working with several large employment centric developments. Miller's Landing is working with the Town to rezone part of the property to reflect market interest. Dawson Trail is under contract, revitalizing a once dormant master planned community within the Southwest Quadrant. The balance of this report will identify key challenges to primary employment, office development market and outline the activities of the EDC over the past six months.

By Brian Lewandowski; Colorado Leeds School of Business

2022 Mid-Year Committees Economic Development Report & Prospects

Castle Rock Economic Development Council's (EDC) mission is to support local job creation and expand the Town of Castle Rock's tax base. The three fundamental functions of the EDC include:

- Business Attraction (new prospect development)
- Business Retention and Expansion
- Creation of a business-friendly environment

Business Development

Business Attraction Team (BAT) & Business Retention Expansion (BRE)

Business Attraction (BAT) and Business Retention Expansion (BRE) are two of Castle Rock EDC's core services.

BAT oversees the strategic attraction of new primary employers to Castle Rock, focusing on both direct and indirect marketing strategies. Additionally, BAT fosters relationship with developers to encourage office development in the Castel Rock market.

BRE recognizes that 70% of job growth in a community occurs from existing businesses. The BRE Task Force supports existing businesses by leveraging a wide range of professional expertise from within the committee to provide resources with the intent to facilitate growth.

Throughout the first half of 2022, Castle Rock EDC worked with over 50 prospective business and development prospects, 19 of which are Castle Rock businesses exploring expansion opportunities.

Economic Development Fund Report

Economic vitality is a critical factor in ensuring Castle Rock's long-term success in achieving its vision of being a self-sufficient community; a community in which residents can live, work, play and purchase the goods and services they need; and to create a tax base adequate to support provision of core Town services.

With increasing regional competition, the Town of Castle established an Economic Development Fund (2011) along with a set of policies designed to strengthen the local economy and prepare for the economic impacts associated with the Town's expected growth. The fund is sustained through the collection of commercial use tax ensuring that commercial development supports the Town's development objectives, which is to actively seek out highest and best commercial uses, as defined in the Town's 2030 masterplan.

The program includes elements to support core Castle Rock Economic Development (EDC) priorities include the attraction and expansion of primary employers, attraction and expansion of targeted retail and investments in projects of economic significance or serving as economic catalysts. The program is designed to create jobs, expand the tax base, encourage existing businesses to make capital investments, spur new office, industrial, and retail expansions and developments. It is critical that all incentive programs create a net positive job or economic impact on the community.

The following is a list of economic development incentive projects finalized in the first half of 2022.

Castle Rock Industrial in the Meadows is a collaboration between Saunders Commercial Development Company, Colorado Powerline Inc., and Lakewood Electric Company, Inc. Together, they purchased a 15.5-acre site within the Meadow COI ground (Lot 19) to construct two 80,000 SF industrial buildings. The first phase of the development will include building one; of which Colorado Powerline Inc. (CPI) and Lakewood Electric intend to relocate their company headquarters and occupy 40,000 SF of the building. As part of this phase, CPI and Lakewood Electric, will relocate approximately 42 full time employees to Castle Rock. The remaining 40,000 SF of building one will be brought to market and be made available for lease. Once building one is complete and additional leases are signed, Castle Rock Industrial in the Meadows will begin phase two of the development which will include the construction of a second 80,000 SF industrial building.

Moore Lumber & Hardware is a 75-year-old family-owned company headquartered in Castle Rock, with six Front Range stores. The company employs 23 full time positions in Castle Rock. Their core services are based around providing quality lumber and home building materials to both professional builders and homeowners. In May 2020 Moore Lumber Castle Rock added ACE Hardware and Benjamin Moore Paint to its brand operations. As part of this expansion, paint sales increased by 627%. While ecstatic about the growth, the new line began to experience supply chain challenges. In response, Moore secured a short-term lease on a 10,000 SF facility at 1041 Park Street to open a commercial mixing facility. This ultimately led to additional sales and the conclusion that they would need to find a more permanent location for the Benjamin Moore product line. With limited purchase options in Town, Moore explored building in Castle Rock and settled on a lot in the Meadows (Lot 1, Filing 17, Area 2). Moore intends to continue operating Moore Lumber & Hardware at 1335 Park Street and will build a 16,880 SF industrial flex building in the Meadows to house their Benjamin Moore and Marvin Windows product lines.

Castle Rock Microwave (CRM) was founded in 2014. CRM is a regional wireless systems integrator, bridging the digital divide. CRM's customer base falls into four major categories rural broadband (TELCOs, ISP's and Tribes), public safety (municipalities and School Districts), Utilities (water, electric, oil & gas) and transportation (rail & airports). Currently, 85% of CRM's business is contracted out of Douglas County.

CRM has grown by over 40% the past two years. This trend is expected to continue, as CRM continues to take on new projects and markets. With their recent office warehouse acquisition CRM plans to begin a renovation that would add an additional 2,400 SF of office which will allow them to hire an additional 8 employees by the end of 2024.

Limelight MOB II is 33,639 SF of Class “A” medical office. The project is being proposed by Partnering with Physicians, LLC. The site is a 2.38 acres parcel of land located just west of the Castle Rock Adventist Hospital, in the Meadows. This will represent the second MOB project built by Partnering with Physicians.

Owen Ames Kimball (O-A-K) Construction is a 130-year-old commercial construction company with approximately 100 employees. They specialize in K-12, higher education, civic and municipal construction projects. In 2014, O-A-K expanded into Florida and over the last eight years have grown the company by an additional 30 employees. O-A-K believes that Colorado presents similar opportunities and has hired Mike Beaudoin to manage the expansion. As part of their expansion into the Colorado market, O-A-K leased 4,500 SF of office space at 202 6th Street in Downtown Castle Rock (The Move). O-A-K currently has 5 employees in Castle Rock and intends to grow the company by an additional 30 within the next 4 to 5 years.

Employment Centric Developments (Overview & Updates)

Montana Vista (Office/Commercial) – Montana Vista, located off Founders Blvd is home to the headquarters of HEI Civil. HEI Civil recently added a second office building to the campus that was completed in Q2 of 2021 and is currently 90% leased, with 1,800 SF available. The EDC is currently working with three retail users to develop the balance of the site.

ACME Brick (Redevelopment/Reuse) - In 2018 the ACME Brick factory announced that they would be closing their Castle Rock operation which opened in the early 1900’s. The site was acquired by Confluence Companies in 2020. The team at Confluence has been working with the EDC and the Town to reimagine the site for a redevelopment and reuse project that will revitalize, activate, and connect the site to the community while simultaneously honoring the historical role of ACME in the Castle Rock Community. While the final vision for the project is still being crafted it will bring a variety of local and regional restaurants and retailers, including a proposed a state-of-the-art community recreation center.

Dawson Trails (Commercial/Retail/Residential) - The Dawson Trail project is located in the southwest quadrant of Castle Rock on the west side of I-25. The property is currently under contract with Westside Development. The project was originally entitled for 7,900 single family homes and has sat dormant (under suspension agreement) for the past 30 years for a variety of different challenges that encumber the site. Westside Development is currently working with the Town to reactivate the plan of development. The plan includes a proposal to significantly reduce the housing component and increase the open space. In addition, they envision a strong mix of office, retail, and industrial zoned development. Westside plans to present the project to Town Council in Q3 of 2022. As part of the proposed project, Dawson Trails will make a significant contribution to the construction of the Crystal Valley Ranch Interchange.

Miller’s Landing (Mixed Use) – Is a 65-acre site situated between Philip S. Miller Park and Downtown Castle Rock at the northwest corner of Plum Creek and I-25 with excellent access and visibility from the interstate. The Town of Castle Rock and the EDC originally created an Urban Renewal Authority (URA)

with the existing taxing entities at the site in 2012 to help attract a private developer, create a higher and better use at one of the Town's major interchanges, and mitigate the challenges associated with the municipal landfill, which occupied the property.

In 2017, P3 Advisors took ownership of the property, assembling the two parcels that made up the entirety of URA placing it under a single ownership and entered into a Public Finance Agreement (PFA) with the Town of Castle Rock and the URA. P3 Advisors removed the landfill in 2019 and have fully remediated the site, completed pre-construction planning and is actively marketing Miller's Landing to prime hotel operators and office users through national, regional and local efforts collaborating with Denver Metro Denver EDC and Castle Rock EDC. In 2022 P3 has formulated a phase one plan and is actively marketing the 18 acres as a mixed use development on the hard corner of Plum Creek & I25.

The Meadows (Commercial Office Industrial (COI)) – The Meadows is a master planned community located in the northwest corner of Castle Rock that includes both single family, multifamily, mixed-use, traditional office, medical office, recreation, and entertainment. The development is anchored by the Castle Rock Adventist Health Campus and the ACC Sturm Collaboration Campus. The Meadows COI ground has vast ability to attract primary employment to Castle Rock. In 2022 Saunders Commercial Development in partnership with Colorado Power Line Inc. and Lakewood Electric, Inc. purchased 15.5 acres and has broken ground on two 80,000 SF buildings. In addition, the EDC is engaging with several other prospects that include, a medical office building, family entertainment concept, boutique hotel, regional office expansion and educational facility expansion.

Downtown Castle Rock – The Downtown Development Authority (DDA) is charged with furthering development and place-making in Downtown Castle Rock using Tax Increment Financing (TIF) and is guided by a Plan of Development. The Plan of Development provides guidance from Town Council to pursue development projects, beautification and increase commerce. The success of recent redevelopment projects combined with the Town's and DDA's investment in Festival Park has driven some exciting new concepts to Downtown. The View broke ground in February 2022 and will include 14,000 SF of office space, 5,000 of restaurant space, 221 residential apartments, 399 parking spaces of which 100 will be dedicated to the public. In May, Douglas County Libraries broke ground on the Philip S. Miller Library. The library will be two stories, 62,000 SF and home to the administrative headquarters. In June, Town Council approved a TIF agreement for 221 Wilcox located at the corner of 3rd and Wilcox Street. This mixed-use project will include 28 residential apartments, 11,257 SF of office space, 8,353 SF of retail space, 28 subsurface and 27 offsite parking spaces.

Promenade (Retail/Mixed-Use) – The Promenade is a 200-acre site located between I-25 and Highway 85. Upon completion, the master developed site will bring a combined 900,000 SF of large-format retail, service, and restaurant space. Alberta Development Partners purchased the site in October of 2014 and is close to stabilization with approximately 800,000 SF that has been delivered to the market. Currently under construction on Block 3A is an independent Mexican restaurant and brewery concept Los Dos Petrillos. Additionally, the EDC is working with Alberta to bring a unique first in market restaurant concept to the development.

The Outlets at Castle Rock (Retail) – The Outlets at Castle Rock is located west of I-25 between Castle Rock Parkway and Meadows Parkway. The Outlets are the largest open-air outlet center in the State of Colorado and continues to be the economic engine of sales tax generation for the Town attracting visitors from around the region which fuels the critical services of the Town. IN-N-OUT Burger opened in early 2022 and construction on a new restaurant will begin later this year.

Prospect Challenges

While the qualified prospects and expansions present great opportunities they also expose one of our major challenges to primary employment in the community, the lack of office space. While low vacancy is great for our existing building owners, the lack of available office space works against both the retention and attraction of primary employment in Castle Rock. In Q2 of 2021 two primary employers were forced to leave the community due to lack of available office space to accommodate their growing companies. The factors working against Castle Rock were low vacancy rate, high rent/development costs, 1.8 M SF of “ready to go” available office space in DTC and the time needed to bring new construction to the market. All of these factors put Castle Rock in a very difficult position to attract and retain primary employers.

Development Roundtable

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

2022 Discussion Items & Updates

- Creating a new Industrial Employment based Zone District
- Code Enforcement Related Items
- Revisions to Landscaping Criteria
- 2022 CIP & Top Long-Term Projects
- Building Inspections Scheduling
- CORE Elective Cooperative Updates
- Significant Development Coordination
- Subcommittee Updates

Sub-Committee Breakout Meetings

Water - Subcommittee has continued to meet monthly and has discussed major updates to the code and master plan. This sub-committee is led by the Town of Castle Rock Water Department and the private sector. The following topics have been discussed:

1. Meter Set Changes
2. Standard Detail for Water, Sewer & Stormwater
3. ColoradoScape Changes (Commercial/Industrial & Residential)
4. .67SFE
5. Turf Replacement Legislation
6. Standard Detail Revisions
7. Changes to Water Efficiency Plans for Developers
8. Landscape & Irrigation Changes
9. Draft Memo on Changes to Landscape & Criteria Manual
10. Permit Requirements

Development Process - Subcommittee was discussed at the May Development Roundtable meeting and began meeting monthly in June. This sub-committee is lead by the Town of Castle Rock Development Services Department and the private sector. The following topics have been discussed thus far:

1. Speed and predictability
2. Best practices
3. Quality of submissions

2022 Mid-Year Summary

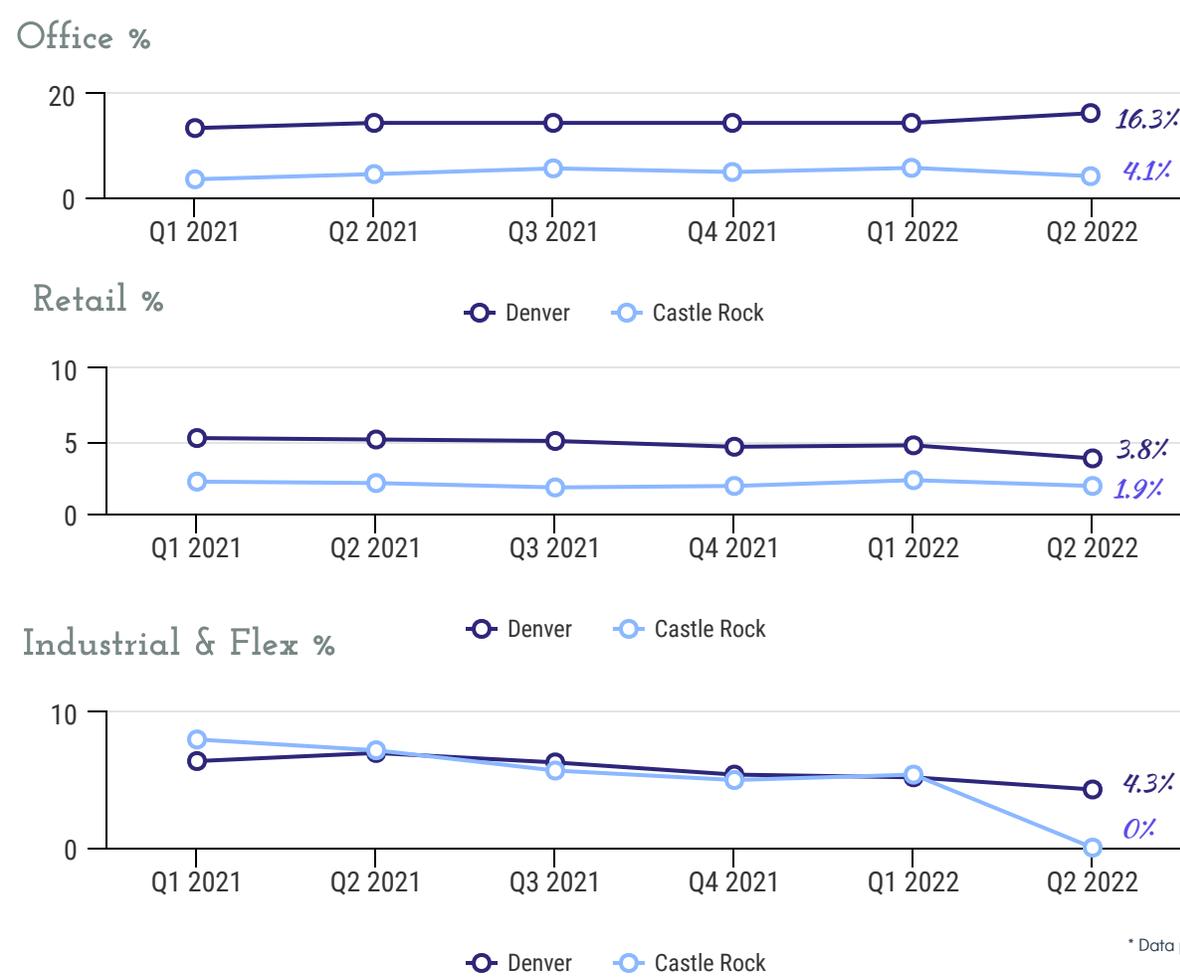
While the first two quarters of 2022 were strong, the conflict in the Ukraine has demonstrated how globally dependent the US economy really is. While there may not be another single event to throw us into a recession, it seems a slow whittling away of positive trends are leaving the economy with mounting challenges, supply chain issues, inflation, escalating fuel prices, interest rate hikes are all slowly adding up. The stock market is demonstrating once again that capital flees uncertainty. The perplexing thing is that consumer spending remains robust, wages continue to grow and while many states and communities are stuck in “wait and see” mode Colorado and Castle Rock continue to remain strong growth markets. Many of Castle Rock’s challenges remain, the lack of available office space remains a significant impediment to attracting and retaining primary employment. The solution has become increasingly murky as employers are all reevaluating how they will face the hybrid work environment and the rising costs of labor and materials. Castle Rock is fortunate to be in a position where many of our primary employers continue to grow and thrive.

Respectfully,

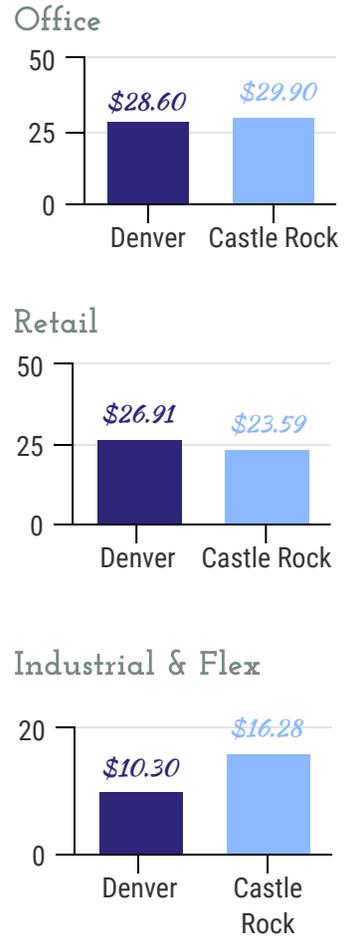
A handwritten signature in blue ink, appearing to read "Frank Gray". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Frank Gray
CEO

Vacancy Rate Percentages



Q4 Lease Rates



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

Unemployment Rate Comparison

-Not Seasonally Adjusted, US Bureau of Labor Statistics

	July 2021	Oct 2021	Jan 2022	April 2022
Castle Rock	4.3%	3.3%	3.2%	2.6% <small>*June, provided by CU Leeds School</small>
Denver	6.2%	5%	4.3%	3.4%
State of CO	5.6%	4.4%	3.9%	3.1%
National	5.4%	4.6%	4%	3.6%



YOY Comparison

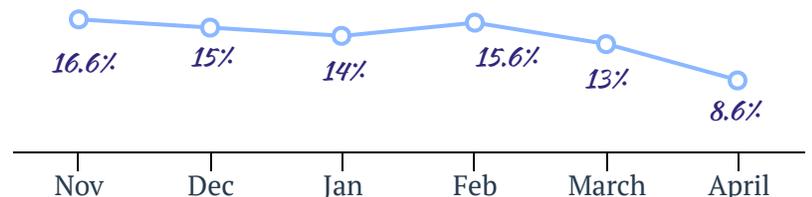
Sales Tax

YOY % Change



2021
+8.6%

2022
+12.7%



*Data Provided by the Town of Castle Rock, through April.



Recent Development Activity

The View

- Broke Ground February 2022
- 14,232 SF of Office Space
- 5,000 SF of Restaurant Space
- 221 Residential Apartments
- 399 Parking Spaces
- 100 of the 399 are Public

221 Wilcox

- Approved by Town Council June 2022
- 28 Residential Apartments
- 28 Subsurface Parking Spaces
- 27 Offsite Parking Spaces
- 11,257 SF Office
- 8,353 SF Retail

Meadows

- COI Ground - Two, 80,000 SF Industrial Flex Buildings Under Construction
- HQ Relocation - Colorado Power Line Inc.
- Castle Rock Adventist - MOB 3 Under Construction

Dawson Trails

- Proposed Master Planned Development
- 5,850 Residential Units
- 748 Acres of Open Space
- 3.2 Million SF of Commercial, Industrial & Retail

Montana Vista

- Office Development Complete
- 90% Leased
- Restaurant Concepts to Break Ground Q4 2022/Q1 2023

The Brickyard

- Redevelopment Project
- Mixed Use

PSM Library

- Broke Ground May 2022
- Two Story 62,000 SF Library
- Douglas County Library Headquarters

NEW Construction



Development Prospects

